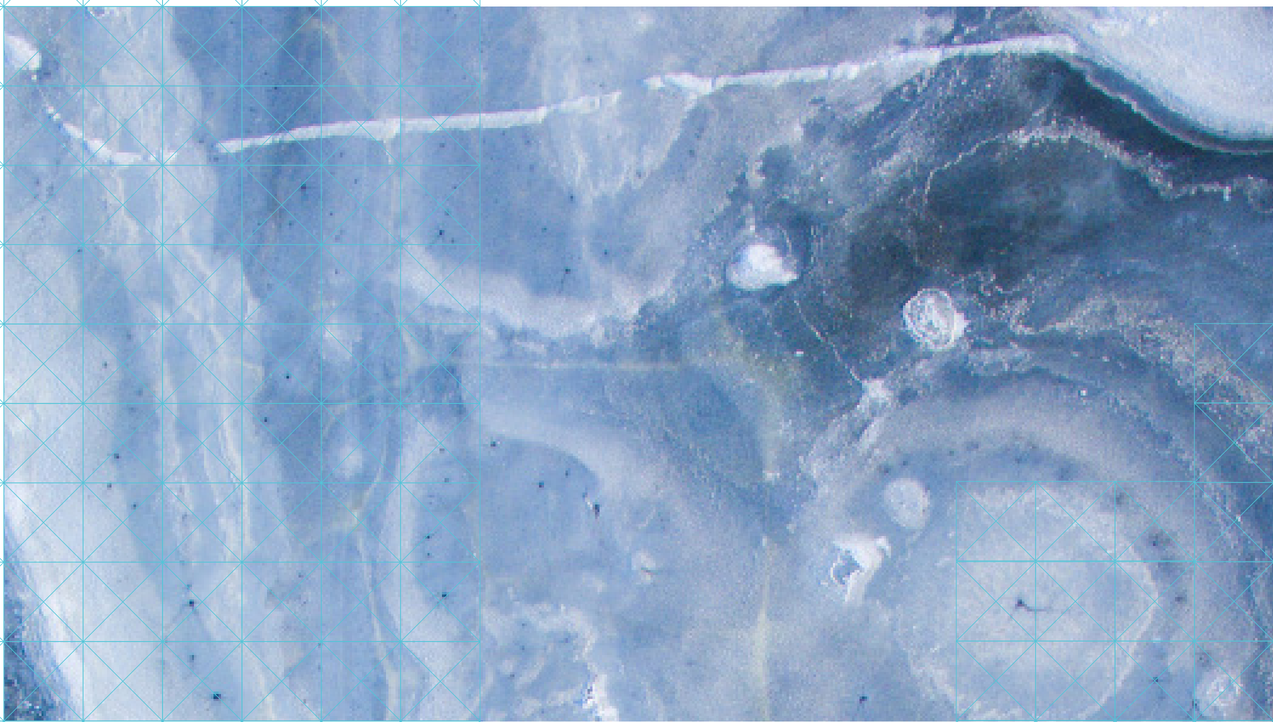
KONGSBERG

QUARTERLY REPORT

1ST QUARTER 2018

kongsberg.com

KONGSBERG



GEIR HÅØY
President & CEO

"The activity remains at a stable level in Kongsberg Maritime, but at the same time we have seen temporary lower activity in certain defence business areas. The strong market position established by Kongsberg Defence & Aerospace provides a solid foundation for long-term growth. Kongsberg Maritime has a good order intake, and in Q1 we have seen positive signals from traditional merchant marine segments such as bulk, container and LNG."

Highlights

KONGSBERG

Positive trend in order intake in KM and an important partnership agreement with Barzan Holding in Qatar on long term technology development programs within both defence, maritime industry and digitalization. Stable margins in KM and KDA continue also in this quarter.

KONGSBERG MARITIME

Stable operating revenues and a book/bill of 1.06. Improved order intake from traditional merchant marine vessels.

KONGSBERG DEFENCE & AEROSPACE

Lower operating revenues from missile and air defence activities impact the total. A memorandum of understanding (MoU) was signed in Qatar in March and a missile contract was signed in Malaysia in April. In addition to a generally strong market position, this provides a sound base for the future.

KONGSBERG DIGITAL

Considerable investments in development. Workforce adjustments within maritime simulation have a negative impact on the quarterly profit in KDI.

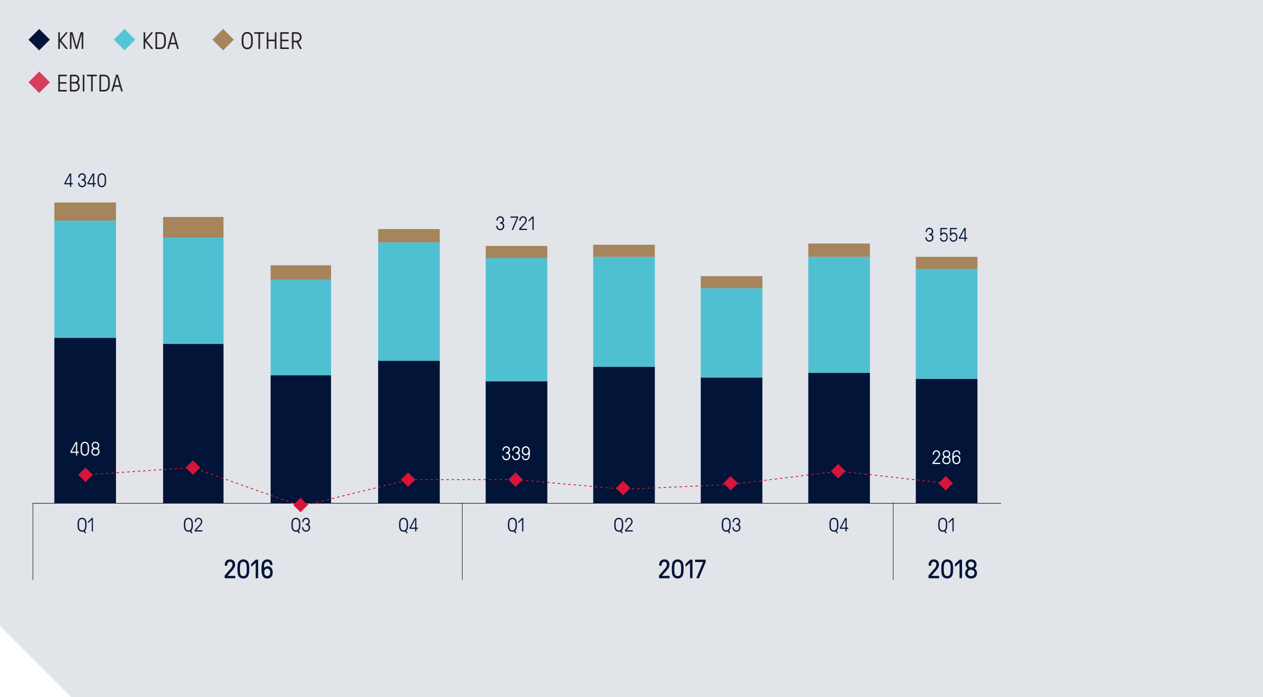
Key figures

	1.1 - 31.3		
MNOK	2018	2017	2017
Operating revenues	3 554	3 721	14 490
EBITDA	286	339	1 279
EBITDA (%)	8,0	9,1	8,8
EBIT	175	220	772
EBIT (%)	4,9	5,9	5,3
Earnings before tax	144	188	654
Earnings after tax	116	147	559
EPS (NOK)	0,96	1,23	4,62
New orders	2 939	3 451	13 430

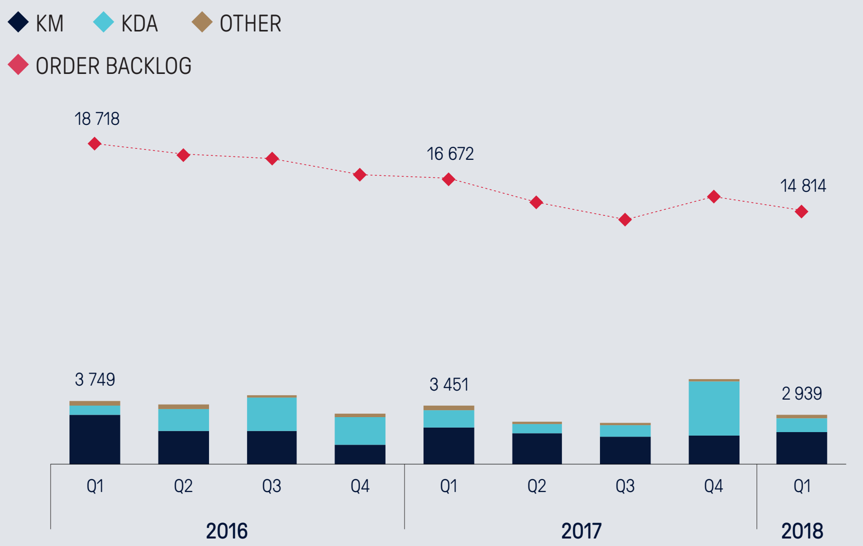
	31.3	31.12
MNOK	*2018*	*2017*
Equity ratio (%)	35,9	35,6
Net interest-bearing debt [1]	601	384
Working Capital [2]	1 156	955
ROACE (%) [3]	8,8	9,1
Order backlog	14 814	15 629
No. of employees	6 751	6 830

[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 book value.
[3] 12 month rolling EBIT divided by 12 month average equity and net interest-bearing debt.

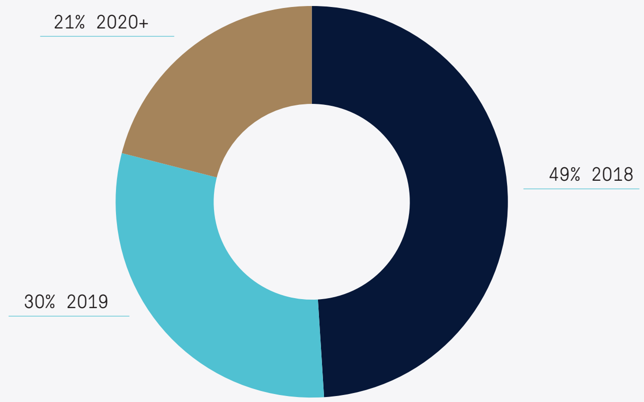
OPERATING REVENUES AND EBITDA



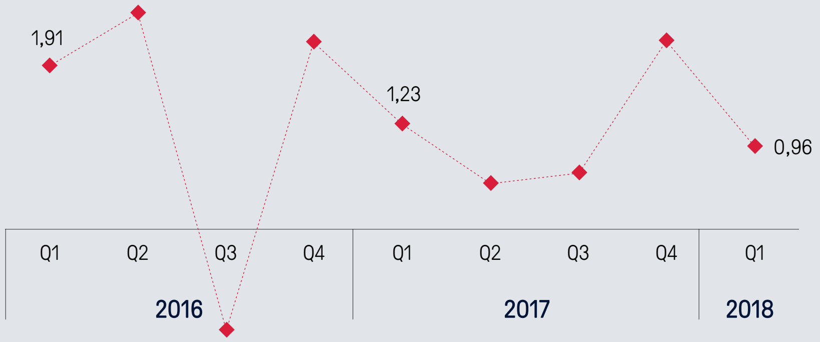
NEW ORDERS AND BACKLOG



ORDER BACKLOG



EPS



Performance, market and orders

The Group has operating revenues of MNOK 3,554 in Q1, which is down 4.5 per cent compared to the same quarter in 2017. KM delivers a 1.6 per cent revenue-increase and KDA a 10.9 reduction. The reduction in KDA is mainly due to lower volumes for missile and air defence products.

The EBITDA margin in KM and KDA is at the same level as Q1 in 2017. Results from KDI is the main reason for reduced EBITDA margin for the Group to 8.0 per cent, compared to 9.1 per cent in the same quarter in 2017.

The order intake in Q1 was MNOK 2,939, which gives a book/bill of 0.83. The order backlog at the end of the quarter is MNOK 14,814. The book/bill in KM is 1.06 and 0.5 in KDA. The order intake in KDA varies considerably over time as a result of large single orders.

OPERATING REVENUES

3,554

MNOK

EBITDA-MARGIN

8.0%

NEW ORDERS

2,939

MNOK

Cash flow

KONGSBERG has a net reduction in cash and cash equivalents in Q1 of MNOK 217. The reduction this quarter can be explained by expenses related to reacquired shares in the share programme for employees, and an increase in working capital. The positive cash flow in Q4 2017 was partly due to extraordinary payments on the two major contracts in Lithuania and Indonesia.

	1.1 / 31.3.		
MNOK	*2018*	*2017*	*2017*
EBITDA	286	339	1 279
Change in net current assets and other operating related items	(291)	181	1 620
Net cash flow from operating activities	**(5)**	**520**	**2 899**
Net cash flow used in investing activities	(66)	(144)	(528)
Net cash flow used in financing activities	(113)	(95)	(1 319)
Effect of changes in exchange rates on cash and cash equivalents	(33)	23	16
Net change in cash and cash equivalents	**(217)**	**304**	**1 068**

Balance sheet

Interest-bearing debt at the end of Q1 consists of five bond loans totalling MNOK 3,250 and other interest-bearing debt of MNOK 90. See also Note 6. At the end of Q1, the Group has MNOK 2,739 in cash and cash equivalents and a net interest-bearing debt of MNOK 601.

In addition, the Group has a syndicated credit facility of MNOK 2,300 and an overdraft credit facility of MNOK 500. At the end of Q1, these remained undrawn.
The equity ratio at the end of Q1 is 35.9 per cent. The equity book value has been reduced by MNOK 58 this quarter.

NET INTEREST-BEARING DEBT

601

MNOK

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

Dividend

For the accounting year 2017, the Board proposed to the General Meeting on 16 May 2018 a dividend of NOK 3.75 per share. The dividend represents 81.2 per cent of the profit for the year in 2017.

DIVIDEND PER SHARE

3.75

NOK

Currency

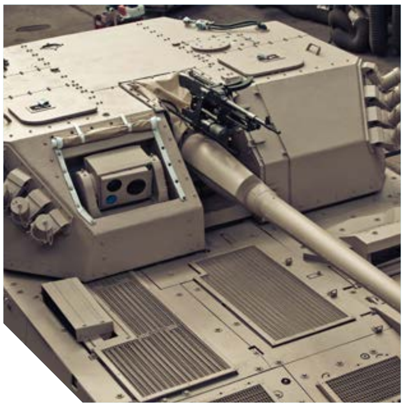
KONGSBERG has a currency policy that means that contractual currency flows are hedged by forward contracts (fair value hedges). In addition, the Group hedges a portion of the expected new orders for large contracts according to the established policy (cash flow hedges). The company's portfolio of cash flow hedges has a fair value of minus MNOK 9 at the end of the quarter, which has a negative impact on the equity book value. See also Note 6.

Product development

KONGSBERG is continually investing in product development, both through self-financed and customer-funded programmes. Self-financed product development and maintenance in Q1 totals MNOK 267, of which MNOK 20 is capitalised. See table in note 7.

The largest capitalised projects are related to the development of the JSM missile, weapon stations, remote control towers for airports and within the new integrated vessel solutions.

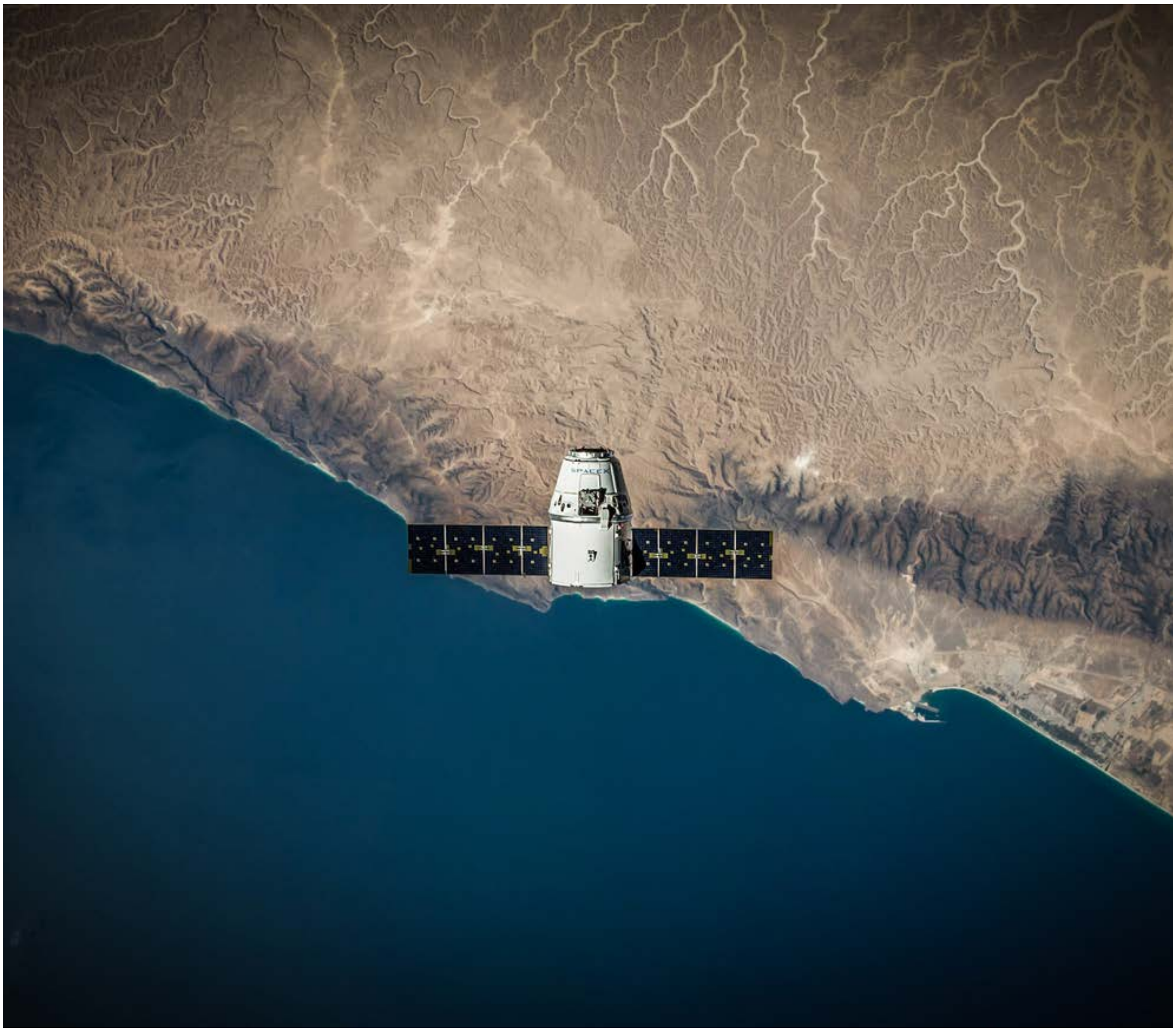
In addition, there is customer-funded development, either as part of a delivery project or as specific development assignments. Over time, the total costs of product development and maintenance account for about 10 per cent of the operating revenues.



Human resources

KONGSBERG has 6,751 employees at the end of the quarter, of which 35 per cent belong to companies outside of Norway. The number of employees has been reduced by 79 this quarter.

Number of employees by area



KONGSBERG MARITIME

Performance

Operating revenues in Q1 were MNOK 1,796, up 1.6 per cent from the same quarter last year. Subsea and Global Customer Support activities remain at the same level as the corresponding period in 2017. Compared to Q1 2017, the activity is higher for larger integrated solutions and lower for traditional vessel deliveries. KM is exposed to most vessel segments. The diversified exposure makes the business area robust.

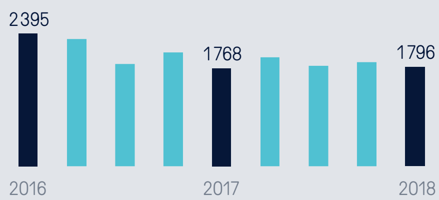
EBITDA in Q1 was MNOK 134, which gives an EBITDA margin of 7.5 per cent. Margins in KM may fluctuate considerably between quarters, mainly as a result of project mix. The restructuring that has been carried out in KM in recent years will continue to have a positive impact. Higher margins are expected in 2018 than in 2017. Certain markets are still challenging, but a new organisation and business model has made KM more robust and better adapted to the current market and forecasted development.

Key figures

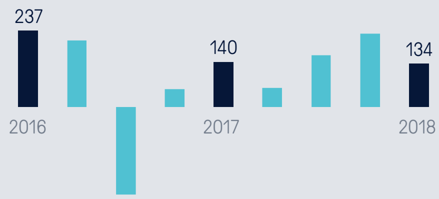
	1.1 - 31.3		
MNOK	2018	2017	2017
Revenues	1 796	1 768	7 429
EBITDA	134	140	589
EBITDA %	7,5	7,9	7,9
New orders	1 900	2 160	7 336

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

Operating revenues



EBITDA



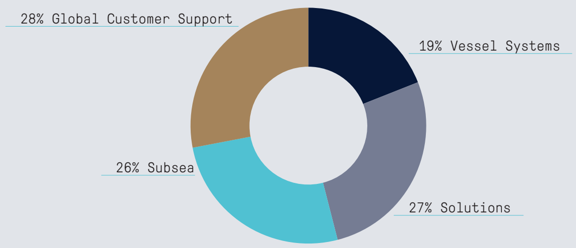
Market and orders

The order intake in Q1 was MNOK 1,900, which gives a book/bill of 1.06. Automation equipment for traditional merchant marine vessels, such as bulk and container, has seen a good order intake. In 2018, both these vessel classes are expected to have an order intake considerably above the 2017 level. KM has also had a solid order intake in Q1 in relation to LNG vessels (Liquefied Natural Gas Carriers). This is a vessel class where KM traditionally has had large market shares. KM has also had good order intake within fisheries, underwater sensor systems for marine research and autonomous underwater vehicles. These are areas where KM has seen growth in the last five years.

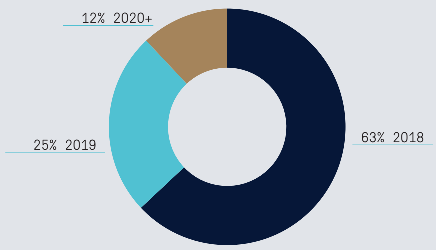
KM is exposed to several markets. The traditional offshore market, which includes drilling and offshore supply, has been weak in recent years, and the order intake from these markets has therefore been and remains very low. At the same time, KM is also exposed to several markets with positive development. Examples are fisheries, research, marine robotics and passenger ferries. New regulatory requirements for vessel emissions, in addition to attractive prices for new construction projects at the yards, also contribute positively to the development of modern low emission and energy efficient solutions within several vessel segments.

KM's after-market revenues is not included in the 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 turnover.

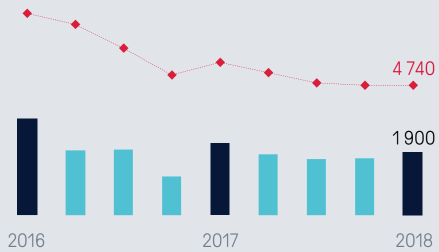
Operating revenues
YTD by division



Order backlog
Breakdown by delivery dates



Orders
New orders
Order backlog



KONGSBERG DEFENCE & AEROSPACE

Performance

Operating revenues in Q1 were MNOK 1,585, down 10.9 per cent from the same quarter last year. The reduction is mainly caused by lower activity within the missile and air defence divisions. Two air defence contracts were signed in autumn 2017 and they are now in the start-up phase. There has been high activity related to delivery of unmanned medium calibre turrets (MCT-30) for the US Army's Stryker brigade. All 83 MCT-30 units have now been delivered to this programme.

Quarterly EBITDA is MNOK 172, which gives an EBITDA margin of 10.9 per cent. The reduction is primarily related to volume. EBITDA includes MNOK 5 in share of net income from Patria compared to minus MNOK 2 in Q1 2017.

Patria's operating revenues in Q1 are up 10 per cent, to MEUR 116.6, compared to the same quarter last year. Patria's land-division (vehicles), representing 18 per cent of the revenues in Q1 (about 21 per cent in Q1 2017), has had a challenging start to the year with revenue-decline and low order intake. Organisational adjustments have been initiated to improve the situation. In other areas, Patria has seen positive development and the company's EBITDA in Q1 was MEUR 9.3 (MEUR 8.6).

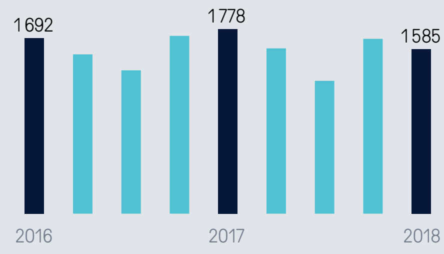
The major delivery- and development-projects in KDA are on schedule.

Key figures

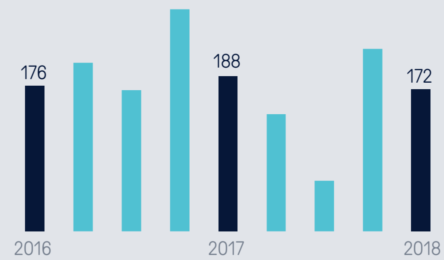
	1.1 - 31.3		
MNOK	2018	2017	2017
Revenues	1 585	1 778	6 333
EBITDA	172	188	612
EBITDA %	10,9	10,6	9,7
New orders	798	1 001	5 376

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

Operating revenues



EBITDA



Market and orders

The order intake in Q1 was MNOK 798, compared to MNOK 1,001 in Q1 2017. Book/bill this quarter is 0.5. Among the orders won were two contracts for deliveries to the F-35 Joint Strike Fighter programme. The orders will secure further production and delivery of Air-to-Air Pylons for the production phase (LRIP) 10 and supply of structural composite parts for the mid-section (Center Fuselage) of the aircraft in the production phase (LRIP) 11.

Patria, where KONGSBERG owns a 49.9 per cent share, signed a large and important contract in January for upgrade and maintenance of the Hamina-class vessels in Finland. The contract value is about MEUR 170.

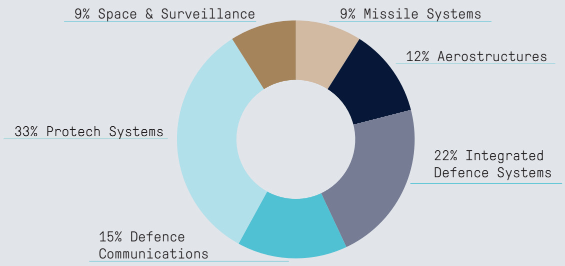
In March 2018, KONGSBERG announced a memorandum of understanding (MoU) with Barzan Holding in Qatar to bid on a planned programme for delivery of communication, digitalisation and turret solutions for military vehicles. The programme has a potential value of some BNOK 15 over the next eight years. The final tender for the programme was submitted in the beginning of April.

In April 2018, KONGSBERG announced that a new contract had been signed with the Royal Malaysian Navy for delivery of NSM missiles for their LCS-vessels, with a value of MEUR 125. This stems from the contract that was signed in 2015 for delivery of ships equipment for these vessels in preparation for NSM.

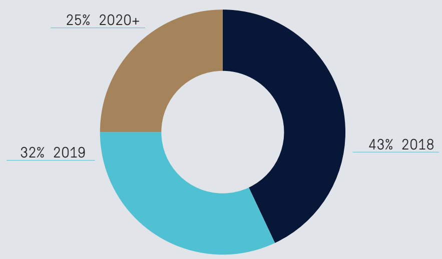
KDA has a product portfolio that is well adapted to future demands and the expected market development. KONGSBERG's missiles, air defence systems, remote weapon stations, weapon control systems and other command/control systems receive a lot of international attention. At the same time there is high market activity in relation to several large 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.

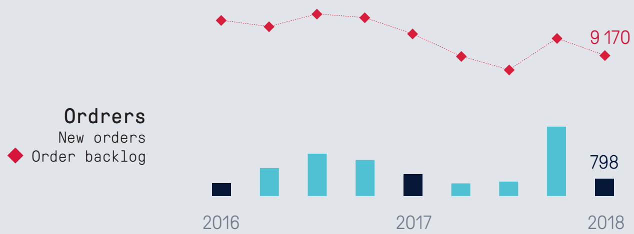
The defence market is characterised by relatively few, but large contracts. Hence, fluctuations in order intake are regarded to be normal. KONGSBERG expects a good order intake in the next few years as a result of the strong market position held by KDA in its segments. Investments in defence programmes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

Operating revenues
YTD by division



Order backlog
Breakdown by delivery dates





OUTLOOK

KONGSBERG has established important positions in recent years, both within the civilian and defence related areas. This bodes well for the future order intake, especially within the defence area, and it provides a solid foundation for long-term growth. The major restructurings done 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 specialized vessels. In 2018, operating revenues are expected to stabilise with some growth towards the end of the period. The margins may vary 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.

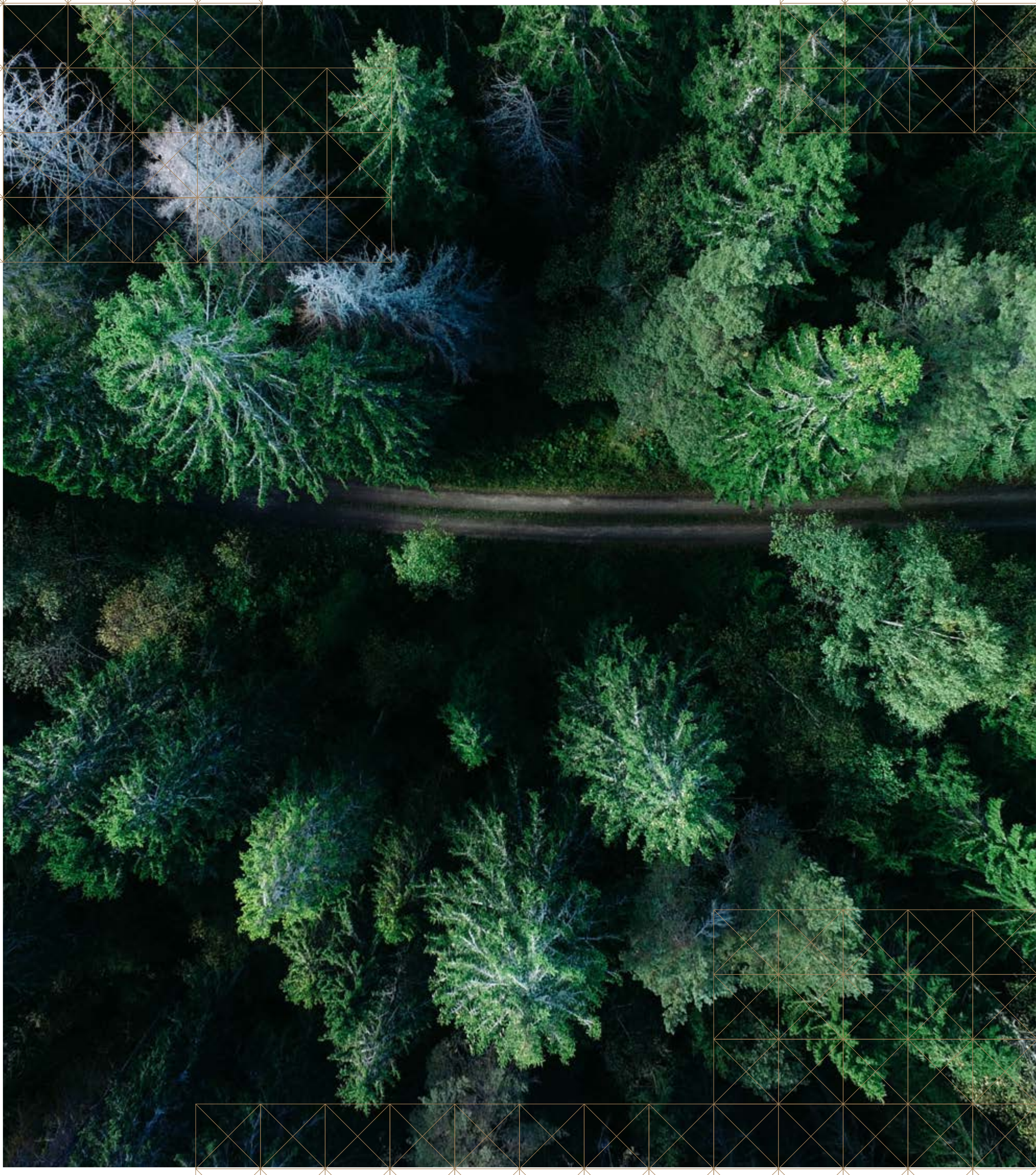
KDA has solid prospects for order intake in more or less the entire product portfolio. The Protech Systems division in KDA expects lower operating revenues in the last three quarters of the year, and in 2018 as a whole, due to a weak order backlog. Other divisions in KDA expect stable or growing operating revenues. Profitability is expected to remain at a good level.

Kongsberg Digital will in 2018 continue to focus on capturing new positions and strengthening existing ones related to 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, 14 May 2018

The Board in Kongsberg Gruppen ASA

NUMBERS & NOTES



Key figures by quarter

KONGSBERG	2018		2017					2016				
MNOK	*2018*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*	*2016*	*Q4*	*Q3*	*Q2*	*Q1*
Revenues	3 554	3 554	14 490	3 757	3 279	3 733	3 721	15 845	3 952	3 428	4 125	4 340
EBITDA	286	286	1 279	459	274	207	339	1 217	334	(40)	515	408
EBITDA %	8,0	8,0	8,8	12,2	8,4	5,5	9,1	7,7	8,5	(1,2)	12,5	9,4
New orders	2 939	2 939	13 430	5 015	2 429	2 535	3 451	14 319	3 012	4 067	3 491	3 749
Order backlog	14 814	14 814	15 629	15 629	14 298	15 308	16 672	16 914	16 914	17 858	18 069	18 718
EBIT	175	175	772	299	162	91	220	692	188	(162)	383	283
EBIT %	4,9	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*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*	*2016*	*Q4*	*Q3*	*Q2*	*Q1*
Revenues	1 796	1 796	7 429	1 877	1 815	1 969	1 768	8 597	2 059	1 849	2 294	2 395
EBITDA	134	134	589	228	161	60	140	226	55	(272)	206	237
EBITDA %	7,5	7,5	7,9	12,1	8,9	3,0	7,9	2,6	2,7	(14,7)	9,0	9,9
New orders	1 900	1 900	7 336	1 693	1 670	1 813	2 160	7 940	1 156	1 957	1 943	2 884
Order backlog	4 740	4 740	4 820	4 820	4 908	5 197	5 519	5 137	5 137	5 952	6 666	7 002
EBIT	93	93	368	146	117	13	92	18	(1)	(319)	154	184
EBIT %	5,2	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*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*	*2016*	*Q4*	*Q3*	*Q2*	*Q1*
Revenues	1 585	1 585	6 333	1 683	1 281	1 591	1 778	6 316	1 711	1 379	1 534	1 692
EBITDA	172	172	612	221	61	142	188	820	269	171	204	176
EBITDA %	10,9	10,9	9,7	13,1	4,8	8,9	10,6	13,0	15,7	12,4	13,3	10,4
New orders	798	798	5 376	3 168	648	559	1 001	5 426	1 632	1 932	1 276	586
Order backlog	9 170	9 170	9 956	9 956	8 476	9 115	10 150	10 910	10 910	11 055	10 491	10 756
EBIT	117	117	409	165	13	93	138	626	220	122	154	130
EBIT %	7,4	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

		1.1 - 31.3		
MNOK	*Note*	*2018*	*2017*	*2017*
Revenues	4	3 554	3 721	14 490
Operating expenses	7	(3 300)	(3 407)	(13 398)
Share of net income from joint arrangements and associated companies	5	32	25	187
EBITDA	**4, 11**	**286**	**339**	**1 279**
Depreciation of property, plant and equipment		(87)	(90)	(353)
Impairment of property, plant and equipment		-	-	(40)
EBITA	**4, 11**	**199**	**249**	**886**
Amortisation of intangible assets		(24)	(29)	(114)
EBIT	**11**	**175**	**220**	**772**
Net financial items	6	(31)	(32)	(118)
Earnings before tax (EBT)		**144**	**188**	**654**
Income tax expences	10	(28)	(41)	(95)
Earnings after tax		**116**	**147**	**559**
Attributable to:				
Equity holders of the parent		115	147	554
Non-controlling interests		1	-	5
Earnings per share (EPS)/EPS diluted in NOK		0,96	1,23	4,62

Condensed statement of comprehensive income

		1.1 - 31.3		
MNOK	*Note*	*2018*	*2017*	*2017*
Earnings after tax		116	147	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	110	(16)	509
Tax effect cash flow hedges (currency futures and interest rate swaps)		(25)	4	(124)
Translation differences and hedge of net investments (currency)		(172)	94	211
Total items to be reclassified to profit or loss in subsequent periods		**(87)**	**82**	**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 for the period		**29**	**229**	**1 097**

Condensed statement of financial status

MNOK	Note	31.3 2018	31.12* 2017
Property, plant and equipment		2 585	2 658
Intangible assets	7	2 778	2 803
Shares in joint arrangements and associated companies	5	3 326	3 358
Other non-current assets		195	204
Total non-current assets		**8 884**	**9 023**
Inventories	1,2	1 976	1 873
Trade receivables	1,2	2 621	2 755
Customer contracts, asset	1,2	3 496	3 498
Other current assets	1,2	634	571
Cash and cash equivalents		2 739	2 956
Total current assets		**11 466**	**11 653**
Total assets		**20 350**	**20 676**
Issued capital		982	982
Retained earnings		6 332	6 473
Fair value of financial instruments		(39)	(124)
Non-controlling interests		32	34
Total equity		**7 307**	**7 365**
Long-term interest-bearing loans	6	3 340	3 340
Other non-current liabilities and provisions	3	2 088	2 080
Total non-current liabilities and provisions		**5 428**	**5 420**
Customer contracts, liabilities	1,2	4 256	4 128
Other current liabilities and provisions	1,2	3 359	3 763
Total current liabilities and provisions		**7 615**	**7 891**
Total equity, liabilities and provisions		**20 350**	**20 676**
Equity ratio (%)		35,9	35,6
Net interest-bearing liabilities		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	31.3 2018	31.12 2017
Equity opening balance	7 365	6 725
Comprehensive income accumulated	29	1 097
Dividends	-	(450)
Treasury share	(84)	(2)
Dividends non-controlling interests	-	(3)
Change in non-controlling interests	(3)	(2)
Equity, closing balance	**7 307**	**7 365**

Condensed cash flow statement

		1.1 - 31.3		
MNOK	*Note*	*2018*	*2017*	*2017*
Earnings before interest, tax, depreciation and amortisation		286	339	1 279
Change in net current assets and other operating related items		(291)	181	1 620
Net cash flow from operating activities		**(5)**	**520**	**2 899**
Acquisition/disposal of property, plant and equipment		(46)	(90)	(328)
Net payment for the acquisition/disposal of available-for-sale-shares		-	-	(11)
Other investing activities including capitalised internally financed development		(20)	(54)	(189)
Net cash flow from investing activities		**(66)**	**(144)**	**(528)**
Net new loans raised		(1)	-	(740)
Net interests received (paid)		(28)	(29)	(110)
Net payments for the acquisition/disposal of treasury shares		(84)	(66)	(18)
Transactions with non-controlling interests		-	-	(3)
Dividends paid to equity holders of the parent		-	-	(450)
- of which dividends from treasury shares		-	-	2
Net cash flow from financing activities		**(113)**	**(95)**	**(1 319)**
Effect of changes in exchange rates on cash and cash equivalents		(33)	23	16
Net change in cash and cash equivalents		**(217)**	**304**	**1 068**
Cash and cash equivalents opening balance		**2 956**	**1 888**	**1 888**
Cash and cash equivalents closing balance		**2 739**	**2 192**	**2 956**

Note 1 | General information And principles

General information
The consolidated financial statements for Q1 (interim financial statements) apply to Kongsberg Gruppen ASA, its subsidiaries and shares in joint arrangements and associated companies that are included according to the equity method.

Principles
The interim financial statements have been prepared in compliance with IAS 34 (interim reporting), stock exchange regulations and according to the additional requirements in the Securities Trading Act. The interim financial statements do not include the same amount of information as the full financial statements and should be read in context of the consolidated financial statements for 2017. The consolidated financial statements for 2017 were prepared in compliance with the Norwegian Accounting Act and with international standards for financial reporting (IFRS) set 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 has 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 for Q1 2018 are prepared according to these accounting standards. Implementation of the new standards has not had a considerable effect on the profit and loss 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. Implementation of IFRS 9 has not involved any major changes compared to how the Group reported according to IAS 39.

IFRS 15 Revenue from contracts with customers
According to IFRS 15, revenue is recognised when the customer acquires control over goods or services, and it introduces a five-step method for estimating time of revenue. This includes an assessment of whether or not contracts are to be divided into part deliveries, price allocation for the deliveries and, if revenue is to be recognised during production or at 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 on how the standard affects the consolidated financial statements, and has come to the following conclusions:

- The Group did to a large extent recognise revenue according to the project's percentage of completion, in accordance with IAS 11, and progress of completion is normally calculated on the basis of costs incurred compared to total expected costs. KONGSBERG has maintained this practice through the implementation of IFRS 15 on 1 January 2018.

- Customer contracts that apply to delivery of several more or less identical units (serial delivery) are considered as a single performance obligation according to IFRS 15. The Group has some customer contracts of this kind, which in 2017 were considered as separate deliveries and recognised as revenue on delivery according to IAS 18. The change has no considerable impact on contracts that were delivered in 2017, but may have an effect on revenue recognition of customer contracts with serial deliveries in the future.
- IFRS 15 has more detailed provisions than IAS 11 and IAS 18. This applies to 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 extent.
- The standard contains new requirements for notes that will be implemented in the 2018 financial statements.

In connection with the implementation of IFRS 15, we have also revised the practice of the accounting principles in the segments. We have revised our definitions of the individual accounting lines in the working capital (see definition in note 11) and reclassifications were made that affected “Inventories”, “Trade receivables”, “Customer contracts, assets”, “Other current assets”, “Customer contracts, liabilities” and “Other current liabilities and provisions”, but not the 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	Økning/ (reduksjon)	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 the inventories has been 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
Trade receivables related to long-term production costs was until 1 January 2018 recognised to net value against recognised prepayments within the same contract. From 1 January 2018, trade receivables are reported to the value of invoiced outstanding amounts adjusted down for provisions to losses. The comparative figures have been changed and a reclassification has been done with the cross entry “Customer contracts, liabilities”.

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

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

e) Customer contracts, liabilities
All liability items related to customer contracts are gathered on this line, except for trade payable. Similar to assets, the balance sheet items for customer contracts that are recognised according to progress are presented together with the ones that are recognised on delivery. Revenue and cost accruals related to customer contracts that are recognised on delivery were reclassified from “Other current liabilities” when the comparison figures for 2017 were changed.

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

Note 3 | Estimates

Preparation of the interim financial statements involves assessments, estimates and assumptions that affect the use of accounting principles and recognised amounts on assets and liabilities, revenues and costs. Actual results may deviate from these estimates. The most important assessments in using the the Group’s accounting principles, and the biggest sources of uncertainty are the same as when the 2017 consolidated financial statements was prepared.

Note 4 | Segment information

	OPERATING REVENUES			EBITDA			EBIT		
	1.1. - 31.3.			1.1. - 31.3.			1.1. - 31.3.		
MNOK	*2018*	*2017*	*2017*	*2018*	*2017*	*2017*	*2018*	*2017*	*2017*
KM	1 796	1 768	7 429	134	140	589	93	92	368
KDA	1 585	1 778	6 333	172	188	612	117	138	409
Other	173	175	728	(20)	11	78	(35)	(10)	(5)
Group	**3 554**	**3 721**	**14 490**	**286**	**339**	**1 279**	**175**	**220**	**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 line "Shares in joint arrangements and associated companies" 1 January – 31 March:

NOK millioner	Owner-ship	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 31.3.18
Patria Oyj	49,9 %	2 806	-	-	5	(64)	2 747
Kongsberg Satellite Services AS	50,0 %	388	-	-	27	-	415
Other		164	-	-	-	-	164
Total		**3 358**	**-**	**-**	**32**	**(64)**	**3 326**

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

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	31.3.2018 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	2,26 %	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	1,93 %	550	550
Bond issue KOG11 - fixed interest rate	5.12.23	2,90 %	450	450
Other long-term loans [2]			79	80
Interest rate swaps			11	10
Total long-term loans			**3 340**	**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

Fair value of balances classified as cash flow hedges has increased by MNOK 110[2] before tax in the period 1 January – 31 March 2018. Change in fair value of forward exchange contracts represents an increase of MNOK 95 in the same period. Spot rates at the end of the quarter were USD/NOK 7.78 and EUR/NOK 9.64.

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 31.03.18* [1]	*Value based on agreed exchange rates*	*Fair value at 31.03.18* [1]	*VValue based on agreed exchange rates*	*Change in fair value from 31.12.17*	*Fair Value at 31.03.18* [1]
EUR	1 078	18	-	-	1 078	23	18
USD	1 551	68	(50)	(3)	1 501	55	65
Other	(637)	37	-	-	(637)	17	37
Sum	**1 992**	**123**	**(50)**	**(3)**	**1 942**	**95**	**120**
Roll-over of currency futures		(63)		(66)		(7)	(129)
Total	**1 992**	**60**	**(50)**	**(69)**	**1 942**	**88** [2]	**(9)**

[1] Fair value is calculated as the difference between the spot rate at 31 March 2018 and the forward rates on currency contracts.
[2] The difference between these two the figures, i.e. MNOK 22, 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 in profit and loss for the period:

	1.1. - 31.3.		
MNOK	*2018*	*2017*	*2017*
Product maintenance	74	86	272
Research and development cost	173	153	663
Total	247	239	935

Self-financed development recognised in the balance sheet for the period:

	1.1. - 31.3.		
MNOK	*2018*	*2017*	*2017*
Self-financed development	20	54	187

The largest capitalised projects are related to the development of JSM, weapon stations (including MCT-30) and remote towers for airports, all of them are within the defence division, and within the new integrated vessel solutions in KM.

Note 8 | Related parties

The Board is not aware of any changes or transactions in Q1 associated with related parties that in any significant way affects the Group's financial position and profit for the period.

Note 9 | Important risk and uncertainty factors

The Group's handling of different risks is described in the annual report for 2017. No new serious risks and uncertainty factors have been registered during this quarter.

Note 10 | Tax

The effective tax rate as of Q1 is calculated to 19.4 per cent. The effective tax rate is affected by the inclution of share of net income from associated companies after tax.

Note 11 | 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
KONGSBERG considers EBITDA/EBITA/EBIT 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 are part of the financial statements for 2017. The same applies to EBITA and EBIT.

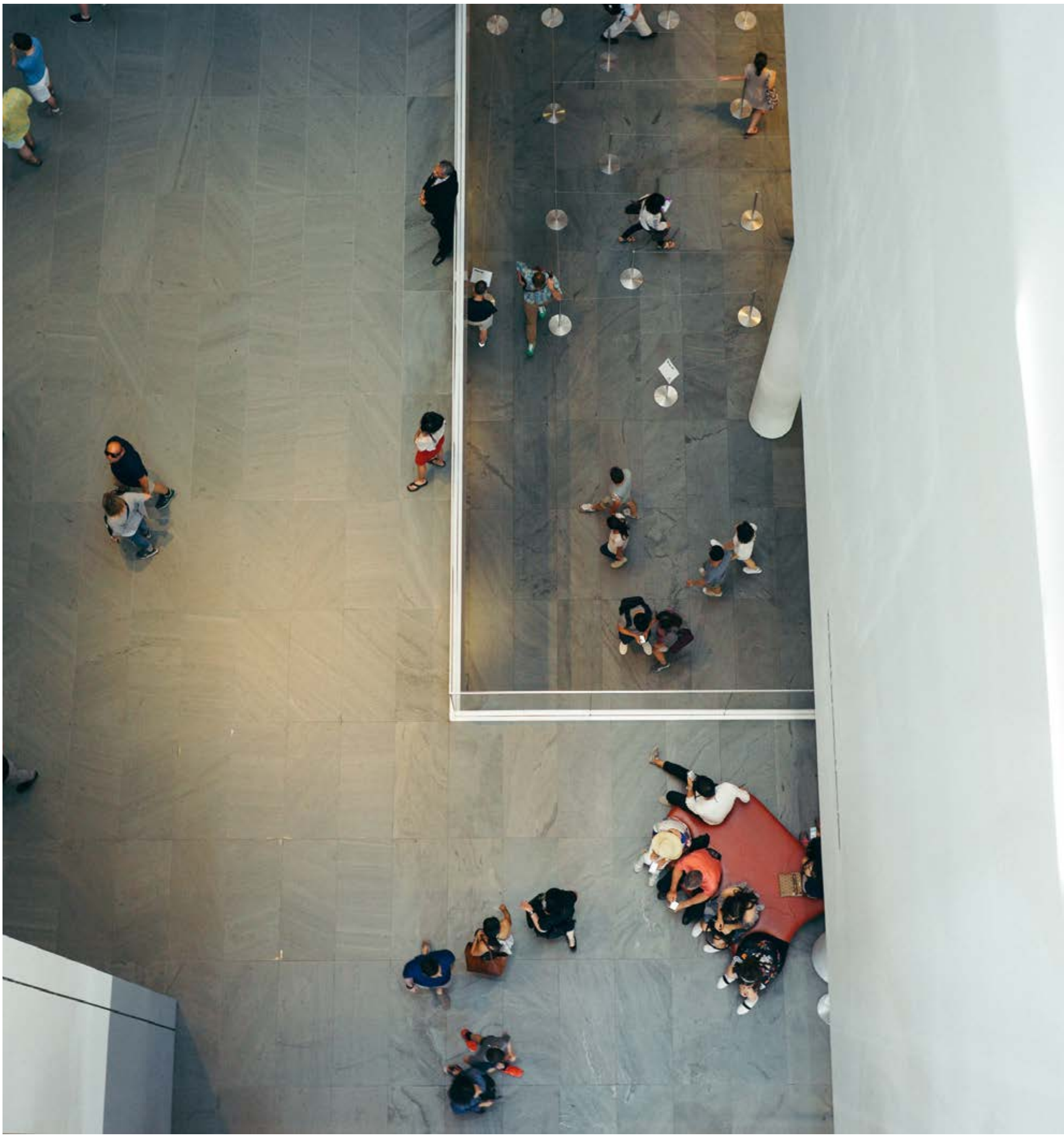
Net Interest-bearing debt
Net interest-bearing debt is the net amount of the accounting lines "Cash and cash equivalents", "Long-term interest-bearing loans" and "Short-term interest-bearing loans".

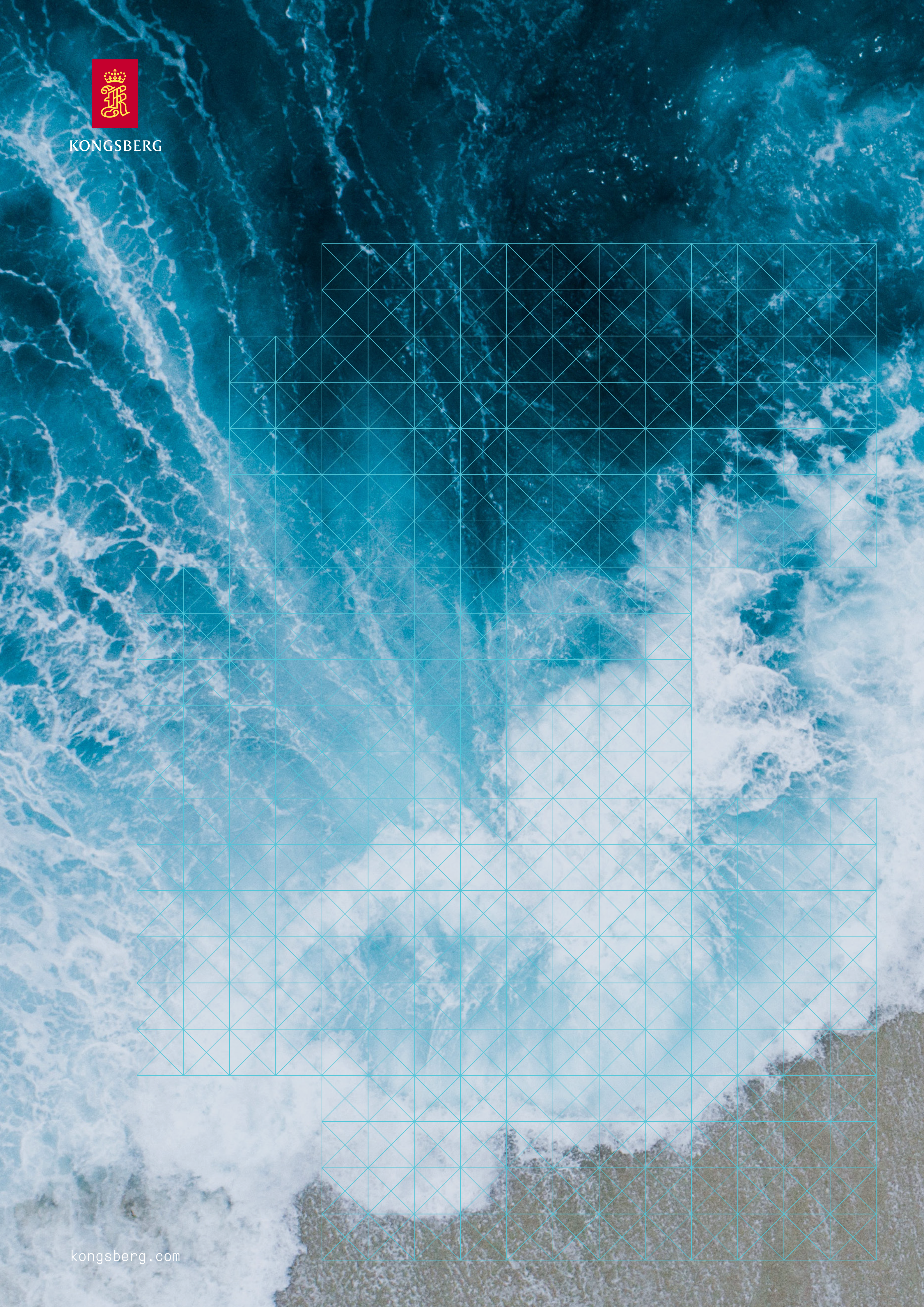
Restructuring costs
KONGSBERG defines restructuring costs as salaries and social security tax upon termination of employment (such as severance pay and gift pension) in connection with workforce reductions. In addition, comes house rent and related costs or any one-time payments upon termination of leases before the lease expiry for areas that are vacated, and certain other costs related to the restructuring processes.

Return on Average Capital Employed (ROACE)
ROACE is defined as 12 months rollover EBIT divided by 12 month average of the entered equity and net interest-bearing debt.

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

Book/bill
Order intake divided by operating revenues.





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