KONGSBERG

# QUARTERLY REPORT

## 1ST QUARTER 2017

# KOG

*The start of 2017 has seen a number of positive events, whilst at the same time certain markets continue to be challenging. In the defence area, both Germany and Australia have confirmed their interest in our missiles, and an important cooperation agreement for submarines has been signed with the world's leading submarine supplier, tkMS. Both will involve considerable activity for KONGSBERG in the next decades. This quarter, KM and KDI have signed several important contracts for new, innovative and digital solutions, thereby giving KONGSBERG a leading position when it comes to equipping existing and next generation of vessels.*

*Geir Håøy, President & CEO*

## HIGHLIGHTS

**KOG**

**KM** Operating revenues are 26.2 per cent down compared to Q1 last year. Positive cost development, but the market is still expected to be difficult with strong price pressure.

**KDS** Several important market events confirm KDS' strong position and further strengthen the long-term growth opportunities.

**KPS** Lower operating revenues compared to the same quarter last year, mainly as a result of lower delivery volumes. The order intake is still on a relatively low level.

**OTHER** The digital platform "Kognifai" was launched this quarter, and a collaboration agreement has been signed with Fred. Olsen Renewables and Statoil for test and verification of the solution at the Lista wind farm.

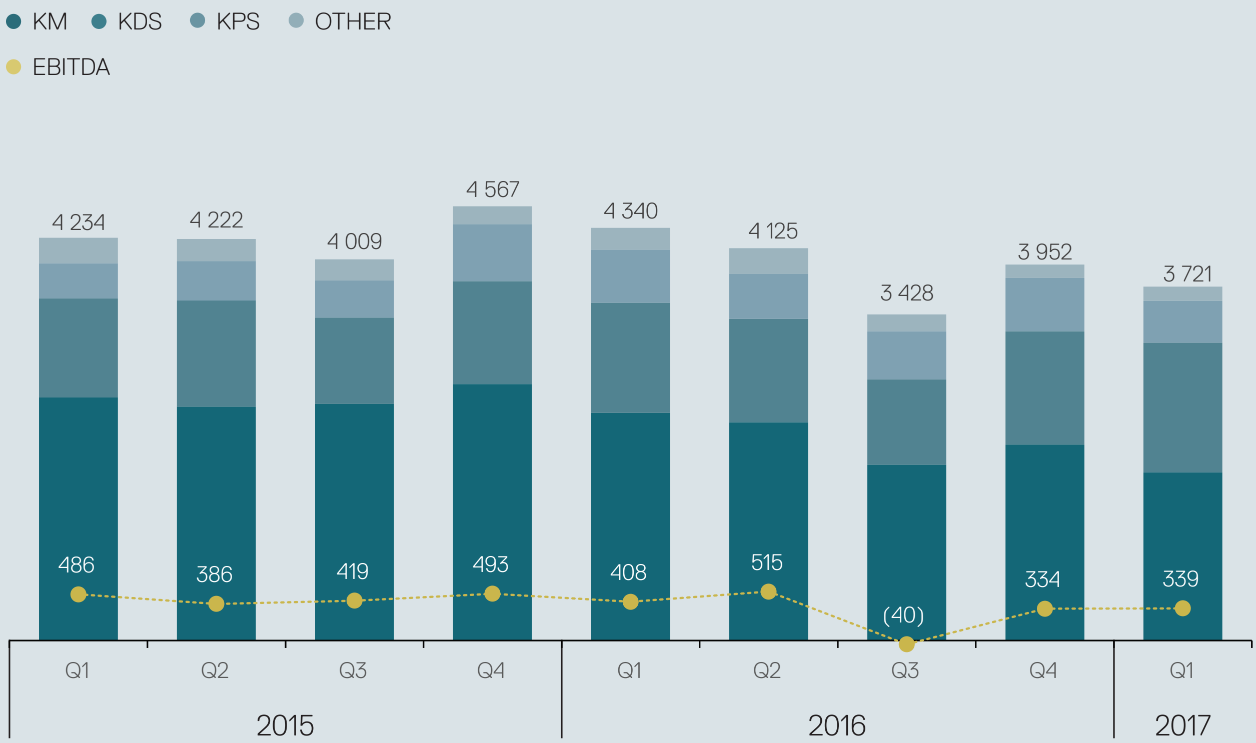
# KEY FIGURES

| | 1.1. - 31.3. | | |
|---|---|---|---|
| MNOK | **2017** | 2016 | 2016 |
| Operating revenues | **3 721** | 4 340 | 15 845 |
| EBITDA | **339** | 408 | 1 217 |
| EBITDA (%) | **9,1** | 9,4 | 7,7 |
| EBIT | **220** | 283 | 692 |
| EBIT (%) | **5,9** | 6,5 | 4,4 |
| Earnings before tax | **188** | 299 | 729 |
| Earnings after tax | **147** | 227 | 651 |
| EPS (NOK) | **1,23** | 1,91 | 5,44 |
| New orders | **3 451** | 3 749 | 14 319 |

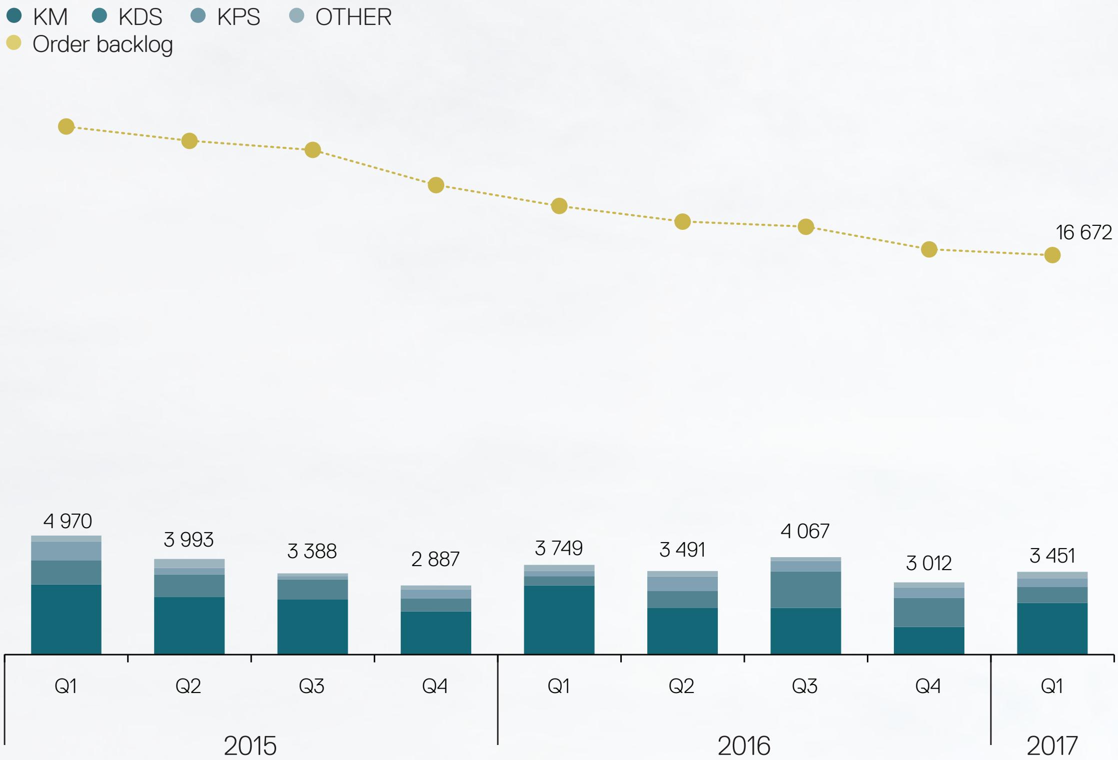
| | 31.3. | 31.12. |
|---|---|---|
| MNOK | **2017** | 2016 |
| Equity ratio (%) | **32,1** | 31,7 |
| Net interest-bearing debt | **1 898** | 2 195 |
| Working capital [1] | **3 064** | 3 468 |
| ROACE (%) [2] | **5,8** | 6,9 |
| Order backlog | **16 672** | 16 914 |
| No. of employees | **6 972** | 7 159 |

[1] *Current assets less current liabilities*
[2] *12 month rolling EBIT divided by 12 month average equity and interest bearing debt*

# OPERATING REVENUES & EBITDA

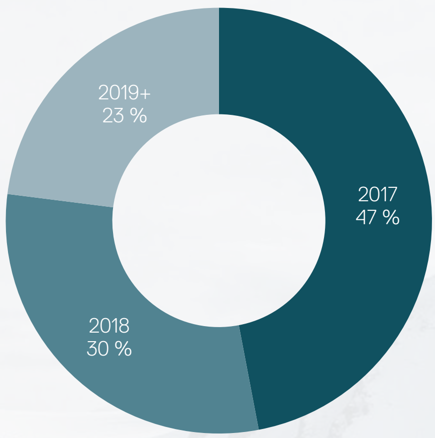


## NEW ORDERS & BACKLOG

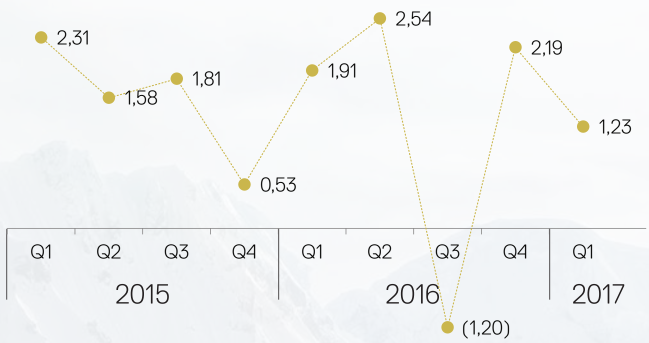



## ORDER BACKLOG

Breakdown by delivery dates




## EPS



# PERFORMANCE, MARKET AND ORDERS

Group operating revenues for Q1 in are MNOK 3,721, which is 14.3 per cent down compared to the same quarter last year. KM's operating revenues are down 26.2 per cent compared to the same quarter last year, which is mainly because of a reduction in product deliveries to the offshore market. Larger integrated solutions (EIT/EPC) see growth, while the underwater segment and the after-market are more or less at the same level as the same quarter last year. KPS has a reduction of 21.5 per cent from Q1 last year, mainly due to lower delivery volumes for weapon stations. KDS has growth in all divisions, amounting to a 18.1 per cent growth compared to the same quarter last year.

The quarterly EBITDA margin is 9.1 per cent. KM's margin is lower compared to Q1 last year but higher than the two last quarters. KPS is at the same level as the preceding quarters but lower than Q1 last year when reversals of provisions amounted to MNOK 38. KDS has a higher margin than Q1 last year but somewhat lower than the three preceding quarters. This is mainly a result of the negative share of net income from Patria of MNOK 2 after amortisation of excess values. The low quarterly result in Patria is primarily due to delayed deliveries in certain projects in the armoured wheeled vehicle business.

The new orders in Q1 was MNOK 3,451, which gives a book/bill of 0.93. The order backlog at the end of the quarter is MNOK 16,672.

# CASH FLOW

KONGSBERG has a net increase in cash and cash equivalents in Q1 of MNOK 304, and a net cash flow from operating activities of MNOK 520. Working capital is reduced by MNOK 404 in the quarter.

| | 1.1. - 31.3. | | |
|---|---|---|---|
| MNOK | **2017** | 2016 | 2016 |
| EBITDA | **339** | 408 | 1 217 |
| Change in net current assets and other operating related items | **181** | (520) | (408) |
| **Net cash flow from operating activities** | **520** | **(112)** | **809** |
| Net cash flow from investing activities | **(144)** | (243) | (3 343) |
| Net cash flow used in financing activities | **(95)** | (52) | 2 668 |
| Effect of changes in exchange rates on cash and cash equivalents | **23** | (32) | (53) |
| **Net change in cash and cash equivalents** | **304** | **(439)** | **81** |

# BALANCE SHEET

In Q1, KONGSBERG signed a NOK 2,3 billion credit facility with a syndicate of five banks. The new facility has a tenor of five years, with two one-year extension options. The credit facility requires that net interest-bearing debt does not exceed 4 times EBITDA, but can be up to 4.5 times EBITDA for a maximum of four quarters, of which three quarters may be consecutive. The new credit facility, which is for general corporate purposes, replaced an existing syndicated credit facility of NOK 1.5 billion held by the Group since 2014.

Interest-bearing debt at the end of Q1 consists mainly of six bond loans amounting to MNOK 3,507 and a remainder of MEUR 53 on the bridge facility that was established in connection with the purchase of the shares in Patria Oyj in 2016. The bridge facility was redeemed in April 2017. See Note 5 as well. At the end of Q1, the group has MNOK 2,192 in cash and cash equivalents and a net interest-bearing debt of MNOK 1,898.

In addition, the group has the syndicated credit facility of NOK 2.3 billion and an overdraft of MNOK 500. At the end of Q1, these had not been drawn upon.

The equity ratio at the end of Q1 is 32.1 per cent. The equity book value is up by MNOK 162 this quarter.

| | 31.3. | 31.12. |
|---|---|---|
| MNOK | **2017** | 2016 |
| Equity | **6 887** | 6 725 |
| Equity ratio (%) | **32,1** | 31,7 |
| Total assets | **21 482** | 21 196 |
| Working capital | **3 064** | 3 468 |
| Gross interest-bearing liabilities | **4 090** | 4 083 |
| Cash and cash equivalents | **2 192** | 1 888 |
| Net interest-bearing liabilities | **1 898** | 2 195 |

# 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 according to the established policy (cash flow hedges). In this manner, the Group seeks to mitigate the effects of currency fluctuations over a period of up to two years. The weakening of the NOK is in general positive for KONGSBERG, but the effect will become apparent over time as the signed currency contracts mature. At the end of the quarter, the company's portfolio of cash flow hedges has a real value of minus MNOK 704, which has a negative impact on the equity book value. See Note 5 as well.

# PRODUCT DEVELOPMENT

KONGSBERG continuously invests in product development, both through internally financed and customer-funded programmes. The Group has expensed MNOK 239 in Q1 for product development and maintenance. In addition, MNOK 54 has been capitalised. Self-financed product development and maintenance in Q1 amounted to MNOK 293. See the table in Note 6.

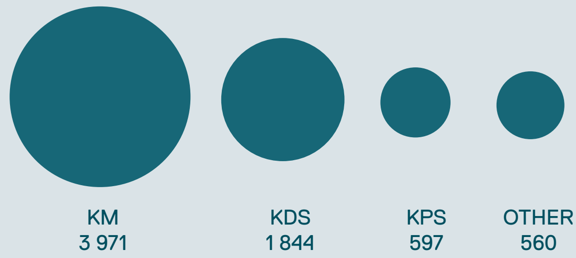
The largest capitalised projects are related to the development of the JSM missile, weapon stations (including the MCT-30) and remote towers for airports, all of which are within the defence segment.

Customer-financed development comes in addition, either as part of delivery projects or as specific development assignments. Over time, the total costs of product development and maintenance amount to about 10 per cent of the operating revenues.

## HUMAN RESOURCES

KONGSBERG has 6,972 employees at the end of the quarter, with about 35 per cent of them being employed in companies outside of Norway. The number of employees has been reduced by 187 this quarter, mainly due to workforce reductions in KM.

### NUMBER OF EMPLOYEES BY AREA




## OTHER ACTIVITIES

Other activities consist of Kongsberg Digital (KDI) in addition to eliminations and external operating revenues from the real estate business.

KDI was established in 2016 as an important step in the development of the next generation of digital products and services. The main focus has so far been on developing the digital platform "Kognifai", which was launched in Q1. Moreover, building the organisation and positioning within central markets such as oil and gas, maritime and energy have been prioritised tasks. A collaboration agreement has been signed with Fred. Olsen Renewables and Statoil for test and verification of "Kognifai" at the Lista wind farm.

## OTHER MATTERS

*Eirik Lie appointed President of KDS*

On 5 January 2017, Eirik Lie was appointed President of KDS. Lie has been acting in the position since August 2016 and assumed the position immediately. He will also be part of the corporate management team. Lie holds a background as a software engineer and has worked within the KONSBERG's defence business his entire career. Lie has since 2006 headed the Integrated Defence Systems division. Prior to this, he has, amongst others, experience from working in the USA, as a specialist on air defence systems and as head of development.

*Harald Aarø appointed Acting Chief Financial Officer*

In March, Hans-Jørgen Wibstad decided to resign as Chief Financial Officer to pursue new opportunities outside of KONGSBERG. The process of finding his successor is underway. Harald Aarø, Executive Vice President Business Development, is appointed acting CFO with effect from 1 April 2017. Aarø has been part of the corporate management team since August 2015.

# KM

| | 1.1. - 31.3. | | |
|---|---|---|---|
| MNOK | **2017** | 2016 | 2016 |
| Revenues | **1 768** | 2 395 | 8 597 |
| EBITDA | **153** | 250 | 280 |
| EBITDA (%) | **8,7** | 10,4 | 3,3 |
| New orders | **2 160** | 2 884 | 7 940 |

| | 31.3. | 31.12. |
|---|---|---|
| MNOK | **2017** | 2016 |
| Order backlog | **5 519** | 5 137 |
| No. of employees | **3 971** | 4 157 |

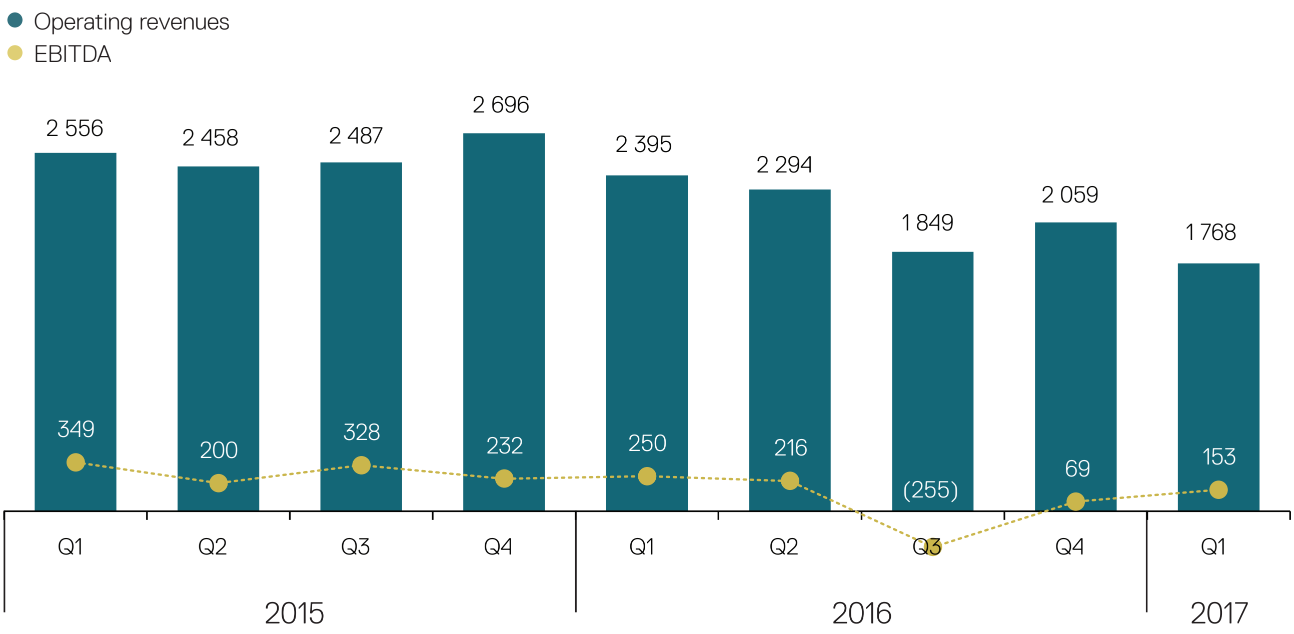
## PERFORMANCE

Q1 operating revenues were MNOK 1,768, which is down 26.2 per cent compared to the same quarter last year. The reduction in operating revenues is mainly due to a lower volume of product deliveries to the offshore market. Larger integrated solutions (EIT/EPC) are still seeing growth, while the underwater segment and the after-market is more or less at the same level as the corresponding quarter last year.

Quarterly EBITDA is MNOK 153, corresponding to an EBITDA margin of 8.7 per cent. This is down compared to Q1 last year but higher than the two preceding quarters. The effect of the implemented cost reductions over the last quarters is the main reason for the positive margin development.

KM is exposed to the weak offshore, oil and gas market and has made considerable organisational and capacity adjustments during 2015 and 2016. The market is still challenging. However, as a result of the big changes that have been carried out already,

## OPERATING REVENUES & EBITDA



or ones that are still in progress, both the organisation and the business model are more robust and better adjusted to the current market situation.

As of 1 January 2017, a new function based organisation took effect, bringing together and focusing product management with a clear focus on increased efficiency of maritime operations. This will contribute to a more integrated prioritisation of development resources, and a more accurate and future-oriented focus with fewer parallel products and systems compared to the previous market-based organisation.

## MARKET AND ORDERS

The new orders in Q1 was MNOK 2,160, which gives a book/bill of 1.22. The order intake is especially strong within the underwater segment. The largest single contract in the quarter was for the delivery of four complete AUV systems (autonomous underwater vehicles) to the Norwegian Armed Forces worth MNOK 155.

Expanded scope of delivery has been an important area of focus for KM in recent years. The Triangle concept, where KM has launched its own energy solution, is one example of this. These are deliveries where KM's scope is significantly larger. The order intake within this segment has larger quarterly fluctuations than what has usually been the case for KM.

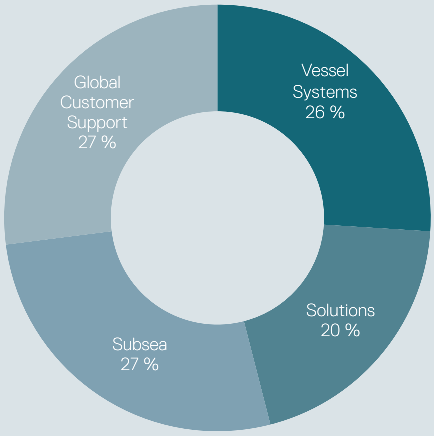
Significant investments are being made in the development of new prioritised products and solutions in existing and new markets. An important area for KM is the next generation of digital vessel solutions, including information management, automation, autonomy and more environmentally efficient solutions. KM has recently taken several important positions within digital development, including:

- "Remote Services", which means that a number of service tasks can be carried out virtually, without having to visit the vessel. Following the launch in 2015, more than 600 vessels can now be serviced in this way. This implies cost reductions both for the customer and KM. The share of service tasks that are carried out via Remote Services is still low, but increasing.
- KM signed its first "Walk to Work" contract this quarter. "Walk to Work" is a gangway system for transporting personnel between vessels and offshore installations, such as windmills. The gangway is integrated with dynamic positioning and the Kongsberg Information Management System, and contributes to better safety and considerable efficiency gains.

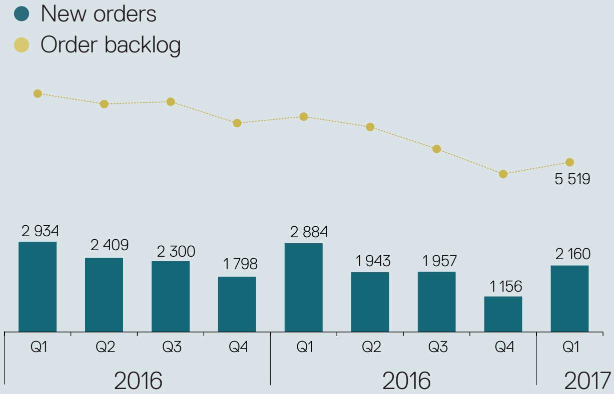
KM's after-market revenues are not included in the business area's order backlog. KM has a well-established after-market network that serves more than 18,000 vessels with KM equipment, and the after-market activities amount to around a third of KM's turnover.

## OPERATING REVENUES

YTD by segment

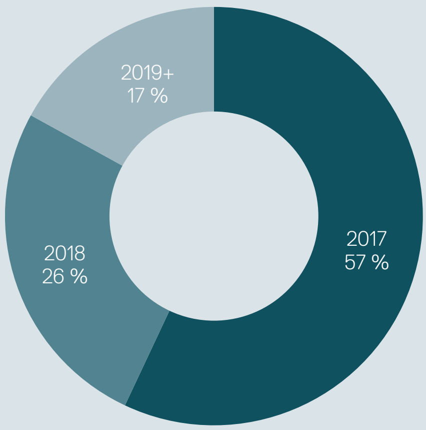



## ORDERS




## ORDER BACKLOG

Breakdown by delivery dates



# KDS

| | 1.1. - 31.3. | | |
|---|---|---|---|
| MNOK | **2017** | 2016 | 2016 |
| Revenues | **1 365** | 1 156 | 4 336 |
| EBITDA | **187** | 142 | 801 |
| EBITDA (%) | **13,7** | 12,3 | 18,5 |
| New orders | **669** | 385 | 3 819 |

| | 31.3. | 31.12. |
|---|---|---|
| MNOK | **2017** | 2016 |
| Order backlog | **7 394** | 8 076 |
| No. of employees | **1 844** | 1 837 |

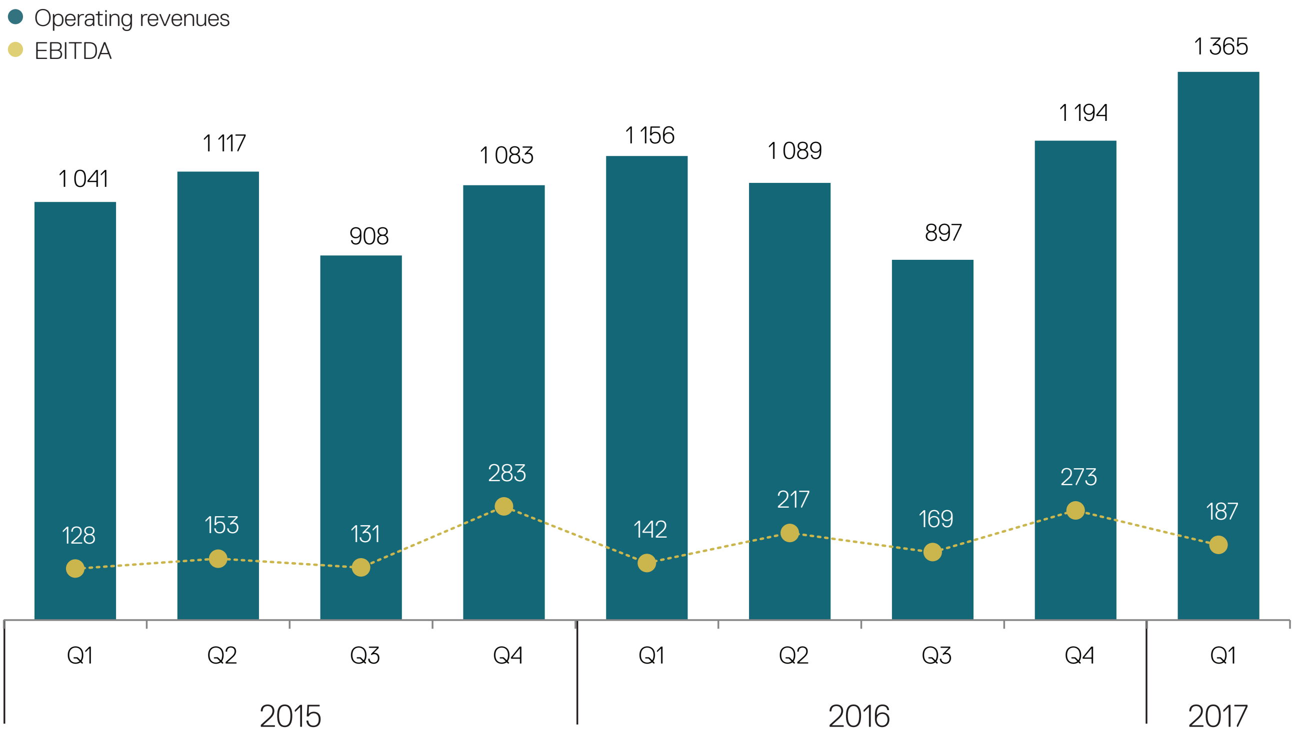
## PERFORMANCE

Q1 operating revenues were MNOK 1,365, which is up 18.1 per cent compared to the same quarter last year. All divisions see growth.

EBITDA is MNOK 187, corresponding to an EBITDA margin of 13.7 per cent. All divisions have results on par with, or better than, the same quarter last year. EBITDA includes a negative share of net income from Patria of MNOK 2. The low quarterly result in Patria is primarily due to delayed deliveries in certain projects in the armoured wheeled vehicle business.

The large delivery projects and development projects are on schedule.

## OPERATING REVENUES & EBITDA



# MARKET AND ORDERS

The amount for new orders in Q1 was MNOK 669. No large single contracts have been booked this quarter. However, several important market events confirms KONGSBERG's strong position and growth potential, and can lead to order intake worth billions of NOK in the years to come:

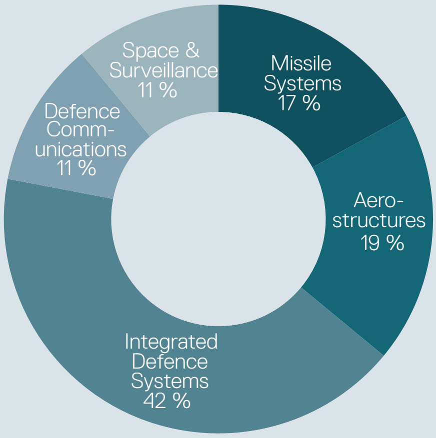
- The Norwegian Ministry of Defence announced this quarter their decision to carry out the Army Mobile Ground Based Air Defence project in a direct acquisition with KONGSBERG. The Norwegian Defence Materiel Agency will initiate the acquisition process with KONGSBERG to define the final configuration and system solution before the delivery contract is signed. The deliveries are planned for 2018 to 2021.
- The Norwegian Government announced this quarter that Germany is chosen as strategic partner for new submarines, and that a comprehensive industrial cooperation on submarine and missile deliveries will be initiated. This entails that the German Navy intends to acquire a significant number of Naval Strike Missiles (NSM) for its vessels, and that Norwegian industry will be a key supplier to the submarine's combat system. As a result of this, KONGSBERG has teamed up with the world's leading supplier of conventional submarines, thyssenkrupp Marine Systems (tkMS), and Atlas Elektronik to establish a joint venture that will be the international strategic and exclusive supplier of combat systems for all tkMS' submarines.
- In early Q2, KONGSBERG announced that a contract had been entered into with the Australian Department of Defence for integration of a new sensor capability in Joint Strike Missile (JSM). The contract has a value of MNOK 150.
- In early Q2, Australian authorities announced that they will be acquiring NASAMS for the Australian Army through a Single Supplier Limited Tender process to Raytheon Australia, with KONGSBERG as the main sub-supplier.

KDS has a product portfolio that is well positioned to meet future needs and expected market development. There is considerable international interest in KONGSBERG's missiles and air defence systems, something that is confirmed by the decisions made by German and Australian authorities this quarter. There is high market activity in relation to several large programmes both in Europe, the USA and Asia. KONGSBERG is the largest supplier of equipment and services for the space industry in the Nordic region, and the activity in this segment is growing.

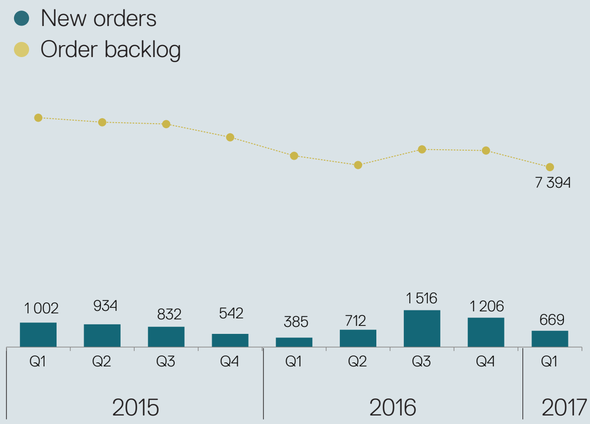
The defence market is characterised by relatively few, but large contracts. Hence, fluctuations in amount of new orders are regarded to be normal. Decisions about defence investments are often time consuming. The customers of large defence systems are the defence authorities in the countries in question. These customers consider national security and domestic economic development as significant factors, in addition to product price and performance, when purchasing defence equipment.

## OPERATING REVENUES

YTD by segment

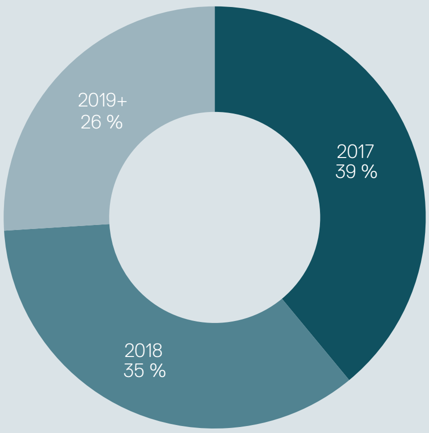



## ORDERS




## ORDER BACKLOG

Breakdown by delivery dates



# KPS

| | 1.1. - 31.3. | | |
|---|---|---|---|
| MNOK | **2017** | 2016 | 2016 |
| Revenues | **439** | 559 | 2 096 |
| EBITDA | **26** | 59 | 126 |
| EBITDA (%) | **5,9** | 10,6 | 6,0 |
| New orders | **355** | 223 | 1 705 |

| | 31.3. | 31.12. |
|---|---|---|
| MNOK | **2017** | 2016 |
| Order backlog | **2 829** | 2 912 |
| No. of employees | **597** | 600 |

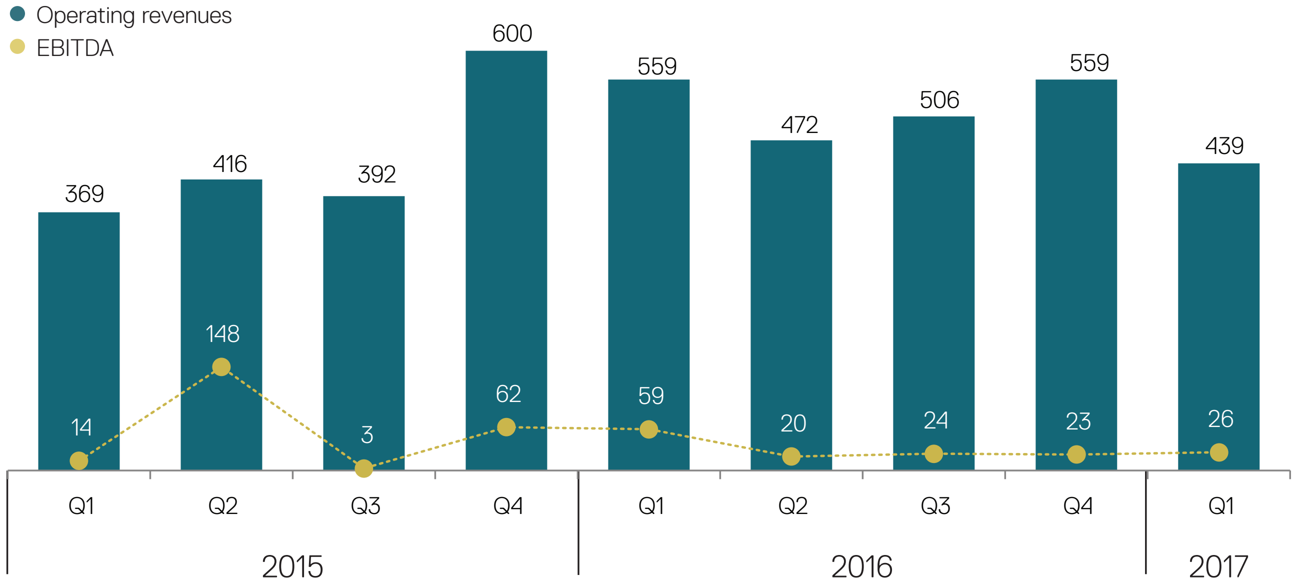
## PERFORMANCE

KPS has operating revenues of MNOK 439 in Q1, which is 21.5 per cent down compared to the same quarter last year, mainly due to lower delivery volumes for weapon stations.

EBITDA is MNOK 26, corresponding to an EBITDA margin of 5.9 per cent. The reduction compared to the same quarter last year is mainly due to reversals of provisions amounting to MNOK 38 in 2016. Activity is high within market and product development, especially in connection with the medium calibre investment that will deliver an important contribution to the business area's development in the years to come.

Almost 150 weapon stations were delivered to six different customers this quarter.

## OPERATING REVENUES & EBITDA



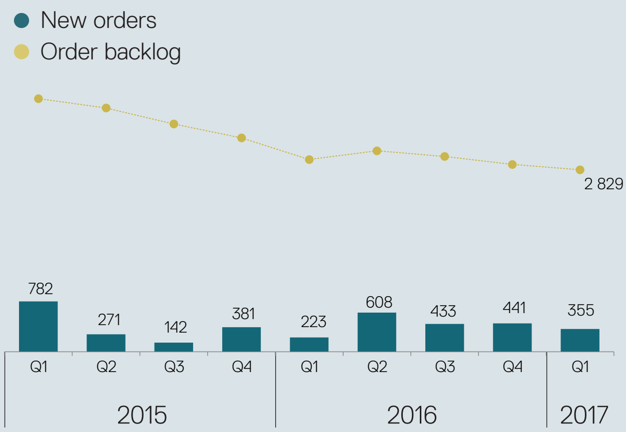
MCT-30 assembly has now been moved to KPS' facilities in Johnstown, Pennsylvania, USA, which will assemble the rest of the deliveries in the Stryker programme. The latest system under the current contract is scheduled for delivery to the customer in Q2 2018.

## MARKET AND ORDERS

The amount for new orders in Q1 was MNOK 355. The biggest individual contract was for the delivery of the PROTECTOR Remote Weapon Station (RWS) to the Swiss Armed Forces. The remote weapon station set to be delivered under this contract is an updated configuration with new advanced capabilities for new platforms.

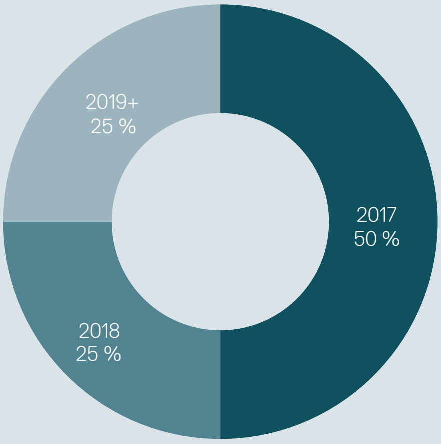
During the last 15 years, KPS has grown to become the world's leading supplier of remotely controlled weapon stations. More than 18,500 systems have been sold to customers in 18 countries. The US Army is, both directly and via vehicle suppliers, the largest customer. In 2017 the work continues to maintain KPS's position in the USA in order to ensure continued contracts for CROWS after 2017. At the same time there will be a continued focus on growth in the after market and on establishing new positions in the market for RWS outside of the USA.

## ORDERS




## ORDER BACKLOG

Breakdown by delivery dates



# PARTIALLY OWNED COMPANIES

## PATRIA

Patria is Finland's leading supplier of technology solutions and maintenance services within defence, security and aviation. The company has an international organisation with about 2,800 employees and owns 50 per cent of the shares in Nammo. KONGSBERG owns 49.9 per cent of the shares in Patria.

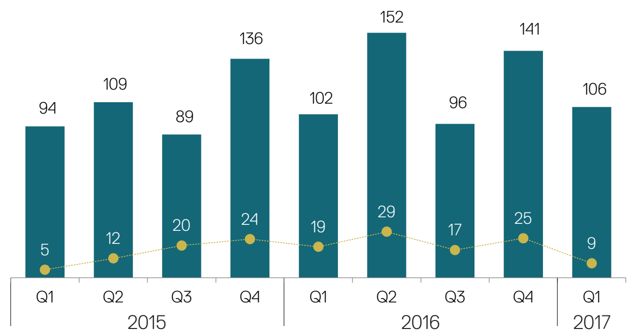
### HIGHLIGHTS

- A weaker quarterly result than the same quarter last year, mainly due to delayed deliveries in certain projects in the armoured wheeled vehicle business.
- Operating revenues are on par with the corresponding quarter in 2016.
- Good order intake in the quarter, mainly within maintenance.

### OPERATING REVENUES & EBITDA

MEUR

- Operating revenues
- EBITDA




### KEY FIGURES

| | 1.1. - 31.3. | | |
|---|---|---|---|
| MEUR | **2017** | 2016 | 2016 |
| Operating revenues | **106** | 102 | 490 |
| EBITDA | **9** | 19 | 90 |
| EBITDA (%) | **8** | 19 | 18 |
| Net income after tax | **3** | 12 | 63 |
| Order income | **120** | 100 | 269 |
| Order backlog | **871** | 1 055 | 858 |

### BRIDGE BETWEEN EBITDA AND KONGSBERG'S SHARE OF NET INCOME AFTER TAX

| | 1.1. - 31.3. | |
|---|---|---|
| Millions | EUR | NOK |
| EBITDA | 9 | |
| Financial items, taxes, depreciations and amortisation | (6) | |
| Net income after tax | 3 | |
| KONGSBERG's share of net income in the period (49.9 %) [1] | | 9 |
| Amortisation of excess values after tax | | (11) |
| **Share of net income recognised in KDS for the period** | | **(2)** |

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

# OUTLOOK

Kongsberg Maritime experienced a sharp drop in new contracts for deliveries to new offshore vessels in 2016, and significantly lower activity in this segment. Order intake in the subsea segment and orders for more complex EIT/EPC deliveries were good in 2016, and a positive trend is expected in these areas for 2017 as well. The underlying earning levels depend on the project mix, market conditions and the implementation of the extensive reorganisation that the business area has initiated. Further adjustments to the cost base are continuously considered on the basis of the market situation and can potentially lead to restructuring costs also in 2017. Lower operating revenue is expected for 2017 compared with 2016, and there are still uncertainties relating to parts of the order backlog.

Kongsberg Defence Systems is well positioned in its niches in a generally stronger defence market. The development in Q1 of 2017 confirms KDS' strong position and growth opportunities. The order coverage for 2017 is very good, which provides the basis for somewhat increased revenues in 2017.

Kongsberg Protech Systems has a strong market position with its product portfolio. Investment decisions in the remote weapon station market have generally taken longer in recent years. The long-term growth potential for KPS is considerable, but no growth is expected for 2017. Total operating revenues for the three last quarters of 2017 are expected to be at the same level as the corresponding period in 2016.

As part of the Group's strategy for developing the next generation of digitalised products and services, Kongsberg Digital was established in 2016. In 2017 the main focus for KDI is still building up and developing the business. No significant profit contribution is expected from KDI in 2017.

Kongsberg, 11 May 2017

The Board in Kongsberg Gruppen ASA

| KOG | 2017 | | 2016 | | | | | 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MNOK | **2017** | Q1 | **2016** | Q4 | Q3 | Q2 | Q1 | **2015** | Q4 | Q3 | Q2 | Q1 |
| Revenues | **3 721** | 3 721 | **15 845** | 3 952 | 3 428 | 4 125 | 4 340 | **17 032** | 4 567 | 4 009 | 4 222 | 4 234 |
| EBITDA | **339** | 339 | **1 217** | 334 | (40) | 515 | 408 | **1 784** | 493 | 419 | 386 | 486 |
| EBITDA % | **9,1** | 9,1 | **7,7** | 8,5 | (1,2) | 12,5 | 9,4 | **10,5** | 10,8 | 10,5 | 9,1 | 11,5 |
| New orders | **3 451** | 3 451 | **14 319** | 3 012 | 4 067 | 3 491 | 3 749 | **15 238** | 2 887 | 3 388 | 3 993 | 4 970 |
| Order backlog | **16 672** | 16 672 | **16 914** | 16 914 | 17 858 | 18 069 | 18 718 | **19 597** | 19 597 | 21 059 | 21 439 | 22 033 |
| EBITA | **249** | 249 | **835** | 220 | (125) | 422 | 318 | **1 405** | 387 | 320 | 299 | 399 |
| EBITA % | **6,7** | 6,7 | **5,3** | 5,6 | (3,6) | 10,2 | 7,3 | **8,2** | 8,5 | 8,0 | 7,1 | 9,4 |

| KM | 2017 | | 2016 | | | | | 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MNOK | **2017** | Q1 | **2016** | Q4 | Q3 | Q2 | Q1 | **2015** | Q4 | Q3 | Q2 | Q1 |
| Revenues | **1 768** | 1 768 | **8 597** | 2 059 | 1 849 | 2 294 | 2 395 | **10 197** | 2 696 | 2 487 | 2 458 | 2 556 |
| EBITDA | **153** | 153 | **280** | 69 | (255) | 216 | 250 | **1 109** | 232 | 328 | 200 | 349 |
| EBITDA % | **8,7** | 8,7 | **3,3** | 3,4 | (13,8) | 9,4 | 10,4 | **10,9** | 8,6 | 13,2 | 8,1 | 13,7 |
| New orders | **2 160** | 2 160 | **7 940** | 1 156 | 1 957 | 1 943 | 2 884 | **9 441** | 1 798 | 2 300 | 2 409 | 2 934 |
| Order backlog | **5 519** | 5 519 | **5 137** | 5 137 | 5 952 | 6 666 | 7 002 | **6 791** | 6 791 | 7 485 | 7 412 | 7 751 |
| EBITA | **109** | 109 | **95** | 17 | (293) | 170 | 201 | **909** | 178 | 271 | 155 | 305 |
| EBITA % | **6,2** | 6,2 | **1,1** | 0,8 | (15,8) | 7,4 | 8,4 | **8,9** | 6,6 | 10,9 | 6,3 | 11,9 |

| KDS | 2017 | | 2016 | | | | | 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MNOK | **2017** | Q1 | **2016** | Q4 | Q3 | Q2 | Q1 | **2015** | Q4 | Q3 | Q2 | Q1 |
| Revenues | **1 365** | 1 365 | **4 336** | 1 194 | 897 | 1 089 | 1 156 | **4 149** | 1 083 | 908 | 1 117 | 1 041 |
| EBITDA | **187** | 187 | **801** | 273 | 169 | 217 | 142 | **695** | 283 | 131 | 153 | 128 |
| EBITDA % | **13,7** | 13,7 | **18,5** | 22,9 | 18,8 | 19,9 | 12,3 | **16,8** | 26,1 | 14,4 | 13,7 | 12,3 |
| New orders | **669** | 669 | **3 819** | 1 206 | 1 516 | 712 | 385 | **3 310** | 542 | 832 | 934 | 1 002 |
| Order backlog | **7 394** | 7 394 | **8 076** | 8 076 | 8 124 | 7 481 | 7 861 | **8 622** | 8 622 | 9 163 | 9 238 | 9 425 |
| EBITA | **151** | 151 | **669** | 239 | 135 | 184 | 111 | **590** | 260 | 101 | 126 | 103 |
| EBITA % | **11,1** | 11,1 | **15,4** | 20,0 | 15,1 | 16,9 | 9,6 | **14,2** | 24,0 | 11,1 | 11,3 | 9,9 |

| KPS | 2017 | | 2016 | | | | | 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MNOK | **2017** | Q1 | **2016** | Q4 | Q3 | Q2 | Q1 | **2015** | Q4 | Q3 | Q2 | Q1 |
| Revenues | **439** | 439 | **2 096** | 559 | 506 | 472 | 559 | **1 777** | 600 | 392 | 416 | 369 |
| EBITDA | **26** | 26 | **126** | 23 | 24 | 20 | 59 | **227** | 62 | 3 | 148 | 14 |
| EBITDA % | **5,9** | 5,9 | **6,0** | 4,1 | 4,7 | 4,2 | 10,6 | **12,8** | 10,3 | 0,8 | 35,6 | 3,8 |
| New orders | **355** | 355 | **1 705** | 441 | 433 | 608 | 223 | **1 576** | 381 | 142 | 271 | 782 |
| Order backlog | **2 829** | 2 829 | **2 912** | 2 912 | 3 036 | 3 124 | 2 989 | **3 325** | 3 325 | 3 541 | 3 790 | 3 935 |
| EBITA | **17** | 17 | **89** | 13 | 16 | 10 | 50 | **177** | 50 | (9) | 135 | 1 |
| EBITA % | **3,9** | 3,9 | **4,2** | 2,3 | 3,2 | 2,1 | 8,9 | **10,0** | 8,3 | (2,3) | 32,5 | 0,3 |

# CONDENSED INCOME STATEMENT

| | | 1.1. - 31.3. | | |
|---|---|---|---|---|
| MNOK | Note | **2017** | 2016 | 2016 |
| Revenues | 3 | **3 721** | 4 340 | 15 845 |
| Operating expenses | 6 | **(3 407)** | (3 951) | (14 858) |
| Share of net income from joint arrangements and associated companies | 4 | **25** | 19 | 230 |
| **EBITDA** | 3, 10 | **339** | **408** | **1 217** |
| Depreciation | | **(90)** | (90) | (360) |
| Impairment | | **-** | - | (22) |
| **EBITA** | 3, 10 | **249** | **318** | **835** |
| Amortisation | | **(29)** | (35) | (140) |
| Impairment | | **-** | - | (3) |
| **EBIT** | 10 | **220** | **283** | **692** |
| Net financial items | 5 | **(32)** | 16 | 37 |
| **Earnings before tax (EBT)** | | **188** | **299** | **729** |
| Income tax expence | 9 | **(41)** | (72) | (78) |
| **Earnings after tax** | | **147** | **227** | **651** |
| *Attributable to:* | | | | |
| Equity holders of the parent | | **147** | 228 | 653 |
| Non-controlling interests | | **-** | (1) | (2) |
| Earnings per share (EPS)/EPS diluted in NOK | | **1,23** | 1,91 | 5,44 |

# CONDENSED STATEMENT OF COMPREHENSIVE INCOME

| | | 1.1. - 31.3. | | |
|---|---|---|---|---|
| MNOK | Note | **2017** | 2016 | 2016 |
| Earnings after tax | | **147** | 227 | 651 |
| **Comprehensive income for the period:** | | | | |
| *Items to be reclassified to profit or loss in subsequent period:* | | | | |
| Change in fair value, financial instruments: | | | | |
| - Available-for-sale shares | | **-** | 44 | (104) |
| - Cashflow hedges (currency futures and interest rate swaps) | 5 | **(16)** | 694 | 1 063 |
| Tax effect cash flow hedges (currency futures and interest rate swaps) | | **4** | (174) | (273) |
| Translation differences and hedge of net investments (currency) | | **94** | (127) | (266) |
| **Total items to be reclassified to profit or loss in subsequent periods** | | **82** | **437** | **420** |
| *Items not to be reclassified to profit or loss:* | | | | |
| Actuarial gains/losses pensions | | **-** | - | 20 |
| Income tax on items remaining in equity | | **-** | - | (5) |
| **Total items not to be reclassified to profit or loss** | | **-** | **-** | **15** |
| **Comprehensive income for the period** | | **229** | **664** | **1 086** |

# CONDENSED STATEMENT OF FINANCIAL STATUS

| | | 31.3. | 31.12. |
|---|---|---|---|
| MNOK | Note | **2017** | 2016 |
| Property, plant and equipment | | **2 735** | 2 723 |
| Intangible assets | 6 | **2 772** | 2 746 |
| Shares in joint arrangements and associated companies | 4 | **3 229** | 3 174 |
| Other non-current assets | | **260** | 264 |
| **Total non-current assets** | | **8 996** | **8 907** |
| | | | |
| Inventories | | **4 804** | 4 666 |
| Trade receivables | | **2 383** | 2 436 |
| Construction contracts in progress, asset | | **2 107** | 2 049 |
| Other current assets | | **1 000** | 1 250 |
| Cash and cash equivalents | | **2 192** | 1 888 |
| **Total current assets** | | **12 486** | **12 289** |
| | | | |
| **Total assets** | | **21 482** | **21 196** |
| | | | |
| Issued capital | | **982** | 982 |
| Retained earnings | | **6 393** | 6 218 |
| Fair value of financial instruments | 5 | **(521)** | (509) |
| Non-controlling interests | | **33** | 34 |
| **Total equity** | | **6 887** | **6 725** |
| | | | |
| Long-term interest-bearing loans | 5 | **3 341** | 3 820 |
| Other non-current liabilities and provisions | 2 | **1 832** | 1 830 |
| **Total non-current liabilities and provisions** | | **5 173** | **5 650** |
| | | | |
| Construction contracts in progress, liabilities | | **3 398** | 2 847 |
| Short-term interest-bearing loans | 5 | **749** | 263 |
| Other current liabilities and provisions | 2 | **5 275** | 5 711 |
| **Total current liabilities and provisions** | | **9 422** | **8 821** |
| | | | |
| **Total equity, liabilities and provisions** | | **21 482** | **21 196** |
| | | | |
| Equity ratio (%) | | **32,1** | 31,7 |
| Net interest-bearing liabilities | | **1 898** | 2 195 |

# CONDENSED STATEMENT OF CHANGES IN EQUITY

| | 31.3. | 31.12. |
|---|---|---|
| MNOK | **2017** | 2016 |
| Equity opening balance | **6 725** | 6 127 |
| Comprehensive income accumulated | **229** | 1 086 |
| Dividends | **-** | (510) |
| Treasury shares | **(66)** | 5 |
| Reversal of previous year's impairment | **-** | 22 |
| Dividends non-controlling interests | **-** | (3) |
| Change in non-controlling interests | **(1)** | (2) |
| **Equity, closing balance** | **6 887** | **6 725** |

# CONDENSED CASH FLOW STATEMENT

| | 1.1. - 31.3. | | |
|---|---|---|---|
| MNOK | *2017* | 2016 | 2016 |
| Earnings before interest, tax, depreciation and amortisation | **339** | 408 | 1 217 |
| Change in net current assets and other operating related items | **181** | (520) | (408) |
| **Net cash flow from operating activities** | **520** | **(112)** | **809** |
| | | | |
| Acquisition/disposal of property, plant and equipment | **(90)** | (189) | (613) |
| Acquisition/disposal of subsidiaries and joint arrangement and associated companies | **-** | (22) | (2 786) |
| Net payment for the acquisition/disposal of available-for-sale-shares | **-** | - | 317 |
| Other investing activities including capitalised internally financed development | **(54)** | (32) | (261) |
| **Net cash flow from investing activities** | **(144)** | **(243)** | **(3 343)** |
| | | | |
| Net new loans raised | **-** | - | 3 252 |
| Net interests received (paid) | **(29)** | (7) | (60) |
| Net payments for the acquisition/disposal of treasury shares | **(66)** | (45) | (12) |
| Transactions with non-controlling interests | **-** | - | (3) |
| Dividends paid to equity holders of the parent | **-** | - | (510) |
| - of which dividends from treasury shares | **-** | - | 1 |
| **Net cash flow from financing activities** | **(95)** | **(52)** | **2 668** |
| | | | |
| Effect of changes in exchange rates on cash and cash equivalents | **23** | (32) | (53) |
| | | | |
| **Net change in cash and cash equivalents** | **304** | **(439)** | **81** |
| | | | |
| **Cash and cash equivalents opening balance** | **1 888** | **1 807** | **1 807** |
| | | | |
| **Cash and cash equivalents closing balance** | **2 192** | **1 368** | **1 888** |

## NOTE 1 | GENERAL INFORMATION AND PRINCIPLES

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

The interim financial statements have been prepared in accordance with IAS 34 (Interim reporting), stock regulations and the additional requirements of the Securities Trading Act. The interim financial statements do not cover all information that is required in a full financial statement, and it should be read in relation to the consolidated financial statements for 2016. The consolidated financial statements for 2016 were prepared in accordance with the Norwegian Accounting Act and international financial reporting standards (IFRS) that have been determined by the EU. In the interim financial statements, KONGSBERG have applied the same accounting principles that were described in the consolidated financial statements for 2016.

The consolidated financial statements for 2016 are available on www.kongsberg.com.

The interim condensed financial statements have not been audited.

## NOTE 2 | ESTIMATES

Preparing the interim financial statements involves assessments, estimates and assumptions that affect the use of accounting principles and posted amounts for assets and obligations, revenues and expenses. Actual results may deviate from these estimates. The most important assessments in using the Group's accounting principles, and the biggest sources of uncertainty, are the same as when the consolidated financial statements for 2016 were prepared.

## NOTE 3 | SEGMENT INFORMATION

| | OPERATING REVENUES | | | EBITDA | | | EBITA | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1.1. - 31.3. | | | 1.1. - 31.3. | | | 1.1. - 31.3. | | |
| MNOK | **2017** | 2016 | **2016** | **2017** | 2016 | **2016** | **2017** | 2016 | **2016** |
| KM | **1 768** | 2 395 | **8 597** | **153** | 250 | **280** | **109** | 201 | **95** |
| KDS | **1 365** | 1 156 | **4 336** | **187** | 142 | **801** | **151** | 111 | **669** |
| KPS | **439** | 559 | **2 096** | **26** | 59 | **126** | **17** | 50 | **89** |
| Other | **149** | 230 | **816** | **(27)** | (43) | **10** | **(28)** | (44) | **(18)** |
| **GROUP** | **3 721** | **4 340** | **15 845** | **339** | **408** | **1 217** | **249** | **318** | **835** |

# NOTE 4 | SHARES IN JOINT ARRANGEMENTS AND ASSOCIATED COMPANIES

*Specification of movement on the line "Shares in joint arrangements and associated companies" 1 January to 31 March:*

| MNOK | Owner-ship | Carrying amount 1.1.17 | 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 31.3.17 |
|---|---|---|---|---|---|---|---|
| Patria Oyj | 49,9 % | 2 689 | - | - | (2) | 43 | 2 730 |
| Kongsberg Satellite Services AS | 50,0 % | 332 | - | - | 22 | - | 354 |
| Other | | 153 | - | (13) | 5 | - | 145 |
| **Total** | | **3 174** | **-** | **(13)** | **25** | **43** | **3 229** |

[1] *The profit/loss from companies that are independent taxable entities, such as private companies, is included after amortisation and tax.*

# NOTE 5 | FINANCIAL INSTRUMENTS

*Loans and credit facilities*

In Q1, KONGSBERG signed a NOK 2,3 billion credit facility with a syndicate of five banks. The new facility has a tenor of five years, with two one-year extension options. The credit facility requires that net interest-bearing debt does not exceed 4 times EBITDA, but can be up to 4.5 times EBITDA for a maximum of four quarters, of which three quarters may be consecutive. The new credit facility, which is for general corporate purposes, replaced an existing syndicated credit facility of NOK 1.5 billion held by the Group since 2014.

Short-term interest-bearing loans at the end of Q1 consist mainly of the MNOK 257 bond loan KOG06 with maturity in Q3 of 2017, and the MEUR 53 remainder on the bridge facility. The bridge facility was redeemed in April 2017.

*Long-term loans:*

| | | | 31.3.2017 | | 31.12.2016 | |
|---|---|---|---|---|---|---|
| Amount in MNOK | *Due Date* | *Nominal interest rate* | *Nominal amount* | *Carrying amount* | *Nominal amount* | *Carrying amount* |
| Bond issue KOG07 - fixed interest rate | 11.9.19 | 4,80 % | 250 | 250 | 250 | 250 |
| Bond issue KOG08 - floating interest rate | 2.6.21 | 2,29 % | 1 000 | 1 000 | 1 000 | 1 000 |
| Bond issue KOG09 - fixed interest rate | 2.6.26 | 3,20 % | 1 000 | 1 000 | 1 000 | 1 000 |
| Bond issue KOG10 - floating interest rate | 5.3.20 | 1,93 % | 550 | 550 | 550 | 550 |
| Bond issue KOG11 - fixed interest rate | 5.12.23 | 2,90 % | 450 | 450 | 450 | 450 |
| Bridge facility EUR - floating interest rate [2] | 24.2.19 | 0,95 % | - | - | 482 | 482 |
| Other long-term loans [3] | | | 76 | 76 | 75 | 75 |
| **Total long-term loans [1]** | | | **3 326** | **3 326** | **3 807** | **3 807** |
| Syndicated credit facility (unused borrowing limit) | 15.3.22 | | 2 300 | | 1 500 | |
| Overdraft facility (unused) | | | 500 | | 500 | |

[1] *The difference between the carrying amount in the statement of financial status and amounts in this note is ascribable to the fair value of the interest swap agreement related to bond issue KOG07, which had a value of MNOK 15 at 31 March 2017 and MNOK 13 at 31 December 2016.*
[2] *The bridge facility was MEUR 160 on issue in May 2016. As of 31 March 2017, outstanding amount is MEUR 53. The bridge facility is reclassified to short-term liabilities as of 31 March 2017.*
[3] *"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 is reduced by MNOK 16[3)] before tax in the period 1 January to 31 March 2017. Change in fair value of forward exchange contracts represents a reduction of MNOK 10 in the same period. The end of quarter spot prices were USD/NOK 8.59 and EUR/NOK 9.17.

*Forward exchange contracts classified as cash flow hedges:*

| | Due in 2017 | | Due in 2018 or later | | Total | | |
|---|---|---|---|---|---|---|---|
| MNOK (before tax) | Value based on agreed exchange rates | Fair value at 31.3.17 [1)] | Value based on agreed exchange rates | Fair value at 31.3.17 [1)] | Value based on agreed exchange rates | Change in fair value from 31.12.16 | Fair value at 31.3.17 [1)] |
| EUR | 241 | 3 | - | - | 241 | - | 3 |
| USD | 4 836 | (138) | (40) | 1 | 4 796 | 8 | (137) |
| Other | (27) | - | - | - | (27) | 2 | - |
| **Sum** | **5 050** | **(135)** | **(40)** | **1** | **5 010** | **10** | **(134)** |
| Roll-over of currency futures [2)] | | (268) | | (302) | | (20) | (570) |
| **Total** | **5 050** | **(403)** | **(40)** | **(301)** | **5 010** | **(10) [3)]** | **(704)** |

[1)] *Fair value is calculated as the difference between the spot price at 31 March 2017 and the forward prices on currency contracts.*
[2)] *Carrying amount related to rollovers of cash flow hedges.*
[3)] *The difference between these two the figures, i.e. MNOK 6, is ascribable to a change in the fair values of basis swaps.*

## NOTE 6 | SELF-FINANCED DEVELOPMENT

*Self-financed product maintenance, research and development recognised in profit and loss for the period:*

| | 1.1. - 31.3. | | |
|---|---|---|---|
| MNOK | **2017** | 2016 | **2016** |
| Product maintenance | **86** | 54 | **214** |
| Research and development cost | **153** | 202 | **793** |
| Total | **239** | 256 | **1 007** |

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

| | 1.1. - 31.3. | | |
|---|---|---|---|
| MNOK | **2017** | 2016 | **2016** |
| Self-financed development | **54** | 32 | **262** |

The largest capitalised projects are related to the development of the JSM missile, weapon stations (including the MCT-30) and remote towers for airports, all of which are within the defence segment.

## NOTE 7 | 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 8 | IMPORTANT RISK AND UNCERTAINTY FACTORS

No new serious risk and uncertainty factors have been uncovered this quarter. The Group's handling of different types of risk is described in the annual report for 2016.

## NOTE 9 | TAX

Effective tax rate as of Q1 is calculated to 21.8 per cent. The main reason why the effective tax rate is lower than the tax rate on regular income, currently 24 per cent in Norway, is that the share of net income from associated companies is included after tax.

## NOTE 10 | 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 2016. The same applies for 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 and gratuity) in connection with workforce reductions, as well as house rent and related costs or one-time payments upon termination of leases before the lease expiry for areas that are being vacated.

*Return on Average Capital Employed (ROACE)*

ROACE is defined as 12 months rolling EBIT divided by 12 month average of equity and interest-bearing debt.

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# WORLD CLASS

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