KONGSBERG

QUARTERLY REPORT

2ND QUARTER 1ST HALF 2018

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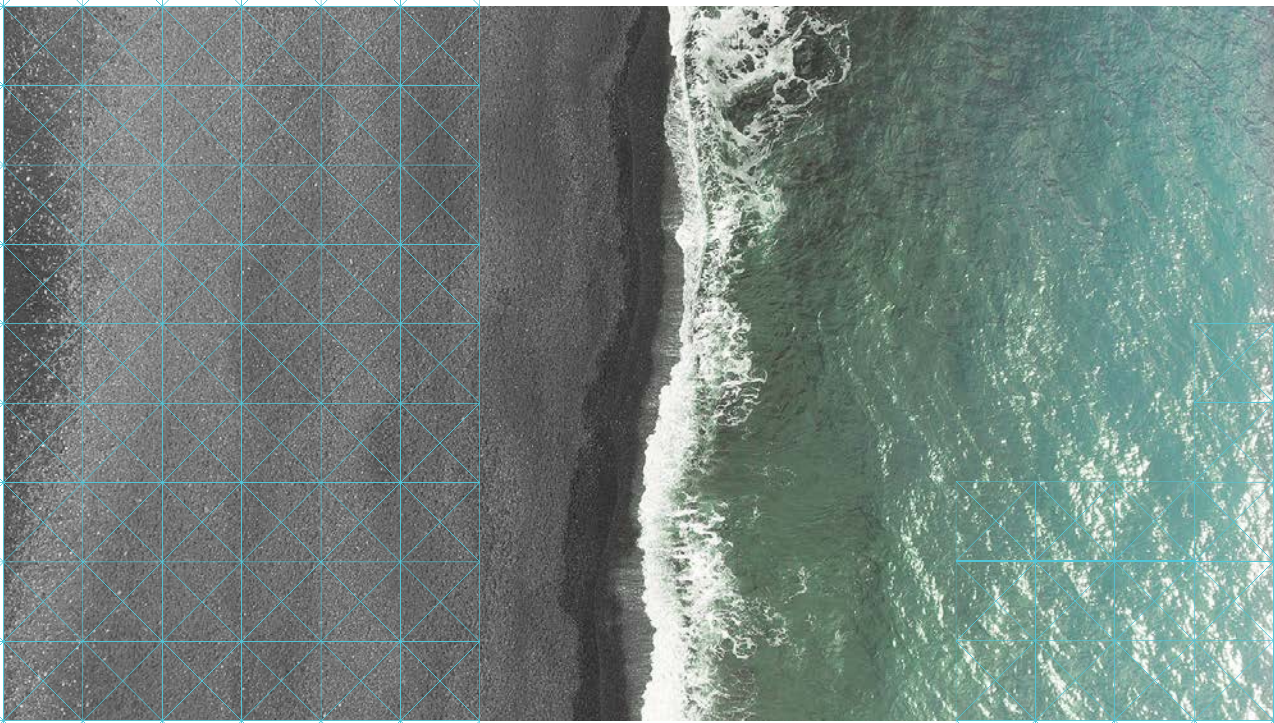
KONGSBERG



GEIR HÅØY
President & CEO

"We have delivered a second quarter which, given the circumstances, meets expectations. Kongsberg Maritime shows an underlying improvement in margins and has reported a strong order intake. Kongsberg Defence & Aerospace has delivered yet another quarter with strong margins and has also won a number of key contracts, particularly within the missile area where, in June, NSM was selected for the US "Over the Horizon" programme. The Norwegian armed forces have ordered JSM test missiles for the integration phase with the F-35. In early July, we announced the acquisition of Rolls-Royce Commercial Marine. This acquisition will strengthen our competitiveness in the maritime market which has been weak in recent years, but is now showing signs of recovery, particularly within the aftermarket. A number of hectic years lie ahead of us, new positions must be secured, contracts must be won and delivered, and acquisitions must be closed and then integrated. However, I am confident that KONGSBERG is both prepared and capable of facing up to the challenge!"

Highlights

KONGSBERG	Positive trend in KM and good margins in KDA. The results for the quarter were influenced by acquisitions- and other M&A related cost, and higher than anticipated costs were incurred in an individual project.
KONGSBERG MARITIME	Strong order intake with book/bill of 1.1 and an improvement in the underlying margin from both Q2 2017 and Q1 2018. Positive trend in global customer support. A higher cost than anticipated in an individual project has led to a provision of NOK 50 million.
KONGSBERG DEFENCE & AEROSPACE	Increase in order intake, including a number of key orders within missiles with both Norwegian and international customers. The selection of NSM for the US Navy's "Over the Horizon" programme is of major strategic importance. Lower operating revenues compared with the same period previous year, but a strong EBITDA margin.
KONGSBERG DIGITAL	Invested heavily in development within new digital solutions. The revenues and order intake have been low the first two quarters in maritime simulations.

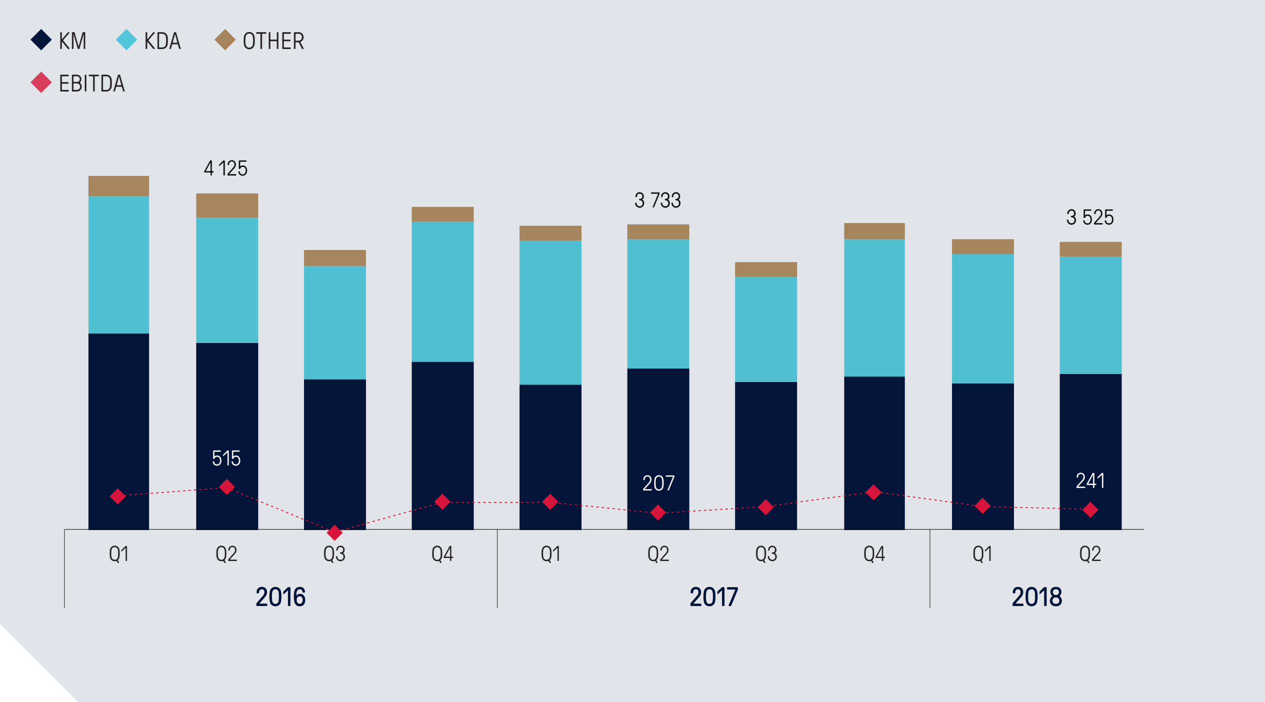
Key figures

	1.4 - 30.6		1.1 - 30.6		
MNOK	2018	2017	2018	2017	2017
Operating revenues	3 525	3 733	7 079	7 454	14 490
EBITDA	241	207	527	546	1 279
EBITDA (%)	6,8	5,5	7,4	7,3	8,8
EBIT	124	91	299	311	772
EBIT (%)	3,5	2,4	4,2	4,2	5,3
Earnings before tax	114	72	258	260	654
Earnings after tax	89	63	205	210	559
EPS (NOK)	0,76	0,53	1,72	1,75	4,62
New orders	5 299	2 535	8 238	5 986	13 430

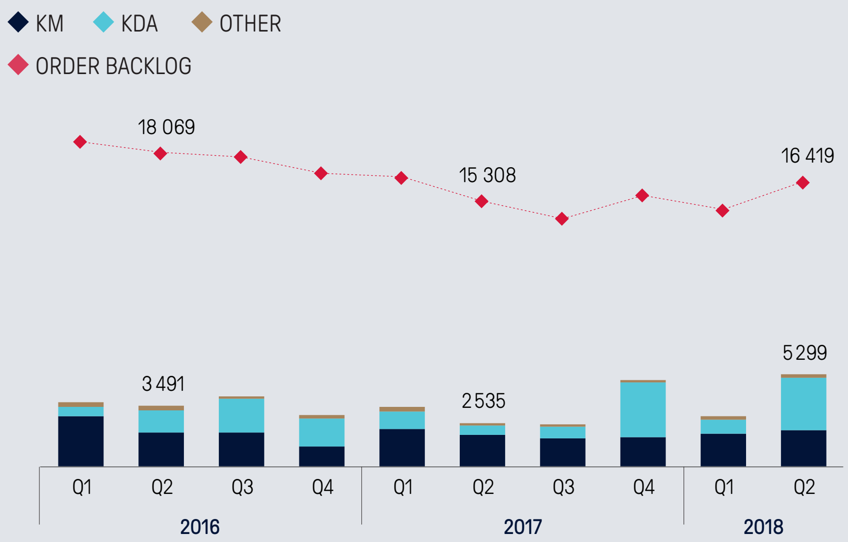
	31.6	31.3	31.12
MNOK	*2018*	*2018*	*2017*
Equity ratio (%)	35,1	35,9	35,6
Net interest-bearing debt [1]	707	601	384
Working Capital [2]	1 060	1 156	955
ROACE (%) [3]	9,4	8,8	9,1
Order backlog	16 419	14 814	15 629
No. of employees	6 622	6 751	6 830

[1] The net-amount of the accounting lines “Cash and cash equivalents”, “Long term interest-bearing loans” and “Short-term interest-bearing loans”.
[2] Current assets deducted by cash and cash equivalents, non-interest bearing short-term debt (except payable tax) and financial instruments at fair value.
[3] 12 month rolling EBIT divided by 12 month average equity and net interest-bearing debt.

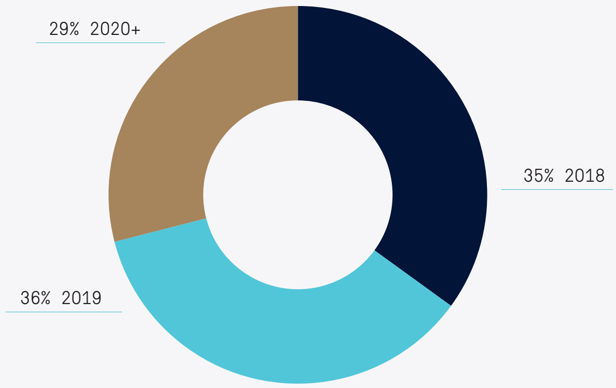
OPERATING REVENUES AND EBITDA



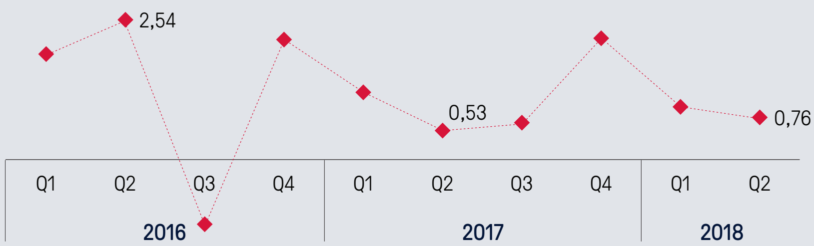
NEW ORDERS AND BACKLOG



ORDER BACKLOG



EPS



Performance, market and orders

The Group recorded operating revenues of NOK 3,525 million during Q2, 5.6 percent down on the same quarter in 2017. KM has a reduction of 3.0 percent. KDA has a reduction of 9.4 percent, primarily as a result of lower revenues within air defence.

The EBITDA margin ended at 6.8 percent, compared with 5.5 percent in Q2 2017. EBITDA during Q2 2018 was negatively affected by additional costs linked to an individual project in KM of NOK 50 million and acquisition costs of NOK 79 million, primarily linked to the acquisition of Rolls-Royce Commercial Marine.

Order intake during Q2 amounted to NOK 5,299 million, which gives a book/bill of 1.50. The order backlog at the end of the quarter was NOK 16,419 million. KM's book/bill was 1.10, while KDA's was 2.11. KDA's order intake fluctuates considerably over time as a result of large individual orders.

Aggregated over 2018, operating revenues amounted to NOK 7,079 million, 5.0 percent down on the same period last year. KM's operating revenues were on a par with the first two quarters of 2017, while KDA has a reduction, primarily as a result of a reduction in revenues within air defence. The EBITDA margin ended at 7.4 percent (7.3 percent).

OPERATING REVENUES

3,525

MNOK

EBITDA-MARGIN

6.8%

NEW ORDERS

5,299

MNOK

Cash flow

KONGSBERG has a net reduction in cash and cash equivalents during Q2 of NOK 109 million. During the quarter, dividends amounting to NOK 450 million were paid out to the Group's shareholders. Cash flow from operating activities amounted to NOK 408 million.

	1.4 - 30.6		1.1 - 30.6		
MNOK	*2018*	*2017*	*2018*	*2017*	*2017*
EBITDA	241	207	527	546	1 279
Change in net current assets and other operating related items	167	619	(124)	800	1 620
Net cash flow from operating activities	**408**	**826**	**403**	**1 346**	**2 899**
Net cash flow used in investing activities	(112)	(142)	(178)	(286)	(528)
Net cash flow used in financing activities	(412)	(612)	(525)	(707)	(1 319)
Effect of changes in exchange rates on cash and cash equivalents	7	(7)	(26)	16	16
Net change in cash and cash equivalents	**(109)**	**65**	**(326)**	**369**	**1 068**

Balance sheet

Interest-bearing debt at the end of Q2 consists of five bond loans totalling NOK 3,250 million and other interest-bearing debt of NOK 87 million. See also Note 6. At the end of Q2 2018, the Group had NOK 2,630 million in cash and cash equivalents and net interest-bearing debt of NOK 707 million.

In addition, the Group has a syndicated credit facility of NOK 2,300 million and an overdraft credit facility of NOK 500 million. These remained undrawn at the end of Q2.

The equity ratio at the end of Q2 was 35.1 per cent. The book value of equity fell by NOK 256 million during the quarter, primarily as a result of the payment of a dividend.

NET INTEREST-BEARING DEBT

707

MNOK

	30.6	31.3	31.12
MNOK	***2018***	*2018*	*2017*
Equity	7 051	7 307	7 365
Equity ratio (%)	35,1	35,9	35,6
Total assets	20 085	20 350	20 676
Working capital	1 060	1 156	955
Gross interest-bearing debt	3 337	3 340	3 340
Cash and cash equivalents	2 630	2 739	2 956
Net interest-bearing debt	707	601	384

Dividend

On 16 May 2018, the Group's general meeting decided to pay a dividend for the 2017 financial year of NOK 3.75 per share. This dividend represents 81.2 percent of the profit for the year in 2017 and was paid on 31 May 2018.

DIVIDEND PER SHARE

3.75

NOK

Currency

KONGSBERG has a currency policy according to which contractual currency flows are hedged by forward contracts (fair value hedges). In addition, the Group hedges a proportion of expected new orders for large contracts according to the established policy (cash flow hedges). The company's portfolio of cash flow hedges has a fair value of minus NOK 27 million at the end of the quarter, which had a negative impact on the book value of equity. See also Note 6.

Product development

KONGSBERG is continually investing in product development, through both self-financed and customer-funded programmes. Self-financed product development and maintenance during Q2 totalled NOK 286 million, of which NOK 34 million is capitalised. See the table in Note 7.

The largest capitalised projects relate to the development of a digital platform (Kognifai), the JSM missile, weapon stations, remote control towers for airports and the new integrated vessel solutions.

In addition, there is customer-funded development, either as part of a delivery project or in the form of specific development assignments. Over time, the total costs of product development and maintenance account for about 10 percent of operating revenues.

Human resources

KONGSBERG had 6,657 employees at the end of the quarter, of whom around 34 percent are employed by companies outside Norway. The number of employees was reduced by 94 during the quarter.

Antall ansatte per område

Other activities

Other activities consist of Kongsberg Digital (KDI), real estate, group functions and eliminations between the business areas.

Linked to the acquisition of Rolls-Royce Commercial Marine and other M&A activities, costs totalling NOK 79 million accrued during Q2 which have been recognised under ”Other activities”.

Acquisition of Rolls-Royce Commercial Marine

On 6 July 2018, KONGSBERG entered into an agreement concerning the acquisition of Rolls-Royce Commercial Marine (RRCM) from Rolls-Royce Plc. The parties have agreed to value Rolls-Royce Commercial Marine at GBP 500 million (in cash and on a debt-free basis and with working capital at an agreed level). The final purchase price will depend on Rolls-Royce Commercial Marine's cash holdings, debt and working capital at the time of the transaction.

The acquisition of RRCM makes KONGSBERG a more holistic supplier to the maritime industry, which has experienced challenging market conditions in recent years. Although there is still uncertainty, KONGSBERG expects the market to grow, with technology and innovation as key drivers.

RRCM is a technology enterprise within maritime operations which supplies equipment and maintenance services to most segments within offshore and merchant vessels. The company's largest product group is propulsion systems, where RRCM is considered to be the leading supplier for offshore vessels. RRCM also supplies deck equipment, stabilising systems, ship design, electrical, automation and control systems and invests in digital technologies of the future, e.g. within autonomous vessels. RRCM has around 3,600 employees across 34 countries, of whom around 700 are service engineers split between 30 locations. Approximately 42 percent is employed in Norway.

KONGSBERG and Rolls-Royce Commercial Marine have many complementary products, solutions and expertise, and the acquisition is in line with KONGSBERG's ambition to grow as a world-leading technology supplier. The acquisition will strengthen KONGSBERG's strategic position amongst shipping companies, shipyards and other customers and partners. A summary of financial key figures is presented below for KONGSBERG, RRCM and pro forma for the combined company for 2017.

MNOK	KONGSBERG	RRCM	Adjustments	Pro-forma KONGSBERG
Operating revenues from external customers	14.490	8.744	-	23.234
Operating profit before depreciation and amortisation (EBITDA)	1.279	(410)	52	920
Operating profit (EBIT)	772	(659)	(87)	26
Profit for the year	559	(579)	(189)	(209)

The final completion of the transaction will require the approval of the competition authorities in a number of countries, a process which is expected to be completed during Q1 or early in Q2 2019. Ahead of this, KONGSBERG will secure the necessary financing for the acquisition through the announced rights issue of NOK 5 billion and through issuing one or more bonds totalling up to NOK 2 billion.

KONGSBERG MARITIME

Performance

Operating revenues in Q2 amounted to NOK 1,910 million, 3.0 percent down on the same quarter last year. Order intake from traditional offshore and merchant vessels was low during the last two quarters of 2017. This has resulted in reduced revenues from these areas both during Q2 in isolation and during the first two quarters of 2018. High activity in subsea and a positive trend within global customer support. KM is exposed to most vessel segments. This diversified exposure offers robustness for the business area.

EBITDA during the quarter was NOK 115 million, equivalent to an EBITDA margin of 6.0 percent. EBITDA in Q2 2018 was negatively affected by NOK 50 million in higher than expected costs linked to an individual project. KM's underlying EBITDA shows an improvement compared with both the previous quarter and the corresponding quarter in 2017. Margins in KM can fluctuate considerably between quarters, mainly as a result of the current project mix. The restructuring that has been carried out in KM in recent years will continue to have a positive impact and higher margins are expected in 2018 than in 2017. Certain markets remain challenging, but a new organisation and business model has made KM more robust and better adapted to the current market and expected development going forward.

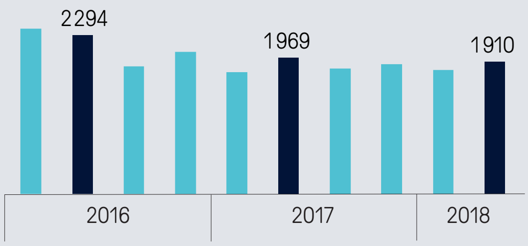
Operating revenues during the first two quarters amounted to NOK 3,706 million, 0.8 percent down on the same period last year. The downturn within traditional vessel deliveries has largely been offset by an increase in other areas within KM. The EBITDA margin is 6.7 percent, compared with 5.4 percent last year. Adjusted for the abovementioned cost provision in Q2 2018 and restructuring costs incurred during the first two quarters of 2017, KM also showed an improvement in EBITDA compared with the first two quarters of last year.

KEY FIGURES

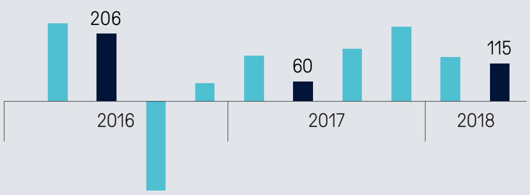
	1.4 - 30.6		1.1 - 30.6		
MNOK	2018	2017	2018	2017	2017
Operating revenues	1 910	1 969	3 706	3 737	7 429
EBITDA	115	60	249	200	589
EBITDA %	6,0	3,0	6,7	5,4	7,9
New orders	2 107	1 813	4 007	3 973	7 336

	30.6	31.3	31.12
MNOK	*2018*	*2017*	*2017*
Order backlog	4 919	4 740	4 820
No. of employees	3 666	3 800	3 819

Operating revenues



EBITDA



Market and orders

Order intake during Q2 amounted to NOK 2,107 million, which gives a book/bill of 1.1. Order intake during the first two quarters was NOK 4,007 million, giving a book/bill of 1.08. KM had an order backlog of NOK 4,919 million at the end of Q2.

The order intake from traditional offshore and merchant vessels was low during the last two quarters of 2017, but recovered during the first two quarters of 2018. The order intake particularly improved within offshore production units (OPU) and LNG. There was also an improvement in order intake from traditional merchant vessels, particularly from shipyards in China and Korea.

The solutions area, where KM supplies large integrated solutions, has a lower order intake during the first two quarters compared with last year. Tendering activity is increasing and there are a number of projects where a supplier will be chosen during autumn 2018, but there is high competition and price pressure within this area.

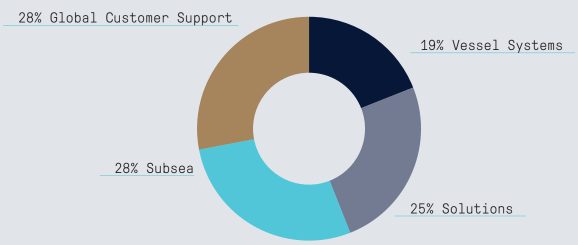
The subsea area also recorded a strong order intake both during the quarter and during the first two quarters of the year, primarily linked to the areas fisheries and marine robotics (autonomous underwater vessels - AUV).

Global customer support has rising activity levels and high capacity utilisation. This was an important contributor to the improvement in KM's margin both during Q2 and during the first two quarters of the year.

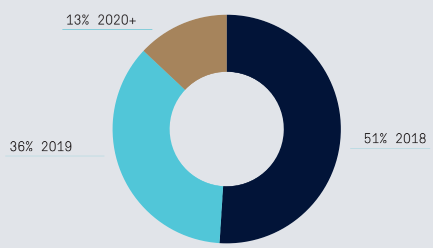
KM is exposed to a number of markets. The traditional offshore market, which includes drilling and offshore supply, has been low in recent years and the order intake from these markets has therefore been, and remains, very low. At the same time, KM is also exposed to a number of markets which have shown a positive development. Examples of these are fisheries, research, marine robotics and passenger ferries. New regulatory requirements regarding emissions from vessels, combined with factors such as attractive new-build prices from shipyards, are also resulting in a positive trend linked to the construction of modern low-emission, energy-efficient solutions within a number of vessel segments.

KM's revenues from global customer support are not included in the business area's order backlog. KM has a well-established organisation that services more than 18,000 vessels with KM equipment, and after-market activity represents about one third of KM's revenues.

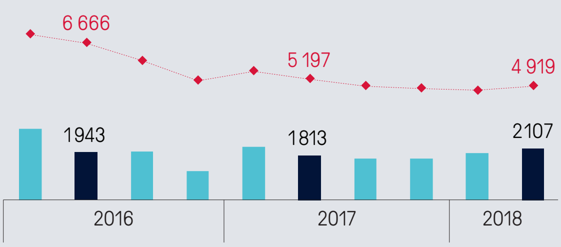
Operating revenues
YTD by division



Order backlog
Breakdown by delivery dates



Orders
New orders
Order backlog



KONGSBERG DEFENCE & AEROSPACE

Performance

Operating revenues in Q2 amounted to NOK 1,441 million, 9.4 percent down on the same quarter last year. The first two quarters of 2017 were characterised by a high level of activity relating to the air defence programme that KDA signed with Raytheon in 2014. This is now in its final phase. The reduction in operating revenues during the first two quarters of the year was primarily due to lower activity within this project. Two air defence contracts were signed in autumn 2017 which are still in the start-up phase. EBITDA for the quarter amounted to NOK 200 million, giving an EBITDA margin of 13.9 percent (8.9 percent). During Q2 2017, KDA's EBITDA was negatively affected by a number of factors, including the buy-back of currency. Even adjusted for this, Q2 2018 still shows an increase in the margin. This increase primarily stems from an improvement in margin within the missile area and Protech Systems. The EBITDA figure includes NOK 2 million in share of net income from Patria, compared to NOK 24 million in Q2 2017.

Patria's operating revenues amounted to EUR 116 million during Q2 2018, on a par with the corresponding quarter last year and the previous quarter. Patria's land division (vehicles) had a challenging start to the year, with a decline in revenues and low order intake. The Hamina contract, which was signed in January, is contributing strongly to the revenues of the systems division, which had an increase of EUR 12.2 million (193 percent) compared to Q2 2017. The EBITDA margin fell during the quarter relative to both the same quarter last year and the previous quarter, primarily as a result of falling revenues and a generally weak quarter within the vehicle division. Patria's EBITDA in Q2 amounted to EUR 7.1 million (EUR 14.4 million). See also Note 5.

Operating revenues during the first two quarters amounted to NOK 3,026 million, 10.2 percent down on the same period last year. This is primarily due to lower volumes within air defence, as explained above. The EBITDA margin is 12.3 percent (9.8 percent).

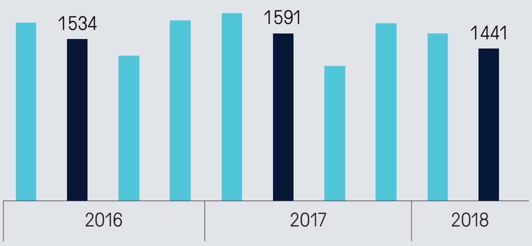
The major delivery and development projects are on schedule.

KEY FIGURES

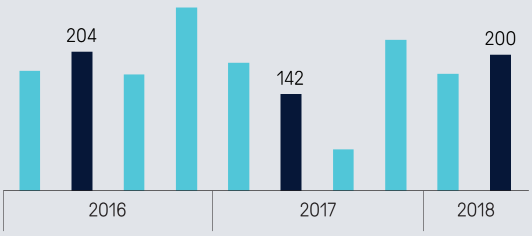
	1.4 - 30.6		1.1 - 30.6		
MNOK	2018	2017	2018	2017	2017
Operating revenues	1 441	1 591	3 026	3 369	6 333
EBITDA	200	142	372	330	612
EBITDA %	13,9	8,9	12,3	9,8	9,7
New orders	3 045	559	3 843	1 560	5 376

	30.6	31.3	31.12
MNOK	*2018*	*2017*	*2017*
Order backlog	10 772	9 170	9 956
No. of employees	2 357	2 347	2 421

Operating revenues



EBITDA



Market and orders

Order intake during Q2 amounted to NOK 3,045 million, which gives a book/bill of 2.11. Order intake during the first two quarters was NOK 3,843 million, giving a book/bill of 1.27. KDA had an order backlog of NOK 10,772 million at the end of Q2, which is the highest level since 2016.

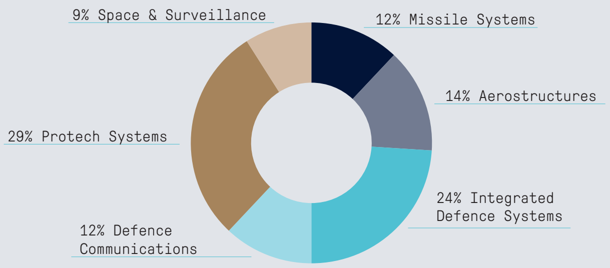
KDA signed a number of key contracts during Q2. Order intake has been good, particularly within missiles, with contracts such as NSM for Malaysia (EUR 124 million) and for Norway/Germany (NOK 220 million). In June, NSM was also selected for the US "Over the Horizon" programme (OTH), an important decision for KONGSBERG. The first contract for this programme is expected to be signed during 2018. At the end of June, KONGSBERG signed a contract worth NOK 700 million with the Norwegian Defence Materiel Agency for the delivery of JSM test missiles for the integration phase with the F-35 fighter aircraft.

The production rate of the US F-35 programme is increasing, and KDA has been the sole supplier of advanced composite structural components and titanium for this programme since 2008. During Q2, a contract worth NOK 525 million was signed for deliveries for more than 150 new F-35 fighter aircrafts.

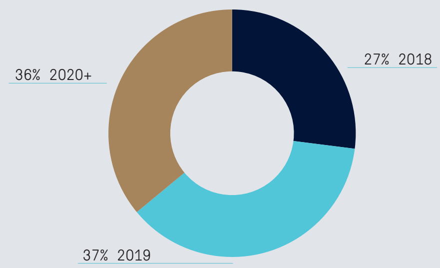
KDA has a product portfolio that is well adapted to future demands and anticipated future market development. KONGSBERG's missiles, air defence systems, remote weapon stations, weapon control systems and other command/control systems attract considerable international attention. At the same time, there is a high level of market activity in relation to a number of major programmes in Europe, the US, Asia and Australia. KONGSBERG is also the largest supplier of equipment and services for the aerospace sector in the Nordic region, and there is increasing activity in this segment.

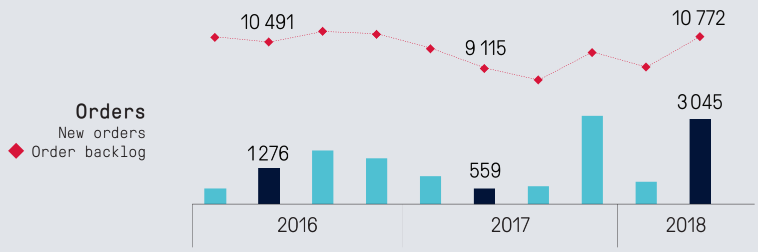
The defence market is characterised by relatively few, but large contracts. Hence, fluctuations in orders are regarded to be normal. KONGSBERG expects a good order intake over the next few years as a result of the strong market position held by KDA in its segments. Investments in defence programmes are often long-term processes. The customers of major defence systems are the defence authorities in the countries concerned. When purchasing defence equipment, these customers consider national security and domestic economic development to be significant factors, alongside product price and performance. National budgets and political constraints will therefore strongly influence whether, and if so when, contracts are signed with KONGSBERG.

Operating revenues
YTD by division

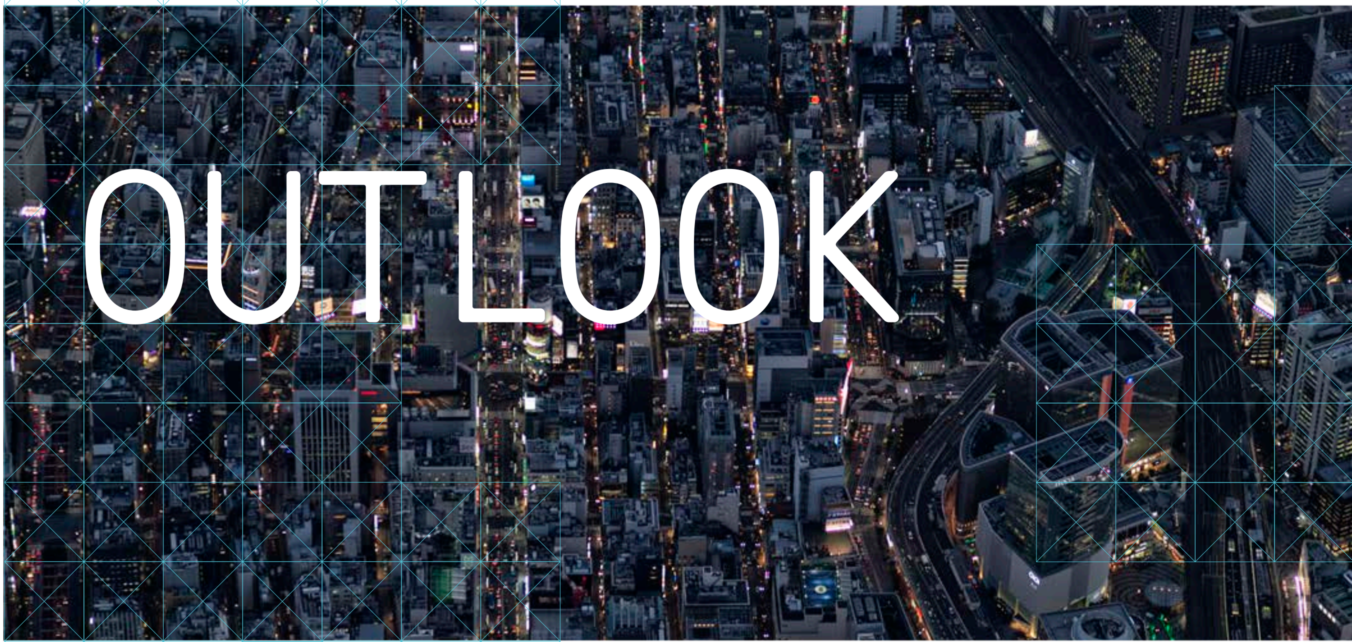


Order backlog
Breakdown by delivery dates





OUTLOOK



KONGSBERG has in recent years established key positions within both the civil and defence sectors. This bodes well for future order intake, especially within the defence sector, and it provides a solid foundation for long-term growth. The major restructuring programmes carried out throughout KONGSBERG are expected to improve profitability.

KM has positioned itself as a supplier of complex integrated solutions. This strengthens the business area's position in a vessel market where contracting in the volume markets remains at a low level. KM is exposed to the entire vessel market, including merchant marine, offshore and other specialised vessels. 2018 operating revenues are expected to be on a par with 2017. The margins may fluctuate from quarter to quarter due to the project mix. However, the restructuring of the business area is expected to improve KM's profitability in 2018 compared to 2017.

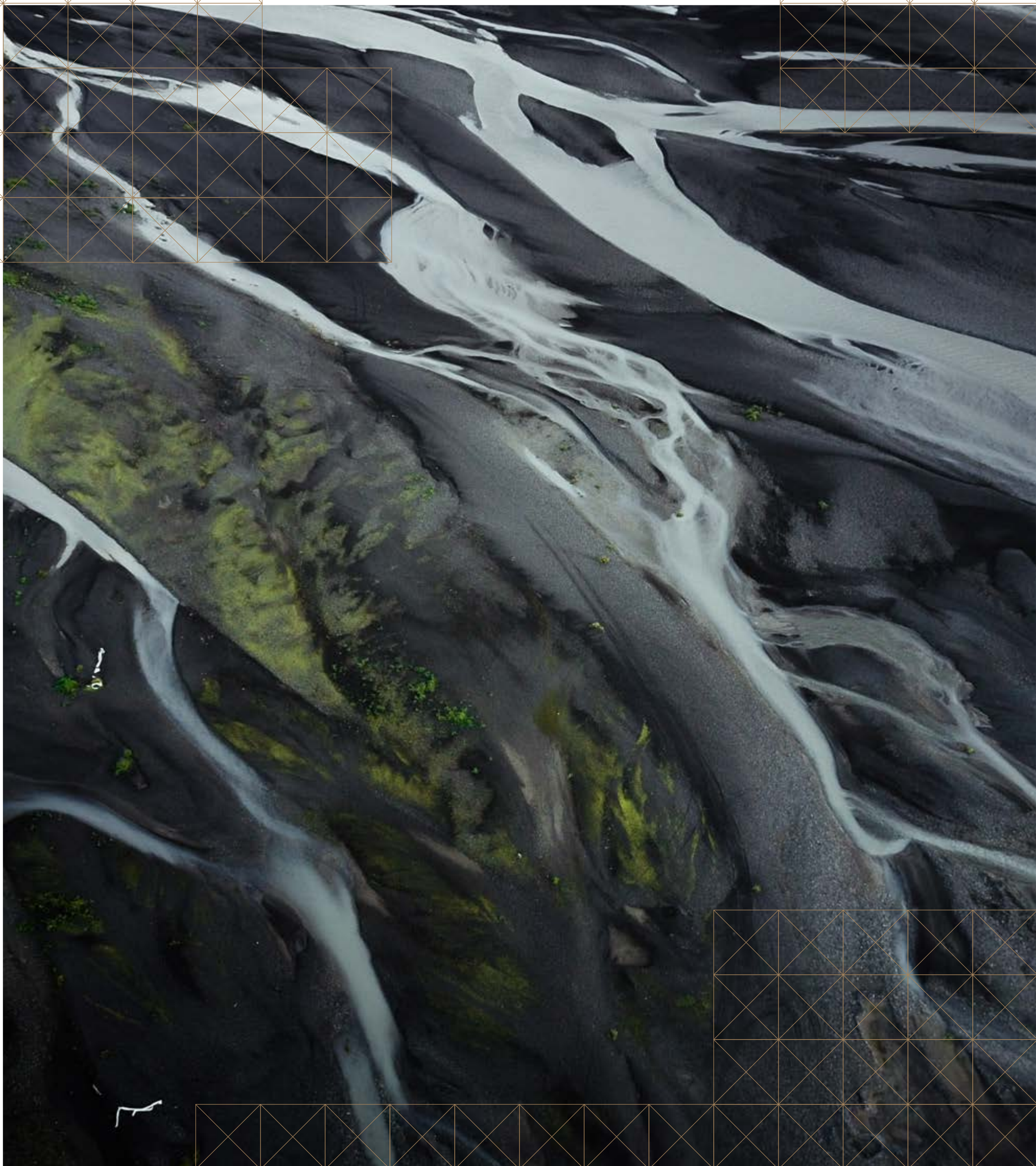
KDA has solid prospects as regards order intake across more or less the entire product portfolio. Due to a weak order backlog, KDA's Protech Systems division expects lower operating revenues both during the last two quarters of the year and during 2018 as a whole. Other divisions within KDA expect stable or growing operating revenues. Profitability is expected to remain at a good level.

During 2018, Kongsberg Digital will continue to focus on capturing new positions and strengthening existing ones relating to the digitalisation of core areas within the oil and gas, wind and merchant marine markets. KDI will also in 2018 make considerable investments in product development.

Kongsberg, 23 August 2018

The Board of Kongsberg Gruppen ASA

NUMBERS & NOTES



Key figures by quarter

KONGSBERG	2018			2017					2016				
MNOK	*2018*	*Q2*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*	*2016*	*Q4*	*Q3*	*Q2*	*Q1*
Operating revenues	7 079	3 525	3 554	14 490	3 757	3 279	3 733	3 721	15 845	3 952	3 428	4 125	4 340
EBITDA	527	241	286	1 279	459	274	207	339	1 217	334	(40)	515	408
EBITDA %	7,4	6,8	8,0	8,8	12,2	8,4	5,5	9,1	7,7	8,5	(1,2)	12,5	9,4
New orders	8 238	5 299	2 939	13 430	5 015	2 429	2 535	3 451	14 319	3 012	4 067	3 491	3 749
Order backlog	16 419	16 419	14 814	15 629	15 629	14 298	15 308	16 672	16 914	16 914	17 858	18 069	18 718
EBIT	299	124	175	772	299	162	91	220	692	188	(162)	383	283
EBIT %	4,2	3,5	4,9	5,3	8,0	4,9	2,4	5,9	4,4	4,8	(4,7)	9,3	6,5

KONGSBERG MARITIME	2018			2017					2016				
MNOK	*2018*	*Q2*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*	*2016*	*Q4*	*Q3*	*Q2*	*Q1*
Operating revenues	3 706	1 910	1 796	7 429	1 877	1 815	1 969	1 768	8 597	2 059	1 849	2 294	2 395
EBITDA	249	115	134	589	228	161	60	140	226	55	(272)	206	237
EBITDA %	6,7	6,0	7,5	7,9	12,1	8,9	3,0	7,9	2,6	2,7	(14,7)	9,0	9,9
New orders	4 007	2 107	1 900	7 336	1 693	1 670	1 813	2 160	7 940	1 156	1 957	1 943	2 884
Order backlog	4 919	4 919	4 740	4 820	4 820	4 908	5 197	5 519	5 137	5 137	5 952	6 666	7 002
EBIT	171	78	93	368	146	117	13	92	18	(1)	(319)	154	184
EBIT %	4,6	4,1	5,2	5,0	7,8	6,4	0,7	5,2	0,2	(0,0)	(17,3)	6,7	7,7

KONGSBERG DEFENCE & AEROSPACE	2018			2017					2016				
MNOK	*2018*	*Q2*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*	*2016*	*Q4*	*Q3*	*Q2*	*Q1*
Operating revenues	3 026	1 441	1 585	6 333	1 683	1 281	1 591	1 778	6 316	1 711	1 379	1 534	1 692
EBITDA	372	200	172	612	221	61	142	188	820	269	171	204	176
EBITDA %	12,3	13,9	10,9	9,7	13,1	4,8	8,9	10,6	13,0	15,7	12,4	13,3	10,4
New orders	3 843	3 045	798	5 376	3 168	648	559	1 001	5 426	1 632	1 932	1 276	586
Order backlog	10 772	10 772	9 170	9 956	9 956	8 476	9 115	10 150	10 910	10 910	11 055	10 491	10 756
EBIT	254	137	117	409	165	13	93	138	626	220	122	154	130
EBIT %	8,4	9,5	7,4	6,5	9,8	1,0	5,8	7,8	9,9	12,9	8,8	10,0	7,7

From Q1 2018, profit from real estate intercompany rental is no longer distributed to the business areas. Historical figures have been changed and reflect these changes in this report.

Condensed income statement

MNOK	Note	1.4 - 30.6 2018	1.4 - 30.6 2017	1.1 - 30.6 2018	1.1 - 30.6 2017	2017
Operating revenues	4	3 525	3 733	7 079	7 454	14 490
Operating expenses	7, 11	(3 312)	(3 571)	(6 612)	(6 978)	(13 398)
Share of net income from joint arrangements and associated companies	6	28	45	60	70	187
EBITDA	**4,12**	**241**	**207**	**527**	**546**	**1 279**
Depreciation of property, plant and equipment		(90)	(87)	(177)	(177)	(353)
Impairment of property, plant and equipment		-	-	-	-	(40)
EBITA	**4,12**	**151**	**120**	**350**	**369**	**886**
Amortisation of intangible assets		(27)	(29)	(51)	(58)	(114)
EBIT	**12**	**124**	**91**	**299**	**311**	**772**
Net financial items	6	(10)	(19)	(41)	(51)	(118)
Earnings before tax (EBT)		**114**	**72**	**258**	**260**	**654**
Income tax expences	10	(25)	(9)	(53)	(50)	(95)
Earnings after tax		**89**	**63**	**205**	**210**	**559**
Attributable to:						
Equity holders of the parent		91	63	206	210	554
Non-controlling interests		(2)	-	(1)	-	5
Earnings per share (EPS)/EPS diluted in NOK		0,76	0,53	1,72	1,75	4,62

Condensed statement of comprehensive income

MNOK	Note	1.4 - 30.6 2018	1.4 - 30.6 2017	1.1 - 30.6 2018	1.1 - 30.6 2017	2017
Earnings after tax		89	63	205	210	559
Comprehensive income for the period:						
Items to be reclassified to profit or loss in subsequent period:						
Change in fair value, financial instruments:						
- Cashflow hedges (currency futures and interest rate swaps)	6	(5)	(16)	105	224	509
Tax effect cash flow hedges (currency futures and interest rate swaps)		1	4	(24)	(54)	(124)
Translation differences and hedge of net investments (currency)		18	94	(154)	166	211
Total items to be reclassified to profit or loss in subsequent periods		**14**	**82**	**(73)**	**336**	**596**
Items not to be reclassified to profit or loss:						
Actuarial gains/losses pensions		-	-	-	-	(76)
Income tax on items remaining in equity		-	-	-	-	18
Total items not to be reclassified to profit or loss		**-**	**-**	**-**	**-**	**(58)**
Comprehensive income after tax		**103**	**145**	**132**	**546**	**1 097**

Condensed statement of financial status

MNOK	Note	30.6 2018	31.3 2018	31.12 2017
Property, plant and equipment		2 572	2 585	2 658
Intangible assets	7	2 830	2 778	2 803
Shares in joint arrangements and associated companies	5	3 178	3 326	3 358
Other non-current assets		200	195	204
Total non-current assets		**8 780**	**8 884**	**9 023**
Inventories	1,2	2 122	1 976	1 873
Trade receivables	1,2	3 047	2 621	2 755
Customer contracts, asset	1,2	2 976	3 496	3 498
Other current assets	1,2	530	634	571
Cash and cash equivalents		2 630	2 739	2 956
Total current assets		**11 305**	**11 466**	**11 653**
Total assets		**20 085**	**20 350**	**20 676**
Issued capital		982	982	982
Retained earnings		6 073	6 332	6 473
Fair value of financial instruments		(44)	(39)	(124)
Non-controlling interests		40	32	34
Total equity		**7 051**	**7 307**	**7 365**
Long-term interest-bearing loans	6	3 337	3 340	3 340
Other non-current liabilities and provisions	3	2 035	2 088	2 080
Total non-current liabilities and provisions		**5 372**	**5 428**	**5 420**
Customer contracts, liabilities	1,2	4 210	4 256	4 128
Other current liabilities and provisions	1,2	3 452	3 359	3 763
Total current liabilities and provisions		**7 662**	**7 615**	**7 891**
Total equity, liabilities and provisions		**20 085**	**20 350**	**20 676**
Equity ratio (%)		35,1	35,9	35,6
Net interest-bearing liabilities		707	601	384

In connection with the implementation of IFRS 15 from 1.1.2018 some of the lines in Statement of financial status are restated. See note 2 “New standards as from 1.1.2018” for more information.

Condensed statement of changes in equity

MNOK	30.6. 2018	31.3 2018	31.12. 2017
Equity opening balance	7 365	7 365	6 725
Comprehensive income accumulated	132	29	1 097
Dividends	(450)	-	(450)
Treasury share	(3)	(84)	(2)
Dividends non-controlling interests	(5)	-	(3)
Change in non-controlling interests	12	(3)	(2)
Equity, closing balance	**7 051**	**7 307**	**7 365**

Condensed cash flow statement

		1.4 - 30.6		1.1 - 30.6		
MNOK	*Note*	*2018*	*2017*	*2018*	*2017*	*2017*
Earnings before interest, tax, depreciation and amortisation		241	207	527	546	1 279
Change in net current assets and other operating related items		167	619	(124)	800	1 620
Net cash flow from operating activities		**408**	**826**	**403**	**1 346**	**2 899**
Acquisition/disposal of property, plant and equipment		(64)	(89)	(110)	(179)	(328)
Net payment for acquisition/disposal of subsidiaries, joint arrangements and associated companies		(10)	-	(10)	-	-
Net payment for the acquisition/disposal of available-for-sale-shares		-	(6)	-	(6)	(11)
Other investing activities including capitalised self-financed development		(38)	(47)	(58)	(101)	(189)
Net cash flow from investing activities		**(112)**	**(142)**	**(178)**	**(286)**	**(528)**
Net new loans raised		(5)	(184)	(6)	(184)	(740)
Net interests received (paid)		(18)	(28)	(46)	(57)	(110)
Net payments for the acquisition/disposal of treasury shares		64	48	(20)	(18)	(18)
Transactions with non-controlling interests		(5)	-	(5)	-	(3)
Dividends paid to equity holders of the parent		(450)	(450)	(450)	(450)	(450)
- of which dividends from treasury shares		2	2	2	2	2
Net cash flow from financing activities		**(412)**	**(612)**	**(525)**	**(707)**	**(1 319)**
Effect of changes in exchange rates on cash and cash equivalents		7	(7)	(26)	16	16
Net change in cash and cash equivalents		**(109)**	**65**	**(326)**	**369**	**1 068**
Cash and cash equivalents opening balance		**2 739**	**2 192**	**2 956**	**1 888**	**1 888**
Cash and cash equivalents closing balance		**2 630**	**2 257**	**2 630**	**2 257**	**2 956**

Note 1 | General information and principles

General information
The consolidated financial statements for Q2 (interim financial statements) apply to Kongsberg Gruppen ASA, its subsidiaries and shares in joint arrangements and associated companies that are recognised according to the equity method.

Principles
Interim financial statements are compiled in accordance with IAS 34 (interim reporting), stock exchange regulations and the additional requirements of the Securities Trading Act. Interim financial statements do not include the same amount of information as the full financial statements and should be read in the context of the consolidated financial statements for 2017. The consolidated financial statements for 2017 were prepared in compliance with the Norwegian Accounting Act and international standards for financial reporting (IFRS) laid down by the EU.

The consolidated financial statements for 2017 are available at www.kongsberg.com. New standards that have been applied in 2018 are described in Note 2 of this report.

The interim financial statements have not been audited.

Note 2 | New standards as from 1.1.2018

KONGSBERG has implemented two new accounting standards with effect from 1 January 2018: *IFRS 9 Financial instruments* and *IFRS 15 Revenue from contracts with customers*. The interim financial statements as from Q1 2018 were compiled according to these accounting standards. Implementation of the new standards did not have a significant impact on the income statement or equity for 2017.

IFRS 9 Financial instruments
IFRS 9, Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities, as well as hedge accounting. The standard replaces IAS 39. The implementation of IFRS 9 did not involve any major changes compared to how the Group reported according to IAS 39.

IFRS 15 revenues from contracts with customers
According to IFRS 15, revenue is recognised when the customer gains control over goods or services. The standard also introduces a five-step method for assessing the timing of revenue. This includes an assessment of whether or not contracts should be split into part-deliveries, price allocation for delivery obligations and whether revenue should be recognised during production or upon delivery. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. KONGSBERG has carried out comprehensive assessments of contracts with customers as regards the impact of the standard on the consolidated financial statements, and has reached the following conclusions:

- The Group largely recognised revenue based on the project's percentage completion in accordance with IAS 11, with progress of completion normally being calculated based on costs incurred compared to total anticipated costs. KONGSBERG has maintained this practice following the implementation of IFRS 15 on 1 January 2018.
- Customer contracts that involve the delivery of several more or less identical units (serial delivery) are considered as a single performance obligation according to IFRS 15. The Group has several customer contracts of this type, which in 2017 were considered to be separate deliveries and recognised as revenue upon delivery according to IAS 18. The change had no significant impact on contracts that were delivered in 2017, but may have an effect on revenue recognition of customer contracts involving serial deliveries in the future.

- IFRS 15 contains more detailed provisions than IAS 11 and IAS 18. This concerns the recognition of contingent considerations, costs associated with tenders, waste cost, financing elements in contracts and costs associated with meeting contractual obligations. These provisions do not affect KONGSBERG to any significant extent.
- The standard contains new requirements regarding notes which will be implemented in the 2018 financial statements.

In connection with the implementation of IFRS 15, we have also revised the practising of the accounting principles in the segments. We have revised our definitions of the individual accounting lines under working capital (see the definition in Note 12) and reclassifications were made which affected “Inventories”, “Trade receivables”, “Customer contracts, assets”, “Other current assets”, “Customer contracts, liabilities” and “Other current liabilities and provisions”, but not total working capital. The results of the changes are shown below.

Effect on Statement of financial status 31.12.2017:

	REPORTED	CHANGE	RESTATED	COMMENTS
	31.12.2017	Increase/ (decrease)	31.12.2017	
Inventories	3 961	(2 088)	1 873	a)
Trade receivable	2 117	638	2 755	b)
Customer contracts, asset	2 018	1 480	3 498	c)
Other non-current assets	768	(197)	571	d)
Total decrease assets		**(167)**		
Customer contracts, liabilities	3 388	740	4 128	e)
Other non-current liabilities and provisions	4 670	(907)	3 763	f)
Total decrease liabilities		**(167)**		

a) Inventories
Until 1 January 2018, KONGSBERG classified goods purchased for specific customer contracts and parts of projects in progress as inventories. When implementing IFRS 15, this part of inventories was reclassified as “*Customer contracts, assets”* and *“Customer contracts, liabilities”*.

From 1 January 2018, KONGSBERG defines inventories as follows: “Inventories of raw materials, work in progress and finished products that are not related to specific customer contracts.”

b) Trade receivables
Until 1 January 2018, trade receivables relating to long-term production costs were recognised at net value against recognised prepayments within the same contract. From 1 January 2018, trade receivables are reported at the value of outstanding invoiced amounts adjusted down for provisions for losses. Upon updating of the comparative figures, reclassification was implemented with the counter-item *“Customer contracts, liabilities”*.

c) Customer contracts, assets
With the exception of trade receivables, KONGSBERG has collected together all asset items associated with customer contracts on this line. This includes accrued, non-invoiced revenue, prepayments to subcontractors, goods which have been purchased or allocated to customer contracts, but which have not been altered or led to progress being made on the project and work in progress for projects that are recognised upon delivery. Until 1 January 2018, balance sheet items relating to long-term production costs were reported on a separate line as “Construction contracts in progress, assets”, while assets relating to sales that were recognised upon delivery were classified as “Inventories” and “Other short-term receivables”.

d) Other current assets
Prepayments to suppliers in connection with customer contracts and the accrual of revenue in connection with customer contracts were reclassified to the balance sheet line “Customer contracts, assets” when the comparative figures for 2017 were changed.

e) Customer contracts, liabilities
With the exception of trade payables, all liabilities relating to customer contracts are collected together on this line. Similar assets, balance sheet items for customer contracts that are recognised according to progress are presented together with assets that are recognised upon delivery. Revenue and cost accruals relating to customer contracts that are recognised upon delivery were reclassified from “Other current liabilities” when the comparative figures for 2017 were changed.

f) Other current liabilities
See the explanation of the reclassification under point e) above.

Note 3 | Estimates

Preparation of the interim financial statements involves assessments, estimates and assumptions that impact on the use of accounting principles and recognised amounts for assets and liabilities, revenues and costs. Actual results may deviate from these estimates. The key assessments in connection with the application of the Group’s accounting principles, and the biggest sources of uncertainty, remain the same as when the 2017 consolidated financial statements were prepared.

Note 4 | Segment information

	OPERATING REVENUES					EBITDA					EBIT				
	1.4. - 30.6.		1.1. - 30.6.			1.4. - 30.6.		1.1. - 30.6.			1.4. - 30.6.		1.1. - 30.6.		
MNOK	*2018*	*2017*	*2018*	*2017*	*2017*	*2018*	*2017*	*2018*	*2017*	*2017*	*2018*	*2017*	*2018*	*2017*	*2017*
KM	1 910	1 969	3 706	3 737	7 429	115	60	249	200	589	78	13	171	105	368
KDA	1 441	1 591	3 026	3 369	6 333	200	142	372	330	612	137	93	254	231	409
Other	174	173	347	348	728	(74)	5	(94)	16	78	(91)	(15)	(126)	(25)	(5)
GROUP	3 525	3 733	7 079	7 454	14 490	241	207	527	546	1 279	124	91	299	311	772

Other activities consist of Kongsberg Digital (KDI), real estate, group functions and eliminations between the business areas. From Q1 2018, profit from real estate intercompany rental is no longer distributed to the business areas. The comparison figures have been restated.

Note 5 | Shares in joint arrangements and associated companies

Specification of movement in the balance sheet line "Shares in joint arrangements and associated companies" as of 1 January – 30 June:

MNOK	Ownership	Carrying amount 1.1.18	Additions in the period	Dividends received in the period	Share of net income in the period [1]	Other items and comprehensive income in the period	Carrying amount 30.6.18
Patria Oyj	49,9 %	2 806	-	(81)	7	(92)	2 640
Kongsberg Satellite Services AS	50,0 %	388	-	(55)	54	-	387
Other	-	164	(2)	(10)	(1)	-	151
Total		**3 358**	**(2)**	**(146)**	**60**	**(92)**	**3 178**

[1] The profit/loss is included after tax and amortisation of excess value.

Bridge between EBITDA and KONGSBERG's share of Patria's result after tax.

	1.4. - 30.6.		1.1. - 30.6.		1.1 - 31.12	
	2018		*2018*		*2017*	
Millions	*EUR*	*NOK*	*EUR*	*NOK*	*EUR*	*NOK*
EBITDA	7		16		55	
Financial items, taxes, depreciations and amortisation	(4)		(9)		(25)	
Net income after tax	3		8		30	
KONGSBERG's share (49,9 %) [1]		13		28		121
Amortisation of excess values after tax		(11)		(21)		(46)
Share of net income recognised in KDA for the period		2		7		75

[1] Share of Patria's net income after tax adjusted for minority interests

Note 6 | Financial instruments

Loans and credit facilities
The Group has no short-term interest-bearing loans at the end of the quarter.

Long-term loans:

Amount in MNOK	Due date	Nominal interest rate	30.6.2018 Value [1]	31.12.2017 Value [1]
Bond issue KOG07 - fixed interest rate	11.9.19	4,80 %	250	250
Bond issue KOG08 - floating interest rate	2.6.21	2,25 %	1 000	1 000
Bond issue KOG09 - fixed interest rate	2.6.26	3,20 %	1 000	1 000
Bond issue KOG10 - floating interest rate	5.3.20	1,90 %	550	550
Bond issue KOG11 - fixed interest rate	5.12.23	2,90 %	450	450
Other long-term loans [2]			73	80
Interest rate swaps			14	10
Total long-term loans			**3 337**	**3 340**
Syndicated credit facility (unused borrowing limit)	15.3.22		2 300	2 300
Overdraft facility (unused)			500	500

[1] Value is equal to nominal amount. For long-term loans, the carrying amount is equal to the nominal amount.
[2] "Other long-term loans" consists of smaller loans in local banks in some of the Group's subsidiaries.

Forward exchange contracts and interest rate swaps
The fair value of balances classified as cash flow hedges increased by NOK 105 million[2] before tax during the period 1 January – 30 June 2018. Of this amount, the change in fair value of forward exchange contracts accounted for a reduction of NOK 52 million during the same period. Spot rates at the end of the quarter were USD/NOK 8.16 and EUR/NOK 9.49.

Forward exchange contracts classified as cash flow hedges:

	Due in 2018		Due in 2019 or later		Total		
MNOK (before tax)	*Value based on agreed exchange rates*	*Fair value at 30.6.18* [1]	*Value based on agreed exchange rates*	*Fair value at 30.6.18* [1]	*Value based on agreed exchange rates*	*Change in fair value from 31.12.17*	*Fair Value at 30.6.18* [1]
EUR	99	(1)	-	-	99	4	(1)
USD	1 465	(17)	(92)	(1)	1 373	(28)	(18)
Other	(691)	(8)	(2)	-	(693)	(28)	(8)
Sum	**873**	**(26)**	**(94)**	**(1)**	**779**	**(52)**	**(27)**
Roll-over of currency futures		-		-		122	-
Total	**873**	**(26)**	**(94)**	**(1)**	**779**	**70** [2]	**(27)**

[1] Fair value is calculated as the difference between the spot rate at 30 June 2018 and the forward rates on currency contracts.
[2] The difference between these two the figures, i.e. MNOK 35, is ascribable to a change in the fair values of basis swaps and interest rate swaps.

Note 7 | Self-financed development

Self-financed product maintenance, research and development recognised via the income statement during the period:

	1.4 - 30.6		1.1 - 30.6		
MNOK	*2018*	*2017*	*2018*	*2017*	*2017*
Product maintenance	63	67	137	153	272
Research and development cost	189	173	362	326	663
Total	**252**	**240**	**499**	**479**	**935**

Self-financed development recognised via the balance sheet during the period:

	1.4 - 30.6		1.1 - 30.6		
MNOK	*2018*	*2017*	*2018*	*2017*	*2017*
Additions self-financed development	34	46	54	100	187

With reference to the table above, digital platform (Kognifai) in KDI represent the major part of the accrued self-financed development in the two first quarters.

The largest capitalised projects relate to the development of a digital platform (Kognifai), JSM, weapon stations (including MCT-30) and remote towers for airports.

Note 8 | Related parties

The Board is not aware of any changes or transactions during Q2 linked to related parties which might affect the Group's financial position or profit during the period in any significant way.

Note 9 | Important risk and uncertainty factors

The Group's risk management is described in the 2017 annual report. No new significant risk and uncertainty factors emerged during the quarter.

Note 10 | Tax

The effective tax rate as of Q2 is calculated to be 20.5 per cent. The effective tax rate is affected by the fact that shares of net income from associated companies are recognised after tax.

Note 11 | Acquisition of Rolls-Royce Commercial Marine

6 July 2018, KONGSBERG entered into an agreement concerning the acquisition of Rolls-Royce Commercial Marine (RRCM) from Rolls-Royce Plc. The parties have agreed to value Rolls-Royce Commercial Marine at GBP 500 million (in cash and on a debt-free basis and with working capital at an agreed level). The final purchase price will depend on Rolls-Royce Commercial Marine's cash holdings, debt and working capital at the time of the transaction. See page 9 for more information.

Linked to the acquisition of Rolls-Royce Commercial Marine cost accruals is NOK 64 million, and other M&A activities cost accruals is NOK 15 million, totalling NOK 79 million, which have been recognised under "Other activities".

Note 12 | Definitions

KONGSBERG uses terms in the consolidated financial statements that are not anchored in the IFRS accounting standards. Our definitions and explanations of these terms follow below.

EBITDA/EBITA/EBIT are considered by KONGSBERG to be normal accounting terms, but they are not included in the IFRS accounting standards. EBITDA is an abbreviation for "Earnings Before Interest, Taxes, Depreciation and Amortisation". KONGSBERG uses EBITDA in the income statement as a summation line for other accounting lines. These accounting lines are defined in our accounting principles, which form part of the financial statements for 2017. The same applies to EBITA and EBIT.

Net interest-bearing debt is the net amount of the accounting lines “Cash and cash equivalents”, “Long-term interest-bearing loans” and “Short-term interest-bearing loans”.

Restructuring costs are defined by KONGSBERG as salaries and employer’s National Insurance contributions upon termination of employment (such as severance pay and gift pension) in connection with workforce reductions. In addition to this are rent and other related costs and any one-off payments in the event of the premature termination of tenancy agreements for premises that are vacated, along with certain other costs relating to restructuring processes.

Return on Average Capital Employed (ROACE) is defined as the 12-month rolling EBIT divided by the 12-month mean of recognised equity and net interest-bearing debt.

Working capital is defined as current assets minus cash and cash equivalents, non-interest-bearing current liabilities (except tax payable) and financial instruments recognised at fair value.

Book/bill is order intake divided by operating revenues.

Statement from the Board of Directors and CEO

We hereby confirm that, to the best of our conviction, the H1 accounts for 1 January to 30 June 2018 have been prepared in compliance with IAS 34 - Interim Reporting, and that the information disclosed in the H1 accounts gives an accurate picture of the Group’s assets, liabilities, financial position and performance as a whole, and gives an accurate picture of the information mentioned in §5-6, fourth subsection, of Norway’s Securities Trading Act.

Kongsberg, 23 August 2018

Eivind Reiten
Chairman

Irene Waage Basili
Deputy Chairman

Martha Kold Bakkevig
Director

Morten Henriksen
Director

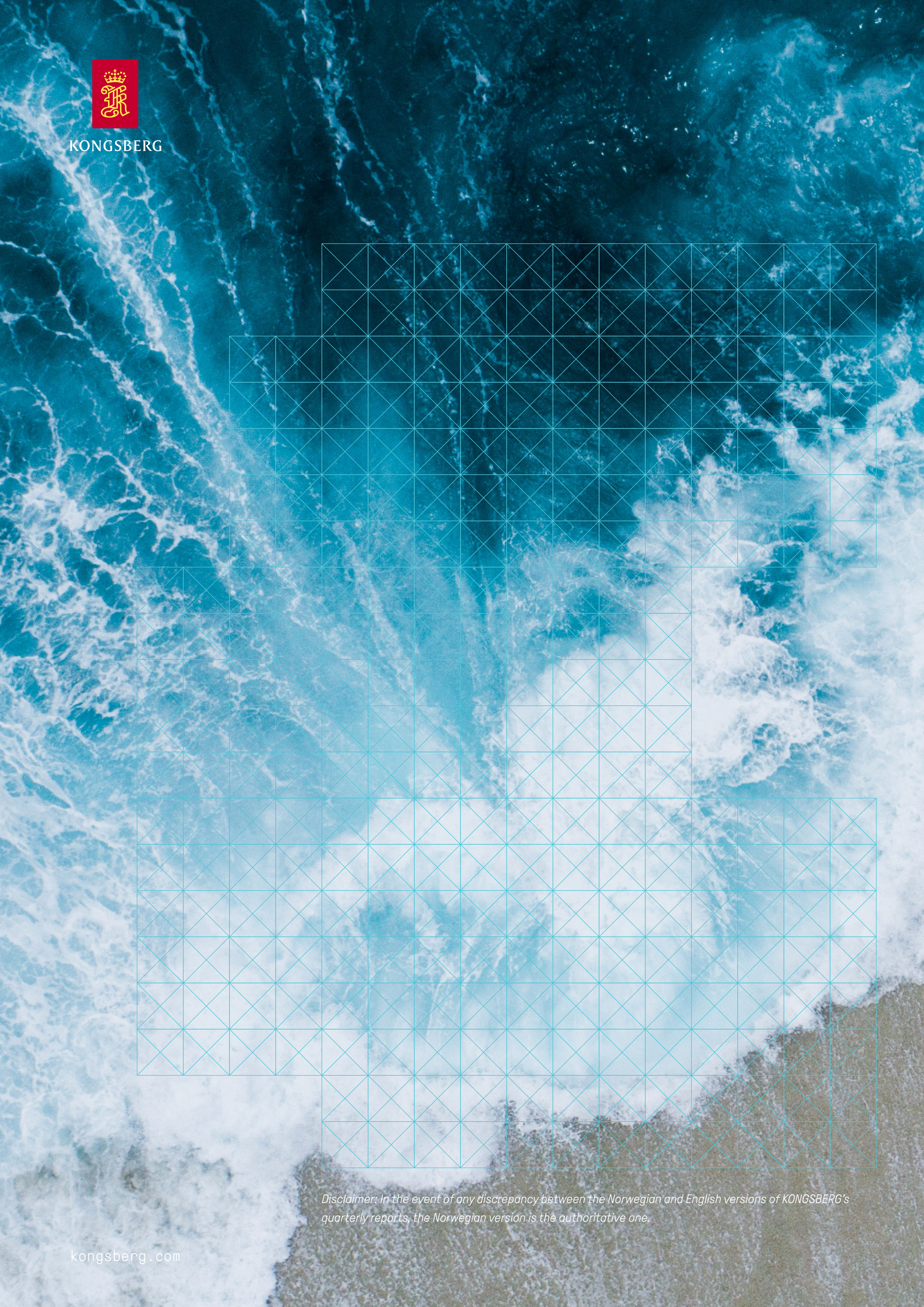
Anne-Grete Strøm-Erichsen
Director

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
President & CEO



KONGSBERG

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