KONGSBERG

QUARTERLY REPORT

3RD QUARTER

2018

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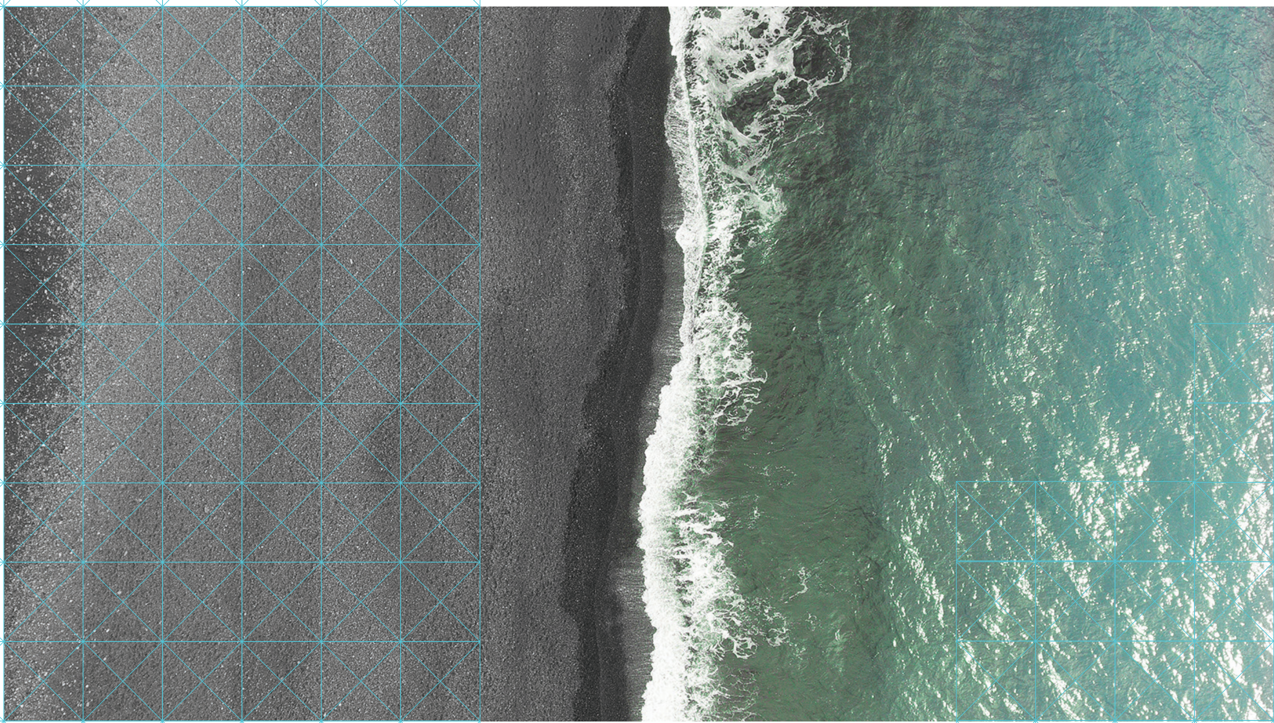
KONGSBERG



GEIR HÅØY
president & CEO

"The acquisition of Rolls-Royce Commercial Marine is a milestone that will make us a more complete and strategically important supplier in a competitive global market. The acquisition will considerably strengthen the company's operations and our goal is to create value for KONGSBERG's shareholders over time. We are delighted that the parliament acknowledges the strategic importance of the acquisition of Rolls-Royce Commercial Marine, both for KONGSBERG and the Norwegian maritime industry. The order intake from the maritime market has been strong this quarter. However, it is important to emphasise that the market is still challenging and that the order intake is fluctuating considerably from one quarter to another. Kongsberg Defence & Aerospace's revenues is temporarily down, but is well positioned for the future. The continuation of KONGSBERG as a supplier to the US CROWS programme confirms the leading position we have in this market."

Highlights

KONGSBERG	The Norwegian parliament has approved that the Norwegian State will contribute in the rights issue related to the acquisition of Rolls-Royce Commercial Marine.
KONGSBERG MARITIME	Good order intake with book/bill of 1.68 and an improvement in the margins from both Q3 2017 and the first two quarters of 2018.
KONGSBERG DEFENCE & AEROSPACE	Solid operations and good EBITDA. The operating revenues is temporary down due to new projects in the start-up phase. Deliveries to the CROWS programme secured for the next five years.
KONGSBERG DIGITAL	Invested heavily in development within new digital solutions. The quarterly order intake is good, especially within maritime simulation.

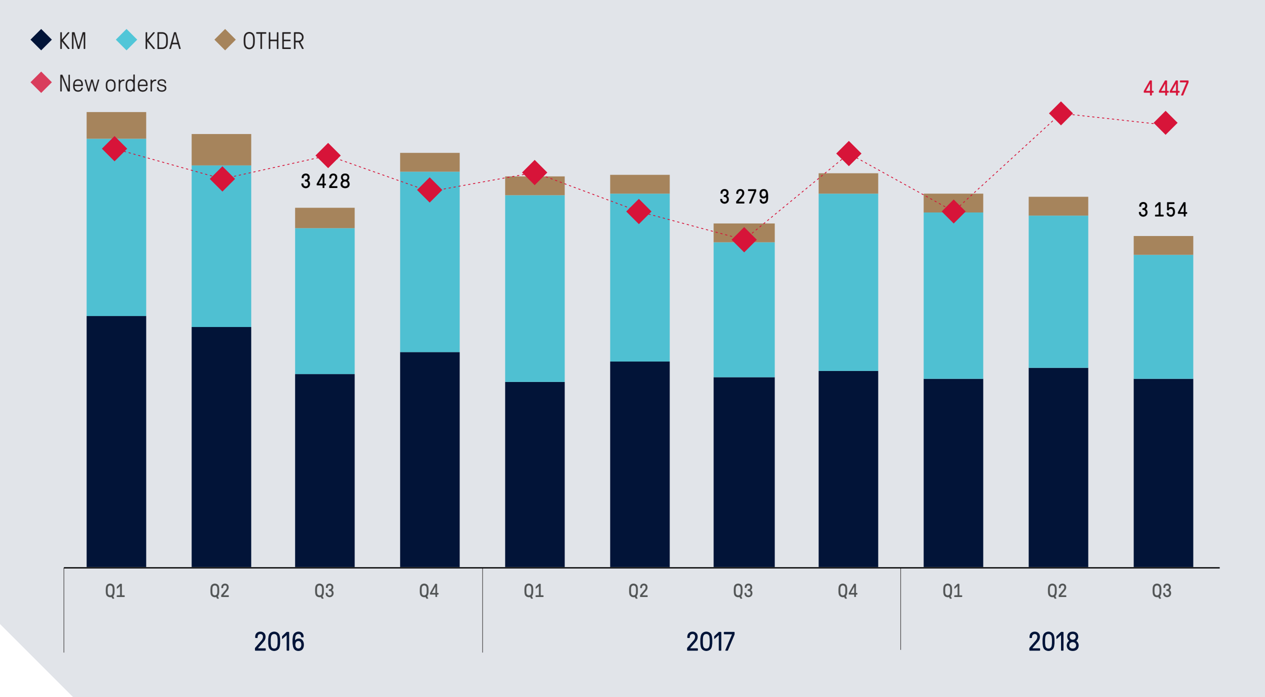
Key figures

MNOK	1.7 - 30.9 2018	1.7 - 30.9 2017	1.1 - 30.9 2018	1.1 - 30.9 2017	2017
Operating revenues	3 154	3 279	10 233	10 733	14 490
EBITDA	347	274	874	820	1 279
EBITDA %	11,0	8,4	8,5	7,6	8,8
EBIT	240	162	539	473	772
EBIT %	7,6	4,9	5,3	4,4	5,3
Earnings before tax	195	128	453	388	654
Earnings after tax	155	79	360	289	559
EPS NOK	1,29	0,66	3,01	2,41	4,62
New orders	4 477	2 429	12 715	8 415	13 430

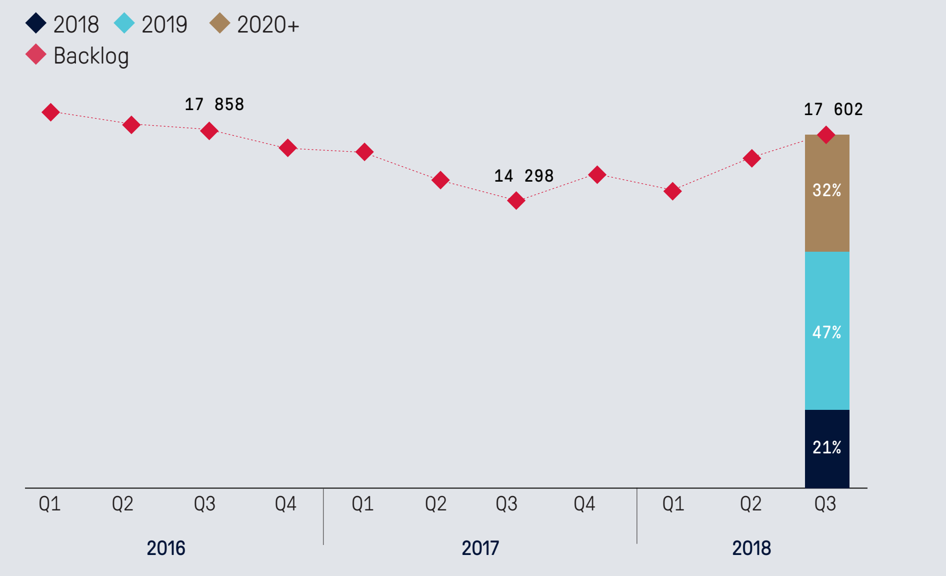
MNOK	30.9 *2018*	30.6 *2018*	31.12 *2017*
Equity ratio (%)	35,5	35,1	35,6
Net interest-bearing debt [1]	336	707	384
Working capital [2]	870	1 060	955
ROACE (%) [3]	10,8	9,4	9,1
Order backlog	17 602	16 419	15 629
No. of employees	6 761	6 657	6 830

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

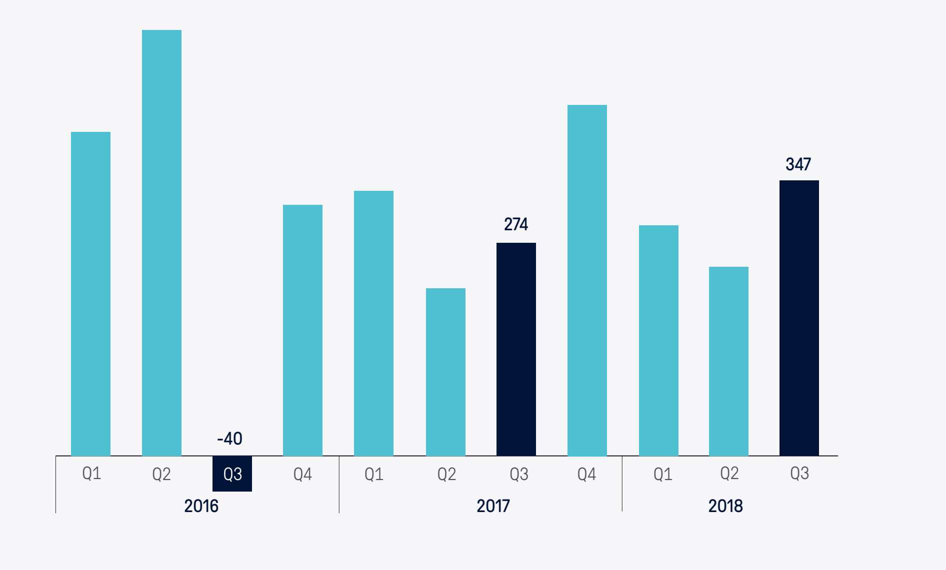
OPERATING REVENUES AND NEW ORDERS



BACKLOG



EBITDA



EPS

Performance, market and orders

The Group recorded operating revenues of NOK 3,154 million during Q3, which is 3.8 percent down on the same quarter in 2017. KM has a reduction of 0.9 per cent. KDA has a reduction of 7.9 per cent, mainly due to lower operating revenues in Protech Systems.

The EBITDA margin ended at 11.0 per cent, compared to 8.4 per cent in Q3 2017. EBITDA in Q3 2018 adjusted for integration costs, is largely on a par with the corresponding quarter in 2017 adjusted for restructuring costs.

The order intake in Q3 was NOK 4,477 million, which gives a book/bill of 1.42. The order backlog is NOK 17,602 million at the end of the quarter, which is the highest level in two years. Book/bill is 1.68 in KM and 1.08 in KDA. The order intake fluctuates considerably over time as a result of large individual orders.

Aggregate operating revenues in 2018 are NOK 10,233 million, 4.7 per cent down on the same period last year. The air defence area in KDA is the main cause for the reduction. The EBITDA margin is 8.5 per cent (7.6 per cent).

OPERATING REVENUES

3,154

MNOK

EBITDA-MARGIN

11.0%

NEW ORDERS

4,477

MNOK

Cash flow

KONGSBERG had a net increase in cash and cash equivalents during Q3 of NOK 360 million. Cash flow from operating activities amounted to NOK 462 million. In 2018 the change in cash and cash equivalents amount to NOK 34 million (NOK -249 million). Unlike 2017, there has been no payment of bond loans in 2018.

	1.7 - 30.9		1.1 - 30.9		
MNOK	*2018*	*2017*	*2018*	*2017*	*2017*
EBITDA	347	274	874	820	1 279
Change in net current assets and other operating related items	115	(470)	(9)	330	1 620
Net cash flow from operating activities	**462**	**(196)**	**865**	**1 150**	**2 899**
Net cash flow used in investing activities	(81)	(91)	(259)	(377)	(528)
Net cash flow used in financing activities	(20)	(294)	(545)	(1 001)	(1 319)
Effect of changes in exchange rates on cash and cash equivalents	(1)	(37)	(27)	(21)	16
Net change in cash and cash equivalents	**360**	**(618)**	**34**	**(249)**	**1 068**

Balance sheet

Interest-bearing debt at the end of Q3 consists of five bond loans totalling NOK 3,250 million and other interest-bearing debt of NOK 76 million. See also Note 6. At the end of Q3 2018, the Group had NOK 2,990 million in cash and cash equivalents and a net interest-bearing debt of NOK 336 million.

In addition, the Group had a syndicated credit facility of NOK 2,300 million and an overdraft credit facility of NOK 500 million. At the end of Q3, these remained undrawn.

The equity share at the end of Q3 is 35.5 per cent. The equity book value is up by NOK 113 million this quarter.

NET INTEREST-BEARING DEBT

336

MNOK

	30.9	30.6	31.12
NOK millioner	*2018*	*2018*	*2017*
Equity	7 164	7 051	7 365
Equity ratio (%)	35,5	35,1	35,6
Total assets	20 203	20 085	20 676
Working capital	870	1 060	955
Gross interest-bearing debt	3 326	3 337	3 340
Cash and cash equivalents	2 990	2 630	2 956
Net interest-bearing debt	336	707	384

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 proportion of expected order intake for large contracts according to the established policy (cash flow hedges). The company's portfolio of cash flow hedges had a fair value of minus NOK 7 million at the end of the quarter, which had a negative impact on the book value of equity. See also Note 6.

Product development

KONGSBERG is continually investing in product development, through both self-financed and customer-funded programmes. Self-financed product development and maintenance during Q3 totalled NOK 218 million, of which NOK 33 million was capitalised. See the table in Note 7.

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

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 the operating revenues.

Human resources

KONGSBERG had 6,761 employees at the end of the quarter, of whom around 34 per cent are employed by companies outside Norway. The number of employees was increased by 104 during the quarter, caused by among others, increased activity in KM customer support and project related increase in KDA.

Number of employees by business areas

Other activities

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

Acquisition of Rolls-Royce Commercial Marine

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

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

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

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

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

The final completion of the transaction will require the approval of the competition authorities in a number of countries, a process which is expected to be completed during Q1 or early in Q2 2019. Ahead of this, KONGSBERG will secure the necessary financing for the acquisition through the announced rights issue of around NOK 5 billion and through issuing one or more bonds totalling up to NOK 2 billion. On 9 October 2018, parliament approved that the State, as represented by the Ministry of Trade, Industry and Fisheries, will participate in the announced rights issue with the government's pro rata share (50.001 per cent), provided that the conditions for the placement are acceptable and aligned with the market and that no new material information is received before the Annual General Meeting convenes to decide on the capital increase. The remaining shares of the rights issue (50 per cent) is guaranteed to be subscribed by a syndicate consisting of DNB Markets and Danske Bank A/S (30.1 per cent) and major pre-subscribed shareholders (19.9 per cent). Shareholders who at 6 July 2018 represented 21.99 per cent of the shares have undertaken to vote for the placement at KONGSBERG's general meeting. At 6 July 2018, the State and these shareholders represent 71.99 per cent of the shares in the company.

KONGSBERG MARITIME

Performance

Operating revenues in Q3 amounted to 1,798 million, which is one per cent down on the same quarter last year. Revenues are somewhat higher within the subsea area while it is a bit lower for deliveries to the new build market for traditional vessels. Activity in the after-market remains good. KM is exposed to most vessel segments. The diversified exposure offers robustness for the business area.

EBITDA in the quarter was NOK 205 million (NOK 161 million), corresponding to an EBITDA margin of 11.4 per cent (8.9 per cent). The margin in the quarter is influenced by lower development costs from reduced activity during the summer months. EBITDA in Q3 2018 includes NOK 25 million in integration costs related to the ongoing acquisition of Rolls-Royce Commercial Marine. Margins in KM fluctuate considerably between quarters, mainly as a result of the project mix. Certain markets remain challenging, but adjustments have made KM more robust and better adapted to the current market.

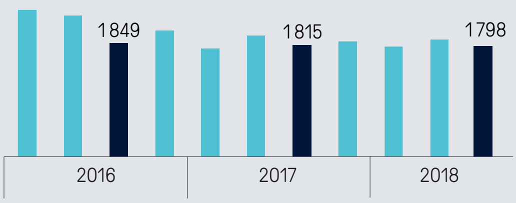
Aggregate operating revenues at the end of Q3 are NOK 5,504 million, which is down 0.9 per cent compared to the same period last year. The decline within traditional vessel deliveries has largely been offset by an increase in other areas within KM. The EBITDA margin is 8.2 per cent, compared with 6.5 per cent last year.

KEY FIGURES

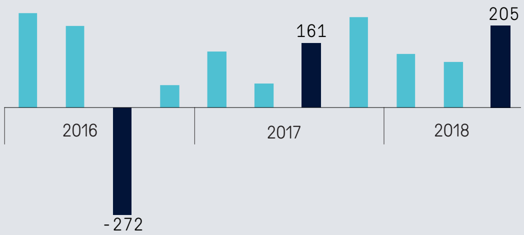
	1.7 - 30.9		1.1 - 30.9		
MNOK	2018	2017	2018	2017	2017
Operating revenues	1 798	1 815	5 504	5 552	7 429
EBITDA	205	161	454	361	589
EBITDA %	11,4	8,9	8,2	6,5	7,9
New orders	3 024	1 670	7 031	5 643	7 336

	30.9	30.6	31.12
MNOK	*2018*	*2018*	*2017*
Order backlog	5 975	4 919	4 820
No. of employees	3 742	3 666	3 819

Operating revenues



EBITDA



Market and orders

Order intake in Q3 was NOK 3,024 million, which gives a book/bill of 1.68. Aggregate order intake at the end of Q3 is NOK 7,031 million (NOK 5,643 million), corresponding to a book/bill of 1.28. All KM divisions have a higher order intake than last year. At the end of Q3 2018, the total increase for the divisions that deliver to the new build market (Vessel Systems and Solutions) is more than 30 per cent. KM has an order backlog of NOK 5,975 million (NOK 4,908 million) at the end of Q3.

The order intake from traditional merchant vessels has been good so far in 2018 compared to 2017. This is for a large part driven by order intake from the bulk carrier and tanker markets. LNG has also contributed significantly to order intake. Orders from the traditional offshore markets such as supply and drilling are still weak, but the order intake has developed positively for both offshore production vessels and construction vessels, compared to 2017.

The Solutions area, where KM delivers comprehensive integrated solutions, has had a good order intake in Q3. Order intake is primarily driven by three large orders:

- A USD 18 million contract for deliveries to a semi-submersible drilling unit that will be built at Keppel Offshore & Marine for Awilco Drilling.
- A contract valued at over NOK 400 million for deliveries to nine roll-on-roll-off vessels that will be built by Nanjing Jinling Shipyard for Grimaldi Group.
- A USD 13 million contract for deliveries to a heavy lift crane vessel that will be built by China Merchant Heavy Industries for Offshore Heavy Transport.

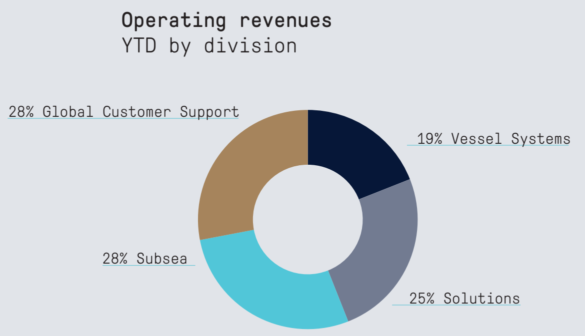
The strong quarterly order intake confirms that KM is established as a supplier of large integrated solutions.

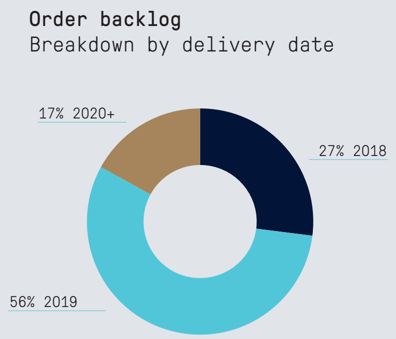
Subsea also recorded a strong order intake both during the quarter and during the first three quarters of the year, primarily linked to the areas hydrography, fisheries and marine robotics (autonomous underwater vessels – AUV).

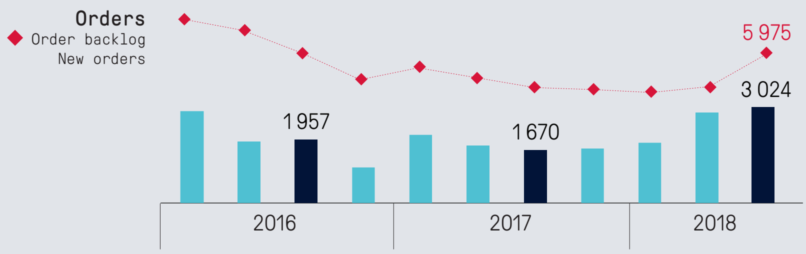
Global customer support continues having a high capacity utilisation. This is an important contributor to the improvement in KM's margin both during Q3 and for the first three quarters of the year.

KM is exposed to a number of markets. The traditional offshore market, which includes drilling and offshore supply, has been weak in recent years and the order intake from these markets has therefore been, and remains, very weak. At the same time, KM is also exposed to a number of markets which have shown a positive development. Examples of these are fisheries, research, marine robotics and passenger ferries. New regulatory requirements regarding emissions from vessels, combined with factors such as attractive new-build prices from shipyards, are also resulting in a positive trend linked to the construction of modern low-emission, energy-efficient solutions within a number of vessel segments. The good order intake and improved profitability so far in 2018 confirms that KM is able to adjust to changing market conditions. This has been achieved through restructurings and through a solid focus towards expanded scope of delivery and concepts for "new" markets.

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







KONGSBERG DEFENCE & AEROSPACE

Performance

Operating revenues in Q3 amounted to NOK 1,180 million, 7.9 per cent down on the same quarter last year. The reduction is mainly driven by lower revenues in Protech Systems.

EBITDA during the quarter was NOK 120 million (NOK 61 million), resulting in an EBITDA margin of 10.2 per cent (4.8 per cent). In Q3 2017, KDA's EBITDA was negatively affected by restructuring costs, with NOK 85 million related to the merger of KDS and KPS. The EBITDA figure includes NOK 7 million in share of net income from Patria, compared to NOK 10 million in Q3 2017.

Patria's quarterly operating revenues amounted to EUR 93 million, which is up 6.9 per cent compared to the same quarter last year. Most of the growth comes from the Systems division and is related to the Hamina contract that was signed in January. The vehicle operation has lower activity due to weak order intake this year, which causes the EBITDA margin to go down this quarter compared to last year. EBITDA in Q3 is EUR 10 million as compared to EUR 11 million in the same quarter last year. See also Note 5.

Aggregate operating revenues at the end of Q3 are NOK 4,206 million, which is down 9.5 per cent compared to the same period last year. Especially the first two quarters of 2017 were characterised by a high level of activity relating to the air defence programme that KDA signed with Raytheon in 2014. This is now in its final phase and the reduction in operating revenues so far this year is primarily due to less activity in this project. Two air defence contracts were signed in autumn 2017 which are still in the start-up phase. The EBITDA margin in Q3 ended at 11.7 per cent (8.4 per cent).

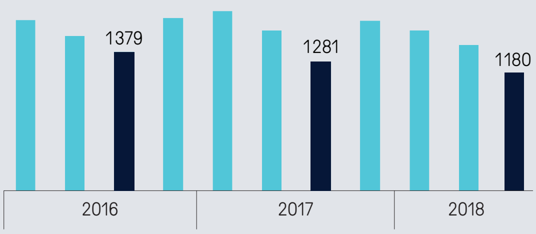
The major delivery and development projects are on schedule.

KEY FIGURES

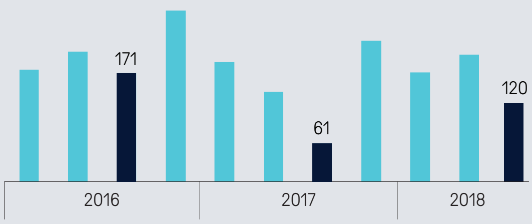
	1.7 - 30.9		1.1 - 30.9		
MNOK	2018	2017	2018	2017	2017
Operating revenues	1 180	1 281	4 206	4 650	6 333
EBITDA	120	61	492	391	612
EBITDA %	10,2	4,8	11,7	8,4	9,7
New orders	1 272	648	5 115	2 208	5 376

	30.9	30.6	31.12
MNOK	*2018*	*2018*	*2017*
Order backlog	10 867	10 772	9 956
No. of employees	2 426	2 392	2 421

Operating revenues



EBITDA



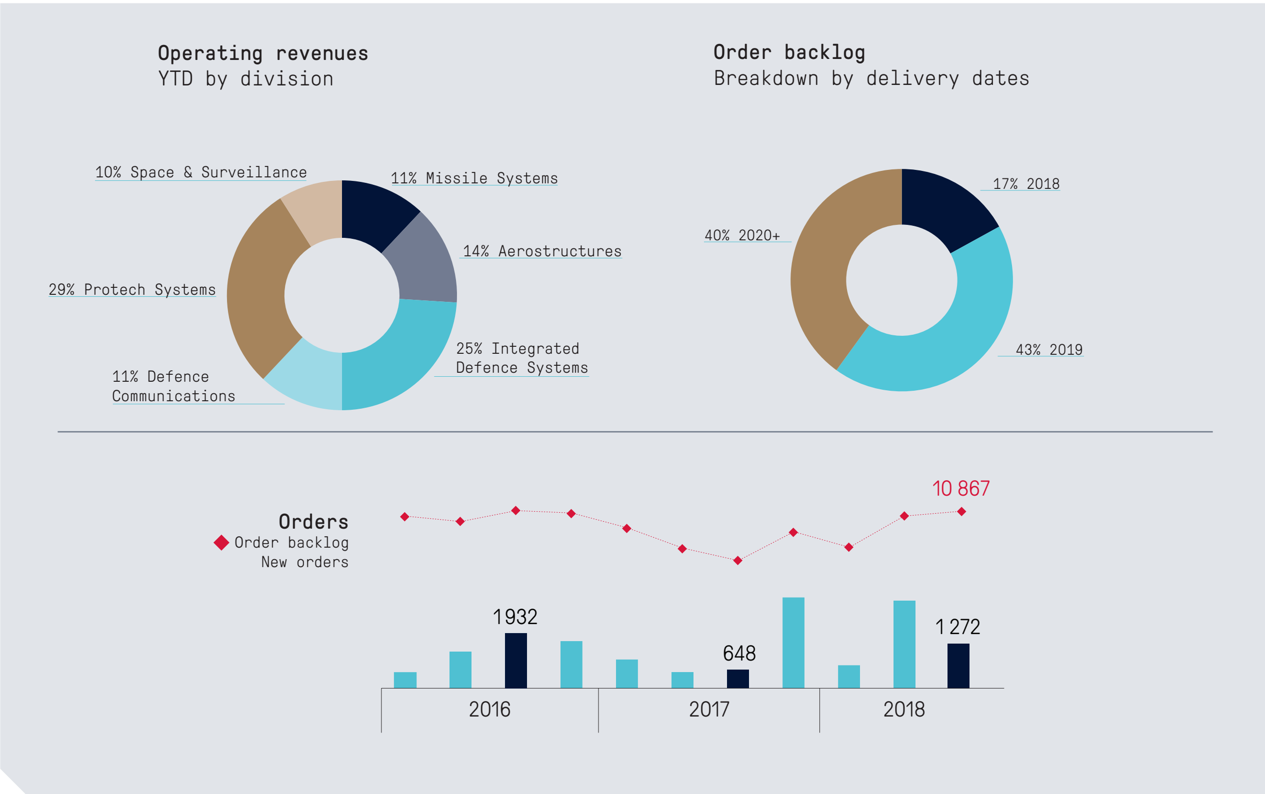
Market and orders

Order intake in Q3 totalled NOK 1,272 million (NOK 648 million), which gives a book/bill of 1.08. Aggregate order intake at the end of Q3 is NOK 5,115 million (NOK 2,208 million), corresponding to a book/bill of 1.22. KDA had an order backlog of NOK 10,867 million (NOK 8,476 million) at the end of Q3, which is the highest level since 2016.

In September 2018, KDA was selected as a supplier for the next phase of the CROWS programme. It involves a frame agreement with a value of up to USD 498 million over the next five years. The first order (USD 74 million) under the agreement was also signed in September. This is the third frame agreement following the US Army's choice of KONGSBERG's Protector system as its preferred remote controlled weapon station in 2007. Since then KONGSBERG has delivered over 12,5000 systems to the US through the CROWS programme, which has also been used for deliveries to the US Navy, US Air-force and US Marine Corps. This makes KONGSBERG by far the leading global player in this market.

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

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



As a consequence of the announced rights issue in connection with the acquisition of Rolls-Royce Commercial Marine, the Group will not make any forecasting comments in this report.

Kongsberg, 25 October 2018

The Board in Kongsberg Gruppen ASA

NUMBERS & NOTES

Key figures by quarter

KONGSBERG	2018				2017					2016				
MNOK	*2018*	*Q3*	*Q2*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*	*2016*	*Q4*	*Q3*	*Q2*	*Q1*
Operating revenues	10 233	3 154	3 525	3 554	14 490	3 757	3 279	3 733	3 721	15 845	3 952	3 428	4 125	4 340
EBITDA	874	347	241	286	1 279	459	274	207	339	1 217	334	(40)	515	408
EBITDA %	8,5	11,0	6,8	8,0	8,8	12,2	8,4	5,5	9,1	7,7	8,5	(1,2)	12,5	9,4
New orders	12 715	4 477	5 299	2 939	13 430	5 015	2 429	2 535	3 451	14 319	3 012	4 067	3 491	3 749
Order backlog	17 602	17 602	16 419	14 814	15 629	15 629	14 298	15 308	16 672	16 914	16 914	17 858	18 069	18 718
EBIT	539	240	124	175	772	299	162	91	220	692	188	(162)	383	283
EBIT %	5,3	7,6	3,5	4,9	5,3	8,0	4,9	2,4	5,9	4,4	4,8	(4,7)	9,3	6,5

KONGSBERG MARITIME	2018				2017					2016				
MNOK	*2018*	*Q3*	*Q2*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*	*2016*	*Q4*	*Q3*	*Q2*	*Q1*
Operating revenues	5 504	1 798	1 910	1 796	7 429	1 877	1 815	1 969	1 768	8 597	2 059	1 849	2 294	2 395
EBITDA	454	205	115	134	589	228	161	60	140	226	55	(272)	206	237
EBITDA %	8,2	11,4	6,0	7,5	7,9	12,1	8,9	3,0	7,9	2,6	2,7	(14,7)	9,0	9,9
New orders	7 031	3 024	2 107	1 900	7 336	1 693	1 670	1 813	2 160	7 940	1 156	1 957	1 943	2 884
Order backlog	5 975	5 975	4 919	4 740	4 820	4 820	4 908	5 197	5 519	5 137	5 137	5 952	6 666	7 002
EBIT	347	176	78	93	368	146	117	13	92	18	(1)	(319)	154	184
EBIT %	6,3	9,8	4,1	5,2	5,0	7,8	6,4	0,7	5,2	0,2	(0,0)	(17,3)	6,7	7,7

KONGSBERG DEFENCE & AEROSPACE	2018				2017					2016				
MNOK	*2018*	*Q3*	*Q2*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*	*2016*	*Q4*	*Q3*	*Q2*	*Q1*
Operating revenues	4 206	1 180	1 441	1 585	6 333	1 683	1 281	1 591	1 778	6 316	1 711	1 379	1 534	1 692
EBITDA	492	120	200	172	612	221	61	142	188	820	269	171	204	176
EBITDA %	11,7	10,2	13,9	10,9	9,7	13,1	4,8	8,9	10,6	13,0	15,7	12,4	13,3	10,4
New orders	5 115	1 272	3 045	798	5 376	3 168	648	559	1 001	5 426	1 632	1 932	1 276	586
Order backlog	10 867	10 867	10 772	9 170	9 956	9 956	8 476	9 115	10 150	10 910	10 910	11 055	10 491	10 756
EBIT	312	58	137	117	409	165	13	93	138	626	220	122	154	130
EBIT %	7,4	4,9	9,5	7,4	6,5	9,8	1,0	5,8	7,8	9,9	12,9	8,8	10,0	7,7

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

Condensed income statement

		1.7 - 30.9		1.1 - 30.9		
MNOK	*Note*	*2018*	*2017*	*2018*	*2017*	*2017*
Operating revenues	4	3 154	3 279	10 223	10 733	14 490
Operating expenses	7	(2 837)	(3 049)	(9 449)	(10 027)	(13 398)
Share of net income from joint arrangements and associated companies	6	30	44	90	114	187
EBITDA	**4,12**	**347**	**274**	**874**	**820**	**1 279**
Depreciation of property, plant and equipment		(86)	(86)	(263)	(263)	(353)
Impairment of property, plant and equipment		-	-	-	-	(40)
EBITA	**4,12**	**261**	**188**	**611**	**557**	**886**
Amortisation of intangible assets		(21)	(26)	(72)	(84)	(114)
EBIT	**12**	**240**	**162**	**539**	**473**	**772**
Net finiancial items	6	(45)	(34)	(86)	(85)	(118)
Earnings before tax (EBT)		**195**	**128**	**453**	**388**	**654**
Income tax expenses	10	(40)	(49)	(93)	(99)	(95)
Earnings after tax		**155**	**79**	**360**	**289**	**559**
Attributable to:						
Equity holders of the parent		155	79	361	289	554
Non-controlling interests		-	-	(1)	-	5
Earnings per share (EPS)/EPS diluted in NOK		1,29	0,66	3,01	2,41	4,62

Condensed statement of comprehensive income

		1.7 - 30.9		1.1 - 30.9		
MNOK	*Note*	*2018*	*2017*	*2018*	*2017*	*2017*
Earnings after tax		155	79	360	289	559
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)	6	(70)	233	35	457	509
Tax effect cash flow hedges (Currency futures and interest rate swaps)		16	(56)	(8)	(110)	(124)
Translation differences and hedge of net investments (currency)		12	(155)	(142)	11	211
Total items to be reclassified to profit or loss in subsequent periods		**(42)**	**22**	**(115)**	**358**	**596**
Items not to be reclassified to profit or loss:						
Actuarial gains/losses pensions		-	-	-	-	(76)
Income tax on items remaining in equity		-	-	-	-	18
Total items not to be reclassfied to profit or loss		**-**	**-**	**-**	**-**	**(58)**
Comprehensive income after tax		**113**	**101**	**245**	**647**	**1 097**

Condensed statement of financial status

MNOK	Note	30.9 2018	30.6 2018	31.12* 2017
Property, plant and equipment		2 525	2 572	2 658
Intangible assets	7	2 849	2 830	2 803
Shares in joint arrangements and associated companies	5	3 207	3 178	3 358
Other non-current assets		195	200	204
Total non-current assets		**8 776**	**8 780**	**9 023**
Inventories	1,2	2 180	2 122	1 873
Trade receivables	1,2	2 745	3 047	2 755
Customer contracts, asset	1,2	2 979	2 976	3 498
Other current assets	1,2	533	530	571
Cash and cash equivalents		2 990	2 630	2 956
Total current assets		**11 427**	**11 305**	**11 653**
Total assets		**20 203**	**20 085**	**20 676**
Issued capital		982	982	982
Retained earnings		6 239	6 073	6 473
Fair value of financial instruments		(97)	(44)	(124)
Non-controlling interests		40	40	34
Total equity		**7 164**	**7 051**	**7 365**
Long-term interest-bearing loans	6	3 019	3 337	3 340
Other non-current liabilities and provisions	3	2 026	2 035	2 080
Total non-current liabilities and provisions		**5 045**	**5 372**	**5 420**
Customer contracts, liabilities	1,2	4 519	4 210	4 128
Short-term interest-bearing loans	5	307	-	-
Other current liabilities and provisions	1,2	3 168	3 452	3 763
Total current liabilities and provisions		**7 994**	**7 662**	**7 891**
Total equity, liabilities and provisions		**20 203**	**20 085**	**20 676**
Equity ratio (%)		35,5	35,1	35,6
Net interest-bearing liabilities		336	707	384

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

Condensed statement of changes in equity

MNOK	30.9. 2018	30.6 2018	31.12. 2017
Equity opening balance	7 365	7 365	6 725
Comprehensive income accumulated	245	29	1 097
Dividends	(450)	-	(450)
Treasury share	(3)	(84)	(2)
Dividends non-controlling interests	(5)	-	(3)
Change in non-controlling interests	12	(3)	(2)
Equity closing balance	**7 164**	**7 307**	**7 365**

Condensed cash flow statement

		1.7 - 30.9		1.1 - 30.9		
MNOK	*Note*	*2018*	*2017*	*2018*	*2017*	*2017*
Earnings before interest, tax depreciation and amortisation		347	274	874	820	1 279
Change in net current assets and other operating related items		115	(470)	(9)	330	1 620
Net cash flow from operating activities		**462**	**(196)**	**865**	**1 150**	**2 899**
Acquisition/disposal of property, plant and equipment		(43)	(44)	(153)	(223)	(328)
Net payment for acquisition/disposal of subsidiaries, joint arrangements and associated companies.		-	-	(10)	-	-
Net payment for the acquisition/disposal of shares		-	-	-	(6)	(11)
Other investing activities including capitalised self-financed development		(38)	(47)	(96)	(148)	(189)
Net cash flow from investing activities		**(81)**	**(91)**	**(259)**	**(377)**	**(528)**
Net new loans raised		(2)	(269)	(8)	(453)	(740)
Net interests received (paid)		(18)	(25)	(64)	(82)	(110)
Net payments for the azquisition/disposal of treasury shares		-	-	(20)	(18)	(18)
Transactions with non-controlling interests		-	-	(5)	-	(3)
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		**(20)**	**(294)**	**(545)**	**(1 001)**	**(1 319)**
Effect of changes in exchange rates on cash and cash equivalents		(1)	(37)	(27)	(21)	16
Net change in cash and cash equivalents		**360**	**(618)**	**34**	**(249)**	**1 068**
Cash and cash equivalents opening balance		**2 630**	**2 257**	**2 956**	**1 888**	**1 888**
Cash and cash equivalents closing balance		**2 990**	**1 639**	**2 990**	**1 639**	**2 956**

Note 1 | General information and principles

General information
The consolidated financial statements for Q3 (interim financial statements) apply to Kongsberg Gruppen ASA, its subsidiaries and shares in joint arrangements and associated companies that are recognised according to the equity method.

Principles
Interim financial statements are compiled in accordance with IAS 34 (interim reporting), stock exchange regulations and the additional requirements of the Securities Trading Act. Interim financial statements do not include the same amount of information as the full financial statements and should be read in the context of the consolidated financial statements for 2017. The consolidated financial statements for 2017 were prepared in compliance with the Norwegian Accounting Act and international standards for financial reporting (IFRS) laid down by the EU.
The consolidated financial statements for 2017 are available at www.kongsberg.com. New standards that have been applied in 2018 are described in Note 2 of this report.

The interim financial statements have not been audited.

Note 2 | New standards as of 1.1.2018

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

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

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

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

have an effect on revenue recognition of customer contracts involving serial deliveries in the future.
- IFRS 15 contains more detailed provisions than IAS 11 and IAS 18. This concerns the recognition of contingent considerations, costs associated with tenders, waste cost, financing elements in contracts and costs associated with meeting contractual obligations. These provisions do not affect KONGSBERG to any significant extent.

The standard contains new requirements regarding notes which will be implemented in the 2018 financial statements.

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

Effect on Statement of financial status 31.12.2017:

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

a) Inventories

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

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

b) Trade receivables

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

c) Customer contracts, assets

With the exception of trade receivables, KONGSBERG has collected together all asset items associated with customer contracts on this line. This includes accrued, non-invoiced revenue, prepayments to subcontractors, goods which have been purchased or allocated to customer contracts, but which have not been altered or led to progress being made on the project and work in progress for projects that are recognised upon delivery. Until

1 January 2018, balance sheet items relating to long-term production costs were reported on a separate line as "Construction contracts in progress, assets", while assets relating to sales that were recognised upon delivery were classified as "Inventories" and "Other short-term receivables".

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

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

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

Note 3 | Estimates

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

Note 4 | Segment information

	OPERATING REVENUES					EBITDA					EBIT				
	1.7. - 30.9.		1.1. - 30.9.			1.7. - 30.9.		1.1. - 30.9.			1.7. - 30.9.		1.1. - 30.9.		
MNOK	*2018*	*2017*	*2018*	*2017*	*2017*	*2018*	*2017*	*2018*	*2017*	*2017*	*2018*	*2017*	*2018*	*2017*	*2017*
KM	1 798	1 815	5 504	5 552	7 429	205	161	454	361	589	176	117	347	222	368
KDA	1 180	1 281	4 206	4 650	6 333	120	61	492	391	612	58	13	312	244	409
Other	176	183	523	531	728	22	52	(72)	68	78	6	32	(120)	7	(5)
GROUP	3 154	3 279	10 233	10 733	14 490	347	274	874	820	1 279	240	162	539	473	772

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

Note 5 | Shares in joint arrangements and associated companies

Specification of movement in the balance sheet "Shares in joint arrangements and associated companies" 1 January – 30 September.:

MNOK	Owner-ship	Carrying amount 1.1.18	Additions in the period	Dividends received in the period	Share of net income in the period [1]	Other items and comrehensive income in the period	Carrying amount 30.9.18
Patria Oyj	49,9 %	2 806	-	(81)	14	(93)	2 646
Kongsberg Satellite Services AS	50,0 %	388	-	(55)	82	-	415
Other	-	164	(2)	(10)	(6)	-	146
Total		**3 358**	**(2)**	**(146)**	**90**	**(93)**	**3 207**

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

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

	1.7. - 30.9.		1.1. - 30.9.		1.1 - 31.12	
	2018		*2018*		*2017*	
Millions	*EUR*	*NOK*	*EUR*	*NOK*	*EUR*	*NOK*
EBITDA	10		26		55	
Financial items, taxes, depreciations and amortisation	(5)		(14)		(25)	
Net income after tax	5		12		30	
KONGSBERG's share (49,9 %) [1]		18		46		121
Amortisation of excess value after tax		(11)		(32)		(46)
Share of net income recognised in KDA for the period		7		14		75

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

Note 6 | Financial instruments

Loans and credit facilities

The bond loan KOG07 with a nominal value of NOK 250 million, in addition to associated interest rate swaps with a fair value of NOK 4 million, have in Q3 been reclassified from long-term debt to short-term debt. The loan has a fixed interest rate of 4.8 per cent and matures on 11 September 2019. Associated interest rate swaps (fixed to floating) mature at the same time as the loan. Apart from this, the Group has reclassified other interest-bearing loans at a nominal value of NOK 53 million to short-term debt.

Long-term loans:

			30.9.2018	31.12.2017
Amount in MNOK	*Due date*	*Nominal interest rate*	*Value* [1]	*Value* [1]
Bond issue KOG07 - fixed interest rate [3]	11.9.19	4,80 %	-	250
Bond issue KOG08 - floating interest rate	2.6.21	2,28 %	1 000	1 000
Bond issue KOG09 - fixed interest rate	2.6.26	3,20 %	1 000	1 000
Bond issue KOG10 - floating interest rate	5.3.20	1,94 %	550	550
Bond issue KOG11 - fixed interest rate	5.12.23	2,90 %	450	450
Other long-term loans [2]			19	80
Interest rate swaps [3]			-	10
Total long-term loans			**3 019**	**3 340**
Syndicated credit facility (unused borrowing limit)	15.3.22		2 300	2 300

[1] Value is equal to nominal amount. For long-term loans, the carrying amount is equal to the nominal amount.
[2] "Other long-term loans" consists of smaller loans in local banks in some of the Group's subsidiaries
[3] The bond loan KOG07 with a nominal value of NOK 250 million, in addition to associated interest rate swaps with a fair value of NOK 4 million, have been reclassified from long-term debt to short-term debt as of 30 September.

Forward exchange contracts and interest rate swaps

The fair value of balances classified as cash flow hedges increased by NOK 35 million[2] before tax during the period 1 January – 30 September 2018. Of this amount, the change in fair value of forward exchange contracts accounted for a reduction of NOK 83 million during the same period. The end of quarter spot rates were USD/NOK 8.18 and EUR/NOK 9.47.

Forward exchange contracts classified as cash flow hedges:

	Due in 2018		Due in 2019 or later		Total		
MNOK (before tax)	*Value based on agreed exchange rates*	*Fair value at 30.09.18* [1]	*Value based on agreed exchange rates*	*Fair value at 30.09.18* [1]	*Value based on agreed exchange rates*	*Change in fair value from 31.12.17*	*Fair value at 30.09.18* [1]
EUR	(584)	(20)	(1)	-	(585)	(15)	(20)
USD	2 098	61	29	(2)	2 127	49	59
Other [3]	(24)	-	(5 444)	(96)	(5 468)	(117)	(96)
Sum	**1490**	**41**	**(5 416)**	**(98)**	**(3 926)**	**(83)**	**(57)**
Roll-over of currency futures	-	(10)	-	(36)	-	76	(46)
Total	**1 490**	**31**	**(5 416)**	**(134)**	**(3 926)**	**(7)** [2]	**(103)**

[1] Fair value is calculated as the difference between the spot rate at 30 September 2018 and the forward rates on currency contracts.
[2] The difference between these two figures i.e. MNOK 42, is ascribable to a change in fair values of basis swaps and interest rate swaps.
[3] The acquisition of Rolls-Royce Commercial Marine (GBP 500 million) is hedged by a Deal Contingency Forward (conditional currency hedge without any risk to KONGSBERG).

Note 7 | Self-financed development

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

	1.7 - 30.9		1.1 - 30.9		
MNOK	***2018***	*2017*	***2018***	*2017*	*2017*
Product maintenance	57	54	194	207	272
Research and development cost	128	150	490	476	663
Total	185	204	684	683	935

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

	1.7 - 30.9		1.7 - 30.9		
MNOK	***2018***	*2017*	***2018***	*2017*	*2017*
Additions self-financed development	33	45	87	145	187

With reference to the table above, digital platform (Kognifai) in KDI represent the major part of the accrued self-financed development, both for Q3 and accumulated this year.

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

Note 8 | Related parties

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

Note 9 | Important risk and uncertainty factors

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

Note 10 | Tax

The effective tax rate as of Q3 is calculated to be 20.5 per cent. The effective tax rate is affected by the fact that shares of net income from associated companies are recognised after tax.

Note 11 | Acquisition of Rolls-Royce Commercial Marine

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

Note 12 | Definitions

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

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

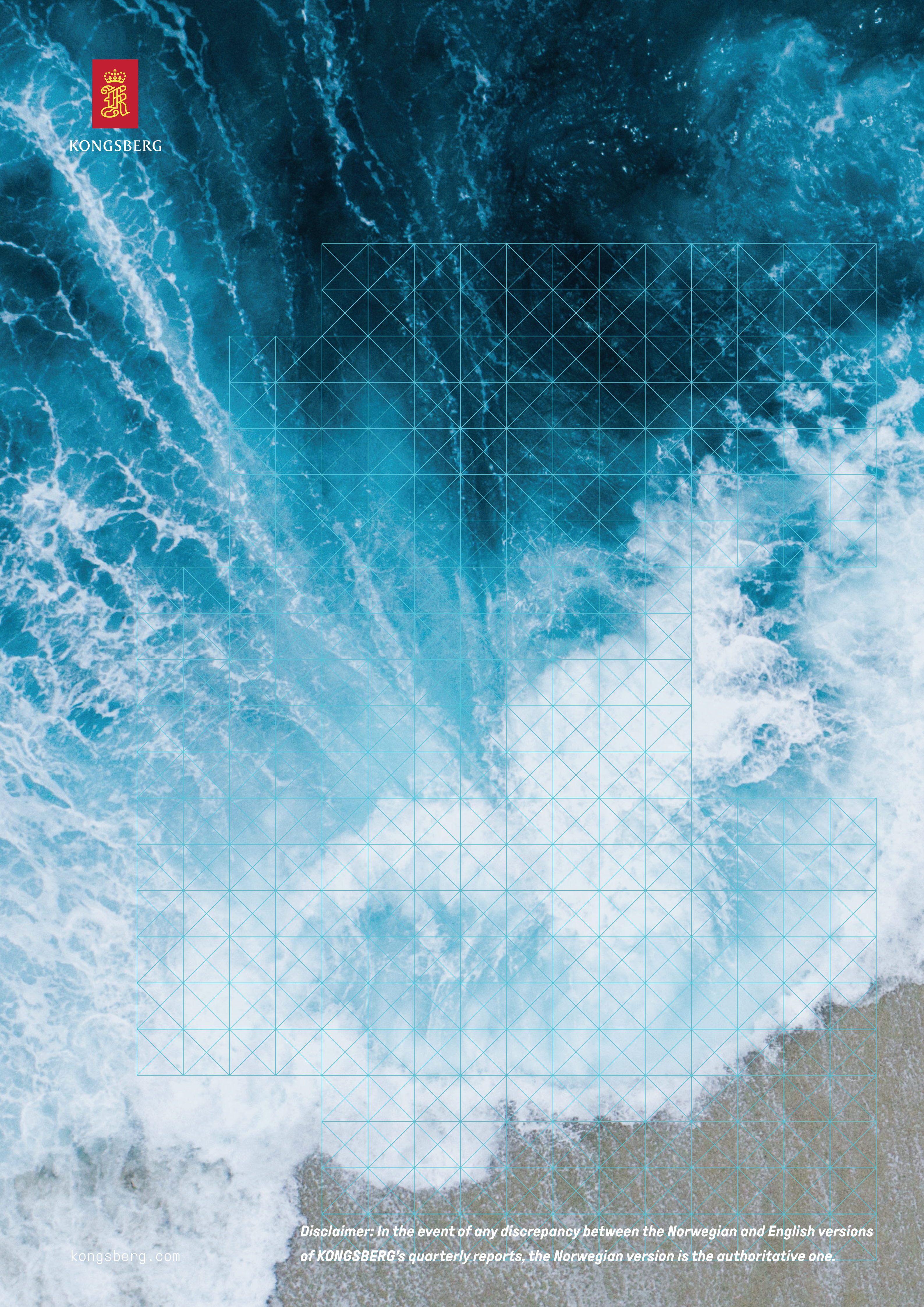
Net interest-bearing debt is the net amount of the accounting lines "Cash and cash equivalents", "Long-term interest-bearing loans" and "Short-term interest-bearing loans".

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

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

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

Book/bill is order intake divided by operating revenues.



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