

ANNUAL REPORT

# 2008

**REACHING FURTHER**  
THROUGH PEOPLE  
AND INNOVATION

The solutions from Comrod Communication Group are recognised for their wide range and high level of stability and quality.



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## COMROD COMMUNICATION GROUP

"Lerc and Comrod are strong international brands, associated with innovative communication solutions and long-lasting products"




Comrod Communication Group is in the process of strengthening its position as an internationally leading company within development, production, sale and marketing of antennas and antenna systems, masts and mast systems, power supply, battery chargers and industrial products. The Company's overall objective is to be a leading global supplier of these products and solutions to the defense communication market. The Group also supplies antennas and antenna systems for commercial use, as well as industrial composite products for the offshore industry and railroad systems.

Comrod Communication Group sells and distributes its products under two brand names, Lerc and Comrod. Both are strong international brands associated with

innovative, high-quality communication solutions and long-lasting products.

The Norwegian subsidiary, Comrod AS, is a supplier of antennas, antenna systems and power supplies, mainly for the defense market, but also for other maritime and commercial applications. The Company's subsidiary in France, Lerc SAS, is a supplier of masts, antennas and industrial products. Products are sold to the defense segment and to the commercial market.

Our Group headquarters are at Tau in South-Western Norway, at the main site of the subsidiary Comrod AS. At year-end 2008, the total number of employees was 215.

 COMROD COMMUNICATION GROUP			
ANTENNAS	MASTS	POWER SUPPLY	INDUSTRIAL PRODUCTS
COMROD AS LERC SAS COMROD - HUNGARY KFT.	LERC SAS	COMROD AS	LERC SAS

### FINANCIAL CALENDAR 2009

29 Apr 2009

Annual general meeting

08 May 2009

Interim report  
1<sup>st</sup> quarter 2009

21 Aug 2009

Interim report  
2<sup>nd</sup> quarter 2009

27 Oct 2009

Interim report  
3<sup>rd</sup> quarter 2009

# HISTORY



Comrod Communication Group was established as a group and Comrod Communication ASA listed on the Oslo Stock Exchange in January 2007 following the demerger from Hexagon Composites Group.

Comrod's origins, however, stretch back to 1948 when the company Brødrene Tjøstheim was incorporated in Tau outside of Stavanger (Norway). Comrod AS has developed from a manufacturer of fishing rods to today's advanced communication antennas, antenna systems and lightweight mast solutions.

Based on its knowledge of fibre composites, the company began to develop antennas designed for extreme weather conditions. In 1960, Comrod AS started production of whip antennas for fishing vessels, based on technology from the manufacture of fishing rods. Since the early 1970s the company has focused on the development and manufacturing of sophisticated antennas for the defence, commercial and maritime markets.

Among the changing owners of Comrod prior to its listing in 2007, has been Chr. Bjelland & Co Inc., Norwegian Applied Technology ASA (NAT), Spilka Gruppen and Hexagon Composites ASA.

Lerc SAS, a world leading French manufacturer of integrated mast and antenna solutions for the defence market has been part of the Group since 2006. Lerc was incorporated in 1946 in Paris. Lerc has a very similar history to Comrod Norway also developing from a fishing rod manufacturer to today's product range.

In February 2006, Comrod AS reached an agreement with Eltek Energy ASA to acquire their power supply unit for the defence market.

For more information about the Company's current operations, see the following sections.

## IMPORTANT EVENTS IN 2008

**28 November** | Lerc SAS is awarded two new contracts by Thales Group for delivery to the MIDS/ Terre programme during 2009.

**29 October** | Comrod UK Ltd. wins its first order for the delivery of antennas directly to Bharat Electronics, a Government of India enterprise.

**11 August** | Comrod AS wins a new antenna contract from an OEM integrator in the EU. The total contract value is estimated in excess of NOK 24 million for delivery from 2008-2011, whereof NOK 4 million for deliveries in the second half of 2008.

**5 August** | Comrod Communication Group opens a subsidiary in Southampton in the UK to gain a stronger presence in the British defence market.

**28 May** | Comrod Communication ASA announces that Mr. Niklas Hermansson has accepted the position as President & CEO of Comrod Communication Group and will take up his position on 1 July 2008.

**19 May** | The Board of Directors of Comrod Communication ASA approves an investment of NOK 30 million to expand the production capacity of the Comrod plant in Tau outside Stavanger, Norway, and prepare for the company's future growth.

**8 May** | Comrod AS, a company in the Comrod Communication Group, signs an agreement to acquire 100% of the shares of the Hungarian company Norworks kft. for a total amount of EUR 109,000. With this agreement, Comrod has now established its own production facility for antenna parts and products in Hungary.

**2 April** | The Power Supply division of Comrod AS wins an order worth approximately USD 1 million for the delivery of battery chargers to the US-based radio manufacturer Harris Corporation.

**4 March** | Lerc SAS wins an order worth USD 3.2 million for the delivery of tactical masts to the US Army. The agreement confirms Comrod's global leader position in the tactical antennas and masts market.

**30 January** | Lerc SAS, a company in the Comrod Communication Group, signs a strategic partnership and supplier development agreement with Thales France. The agreement was signed to develop the customer-supplier relationship between Thales and Lerc further.

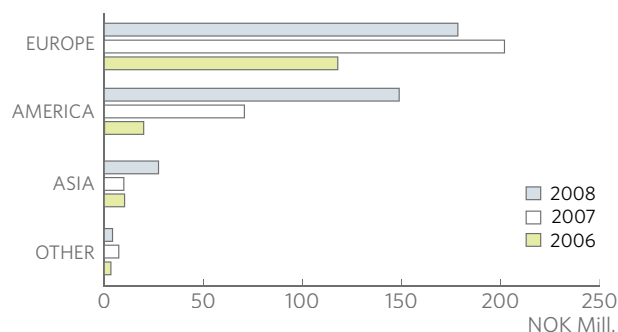
# KEY FIGURES

(NOK 1000) Revenues and Profit	2008	2007	2006	2005	2004
Operating income	368 631	289 937	151 273	109 559	106 737
Operating profit (EBIT)	30 743	29 575	18 858	24 342	26 710
Profit before tax	15 061	18 154	11 732	25 714	25 011
Profit after tax	10 457	12 259	7 947	18 418	18 055
<b>Capital 31.12</b>					
Total assets	358 492	303 906	270 627	95 188	73 518
Equity	109 726	95 045	18 236	26 579	29 024
Equity ratio (1)	30.6%	31.3%	6.7%	27.9%	39.5%
Net interest bearing liabilities	141 711	104 676	179 680	(1 133)	(378)
<b>Profitability and rate of return</b>					
Cash flow from operations	48 468	7 287	30 303	8 572	5 633
Operating margin (2)	8.3%	10.2%	12.5%	22.2%	25.0%
Return on equity (3)	10.2%	21.6%	35.5%	66.2%	94.9%
Total rate of return (4)	5.8%	6.7%	7.6%	23.4%	26.3%
<b>Shares</b>					
Share capital	16 939	16 939	1 500	1 500	1 500
Total no. Of shares 31.12.	16 938 649	16 938 649	1 500	1 500	1 500
Earnings per share in NOK (5)	0.62	0.72	5 297.84	12 278.75	12 036.67
Cash flow per share in NOK (6)	3.01	0.43	20 201.73	5 714.67	3 755.33
Equity per share in NOK (7)	6.48	5.61	12 157.05	17 719.01	19 349.33

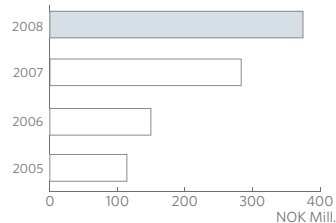
## Definition of key figures

- 1) Shareholders equity as percentage of total assets
- 2) Operating profit as a percentage of operating income
- 3) Profit after tax divided by average shareholder's equity
- 4) Profit after tax + interest expense divided by average total assets
- 5) Net profit for the year divided by average number of shares outstanding
- 6) Net cash flow from operations divided by average number of shares outstanding
- 7) Shareholders equity divided by average number of shares outstanding

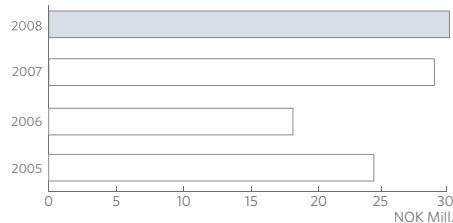
## DISTRIBUTION OF INCOME



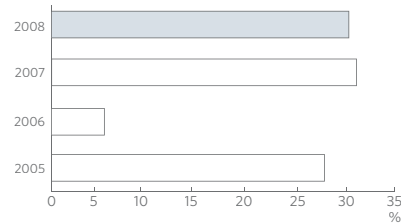
## OPERATING INCOME



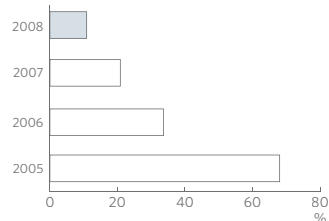
## OPERATING PROFIT (EBIT)



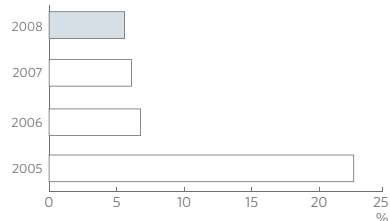
## EQUITY RATIO



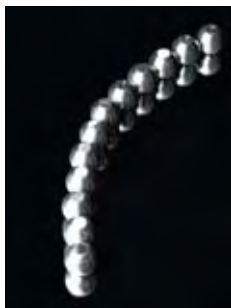
## RETURN ON EQUITY



## TOTAL RATE OF RETURN



# STRATEGIES AND VALUES



Comrod Communication Group is a focused specialist on selected products related to radio communication, primarily serving the needs of the defense industry. We develop and commercialize competitive products based on unique in-house expertise in communication technology and defense application competence. Most of our products are made with the use of advanced composite material technology.

It is the group's aim to extend our business and become a worldwide leader within our special selected niches. As of today we are the global number one in tactical antennas, and we hold solid market positions on our other defense products. With unsurpassed quality and innovative new products we will further improve our market positions worldwide.

Competitiveness will be created by strategically focusing on:

- Staying at the forefront technologically and being early with the introduction of new innovative product solutions
- Being responsive and quickly adapting our product concepts to the specific needs of our main customers
- A high degree of professionalism and integrity in relations to our customers, ensuring our status as an independent supplier to the main communication radio producers.
- Automated and best in class industrial production processes
- Continuously improving our sourcing structure.

## Markets

Most of the Group's sales are exported. To glean more global market shares, while also maintaining or increasing profit margins, Comrod concentrates on highly automated production, customized design and a well-structured marketing and distribution setup.

The Group's overall goal for the period 2008 to 2010 is to build global strength and expand the business within all our business areas. Each of Comrod Communication

Group's four business areas has its own market development goals and has identified associated action-based strategies for the period 2008-2010. The main points are described in the business area presentations later in this annual report.

## Development strategy

All innovation revolves around the company's core competences. At the same time, the climate for new ideas is being nurtured in the subsidiaries. The challenge is how to transform good ideas into realistic opportunities. This has prompted Comrod Communication to form close alliances with technologically advanced customers as part of its product development strategy. Strong, dedicated and demanding partners who, like us, are prime movers in product development, play a key role in our success. Comrod is also positive to "Skattefunn", the Norwegian government's R&D tax credit scheme, an incentive for research and development work.

## Values

Comrod Communication has defined the following core values for its companies:

- To practice all business operations within the regulatory framework of the individual market and to a high ethical standard.
- To promote cooperation and joint resolution of challenges.
- To promote innovation and a fresh approach.
- To make expertise and market focus the backbone of the Group's operations.
- To find solutions that will stand the test of time.
- To be ambitious and believe in our own strength.
- To have the freedom to act locally, considering what is in the best interest of the total group.

## Organizational and skills development

The most important contribution factor in the Comrod Communication companies is people. Recruitment of the right people, composition of the right working teams and identification of the right individual and joint

challenges will encourage innovation and set the scene for constant improvement. Forming working teams and management groups we will use people who complement each other, in order to ensure balance and different point of views to consider every aspect of the total picture. When forming groups, care is taken to establish natural, internal control mechanisms, and to discourage any predominantly passive attitudes.

Diversity creates increased understanding, new ideas for solutions, innovation and constant improvement. Comrod Communication seeks to cultivate diversity. It is important to have a good mix in terms of gender, ethnic origin, cultural background and educational background. Energy and risk propensity, which are seen as key elements in the organizations' culture, enable the company to occupy a position at the forefront of development in its existing business areas, and to develop new business areas.

The Comrod Group makes every effort to recruit key individuals and managers internally in the first instance. Good internal training and regular addition of new challenges and new positions along the

internal career route will be instrumental in producing management candidates. Comrod Communication holds annual management meetings, at which motivation and leadership are as high on the agenda as strategy, business development and sales.

### **Equality**

The goal of diversity in the organization also centers on equality. As an industrial group with a clear weighting towards traditionally male-dominated occupations, Comrod Communication faces a challenge in this area. Accordingly, the company has made it a priority to seek highly-qualified women as new appointees, and preference is given to women when all other conditions are equal. The principle of equal pay for equal work is an absolute requirement when establishing salary levels. The Group is also committed to increasing the percentage of female representation in the management group. At the end of the year, there was one woman in the Group's senior management group. The group also has women in the management groups of two of the four business areas. The Board of Comrod Communication ASA has 50% female representation.

"To be ambitious and believe in our own strength" is a core value at Comrod Communication.



# MESSAGE FROM PRESIDENT

Further growth in 2008!



Niklas Hermansson,  
President and CEO

## **Solid growth**

Dear customers, owners, investors and partners, thank you very much for the confidence you have shown in us during 2008. We have experienced strong development in our main business areas, Antennas and Masts. This is very positive and confirms our position.

I'm pleased to report that in the fiscal year 2008 revenues grew by 27%, to NOK 369 million and our EBIT was 8.3%, NOK 30.7 million.

## **Organization**

2008 has been an interesting and solid year for the Group; it has proved that the organization is well positioned for growth and I would like to thank all employees for their positive contributions. Without you we wouldn't have succeeded.

## **Comrod UK/India bridgeheads**

As a part of our growth strategy we realize that certain regions are critical to securing business. One of these countries is the United Kingdom and during the year we established our own company with a branch office in India. All our new colleagues have several years of experience from the defence industry; we welcome them to the Group.

## **Customers/quality**

Together with our demanding customers around the world we have developed a solid product mix with a superior quality that provides good organic growth and high added value for the customer.

## **R&D/innovation**

This is a key element of future success and one of the most important aspects of the Group. We realize that time to market for new standard COTS (commercial off the shelf) products is critical for future success.

## **Production**

This is another important element of Comrod Communication Group's success. We will be up-front to stay ahead of our competition to maintain our global position.

## **UMS Norway AS**

We have completed the first phase of this project. Capital will be required to achieve future goals and we are actively looking for strategic or financial partners for the next phases of the project.

## **Looking ahead**

As we look forward, you can expect Comrod Communication Group to continue its traditions of technological innovation, enhancing production skills and focusing intensely on our customers' requirements as we seek new opportunities for growth for our shareholders.

A handwritten signature in blue ink, appearing to read 'Niklas Hermansson', written in a cursive style.

Niklas Hermansson  
President & CEO

## BUSINESS AREAS

### ANTENNAS



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### MASTS



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### POWER SUPPLY



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### INDUSTRIAL PRODUCTS





The Antennas business area is a leading supplier of antennas and antenna systems for marine and defence applications.

## Business Area Antennas

# INTERNATIONAL RECOGNITION



The solutions from Comrod Communication Group are recognised for their wide range and high level of stability and quality. The expertise gained from the development of unique antenna technology in robust composite materials has enabled Comrod to become the world leader in tactical antennas.

The antennas and antenna systems are manufactured at Comrod's factory in Norway, Lerc's factory in France and Comrod's Hungary plant in Budapest. For more than 50 years the Group has combined expertise, know-how and experience to achieve optimal development and production of antennas and antenna systems.

### PRODUCTS & PRODUCT DEVELOPMENT

The Antennas business unit manufactures antennas for the defence market and for civilian/commercial use. Comrod also supplies sophisticated antenna systems to the defence market.

The antennas are sold under the COMROD and LERC brands.

The business unit possesses advanced technology solutions that meet defence requirements and supplies a comprehensive range of tactical mobile antennas suitable for manpack, vehicles and transportable remote applications. The antenna product line for the defence segment includes combined antennas for VHF/GPS, VHF/

DECT, VHF/WLAN, UHF/GPS, UHF/DECT and UHF/WLAN.

For commercial use, the company supplies marine antennas for a number of different vessels, from deep-sea fishing boats and workboats, to cruise and pleasure craft.

As regards future defence projects, the trend is towards highly mobile units with sophisticated communication equipment. Today's soldier is becoming ever more "intelligent" in the sense that he/she operates, and often carries, advanced communication systems. Such communication equipment can be in the form of handheld or manpack systems carried by the individual soldier. Regardless of the type, antennas are needed for the radios to transmit and receive.

There is an emerging demand for a new, wider frequency band communication platform that will need the latest antenna technology.

Comrod has a tradition of staying in the forefront of this product development, and is ready to meet the requirements of this new and fast growing market.

### STRATEGY

The Business area has defined the following main goals for the period 2009-2011:

- Continue our growth within the dedicated tactical antenna area, taking advantage of



our number one position worldwide.

- Also become a main supplier of related complete antenna systems; e.g. support systems for tactical communication solutions and infrastructure for the defence sector. A new product related to this was introduced in 2008.
- The new loop antenna is expected to become a major contributor to the company's revenues and profit.

### MARKETS AND OUTLOOK

Comrod and Lerc are strong international brands, recognised worldwide for supreme quality and durability in the field.

Comrod Communication Group's targeted efforts over recent years has earned it a position as a preferred supplier for the main radio communication equipment producers; putting us in a position where we will have the privilege of supplying antennas for a large portion of the new radios being manufactured.

Staying at the forefront technologically, global distribution, alliances with different system suppliers, quality and the flexibility to deliver are key factors in the company's competitive edge.

Defence communication is moving towards the use of COTS (commercial off the shelf) products rather than complex, expensive

taylor-made solutions. The Group has a long tradition of taking its own, innovative products to the market and is well prepared to leverage this new trend.

The defence segment is responsible for approximately 88% of the business area's revenues, whereas antennas for marine and civil applications account for approximately 12% of the company's turnover.

There is also a growing demand for the rapid deployment of equipment with high tactility. The need for rapid deployment and mobile units is expected to increase the demand for more compact communication equipment involving integrated mast and antenna solutions and "smart boxes" with more technology "packed" into a single mast or antenna.

In general, there is less competition at the high-end of the market for these new system types of products.

Our current reputation and standing in the market for defence antennas, together with our high level of in-house expertise in communication technology solutions, both at Lerc and at Comrod, will serve as a platform for growing our turnover in this new and fast emerging portion of the market.

### KEY FIGURES BUSINESS AREA ANTENNAS

(NOK 1000)	2008	2007	2006 <sup>1)</sup>
Revenues	259 601	170 764	129 289
Operating profit (EBIT)	35 389	18 792	20 816

<sup>1)</sup> The 2006 numbers are pro forma figures

### TIMELINE BUSINESS AREA ANTENNAS

#### 1960

Comrod's Production of whip antennas for the fishing fleet begins, based on fishing rod technology

#### 1970s

Comrod's Antenna technology transferred to the defence market  
Diversification of Lerc into Masts and antennas for defence radio communication

#### 1980s

Lerc delivery to the RITA programme (France)  
LERC wins major programme for the US Army: TRITAC/DAMP (USD 23M)

#### 1994

Comrod becomes a leading supplier to GMDSS upgrades for merchant vessels



“We focus on quality at all steps. This is the key factor to success.”

David Jankovits,  
General Manager,  
Comrod Hungary Kft.

## Improved capacity and margins with Comrod Hungary

In May 2008, Comrod AS signed an agreement to acquire 100% of the shares of the Hungarian company Norworks kft. With this agreement, Comrod has now established their own production facility for antenna parts and products in Hungary. Comrod Hungary had already produced components for Comrod since November 2007.

The need for further production capacity was triggered by the sharply increasing demand for Comrod antenna products, and this facility will also improve cost efficiency, especially in relation to lower margin, labour intensive products from Norway and France.

The company is located in Budapest, and had as per year-end a workforce of 25 people. Comrod foresees an increase to 30

employees during Q1 of 2009. Comrod's revenues from Hungary were approximately NOK 18 million in 2008 and are expected to increase to NOK 40 million during 2009.

During Q4 2008, Comrod Hungary transferred their production to new, modern facilities.

Hungary was chosen as a location due to its status as a NATO country, its competitive wage level, the availability of skilled workers and its easy access to a competitive supplier network of electronic components. Comrod Hungary is managed by David Jankovits who holds an M.Sc. degree in electronic engineering from the University of Budapest and has previous experience from the Norwegian company Electrocompaniet.

### 1997

Comrod's first international defence contract (Switzerland)

### 2002

Prestigious British BOWMAN defence contract secured by Comrod

### 2004

First contract for antenna systems for the Swedish stealth corvette Visby

### 2007

New strategic contract to Comrod from Harris Corporation in USA

### 2008

Introduction of the Loop antenna to the market



The Masts business area is one of the world's leading suppliers of tactical masts for the defence industry.

## Business Area Masts

# RAPID DEPLOYMENT AND INCREASED MOBILITY



The company Lerc was acquired in 2006 and is the backbone of the Group's Mast business area. The company is based in St. Amand Les Eaux in Northern France.

Lerc masts are reaching further heights and mobility and the solutions are continuously being developed for the benefit of our valued customers and shareholders. Lerc is a leading brand worldwide.

### PRODUCTS & PRODUCT DEVELOPMENT

The wide range of products meets the requirements of most defence end-users worldwide. Lerc's mast products include solutions for end-users such as the infantry and special forces, ranging from light and highly mobile masts to heavy duty and fully automated telescopic masts for electronic warfare.

Key features of the mast products include easy maintenance, standard as well as tailor-made versions, and advanced control systems for unmanned use of the masts.

Sleeve masts currently constitute the main product category within the mast segment. Lerc has superior competence and a well-proven track record when it comes to calculating, designing and manufacturing

masts, especially for large-size and heavy top-load applications.

### STRATEGY

The business area has defined the following main goals for the period 2009-2010

- Minimum 15% annual growth in turnover in the business area
- We will further improve our market position in the US market
- We will develop our business in the field of advanced mast systems

### MARKETS AND OUTLOOK

In 2008, Lerc mainly delivered masts to an increasing line of sight (LOS) NATO market for the mobile internet backbone. Lerc masts are used to support the high capacity LOS radios needed in modern warfare for delivering high-speed video and file transmission between the front and command and control centres.

Recently, the market has moved to higher mobility and the integration of all radio communication equipment on vehicles. The company is adapting its range of products to meet this need in order to be ready for future defence programmes.

The technical advances within

communication technology and the increasing use of high bandwidth communication technology for defence use is securing a basis for further growth within the mast area. Lerc intends to maintain its

reputation as the supplier of masts, and go further. The establishment of Comrod UK in 2008 is expected to open up the large potential markets in Commonwealth countries for masts from Comrod Communication Group.



#### KEY FIGURES BUSINESS AREA MASTS

(NOK 1000)	2008	2007	2006 <sup>1)</sup>
Revenues	64 650	54 398	27 186
Operating profit (EBIT)	9 531	6 832	(2 699)

<sup>1)</sup> The 2006 numbers are pro forma figures

#### TIMELINE BUSINESS AREA MASTS

**1946**

Lerc founded in Paris

**1970**

Diversification of LERC in military radio communication: Masts and Antennas

**1980**

Delivery of the RITA program (France)

**1988**

First delivery of masts to the US Army (JITDS program)



**1989**

LERC won a major program to the US Army: TRITAC/DAMP (\$23M)

**1992**

LERC starts development of heavy duty telescopic masts

**2001**

First fully automated telescopic mast

**2006**

Lerc joins forces with Comrod

**2008**

Lerc enters strategic partnership agreement with Thales France. First deliveries and new orders to the MIDS/Terre programme



The Power Supply business area is a high quality supplier of power supply and battery chargers to the defence communication market.

## Business Area Power Supply

# STANDARD AND TAILOR-MADE SOLUTIONS POWERING THE NEXT STEPS



In recent years, Comrod Communication Group has built up a position as a leading supplier of communication antennas for various defence applications. Like antennas, power supplies are peripheral equipment for radio installations, and the same institutions and decision makers are responsible for purchasing such equipment.

The Group has since 2006 worked steadily to introduce Power Supply's solutions to our strong customer network within defence communication. The results of this have so far been a few new contracts and an increasing number of enquiries.

The Power Supply business area's offices are in Asker, outside Oslo, Norway. The focus here is on product development, while sales and marketing are supported by the Comrod Group and production is sourced from third party manufacturers.

### PRODUCTS & PRODUCT DEVELOPMENT

Power Supply's key products are AC/DC converters, DC/DC converters and battery chargers

The organization has long experience in developing power supply and battery chargers according to strict military specifications, for demanding defence operations. Key success factors are durable

mechanical solutions, combining high power, small physical size and low weight. The team of engineers, all with an MSc, has over 80 years of combined experience working with military electronics.

In 2008, there was a strong focus on development and deliveries of an 8-position charger for one of our key customers.

The focus now is on completing the development of the ComPact AC/DC converter, which will be introduced during 2009. The new products offer substantial advantages over the present line, since these entails a significant reduction in volume and weight. The product brings our Power Supply division to the forefront compared to our competition. We expect the new product to be an important stepping-stone in securing new contracts with major radio producers.

### STRATEGY

The Business area has defined the following main goals for the period 2009-2010/2011

- Secure a minimum of two new contracts with major radio communication producers
- Successful market introduction of the "ComPact technology" in 2009

## MARKETS AND OUTLOOK

Our products are first-class from a technical point of view. Our history of supplying radio manufacturers and systems integrators in Norway and in other NATO countries proves that our electronic and mechanical solutions are already successful field-proven technologies.

Given the high value per unit sold, and a total market need for units in line with

the need for tactical antennas, we judge our market opportunities to be very good. Staying true to our values of not compromising on customer satisfaction and quality in everything we do, we will prove that the Power Supply division was an excellent addition to the Comrod Communication Group.



## KEY FIGURES BUSINESS AREA POWER SUPPLY

(NOK 1000)	2008	2007	2006
Revenues	18 062	33 516	14 809
Operating profit (EBIT)	(693)	7 548	1 446

### TIMELINE BUSINESS AREA POWER SUPPLY

1987

Unitech AS was founded

1997

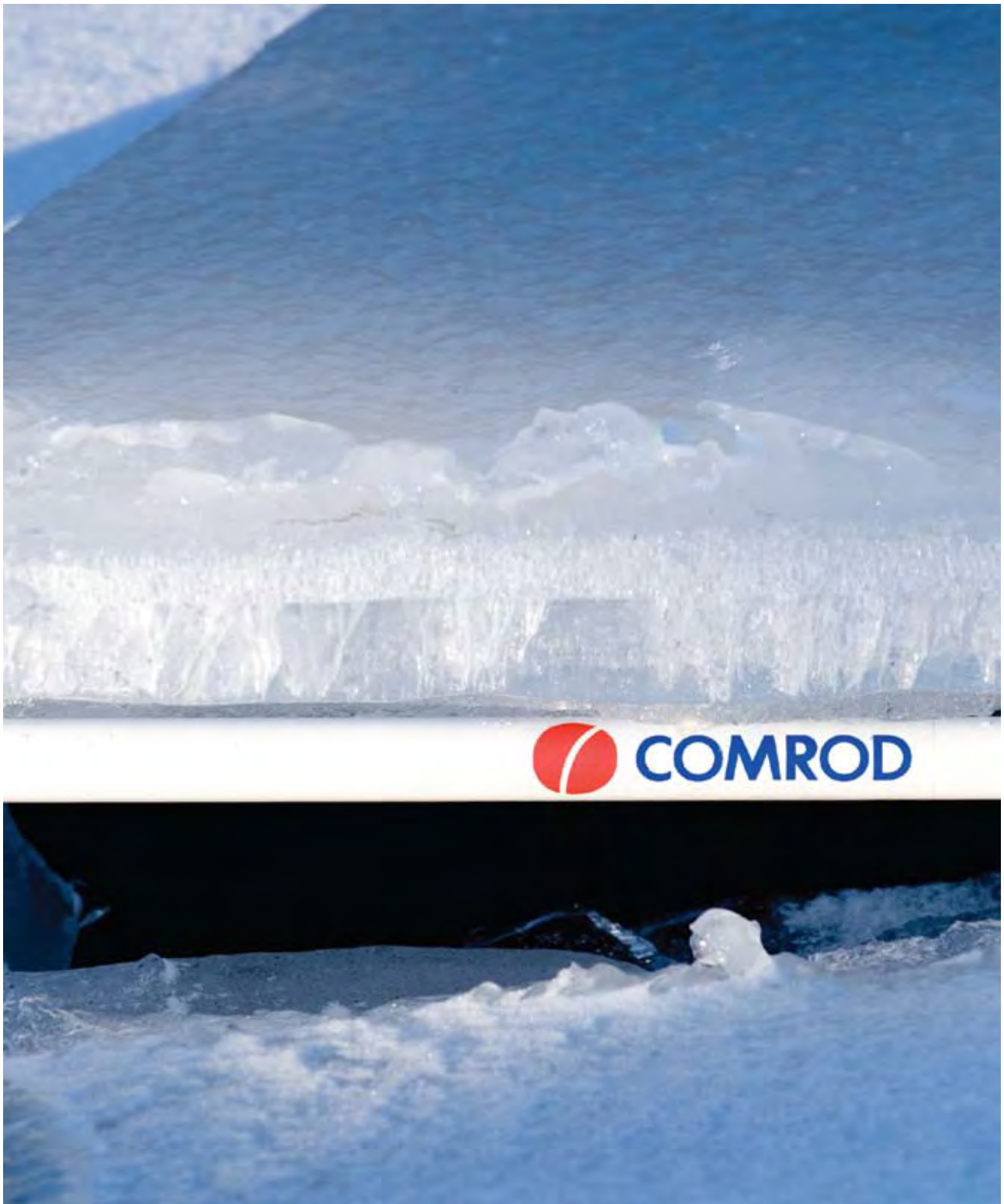
Contract with the Department of National Defense Canada for combined battery charger and power supply

2001

Framework agreement with the Swedish Defense Material Administration

2002

Contract with a Norwegian radio supplier for combined battery charger and power supply for handheld radios



2003

Contract with US based radio manufacturer for combined battery charger and power supply for handheld radios

2003

Contract with a Norwegian radio supplier for battery chargers for man pack radios

2006

Acquired by Comrod AS

2007

Framework agreement with the Swedish Defense Material Administration

2008

Breakthrough contract with Harris Corporation for the delivery of battery chargers



The Industrial Products business area is a quality supplier of 'dedicated applications' for the oil and gas industry

## Business Area Industrial Products

# FULL FOCUS ON OIL AND GAS



The company Lerc SAS in Northern France is home to the Group's Industrial Products business area.

The 'dedicated applications' niche products are mainly targeted at the oil and gas industry.

### PRODUCTS & PRODUCT DEVELOPMENT

Industrial products are based on the same advanced use of composite materials and the same production technology as the products in the Antennas and Masts business areas. Utilizing this cross-reference experience puts the company in a strong position when it comes to responding to the needs of demanding customers for niche products.

### Dedicated applications

In 2008, Lerc continued serial production

of a competitive range of products for the oil industry, based on the highly demanding "logging while drilling" equipment market.

2008 was the right time to start working on expanding the product range considering the potential integration of complementary technologies that would allow Lerc to provide a global, integrated solution for its customers.

Lerc expects to implement this potential evolution and increase volumes and improve profit margins as a result.

### MARKETS AND OUTLOOK

#### Oil related applications

As the products delivered to the oil industry are recent ones, their future potential is interesting and they should result in stability and positive margins for 2009.

The market is still demanding new technology, which provides a basis for Lerc's development.

As a result of the continued weak development of insulator products, the company has decided to phase out this activity during the first half of 2009.

### KEY FIGURES BUSINESS AREA INDUSTRIAL PRODUCTS

(NOK 1000)	2008	2007	2006 <sup>1)</sup>
Revenues	29 277	33 002	26 239
Operating profit (EBIT)	(1 173)	2 374	(105)

<sup>1)</sup> The 2006 numbers are pro forma figures

### TIMELINE BUSINESS AREA INDUSTRIAL PRODUCT

2005

New strategy for Industrial Products: Focus on Oil Industry, Railways & tactical propulsion

2005

Development of a new application for the "Oil Industry"

2006

Set up in production of the new "Oil Industry" product

2006

Qualification of a new "Design To Cost" range of Railways insulators



“Understanding the Applications is extremely useful.”

Derek McClelland,  
General Manager, Comrod UK Ltd.

## Bridgehead for further expansion

The Group announced in early August 2008 that a strategic bridgehead had been established by setting up Comrod UK Ltd in Southampton, UK. A few days later Shankar J. Shenoy joined the company as an in-country sales manager in Bangalore, India.

Derek McClelland has 45 years’ experience in the field of defence communications applications. Having served in the British Army for 27 years, after numerous promotions and positions, he ended his military career in 1992 as a communications officer with responsibility for securing the networks deployed in theatres around the world.

After retiring from the British Army in 1992, Mr. McClelland continued to utilize his experience in the field of defence communications. From 1992 until joining Comrod in 2008 he was employed by a UK based major supplier of antennas and masts to the global defence market.

“When offering antennas to radio manufacturers or to the end-users in the defence forces it is a great advantage to be able to discuss, with knowledge and understanding, the applications and scenarios the products will be used in. Today’s communications systems are much more complex than in my time, but the requirement to transmit the information over

> CONTINUED  
**TIMELINE**  
INDUSTRIAL  
PRODUCT

2006

Qualification of the new Loop insulator for urban transport.

2007

Major increase of the oil activity business.

2008

Decision to focus on ‘dedicated applications’ for the oil industry

the RF spectrum is the same. The problems associated with communicating over difficult terrains and in difficult conditions are the same now as they always have been, you can have the most complex radios, but without a good antenna you will not communicate successfully. Being in a position to appreciate the issues faced by today's communicators helps tremendously in selecting the right product to meet the military requirements."

"The use of the RF spectrum is changing as technology moves forward at an ever increasing pace. The demand for antennas to operate over wider frequency bandwidths with greater power handling requirements and also to provide communications whilst on the move is a very demanding area, but one which Comrod is ideally positioned to succeed in. I am very proud to be a part of the Comrod team."

Together with Mr. McClelland, Comrod UK also consists of Jon Barton and Paul Griffiths. They both have more than 15 years of experience within the defence communication sector. Jon Barton was in the British Army where he served as a communicator using antennas and masts for wide area systems. After leaving the British Army Mr Barton was employed in a sales role for a leading antenna company until he joined Comrod in 2008.

Paul Griffiths is an engineer by trade and has a vast knowledge of the mechanical construction of all the products. Given his engineering background and his employment in the defence industry over 15 years he has a good knowledge of all the requirements necessary to ensure that newly developed products are designed in the most efficient method for production and ease of use by the customer.

Shankar J. Shenoy is the country manager in India based in Bangalore. He was born in Bangalore and educated in engineering and holds a Bachelor of Engineering degree in electronics and communications. In his early career he was an engineer working for Bharat Electronics. He then became a sales engineer for RF instrumentation for Racal Instruments and from 1995-2008 he was the country manager for Racal Antennas India. Mr Shenoy has a huge array of experience in the communications requirements of the Indian Armed Forces.

## 2008 ANNUAL REPORT

The Comrod Communication Group achieved the following important strategic goals in 2008:

- Breakthrough contract for Power Supply with Harris Corp. in USA through leveraging Comrod's existing extensive customer base
- Developed unique new antenna product, HF Loop
- Establishment of production facilities in Hungary
- UK bridgehead established
- MIDS/Terre mast contract
- Breakthrough orders for flat panel antenna and antenna control system
- Strong growth in revenues and profit in the two main operating segments, 52% revenue growth for antennas and 19% for masts

The Group reported revenues of NOK 368.6 million and an operating profit before depreciation/amortization (EBITDA) of NOK 44.4 million in 2008. Operating profit (EBIT) amounted to NOK 30.7 million.



### THE BOARD OF COMROD COMMUNICATION ASA

From left: Merete Alnes Mostue, Frode Svaboe, Randi Elin Hognestad, Tore J. Fjell, Kristin Krohn Devold, Erik Espeset.

## Business Areas

### ANTENNAS

#### Sales and market

The business area achieved revenues of NOK 259.6 million in 2008, which represents a strong growth of 52% compared to 2007. The newly developed multiband antenna generation has been very well received in the market. The antennas delivered to Harris Corporation formed part of the growth during 2008. Several new antenna contracts were also secured with other customers in 2008. These contracts, together with generally positive market trends for tactical communication worldwide, enabled us to achieve record revenues for antennas.

#### Production and results

The business area's operating margin for 2008 was 14%, compared to 11% in 2007.

The profit margin in 2008 was achieved in spite of a weak USD during the first three quarters of the year and extensive use of temporary workers and overtime at the Tau plant. The margins are expected to gradually improve during 2009 due to the ongoing transfer of new products to the Hungarian facility.

The business area reported an operating profit of NOK 35.4 million in 2008, an increase from NOK 18.8 million in 2007. The first orders for the new loop antenna are expected in Q1/Q2 of 2009. This product received a high level of attention at several international trade fairs, and is expected to become a mainstay of the future growth in this business area.

The business area had 146 employees as of 31 December 2008 (2007: 118). No occupational injuries resulting in sick leave or material damage were recorded in 2008. The business area's working environment is regarded as good.

Production processes and waste products do not require any special permits. Waste products are sent to approved disposal sites or recycled. The products do not present a health hazard when they leave the company.

### MASTS

#### Sales and market

The business area achieved revenues of NOK 64.7 million in 2008, an increase of 19% on the 2007 level of NOK 54.4 million.

The strong growth within the business area partly relates to the increased use of Line Of Sight (LOS) systems and the Group's important contracts with the Thales Group, among others, for deliveries to the MIDS/Terre programme.

Deliveries of masts to the US, Canadian and French armies in 2008 also strongly contributed to the growth in revenues. As basic market trends are still favourable for masts, the company expects to maintain and increase the high level of revenues it has now established.

#### Production and results

The business area reports an operating profit of NOK 9.5 million in 2008, compared with an operating profit of NOK 6.8 million in 2007. The growth in revenues, together with improved operations through the group-supported projects, has established a basis for profitability within the business area, and positive growth is thus expected in 2009 as well.

#### Other

The business area had 28 employees as of 31 December 2008 (2007: 22). No occupational injuries resulting in sick leave or material damage were recorded in 2008. The business area's working environment is regarded as good.

Production processes and waste products do not require any special permits. Waste products are sent to approved disposal sites or recycled. The products do not present a health hazard when they leave the company.

### INDUSTRIAL PRODUCTS

#### Sales and market

As a result of the continued weak development of insulator products, the company has decided to phase out this activity during the first half of 2009.

The product range within offshore-related products will continue and receive the full attention of the business area's organization. The operating segment achieved revenues of NOK 29.3 million in 2008 compared with NOK 33.0 million in 2007.

#### Production and results

The business area reported an operating loss of NOK 1.2 million in 2008 compared with an operating profit of NOK 2.4 million in 2007. As the company gradually phases out insulator products during 2009, the margin for this operating segment will improve.

#### Other

The business area had 25 employees as of 31 December 2008 (2007: 31). No occupational injuries resulting in sick leave or material damage were recorded in 2008. The business area's working environment is regarded as good.

Production processes and waste products do not require any special permits. Waste products are sent to approved disposal sites or recycled. The products do not present a health hazard when they leave the company.

### POWER SUPPLY

#### Sales and market

The business area achieved revenues of NOK 18.1 million in 2008, compared to the 2007 level of NOK 33.5 million. Revenues from contracts that have now expired made up a high proportion of revenues in 2007 and Power Supply is in a transitional period between contracts and customer networks.

Establishing an extended customer base to expand the business is still the top priority. The company expects to be being awarded new contracts during 2009, and the business area has high growth expectations in the medium term within this area. A higher number of requests/inquiries were received during second half of 2008.

In the second half of the year, the company started to deliver the new custom-built battery charger to Harris Corporation Inc. This is the first strategic power supply contract with this company.

#### Production and results

The business area reported an operating loss of NOK 0.7 million in 2008 compared with an operating profit of NOK 7.5 million in 2007. The EBIT margin within the area ended up at minus 4%. This is the result of revenue level being too low. However the gross margins for the general operating segment are acceptable. The Group expects to see improved profitability in Power Supply as a new customer base is gradually established. The launch of

the compact power supply currently under development is also expected to contribute to higher revenues and improved EBIT margins.

#### Other

The business area had 7 employees as of 31 December 2008 (2007: 6). No occupational injuries resulting in sick leave or material damage were recorded in 2008. The business area's working environment is regarded as good.

Production processes and waste products do not require any special permits. Waste products are sent to approved disposal sites or recycled. The products do not present a health hazard when they leave the company.

#### RESEARCH AND DEVELOPMENT

R&D is a continuous focus in all of Comrod Communication Group's business areas to secure a leading position in its field of technology and offer the best possible solutions and systems to customers. In 2008, the Group capitalized development costs of NOK 13.4 million and expensed development costs of NOK 13.4 million. (2007: NOK 5 million and NOK 12.3 million)

The capitalized development costs in 2008 related to the following main projects:

- New telescopic mast
- HF Loop antenna (NVIS)
- Various multiband/wideband antennas, including jamming versions
- Compact Power Supply
- Various antenna control systems

The capitalized development costs in 2008 also included an amount of NOK 5.8 million (2007: 5.0 million) for the development of an unmanned aerial vehicle (UAV) in the subsidiary Unmanned Systems Norway AS. During 2008, operating costs of NOK 1.9 million were expensed (NOK 1.5 million for 2007) in UMS. A memorandum of understanding has been agreed with Lockheed Martin concerning a joint development project for the next two phases of the UAV. The Group is actively looking for strategic or financial partners for the next phases of the project.

UMS had 1 employee at year-end 2008 (2007: 2).

#### PARENT COMPANY

The Group's administration is located in Tau (near Stavanger), Norway, and is made up of the Group's President & CEO (currently the sole employee of the parent company), the Chief Financial Officer, and the Executive Vice President Production (a position combined with Managing Director of Comrod AS). The CFO position of the Group is currently covered by the financial director of Comrod AS. This arrangement provides a cost-effective Group management.

In 2008, the parent company returned an operating loss of NOK 10.6 million compared to an operating loss of 4.4 million in 2007. The profit for the year was NOK 18 million compared with NOK 10 million in 2007. The figures for 2008 include a non-recurring cost of NOK 2.2 million related to the change of CEO.

The working environment is regarded as good. There were no incidents resulting in personal injury or material damage. The company's operations do not pollute the external environment.

#### GROUP

The Comrod Communication Group reported revenues of NOK 368.6 million (compared with NOK 289.9 million in 2007) and an operating profit before depreciation/amortization (EBITDA) of NOK 44.4 million in 2008 compared with NOK 40.8 million in 2007. Operating profit (EBIT) amounted to NOK 30.7 (29.6) million. The figures for 2008 include a non-recurring cost of NOK 2.2 million related to the change of CEO. The 2008 figures also include non-recurring costs related to start-up of the plant in Hungary and establishing the sales organization in the UK and India. The benefit from the expanded sales organization is expected to be increasingly apparent from first quarter of 2009.

The equity as of 31 December 2008 was NOK 109.7 million (NOK 95.0 million) and the corresponding equity ratio was 30.6% (31.3%). The group's long-term strategy is to have an equity ratio of at least 30%.

Inventories increased by NOK 12.7 million during the year. Current receivables fell by NOK 2.1 million. Current liabilities increased by NOK 5.6 million. Total working capital thus increased by NOK 5.0 million.

Net interest-bearing liabilities increased by NOK 37.0 million during the year. Of this increase, approximately NOK 20 million is due to an increase in the EUR exchange rate from the end of 2007 to the end of 2008. Of this latter amount, approximately NOK 16.9 million is from an increase in the NOK value of loans denominated in EUR and recorded as net investment hedging against the investment in Lerc.

The total balance sheet at the end of December was NOK 358.5 million. Group liquidity remains satisfactory.

Cash flow from operations amounted to NOK 48.5 million (NOK 7.5 million) compared with an EBITDA of NOK 44.4 million (NOK 40.8 million).

The Group fulfils all its obligations to its lenders.

The Group had a total of 215 employees as of 31 December 2008 (2007: 192). Of these, the main locations Norway and France have 106 (2007: 102) and 86 (2007: 90) employees respectively. Sick leave in the Group amounted to 4.5% of working hours in 2008 (2007: 2.5%). In absolute figures, total sick leave in the Group during 2008 amounted to 16,444 hours (2007: 7,947 hours). This is under the industrial average, however the Board and the administration continue their efforts to improve the situation.

The Board and management wish to promote diversity and equality in all areas. Recruitment and development opportunities are decided on the basis of a comprehensive evaluation of the short-term and long-term competence requirements of the individual company and the Group as a whole. Salaries are based on education, qualifications, experience and performance. Men and women are treated equally. Most workplaces in the Group are involved in industrial production, which is traditionally a male-dominated area. At Comrod AS, however, the percentage of women has increased from 36% at the end of 2007 to 41% at the end of 2008 as a result of the company's recruitment policy. Lerc SAS had 23% women at end of 2007 and 23% at end of 2008. The total number of women in the Group was 73 (34%) in 2008 and 57 (30% in 2007). The Board is satisfied with this development in 2008 and expects the trend to continue. The Board has 50% female representation.

The financial statements for 2008 have been prepared on the

basis of a going concern assumption. The Board of Directors confirms the validity of this assumption in accordance with the provisions of section 3-3a of the Norwegian Accounting Act.

## ENVIRONMENTAL REPORTING

The Group does not release any substances that require any kind of permit into the surrounding environment, and no health hazards are associated with its products. Waste from all of the subsidiaries' production, such as metal shavings, is sent to approved disposal centres. This also applies to hazardous waste such as oil emulsions. Other waste is separated at source and deposited in authorized waste disposal sites. External emissions are registered annually and reported to the Norwegian Pollution Control Authority (SFT) and corresponding authorities in other countries in which the company operates.

In 2006, Comrod extended its ISO 9001-2000 certification by three years.

## FUTURE PROSPECTS

This section, and some other parts of this Board report, contains certain forward-looking statements. These forward-looking statements reflect current views with respect to future events and are, by their nature, subject to significant risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including: levels of industry product supply, demand and pricing; currency exchange rates; political and economic policies in Norway and the countries the Group export to and import from; general economic conditions; political stability and economic growth in relevant areas of the world; global political events and actions, including war, terrorism and sanctions; the ability of Comrod Communication Group to successfully implement its strategies and achieve its objectives.

The Group is well positioned for growth in its two main business areas, Antennas and Masts, in 2009. The Group expects a similar level of oil related products to 2008 in Industrial products. Volumes in Power Supply are expected to gradually increase during 2009 and 2010. In total, the Board expects increased revenues and improved results in 2009 compared with 2008. Variations in revenues and EBIT between quarters can also be expected in 2009.

The market foothold established in recent years has put Comrod AS, Lerc SAS, and the whole group, in a strong position for further global growth. The Group will benefit from the new strategies for warfare, with highly mobile forces and the increasing use of advanced information technology equipment. This is driving the demand for radio communication equipment and will thus continually increase demand for the Group's products in the years to come.

The Group's main contracts are often linked to the long-term major investment programmes of different national armies. The exact delivery schedules and timing of these programmes are outside the company's control, and delays in their execution are common. This may cause short-term fluctuations in the Group's revenues from time to time.

Unique application competence, mainly based on experience, and specific expertise related to development and production according to strict military standards represents an effective entry barrier to our business, and the company does not see any major

threats from emerging technologies or new players.

The Group will continue to invest in its manufacturing facilities to further automate them and in general ensure cost efficiency; the company will utilize additional production capacity in low cost countries to stay flexible with respect to capacity and to ensure profitability.

## FINANCIAL RISK

### Market risk

The Group's main customers place their orders under long-term defence radio communication programmes often funded by governmental institutions. Consequently, the Group is less exposed to changes in the overall economic cycle and world economic trends than many others. The business is, however, influenced by changes in defence strategies and the level of conflict in the world. The current trends toward greater mobility and technologically more advanced communication solutions, which drive the need for the company's products, are considered to be trends that will persist for the foreseeable future.

It is uncertain what impact the current financial crisis, and the proposed "Buy American" legislative proposal will have for the Group. Possible effects are not expected to impact performance in the first half of 2009.

The company is exposed to fluctuations in exchange rates, particularly in EUR and USD, as a large proportion of the company's revenue is in foreign currency. The currency risk is reduced by means of foreign forward exchange contracts, foreign currency loans and by purchasing products in foreign currency. This also reduces operational market risk. The company is also exposed to currency risk related to the investment in Lerc. This is partly offset by a long-term currency loan in the same currency (EUR).

The company is exposed to interest rate changes regarding loans in both NOK and EUR.

### Credit risk

The risk of a counterpart not having the financial capacity to fulfil its obligations is considered low, as there have been low trade receivable losses in the past. The Group's gross credit risk was NOK 97 million on the balance sheet date, which is the same amount as in 2007. NOK 45 million of the accounts receivable at end of 2008 were from Lerc, which has credit insurance covering 90% of the outstanding amount. This further reduces the total credit risk of the Group. In 2008, two of the Group's customers accounted for 39.5% of revenues (see note 4 and note 26 of the consolidated accounts). Both of these are major corporations with strong balance sheets. The receivables from one of these are also 100% covered by credit insurance.

Credit risk insurance, LOC or other receivables insurance, is used for customer portfolios considered to represent a substantial counterpart risk.

Comrod Communication ASA has no netting agreements in place or other financial instruments to minimize credit risk.

### Liquidity risk

As the company considers liquidity to be satisfactory, no measures to change the liquidity risk will be introduced. On the balance sheet date short-term interest-bearing liabilities amounted to NOK 56.6 million including NOK 14.1 million of next year's instalments of long-term liabilities. Subsequent to

the balance sheet date Comrod Communication ASA's overdraft facility has been increased from NOK 35 million to NOK 55 million. Lerc SAS's overdraft facility remains at EUR 60,000. The company will seek to keep the total level of short-term credit from lending institutions, excluding next year's instalments on long-term liabilities, below NOK 50 million. There are significant variations in net working capital and utilization of credit facilities between quarters due to seasonality.

#### Raw materials risk

Agreements relating to the purchase of raw materials represent a large part of the Group's finished products. These are normally signed on an annual basis, with an agreed price and quantity for the term of the agreement. The Group endeavours to have the same commitment periods in its raw materials purchasing agreements as in its agreements for the sale of finished products. Access to raw materials has not been limited. We have, however, experienced longer lead-times in 2008 than before due to the very high activity level in many companies and countries. Apart from fixed-price contracts with suppliers, there is no alternative way of hedging the Group's most important raw materials using derivatives or financial contracts.

#### SHARE PRICE DEVELOPMENT

Comrod Communication ASA has a share capital of NOK 16.9 million. Each share has a nominal value of NOK 1.00. At the end of 2007 the share price was NOK 13.80, while it was 10.90 at the end of 2008. This represents a decline in value of 21.0% during 2008, while the Oslo Stock Exchange's benchmark index (OSEBX) fell by 54.1% in the same period.

In 2008, Comrod shares were traded on 151 of the 252 trading days. Average daily transactions were low. A total of 2.4 million shares were traded in 2008 (2007: 4.9), which corresponds to 13.9% (2007: 28.7%) of the total number of shares. The company's market capitalization was NOK 184.6 million at the end of 2008, compared to NOK 233.8 million at the end of 2007.

More detailed information on the share, its price development and liquidity is provided later in this annual report.

As a company with a relatively low market value, it is difficult to gain sufficient attention from stock analysts and the media. The market cap and low liquidity are also factors that limit institutional investors' investments in the company.

Comrod Communication ASA signed a market making agreement in November 2007 to improve the liquidity of the share. The agreement complies with the standard requirements of the Oslo Stock Exchange.

The company is working actively on increasing the number of analysts, media and investors that monitor the company. All reports and presentation materials are available in English to facilitate information provision to broader groups. Company presentations are normally also webcast.

#### COMPENSATION TO SENIOR EXECUTIVES

As a leading player in its field, Comrod Communication ASA must offer salaries that attract top-grade managers. The Board's policy is that salaries shall be offered at a level that satisfies the individual and is competitive in an international market in order to secure the best possible management.

The basic principle is that management salaries must be at a competitive level in a national context (this may mean that salary levels for managers based abroad may sometimes exceed levels for corresponding positions in Norway, and vice versa).

The Group's policy is that the salary of senior executives shall be almost entirely in the form of a fixed monthly salary that reflects a level appropriate for the position held by the person concerned and normal business practice.

The Board of Comrod Communication ASA sets the salary and other remuneration of the Group's President. The boards of the subsidiaries fix the salaries and other remuneration of their managing directors. The Group's President sets the salary and other remuneration of key members of the Group management team in consultation with the Chairman of the Board.

Pursuant to Norwegian company legislation, the Board of Directors has also prepared guidelines for the remuneration of the executive management that will be presented and discussed at this year's general meeting. Details of remuneration and contractual arrangements may be found in note 28 of the financial statements of Comrod Communication Group.

#### STATEMENT RELATED TO THE ANNUAL ACCOUNTS

The consolidated financial statements for 2008 have been prepared and presented in accordance with IFRS. The financial statements for the parent company have been prepared in accordance with the Norwegian Accounting Act (NGAAP).

The Board of Directors confirms that, to the best of its knowledge, the financial statements for 2008 provide a true and fair view of Comrod Communication Group's consolidated assets, liabilities, financial position and results of operations. The Board also confirms, to the best of its knowledge, that the annual report includes a fair review of important events that have occurred during the year and their impact on the annual financial statements.

No significant events occurred after the year-end balance sheet date.

#### Allocation of profit for the year in Comrod Communication ASA.

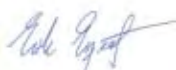
The Board of Comrod Communication ASA (parent company) proposes that the profit for the year be allocated as follows:

The profit for the year of NOK 17,963,351 is proposed transferred to other equity.

Distributable equity as of 31 December 2008 is NOK 20,732,139.

TAU, 31.12.2008/24.03.2009

The Board of Directors of Comrod Communication ASA



**Erik Espeset**  
Chairman of the Board



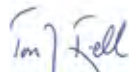
**Randi Elin Hognestad**  
Vice-Chairman of the Board



**Frode Svaboe**  
Member of the Board



**Merete Alnes Mostue**  
Member of the Board



**Tore J. Fjell**  
Member of the Board



**Kristin Krohn Devold**  
Member of the Board



**Niklas Lars Hermansson**  
President & CEO

## INCOME STATEMENT, CONSOLIDATED

1 January - 31 December

(NOK 1 000)	Note	2008	2007
<b>Operating income</b>			
Operating revenue	4	368 631	289 937
<b>Total operating income</b>		<b>368 631</b>	<b>289 937</b>
<b>Operating expenses</b>			
Cost of materials	14	143 700	113 455
Payroll & social security expenses	10, 20, 27, 28	128 161	97 966
Depreciations and amortizations	11, 12	13 610	11 175
Other operating expenses	25	52 417	37 766
<b>Total operating expenses</b>		<b>337 888</b>	<b>260 362</b>
<b>Operating profit</b>		<b>30 743</b>	<b>29 575</b>
<b>Finance income and expense</b>			
Financial income	7	12 995	2 150
Financial expense	7	28 677	13 571
<b>Net financial items</b>		<b>(15 682)</b>	<b>(11 421)</b>
Profit before tax		15 061	18 154
Tax expense	8	4 604	5 895
<b>Profit for the year</b>		<b>10 457</b>	<b>12 259</b>
<b>Attributable to</b>			
Equity holders of the parent		10 812	12 715
Minority interests		(355)	(456)
Earnings per share (NOK)	9	0.62	0.76
Diluted earnings per share (NOK)	9	0.62	0.76

# BALANCE SHEET, CONSOLIDATED

31 December

(NOK 1 000)	Note	2008	2007
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11, 25	85 652	61 981
Intangible assets	5, 12	90 362	69 722
Other non-current assets	13	75	60
<b>Total non-current assets</b>		<b>176 089</b>	<b>131 763</b>
<b>Current assets</b>			
Inventories	14	71 040	58 305
Trade receivables	15	96 717	96 623
Forward currency exchange contracts	26	0	21
Other current assets	16	5 665	7 881
Bank deposits, cash and similar	17	8 981	9 314
<b>Total current assets</b>		<b>182 403</b>	<b>172 143</b>
<b>Total assets</b>		<b>358 492</b>	<b>303 906</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	18, 19	16 939	16 939
Share premium reserve	18, 19	52 568	52 568
Other paid-in capital	19	709	403
<b>Total paid-in capital</b>		<b>70 216</b>	<b>69 910</b>
Retained earnings	19	21 292	20 661
Other reserves	19	18 217	4 300
<b>Total retained earnings and other reserves</b>		<b>39 509</b>	<b>24 961</b>
<b>Total paid in and other equity</b>		<b>109 725</b>	<b>94 871</b>
Minority interests	19	0	174
<b>Total equity</b>		<b>109 725</b>	<b>95 045</b>
<b>Non-current liabilities</b>			
Non-current interest-bearing liabilities	22,25	94 124	76 337
Pension liability	20	14 467	14 817
Deferred tax	8	1 730	3 745
Provisions	21	716	716
<b>Total non-current liabilities</b>		<b>111 037</b>	<b>95 616</b>
<b>Current liabilities</b>			
Short-term loans	23,25	56 568	37 653
Forward currency exchange contracts	26	7 137	0
Trade payables and other current liabilities	24	74 025	69 434
Income tax payable	8	0	6 158
<b>Total current liabilities</b>		<b>137 730</b>	<b>113 245</b>
<b>Total liabilities</b>		<b>248 767</b>	<b>208 861</b>
<b>Total equity and liabilities</b>		<b>358 492</b>	<b>303 906</b>

# CASH FLOW STATEMENT, CONSOLIDATED

(NOK 1 000)	Note	2008	2007
<b>Operating activities</b>			
Profit before tax		15 061	18 154
<b>Non-cash elements</b>			
Depreciation and impairment of property, plant and equipment	11, 12	13 610	11 175
Share-based payment expense		306	403
Interest income		(12 995)	(2 150)
Interest expense		28 677	13 571
Movements in provisions and government grants		0	(7 303)
Differences between expensed and paid pension cost		462	569
<b>Working capital adjustments</b>			
Changes in trade and other receivables		11 376	(28 914)
Changes in inventories		(5 899)	(13 993)
Changes in trade and other payables		7 337	17 166
Income Tax paid		(9 468)	(1 209)
<b>Net cash flow from operating activities</b>		<b>48 468</b>	<b>7 470</b>
<b>Investing activities</b>			
Purchase of property, plant & equipment	11	(26 775)	(14 077)
Purchase of intangible assets	5, 12	(13 387)	(6 394)
Acquisition of subsidiary, net of cash acquired	5	(679)	596
Change in financial fixed assets (group)		0	28 307
Interests received		12 995	2 115
<b>Net cash flow from investing activities</b>		<b>(27 846)</b>	<b>10 548</b>
<b>Financing activities</b>			
Net change in non-current liabilities		589	(102 303)
New short term loans	23	0	12 401
Net change in bank overdraft	23	16 302	23 199
Interest paid		(28 677)	(13 146)
New paid in capital/dividend paid	19	(10 000)	68 007
<b>Net cash flow from financing activities</b>		<b>(21 787)</b>	<b>(11 842)</b>
Net foreign currency exchange effect		833	(46)
Net change in cash & cash equivalents		(1 166)	6 176
Cash & cash equivalents at beginning of period		9 314	3 184
<b>Cash &amp; cash equivalents at end of period</b>		<b>8 981</b>	<b>9 314</b>
Unutilised group overdraft facility	17	4 642	0

# STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY, CONSOLIDATED

(NOK 1 000) Statement of recognized income and expenses	2008	2007
Translation differences	24 367	(2 604)
Cash flow hedges	(190)	190
Net loss on hedging of net investments	(11 884)	0
Changes in estimates, pensions	1 624	(3 576)
<b>Net profit/loss taken directly to equity</b>	<b>13 917</b>	<b>(5 990)</b>
Profit for the period	10 812	12 715
<b>Total changes in shareholders equity for the period</b>	<b>24 729</b>	<b>6 725</b>

See also notes 19 and 26

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT - IFRS

### NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

Comrod Communication ASA is a public limited company with its registered office in Norway. The Company's head office is at Fiskaaveien 1, N-4120 TAU, Norway. Comrod Communication ASA and its subsidiaries are collectively referred to as the Group or the Comrod Communication Group.

Comrod Communication ASA was part of the Hexagon Composites Group until 19 January 2007, at which date the demerger was implemented. Comrod Communication ASA was listed on the Oslo Stock Exchange on 22 January 2007. Since Comrod Communication ASA was newly established at the date of the demerger from Hexagon Composites ASA and the merger with Comrod AS and its subsidiaries, the creation of the Comrod Communication Group is accounted for as a reverse acquisition. Comrod AS and its subsidiaries book value has been carried forward. All comparable and historical figures relates accordingly to Comrod AS and its subsidiaries.

The consolidated financial statements of Comrod Communication Group for the year ended 31 December 2008 were authorized for issue in accordance with a resolution of the Directors on 24 March 2009.

The principal activities of the Group are described in note 4 Operating segments.

### NOTE 2 ACCOUNTING POLICIES

#### 2.1 Basis of preparations

The consolidated financial statements of Comrod Communication ASA and all its subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS) as determined by the International Accounting Standards

Board and implemented by EU as per 31.12.2008.

The consolidated financial statements are based on a historical cost basis, except certain financial instruments (including financial derivatives), for which some are recognized at fair value through the income statement and some are recognized to fair value directly against equity.

The consolidated accounts have been prepared using uniform accounting policies for equivalent transactions and events, when all other conditions are equal.

#### 2.2. Functional currency and presentation currency

The Group's presentation currency is NOK. This is also Comrod Communication's functional currency. The functional currency for each subsidiary is set separately based on the specific circumstances and economical environment for each individual subsidiary, and may differ from the presentation currency.

#### 2.3 Consolidation principles

The consolidated financial statements comprise Comrod Communication ASA and the companies it controls. Control normally exists when the Group owns more than 50 % of the shares in a company, and the Group is in a position to exercise actual control over the company.

Acquisitions and mergers are accounted for using the purchase method. Companies that are acquired or disposed of during the year are included in the consolidated accounts from the point at which control is gained and until control ceases. The purchase cost for acquisitions includes direct costs associated with the acquisition itself. Identifiable assets and liabilities taken over are included in the accounts at fair value at the time of purchase. If the purchase cost exceeds Comrod's share not the the fair value of identifiable net assets, liabilities and contingent liabilities

recognized, the excess is recognized in the balance sheet as goodwill.

All other investments are accounted for in accordance with IAS 39, Financial Instruments – recognition and measurement.

Intra-group transactions and balances, including internal earnings and unrealized profits/losses, are eliminated.

#### 2.4 Cash & cash equivalents

Cash and cash equivalents consists of cash in hand and at bank. Any positive balances against bank overdrafts are included as a component of cash and cash equivalents in the cash flow statement. The cash flow statement has been prepared using the indirect method. In the balance sheet, bank overdrafts are included as short-term loans.

#### 2.5 Trade receivables

Trade receivables are recognized at historical cost less provision for bad debt.

#### 2.6 Hedging

Before any hedging transaction is undertaken, an assessment is made as to whether a derivative (or in the case of currency hedging another financial instrument) is to be used to hedge a) the fair value of an asset or liability in the balance sheet, b) future cash flows from an asset or liability in the balance sheet, a very probable future identified transaction or, in the case of currency risk, a firm commitment or c) a net investment in a foreign entity.

##### **Hedge accounting ceases if:**

(a) the hedging instrument expires, terminated, exercised or sold, (b) the hedge does not satisfy the above hedging requirements, (c) or the group for other reasons chooses to discontinue hedge accounting.

When hedge accounting ceases, changes in the balance sheet value of the hedged instrument are amortized over its remaining term to maturity using the effective interest rate method, if the hedging instrument is a financial instrument which is accounted for using the effective interest rate method.

##### **Cash flow hedges**

The effective portion of changes in the fair value of a hedging instrument is taken directly to equity. The ineffective portion of the hedging instrument is recognized in the income statement. If the forecasted transaction subsequently results in the recognition of a non-financial asset or liability, or if a forecasted transaction relating to a non-financial asset or liability becomes a firm commitment that is hedged with a fair value hedge, the associated cumulative gain or loss is removed from equity and included in the initial recognition of the non-financial asset or liability or the firm commitment.

If the hedging of a forecasted transaction subsequently results in the recognition of a financial asset or liability, the associated gain or loss against equity is reclassified to the income statement for the period(s) during which the asset or liability affects income.

For other cash flow hedges not mentioned above, associated cumulative gains or losses against equity are reclassified to the income statement for the period(s) during which the hedged, forecasted transaction affects income. When a hedging instrument expires or is sold, terminated or exercised, or if it is cancelled, in spite of the hedged transaction still being forecasted to occur, cumulative gains or losses at that point in time remain

recorded against equity, and are recognized in the income statement in accordance with the above guidelines when the transaction occurs.

If the hedging instrument no longer meets the criteria for effective hedging as specified above, cumulative gains and losses taken to equity up to that point remain recorded against equity, and are recognized in the income statement in accordance with the above guidelines when the transaction occurs.

If the forecasted transaction is no longer expected to occur, the cumulative, unrealized gain or loss on the hedging instrument that had been taken directly to equity is immediately recognized in the income statement.

Comrod has chosen to not apply hedge accounting for cash flow hedges from 2008.

##### **Hedging of net investments**

Hedges against net investments in foreign operations are recognized in the same way as cash flow hedges.

Gains and losses on the hedging instrument relating to the effective portion of the hedge are taken directly to equity; gains and losses relating to the ineffective portion are taken immediately to the income statement as other (losses)/gains – net.

Cumulative losses or gains recorded against equity are taken to the income statement when the foreign operation is sold or discontinued.

#### 2.7 Inventories

Inventories are recognized at the lower of historical cost and net realizable value. The net realizable value is the estimated sales price under normal circumstances less the estimated cost of completion, marketing and distribution. The historical cost is based on the average cost price, and includes expenses accrued for the purchase of the goods and the cost of bringing the goods to their current state and location. Goods produced by the Company itself include variable and fixed costs that can be allocated based on normal capacity utilization.

#### 2.8 Property, plant and equipment

Property, plant and equipment are recognized at their purchase price, less cumulative depreciation and impairments. When they are sold or disposed of, their value is reversed from the balance sheet and any loss or gain is recognized in the income statement.

The historical cost of property, plant and equipment is the purchase price plus costs directly associated with preparing them for use. Expenses accrued after the property, plant or equipment is entered into service, such as ongoing maintenance, are taken to the income statement, whilst other expenses that are expected to confer future financial benefits are recognized in the balance sheet.

The historical cost of non-current assets is depreciated to their residual value over their anticipated useful life, which is:

Buildings 6-40 years  
Machinery and equipment 3-8 years  
Fixtures, fittings and vehicles 3-10 years

The depreciation period and method is assessed annually. The same applies to scrap value. When the balance sheet value of property, plant and equipment is higher than the estimated recoverable value, the value is written down to the recoverable amount.

Work in progress is classified as property, plant and equipment and is recognized at its historical cost until its manufacture or development has been completed. Work in progress is not subject to depreciation until the asset is taken into use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

## 2.9 Leasing

### Finance leases

A lease is classified as a finance lease if it transfers to the Group substantially all the risks and rewards incidental to ownership of a leased asset. At the start of the lease term, finance leases are recognized at the lower of the fair value and the lowest rent's present value. When calculating the present value of the lease, the implicit rent of the lease is used if it can be calculated, or otherwise the Company's incremental borrowing rate is used. Direct expenses associated with establishing the lease are included in the historical cost of the asset.

The same depreciation period is used as for the Company's other depreciable assets. If it is not reasonably certain that the Company will take possession at the end of the lease term, the asset is depreciated over the shorter of the lease term and the useful life of the asset.

### Operating leases

Leases where most of the risk and return associated with ownership of the asset is held by the counterparty are classified as operating leases. Rent payments are classified as operating expenses and are recognized in the income statement in a straight line over the course of the lease.

## 2.10 Financial instruments

### Financial assets

Initial recognition:

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits and trade and other receivables.

### Financial liabilities

Initial recognition:

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments

in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft and loans and borrowings and derivative financial instruments where hedge accounting has not been applied.

### Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.
- Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39.
- Gains or losses on liabilities held for trading are recognised in the income statement under financial items.

### Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

### Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

### **Derecognition of financial instruments**

Financial assets:

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### **Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification

is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

### **2.11 Intangible assets**

Intangible assets acquired independently are recognized in the balance sheet at historical cost. The cost of intangible assets acquired as part of business combinations is recognized in the balance sheet at fair value.

Capitalized intangible assets are recognized at historical cost less any depreciations and impairments.

Internally generated intangible assets, with the exception of capitalized development costs, are not capitalized, and are instead expensed as incurred.

Useful life is either definite or indefinite. Intangible assets with a definite useful life are depreciated over their useful life, and are tested for impairment if there are indications of impairment. The depreciation method and period is assessed at least annually. Changes to the depreciation method and/or period are accounted for as changes in estimate.

Intangible assets with an indefinite useful life are not depreciated, but tested for impairment at least annually, either individually or by cash generating unit basis. An annual assessment is made as to whether the assumption of indeterminate useful life is justifiable. If it is not, the change to definite useful life is treated prospectively.

### **Patents and licenses**

Amounts paid for patents and licenses are recognized in the balance sheet and are amortized on a straight-line basis over their useful life. The expected useful life of patents and licenses varies between 6 and 17 years.

### **Customer contracts and technology**

Acquired customer contracts and technology have limited useful lives, and are recognized in the balance sheet at their historical cost less depreciations. Acquired customer contracts and technology are depreciated using the straight line method over their anticipated useful lives (5 to 10 years), based on the customer base on the date of acquisition.

### **2.12 Goodwill**

The difference between a business' total acquisition cost and the fair value of the net identifiable assets and liabilities at the time of acquisition is classified as goodwill.

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

### **2.13 Research and development**

Research costs are expensed as incurred. The development costs of projects (relating to the design and testing of new or improved products) are classified as intangible assets if the following criteria are fulfilled:

- a) it is technically possible to finish the asset in such a way that it

in the future can be used or sold;

b) the management's intention is to finish the asset and to use or sell it;

c) it is possible to use or sell the asset;

d) it can be demonstrated how the asset will generate future income

e) technological and financial resources are available to finish the asset

f) the costs can be reliably measured

Other development costs are expensed as incurred. Development costs that have previously been expensed are not recognized in the balance sheet in subsequent periods. Capitalized development costs are depreciated on a straight line basis over the estimated useful life of the asset.

#### 2.14. Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

#### 2.15 Provisions

Provisions are recognized if the Group has an obligation (whether legal or self-imposed) as a result of a previous event, if it is probable that the obligation will result in a financial settlement, and if the amount can be reliably estimated. If the impact of the time value is significant, the provision is calculated by discounting anticipated future cash flow using a discount rate before tax that reflects the market's pricing of the present value of money and, if relevant, risks specifically associated with the obligation.

A provision for guarantees is recognized when the underlying products or services are supplied. The provision is based on historical information about guarantees and a weighting of all possible outcomes by their associated probabilities.

A provision for onerous contracts is recognized when the Group's expected economic benefits under the contract are lower than the unavoidable costs of meeting the obligations under the contract.

#### 2.16 Equity

##### (i) Treasury shares

In the event of a share buy-back, the purchase price and any directly associated costs are recognized as a change in equity. Treasury shares are reported as a reduction in equity. Gains or losses on share buy-back transactions are recognized directly in equity.

##### (ii) Costs arising from equity transactions

Transaction costs directly linked to an equity transaction are recognized directly in equity after a deduction for tax.

##### (iii) Other equity

###### (a) Translation differences

Translation differences arise in connection with currency differences on consolidation of foreign entities. Exchange rate fluctuations on liabilities that form part of the Company's hedging of net investments in foreign entities are included in the translation differences.

On disposal of a foreign entity, cumulative translation differences are reversed and recognized in the income statement in the same period in which the gain or loss on the disposal is recognized.

###### (b) Revaluation reserve

Forward exchange contracts that are considered hedging instruments (cash flow hedges) are recognized in the balance sheet at fair value with a corresponding entry against equity (net after tax) under the revaluation reserve.

On realization, any losses or gains are taken to the income statement to offset gains or losses on the entries that were hedged.

#### 2.17 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Sales revenue is stated net of VAT and discounts.

Revenue from the sale of goods and services is recognized when delivery has taken place and the significant risks and rewards of ownership of the goods have passed to the buyer.

Royalties are recognized in accordance with the substance of the relevant royalty agreement.

Interest income is recognized as interest accrues.

Dividends are recognized when the shareholders' right to receive the payment is established by the annual general meeting.

#### 2.18 Foreign currency

##### Transactions in foreign currency

Transactions in foreign currencies are translated at the exchange rates existing at the date of the transactions. Monetary items denominated in foreign currencies are translated to NOK using the exchange rates at the balance sheet date. Non-monetary

items that are measured in terms of historical cost in a foreign currency are translated to NOK using the exchange rates at the dates of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange differences are recognized in the income statement in the period in which they arise.

#### **Foreign entities**

Assets and liabilities at foreign entities with a functional currency that differs from the presentation currency are converted into Norwegian kroner using the exchange rate in the balance sheet date. Income and expenses from foreign entities are converted into Norwegian kroner using the weighted average exchange rate (if the average does not provide a reasonable estimate of the cumulative effects of using the transaction rate, the transaction rate is used). Exchange differences are recognized directly in equity.

Translation differences arising from the conversion of net investments in foreign entities, and from related hedging instruments, are specified as translation differences in equity. Translation differences in equity are taken to the income statement on the disposal of the foreign operations.

#### **2.19 Employee benefits**

##### **Defined benefit pension plans**

The Group's Norwegian companies offer their employees defined benefit pension plans. The defined benefit liability is the net total of the discounted value of future pension benefits accrued at the balance sheet date, minus the fair value of plan assets. The discount rate is equivalent to interest on a 10-year government bond plus an additional amount to take into consideration the bond's term to maturity. The valuation is carried out by a qualified actuary and the benefits are attributed using the projected unit credit method.

There are different schemes for the various group companies. Pension benefits are dependent on age, length of service and salary. The net retirement benefit expense for the period (gross expense less estimated return on pension assets) is included in the item Payroll & social security expenses. Employer's contributions are included in the figures and are calculated on the basis of the gross retirement benefit liability.

All of the Group's employees at Norwegian companies are covered by the early retirement programme (AFP) through The Norwegian Confederation of Trade Unions (LO)/The Confederation of Norwegian Enterprise (NHO).

The scheme is based on the standard requirements and terms of the LO/NHO scheme. The AFP program is treated as a defined benefit pension scheme. The scheme involves providing retirement benefits to employees who wish to cut down on work before reaching the retirement age for the Norwegian national insurance scheme (age of 67). Employees can freely choose when to start drawing benefits between the ages of 62 and 67. In order to meet the requirements for AFP, the employee must have worked at the Group for the past three years or have been covered by the scheme for the past five years and have ten qualifying years for the national insurance scheme after the age of 50. In addition to an annual premium related to the employee's length of service, The Group also pays 25% of the individual's pension benefits. Between the ages of 62 and 64, the whole pension is paid out of the AFP scheme, financed through the premium and the 25% paid by the Company. After reaching the age of 64, the state pays 40% of the pension benefits due under the AFP scheme. The

calculation of estimated AFP liabilities is carried out by a qualified actuary, and the benefits are attributed using the projected unit credit method.

Any introduction of a new defined benefit plan or an improvement to the present plan will involve changes to pension liabilities. These are recognized as an expense on a straight-line basis until the effect of the change has been accommodated. The introduction of new plans or changes to existing plans which take place retrospectively, thereby qualifying employees for a free policy (or change to a free policy), are recognized immediately. Gains or losses on the curtailment or settlement of pension plans are recognized when the curtailment or settlement occurs. Actuarial gains or losses are recognized directly in equity (net after tax).

The Group's companies in France have obligations relating to termination benefits for employees. Liabilities are calculated on the basis of assumptions as length of service, discount rates, salary increases and retirement age. Allowance is made for social security costs related to the scheme.

##### **Share-based payments**

Senior executives in the Group have received options to subscribe for shares in the parent company. The fair value of the share options is measured at the grant date and the cost is recognized in the income statement, together with a corresponding increase in other paid-in capital, over the period in which the performance and/or service conditions are fulfilled. The fair value is calculated using a Black & Scholes model.

#### **2.20 Government grants**

Government grants, including the SkatteFUNN tax incentive scheme, are recognized when there is reasonable assurance that the Group will comply with the incentive conditions attaching to them, and that the grants will be received. Grants are entered as deductions against the expense that the grant is intended to cover. Grants relating to assets are capitalized and recognized as income on a systematic basis over the useful life of the asset. Investment grants are recognized as a reduction of the purchase price.

#### **2.21 Taxes**

##### **Current income tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

##### **Deferred income tax**

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint

ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

## 2.22 Segments

For management purposes, the Group is organized into different business areas according to product/service range. The group's primary segment reporting format is business areas. Financial information relating to segments and geographical areas is presented in note 4. The group implemented IFRS 8 "Operating Segments" (replaced by IAS 14 "Segment Reporting") from accounting year 2007.

In the segment reporting, internal gains on sales between segments are eliminated.

## 2.23 Contingent liabilities and contingent assets

When it is unlikely that the liability will be incurred, contingent liabilities are not expensed in the annual accounts. Material contingent liabilities are disclosed, unless the possibility of any outflow in settlement is remote.

Contingent assets are not recognized, but are disclosed when an inflow of economic benefits is probable.

## 2.24 Risks associated with capital investment

In terms of capital investment, the Group's aim is to safeguard the Company as a going concern in order to secure returns for shareholders and other stakeholders, and to maintain a capital structure that minimizes the cost of capital.

In order to improve its capital structure, the Group can issue new shares or sell assets in order to repay loans. The capital structure can also be adjusted by paying dividends or be repaying shareholders' capital.

In the same way as other enterprises in the industry, the Group monitors its capital investment on the basis of its gearing.

Related to the demerger and IPO in 2007, the equity of Comrod Communication ASA was increased by NOK 15.9 million in share capital and NOK 52.6 million in share premium reserve to have a robust equity basis. The group's long term strategy is to have an equity ratio of at least 30%.

## 2.25 Events after the balance sheet date

New information received after the balance sheet date relating to events and transactions incurred before the balance sheet date is reflected in the balance sheet/income statement. Significant events after the balance sheet date which do not affect the Company's financial position at the balance sheet date, but which will affect the Company's financial position in the future, are disclosed.

## 2.26 Use of accounting estimates

Management has used estimates and sources of estimation that have affected assets, liabilities, income, expense and disclosures about potential liabilities. Future events may cause an adjustment to the estimates. Estimates and underlying sources of estimation are regularly reviewed. Changes to accounting estimates are recognized in the period in which the changes occur. If the changes also apply to future periods, the effect is distributed over present and future periods. See also note 3.

## 2.27 Standards issued but not yet effective.

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The group has adopted the following and new and amended IFRS and IFRIC interpretations as of January 1, 2008:

### **IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset - Minimum Funding Requirements and their Interaction**

IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 1 Employee Benefits. The Group's defined benefit schemes have been in deficit, therefore the adoption of this interpretation had no impact on the financial position or performance of the Group.

The following IFRS and IFRIC interpretations have not yet been implemented by the Group:

### **IFRS 2 (Revision) Share based payments**

The revision give among other clearer guidance about what is vesting conditions and not. The Group plan to implement the revised IFRS 2 as of 01.01.2009.

### **IFRS 3 (Revision) Business Combinations**

The objective of this IFRS is to improve the relevance, reliability and comparability of the information that a reporting entity

provides in its financial statements about a business combination and its effects. To accomplish that, this IFRS establishes principles and requirements for how the acquirer:

1. recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree,
2. recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and
3. determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

The Group will implement the revised IFRS 3 as of 01.01.2010.

#### **IAS 1 (Revision) Presentation of Financial Statements**

The changes made are to require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. This will enable readers to analyze changes in a Company's equity resulting from transactions with owners in their capacity as owners (such as dividends and share repurchases) separately from 'non-owner' changes (such as transactions with third parties). The Group will implement the revised IAS 1 as of 01.01.2009.

#### **IAS 23 (Revision) Borrowing costs**

The revision eliminates the option in IAS 23 of recognizing borrowing costs immediately as an expense to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. The Group will implement the revised IAS 23 as of 01.01.2009.

#### **IAS 27 (Revision) Consolidated and separate financial statements**

The standard give more detailed guidance regarding recording of changes of participation in subsidiaries. Split of loss between majority and minority owners is also changed. Several of the changes in IAS 27 are related to changes in revised IFRS 3. The Group plan to implement the revised IAS 27 as of 01.01.2010.

#### **IAS 32 (Revision) Financial Instruments and revision of IAS 1 Puttable Financial Instruments**

The change implies that certain puttable instruments and instruments with obligations arising on liquidation should be classified as equity. The Group plan to implement the revised IAS 32 and IAS 1 as of 01.01.2009

#### **IFRIC 11 - Group and treasury share transactions**

IFRIC 11 provides guidelines on how IFRS 2 Share-based payment should be applied to payments using the Company's own equity instruments or equity instruments belonging to other companies in the Group. The interpretation requires any share-based payments that involve a company receiving goods and services as payment for its equity instruments to be recognized as share based transactions paid for with equity, regardless of how the equity instrument will be acquired. The Group will implement IFRIC 11 as of 1 January 2009.

#### **IFRIC 12 - Service concession arrangements**

The interpretation deals with how private operators should apply existing IFRS standards when accounting for obligations and rights contained in service concession arrangements. The Group will implement IFRIC 12 as of 1 January 2009.

#### **IFRIC 13 Customer loyalty programmes**

IFRIC 13 addresses how companies, that grant their customers loyalty award credits (often called 'points') when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points. The Group will implement IFRIC 13 as of 1 January 2009.

#### **IFRIC 16 IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT**

IFRIC 16 clarifies three main issues related to currency exposure, hedging and measurement/reclassification. The Group plan to implement IFRIC 16 as of 01.01.2009.

The Group does not anticipate that the implementation of the standards and interpretations detailed above will have any material impact on the consolidated accounts when they are implemented other than in terms of the information that will have to be provided in the notes.

### **NOTE 3 UNCERTAINTY OF ESTIMATES**

Estimates and value judgments are continuously reassessed and are based on historical experience and other factors, including expectations of future events that are considered probable under the current circumstances.

The Group prepares estimates and makes assumptions about the future. The estimates in the accounts that are based on such a process are by definition rarely completely in line with the final result.

Estimates and assumptions represent a risk of material changes in the balance sheet value of assets and liabilities over the next financial year.

The group's most significant accounting estimates are related to the following items:

- Depreciation of property, plant and equipment.
- Impairment test of goodwill and other intangible assets.
- Fair value of assets and liabilities acquired as part of an acquisition.
- Product warranty provisions.
- Net pension commitments
- Capitalized development costs

The Group management determines the useful life and associated depreciation rates for property, plant and equipment. The expected useful life of the Group's production equipment is highly affected by technological development. The present depreciation period is 3-12 years, and there is a reasonable interval of uncertainty between 10 and 12 years. See also note 11.

Capitalized goodwill is tested annually for impairment. Recoverable values of cash generating units are determined by calculating values in use. These calculations require the use of estimates and assumptions about future trends relating to revenues and expenses. See also note 12.

The Group has chosen to charge all actuarial gains or losses directly to equity. The discounted value of pension commitments is dependent on several factors that are determined using a range of actuarial assumptions. Any change in these assumptions

will affect the balance sheet value of the Group's net pension liabilities.

The discount rate is determined at the year-end. This is the interest rate that is used to calculate the present value of future payments needed to cover pension commitments. The discount rate is based on government bonds with virtually identical maturity dates to the pension liabilities. Other underlying assumptions relating to pension commitments are partially based on actual market conditions. Assumptions about mortality and invalidity rates are based on standardized assumptions, as well as demographic factors developed by the Norwegian Financial Services Association. Additional information is provided in note 20.

The management estimates provisions for future claims against

guarantees on the basis of information about historical guarantee rates, along with other information relevant to future guarantee claims. Factors that can affect estimated liabilities include the results of productivity and quality initiatives, as well as part prices and labour costs. See also note 21.

Development costs are capitalized in accordance with the accounting policy in Note 2.11. Initial capitalization of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized management makes assumptions regarding the expected future cash flow to be generated from the assets, discount rates to be applied and the expected period of benefits. See also note 12.

## NOTE 4 OPERATING SEGMENTS

Comrod Communication Group has made an early adoption of IFRS 8.

The Group manufactures and sell high-quality, wide-coverage, stable antennas, masts, power supply and related systems for the defense and civil/maritime markets.

The Group's operations are divided into operating segments, which are organised and managed separately.

The different operating segments sell different products. Except for Industrial products, the segments addresses to a large extent the same customer groups. The segments, except industrial products, have similar risk profiles.

Administration cost incurred in the parent company and development activities not related to the operating segments are un-allocated.

The Group is divided into the following operating segments: a. Antennas | b. Masts | c. Industrial Products | d. Power Supply

### Operating segment data

(NOK 1 000)	Antennas		Masts		Industrial Products	
	2008	2007	2008	2007	2008	2007
Revenue from external customers	256 642	169 014	64 650	54 398	29 277	33 002
Internal transactions						
Revenue from other segments	2 959	1 750				
<b>Total revenues</b>	<b>259 601</b>	<b>170 764</b>	<b>64 650</b>	<b>54 398</b>	<b>29 277</b>	<b>33 002</b>
Operating result before depreciation (EBITDA)	41 687	24 011	12 319	8 712	1 320	4 776
<b>Operating result (EBIT)</b>	<b>35 389</b>	<b>18 792</b>	<b>9 531</b>	<b>6 832</b>	<b>(1 173)</b>	<b>2 374</b>

> CONT. NOTE 4 OPERATING SEGMENTS

(NOK 1 000)	Power Supply		Un-allocated		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenue from external customers	18 062	33 516		7			368 631	289 937
Internal transactions				696		(696)		
Revenue from other segments					(2 959)	(1 750)		
<b>Total revenues</b>	<b>18 062</b>	<b>33 516</b>		<b>703</b>	<b>(2 959)</b>	<b>(2 446)</b>	<b>368 631</b>	<b>289 937</b>
Operating result before depreciation (EBITDA)	1 067	9 207	(12 040)	(5 963)			44 353	40 743
<b>Operating result (EBIT)</b>	<b>(693)</b>	<b>7 548</b>	<b>(12 311)</b>	<b>(5 972)</b>			<b>30 743</b>	<b>29 574</b>

**Geographic segment data**

(NOK 1 000)	Europe		America		Asia	
	2008	2007	2008	2007	2008	2007
Revenue from external customers	186 814	202 036	148 460	70 692	29 732	9 878

> Cont. Geographic segment data

(NOK 1 000)	Other		Consolidated	
	2008	2007	2008	2007
Revenue from external customers	3 625	7 331	368 631	289 937

**Major customers**

The group has 2 customers with revenues at 10% or more of 2008 revenues. 1 of these customers is for operating segment Antennas and Power Supply and one for Antennas and Masts.

(NOK 1 000) Major customers	Total		Antennas		Masts		Power Supply	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenue								
Customer 1	85 797	36 212	77 966	36 212			7 831	
Customer 2	59 761	35 306	23 466	11 352	36 295	23 954		
<b>Total external Revenue major customers</b>	<b>145 558</b>	<b>71 518</b>	<b>101 432</b>	<b>47 564</b>	<b>36 295</b>	<b>23 954</b>	<b>7 831</b>	

## NOTE 5 CHANGES IN GROUP STRUCTURE

2008

### Acquisition of Norworks kft

Comrod AS signed in May 2008 an agreement to acquire 100% of the shares of the Hungarian company Norworks kft. By this agreement, Comrod has now established their own production setup for antenna parts and products in Hungary. A total of NOK 863.934 was paid for the shares. Goodwill arising on acquisition was NOK 364.000. (see note 12)

### Establishment in UK

In August 2008 Comrod established the fully owned subsidiary Comrod UK Ltd. The office is located in Southampton with 3 employees. A few days later an in-country sales manager in Bangalore, India also joined the company Comrod UK.

2007

### Acquisition of Unmanned Systems Norway AS

On 23.12.2007, Comrod Communication ASA acquired 70% of the voting shares of Unmanned Systems Norway AS (UMS) through a directed share issue towards Comrod Communication ASA.

A total of NOK 2.696.000 was paid for the new shares. After the share issue, Comrod Communication had 2,334 (70%) of totally 3,334 shares. Goodwill arising on acquisition was NOK 1,228,000 (see note 12). UMS is developing an Unmanned Aerial Vehicle (UAV). The fair value of the identifiable assets and liabilities of UMS as at the date of acquisitions (including the new shares) were:

(NOK 1 000) Fair value		
Cash and cash equivalents		2 100
<hr/>		
<b>Total Net Assets</b>		<b>2 100</b>
Equity minority interests	30 %	(630)
Net assets		1 470
Consideration in cash		2 696
<b>Cash flow on acquisition</b>		
Net cash acquired with the subsidiary		2 100
Cash paid into the subsidiary for new shares		2 696
Net cash impact of the acquisition		596
Equity and profit/loss in UMS' last annual accounts:		
Equity at 31.12.2007		578
Loss 2007		(1 522)

If the acquisition of UMS had been completed on 01.01.2007, the group's profit and turnover would have been virtually unchanged. The total goodwill related to the acquisition, amounting to TNOK 1 228, relates to the company's workforce.

## NOTE 6 DIVIDEND PAID AND PROPOSED

(NOK 1 000)	2008	2007
<b>Declared and paid during the year</b>		
Equity dividends on ordinary shares	10 000	0
<hr/>		
<b>Proposed for approval at AGM (not recognised as a liability as at 31.12.)</b>		
Equity dividends on ordinary shares:		
Final dividend for 2008: NOK 0 per share (2007: NOK 0,59 per share, 2006: NOK 0 per share)	0	10 000

## NOTE 7 NET FINANCE EXPENSE

(NOK 1 000)	2008	2007
Interest income	437	133
Other finance income	30	0
Currency gains	12 528	2 017
<b>Total finance income</b>	<b>12 995</b>	<b>2 150</b>
Currency losses	9 406	6 457
Net loss on derivatives at fair value	7 136	0
Interest expense	2 501	0
Cost of interests on loans	5 975	5 821
Finance costs to related parties	0	146
Cost of interest on finance leases	167	0
Other finance expense	3 493	1 147
<b>Total finance expense</b>	<b>28 677</b>	<b>13 571</b>
<b>Net financial items</b>	<b>(15 682)</b>	<b>(11 421)</b>

## NOTE 8 INCOME TAX

(NOK 1 000)	2008	2007
<b>Tax expense of the year appears as following</b>		
Tax payable on taxable income for the year	4 793	8 994
Recognised change in deferred tax	(4 453)	(3 099)
Tax effect on exchange losses posted directly to equity	4 738	0
Adjustment of taxes payable from previous years	(474)	0
<b>Tax expenses for the year</b>	<b>4 604</b>	<b>5 895</b>
<b>Reconciliation of actual vs calculated tax expenses</b>		
Correction tax from previous years		
Tax expenses for the year	4 604	5 895
28% of net income before tax	4 217	5 666
Difference	(387)	(229)
Changes in deferred tax assets not recognized in the balance sheet	561	422
Adjustment of taxes payable from previous years	(474)	0
Permanent differences and difference related to differences in tax rates	300	(193)
<b>Difference due to permanent differences</b>	<b>0</b>	<b>0</b>

> CONT. NOTE 8 INCOME TAX

(NOK 1 000)	2008	2007
<b>Tax payable in tax expenses for the year appears as following</b>		
Net income before tax	15 061	18 154
Permanent differences relating to exchange losses posted directly to equity	(16 920)	0
Other permanent differences	(706)	832
Recognised change in temporary differences and tax losses carry forward	17 361	3 358
<b>Basis tax payable</b>	<b>14 796</b>	<b>22 344</b>
Payable tax regarding net income of the year	4 793	8 994
<b>Tax payable in the balance sheet appears as following</b>		
Outstanding tax payable on net income for the year	0	6 741
Outstanding tax reduction regarding the Skattefunn tax incentive scheme	(576)	(583)
Tax payable in the balance sheet	(576)	6 158
The tax receivable for 2008 has been included in other assets		
<b>Deferred tax assets and deferred tax liabilities</b>		
<b>Deferred tax assets</b>		
Pension liability	4 211	4 286
Inventories and trade receivables	467	392
Forward currency contracts	1 998	0
Provisions / other current liabilities	200	200
Other temporary differences	4 083	1 358
<b>Deferred tax assets - gross</b>	<b>10 959</b>	<b>6 236</b>
Deferred tax asset not recognized	(990)	0
Deferred tax assets - net	9 969	6 236
<b>Deferred tax liabilities</b>		
Intangible assets	6 987	3 615
Property, plant and equipment	2 524	4 945
Forward currency exchange contracts	0	80
Unrealized currency profit non current liabilities	0	298
Grants and regulated provisions	0	1 043
Other temporary differences	2 188	0
<b>Deferred tax liabilities - gross</b>	<b>11 699</b>	<b>9 981</b>
<b>Net recognised deferred tax liabilities (-)</b>	<b>(1 730)</b>	<b>(3 745)</b>
Deferred tax assets relating to legal entities where there is an uncertainty relating to future utilization of tax losses have not been recognized in the balance sheet.		

## NOTE 9 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. To calculate the diluted earnings per share, the profit and weighted average number of shares outstanding is adjusted to accommodate all dilution effects associated with share options. All share options are taken into consideration in the "denominator". In the calculations, share options are considered to have been converted at the grant date. Redemmed options are included from the date of issue.

Comrod Communication Group was legally established by a demerger of Hexagon Group in January 2007. The demerger was organised so that Comrod Communication ASA, incorporated 19.09.2006, was the parent company. This company had a 1 000 000 shares at the beginning of 2007. At the end of 2006, the Comrod Communication Group (still part of Hexagon Composites Group) consisted of Comrod AS with it's subsidiary Lerc SAS. Comrod AS had 1 500 shares.

(NOK 1 000)	2008	2007
<b>Profit for the year flowing to holders of ordinary shares</b>		
Profit for the year	10 457	12 259
<b>Profit for the year flowing to holders of ordinary shares</b>	<b>10 457</b>	<b>12 259</b>

(NOK 1 000)	2008 <sup>1)</sup>	2007 <sup>1)</sup>
<b>Weighed average number of shares outstanding 31.12. (Note 18)</b>		
Ordinary shares issued 01.01.	16 938 649	1 000 000
Effect of demerger and directed issue 19.01.2007	0	15 108 966
Weighed average number of shares outstanding 31.12.	16 938 649	16 108 966
<b>Earnings per share</b>	<b>0.62</b>	<b>0.76</b>
<b>Diluted number of shares outstanding 31.12. (Note 18)</b>		
Ordinary shares issued 01.01.	16 938 649	1 000 000
Effect of directed new share issue	0	15 108 966
Weighed average number of shares outstanding 31.12. adjusted for dilution effects	16 938 649	16 108 966
<b>Diluted earnings per share</b>	<b>0.62</b>	<b>0.76</b>

<sup>1)</sup> The shares in the 2007 and 2008 column is the shares of Comrod Communication ASA

## NOTE 10 PAYROLL AND NUMBER OF EMPLOYEES

	2008	2007
Salaries/fees	94 233	75 436
Bonus/profit-sharing	3 664	2 032
Pension expense, defined-benefit plans (Note 20)	4 267	3 446
Other contributions and social security costs	27 777	18 204
Payroll-costs capitalized as development cost	(1 781)	(1 151)
<b>Total payroll costs</b>	<b>128 161</b>	<b>97 966</b>
Number of average full-time equivalents	210	180

	2008	2007
Group management and not distributed	4	3
Antennas		
Norway	99	83
France	35	35
Hungary	12	0
Mast	28	22
Industrial Products	25	31
Power supply	7	6
<b>Total</b>	<b>210</b>	<b>180</b>

## NOTE 11 PROPERTY, PLANT AND EQUIPMENT

(NOK 1 000)	Land and buildings	Plant and equipment	Furniture and fittings	Construction in progress	2008 Total	2007 Total
<b>Cost of acquisition</b>						
Cost of acquisition 1 Jan.	39 117	47 910	11 470	203	98 700	86 057
Additions	9 537	15 308	1 897	(250)	26 493	14 077
Disposals	(217)	(38)	(166)	0	(420)	0
Additions from purchase of companies	0	455	7	0	462	0
Translation differences	5 102	4 689	493	48	10 332	(1 434)
<b>Acquisition cost 31.12</b>	<b>53 539</b>	<b>68 324</b>	<b>13 702</b>	<b>1</b>	<b>135 567</b>	<b>98 699</b>

> CONT. NOTE 11 PROPERTY, PLANT AND EQUIPMENT

(NOK 1 000)	Land and buildings	Plant and equipment	Furniture and fittings	Construction in progress	2008 Total	2007 Total
<b>Accumulated amortization and impairment</b>						
Accumulated depreciation 01.01	8 356	20 193	8 170	0	36 719	28 179
Depreciation for the year	2 228	7 265	1 223	0	10 712	8 603
Translation differences	642	1 724	115	0	2 483	(63)
Accumulative depreciation and impairments	11 225	29 182	9 509	0	49 915	36 719
<b>Carrying amount at 31.12</b>	<b>42 314</b>	<b>39 142</b>	<b>4 193</b>	<b>1</b>	<b>85 652</b>	<b>61 981</b>
Of which pledged					35 196	24 609
Depreciation rate	0-5%	12.5-33%	10-33%			
Useful life	6-40 yrs	3-8 yrs	3-10 yrs			
Depreciation method	Straight line	Straight line/unit	Straight line			

<sup>1)</sup> Finance leased equipment. Book value was NOK 3.5 million and NOK 0.0 million and NOK 0.6 million at 31.12.2008, 31.12.2007 and 31.12.2006 respectively. See note 25.

NOTE 12 INTANGIBLE ASSETS

(NOK 1 000)	Goodwill	Patentes and licences	Technology	Customer relationships	Development costs	2008 Total	2007 Total
<b>Cost</b>							
Opening balance	41 024	440	8 800	18 643	4 919	73 825	68 940
Additions from purchase of companies	364	0	0	0	0	364	6 247
Additions	0	19	0	0	13 368	13 387	247
Translation differences	7 485	105	0	2 856	0	10 445	(1 509)
Government grants (Skattefunn)	0	0	0	0	0	0	(100)
<b>Acquisition cost 31.12.</b>	<b>48 872</b>	<b>563</b>	<b>8 800</b>	<b>21 499</b>	<b>18 287</b>	<b>98 022</b>	<b>73 825</b>
<b>Accumulated amortization and impairment</b>							
Opening balance	0	0	1 283	2 821	0	4 104	1 554
Amortization for the year	0	160	700	1 903	136	2 898	2 572
Translation differences	0	32	0	626	0	658	(22)
<b>Cumulative depreciation and impairments 31.12.</b>	<b>0</b>	<b>192</b>	<b>1 982</b>	<b>5 350</b>	<b>136</b>	<b>7 659</b>	<b>4 104</b>
<b>Net carrying amount</b>	<b>48 872</b>	<b>372</b>	<b>6 818</b>	<b>16 148</b>	<b>18 152</b>	<b>90 362</b>	<b>69 722</b>
Depreciation rate	None	5-50%	20%	10%	8%		
Useful life	Indefinite	2-17 yrs	5 yrs	10 yrs	12.5 yrs		
Depreciation method	None	Straight- line	Straight-line	Straight-line	Straight-line		

## >CONT. NOTE 12 INTANGIBLE ASSETS

Goodwill additions for the year is related to the purchase of 100% of the shares in the Hungarian company Norworks Kft on 07 May 2008 (see note 5 and note 30). The addition of Development cost is related to a prototype of an Unmanned Aerial Vehicle (UAV) which UMS is developing. In addition the cost is related to 3 product developments on the Antennas and Power Supply business area. The depreciation of the costs will start once the development of the assets have been finalized and the assets are ready for use.

The opening balance of goodwill is related to Comrod AS' purchase of Power supply division of Eltek on 1 March 2006. This acquisition also added Technology and Customer relationships.

In addition the opening balance of goodwill is also related to the purchase of Lerc SAS in September 2006. This acquisition also added intangible assets relating to customer relationships.

Finally, the opening balance of goodwill is also related to purchase of 70% of the shares in Unmanned Systems Norway AS (UMS) in March 2007.

### Impairment testing

Goodwill is not amortised but is subject to annual impairment testing to determine whether the recoverable amount is lower than the carrying amount. The goodwill amounts of the following cash-generating entities are subject to impairment testing as of December 31:

Name (NOK 1 000)	2008	2007
Power Supply	8 500	8 500
Lerc	38 780	31 296
UMS	1 228	1 228
Norworks	364	0
Total goodwill	48 872	41 024

The recoverable amount is viewed to be the value in use for the Group and is estimated by discounting future cash flows. Present value calculations are based on expected future cash flows for the different cash-generating units. Both Lerc, UMS and Norworks are separate subsidiaries. Power supply is a separate segment (ref note 4 Segments) in the Comrod subsidiary. The estimates of future cash flows are made on the basis of approved budgets and market plans for 2009, as well as forecasts up to and including 2011, based on each cash generating unit's specific strategic plans. Cash flow projections for subsequent years will be the same as the cash flow for 2011. The projections do not take into account price increases or other forms of growth in the cash flows beyond 2011. The most important assumptions relate to estimates for operating profit, operating margin and yield expectations. A discount rate of 15,6-20% before tax has been applied to the units. The discount rate is made up of a risk-free interest rate of 3,8%, a market return of 5,5% and a company specific beta of 0,39 to take into account specific risk. An additional risk premium has been added to cash generating units with a higher risk relating to the future operations. The estimates for Power supply and Lerc are based on turnover and operating profit remaining at the same level as actual figures for previous years. The turnover is expected to increase somewhat through 2011 and then remain stable or decline. For UMS the evaluation is based on estimated cash flows related to costs to complete and market the UAV as well as estimated revenues and margins for sales. These estimates are based on market analysis and discussions with some key customers and consistent with the purchase price allocation made on the date of acquisition. UMS is dependant on further capital contributions from external investors to be able to continue the development of the UAV. For all cash generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

## NOTE 13 OTHER NON-CURRENT ASSETS

	2008	2007
Loans to employees	0	0
Other non-current assets	75	60
<b>Total other non-current assets</b>	<b>75</b>	<b>60</b>

## NOTE 14 INVENTORIES

(NOK 1 000)	2008	2007
Raw materials and consumables	40 393	35 206
Work in progress	15 114	14 983
Finished goods	15 533	8 116
<b>Total inventories</b>	<b>71 040</b>	<b>58 305</b>
The carrying amount of inventories used as pledged assets	35 617	34 590
The entire inventory is pledged except the inventory of Lerc		
Of the total inventories above, inventories carried at fair value less cost to sell amounts to	1 884	1 782
Change in provision for obsolescence in the year (charged to the income statement)	1 325	702

## NOTE 15 TRADE RECEIVABLES

(NOK 1 000)	2008	2007
Trade receivables external	96 717	96 623
Receivables related party	0	0
<b>Trade receivables</b>	<b>96 717</b>	<b>96 623</b>

As of 31 Dec 2008, a provision of NOK 407.058 has been made to cover bad debt. This is the same level as last year. As at 31 December, the ageing analysis of trade receivables is as follows:

Number of days since due date (NOK 1000)	Not due	Due	0 - 30 days	31 - 60 days	61 - 90 days	91 - 180 days	181 - 360 days	over one year
2008	67 236	29 480	16 960	7 191	722	760	3 776	72
2007	76 338	20 285	11 373	6 703	1 183	1 026		

NOK 3.1 million (2007: NOK 4.3 million) of the due amount is related to Lerc, SAS. The company has a credit insurance covering 100% of the outstanding amount.

## NOTE 16 OTHER CURRENT ASSETS

(NOK 1 000)	2008	2007
Prepaid expenses	437	14
VAT due	4 266	620
Other	387	7 246
<b>Total other current assets</b>	<b>5 089</b>	<b>7 881</b>

## NOTE 17 CASH AND CASH EQUIVALENTS

(NOK 1 000)	2008	2007
Cash at bank and in hand	8 981	9 314
<b>Cash &amp; Cash equivalents on balance sheet</b>	<b>8 981</b>	<b>9 314</b>
Bank overdraft	41 900	25 251
Cash & Cash equivalents in cash flow statement	8 981	9 314
Unutilized group overdraft facility	4 642	0
Restricted funds included in cash & cash equivalents <sup>1)</sup>	2 904	3 327

<sup>1)</sup> Restricted payroll tax withholdings

## NOTE 18 SHARE CAPITAL AND PREMIUM

Number of shares 31.12	2008	2007
Ordinary shares with par value of NOK 1.00 each (in Comrod Communication ASA) <sup>1)</sup>	16 938 649	16 938 649
<b>Total number of shares</b>	<b>16 938 649</b>	<b>16 938 649</b>

<sup>1)</sup> At 31.12.2006 (prior to the demerger), Comrod was the parent company of the group consisting of Comrod AS and subsidiary Lerc SAS. Comrod Communication ASA was incorporated 19.09.2006 by Hexagon Composites ASA and was a sister company of Comrod AS. The incorporation of Comrod Communication ASA was done with 1,000,000 shares of nominal value NOK 1.00 each. At 19.01.2007 the demerger of Hexagon Composites Group was implemented. Comrod Communication ASA was then made the parent company of the new Comrod Communication Group. The Group was listed on Oslo Børs (Stock Exchange) on 22.01.2007. Related to the demerger and IPO, 15,938,649 new shares in Comrod Communication ASA were issued (see below). The company's share capital consists of one class of shares. All shares have the same rights.

	Numbers of shares		Share Capital (NOK 1000)		Share Premium (NOK 1000)	
	2008	2007	2008	2007	2008	2007
Issued and paid at 1 Jan	16 938 649	1 500	16 939	1 500	52 568	0
Less shares of prior parent company 1.1	0	(1 500)	0	(1 500)	0	0
Adding shares of new parent company 1.1 (see above)	0	1 000 000	0	1 000	0	0
Demerger 19.01.2007	0	12 703 987	0	12 704	0	27 805
Directed issue 19.01.2007	0	3 234 662	0	3 235	0	24 763
<b>Issued and paid 31.12</b>	<b>16 938 649</b>	<b>16 938 649</b>	<b>16 939</b>	<b>16 939</b>	<b>52 568</b>	<b>52 568</b>

The Group had no treasury shares at 31.12.2007 or 31.12.2008

> CONT. NOTE 18 SHARE CAPITAL AND PREMIUM

20 largest shareholders at 31.12.2008	Number of shares	Shareholding %
Flakk Holding AS	4 545 734	26.84%
Hexagon Composites ASA	4 238 062	25.02%
Bøckmann Holding AS	1 154 753	6.82%
MP Pensjon	1 005 309	5.94%
Spilka International AS	882 800	5.21%
Tananger Holding AS	650 500	3.84%
GMC Eiendom & Finans AS	500 000	2.95%
Skagen Vekst	400 000	2.36%
Sand Eiendom AS	250 000	1.48%
Dahle	203 000	1.20%
Landsbanki Islands HF	194 450	1.15%
Flakk	193 124	1.14%
Brødrene Nordbø AS	186 000	1.10%
Strafo A/S	131 500	0.78%
Flydal	127 332	0.75%
Molvær	100 000	0.59%
Austerheim	70 000	0.41%
Danske Bank AS	65 500	0.39%
Fjell	64 104	0.38%
Proteam AS	51 500	0.30%
<b>Total 20 largest shareholders</b>	<b>15 013 668</b>	<b>88.64%</b>
<b>Other shareholders</b>	<b>1 924 981</b>	<b>11.36%</b>
<b>Total</b>	<b>16 938 649</b>	<b>100.00%</b>

The total number of shareholders at 31.12.2008 was 1,254 of whom 33 (2.6%) were foreign shareholders.

NOTE 19 EQUITY

(NOK 1 000) Changes in reserves	Share capital	Share premium	Other paid-in capital	Other reserves	Retained earnings	Total	Minority interests	Total equity
Balance 1 Jan 2008	16 939	52 568	403	4 300	20 661	94 871	174	95 045
Actuarial gains/losses for the year				1 624		1 624		1 624
Fair value adjustments for cash flow hedging				(190)		(190)		(190)
Net loss on hedging of net investments				(11 884)		(11 884)		(11 884)
Foreign currency translation				24 367		24 367		24 367
<b>Net income and expense for the year recognised directly in equity</b>				<b>13 917</b>		<b>13 917</b>		<b>13 917</b>
Profit (loss) for the year					10 812	10 812	(355)	10 457
<b>Total income and expense for the year</b>				<b>13 917</b>	<b>10 812</b>	<b>24 729</b>	<b>(355)</b>	<b>24 374</b>
Share-based payment (note 27)			306			306		306
Payment of dividend					(10 000)	(10 000)		(10 000)
Adjustment of minority interests					(181)	(181)	181	
<b>Balance 31 Dec 2008</b>	<b>16 939</b>	<b>52 568</b>	<b>709</b>	<b>18 217</b>	<b>21 292</b>	<b>109 725</b>	<b>0</b>	<b>109 725</b>

(NOK 1 000) Changes in reserves	Share capital	Share premium	Other paid-in capital	Other reserves	Retained earnings	Total	Minority interests	Total equity
Balance 1 Jan 2007	1 500	0	0	8 790	7 946	18 236		18 236
Actuarial gains/losses for the year				(3 576)		(3 576)		(3 576)
Fair value adjustments for cash flow hedging				190		190		190
Foreign currency translation				(2 604)		(2 604)		(2 604)
<b>Net income and expense for the year recognised directly in equity</b>				<b>(5 990)</b>		<b>(5 990)</b>		<b>(5 990)</b>
Profit (loss) for the year					12 715	12 715	(456)	12 259
<b>Total income and expense for the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(5 990)</b>	<b>12 715</b>	<b>6 725</b>	<b>(456)</b>	<b>6 269</b>
Comrod AS shares	(1 500)			1 500				
Issue of share capital (Note 18)	16 939	52 568				69 507		69 507
Share-based payment (note 27)			403			403		403
Minority interests							630	630
<b>Balance 31 Dec 2007</b>	<b>16 939</b>	<b>52 568</b>	<b>403</b>	<b>4 300</b>	<b>20 661</b>	<b>94 871</b>	<b>174</b>	<b>95 045</b>

## NOTE 20 PENSION OBLIGATIONS

The Norwegian group companies are legally obliged to have occupational pension arrangements under the Norwegian pension act. The group's pension arrangements satisfy the requirements of this act.

The group's pension arrangements are treated as defined-benefit plans. A collective pension insurance scheme has been established for the group's employees. The pension plans give an entitlement to defined future returns on plan assets. These largely depend of service, salary level on retirement and the amount of national insurance contributions. The group's defined benefit obligations are financed through a life insurance company. The French pension schemes are funded by the group itself.

(NOK 1 000)	2008	2007
Current service cost, inclusive social security tax	3 739	2 622
Interest cost on benefit obligation	972	1 120
Expected return on plan assets net of administration costs	(444)	(296)
<b>Total</b>	<b>4 267</b>	<b>3 446</b>
<b>Benefit liability and plan assets: present value of funded obligations</b>		
Present value of funded obligations	26 045	23 563
Fair value of plan assets	(11 579)	(8 746)
<b>Net liability recognised in balance sheet 31.12</b>	<b>14 466</b>	<b>14 817</b>
Net liability 1.1	14 817	9 928
Recognised benefit expense	4 267	3 105
Premium payments	(2 248)	(153)
Contribution paid	(115)	(2 302)
Recognised actuarial gains/losses	(2 255)	4 239
<b>Net liability recognised in balance sheet 31.12</b>	<b>14 467</b>	<b>14 817</b>
Accumulated actuarial gains/losses recognised directly in equity (net after tax)	(2 792)	(4 399)
<b>Change in pension liability during year</b>		
Pension liability 1.1	24 796	16 398
Current service cost	3 739	2 294
Interest expense	972	1 120
Actuarial gains/losses (-)	(3 347)	4 238
Benefits paid	(115)	(153)
Liabilities taken over through acquisitions (note 5)		
<b>Pension liability 31.12</b>	<b>26 045</b>	<b>23 897</b>
<b>Pension liabilities are distributed amongst the following schemes</b>		
Funded schemes, Norway	18 007	17 544
Early retirement scheme, Norway	3 836	3 282
Pension scheme, France	4 202	3 071
<b>Pension liability 31.12</b>	<b>26 045</b>	<b>23 897</b>

> CONT. NOTE 20 PENSION OBLIGATIONS

(NOK 1 000)	2008	2007
<b>Change in fair value of pension assets during year</b>		
Pension assets 1.1	9 979	6 362
Return on plan assets, net of administration costs	444	296
Actuarial gains/losses (-)	(1 091)	(61)
Pension contributions	2 248	2 302
Benefits paid	0	(153)
<b>Pension assets 31.12</b>	<b>11 579</b>	<b>8 746</b>
All of the assets relate to funded schemes in Norway.		
<b>The average distribution of the pension assets by investment category at 31.12.2008 and 2007 was:</b>		
Shares	20%	21%
Bonds/securities	52%	54%
Property	20%	20%
Other	8%	5%
Total	100%	100%
The actual return on pension assets in 2007 was NOK -0,450 million net of previous years' actuarial gains/losses		
<b>The calculation of pension expense and net pension liability are based on the following assumptions:</b>		
Discount rate	4.30%	4.50%
Expected salary increase	4.50%	4.50%
Expected pension increase	2.00%	2.00%
Adjustment of national insurance base rate	4.25%	4.25%
Expected return on plan assets	6.30%	5.50%
Proportion of employees taking early retirement	40.00%	40.00%
Mortality table	K2005	K1963
For the French schemes, a discount rate of 4.50% and 5.50% and an assumption of annual average salary increase of 2.00% has been applied for respectively 2007 and 2008. The scheme is based on a retirement age of 65.		

NOTE 21 PROVISIONS

(NOK 1 000) Non-current provisions	Public subsidies	Warranties	Other	Total 2008	Total 2007
Balance 1.1	0	716	0	716	716
<b>Balance 31.12</b>	<b>0</b>	<b>716</b>	<b>0</b>	<b>716</b>	<b>716</b>

## NOTE 22 NON-CURRENT LIABILITIES

(NOK 1 000)	Effective interest rate	Currency	Maturity date	Carrying amount 2008	Carrying amount 2007
Unsecured					
DRIRE loans advance		Euro	2008	0	274
Bank loans BNP Paribas	4.20%	Euro	2011	2 206	2 343
Bank loans CDN	4.90%	Euro	2013	2 650	0
Bank loans BNP Paribas	4.88%	Euro	2013	2 828	0
<b>Total unsecured non-current liabilities</b>				<b>7 685</b>	<b>2 616</b>
Secured					
Bank loan - serial loan	EURIBOR + margin 1	Euro	2012	88 489	71 410
Bank loan - serial loan	NIBOR+ margin 1	NOK	2012	3 000	14 000
Bank loan - serial loan	NIBOR + margin 1	NOK	2028	6 000	0
Bank loans BFCC	4.95 %	Euro		0	44
Bank loans BPN	4.95 %	Euro		0	264
Bank loans CDN	4.95 %	Euro		0	89
Bank loans BPN	4.75 %	Euro	2009	181	314
<b>Total secured non-current liabilities</b>				<b>97 670</b>	<b>86 122</b>
Total non-current liabilities				105 355	88 738
1st year's instalments, non-current liabilities				(14 126)	(12 401)
<b>Total non-current liabilities, not incl. 1st year's instalments</b>				<b>91 229</b>	<b>76 337</b>

(NOK 1 000) Estimated repayment schedule for finance leases and serial loans at 31.12.2008	2009	2010	2011	2012	2013	2014
<b>Total</b>	<b>14 668</b>	<b>14 948</b>	<b>14 971</b>	<b>61 797</b>	<b>1 684</b>	<b>543</b>

Bank loans are secured against trade payables, inventories and property, plant & equipment in the group's Norwegian subsidiaries. Bank loans are also secured by pledge in shares at Lerc SAS.

The following covenants have been set for bank loans:

Equity recognized in the balance sheet must represent at least 27.5% of the total balance sheet amount until December 2008 and thereafter 30.0%. Net Interest Bearing Debt/EBITDA < 3.5 until December 2007 and thereafter 3.25 till December 2008 and thereafter 3.0. The group is fulfilling the covenants set.

## NOTE 23 SHORT-TERM LOANS AND OTHER BORROWINGS

(NOK 1 000)	Maturity	2008	2007
Secured	On demand	41 900	25 251
Unsecured			
1st year's instalments, non-current liabilities	June and December	14 126	12 401
<b>Total</b>		<b>56 025</b>	<b>37 653</b>

## > CONT. NOTE 23 SHORT-TERM LOANS AND OTHER BORROWINGS

At 31 December 2008, short-term interest-bearing loans and other borrowing consisted of bank overdrafts and 1st year's instalments on non-current liabilities. See note 22.

Current liabilities are subject to the same terms as non-current liabilities. See note 22. The overdraft facility in Norway is subject to NIBOR + margin. Interest rate/deposits in foreign currency are subject to the DnBNOR base rate + margin. The overdraft facility of EUR 60 000 at Lerc is based on Euribor 6 months + 0.90%. The discount of export agreement at Lerc of EUR 820 000 and EUR 290 000 are subject to an interest rate of 6,0% and 4,5% respectively.

## NOTE 24 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

(NOK 1 000)	2008	2007
Trade payables	44 356	27 174
Amounts due to related parties	0	0
Public duties payable	7 102	13 245
Accrued expenses and other liabilities	22 566	29 016
<b>Total</b>	<b>74 024</b>	<b>69 434</b>

As at 31 December, the ageing analysis of other current liabilities are as follows:

(Number of days to due date)	0-30 days	31-60 days	61-90 days	91-180 days	181-360 days
Trade payables	29 637	13 353	1 366	0	0
Other accrued expenses	11 637	5 551	1 639	6 854	3 987

## NOTE 25 LEASES

### Finance leases - Group as lessee

The Group has a finance lease for a turning lathe and is responsible for maintenance and insurance. The original lease term was 5 years. Payments are made monthly.

(NOK 1 000) Assets held under finance leases	2008	2007
Plant and equipment	3 799	2 530
-Accumulated depreciations	288	2 530
<b>Net carrying amount</b>	<b>3 511</b>	<b>0</b>
<b>Future minimum lease payments</b>		
Not later than 1 year	823	64
1 to 5 year	3 290	112
Later than 5 years	509	0
<b>Future minimum lease payments</b>	<b>4 622</b>	<b>175</b>
<b>Present value of future minimum lease payments</b>	<b>3 437</b>	
Of which		
current liabilities	543	
non-current liabilities	2 894	

### Operating leases - Group as lessee

The group has entered into various operating leases on items of machinery, office equipment and other facilities. Most of these leases have a renewal option. Others have fixed terms. The leases have terms ranging from 3 to 5 years. The leases normally allow revision to

## > CONT. NOTE 25 LEASES

accommodate factors such as changes in the CPI, increases in public duties and interest rates. None of the leases includes contingent rents. There is no legal right to acquire title to any leased asset.

(NOK 1 000) Lease liabilities	2008	2007
Ordinary lease payments	1 261	532
<b>Total</b>	<b>1 261</b>	<b>532</b>
<b>Future minimum payments for fixed term leases</b>		
Not later than 1 year	1 168	802
1 to 5 year	1 307	1 094
Later than 5 years	0	0
<b>Total</b>	<b>2 475</b>	<b>1 896</b>

## NOTE 26 FINANCIAL INSTRUMENTS

### Financial risk

The Comrod Group's international activities expose it to currency risk and interest risk. The Group uses derivatives to minimise currency risks under its strategy for currency risk management. The procedures for risk management are adopted by the board and carried out by the chief financial officer in close cooperation with the individual operating units. The Group use the following financial instruments: cash and cash equivalents, trade and other receivables, trade payables, other current liabilities, long term interest bearing debt and derivative financial instruments where hedge accounting has not been applied. See notes 15, 16, 22, 25 and 24 for book value of these instruments.

### (i) Credit risk

Except the two major customers (see note 4) amounting to approximately 40% of revenues, the group has no significant concentrations of credit risk relating to one counterparty or a number of counterparties which can be considered to be a group due to similarities in credit risk. For the 2nd major customer listed in note 4, there is a 100% credit insurance. The other customer is a major company and the credit risk is considered to be low. The group has policies and procedures in place to ensure that sales of products are made to customers with an appropriate credit history and that outstanding amounts do not exceed the defined credit limits. The group has not issued guarantees for the liabilities of third parties. The carrying amount of financial assets, including derivatives, on the balance sheet allows for the maximum risk exposure. As counterparties in derivative transactions are normally bankers, the credit risk associated with derivatives is considered to be negligible.

As at 31 December, the ageing analysis of trade receivables is as follows:

#### Number of days since due date

(NOK 1000)	Not due	Due	0 - 30 days	31 - 60 days	61 - 90 days	91 - 180 days	181 - 360 days	over one year
2008	67 236	29 480	16 960	7 191	722	760	3 776	72
2007	76 338	20 285	11 373	6 703	1 183	1 026	0	0

Most of the customers are big companies and/or public organisation and entities. Losses on receivables has historically been low, reflecting a relatively low risk. Sales to new and unknown customers are normally conditioned by LOC or other type of collateral. NOK 3.1 million (2007: NOK 4.3 million, 2006: NOK 1.0 million) of the due amount is related to Lerc, SAS. The company has a credit insurance covering 100% of the outstanding amount. .

### (ii) Interest rate risk

See note 22 for information on long-term loans, note 23 for short-term financing obligations and note 25 for information on finance lease obligations. The group has only floating interest on loans and credits and has currently no strategy for interest rate hedging.

### (iii) Liquidity risk

The Comrod Group's strategy is to have, at any given time, sufficient cash, cash equivalents and credit facilities to be able to finance operations and investments over the next 3 months. Unused credit facilities are dealt with in note 17. Excess liquidity is mainly invested in bank deposits. Note 22 describes all the companies non-current liabilities. To meet with future growth Comrod has in February 2009 been offered extended credit facilities with a permanent perspective. Future investments will continuously be evaluated and decided upon with basis on the liquidity status, benefits and the possibilities for having further long-term liabilities.

## > CONT. NOTE 26 FINANCIAL INSTRUMENTS

### (iv) Currency risk

As the group has production and sales in foreign countries, it is exposed to currency risk. The group seeks to mitigate its currency risk from cash inflows by means of foreign currency purchases, multi-currency group accounting systems and foreign currency loans. The group also uses forward currency exchange and option contracts.

The Group's strategy is to hedge net cash flow in the foreign currency by using forward exchange contracts. Forward exchange contracts that hedge forecasted transactions are classified as cash flow hedges if they fulfil the requirements for effective hedging instruments set out in IAS 39.

At 31 Dec. 2008, the group had the following forward contracts to hedge future forecasted sales to customers. Forward contracts are used to reduce currency risk associated with expected future sales. The terms of the contracts are as follows:

Forward exchange contracts		Amount (1000)	Maturity date	Exchange rate	Fair value 31.12.08 (NOK 1000)
Forward contracts to hedge sales contracts.*	USD	1800	15.01.2009	6.1735	(1 425.4)
Forward contracts to hedge sales contracts.*	USD	1284		1.548	(1 746.2)
Forward contracts to hedge sales contracts.*	USD	593	15.01.2009	5.2825	(996.3)
Forward contracts to hedge sales contracts.*	USD	800	15.01.2009	6.5645	(321.3)
Forward contracts to hedge sales contracts.*	USD	417	15.01.2009	7.174	86.2
Forward contracts to hedge sales contracts.*	USD	601	20.01.2009	5.835	(680.4)
Forward contracts to hedge sales contracts.*	EUR	211	30.01.2009	9.49	(64.3)
Forward contracts to hedge sales contracts.*	USD	175	17.02.2009	5.727	(218.0)
Forward contracts to hedge sales contracts.*	USD	800	17.02.2009	6.5725	(326.2)
Forward contracts to hedge sales contracts.*	USD	417	17.02.2009	7.19	86.0
Forward contracts to hedge sales contracts.*	EUR	168	27.02.2009	9.498	(51.2)
Forward contracts to hedge sales contracts.*	USD	174	16.03.2009	5.742	(215.8)
Forward contracts to hedge sales contracts.*	USD	800	16.03.2009	6.5775	(328.6)
Forward contracts to hedge sales contracts.*	USD	417	16.03.2009	7.201	86.5
Forward contracts to hedge sales contracts.*	EUR	105	30.03.2009	9.503	(32.1)
Forward contracts to hedge sales contracts.*	USD	174	15.04.2009	5.757	(213.6)
Forward contracts to hedge sales contracts.*	USD	800	15.04.2009	6.5795	(333.0)
Forward contracts to hedge sales contracts.*	USD	417	15.04.2009	7.209	85.9
Forward contracts to hedge sales contracts.*	USD	173	15.05.2009	5.772	(211.2)
Forward contracts to hedge sales contracts.*	USD	800	15.05.2009	6.583	(334.7)
Forward contracts to hedge sales contracts.*	USD	417	15.05.2009	7.213	84.8
Forward contracts to hedge sales contracts.*	USD	173	15.06.2009	5.789	(207.8)
Forward contracts to hedge sales contracts.*	USD	800	15.06.2009	6.587	(333.3)
Forward contracts to hedge sales contracts.*	USD	417	15.06.2009	7.221	86.7
Forward contracts to hedge sales contracts.*	USD	800	15.07.2009	6.5905	(331.7)
Forward contracts to hedge sales contracts.*	USD	417	15.07.2009	7.225	87.3
Forward contracts to hedge sales contracts.*	USD	800	17.08.2009	6.5985	(325.0)
Forward contracts to hedge sales contracts.*	USD	417	17.08.2009	7.227	87.8
Forward contracts to hedge sales contracts.*	USD	800	15.09.2009	6.606	(318.8)
Forward contracts to hedge sales contracts.*	USD	417	15.09.2009	7.232	89.5
Forward contracts to hedge sales contracts.*	USD	800	15.10.2009	6.614	(312.1)
Forward contracts to hedge sales contracts.*	USD	417	15.10.2009	7.238	91.8
Forward contracts to hedge sales contracts.*	USD	417	16.11.2009	7.242	93.3
Forward contracts to hedge sales contracts.*	USD	800	16.11.2009	6.618	(308.1)
Forward contracts to hedge sales contracts.*	USD	800	15.12.2009	6.619	(306.5)
Forward contracts to hedge sales contracts.*	USD	417	15.12.2009	7.242	93.3

Total

(8 882.47 )

\* Defined as cash flow hedges.

The above currency effects relating to the cash flow hedges have been recorded as financial item in the income statement as the Group decided to cease hedge accounting in 2008.

## > CONT. NOTE 26 FINANCIAL INSTRUMENTS

At 31 Dec. 2007, the group had the following forward contracts to hedge future forecasted sales to customers. Forward contracts are used to reduce currency risk associated with expected future sales. The terms of the contracts are as follows:

Forward exchange contracts		Amount (1000)	Maturity date	Exchange rate	Fair value 31.12.07 (NOK 1000)
Forward contracts to hedge sales contracts.*	USD	939	30.01.2008	5.4320	9.0
Forward contracts to hedge sales contracts.*	USD	2500	19.02.2008	5.4335	19.9
Forward contracts to hedge sales contracts.*	USD	939	29.02.2008	5.4340	6.4
Forward contracts to hedge sales contracts.*	USD	1126	28.03.2008	5.4360	4.6
Forward contracts to hedge sales contracts.*	USD	1126	30.04.2008	5.5440	1.6
Forward contracts to hedge sales contracts.*	USD	1408	30.05.2008	5.4430	(2.5)
Forward contracts to hedge sales contracts.*	USD	1408	30.06.2008	5.4460	(6.7)
Forward contracts to hedge sales contracts.*	USD	1270	30.07.2008	5.4490	(11.4)
<b>Total</b>					<b>20.9</b>

\* Defined as cash flow hedges.

(NOK 1 000) Cash flow hedges recorded through equity	2008	2007
Fair value of cash flow hedges 01.01	264.0	0
Change of value during the year	0	264.0
Gains recorded as revenues	(264.0)	0
<b>Fair value of cash flow hedges 31.12</b>	<b>0</b>	<b>264.0</b>

### (v) Measurement of fair value

The fair value of forward exchange contracts is determined by reference to the forward rate at the balance sheet date. For all of the above derivatives, the fair value is confirmed by the financial institution with which the Group has signed the contract.

The following financial instruments are not measured at fair value: Cash & cash equivalents, trade payables, other current receivables and bank overdrafts. Non-current liabilities are valued at their amortised cost. These items are recognised at nominal value on the balance sheet at 31 Dec. 2008, without taking into account the discount rate which relates to future inflows and outflows.

Nominal amounts are assumed to reflect the fair value of receivables and liabilities which have a duration of less than 1 year. The fair value of non-current liabilities is based on future interest rates and instalment payments.

The fair value of financial assets and liabilities recognised at their fair value is the present value of estimated cash flows less the interest that applies to the assets and liabilities at the balance sheet date. This applies to:

#### Other information relating to financial instruments

No financial assets have been reclassified by changing the measurement method from amortised cost to fair value or vice versa.

Comrod Communication Group has the following investments in subsidiaries	31.12.2008	31.12.2007
Investment in Lerc SAS in EUR (1000)	11 439	11 439
The investment in Lerc is partly financed in Euro, the functional currency of Lerc		
The loan is recorded as investment hedging in NOK (1000)	88 489	71 410
Loan amount in EUR (1000)	8 970	8 970
Movements are recorded against equity.		

> CONT. NOTE 26 FINANCIAL INSTRUMENTS

**Sensitivity analysis**

Current receivables and payables.

The table below give the group exposure for the main foreign currencies, USD and EUR, given that other variables are left unchanged, and based on the balances 31.12. It is the net impact of derivatives related to trade and other current receivables and trade and other current payables. The table give the impact on Profit before tax and on equity of a change in USD and EUR respectively.

Exposure (full year effect) (NOK 1000) of		Percentage change in exchange rates	Impact on Profit before tax	Impact on equity 31.12
Currency - USD/NOK	2008	-20%	(7 191)	0
		+20%	7 191	0
	2007	-10%	(1 971)	0
		+10%	1 971	0
Currency - EURO/NOK <sup>1)</sup>	2008	-20%	7 023	0
		+20%	(7 023)	0
	2007	-5%	(168)	0
		+5%	168	0

<sup>1)</sup> Net investment is not included in the figures above.

**Interest rates**

The table below gives the exposure (full year effect) (in NOK 1000) of interest rate changes of the net interest bearing debt of the group:

Exposure (full year effect) (NOK 1000) of		Change in base points	Impact on Profit before tax	Impact on equity 31.12
	2008	-100	941	0
		+100	(941)	0
	2007	-100	1 047	0
		+100	(1 047)	0

NOTE 27 SHARE BASED PAYMENT PLANS

(NOK 1 000) The expence recognised for employee services received during the year	2008	2007
Expense for equity settled share based payment transactions	306	403
Expense for cash settled share based payment transactions	0	0
<b>Total</b>	<b>306</b>	<b>403</b>

## > CONT. NOTE 27 SHARE BASED PAYMENT PLANS

Comrod Communication Group was created in 2007 and the share option plan was decided in meeting of Board of Directors 09.02.2007. The option plan consists of 3 separate option plans where vesting periods and exercise-prices are the main differences. A total of 207 000 options were granted in 2007. The vesting period is 1,23 years (till May 2008) for the first 69 000 options. Then there is a vesting period of one and two more years, respectively, for another 69 000 and 69 000 options.

This 3 year share option scheme covers employees in certain key positions in the parent company and subsidiaries. At 31.12.2008, 9 of the group's employees were in the share option scheme. The employees must be working in the group on the date of exercise in order to be entitled to exercise the options. All the options had a negative intrinsic value on the grant date. The options are converted into shares on the exercise date. The options are standard European purchase options with a fixed redemption date.

The fair value of the options is calculated on the grant date, based on the Black-Scholes model, and the cost is recognised over the service period of 3 years. The cost in 2008 was TNOK 306 (2007: TNOK 403). The fair value of all options granted in 2007 was TNOK 954.

Share options outstanding	2008	2007
Share options outstanding 1 Jan.	207 000	0
Options granted	0	207 000
Options exercised	0	0
Options lapsed	(93 000)	0
<b>Share options outstanding 31. Dec.</b>	<b>114 000</b>	<b>207 000</b>
Fully exercised options	0	0

Value of each option	Option 1	Option 2	Option 3
Share price when granted (NOK)	17.40	17.40	17.40
Excercise price (NOK)	18.81	20.52	22.23
Vesting period (years)	1.23	2.23	3.23
Risk free interest (%)	4.50 %	4.56 %	4.62 %
Volatility (%)	50.0%	50.0%	50.0%
<b>Value of each option (NOK)</b>	<b>3.64</b>	<b>4.68</b>	<b>5.50</b>

Due to the short history of Comrod Communication Group as an independent group, the volatility of Hexagon has been used for the calculations as Comrod was part of this group till the IPO in January 2007. The anticipated volatility has been determined on the basis of the historic volatility and the anticipated future development in the share price. It is also considered that due to the recent listing of Comrod Communication, the potential risk and volatility is somewhat higher than the historic development of Hexagon's share price. Based on the dividend policy reflected in Comrod's Corporate Governance document, no dividend is assumed and consequently no adjustment for such have been considered when calculating the fair value of the options.

Share options outstanding has the following expiry date and excercise prices	Vesting period (year)	Expiry date	Excercise price	Volume	Value per option	Total value (NOK)
Option 1	1.23	2008	18.81	69 000	3.64	251 415
Option 2	2.23	2009	20.52	57 000	4.68	267 006
Option 3	3.23	2010	22.23	57 000	5.50	313 318
				<b>183 000</b>		<b>831 739</b>

The weighted average price of outstanding options is NOK 21.38. Share price basis for granting was NOK 17,40.

## > CONT. NOTE 27 SHARE BASED PAYMENT PLANS

The options were granted in Board meeting of Comrod Communication ASA on 9 February 2007. The 54 000 options granted for new CEO has at year end 2008 still not been formalized between the company and the CEO. These options are, consequently not included in the total amount of 114 000 options.

Possible Exercise date <sup>1)</sup>	Option 1 May 2008	Option 2 May 2009	Option 3 May 2010	Total
Erik Espeset, Chairman Board of Directors	12 000	0	0	12 000
Ole Gunnar Fjelde, MD Comrod AS	9 000	9 000	9 000	27 000
Kari Duestad, CFO	6 000	6 000	6 000	18 000
Tor Reidar Brekke, VP Business area Antennas	6 000	6 000	6 000	18 000
Jo Eide, VP Research & Development	6 000	6 000	6 000	18 000
Jean Mourey, MD Lerc SAS	6 000	6 000	6 000	18 000
Eric van Renthergem, VP Business area Masts	6 000	6 000	6 000	18 000
Vincent Lernoud, VP Business area Industrial Products	6 000	6 000	6 000	18 000
Arne Syversen, VP Business area Power supply	6 000	6 000	6 000	18 000
Petter Riis Hansen, Operations mgr. Business area Power Supply	6 000	6 000	6 000	18 000
	<b>69 000</b>	<b>57 000</b>	<b>57 000</b>	<b>183 000</b>

<sup>1)</sup> At the end of 2008, there were no persons who had exercised options. The options to CEO are granted from Board of Directors, but still not formalized to CEO. The Chairman of the Board has renounced all of his options in the above option plan on the General Meeting in 2008.

## NOTE 28 RELATED PARTY TRANSACTIONS

Parent company in Comrod Communication Group is Comrod Communication ASA. This company is listed at Oslo Børs (Stock exchange). The group's related parties consist of main shareholders, subsidiaries (see note 31), members of the board and Group management.

### Remuneration of the Board and the Management

Executive management	Board fees	Salary	Bonus paid	Benefits in kind	Total compensation 2008
Niklas Hermansson, Group President and CEO*		742 112		113 207	885 319
Eirik Larsen, Group President and CEO**		2 375 003		213 006	2 588 009
Ole Gunnar Fjelde		1 159 861	267 750	365 833	1 793 444
Kjell Ove Hatlem		1 565 082		9 761	1 574 843
Kari Duestad		807 863	99 000	81 953	988 816
<b>Board of Directors</b>					
Erik Espeset	100 000				100 000
Randi Elin Hognestad	75 000				75 000
Niklas Hermansson	37 500				37 500
Merete Alnes Mostue	75 000				75 000
Tore J. Fjell	75 000				75 000
Kristin Krohn Devold	75 000				75 000
Frode Svaboe	21 875				21 875
<b>Total compensation</b>	<b>459 375</b>	<b>6 649 921</b>	<b>366 750</b>	<b>783 760</b>	<b>8 259 806</b>

\*) Employed during 2008. Salary and employee benefits in their period of employment with the company.

\*\*) CEO left the company in 2008 and was compensated with severance pay of nok 1.250.000.

## > CONT. NOTE 28 RELATED PARTY TRANSACTIONS

The CEO and chairman of the board do not have an agreement relating to termination benefits. Group management participate in the company's general pension arrangements, which are described in Note 20, Pensions. No loans have been made, or security provided for loans, to any member of group management, the board or other elected standing committees. 9 key managers in subsidiaries of Comrod Communication ASA received options to subscribe for the company's shares in 2007. None of these are employees of the parent company. Overview of granted options and the share option programme is given in "note 27 Options to employees".

Shares owned by Management, Board members or related parties	31.12.2008
Ole Gunnar Fjelde	15 576
Erik Espeset	25 454
Niklas Hermansson	1 050
Kjell Ove Hatlem (Captura AS)	10 000
Merete Alnes Mostue	2 500
Tore J. Fjell	64 104
Flakk Holding AS	4 545 734
Hexagon Composites ASA	4 238 062
Flakk, Knut Trygve	193 124

### Expensed costs to auditors are NOK 949.148 and the split relates to the following

(NOK) Expensed costs to auditors	2008	2007
Statutory auditing	488 278	627 948
Other audit related services	453 441	321 200

Pursuant to section 6-16a of the Norwegian Act on Public Limited companies, the Board issue a declaration to the ordinary general meeting regarding salaries and other remuneration for the CEO and other senior executives.

The company's policy is that the Salary of senior executives should find expression almost entirely in a fixed monthly salary which reflects a level appropriate to the position held by the person concerned and normal practice.

Pension schemes for senior executives will basically be the same as those provided generally for employees in the business.

Bonus schemes for the executive management team will be linked in part to the company's performance and in part to an assessment based on the board's judgment. Such judgment will take account in part of the quality of work on health, safety and the environment in the company, and results measured by the company's HSE statistics.

Bonus schemes for the executive management team will have a ceiling, estimated to be 40 per cent of fixed salary per person. The board is able to offer option schemes to members of the executive management team. These options can be awarded to the people regarded by the board as playing a key role in the development of the company's value. The board has adopted an option programme for the group's key executives in 2007. Senior executives are offered a company car to the extent considered to accord with normal practice. This applies at present to five employees.

Agreement on early retirement can be reached with senior executives, with the mutual right to require such retirement when the person concerned reaches the age of 62. Salary guarantee schemes agreed when senior executives leave the company will be viewed in relation to clauses related to confidentiality and restrictions on competing activities in the contract of employment with the person concerned. Such schemes can only compensate for such restrictions imposed on the person concerned in taking a new job. Salary guarantee schemes will basically require the deduction of income from other sources.

Compensation policy for the previous fiscal year (2008): The compensation policy applied for senior executives in the previous fiscal year accorded with the principles which also apply for 2009. These are specified above.

## NOTE 29 PURCHASE LIABILITIES

The group has the following commitments resulting from contracts for investments in production plant and machinery

(NOK 1 000)	2008	2007
2007	0	0
2008	0	168
2009	181	146
<b>Total</b>	<b>181</b>	<b>314</b>

## NOTE 30 LIST OF SUBSIDIARIES

The following subsidiaries are included in the consolidated financial statements

Company	Country	Reg'd office	Main business	Stake	Voting stake
Comrod AS	Norway	Tau	Composite antennas and power supply	100%	100%
Unmanned systems Norway AS (UMS)	Norway	Stavanger	Unmanned Aerial vehicle	90.1%	90.1%
Lerc SAS	France	St. Amand Les Eaux	Masts and antennas	100%	100%
Norworks Kft	Hungary	Budapest	Composite antennas	100%	100%
Comrod UK	United Kingdom	Southampton	Masts and antennas	100%	100%

Transactions with subsidiaries are conducted at arm's length principles

## NOTE 31 EXCHANGE RATES

	Exchange rate 01.01.2008	Average Exchange rate 2008	Exchange rate 31.12.2008
USD	5.4110	5.5533	6.9989
EUR	7.9610	8.2226	9.8650
GBP	10.8100	10.3935	10.1210
HUF	-	0.0336	0.0370
SEK	83.89	85.03	90.42

## NOTE 32 EVENTS AFTER THE BALANCE SHEET DATE

Dnb Nor Bank ASA has subsequent to the balance sheet date approved to extend the limits of the overdraft facilities of Comrod Communication ASA from NOK 35 million to NOK 55 million.

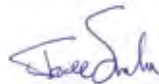
TAU, 31.12.2008/24.03.2009  
The Board of Comrod Communication ASA



**Erik Espeset**  
Chairman of the Board



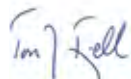
**Randi Elin Hognestad**  
Vice chairman of the Board



**Frode Svaboe**  
Member of the Board



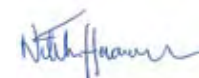
**Merete Alnes Mostue**  
Member of the Board



**Tore J. Fjell**  
Member of the Board



**Kristin Krohn Devold**  
Member of the Board



**Niklas Hermansson**  
Group President & CEO

# INCOME STATEMENT, PARENT COMPANY

Comrod Communication ASA - 1 January - 31 December

(NOK)	Note	2008	2007
<b>Sales revenue</b>			
Total operating income		0	0
Payroll & social security expenses	7, 9, 14	4 385 310	1 617 224
Other operating expenses		6 214 388	2 824 701
<b>Operating profit</b>		<b>(10 599 698)</b>	<b>(4 441 925)</b>
<b>Finance income and expense</b>			
Income from investment in subsidiaries		35 234 928	14 449 367
Finance income from subsidiaries		806 121	0
Other finance income	12	730 508	33 961
Finance expense from subsidiaries		198 225	0
Other finance expense	12	5 359 896	41 403
<b>Net Finance</b>		<b>31 213 467</b>	<b>14 441 925</b>
<b>Profit on ordinary activities before tax</b>			
Tax on profit on ordinary activities	8	2 650 387	0
<b>Profit on ordinary activities</b>		<b>17 963 351</b>	<b>10 000 000</b>
<b>Profit for the year</b>		<b>17 963 351</b>	<b>10 000 000</b>
Dividend proposed	1	0	10 000 000
Transferred to other equity	1	17 963 351	0
<b>Total disposals</b>		<b>17 963 351</b>	<b>10 000 000</b>

# BALANCE SHEET, PARENT COMPANY

Comrod Communication ASA - 31 December

(NOK)	Note	2008	2007
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets			
Deferred tax assets	8	1 300 491	0
<b>Total intangible assets</b>		<b>1 300 491</b>	<b>0</b>
<b>Financial assets</b>			
Investments in subsidiaries	2	160 098 135	42 115 000
Loans to group companies	4	5 260 000	73 506 626
<b>Total financial assets</b>		<b>165 358 135</b>	<b>115 621 626</b>
<b>Total non-current assets</b>		<b>166 658 626</b>	<b>115 621 626</b>
<b>Current assets</b>			
Short term receivables	3, 4	36 802 753	4 552 567
<b>Total trade and other receivables</b>		<b>36 802 753</b>	<b>4 552 567</b>
Bank deposits, cash and similar	5	798 670	332 719
<b>Total current assets</b>		<b>37 601 423</b>	<b>4 885 286</b>
<b>Total assets</b>		<b>204 260 049</b>	<b>120 506 912</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Paid-in capital</b>			
Share capital	1, 6	16 938 649	16 938 649
Share premium reserve	1	80 236 977	80 236 977
Other paid-in capital	1	228 046	175 420
<b>Total paid-in capital</b>		<b>97 403 672</b>	<b>97 351 046</b>
Other equity	1	21 804 584	379
Total retained earnings		21 804 584	379
<b>Total equity</b>		<b>119 208 256</b>	<b>97 351 425</b>
<b>Non-current liabilities</b>			
Non-current interest-bearing liabilities	10	63 355 569	0
Pension liabilities	7	170 310	97 675
<b>Total non-current liabilities</b>		<b>63 525 879</b>	<b>97 675</b>
<b>Current liabilities</b>			
Short-term loans	11	5 500 000	0
Trade payables	4	677 112	566 655
Public duties payable		404 635	477 265
Proposed dividend		0	10 000 000
Other current liabilities	3, 4	14 944 167	12 013 892
<b>Total current liabilities</b>		<b>21 525 913</b>	<b>23 057 812</b>
<b>Total liabilities</b>		<b>85 051 792</b>	<b>23 155 487</b>
<b>Total equity and liabilities</b>		<b>204 260 049</b>	<b>120 506 912</b>

# CASH FLOW STATEMENT, PARENT COMPANY

## Comrod Communication ASA

(NOK)	2008	2007
<b>Operating activities</b>		
Profit before tax	20 613 738	10 000 000
<b>Non-cash elements</b>		
Depreciation and impairment of property, plant and equipment		
Share-based payments expense	52 626	175 420
Differences between expensed and paid pension cost	12 905	97 675
<b>Working capital adjustments</b>		
Changes in trade and other receivables	(32 119 701)	(4 552 567)
Changes in trade and other payables	(4 611 427)	13 057 518
Income tax paid	0	147
<b>Net cash flow from operating activities</b>	<b>(16 051 859)</b>	<b>18 778 193</b>
<b>Investing activities</b>		
Acquisition of subsidiary, net of cash acquired	(117 983 135)	(42 115 000)
<b>Net cash flow from investing activities</b>	<b>(117 983 135)</b>	<b>(42 115 000)</b>
<b>Financing activities</b>		
New non-current liabilities	76 254 319	
Net change in lending to subsidiaries	68 246 626	(73 506 626)
New paid in capital /dividend paid	(10 000 000)	96 175 626
<b>Net cash flow from financing activities</b>	<b>134 500 945</b>	<b>22 669 000</b>
<b>Net foreign currency exchange effect</b>		
Net change in cash & cash equivalents	465 951	(667 807)
Cash & cash equivalents at beginning of period	332 719	1 000 526
<b>Cash &amp; cash equivalents at end of period</b>	<b>798 670</b>	<b>332 719</b>

# NOTES PARENT COMPANY

## Accounting policies

The annual accounts have been prepared in accordance with the provisions of the Norwegian Accounting Act and generally accepted accounting principles in Norway.

## Sales revenue

Revenue from services is recognized as services are rendered. Interest income is recognized as interest accrues. Dividend from subsidiaries are recognized as dividend are earned. Dividend from others than subsidiaries is recognized when the shareholders' right to receive the payment is established by the annual general meeting.

## Classification and measurement of balance sheet items

Current assets and liabilities include items due for payment within one year of the date of acquisition and items which are part of the operating cycle. Other items are classified as non-current assets/liabilities. Current assets are measured at the lower of cost of acquisition and fair value. Current liabilities are recognized at nominal value on the date of commencement.

Non-current assets are measured at the cost of acquisition, but are written down to fair value if impairment is identified which is not considered to be of a temporary nature. Non-current liabilities are recognized at nominal value on the date of commencement. Costs associated with the bond issue are amortized over the duration of the loan using the effective interest method.

## Receivables

Trade and other receivables are recognized in the balance sheet at their nominal value, following deductions for provisions for expected losses. Provision for losses is made on the basis of the individual claims. There is also an unspecified provision to cover expected losses on other trade receivables.

## Assets and liabilities in foreign currency

Transactions in foreign currencies are recognized at the exchange rate in effect at the transaction date. Monetary items in foreign currency are measured using the exchange rate in effect at the balance sheet date. Currency gains/losses on receivables/liabilities are classified as financial items.

## Shares

The cost method of accounting is used for all shares. Investments in subsidiaries are financed through long term loans in the subsidiary's functional currency. Translation effects on the long term loan are recorded toward the investment in the balance sheet as hedging of net investment. Tax effects arising from the translation effects are recorded towards equity.

## Share-based payment

Senior executives in the group have received options to subscribe for shares in the parent company. The fair value of the share options is measured at the grant date and the cost is recognized, together with a corresponding increase in other paid-in capital, over the period in which the performance and/or service conditions are fulfilled. The fair value is calculated using the Black & Scholes model. The employer's contribution is accrued over the period in which the service conditions are fulfilled based on the intrinsic value.

## Pension expense

Pensions are accounted for in accordance with NRS 6A, Applying IAS 19 under Norwegian Legislation. Pension costs and benefit obligation are calculated using the straight-line method, based on the expected final salary. The calculations are based on a number of assumptions, including discount rate, future changes in salary, pensions and national insurance contributions, the expected return on plan assets and actuarial assumptions on mortality and early retirement. Plan assets are measured at fair value and deducted from net pension commitments in the balance sheet. Changes in the benefit obligation arising from changes in plan assets are distributed over the expected remaining service period. Changes in the benefit obligation and plan assets due to the effects of changes in actuarial assumptions (actuarial gains and losses) are recognized in equity (net after tax).

## Tax

Tax expense in the income statement includes income tax payable for the period and changes in deferred tax. Deferred tax is calculated at 28 % based on the temporary differences between accounting and fiscal values and loss carry forwards at the end of the financial year.

Tax-increasing and tax-reducing temporary differences which reversed or may reverse in the same period are offset. Net deferred tax asset is recognized to the extent that it is probable that it can be utilized.

#### Interest-bearing loans and borrowing costs

Loans are recognized at the initial amount received less directly associated transaction costs. In subsequent periods, interest-bearing loans and borrowings are valued at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liability is derecognized and through the amortization process. Borrowing costs are recognized as incurred.

#### Cash flow statement

The cash flow statement has been prepared using the indirect method. Cash and cash equivalents include cash and bank deposits.

#### Use of estimates

Preparation of the annual financial statements in accordance with good accounting practice requires use of estimates and assumptions by management, which affects the income statement and measurement of assets and liabilities, and disclosures on uncertain assets and obligations at the balance sheet date.

Contingent losses which are probable and quantifiable are expensed as incurred.

### NOTE 1 EQUITY

(NOK)	Share capital	Share premium reserve	Other paid in capital	Other equity	Total equity
Equity at 01.01.2007	1 000 000	0	0	379	1 000 379
New equity during the year	15 938 649	80 236 977	0	0	96 175 626
Profit for the year	0	0	0	10 000 000	10 000 000
Proposed dividend	0	0	0	(10 000 000)	(10 000 000)
Share-based payment	0	0	175 420	0	175 420
<b>Equity at 31.12.2007</b>	<b>16 938 649</b>	<b>80 236 977</b>	<b>175 420</b>	<b>379</b>	<b>97 351 425</b>
Actuarial gains/losses for the year				(43 005)	(43 005)
Change in fair value of hedging instruments				3 883 859	3 883 859
Profit for the year				17 963 351	17 963 351
Share-based payment			52 626		52 626
<b>Equity at 31.12.2008</b>	<b>16 938 649</b>	<b>80 236 977</b>	<b>228 046</b>	<b>21 804 584</b>	<b>119 208 256</b>

### NOTE 2 INVESTMENT IN SUBSIDIARIES

(NOK 1 000) Subsidiaries	Registered office	Stake	Voting stake	Carrying amount
Comrod AS	Tau, Norway	100%	100%	46 149 000
Unmanned System Norway AS (UMS)	Stavanger, Norway	90%	90%	9 496 000
Lers SAS	St.Amand Les Eaux, France	100%	100%	103 983 935
Comrod UK	Southampton, United Kingdom	100%	100%	199 200
<b>Total</b>				<b>160 098 135</b>

## > CONT. NOTE 2 INVESTMENT IN SUBSIDIARIES

(NOK 1000)	Equity and profit/loss(-) in last annual accounts	Comrod AS	UMS AS	Lers SAS	Comrod UK
Cost of acquisition		46 419 000	9 496 000	103 983 935	199 200
Equity at 31.12.2008		25 823 385	5 360 819	75 558 896	317 779
<b>Profit (loss) 2008</b>		<b>8 433 897</b>	<b>(2 017 529)</b>	<b>11 472 098</b>	<b>122 808</b>

Book value is higher than booked equity in the subsidiaries annual accounts, except for Comrod UK. There is excess values compared to book values for all subsidiaries, and it is expected that the respective Net Present Values of estimated future cash flows are higher than the booked value.

## NOTE 3 RECEIVABLES AND LIABILITIES

(NOK) Receivables	2008	2007
Receivables	350 917	103 200
Receivables from Group companies (see note 4)	36 451 836	4 449 367
<b>Total receivables</b>	<b>36 802 753</b>	<b>4 552 567</b>
<b>Other current liabilities</b>		
Other current liabilities	545 417	263 892
Current liabilities Group companies (see note 4)	14 398 750	11 750 000
<b>Total liabilities</b>	<b>14 944 167</b>	<b>12 013 892</b>

## NOTE 4 INTRA-GROUP BALANCES

(NOK) Receivables	2008	2007
Loans to group companies	5 260 000	73 506 626
Other current receivables	36 451 836	4 449 367
<b>Total receivables</b>	<b>41 711 836</b>	<b>77 955 993</b>
<b>Liabilities</b>		
Trade payables	434 737	241 404
Other current liabilities	14 398 750	11 750 000
<b>Total liabilities</b>	<b>14 883 487</b>	<b>11 991 404</b>

## NOTE 5 BANK DEPOSITS

(NOK)	2008	2007
Restricted tax withholdings representing The parent company has no bank overdraft facility	290 549	305 191

## NOTE 6 SHARE CAPITAL AND SHAREHOLDER INFORMATION

(NOK) Share capital consists of	Number of shares	Nominal value	Carrying amount
A shares	16 938 649	1.00	16 938 649

The company's share capital consists of one class of shares.

20 largest shareholders at 31.12.2008	Number of shares	Shareholding %
Flakk Holding AS	4 545 734	26.84%
Hexagon Composites ASA	4 238 062	25.02%
Bøckmann Holdning AS	1 154 753	6.82%
MP Pensjon	1 005 309	5.94%
Spilka International AS	882 800	5.21%
Tananger Holdning AS	650 500	3.84%
GMC Eiendom & Finans AS	500 000	2.95%
Skagen Vekst	400 000	2.36%
Sand Eiendom AS	250 000	1.48%
Dahle	203 000	1.20%
Landsbanki Islands HF	194 450	1.15%
Flakk	193 124	1.14%
Brødrene Nordbø AS	186 000	1.10%
Strafo AS	131 500	0.78%
Flydal	127 332	0.75%
Molvær	100 000	0.59%
Austerheim	70 000	0.41%
Danske Bank AS	65 500	0.39%
Fjell	64 104	0.38%
Proteam AS	51 500	0.30%
<b>Total 20 largest shareholders</b>	<b>15 013 668</b>	<b>88.64%</b>
Other shareholders	1 924 981	11.36%
<b>Total</b>	<b>16 938 649</b>	<b>100.00%</b>

The total number of shareholders at 31.12.2008 was 1,254 of whom 33 (2.6%) were foreign shareholders.

## NOTE 7 PENSION OBLIGATIONS

The company has pensions and benefit obligations for the employees. The scheme gives defined rights to future benefits. The benefits are mainly depending on contribution time, wages at time of retirement and contribution from national insurance. The contributions are financed through an insurance company.

The company has no obligations regarding occupational pension.

(NOK) Pension cost for the year are calculated as follows	2008	2007
Current service cost inclusive social security tax	169 941	85 605
Interest cost on benefit obligation	3 659	0
Expected return on plan assets net of administration costs	(6 589)	0
Administrative costs	18 711	0
Due social taxes	26 187	12 070
<b>Total</b>	<b>211 909</b>	<b>97 675</b>

> CONT. NOTE 7 PENSION OBLIGATIONS

(NOK) Benefit liability and plan assets: present value of funded obligations	2008	2007
Present value of funded obligations	353 662	97 675
Fair value of plan assets	(183 352)	0
<b>Net liability recognised in balance sheet 31.12</b>	<b>170 310</b>	<b>97 675</b>
Net liability 1.1	97 675	0
Recognised benefit expense	211 909	97 675
Premium payments	(199 003)	0
Recognised actuarial gains/losses	59 729	0
<b>Net liability recognised in balance sheet 31.12</b>	<b>170 310</b>	<b>97 675</b>

The calculation of pension expense and net pension liability are based on the following assumptions:	2008	2007
Discount rate	4.30%	4.70%
Expected salary increase	4.50%	4.50%
Expected pension increase	2.00%	2.00%
Adjustment of national insurance base rate	4.25%	4.25%
Expected return on plan assets	6.30%	5.50%
Proportion of employees taking early retirement	40.00%	40.00%
Mortality table	K 2005	K 1963

NOTE 8 TAX

(NOK) Tax expense of the year as following	2008	2007
Tax payable on taxable income for the year	0	0
Tax on exchange loss posted directly to equity	3 883 859	0
Recognised change in deferred tax	(1 283 767)	0
Correction tax from last year	50 295	0
<b>Tax expenses for the year</b>	<b>2 650 387</b>	<b>0</b>
<b>Reconciliation of actual vs calculated tax expenses</b>		
Tax expenses for the year	2 650 387	0
28% of net income before tax	5 771 847	2 800 000
<b>Difference</b>	<b>3 121 460</b>	<b>2 800 000</b>

> CONT. NOTE 8 TAX

(NOK) Tax expense of the year as following	2008	2007
Tax on exchange loss posted directly to equity	0	0
Tax effect on dividend not taxable in Norway	(3 295 304)	(2 800 000)
Correction tax from last year	50 295	0
Other permanent differences	123 549	0
<b>Tax payable in tax expenses for the year appears as following</b>		
Net income before tax	20 613 738	10 000 000
Permanent differences	(25 198 667)	(10 000 000)
Recognised change in temporary differences	170 310	0
Change in temporary differences posted directly to equity	(59 729)	0
<b>Basis tax payable</b>	<b>(4 474 348)</b>	<b>0</b>
Payable tax regarding net income of the year	0	0
<b>Deferred tax assets</b>		
Pension liability	47 687	0
Loss carried forward	1 252 804	0
<b>Deferred tax assets - gross</b>	<b>1 300 491</b>	<b>0</b>
<b>Deferred tax liabilities</b>		
Deferred tax liabilities - gross	0	0
<b>Net recognised deferred tax liabilities (-)</b>	<b>1 300 491</b>	<b>0</b>

NOTE 9 PAYROLL, REMUNERATION, NO. OF EMPLOYEES, LOANS TO EMPLOYEES

(NOK) Payroll costs	2008	2007
Salaries/fees	3 341 491	1 137 502
Pension expense, defined-benefit plans	211 909	97 675
Other contributions and social security costs	831 910	382 047
<b>Total</b>	<b>4 385 310</b>	<b>1 617 224</b>
Number of employees in the company at year end	1	1
Number of average employees in the company	1	0.6

> CONT. NOTE 9 PAYROLL, REMUNERATION, NO. OF EMPLOYEES, LOANS TO EMPLOYEES

(NOK) Executive management	Board fees	Salary	Bonus paid	Benefits in kind	Total compensation 2008
Niklas Hermansson, Group President and CEO*		742 112		113 207	855 319
Eirik Larsen, Group President and CEO **		2 375 003		213 006	2 588 009
Kjell Ove Hatlem		1 565 082		9 761	1 574 843
<b>Board of Directors</b>					
Erik Espeset	100 000				100 000
Randi Elin Hognestad	75 000				75 000
Niklas Hermansson	37 500				37 500
Merete Alnes Mostue	75 000				75 000
Tore J. Fjell	75 000				75 000
Kristin Krohn Devold	75 000				75 000
Frode Svaboe	21 875				21 875
<b>Total compensation</b>	<b>459 375</b>	<b>4 682 197</b>	<b>0</b>	<b>335 974</b>	<b>5 477 546</b>

\*) Employed during 2008. Salary and employee benefits in their period of employment with the company.

\*\*) CEO left the company in 2008 and was compensated with severance pay of nok 1.250.000.

The CEO and chairman of the board do not have an agreement relating to termination benefits. Group management participate in the company's general pension arrangements, which are described in Note 7, Pensions. No loans have been made, or security provided for loans, to any member of group management, the board or other elected standing committees. 9 key managers in subsidiaries of Comrod Communication ASA received options to subscribe for the company's shares in 2007. None of these are employees of the parent company. Overview of granted options and the share option programme is given in note 27 in Consolidated accounts.

The share option programme is described in more detail in note 14. Expensed costs to auditors are NOK 408.500 and the split is given below:

(NOK)	2008	2007
Statutory auditing	85 000	123 379
Other audit services	323 500	195 897

NOTE 10 NON-CURRENT LIABILITIES

(NOK 1 000)	Effective interest rate	Currency	Maturity date	Carrying amount 2008	Carrying amount 2007
<b>Secured</b>					
Bank loan - serial loan	EURIBOR + margin 1	Euro	2012	68 855 569	
<b>Total secured non-current liabilities</b>				<b>68 855 569</b>	
<b>Total non-current liabilities</b>				<b>68 855 569</b>	
1st year's instalments, non-current liabilities				(5 500 000)	
<b>Total non-current liabilities, not incl. 1st year's instalments</b>				<b>63 355 569</b>	

All long-term loans have quarterly interest charges.

## > CONT. NOTE 10 NON-CURRENT LIABILITIES

(NOK) Estimated repayment schedule for all loans at 31.12.2008	2009	2010	2011	2012
Total	5 500 000	5 500 000	5 500 000	52 355 569

Bank loans are secured against trade payables, inventories and property, plant & equipment in the group's Norwegian subsidiaries.

Bank loans are also secured by pledge in shares as Lerc SAS

The following covenants have been set for bank loans:

Equity recognized in the balance sheet must represent at least 27.5% of the total balance sheet amount until December 2008 and thereafter 30.0%.

Net Interest Bearing Debt/EBITDA < 3.5 until December 2007 and thereafter 3.25 till December 2008 and thereafter 3.0.

The group is fulfilling the covenants set.

## NOTE 11 SHORT-TERM LOANS AND OTHER BORROWINGS

(NOK 1 000)	Maturity	2008	2007
Secured		0	0
Unsecured		0	0
1st year's instalments, non-current liabilities	June and December	5 500 000	0
<b>Total</b>		<b>5 500 000</b>	<b>0</b>

At 31 December 2008, short-term interest-bearing loans and other borrowing consisted of 1st year's instalments on non-current liabilities. See note 10.

Current liabilities are subject to the same terms as non-current liabilities. See note 10.

## NOTE 12 MERGED ITEMS

(NOK) Finance income	2008	2007
Other interest income	29 383	20 609
Other finance income (currency gains)	701 126	13 352
<b>Total other finance income</b>	<b>730 508</b>	<b>33 961</b>

(NOK) Finance expense	2008	2007
Other interest expense	3 698 071	706
Other finance expense	1 661 825	40 697
<b>Total other finance expense</b>	<b>5 359 896</b>	<b>41 403</b>

## NOTE 13 FINANCIAL MARKET RISK

Interest risk arises in the short and medium term from the company's floating rate liabilities. See also note 26 Financial instruments in the group accounts for additional comments.

## NOTE 14 SHAREBASED PAYMENTS

The company has 3 share option schemes which covers employees in certain key positions in the parent company and its subsidiaries. At 31 December 2008, 9 of the group employees were in the share option scheme, see note 27 of Consolidated accounts. The employees must be working in the group on the date of exercise in order to be entitled to exercise the options. All the options had a negative intrinsic value on the grant date. The options may be converted into shares on the exercise date. The options are European purchase options with a fixed redemption date.

The fair value of the options is calculated on the grant date, based on a Black & Scholes model, and the cost is recognised over the service period. Costs of NOK 52.626 associated with the share option scheme were expensed for the chairman and the employees in the parent company.

(NUMBER IN THOUSANDS) Share options outstanding	2008	2007
Share options outstanding 1 Jan.	207 000	0
Options granted	0	207 000
Options exercised	0	0
Options lapsed	(93 000)	0
<b>Share options outstanding 31. Dec.</b>	<b>114 000</b>	<b>207 000</b>
Fully exercised options	0	0

Share options outstanding have the following expiry dates and exercise prices	Exercise date	Exercise price (NOK)	Number of options
Share option scheme 2008	04.05.2009	20.52	57 000
	03.05.2010	22.23	57 000
<b>Total</b>			<b>114 000</b>

Further information about the share option schemes is given in note 27 to the Consolidated accounts.

## NOTE 15 EVENTS AFTER THE BALANCE SHEET DATE

Dnb Nor Bank ASA has subsequent to the balance sheet date approved to extend the limits of the overdraft facilities of Comrod Communication ASA from NOK 35 million to NOK 55 million.

TAU, 31.12.2008/24.03.2009

The Board of Comrod Communication ASA



**Erik Espeset**  
Chairman of the Board



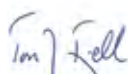
**Randi Elin Hognestad**  
Vice chairman of the Board



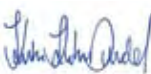
**Frode Svaboe**  
Member of the Board



**Merete Alnes Mostue**  
Member of the Board



**Tore J. Fjell**  
Member of the Board



**Kristin Krohn Devold**  
Member of the Board



**Niklas Hermansson**  
Group President & CEO



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 Ernst & Young AS  
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 Fax. + 47 51 70 66 01  
 www.ey.no  
 Medlemme av Den norske Revisorforening

To the Annual Shareholders' Meeting of  
 Comrod Communication ASA

**Auditor's report for 2008**

We have audited the annual financial statements of Comrod Communication ASA as of 31 December 2008, showing a profit of NOK 17 963 351 for the Parent Company and a profit of NOK 10 457 000 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 financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The financial statements of the Group comprise the balance sheet, the statements of income and cash flows, the statement recognised income and expense and the accompanying notes. The regulations of the Norwegian Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the Parent Company. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the Group. 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 laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. These auditing standards 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 of the Parent Company are prepared in accordance with laws and regulations and present fairly, in all material respects the financial position of the Company as of 31 December 2008, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the financial statements of the Group are prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and bookkeeping practice 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.

Stavanger, 24 March 2009  
 ERNST & YOUNG AS

Tor Inge Skjellevik  
 State Authorised Public Accountant (Norway)

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

# BOARD AND ADMINISTRATION

## BOARD OF DIRECTORS



**ERIK ESPESET**

**Chairman of the Board**

He has an M.Sc. from the Norwegian University of Science and Technology (NTNU) and an MBA from Helsinki School of Economics. Erik Espeset has been Chairman of Comrod Communication ASA since the demerger and IPO in January 2007. He has been President & CEO of the main shareholder, Hexagon Composites Group, since 1 September 2001. He has previous experience from Kværner Energy and Alcatel Cable. Number of shares: 25 454.



**RANDI ELIN HOGNESTAD**

**Vice Chairman of the Board**

Hognestad is a qualified lawyer and an independent consultant. She was previously the Director of Investor Relations at HitecVision AS. Hognestad has been an associate lawyer with the law firms Bugge, Arentz-Hansen & Rasmussen (BA-HR) and Schjødt, and has held the position of Director of Investor Relations with Global IP Sound in San Francisco. She has also worked as a journalist with Dagens Næringsliv and for several years as an executive assistant with McKinsey & Company. Number of shares: 0



**MERETE ALNES MOSTUE**

**Board Director**

She has an M.Sc in Business Administration. She is HR Director of Ship Equip AS. She has also experience as HR manager from Coop Møre BA, Firmenich Bjørge Biomarin AS and Bjørge Biomarin AS as well as Investor relation experience from Telenor ASA and international experience as financial controller for Telenor and Dai-Ichi Kangyo Bank. Number of shares: 2 500.



**TORE J. FJELL**

**Board Director**

M.Sc. (Business)/BA. Corporate adviser with Hartmark Consulting AS. Extensive experience from various leading positions in the Orkla Group and Elkem. He was a Director of Oslo Børs for six years, responsible for listed companies. Tore Fjell is associated with Hartmak Consulting and Flakk Group. He has also served on the Hexagon Board of Directors and was their Group Director for Raufoss/ Lincoln subsidiaries. Number of shares: 64 104.



**FRODE SVABOE**

**Board Director**

He is a state authorized public accountant, and has a M.Sc degree in Business and Economics from Norwegian School of Management (BI). He is Partner and Managing Director in SVAL Revisjon og Rådgivning AS. He has extensive experience within audit and accounting services. He was Partner in KPMG Stavanger for several years before starting his own audit and advisory company. He has also worked as group controller for Norwegian Applied Technology ASA. Number of shares: 0



**KRISTIN KROHN DEVOLD**

**Board Director**

She has a M. Sc. (Business) from the Norwegian School of Economics and Business Administration in Bergen. Ms. Krohn Devold is Secretary General of the Norwegian Trekking Organization (DNT). She was Norway's Minister of Defense from 2001 to 2005 and has solid and broad experience from a number of positions and offices in politics and business. Number of shares: 0

## GROUP MANAGEMENT

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**NIKLAS HERMANSSON**

**President & CEO**

Niklas Hermansson was Managing Director of the subsidiary Comrod AS from January 2002 till he joined Technor AS as CEO in February 2007. He served at the Board of Comrod Communication ASA till he joined as President & CEO in July 2008. He has broad managerial experience from the oil and gas sector. He joined the company from his position as Group President of Proserv. He has also experience from the oil and gas division of Stavanger Rørhandel. Number of shares: 1 050



**OLE GUNNAR FJELDE**

**VP Production and Sourcing (Group)**

He is an automation mechanic and has also studied aircraft engineering. Mr. Fjelde is the Managing Director of Comrod AS. He joined the company in 2003 as VP Operations. He also served as acting CEO for Comrod Communication Group from January 2007 till June 2007. He has experience from consultancy and product development from ABB Offshore systems and Ole Gunnar Fjelde AS. Number of shares: 15 576



**KJELL OVE HATLEM**

**Chief Financial Officer (until 13.02.2009)**

He has a Master of Science degree in Business Administration from The Norwegian School of Economics and Business Administration (NHH). He has long international experience from different industries and companies. His former experience include the position as CFO and acting CEO of Pure Group AS and CFO of Kverneland Group. Number of shares: 10 000



**KARI DUESTAD**

**Chief Financial Officer (from 14.02.2009)**

She has a Bachelor of Management degree from the Norwegian School of Management (BI). Ms. Duestad joined Comrod AS as Financial Director in 2005. From listing of Comrod Communication ASA in January 2007 till end of March 2008 she was Group CFO in addition to her position at Comrod AS. Her former experience includes being Accounting Supervisor of Weatherford Norge AS and Accounting Consultant at Amoco. Number of shares: 0

## COMPANY MANAGERS

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**OLE GUNNAR FJELDE**

**Managing Director**

Comrod AS

See above under Group Management.



**JEAN MOUREY**

**Managing Director**

Lerc SAS

He has an M.Sc. in business with a specialization in accounting and auditing. Mr. Mourey joined Lerc in 1982 as CFO. In the period 1996-2003 he was Chairman and Managing Director, and from 2003 and till today he has served as Managing Director of the company. He has also experience as CFO for the Trigano Group and from Douriez-Bataille Group. Number of shares: 0



**DEREK MCLELLAND**

**General Manager**

Comrod UK Ltd

His education is Communications Officer. Mr. McClelland has 45 years experience in the field of Defense communications applications, whereof 27 years in the British army. His military career started as Radio Telegraphist and he ended in 1992 as Communications Officer. Before joining Comrod in 2008, he was for several years Director Business Development for Cobham antennas (former Racal Antennas). Number of shares: 0



**DAVID JANKOVITS**

**General Manager**

Comrod Hungary Kft

He has a Master of Science degree in electrical engineering from the Technical University of Budapest. Mr. Jankovits has experience from the Norwegian companies Electrocompaniet AS and West Control AS as product developer and outsourced production supervisor, before joining Comrod in 2008. Number of shares: 0

## CORPORATE GOVERNANCE

The corporate governance principles of Comrod Communication ASA (Comrod) comply with the Norwegian Code of Practice.



### **Business**

Comrod is a technology group committed to developing and commercializing communication and composite products based on innovative technology.

Its goal is to rank among the leading international players in selected markets, and to gain market shares through innovative and competitive solutions in close cooperation with key customers.

Activities relating to communication products are defined as a priority area for the group in its articles of association.

The group's articles of association will appear in the annual report.

### **Equal treatment**

Comrod has only one class of shares.

In the event of capital increases, all shareholders will normally be treated equally. If this is not the case, the other shareholders will, as far as possible and through the adoption of subsequent measures, be restored to the position they would have held had they participated in the capital increase.

Transactions by the group in its own shares will be conducted through the stock exchange.

Special care will be exercised in respect of transactions with other parties in which the group's shareholders, directors, management or closely related parties have a financial or personal interest.

Not insignificant transactions with other parties in which the group's shareholders, directors, management or closely related parties have a financial or personal interest will be evaluated by an independent third party.

### **Free marketability**

All shares in Comrod are freely marketable.

### **Equity**

Comrod's equity will be aligned with the group's goals, strategy and risk profile.

The authority to issue shares is limited to special cases and is normally renewed at each annual general meeting.

### **Dividends**

The group concentrates on growth opportunities, and Comrod will make the investments required to realize these. Annual dividend will be balanced against opportunities for expansion.

The group's shareholders will receive a competitive return on their shares, primarily through the rise in the share price.

### **Annual general meeting**

The final deadline for registering to attend the annual general meeting is three days in advance.

Shareholders who are unable to attend may vote by proxy.

All relevant documentation will be sent to shareholders no later than two weeks before the date of the AGM.

### **Composition and independence of the board**

The main emphasis in the board's composition will be to assemble sufficient expertise to make independent evaluations of the group's operations and to act as a well-functioning collegial body.

At least half the shareholder-elected directors should be independent of the group's management and principal business connections.

In this context, independent means:

- directors receive no remuneration other

than their director's fees

- director's fees are not bonus-linked

- directors have no close family ties to the chief executive officer

- directors do not have or represent any significant business relationships with the company

At least two of the shareholder-elected directors should be independent of the company's principal shareholder.[1]

The chief executive officer will not have a seat on the board.

A description of the expertise and independence of the directors will be included in the annual report.

The period of election for directors is two years.

#### **Nomination committee**

The group has a separate nomination committee elected by the AGM.

The nomination committee consists of three members, one of whom must be a director.

The nomination committee will evaluate the work and competence of the board, and propose candidates for election as directors.

The nomination committee will propose the fees to be paid to directors.

The nomination committee's recommendations and relevant information on the candidates will be circulated with other documentation for the AGM.

#### **Work of the board**

Regulations have been drawn up to govern the work of the board.

The board organizes its work on the basis of an annual schedule.

The board will ensure that the group is well managed, with a clear internal division of responsibility and tasks.

Regulations for the chief executive officer have been drawn up.

The board will work with the chief executive officer and the auditor to ensure that the group is run in accordance with its basic values and ethical guidelines.

An evaluation by the board of its own work will be submitted to the nomination committee.

Board committees for remuneration and financial reporting have not been established.

#### **Remuneration to the board**

Remuneration to the board will reflect its responsibilities, expertise and use of time, and the complexity of its activities.

Remuneration of the board will not be bonus-linked.

Directors may be included in any share option schemes for senior executives in the group.

Directors, or companies with which they are connected, will not normally undertake special tasks for the company in addition to their board duties.

In special cases, a director may be asked to assist the management team in particular matters. Such assignments must be approved by the chief executive officer, and the board will also be informed. Remuneration will reflect normal levels for the type of assignment involved. The position must be mentioned in the annual report.

Directors and closely related parties must obtain prior permission to deal in the company's shares.

Directors and closely related parties are not permitted to engage in short-term dealing in the company's shares.

#### **Remuneration of senior executives**

Guidelines have been drawn up for the



remuneration of senior executives. The main points are listed in the annual report.

Salary and other remuneration for the chief executive officer is defined by the board at a meeting. The board is also informed of the remuneration of senior executives.

Remuneration will, in both form and size, encourage long-term value creation in the company.

The group believes that cautious use of share options and/or equivalent instruments and/or bonus schemes will encourage long-term value creation.

Prior authorization must be obtained from the AGM for option schemes and other agreements relating to the allocation of shares.

All components in the remuneration of the chief executive officer and all remuneration of other senior executives will be described in the annual report.

Senior executives and closely related parties who deal in the company's shares must obtain prior authorization.

Senior executives and closely related parties are not permitted to engage in short-term dealing in the company's shares.

#### **Comrod's information policy**

The group's information policy is based on openness and equal treatment of all shareholders.

All shareholders will receive correct, clear, relevant and up-to-date information.

The emphasis will be on information about central value drivers and risk factors.

While the chief executive officer will be the company's spokesperson in normal matters, the chairman of the board will also be involved in providing information on matters of a special character.

The group will comply with the Oslo Stock Exchange's requirements concerning the availability of information.

The group will provide shareholders with the opportunity to present their views by holding regular presentations.

#### **Takeover bids**

In the event of a potential takeover or in restructuring processes, the holdings and interests of all shareholders will be safeguarded.

Unless special grounds exist for so doing, no attempt will be made to obstruct or impede the submission of a takeover bid.

If a takeover bid is submitted, the board will not use its authority or take other measures designed to impede the bid without the prior approval of the general meeting after the bid has been made known. The board will still be bound by resolutions adopted by previous general meetings.

Transactions which would in reality involve disposal of the entire company's operations will be submitted to the general meeting if this is deemed necessary.

#### **Auditor**

The auditor will provide annual written confirmation of his or her impartiality and objectivity.

The auditor will attend board meetings that deal with the annual accounts.

The auditor will also present a report giving his/her view of such items as accounting principles, risk areas, internal control procedures, etc, and plans for implementing their own work.

All important correspondence from the auditor will be presented to the board.

In principle the auditor will not be used for assignments other than audit work and matters naturally associated with auditing, such as clarification of accounting regulations, normal tax matters, etc.

The AGM will receive a report on the auditor's fee, broken down into legally required auditing and remuneration relating to other assignments.

[1]) somebody who owns 10 per cent or more of the company's shares.

# CORE VALUES AND CODE OF ETHICAL CONDUCT

Confidence and credibility

Responsibility

Commitment and innovation

Respect

Business ethics

The group works on the basis that all activity and all work by its employees are performed in accordance with high ethical standards and common basic values.

## **Confidence and credibility**

Government authorities, customers, business partners, owners and employees will have confidence in us, and we will be credible and compliant at all levels of the organization. "We keep our promises" will be a fundamental obligation.

## **Responsibility**

Each of us has an obligation to work loyally to achieve the targets that we as a company have set for ourselves, and to support the adopted strategies and actions. Through our attitudes and actions, we will take responsibility for each other and for the continued growth of our company. This includes finding solutions which are sustainable for the organization and for customers in a long-term perspective.

## **Commitment and innovation**

We will make room for innovation and focus continuously on improving our products and processes. We will facilitate personal development, and motivate and support our employees to accept responsibility. Personal commitment will also promote freedom and the confidence to disagree.

## **Respect**

Respect for our customers, for laws and statutory regulations, for differences of opinion and for the environment. Loyalty towards and respect for our co-workers, regardless of their gender, opinions, beliefs, political stance or ethnicity. This also applies to management decisions and the laws which regulate our business.

## **Business ethics**

All our business activities will be profitable. This is the key to creating secure and attractive jobs. Value creation will be achieved within legal and ethically-accepted norms.

The group's corporate governance principles will be included in its annual report.



# SHARES AND SHAREHOLDERS



Comrod Communication ASA has a share capital of NOK 16.9 million. Each share has a nominal value of NOK 1.00. At the end of 2008, the Company had a market value of NOK 184.6 million (233.8 at the end of 2007). This represents a decrease in value of 21 % during 2008, while Oslo Børs benchmark index (OSEBX) was reduced by 54.1% in the same period.

Comrod Communication is listed on the Oslo stock exchange (Oslo Børs) under the ticker symbol COMROD.

## **Demerger and Capital increase**

Comrod Communication Group is a result of a demerger of Hexagon Composites on 19th January 2007. The shares were listed on Oslo Børs, Norway on 22nd January 2007.

## **Shareholder policy**

The company has only one class of shares and all shares are freely negotiable. The Group's corporate management code of conduct deals with matters such as capital increases and equal treatment of shareholders.

In the event of an increase in share capital, all shareholders will normally be treated equally. If this is not the case, subsequent measures will be implemented to ensure that the other shareholders are, as far as possible, in the position they would have had if they participated in the original increase in capital.

The Group will normally conduct transactions in its own shares through the stock exchange or at market rates. Particular prudence should be applied in external transactions in which the Group's shareholders, board members, management or related parties have a financial or personal interest.

In the event of any not immaterial external transactions in which the Group's shareholders, board members, management or related parties have a financial or personal interest, a valuation must be obtained from an independent third party.

## **Investor Relations**

The Group's information policy is based on openness and equal treatment of all shareholders. This is also laid down in the company's code of conduct for corporate governance.

All shareholders will receive correct, clear, relevant and prompt information.

Emphasis will be placed on producing and developing major value drivers and risk factors.

All stock exchange information is available in English. Comrod Communication holds regular presentations at which shareholders may put forward their views. The presentations are normally also simultaneously webcast. Time and resources are also allocated for providing analysts, brokers and potential investors with information. On request, the Group arranges presentations for these parties. In 2008, Group presentations were held in Oslo and Stavanger.

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## Shareholder structure

At the end of 2008, the company had 1 254 shareholders. Of these, 33 (2.6%) were foreign shareholders. The number of shares in foreign ownership was 336 461 (2.0%) at the end of the year.

Flakk Holding AS is the principal shareholder with 26.8 % of the shares directly owned and 25.0% owned by Hexagon Composites ASA where Flakk Holding is the main shareholder.

The top ten shareholders account for 81.7% of share capital.

## LARGEST SHAREHOLDERS AT 31.12.2008

	Shareholding %
Flakk Holding AS	26.84%
Hexagon Composites ASA <sup>1)</sup>	25.02%
Bøckmann Holding AS	6.82%
MP Pensjon	5.94%
Spilka International AS	5.21%
Tananger Holding AS	3.84%
GMC Eiendom & Finans AS	2.95%
Skagen Vekst	2.36%
Sand Eiendom AS	1.48%
Dahle	1.20%
<b>Total 10 largest shareholders <sup>2)</sup></b>	<b>81.65%</b>

<sup>1)</sup>The main shareholder of Hexagon Composites ASA is Flakk Holding AS.

<sup>2)</sup>A more detailed shareholder listing is shown in note 18 of the accounts.

## Price movements

The Comrod share had a negative real return of 21 percent during 2008. The Oslo Stock Exchange Benchmark Index, OSEBX, was reduced by 54,1% in the same period.

## Analysts

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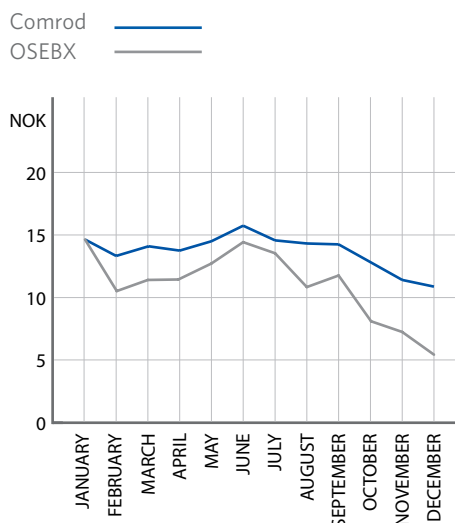
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## Liquidity

Trading in the Comrod share was low during 2008, with average daily transactions totaling 2 (2007: 9). A total of 2.4 million shares were traded in 2008 (2007: 4.9 million shares), which corresponds to 13.9% (2007: 28.7 %) of the total number of shares.

Comrod shares were in 2008 traded on 151 of 252 business days (2007: 209 of the 236 business days from listing on 22nd January 2007).

To improve the liquidity in the share, Comrod Communication ASA entered in November 2007 into a Market Making Agreement. The Agreement is in accordance with the standard requirements of the Oslo Stock Exchange.



# INTERNAL AND EXTERNAL ENVIRONMENT



The companies that comprise Comrod Communication prepare their own detailed HSE reports in accordance with the requirements of the relevant authorities. The key points for 2008 are summarized below.

## **Working environment**

The company continuously works to create the best possible working environment at all its locations. Each company/business unit has appointed a working environment committee and prepared its own procedures and appropriate organization for industrial safety. The Group considers effective internal information to be an essential factor in achieving a sound working environment.

## **Industrial accidents and fire protection**

All the companies report a high level of HSE awareness among their employees.

## **LERC SAS**

In 2005, the Executive Manager decided to create an independent department to improve internal and external environment at Lerc.

In accordance with French law, Lerc works on the working environment via the Working Conditions, Safety and Health Committee on a daily basis.

Industrial accidents and fire protection:  
In 2008, Lerc reported 7 minor accidents and 4 accidents that resulted in 158 days of sick leave (one of these represents 140 day of sick leave). The rate of accidents is close to the target and is markedly below the national goal for French chemical companies.

## **REACH**

In accordance of the 1907-2006 European regulations concerning the registration, evaluation and authorization of REACH chemical products, Lerc has set up a working team on REACH to make sure the REACH regulations are implemented smoothly, in particular with respect to the assurance of our supplies for products delivered to all our customers.

Lerc hired an external company to assess the REACH regulations and help Lerc implement the regulations.

However, Lerc has set up an audit process for its suppliers in order to make sure that the substances used in all Lerc products are or will be registered in accordance with the REACH regulations.

## **COMROD AS**

Comrod AS has a high level of HSE awareness among its employees and did not report any sick leave resulting from accidents in 2008.

The company has a good fire prevention programme, which complies with all public rules and regulations.

Comrod AS has a tradition of developing and manufacturing products under safe and environmentally sound conditions. History confirms the significance and value of employees as the company's most important resource. Health and safety are crucial to people's job satisfaction and efficiency, and therefore represent a valuable investment for the company. This is also reflected in the low sick leave figure of 4.3%

The 1500m<sup>2</sup> facility expansion at Comrod AS will enhance both its safety and working environment even further.

The new facility includes an extended production area, new administration section and a new canteen.

Comrod AS is well positioned to comply with future HSE laws and regulations.

## **COMROD HUNGARY**

Comrod Hungary experienced no sick leave due to accidents in 2008. Comrod Hungary complies with the Hungarian regulations concerning frequent contact with an expert fire and work safety company. This licensed company is approved by the government and implements both fire safety and working environment regulations. The company also conducts an annual safety course for employees.



During the second half of 2008 Comrod Hungary moved to a new, modern manufacturing plant. The facility satisfies of all statutory fire, environmental and health regulations. This includes frequent noise measurements being conducted. Comrod Hungary has also invested in a heat pump system to ensure a better internal climate.

#### **Emissions and recycling**

Lerc SAS annually records and reports its external emissions to the French Pollution Control Authority. Waste is sorted at the source and sent to an approved recovery centre. The same applies to hazardous waste such as epoxy resin. Lerc has a closed system for wastewater, which is pumped out twice a year and sent to a treatment centre.

A project to decrease the rate of waste produced is being implemented and initial

results are encouraging. In 2008, Lerc reduced the weight of its waste by 20% thanks to more efficient waste sorting, optimizing transport management with our suppliers, and by making our colleagues more aware of waste management in our company.

Lerc is currently trying to find a solution that will enable it to replace the use of solvents and convert its production into a clean process.

Comrod AS discharges no emissions into air or water. Waste is sorted and then sent to an approved recovery centre.

Comrod Hungary discharges no emissions into air or water. Waste is sorted and then sent to an approved recovery centre.

# CONTACT INFORMATION

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