KONGSBERG

QUARTERLY REPORT

3rd QUARTER 2020

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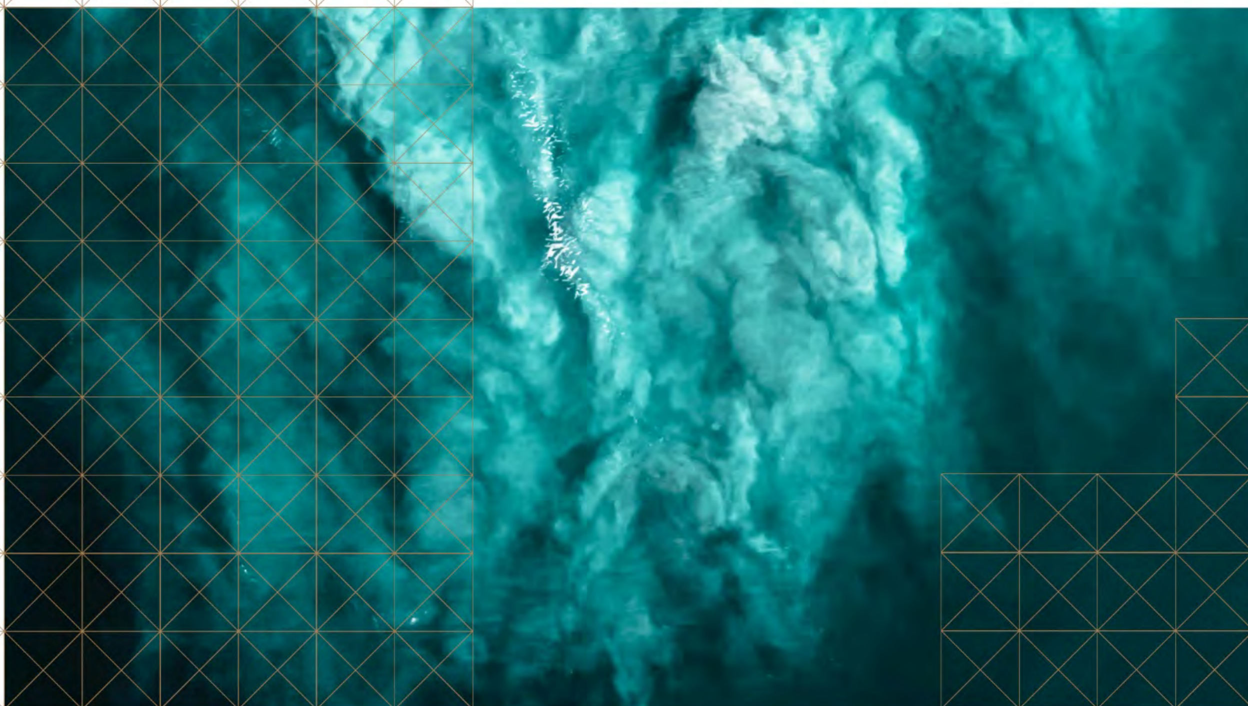


GEIR HÅØY
President & CEO

"We are very pleased with the results in Q3 with a 15.8 % overall EBITDA margin. We have been able to adapt to a demanding market situation and are succeeding well with the integration of Commercial Marine. KDA demonstrates strong project excecution, leading to strong margins during the quarter. This demonstrates that we have an efficient project and delivery organization that I'm confident also will perform well going forward.

The total order intake during the quarter was lower compared to previous quarters. However, it is positive that KM signs more orders compared to the same quarter last year. In KDA, order intake fluctuates considerably between quarters, which is normal for this business area. KDI has consolidated its position as a leader in the digital twin market with a new agreement with Shell. In addition to the contract for the Shell Nyhamna process facility, KDI has now been selected as the partner in the digitisation of Shell's global portfolio of installations. We are in a good position and expect increased order intake in the coming quarters, particularly within defence.

There are still great challenges ahead, both in the world in general and within our markets. Q3 also confirms that KONGSBERG is well equipped to deal with the extraordinary situation. Our employees, customers, suppliers and partners are forward-thinking and solution-oriented. We are continuing to develop new and sustainable solutions, we are finding new and innovative methods to deliver projects and assist our customers, and we take responsibility in a world that is both challenging and changing, yet at the same time full of opportunities."

Over the last few quarters, the Group has demonstrated its ability to adapt to the situation and maintain a solid financial position. On this basis, the board has decided to exercise the authorisation given by the Annual General Meeting to pay an additional dividend of NOK 10 per share and initiate a program of repurchase of our own shares."

Highlights

KONGSBERG

Reduced costs, solid project execution throughout the Group and a large contribution from certain air defence projects have led to a 15.8 per cent EBITDA margin. Operating revenues are in line with Q3 2019. Starting from Q3 2020, KONGSBERG will report the share of profits from associated companies (MNOK 35 in Q3) separately and not as part of the Group EBITDA and EBIT. The board has decided to pay NOK 10 per share in additional dividends and initiate the repurchase of shares for up to MNOK 200 for cancellation.

Operating revenues:	MNOK 5,802
EBITDA:	MNOK 919
EBITDA margin:	15.8 per cent

KONGSBERG MARITIME

Improved operations and implemented measures, both short-term and permanent, along with strong carry out of the integration of Commercial Marine, led to good quarterly results. KM has experienced reduced operating revenues and order backlog during the quarter. The business area has been able to adapt to a more challenging market and scale its cost base. There is, however, still uncertainty regarding developments in the maritime market.

Operating revenues:	MNOK 3,695
EBITDA:	MNOK 411
EBITDA margin:	11.1 per cent

KONGSBERG DEFENCE & AEROSPACE

Increased operating revenues and solid project execution. Strong margins due to that KDA has managed to achieve lower cost in certain projects and efficient project excecution. This contributes MNOK 150 to EBITDA in Q3. Order intake during the period was low, but the order backlog is solid at MNOK 18,757.

Operating revenues:	MNOK 1,993
EBITDA:	MNOK 473
EBITDA margin:	24.5 per cent

KONGSBERG DIGITAL

Entered into a new strategic agreement with Shell for the roll-out of dynamic digital twins for the company's global portfolio of assets. The demand for traditional maritime simulators has been negatively affected by the current market. At the same time KDI is experiencing significant growth in demand and great interest in new digital solutions such as the dynamic digital twin solution KogniTwin®.

Key figures

From Q3 2020, the share of net result from joint arrangements and associated companies is not included in EBITDA and EBIT. Comparison figures have been revised.

KONGSBERG sold Hydroid Inc., a wholly owned subsidiary in the Kongsberg Maritime business area, on 26 March 2020. Hydroid's contribution to results, order intake and order backlog has been adjusted out of the key figures in the quarterly report as "discontinued operations". Key figures for results, order intake and order backlog, including comparative figures, therefore refer to continuing operations. In terms of balance sheet figures and cash flows, no adjustments have been made for Hydroid (see note 14 Discontinued operations for more information).

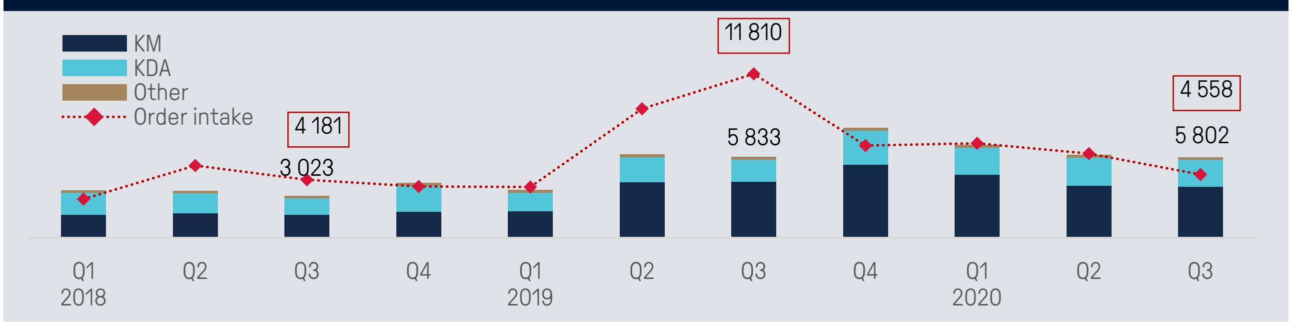
	1.7. - 30.9.		1.1. - 30.9.		
MNOK	**2020**	2019	**2020**	2019	2019
Operating revenue	**5 802**	5 833	**18 464**	15 307	23 245
EBITDA [1]	**919**	496	**2 302**	1 288	2 113
EBITDA (%)	**15,8**	8,5	**12,5**	8,4	9,1
EBIT [1]	**595**	193	**1 326**	497	1 029
EBIT (%)	**10,3**	3,3	**7,2**	3,2	4,4
Share of net income from associated companies	**35**	(9)	**67**	23	21
Earnings before tax from continuing operations	**566**	108	**1 203**	352	833
Earnings after tax from continuing operations	**444**	71	**916**	252	596
Earnings after tax including discontinued operations	**455**	115	**2 367**	358	717
EPS continued operations (NOK)	**2,36**	0,38	**4,86**	1,38	3,22
EPS included discontinued operations (NOK)	**2,41**	0,62	**12,92**	1,97	3,89
Order Intake	**4 558**	11 810	**17 437**	24 768	31 413

[1] Starting with Q3, the share of net result from joint ventures and associated companies is not included in EBITDA and EBIT.

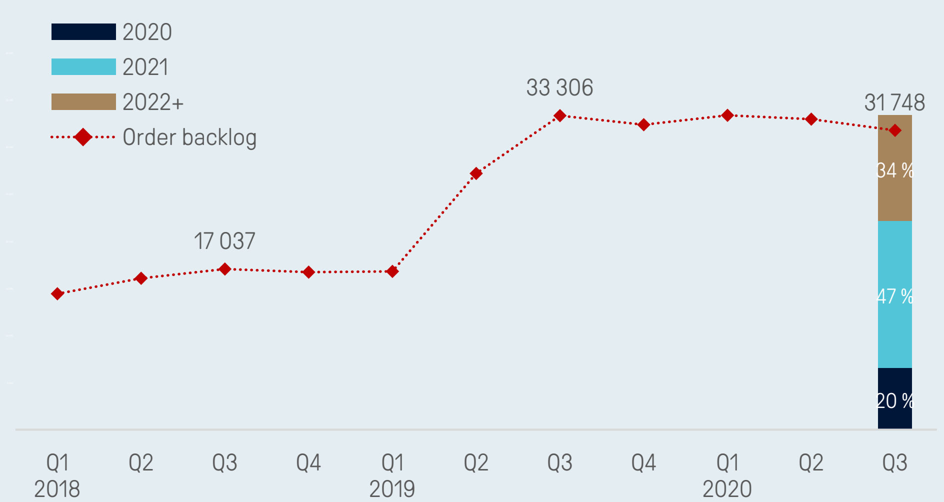
	30.9.	30.6.	31.12.
MNOK	**2020**	2020	2019
Equity ratio (%)	**38,1**	36,0	32,5
Net interest-bearing debt [1]	**(4 618)**	(5 061)	(1 565)
Working Capital [2]	**406**	(114)	17
ROACE (%) [3]	**18,1**	12,1	10,0
Order backlog	**31 748**	32 935	32 347
No. of employees	**10 742**	10 649	10 793

1) Net interest-bearing debt is the net amount of the accounting lines "Cash and cash equivalents" and "Short- and long-term interest-bearing liabilities, excluding leasing commitments"
2) Current assets (except cash and cash equivalents) minus non-interest-bearing liabilities (except taxes payable). Financial instruments recognised at fair value are not included in working capital.
3) 12-month rolling EBIT including share of net income from joint arrangements and associated companies, excluding IFRS 16 divided by the 12-month mean of recognised equity and net interest-bearing debt. Net interest-bearing debt has been adjusted for the purchase price of Rolls-Royce Commercial Marine in relation to what was reported in Q1 2019.

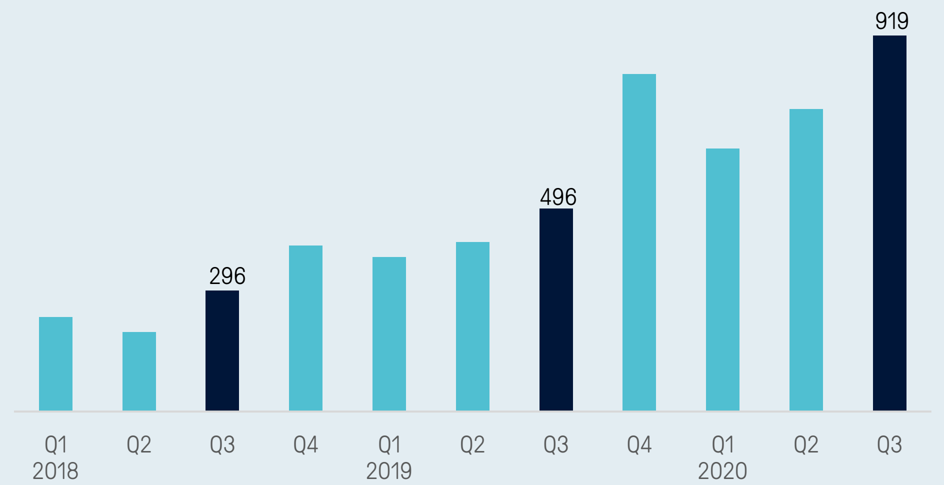
OPERATING REVENUE AND ORDER INTAKE



ORDER BACKLOG

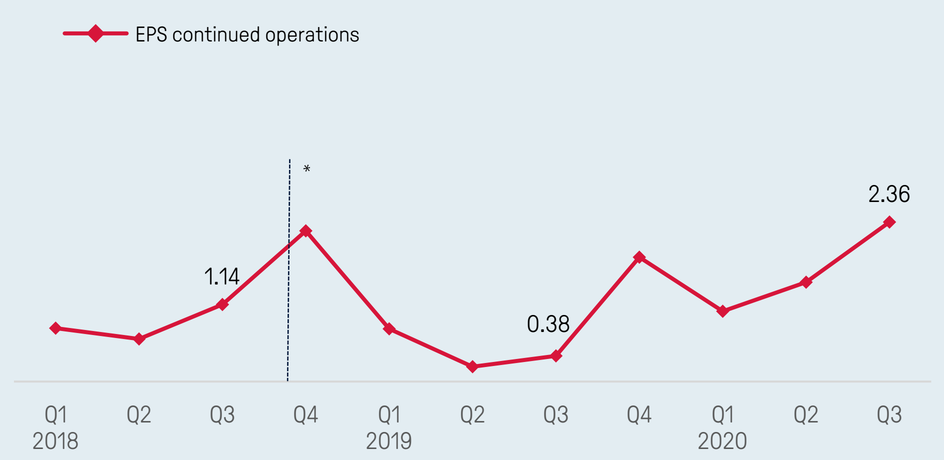


EBITDA



EBITDA does not include the share of net result from joint ventures and associated companies.
2018 figures are exclusive IFRS 16

EPS
Continued operations



*Number of shares increased from 120 000 000 to 179 990 065
2018 figures are exclusive IFRS 16

Performance, market and orders

Operating revenues in Q3 were MNOK 5,802, compared to MNOK 5,833 in the same quarter last year. Accumulated operating revenue as of Q3 amounted to MNOK 18,464, compared to MNOK 15,307 for the same period last year. Including pro forma operating revenues from Commercial Marine for Q1 2019, operating revenues were MNOK 17,178 for the same period in 2019.

EBITDA was MNOK 919 in Q3, corresponding to an EBITDA margin of 15.8 per cent compared to MNOK 496 (8.5 per cent) in the same quarter last year. Integration costs of MNOK 11 related to the ongoing integration of Commercial Marine are included in the figures for Q3 2020. No restructuring costs were incurred during the quarter (MNOK 152 in restructuring- and integration costs in Q3 2019). For the first three quarters of the year, the accumulated EBITDA amounted to MNOK 2,302 (12.5 per cent), compared to MNOK 1,288 (8.4 per cent) in the same period last year. As of Q3 2020, EBITDA was affected by integration costs of MNOK 61 and restructuring costs of MNOK 12. The comparative costs for the same period in 2019 were MNOK 229 and MNOK 87, respectively.

The sale of Hydroid, which took place in Q1 2020, resulted in a preliminary calculated profit after tax of NOK 1,431 million, which has been recognised as a result of operations being discontinued. Profit after tax from Hydroid in Q1 amounted to NOK 20 million, which is also classified as a result of operations being discontinued. Profits from discontinued operations totalled NOK 1,451 million after tax as of Q3 2020 (NOK 106 million in 2019).

During Q3, order intake amounted to MNOK 4,558, compared to MNOK 11,810 in the same quarter last year. This gives a book-to-bill ratio for the quarter of 0.79. The order intake for the first three quarters of the year was MNOK 17,437, compared to MNOK 24,768 in the same period in 2019 (MNOK 26,741 including pro forma order intake in CM). KDA has the most notably reduced order intake in 2020 compared with last year, when significant individual orders were signed, particularly in Q2 and Q3 2019.

The order backlog at the end of Q3 was MNOK 31,748, compared with MNOK 32,347 at the end of the year and MNOK 33,306 at the same time last year.

OPERATING REVENUES
5 802
MNOK

EBITDA-MARGIN
15,8%

ORDER INTAKE
4 558
MNOK

Cash flow

KONGSBERG recorded a net reduction in cash and cash equivalents of MNOK 512 in Q3. Net cash flow from operating activities amounted to MNOK 343. EBITDA was MNOK 919 from continuing operations. Changes in net current assets and other operations-related items contributed MNOK -577. Increased working capital during the period was mainly due to the building-up of projects in KDA and other short-term debt being reduced in KM. Cash flow from investment activities was MNOK -630. Negative cash flow of MNOK 455 was connected to the sale of businesses. This is mainly related to transaction tax paid relating to the sale of Hydroid Inc. Cash flow from financing activities was MNOK -205.

As of Q3 2020, accumulated net cash and cash equivalents increased by MNOK 2,444. The largest positive individual elements were the settlement for the sale of Hydroid Inc., along with cash flow from operations. The largest negative cash flows were related to the settlement of the MNOK 550 KOG10 bond loan and the payment of MNOK 450 dividends. In connection with the sale of Hydroid Inc., it was estimated that the Group would have to pay MNOK 650 in tax related to the transaction. Of this, MNOK 437 was paid in Q3. In addition, tax will be levied on the allocation of the funds.

Balance sheet

NET INTEREST-BEARING DEBT

-4 618

MNOK

EQUITY RATIO

38,1%

The Group has interest-bearing debt totalling MNOK 3,480. At the end of the quarter, long-term interest-bearing debt consisted of four bonds totalling MNOK 2,450 and other long-term interest-bearing debt of MNOK 23. Total short-term interest-bearing debts amount to MNOK 1,007 and include the bond KOG08 of MNOK 1,000 which is due in June 2021. See Note 7. The group had MNOK 8,098 in cash and cash equivalents at the end of Q3, compared to MNOK 8,610 at the end of the Q2 and MNOK 5,654 at the end of Q4 2019.

The Board of Kongsberg Gruppen has decided to exercise the authorisation given by the Annual General Meeting of 14 May 2020 and will pay an additional dividend of MNOK 1,800 in total/NOK 10 per share. The KOG share will be traded excluding dividends from 3 November 2020, and the dividend will be paid out on or about 12 November 2020. In addition, the board will exercise the authorisation from the Annual General Meeting regarding the purchase of own shares for cancellation. KONGSBERG plans to buy back shares for up to MNOK 200.

At the end of the quarter, net interest-bearing debt was MNOK -4,618, compared to MNOK -5,061 at the end of Q2 and MNOK -1,565 at the end of 2019. The change in the quarter is mainly due to reduced cash holdings as a result of, among other things, changes in working capital. The changes so far this year are mainly due to an increase in cash and cash equivalents as a result of the settlement received for the sale of Hydroid Inc., customer advances received, dividends paid and repayment of bond loans. In addition, the Group had a syndicated and committed credit facility of MNOK 2,300 and an overdraft credit facility of MNOK 500. These were unused at the end of Q3 2020.

The overall balance sheet reduced by MNOK 794 in the quarter. From the end of the year, the overall balance sheet has been reduced by MNOK 63.

	30.9.	30.6.	31.12.
MNOK	2020	2020	2019
Equity	14 992	14 466	12 810
Equity ratio (%)	38,1	36,0	32,5
Total assets	39 359	40 153	39 422
Working capital [1]	406	(114)	17
Gross interest-bearing debt	3 480	3 549	4 089
Cash and cash equivalents	8 098	8 610	5 654
Net interest bearing debt [1]	(4 618)	(5 061)	(1 565)

1) See definition note 14

Currency

The Group's currency policy state that contractual currency flows are hedged by forward contracts (fair value hedges). The net value of fair value hedges was MNOK -457 at the end of Q3 2020. In addition, a proportion of the currency exposure in expected major contracts can be secured. This occurs where the probability of being awarded the contract is very high (cash flow hedges). The company's portfolio of cash flow hedges had a net fair value of MNOK -65 at the end of the quarter, which is recognised in the equity. The fair value here represents unrealised profits/losses in relation to agreed rates. The group also uses other financial instruments such as basis swaps and options, where fair value is also booked against equity. See Note 7 for a numerical representation and further information.

Changes to the maturity structure in underlying contracts may result in cashflow effects when rolling over related forward contracts. The size of this effect will be determined by the position of the Norwegian krone relative to the initial agreed exchange rate.

The Group's currency policy implies that the accounting income recognition will largely be based on exchange rates secured at historical levels. This limits short-term effects on profits in the event of a sharp rise or fall in the value of the Group's functional currency (NOK).

Product development

KONGSBERG is continually investing in product development, both through in-house-funded and customer-funded programmes. Total in-house-funded product development and maintenance amounted to MNOK 297 in the quarter and MNOK 1,115 accumulated as of Q3, of which MNOK 39 and MNOK 186 was capitalised, respectively. See the table in Note 8. Development posted on the balance sheet for the quarter and accumulated for the year is mainly related to projects in KDI and KDA.

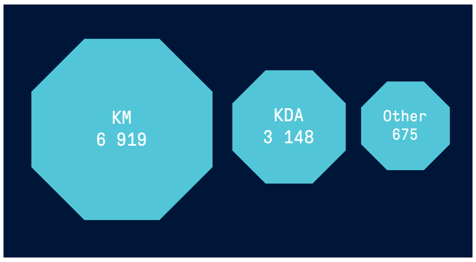
The largest capitalised projects at the end of the quarter are related to the development of a digital platform (Kognifai), Joint Strike Missile (JSM), medium-calibre weapon station (MCT), communications solutions and remote towers for airports.

Customer-funded 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 account for about 10 per cent of operating revenues.

Human resources

The company had 10,742 employees at the end of the quarter. During the first three quarters of the year, the number of employees has been reduced by 51. KDA has increased the number of employees by approximately 230. The business area is growing and hiring as a result. In KM, the number of employees has been reduced by 300. This reduction is a result of both the sale of Hydroid and of the integration between KM and CM.

At peak, KONGSBERG had approximately 750 employees on temporary lay-off as a result of the COVID-19 situation. At the end of Q3, the number of employees on temporary lay-off was 60.



Number of employees by business area

Other activities

Other activities consist of Kongsberg Digital (KDI), property and corporate functions.

KDI had operating revenues of MNOK 185, which is MNOK 9 higher than the corresponding period in 2019. Operating revenues as of September 2020 were MNOK 601, compared to MNOK 585 for the same period last year. In the autumn of 2019, KDI signed an agreement for the dynamic digital twin for the Shell Nyhamna processing plant. In August 2020, KDI entered into a new, strategic agreement with Shell for the roll-out of dynamic digital twins for the company's global asset portfolio. During the summer, important partnerships agreement were signed with global equipment suppliers such as MAN and ABB Turbocharging for digitisation collaboration based on KONGSBERGs data infrastructure solution for the maritime sector, Vessel Insight. A total of 40 shipowners, who together represent ~2,500 vessels, have used the Vessel Insight solution on parts of their fleet, and some of these are already in the process of rolling out the solution to more of their vessels. The demand for traditional maritime simulators has been negatively affected in the current market, but at the same time KDI is experiencing growth in demand and great interest in new digital solutions such as the dynamic digital twin solution KogniTwin®. The proportion of recurring operating revenue for KDI is approximately 35%.

KONGSBERG MARITIME

Background

From Q1 2020 onwards, Kongsberg Maritime (KM) is reporting as one unit. Separate figures for Commercial Marine (CM) are no longer being reported, as CM is now considered a fully integrated part of KM. Historical pro forma figures for CM prior to KM ownership will be provided where relevant. There are separate figures for CM and KM for the financial years 2018 and 2019 in the 2019 quarterly reports.

During Q1, KM completed the sale of the US subsidiary Hydroid Inc. This means that all Hydroid figures and orders have been adjusted out from the results for KONGSBERG and Kongsberg Maritime in 2020 and previous quarters, and net figures are listed on a separate line in the overall results as "discontinued operations".

Performance

Operating revenues amounted to MNOK 3,695 in Q3, compared to MNOK 4,041 during the same quarter last year, a decrease of 8.6 per cent. All divisions have seen reduced operating revenues. Accumulated operating revenues as of Q3 2020 were MNOK 12,000, an increase of 1.6 per cent from MNOK 11,806 as Q3 of 2019 (including CM Q1 pro forma operating revenues)

EBITDA was MNOK 411 in Q3, an EBITDA margin of 11.1 per cent, compared to MNOK 223 (5.5 per cent) in the same quarter the previous year. In Q3 2020, a total of MNOK 11 in integration and restructuring costs was recognised relating to the integration of CM. The corresponding amount was MNOK 152 in Q3 2019. KM quickly implemented a number of measures to reduce the financial and operational effects of COVID-19. In addition, costs relating to activities such as travel and consultants have been minimal since the pandemic began. In Q3, the effects of these savings amounted to approximately MNOK 50. Some of the savings are directly related to COVID-19 and are only short term, while other efficiencies will have a longer-term effect.

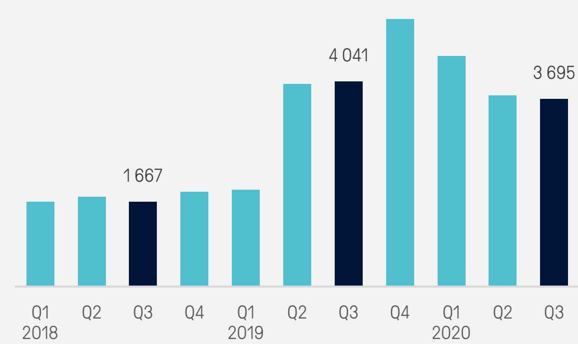
Accumulated EBITDA as of Q3 2020 was MNOK 1,068, corresponding to an EBITDA margin of 8.9 per cent. A total of MNOK 73 was incurred in integration and restructuring costs in the same period. In the first half of 2019, EBITDA was MNOK 597, corresponding to an EBITDA margin of 6.0 per cent. This included MNOK 316 in integration and restructuring costs as well as a profit of MNOK 107 related to the sale of Evotec.

KEY FIGURES

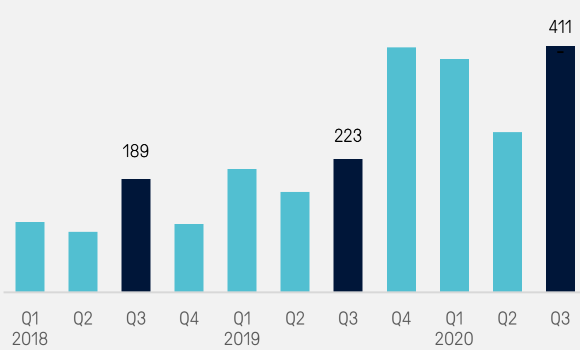
	1.7. - 30.9.		1.1. - 30.9.		
MNOK	2020	2019	2020	2019	201
Operating revenues	**3 695**	4 041	**12 000**	9 935	15 198
EBITDA	**411**	223	**1 068**	597	1 005
EBITDA (%)	**11,1**	5,5	**8,9**	6,0	6,6
Share of net income associated companies	**-**	-	**(0,0)**	0,0	0,0
Order Intake	**3 439**	3 345	**12 103**	10 568	14 427

	30.9.	30.6.	31.12.
MNOK	2020	2020	*2019*
Order backlog	**11 826**	12 111	**11 311**
No. of employees	**6 919**	6 973	**7 212**

Operating revenue



EBITDA



As part of the acquisition of CM, an extensive integration program was implemented. The savings will come from merging of offices, reductions in overheads and harmonisation of the product portfolio. Restructuring measures have also been implemented, which in total entail a reduction of 485 full-time equivalents from the takeover of CM on 1 April 2019.

Overall, the integration program has shown isolated positive effects in Q3 2020 of MNOK 150 and MNOK 445 in total, putting KONGSBERG on course to meet its target of MNOK 500 in savings by the end of 2020.

Market and orders

Order intake in Q3 was MNOK 3,439, equivalent to a book-to-bill ratio of 0.93, compared to MNOK 3,345 in Q3 2019. In total for 2020, the order intake stands at MNOK 12,103, corresponding to a book-to-bill ratio of 1.01.

There is an increased focus on more environmentally friendly solutions, both on the supply and demand sides. Over the years, KM has delivered systems for the safer, more cost-effective and environmentally friendly operation of vessels in most vessel markets. During the quarter, the business area signed a contract with the krill producer Rimfrost for the design and comprehensive delivery of equipment for their new krill vessel, helping to set a new standard for krill fishing in Antarctica, both in terms of sustainability and resource utilisation. In Q3, KM also signed a contract with the grocery distributor ASKO for the supply of equipment to their two new autonomous zero-emission vessels that will replace approximately 2 million kilometres of truck transport annually.

One area that will be more important for KM aftermarket activity going forward is conversion of fuel-intensive propulsion systems to hybrid solutions using battery technology. KM has already delivered a number of similar upgrade projects.

At the end of Q3 2020, KM had an order backlog of MNOK 11,826. The level of cancellations is low with MNOK 24 of contracts cancelled in the quarter and MNOK 372 so far this year, of which the majority were in Q1 2020.

KM and COVID-19

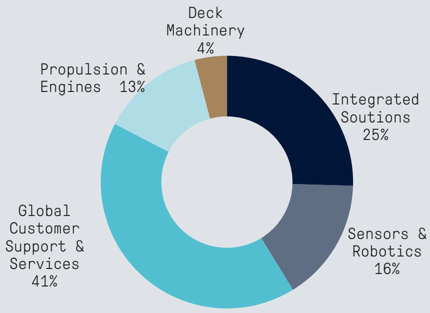
Kongsberg Maritime has extensive international operations and is directly affected by the decline in the world economy. At the same time, we expect reduced activity in the oil and gas market. In addition, we see individual sectors, such as the cruise industry, being heavily affected.

In connection with the outbreak, a number of measures were quickly implemented to limit infection, maintain operations as normally as possible and ensure that cost levels were adjusted to the level of activity. Among the measures are the extensive use of digital solutions for customer support, furloughing resources and other cost-saving measures, as well as significant infection control measures, including the extensive use of homeworking. Over the summer, restrictions in many countries were gradually eased, although we are now seeing new restrictions introduced in many countries and regions. There are still strict rules around infection control measures. At its peak, KM had around 700 employees on furlough. At the end of Q1, around 200 employees were on furlough. During Q3, most of these returned to work and KM now has just furloughed 60 employees.

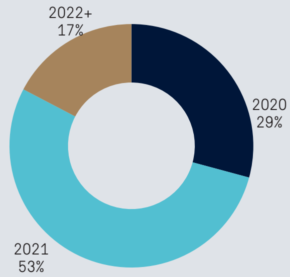
The travel restrictions in effect in various countries have a particular impact on aspects of service and after-market. KM's after-market operations consist mainly of three aspects: parts sales, projects and service. Among these, the effect is greatest on pure service operations. Service represents about half of KM's after-market business. With offices and services in 34 countries, project deliveries and significant aspects of service are performed locally, meaning that KM is less vulnerable to travel restrictions.

The COVID-19 situation has also affected KM in Q3. Despite this, KM has delivered solid results. This would not have been possible without the measures that were – and in some cases still are – implemented. The order intake of certain areas, particularly in relation to new vessels and the after-market, is uncertain, and the negative trend we saw in Q2 has continued in Q3. Therefore, there will still be great uncertainty about the impact on order intake, operating income and earnings in Q4 2020, while the business area has good control over operations and reduced costs.

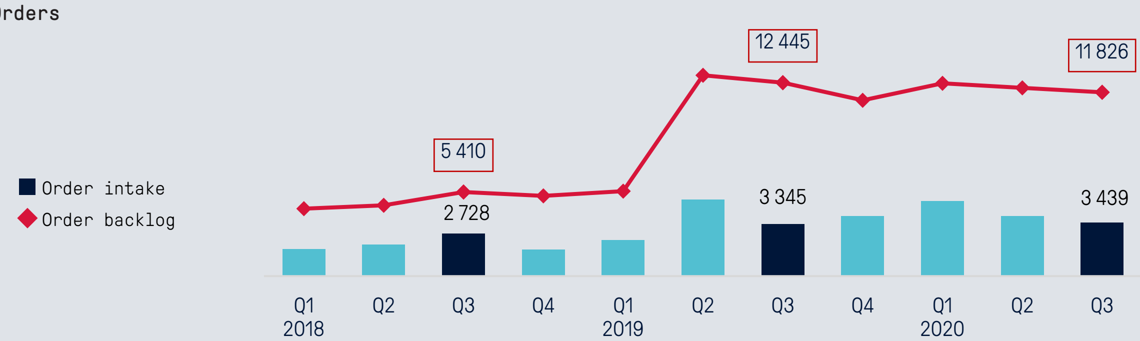
Operating revenue
YTD by division



Order backlog
Breakdown by delivery date



Orders



KONGSBERG DEFENCE & AEROSPACE

Performance

Operating revenues amounted to MNOK 1,933 in Q3, compared to MNOK 1,578 during the same quarter last year, an increase of around 22 per cent. All divisions have seen a good level of activity. Accumulated operating revenues so far in 2020 were MNOK 5,883, up MNOK 1,107 on the corresponding period in 2019.

The projects with the highest revenues in Q3 2020 were:

- Production of parts for the F-35 program, where KONGSBERG is the sole supplier of specific composite and titanium parts
- The US CROWS program, where KONGSBERG has been the sole direct supplier of remote weapon stations to the US Army since 2007
- Air defence contracts (NASAMS), especially the contract with Qatar, signed in July 2019, that was the largest single contract signed in the history of KONGSBERG to date.
- NSM missile production to several projects, including US Navy's OTH program

EBITDA was MNOK 473 in Q3, an EBITDA margin of 24.5 per cent, compared to MNOK 252 (16.0 per cent) in the same quarter the previous year. Accumulated EBITDA for KDA as of Q3 was MNOK 1,142, compared to MNOK 677 for the corresponding period in 2019.

In large programs, revenues vary over time along with the achievement of milestones. KDA has in Q3 achieved lower cost in certain projects due to efficient project execution and good progress. This increases EBITDA by MNOK 150 in the period.

Starting in Q3 2020, the share of profits from associated companies in KDA will be reported separately and not as part of the EBITDA of KDA. This totals MNOK 38 (MNOK -5) for the quarter and MNOK 85 (MNOK 33) accumulated as of Q3. For Patria, this totals MNOK 4 (MNOK -31) for Q3 and MNOK 4 (MNOK -42) accumulated for the year. For Kongsberg Satellite Services (KSAT), this amounts to MNOK 37 (MNOK 33) and MNOK 93 (MNOK 88) for the corresponding periods. See also Note 6.

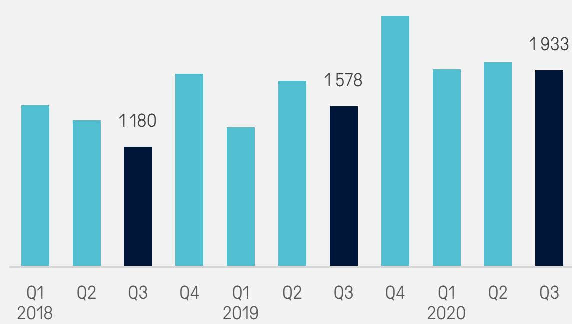
Patria recorded operating revenues of EUR 106 million during Q3, compared to EUR 103 million during the same quarter last year. In Q3, EBITDA amounted to EUR 12 million, compared to EUR 3 million in the same period in 2019. Accumulated at the end of Q3, Patria had operating revenues of EUR 361 million and EBITDA of EUR 36 million. Correspondingly, they had EUR 342 million in operating revenues and EUR 19 million in EBITDA in the same period of 2019, respectively. See Note 6.

KEY FIGURES

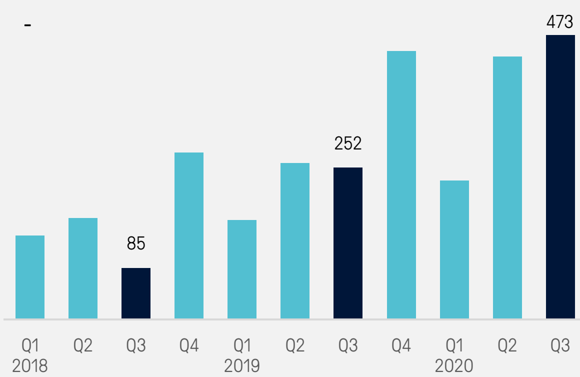
	1.7. - 30.9.		1.1. - 30.9.		
MNOK	2020	2019	2020	2019	201
Operating revenues	**1 933**	1 578	**5 883**	4 776	7 245
EBITDA	**473**	252	**1 142**	677	1 123
EBITDA (%)	**24,5**	16,0	**19,4**	14,2	15,5
Share of netincome associated companies	**38**	(5)	**85**	33	34
Order Intake	**987**	8 254	**4 543**	13 551	16 060

	30.9.	30.6.	31.12.
MNOK	2020	2020	*2019*
Order backlog	**18 757**	19 658	**20 146**
No. of employees	**3 148**	3 007	**2 917**

Operating revenues



EBITDA



Market and orders

Order intake reached MNOK 987 in Q3, compared to MNOK 8,254 for the same quarter last year. This gives a book-to-bill ratio of 0.51. The order intake in Q3 2019 included, among other things, KONGSBERG's largest contract ever, the air defence contract for Qatar worth MNOK 5,600.

About half of the order intake in the quarter is related to Remote Weapon Stations, including to the US Army under the CROWS program. The remaining order intake consists of smaller orders, mainly in the areas of Integrated Defence Systems and Space & Surveillance, where, among other things, a contract was signed for the supply of electronics for signal processing to the new Airbus mobile communications satellite Thuraya 4. This is equipment that will provide better mobile coverage in areas where there is no terrestrial network, or it is insufficient. KSAT, of which KONGSBERG owns 50%, won a framework contract with Norway's International Climate and Forest Initiative worth up to MNOK 405. KSAT will deliver optical images for the monitoring and control of global deforestation, with the contract due to last for four years. KSAT's order intake is not shown as part of KDA's order intake as it is reported as an associated company.

The defence market is characterised by relatively few, but large, contracts. Deliveries are normally made over a long period and involve several milestones. Fluctuations in order intake and results are therefore to be regarded as normal. In recent years, KONGSBERG has won a number of strategic contracts that are important for operating revenues and results in the coming periods, and is expecting a good order intake in the next few years due to KDA's strong market position within its segments. Investments in defence programs are often long-term processes. The customers for major defence systems are the authorities in the countries in question. They 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 whether, and if so when, contracts are signed with KONGSBERG.

KDA and COVID-19

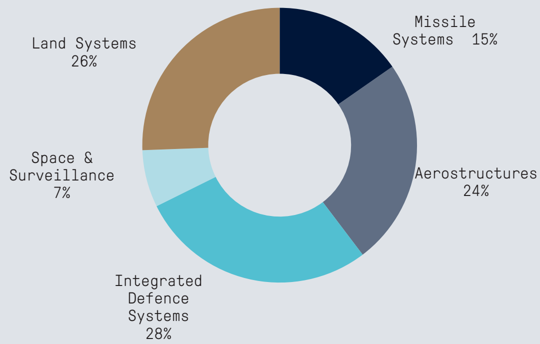
KDA has a high proportion of exports, but the bulk of operations are in Norway. Defence activities did not suffer major consequences as a result of COVID-19 in Q3, but certain contract negotiations are seen to be somewhat more time-consuming due to travel restrictions. KDA and its associated company Kongsberg Satellite Services are defined as societally critical enterprises and the part of the workforce that cannot work from home has the opportunity to attend the workplace and carry out tasks almost in a normal manner, providing necessary measures are observed. In addition, shift measures and other precautions in production have been introduced to reduce the exposure to infection within the environment.

With a very high proportion of exports, travel restrictions pose challenges, but this has largely been solved in other ways, and so far it has not greatly affected the progress of projects. KDA also finds that customers have been extremely adaptable in the use of digital platforms, where collaboration has previously been based on physical meetings. Furthermore, KDA is dependent on the supply capacity of several hundred subcontractors, both in Norway and elsewhere. Additional resources have been introduced to ensure the flow of goods, shipments and, where necessary, alternative subcontractors in the event of a stop in production. These elements may have a further effect on KDA in the future.

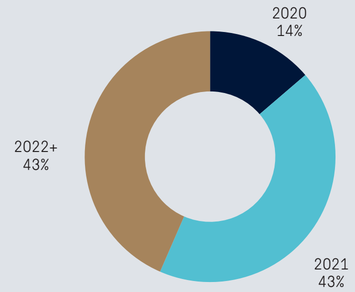
KDA has extensive operations in Johnstown, USA. These operations are defined as socially critical by the US authorities and are not currently affected by the COVID-19 restrictions in the USA, but the risk of interruptions increases with the extent of the virus situation in the USA. Neither has Arsenalet, the factory at Kongsberg that delivers critical components for the F-35 combat aircraft, experienced any delays in production so far.

The worldwide COVID-19 situation may delay the expected order intake somewhat, and in the worst-case scenario may lead to programs KDA is prepared for being scaled down or cancelled. However, there are no signs of that yet.

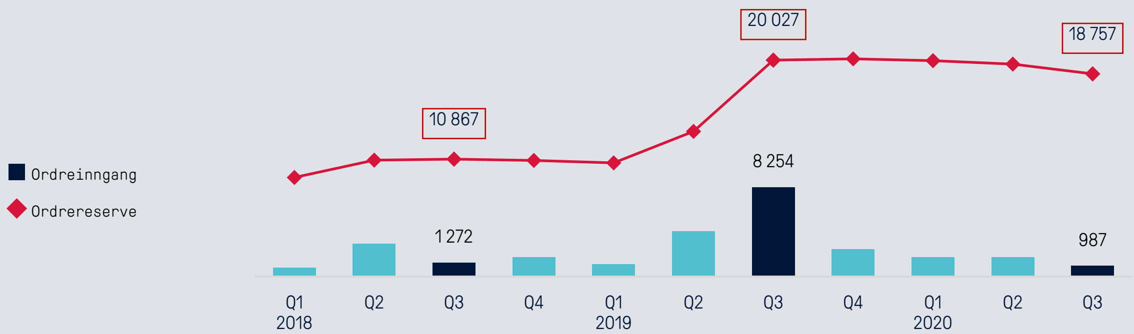
Operating revenues
YTD by division



Ordre backlog
Breakdown by delivery date



Orders



OUTLOOK

KONGSBERG has a solid balance sheet and an order backlog of MNOK 31,748. The COVID-19 pandemic continues to affect the world, and there is still great uncertainty. At the same time, we have seen a great degree of adaptability to the situation. Uncertainty regarding oil prices development will affect investment levels in a number of segments, but this can also provide opportunities in other areas where KONGSBERG is strong.

Preventive measures have been introduced and implemented, and KONGSBERG has had, and still has, three clear priorities in this extraordinary situation:

- To safeguard the health and safety of our employees
- To maintain as much normality as possible in operations, to deliver on the order backlog and support our customers
- To continue to take the measures necessary to ensure a strong operational and financial position

KONGSBERG has performed well in 2020, both financially and operationally. Kongsberg Defence & Aerospace has maintained operations at a relatively normal level, but delays may occur. However, significant parts of the maritime market have been challenging in the same period, with generally low levels of new vessel contracting. This trend has also continued in Q3 2020, and no immediate improvement is expected. However, Kongsberg Maritime also has a large degree of exposure to markets that are not directly affected by new contracting of vessels. This contributes to the fact that the business area has nevertheless had a good order intake in recent quarters. This applies, among other things, to the Sensors & Robotics area and the after-market, where KM supports more than 30,000 vessels. The company's digital solutions for remote services allow us to a large degree to carry out service assignments for our customers to a great extent, despite the situation.

In recent years, Kongsberg Digital has made significant investments in establishing new positions, as well as strengthening existing positions related to the digitisation of core sectors. The agreement with Shell, entered into in Q3 2020, confirms our leading position in the digital twin market. Oil companies' investment levels are declining, due to both the current COVID-19 situation and the fall in oil prices. This may affect KDI order intake. However, the current situation also demonstrates the need for and benefits of KONGSBERG digital and remote solutions.

Out of the solid order backlog, MNOK 6,261 is due to be delivered in Q4 2020. Order intake from the after-market, associated companies and framework agreements are not part of the order backlog. Reduced costs and a solid project portfolio also provide a good foundation for the final quarter of the year.

Kongsberg, 29 October 2020
The Board of Kongsberg Gruppen ASA

NUMBERS & NOTES

Key figures by quarter

The share of net result from joint arrangements and associated companies is not longer included in EBITDA and EBIT. The statements below for KONGSBERG and Kongsberg Maritime have been adjusted for discontinued operations (Hydroid see note 13). The 2018 figures are exclusive IFRS 16 effects. The Kongsberg Maritime figures for 2018 have been adjusted compared to presented in Q1.

KONGSBERG	2020				2019					2018				
MNOK	2020	Q3	Q2	Q1	2019	Q4	Q3	Q2	Q1	2018	Q4	Q3	Q2	Q1
Operating revenues	18 464	5 802	5 983	6 678	23 245	7 938	5 833	6 012	3 462	13 807	3 971	3 023	3 384	3 429
EBITDA	2 302	919	740	643	2 113	825	496	414	378	1 126	405	296	194	231
EBITDA (%)	12,5	15,8	12,4	9,6	9,1	10,4	8,5	6,9	10,9	8,2	10,2	9,8	5,7	6,7
EBIT	1 326	595	429	302	1 029	532	193	98	206	701	295	192	86	129
EBIT (%)	7,2	10,3	7,2	4,5	4,4	6,7	3,3	1,6	6,0	5,1	7,4	6,4	2,5	3,7
Share of net income associated companies	67	35	33	-	21	(2)	(9)	29	3	181	90	31	27	32
Order intake	17 437	4 558	6 067	6 812	31 413	6 645	11 810	9 297	3 661	15 879	3 700	4 181	5 207	2 790
Order backlog	31 748	31 748	32 935	33 342	32 347	32 347	33 306	27 177	16 786	16 707	16 707	17 037	16 055	14 413

KONGSBERG MARITIME	2020				2019					2018				
MNOK	2020	Q3	Q2	Q1	2019	Q4	Q3	Q2	Q1	2018	Q4	Q3	Q2	Q1
Operating revenues	12 000	3 695	3 762	4 543	15 198	5 263	4 041	3 989	1 905	6 971	1 864	1 667	1 768	1 671
EBITDA	1 068	411	267	390	1 005	408	223	168	206	521	113	189	101	117
EBITDA (%)	8,9	11,1	7,1	8,6	6,6	7,8	5,5	4,2	10,8	7,5	6,1	11,3	5,7	7,0
EBIT	482	227	85	169	356	234	33	(46)	136	404	82	164	72	86
EBIT (%)	4,0	6,2	2,3	3,7	2,3	4,5	0,8	(1,2)	7,1	5,8	4,4	9,8	4,1	5,1
Share of net income associated companies	-	-	(1)	1	-	-	-	-	-	-	-	-	-	-
Order intake	12 103	3 439	3 850	4 813	14 427	3 858	3 345	4 917	2 306	8 189	1 694	2 728	2 015	1 751
Order backlog	11 826	11 826	12 111	12 404	11 311	11 311	12 445	12 920	5 465	5 163	5 163	5 410	4 555	4 339

KONGSBERG DEFENCE AEROSPACE	2020				2019					2018				
MNOK	2020	Q3	Q2	Q1	2019	Q4	Q3	Q2	Q1	2018	Q4	Q3	Q2	Q1
Operating revenues	5 883	1 933	2 008	1 942	7 245	2 468	1 578	1 829	1 369	6 104	1 898	1 180	1 441	1 585
EBITDA	1 142	473	437	231	1 123	446	252	260	165	671	278	85	168	140
EBITDA (%)	19,4	24,5	21,8	11,9	15,5	18,1	16,0	14,2	12,1	11,0	14,6	7,2	11,7	8,8
EBIT	769	338	314	116	725	336	150	164	75	429	216	23	105	85
EBIT (%)	13,1	17,5	15,6	6,0	10,0	13,6	9,5	9,0	5,5	7,0	11,4	2,0	7,3	5,3
Share of net income associated companies	85	38	37	10	34	2	(5)	31	6	192	93	35	32	32
Order intake	4 543	987	1 788	1 769	16 060	2 509	8 254	4 160	1 137	6 885	1 770	1 272	3 045	798
Order backlog	18 757	18 757	19 658	19 977	20 146	20 146	20 027	13 433	10 519	10 744	10 744	10 867	10 772	9 170

Condensed income statement

		1.7. - 30.9.		1.1. - 30.9.		
MNOK	*Note*	*2020*	*2019*	*2020*	*2019*	*2019*
Operating revenues	5	5 802	5 833	18 464	15 307	23 245
Operating expenses	8	(4 883)	(5 336)	(16 162)	(14 019)	(21 132)
EBITDA	5, 14	919	496	2 302	1 288	2 113
Depreciation		(122)	(113)	(358)	(332)	(427)
Depreciation, leasing assets	3	(104)	(98)	(307)	(253)	(348)
Impairment of property, plant and equipment		(4)	-	(4)	(1)	(18)
Amortisation		(84)	(92)	(251)	(205)	(290)
Impairment of intangible assets		(10)	-	(55)	-	-
EBIT	5, 14	595	193	1 326	497	1 029
Share of net income from joint arrangements and associated companies	6	35	(9)	67	23	21
Interest on leasing liabilities	3	(35)	(36)	(107)	(96)	(131)
Net financial items	7	(29)	(40)	(83)	(72)	(86)
Earnings before tax from continuing operations (EBT)		566	108	1 203	352	833
Income tax expense	11	(122)	(37)	(288)	(100)	(237)
Earnings after tax from continuing operations		444	71	916	252	596
Earnings after tax from discontinued operations	13	11	43	1 451	106	121
Earnings after tax (EAT)		455	115	2 367	358	717
Attributable to:						
Equity holders of the parent		434	111	2 326	354	701
Non-controlling interests		20	4	41	4	17
Earnings per share (EPS) / EPS diluted in NOK						
-Earnings per share from continuing operations		2,36	0,38	4,86	1,38	3,22
-Earnings per share from continuing operations, diluted		2,36	0,38	4,86	1,38	3,22
-Earnings per share		2,41	0,62	12,92	1,97	3,89
-Earnings per share, diluted in NOK		2,41	0,62	12,92	1,97	3,89

Condensed statement of comprehensive income

		1.7. - 30.9.		1.1. - 30.9.		
MNOK	*Note*	*2020*	*2019*	*2020*	*2019*	*2019*
Earnings after tax		455	115	2 367	358	717
Specification of other comprehensive income for the period:						
Items to be reclassified to profit or loss in subsequent periods:						
Change in fair value, financial instruments						
- Cash flow hedges (Currency futures and interest rate swaps)	7	(59)	(107)	(202)	(122)	(117)
Tax effect cash flow hedges (Currency futures and interest rate swaps)		13	24	44	27	26
Translation differences currency		118	245	437	183	108
Total items to be reclassified to profit or loss in subsequent periods		72	162	279	88	17
Items not to be reclassified to profit or loss:						
Actuarial gains/losses pensions		-	-	-	-	(112)
Tax effect on actuarial gain/loss on pension		-	-	-	-	15
Total items not to be reclassified to profit or loss		-	-	-	-	(97)
Comprehensive income after tax for the period		527	277	2 646	446	637

Condensed statement of financial position

MNOK	Note	30.9. 2020	30.6. 2020	31.12. 2019
Property, plant and equipment		3 784	3 797	3 924
Leasing assets	3	1 934	2 036	2 141
Intangible assets	8	5 264	5 311	6 487
Shares in joint arrangements and associated companies	6	3 458	3 275	3 247
Other non-current assets		390	389	380
Total non-current assets		14 830	14 808	16 179
Inventories		4 305	4 182	3 964
Trade receivables		4 369	5 125	6 363
Customer contracts, asset	7	6 498	6 131	5 888
Derivatives	7	571	624	376
Other short-term receivables		690	673	998
Cash and cash equivalents		8 098	8 610	5 654
Total current assets		24 529	25 345	23 243
Total assets		39 359	40 153	39 422
Issued capital		5 933	5 933	5 933
Retained earnings		8 096	7 662	6 249
Other reserves		851	778	571
Non-controlling interests		113	93	57
Total equity		14 992	14 466	12 810
Long-term interest-bearing loans	7	2 473	2 474	3 469
Long-term leasing liabilities	3	1 716	1 789	1 850
Other non-current liabilities and provisions	4	2 318	2 212	2 481
Total non-current liabilities and provisions		6 507	6 476	7 801
Customer contracts, liabilities	7	8 924	9 245	10 481
Derivatives	7	1 334	1 593	494
Short-term interest-bearing loans	7	1 007	1 075	619
Short-term leasing liabilities	3	330	334	348
Other current liabilities and provisions	4	6 265	6 965	6 868
Total current liabilities and provisions		17 859	19 211	18 812
Total equity, liabilities and provisions		39 359	40 153	39 422
Equity ratio (%)		38,1	36,0	32,5
Net interest-bearing debt		(4 618)	(5 061)	(1 565)

Condensed statement of changes in equity

MNOK	Note	30.9. 2020	30.6. 2020	31.12. 2019
Equity opening balance		12 810	12 810	12 626
Other comprehensive income		2 646	2 118	637
Dividends paid		(450)	(450)	(450)
Treasury share		(15)	(15)	(3)
Purchase/sale, in non-controlling interests		1	4	-
Equity closing balance		14 992	14 466	12 810

Condensed cash flow statement

		1.7. - 30.9.		1.1. - 30.9.		
MNOK	*Note*	*2020*	*2019*	*2020*	*2019*	*2019*
EBITDA		919	544	2 302	1 405	2 258
EBITDA from discontinued operations	13	-	-	40	-	-
Change in net current assets and other operatings-related items		(577)	(959)	(1 220)	(1 759)	(375)
Net cash flow from operating activities		**343**	**(415)**	**1 122**	**(354)**	**1 883**
Share of net income from joint arrangements and associated companies		**-**	**55**	**130**	**123**	**123**
Purchase/disposal of property, plant and equipment		(119)	(108)	(362)	(312)	(534)
Proceeds from aquiring subsidiaries and associated companies	12	(16)	-	(59)	(3 819)	(3 625)
Repayment of debt in aqcuired business		-	-	-	(1 000)	(1 000)
Proceeds from sale of business	13	(455)	-	3 177	161	161
Capitalised internal developed intangible assets (R&D)	8	(40)	(64)	(187)	(133)	(176)
Net cash flow from investing activities		**(630)**	**(117)**	**2 699**	**(4 980)**	**(5 051)**
Net change interest-bearing loans	7	(63)	(250)	(603)	(238)	(238)
Payment of principal portion of lease liabilities	3	(86)	(83)	(257)	(208)	(292)
Interest paid		(22)	(34)	(81)	(86)	(122)
Interest paid on leasing liabilities	3	(34)	(36)	(107)	(96)	(131)
Transactions with treasury shares		-	-	(51)	(27)	(27)
Dividends paid to equity holders of the parent		-	-	(450)	(450)	(450)
- of which dividends from treasury shares		-	-	2	2	2
Net cash flow from financing activities		**(205)**	**(403)**	**(1 547)**	**(1 103)**	**(1 258)**
Effect of changes in exchange rates on cash and cash equivalents		(20)	80	170	66	42
Net change in cash and cash equivalents		**(512)**	**(855)**	**2 444**	**(6 371)**	**(4 384)**
Cash and cash equivalents at the beginning of the period		**8 610**	**4 522**	**5 654**	**10 038**	**10 038**
Cash and cash equivalents at the end of the period		**8 098**	**3 667**	**8 098**	**3 667**	**5 654**

Note 1 | General information and principles

General information
The consolidated financial statement for Q3 (interim financial statement) covers Kongsberg Gruppen ASA, its subsidiaries and shares in joint arrangements and associated companies that are included 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 2019. The consolidated financial statements for 2019 were prepared in compliance with the Norwegian Accounting Act and international standards for financial reporting (IFRS) established by the EU.

The consolidated financial statements for 2019 are available on www.kongsberg.com.

The interim financial statement has not been audited.

Note 2 | New standards as from 1.1.2020

The accounting principles used in the quarterly report are the same principles as those applied to the consolidated financial statements for 2019, with the exception of changes to *IFRS 3 Business combinations, IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*, which was implemented 1 January 2020. The implementation of the changes has not had any significant effect on the consolidated financial statements.

IFRS 3 Business Combinations
IASB has clarified the definition of a business, which means that the purchase of a set of assets and liabilities must be recognised according to IFRS 3 Business Combinations. When the definition of business is not met, the transaction will be recognised according to the relevant standards, for example for inventories or fixed assets.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
IASB has revised the definition of "material" in the two standards, to ensure that there is a consistent definition across the various IFRS standards. The new definition makes it clear that information in the financial statements will be material if the omission, mis-statement or concealment of information could be expected to influence decisions that the primary users make based on the financial statements.

Note 3 | Leasing

KONGSBERG has leases that are primarily related to land and buildings, as well as leases for machinery, vehicles and equipment.

IFRS 16 effects on condensed statement of financial position:

Opening balance 01.01.2020	**2 141**
Addition	45
Depreciation Q1	(98)
Translation differences	58
Opening balance 01.04.2020	**2 146**
Addition	18
Depreciation Q2	(105)
Translation differences	(23)
Opening balance 01.07.2020	**2 036**
Addition	5
Depreciation Q3	(104)
Translation differences	(2)
Closing balance 30.9.2020	**1 934**

	30.9.2020	30.6.2020	31.12.2019
Leasing assets	**1 934**	**2 036**	**2 141**
Long-term leasing liabilities	**1 716**	**1 789**	**1 850**
Short-term leasing liabilities	**330**	**334**	**348**

IFRS 16 effects on condensed income statement in the period:

	1.7. - 30.9.		1.1. - 30.9.		
	2020	2019	2020	2019	2019
Returned rental cost earlier included in EBITDA	119	118	364	305	423
Increased EBITDA in the period	**119**	**118**	**364**	**303**	**423**
Depreciation on leases	(104)	(98)	(307)	(253)	(348)
Increased EBIT in the period	**15**	**20**	**56**	**51**	**75**
Interest cost on leasing liabilities for the period	(35)	(36)	(107)	(96)	(131)
Reduced EBT in the period	**(20)**	**(16)**	**(51)**	**(46)**	**(56)**

Note 4 | Estimates

Preparing the interim financial statement 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 key considerations in connection with the application of the Group's accounting principles and the major sources of uncertainty remain the same as when the 2019 consolidated financial statements was compiled.

Note 5 | Segment information

	OPERATING REVENUES					EBITDA					EBIT				
	1.7. - 30.9.		1.1. - 30.9.			1.7. - 30.9.		1.1. - 30.9.			1.7. - 30.9.		1.1. - 30.9.		
MNOK	*2020*	*2019*	*2020*	*2019*	*2019*	*2020*	*2019*	*2020*	*2019*	*2019*	*2020*	*2019*	*2020*	*2019*	*2019*
KM	3 695	4 041	12 000	9 935	15 198	411	223	1 068	597	1 005	227	33	482	121	356
KDA	1 933	1 578	5 883	4 776	7 245	473	252	1 142	677	1 123	338	150	769	389	725
Other	174	213	580	595	802	35	21	93	14	(16)	30	11	75	(13)	(52)
Group	5 802	5 833	18 464	15 307	23 245	919	496	2 302	1 288	2 113	595	193	1 326	497	1 029

EBITDA and EBIT do not longer include share of net result from joint arrangements and associated companies. On 4 February 2020, Kongsberg entered into an agreement with Huntington Ingalls Industries regarding the sale of the company Hydroid Inc., a wholly owned subsidiary in the Kongsberg Maritime business area. The sale was completed on 26 March and all Hydroid earnings figures have been removed from the KM segment. For further information on the sale, see note 13 Discontinued operations.

Note 6 | Shares in joint arrangements and associated companies

Specification of movement in the balance sheet line "Shares in joint arrangements and associated companies" 1 January to 30 September

MNOK	Ownership	Carrying amount 1.1.2020	Additions/ disposals	Dividends received	Share of net income [1]	Other items and comprehensive income	Carrying amount 30.9.20
Patria Oyj	49,9 %	2 656	-	(75)	4	264	2 849
Kongsberg Satellite Services AS	50,0 %	492	-	(55)	93	-	530
Other shares		100	10	-	(30)	-	80
Total		3 247	10	(130)	67	264	3 458

[1] The share of net result is included after tax and amortisation of excess value. The share of net result for Q3 is 35 MNOK.

Share of net result from Patria:

	1.7. - 30.9.	1.1. - 30.9.	1.1. - 31.12.
	2020	2020	2019
Millions	NOK	NOK	NOK
KONGSBERG's share (49,9%) [1]	8	20	(8)
Amortisation of excess values after tax	(4)	(16)	(27)
Share of net income recognised in KDA for the period	4	4	(35)

[1] Share of Patria's net income after tax adjusted for non-controlling interests and net income from KAMS. In addition the result for June is adjusted this period.

Note 7 | Financial instruments

Loans and credit facilities
The Group has five bond loans amounting to a total of MNOK 3,450. The loans are classified as long-term loans, except KOG08 (nominal value of MNOK 1,000), which is due within a year and is reclassified to short-term loans. The maturity dates of the long-term bond loans range from 6 December 2021 to 2 June 2026. The bond loan KOG10 (nominal value of MNOK 550) was repaid in its entirety when matured in March 2020. During the period loan in China is repaid by MNOK 63. In addition, the Group has a syndicated credit facility of MNOK 2,300 and an overdraft credit facility of MNOK 500. Neither are utilised.

Interest-bearing loans:

MNOK	Due date	Nominal interest rate	30.9.2020 Value [1]	31.12.2019 Value [1]
Long-term loans				
Bond issue KOG08 - floating interest rate			-	1 000
Bond issue KOG09 - fixed interest rate	02.06.2026	3,20%	1 000	1 000
Bond issue KOG11 - fixed interest rate	05.12.2023	2,90%	450	450
Bond issue KOG12 - floating interest rate	06.12.2021	1,13%	500	500
Bond issue KOG13 - floating interest rate	06.06.2024	1,45%	500	500
Other long-term loans [2]			23	19
Total long-term loans			**2 473**	**3 469**
Short-term loans:				
Bond issue KOG08 - floating interest rate[3]	02.06.2021	1,48%	1 000	-
Bond issue KOG10 - floating interest rate [4]			-	550
Other short-term loans			7	70
Total short-term loans			**1 007**	**620**
Total interest-bearing loans			3 480	4 089
Syndicated credit facility (unused borrowing limit)	15.03.2023		2 300	2 300
Overdraft facility (unused)			500	500

[1] Value is equal to nominal amount. For long-term bond loans, the carrying amount is equal to the nominal amount.

[2] "Other long-term loans" consists of minor loans in local banks in some of the Group's subsidiaries.

[3] The bond issue KOG08 with nominal value MNOK 1,000 and due date 02.06.21, was reclassificated to short-term loans at 30.06.2020.

[4] The bond issue KOG10 was repaid at due date 05.03.20.

Forward exchange contracts and interest rate swaps

As shown in the condensed statement of comprehensive income the fair value of cash flow hedges has been decreased by MNOK 202 before tax during the period 1 January – 30 September 2020. Of this amount, the change in fair value of forward exchange contracts accounted for a decrease of MNOK 53. The net value of fair value hedges has been significantly reduced as a result of the depreciation of the Norwegian krone against relevant currencies during the first quarter. During the second and third quarter the Norwegian krone has strengthen slightly and the total change from the end of the year represents a reduction of MNOK 396. The end-of-quarter spot prices were USD/NOK 9.33 and EUR/NOK 10.93.

Forward exchange contracts classified as cash flow hedging:

	Due in 2020		Due in 2021 or later		Total		
MNOK (before tax)	*Value based on agreed exchange rates*	*Fair value at 30.9.20*	*Value based on agreed exchange rates*	*Fair value at 30.9.20*	*Value based on agreed exchange rates*	*Change in fair value from 31.12.19*	*Fair value at 30.9.20*
USD	7	1	94	(66)	101	(67)	(65)
EUR	(448)	-	5	-	(443)	12	-
Other	(5)	-	(42)	1	(47)	2	1
Sum	**(446)**	**1**	**57**	**(65)**	**(389)**	**(53)**	**(64)**
Roll-over of currency futures	-	(21)	-	(84)	-	52	(105)
Total	**(446)**	**(20)**	**57**	**(149)**	**(389)**	**(1)**	**(169)**

Forward exchange contracts cash flow hedging, asset	60
Forward exchange contracts cash flow hedging, liability	(125)
Net forward exchange contracts cash flow hedging	**(65)**

Fair value is calculated as the difference between the spot rate at 30 September 2020 and the forward rates on currency contracts.

The difference (MNOK -201) between changes in the fair value of balances classified as cash flow hedges (MNOK -202) and changes in fair value on forward exchange contracts (MNOK -1) is ascribable to a change in fair values of basis swaps (MNOK -158), change in net fair value of options (MNOK -24) and interest rate according to implementation of hedge accounting in acquired companies with MNOK -19.

Forward exchange contracts classified as fair value hedging:

	Due in 2020		Due in 2021 or later		Total		
MNOK	*Value based on agreed exchange rates*	*Fair value at 30.9.20*	*Value based on agreed exchange rates*	*Fair value at 30.9.20*	*Value based on agreed exchange rates*	*Change in fair value from 31.12.19*	*Fair value at 30.9.20*
USD	2 334	(51)	9 079	(385)	11 413	(384)	(436)
EUR	603	-	1 685	(79)	2 288	(77)	(79)
Other	34	15	851	43	885	65	58
Totalt	**2 971**	**(36)**	**11 615**	**(421)**	**14 586**	**(396)**	**(457)**

Forward exchange contracts fair value hedges, asset	501
Forward exchange contracts fair value hedges, liability	(958)
Net forward exchange contracts fair value hedges	**(457)**

The value of fair value hedges is recognised in the statement of financial position against customer contracts, assets by MNOK 17 and customer contracts, liabilities by MNOK 474.

Specification of derivatives:

	30.9.	30.6.	31.12.
MNOK	*2020*	*2020*	*2019*
Forward exchange contracts, cash flow hedging	60	135	44
Forward exchange contracts, fair value hedges	501	489	314
Gross fair value options	5	-	-
Loan hedges	4	-	-
Total derivatives, current assets	**571**	**624**	**358**
Forward exchange contracts, cash flow hedging	125	169	55
Forward exchange contracts, fair value hedges	958	1 221	374
Fair value	222	200	64
Gross fair	29	-	-
Loan hedges	-	3	-
Total derivatives, current liabilities	**1 334**	**1 593**	**493**

Note 8 | Product development

Product maintenance cost and development recognised in the income statement during the period:

	1.7. - 30.9.		1.1. - 30.9.		
MNOK	*2020*	*2019*	*2020*	*2019*	*2019*
Product maintenance	92	106	292	308	442
Development cost	165	165	637	562	807
Total	258	269	929	869	1 249

Capitalised development recognised in the balance sheet during the period:

	1.7. - 30.9.		1.1. - 30.9.		
MNOK	*2020*	*2019*	*2020*	*2019*	*2019*
Capitalised development	39	48	186	105	173

The largest capitalised projects are related to the development of a digital platform (Kognifai), Joint Strike Missile (JSM), medium-calibre weapon station (MCT), communication solutions and remote towers for airports.

Note 9 | Related parties

The Board is not aware of any changes or transactions in Q3 associated with related parties that in any significant way have an impact on the Group's financial position and profit for the period.

Note 10 | Important risk and uncertainty factors

The Group's risk management is described in the 2019 annual report.

To a certain extent, the COVID-19 outbreak leads to great uncertainty in the future about the entire value chain, given travel restrictions, quarantine regulations and other considerations to protect people from infection. Kongsberg Maritime has extensive international operations and is directly affected by decline in the world economy. The travel restrictions in effect in various countries have a particular impact on aspects of service and after-market, but the effects are limited because Kongsberg Maritime has wide locally representation. Kongsberg Defence & Aerospace has a high proportion of exports, but the bulk of operations are in Norway. So far, the defence business has not experienced major consequences as a result of COVID-19, and operations are almost at a normal level, but travel restrictions are also causing challenges here. The Group has implemented and is continuing to implement new preventive measures to protect its own employees, business partners and to ensure normal business operations to as great extent as possible.

In preparing KONGSBERG's financial statement for the first half of the year, assessments have been made in relation to any COVID-19 impact on accounting items. Despite the downward trend in sales and order intake in a number of areas, no significant negative effects on profits were recorded. This is largely due to the introduction of comprehensive cost-saving measures and savings which are directly connected to COVID-19 (e.g. travel restrictions). KONGSBERG is expected to still be affected in the coming quarters. Uncertainty regarding oil prices in the future will affect investment levels in a number of segments, while at the same time leading to opportunities in other segments where KONGSBERG is strong. Lower activity among customers and suppliers, travel restrictions and increased risk of delays within projects due to temporary closures and lack of resources are expected to affect revenue, profit and order intake. In addition, there is a greater risk of cancellations of customer contracts and delayed or missing payments due to the fact that large parts of the customer base are affected, which could lead to an increased risk of losses on trade receivables, goods, project assets and foreign exchange contracts. So far losses and impairment has been limited for the Group. KONGSBERG is therefore closely monitoring the development of the virus situation in other countries, and especially in the US. The Group's large international presence, and global dependency makes the Group vulnerable for conditions that influence the international trade and the world economy in general. It is still great uncertainty regarding how the effects from the COVID-19 will affect the world economy in the longer term and how it will affect KONGSBERG.

For more information on the consequences of and measures concerning COVID-19, see the sections for Kongsberg Maritime on page 11, Kongsberg Defence & Aerospace on page 15 and Prospects on page 17.

In addition, uncertainty regarding oil prices in the future will affect investment levels in a number of segments, while at the same time leading to opportunities in other segments where KONGSBERG is strong.

Note 11 | Tax

The income tax expense as of Q3 is calculated to be 24.0 per cent of earnings before tax. The income tax expense is affected by non-deductible costs, withholding tax on dividends from foreign subsidiaries and the fact that shares of net income from associated companies are recognised after tax.

Note 12 | Acquisitions

COACH Solutions ApS

On 30 June, KONGSBERG signed an agreement to purchase COACH Solutions ApS, and the acquisition was completed on the same day.

The company is a Danish maritime software company founded by the Danish shipping company Clipper Group. The company develops software to optimise energy consumption and receive continuously-updated weather routing, which enables customers to achieve large financial and environmental operational savings. The solutions have been installed on 600 active vessels. COACH software complements Kongsberg Digital's maritime portfolio and the company is included as a wholly owned subsidiary in this business area.

The parties agreed on an enterprise value on a cash- and debt-free basis, and with normalised working capital of MNOK 39. Added value in the acquisition is allocated to customer relations, technology and goodwill. The payment was made in the 2. Quarter.

The company will change its name to KONGSBERG COACH Solutions ApS.

Final purchase price allocation COACH Solutions ApS

MNOK	*Carrying amount prior to acquisition*	*Adjustments fair value*	*Recognised values at acquisition*
Customer relationship	-	16	**16**
Technology	-	12	**12**
Total intangible assets exclusive goodwill	**-**	**28**	**28**
Current assets exclusive cash and cash equivalents	6	-	**6**
Cash and cash equivalents	4	-	**4**
Total assets exclusive goodwill	**10**	**28**	**39**
Deferred tax liabilty		(6)	**(6)**
Other current liabilities and provisions	(5)	-	**(5)**
Total liabilities and provisions	**(5)**	**(6)**	**(11)**
Net identifiable assets and liabilities	**5**	**23**	**28**
Goodwill upon acquisitions	-	15	15
Remuneration	**-**	**-**	**43**
Cash and cash equivalents acquired	-	-	(4)
Net outgoing cash flow for the acquisition	**-**	**-**	**39**

Note 13 | Discontinued operations

Hydroid Inc.
On 4 February 2020 Kongsberg Maritime signed an agreement to sell the subsea technology company Hydroid Inc. in the USA to Huntington Ingalls Industries (HII) for USD 350 million, on a debt- and cash-free basis and adjusted for agreed working capital. The transaction was completed with effect from 26 March 2020 and means that Hydroid's profit and loss figures have been removed from the accounts in the financial statement and reported on the line "Earnings after tax from discontinued operations". Comparative figures have also been recalculated. For further information see the quarterly report for Q1.

The tables below specify the impact Hydroid has had on the Group's figures. Tax on the transaction incurred in the United States, of approximately MNOK 650, has been reported as other short-term liabilities and is expected to be paid during 2020. Loss on currency hedging results in a reduced tax expense on approximately MNOK 50. As of September MNOK 437 of the tax is paid. In addition, tax will be levied on the allocation of the funds. An adjustment of the purchase price in Q3 results in a payment of MNOK 17. Total payment in the 3rd quarter is MNOK 455. The gain is increased by MNOK 11 during the period as a result of dissolution of provisions related to the gain estimate.

Specification of the earnings after tax for discontinued operations

	1.1. - 30.9.		
MNOK	***2020***	***2019***	***2019***
Operating revenues	268	614	840
Operating expenses	(228)	(496)	(695)
EBITDA	**40**	**117**	**145**
EBIT	**36**	**108**	**132**
Earnings before tax	**27**	**95**	**134**
Tax	(7)	(3)	(13)
Earnings after tax	**20**	**92**	**121**
Gain from sale of business before tax	2 020	-	-
Tax on gain	600	-	-
Gain from sale of business after tax	**1 420**	**-**	**-**
Earnings after tax from discontinued operations	**1 440**	**79**	**121**

Cash flow from Hydroid

EBITDA	40	117	145
Change in net current assets and other operating related items	(249)	(20)	(26)
Net cash flow from operating activities	**(209)**	**97**	**120**
Net cash flow from investing activities	**(5)**	**(5)**	**(15)**
Net cash flow from financing activities	**(9)**	**(112)**	**(2)**

Effect of Hydroid on the condensed statement of financial position

MNOK	Reported 31.12.2019	Hydroid 31.12.19	Adjusted 31.12.19
Property, plant and equipment	3 924	182	3 742
Leasing assets	2 141	-	2 141
Goodwill	4 272	846	3 426
Intangible assets	2 215	7	2 208
Deferred tax asset	167	-	167
Shares in joint arrangements and associated companies	3 247	-	3 247
Other non-current assets	213	4	209
Total non-current assets	**16 179**	**1 040**	**15 140**
Inventories	3 964	100	3 864
Trade receivables	6 363	83	6 280
Other current assets	998	-	998
Customer contracts, asset	5 888	555	5 333
Derivatives	376	-	376
Cash and cash equivalents	5 654	28	5 626
Total current assets	**23 243**	**766**	**22 477**
Total assets	**39 422**	**1 806**	**37 617**
Issued capital	5 933	-	5 933
Retained earnings	6 249	1 326	4 923
Other reserves	571	-	571
Non-controlling interests	57	-	57
Total equity	**12 810**	**1 326**	**11 484**
Long-term interest-bearing loans	3 469	-	3 469
Long-term leasing liabilities	1 850	-	1 850
Pension liabilities	974	-	974
Provisions	122	-	122
Deferred tax liabilities	1 350	-	1 350
Other non-current liabilities	36	4	32
Total non-current liabilities and provisions	**7 801**	**4**	**7 797**
Customer contracts, liabilities	10 481	391	10 090
Derivatives	493	-	493
Provisions	1 513	9	1 504
Short-term interest-bearing loans	620	-	620
Short-term leasing liabilities	348	-	348
Other current liabilities	5 356	75	5 281
Total current liabilities and provisions	**18 811**	**475**	**18 336**
Total liabilities and provisions	**26 612**	**479**	**26 133**
Total equity, liabilities and provisions	**39 422**	**1 806**	**37 617**

Note 14 | Definitions and abbreviations

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.

Kongsberg considers *EBITDA* and *EBIT* to be normal accounting terms, but they are not included in the IFRS accounting standards. EBITDA is the abbreviation of “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 2019 financial statements. The same applies to EBIT.

Restructuring costs consist of salaries and social security tax upon termination of employment (such as severance and gratuity) 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 not in use.

Integration costs are those associated with integrating Commercial Marine into Kongsberg Maritime.

Net interest-bearing debt is the net amount of the accounting lines “Cash and cash equivalents” and “Short- and long-term interest-bearing liabilities, excluding leasing commitments”.

Return On Average Capital Employed (ROACE) is defined as the 12-month rolling EBIT including share of net income from joint arrangements and associated companies, excluding IFRS 16 divided by the 12-month mean of recognised equity and net interest-bearing debt. Net interest-bearing debt has been adjusted for the purchase price of Rolls-Royce Commercial Marine in relation to what was reported in Q1.

Working capital is defined as current assets (except cash and cash equivalents) minus non-interest-bearing liabilities (except taxes payable). Financial instruments recognised at fair value are not included in working capital.

Book-to-bill ratio is order intake divided by operating revenues.

CM is Commercial Marine (formerly Rolls-Royce Commercial Marine)

KAMS is Kongsberg Aviation Maintenance Services AS (formerly Aerospace Industrial Maintenance Norway AS)

Organic growth is change in operating revenues exclusive acquired companies.