KONGSBERG

QUARTERLY REPORT

4TH QUARTER PRELIMINARY ANNUAL ACCOUNTS 2018

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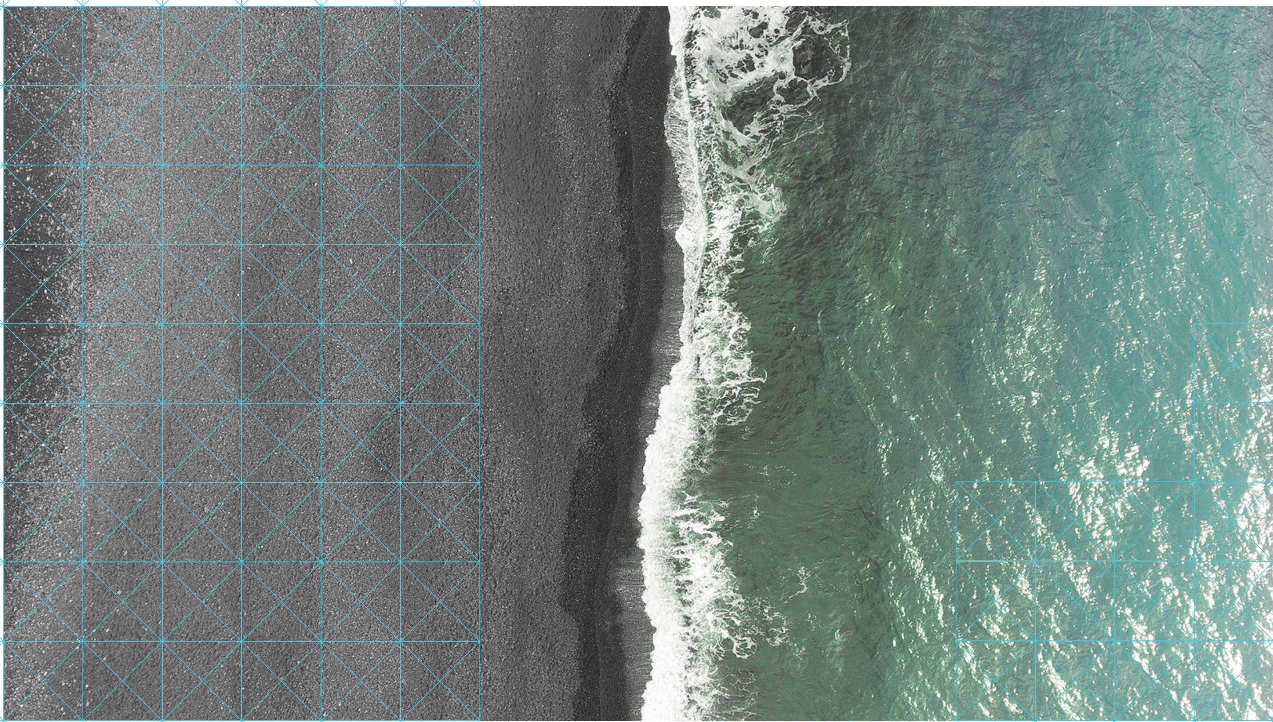
KONGSBERG



GEIR HÅØY
president & CEO

"2018 has been a particularly eventful year for KONGSBERG. We have strengthened through two acquisitions, which provide us with strategically important positions as part of the Group's growth strategy. Kongsberg Maritime (KM) had in 2018 a strong order intake with a book/bill of 1.18. The business area has confirmed its position as a solid supplier of complete integrated solutions through important orders, and not least through the acquisition of Rolls-Royce Commercial Marine. This makes us an even stronger player in the global maritime market. Kongsberg Defence & Aerospace (KDA) has a solid order intake, and has been selected as a supplier for the American "Over The Horizon" programme. KDA has also been announced as a preferred supplier to Qatar, both for the NASAMS air defence system and for a significant vehicle programme. Defence contracts involve long processes, and we are now negotiating a final contract in Qatar. The solid contracts that we have signed have given KONGSBERG strong momentum as we head into 2019. We will continue to secure major defence contracts and deliver on projects. We will also carry out the largest integration in the Group's history."

Highlights

KONGSBERG

Carried out a successful rights issue and bond placement. A total of 99.2 per cent of the company's shareholders took advantage of the subscription rights in the share issue. The board of directors proposes to the general meeting a dividend totalling MNOK 450 is paid to the shareholders, the same amount as for fiscal year 2017. This amounts to NOK 2.50 per share and 64.2 per cent of the annual result.

KONGSBERG MARITIME

Operating revenues in the quarter are at the highest level since 2016, and there is still positive development in ordinary activities. Almost MNOK 9,000 order intake, an increase of over MNOK 1,500 compared to last year, which is the highest level since 2015. EBITDA is affected by costs associated with preparations for the integration of Rolls-Royce Commercial Maritime (RRCM).

KONGSBERG DEFENCE & AEROSPACE

Increased order intake for the year and good project execution with strong margins. The acquisition of Aerospace Industrial Maintenance Norway AS (AIM) strengthens KONGSBERG's role as a strategic partner for the Norwegian Armed Forces and their operational needs.

KONGSBERG DIGITAL

Good order intake and the highest level of operating revenues since Q1 2016. Order intake in the latter half of the year increased, and ended overall 25 per cent higher for the year compared to 2017.

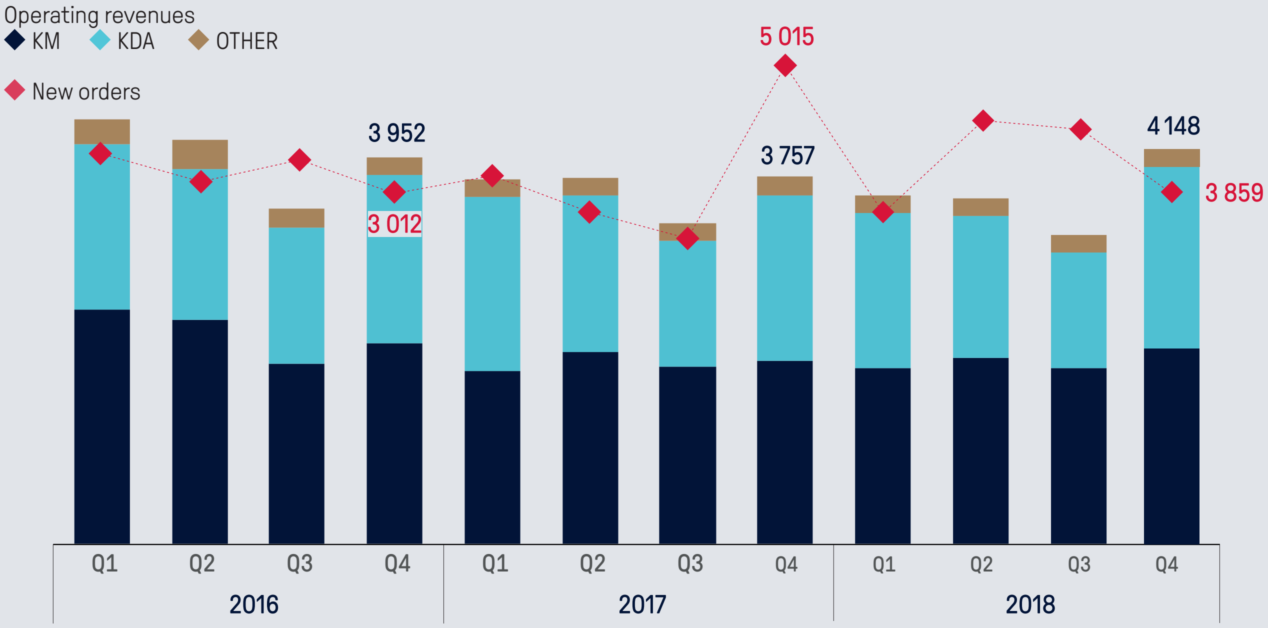
Key figures

	1.10 - 31.12		1.1 - 31.12	
MNOK	2018	2017	2018	2017
Operating revenues	4 148	3 757	14 381	14 490
EBITDA	520	459	1 394	1 279
EBITDA %	12,5	12,2	9,7	8,8
EBIT	406	299	945	772
EBIT %	9,8	8,0	6,6	5,3
Earnings before tax	391	266	844	654
Earnings after tax	344	270	704	559
EPS NOK	2,39	2,21	5,58	4,62
New orders	3 859	5 015	16 574	13 430

	31.12	30.9	31.12
MNOK	*2018*	*2018*	*2017*
Equity ratio (%)	45,7	35,5	35,6
Net interest bearing debt [1]	(5 706)	336	384
Working capital [2]	(14)	870	955
ROACE (%) [3]	12,5	10,7	9,0
Order backlog	17 283	17 602	15 629
No. of employees	6 842	6 761	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



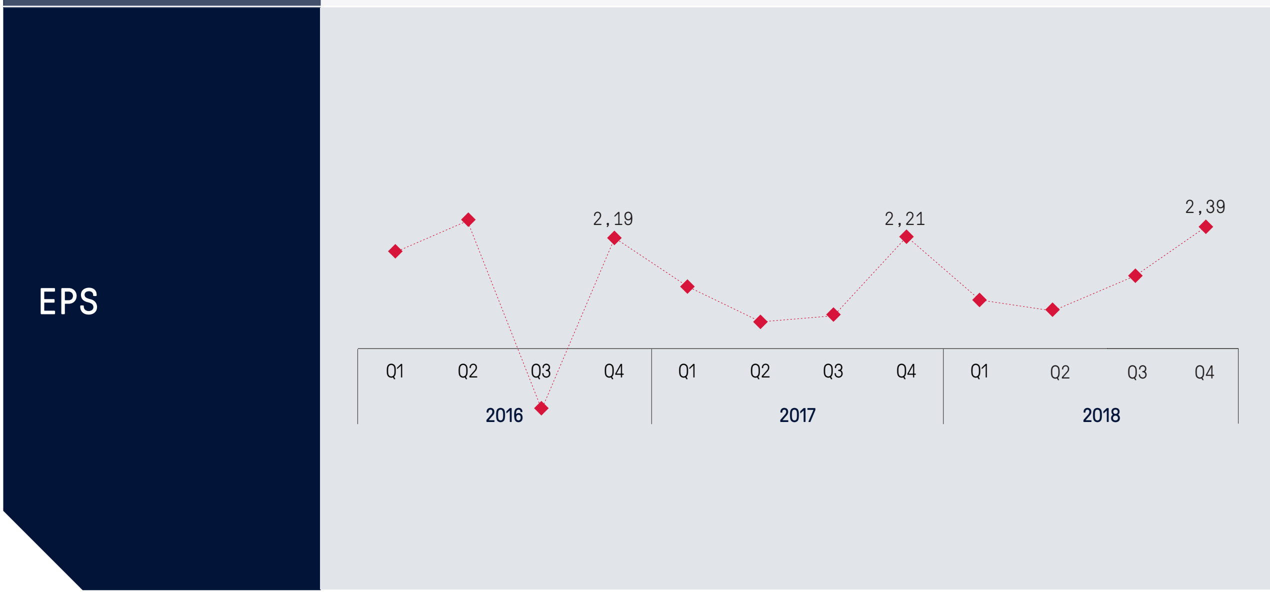
Total operating revenues: 15 845
Total new orders: 14 319

Total operating revenues: 14 490
Total new orders: 13 430

Total operating revenues: 14 381
Total new orders: 16 574


BACKLOG
2019
2020+
Backlog
16 914
15 629
17 283
40%
60%
Q1
Q2
Q3
Q4
2016
2017
2018


EBITDA
334
459
520
Q1
Q2
Q3
Q4
2016
2017
2018


EPS
2,19
2,21
2,39
Q1
Q2
Q3
Q4
2016
2017
2018

Performance, market and orders

The Group has operating revenues of MNOK 4,148 in Q4, 10.4 per cent higher than the same quarter in 2017. KM has an increase of 8.7 per cent, driven by higher activity in both traditional vessel deliveries and the after-market. KDA has an increase of 12.8 per cent, mainly linked to missiles, air defence and part production of the F-35 aircraft.

The EBITDA margin ended at 12.5 per cent, compared to 12.2 per cent in Q4 2017. In KM, the EBITDA margin ended at 6.9 per cent, compared to 12.1 per cent in Q4 2017. This includes MNOK 85 in integration costs related to the ongoing acquisition of RRCM. Excluding integration costs, the EBITDA margin is 11.0 per cent in KM. KDA has an EBITDA margin of 19.5 per cent, compared to 13.1 per cent in Q4 2017. The strong margin comes mainly from a favourable mix of deliveries and milestones achieved on projects.

Order intake during Q4 is MNOK 3,859, giving a book/bill of 0.93. The order backlog at the end of the quarter is MNOK 17,283. Book/bill is 0.91 in KM and 0.93 in KDA. KONGSBERG's order intake will fluctuate considerably from quarter to quarter as a result of large single orders.

Operating revenues were MNOK 14,381 in 2018, 0.8 per cent lower than in 2017. KM has an increase of 1.6 per cent. KDA has a reduction of 3.6 per cent, chiefly due to lower revenues in Protech Systems and Integrated Defence Systems. EBITDA was MNOK 1,394, compared to MNOK 1,279 in 2017. This gives an EBITDA margin of 9.7 per cent including integration costs, up from 8.8 per cent in 2017. Excluding integration costs, the EBITDA margin is 10.9 per cent for the year.

Order intake was MNOK 16,574 in 2018, equivalent to a book/bill of 1.15. KM and KDA had a book/bill of 1.18 and 1.13 respectively.

OPERATING REVENUES

4,148

MNOK

EBITDA-MARGIN

12.5%

NEW ORDERS

3,859

MNOK

Cash flow

KONGSBERG has a net increase in cash and cash equivalents of MNOK 7,048 in Q4. Around MNOK 6,000 has been obtained through the company's rights issue and bond placement this quarter. Cash flow from operating activities this quarter amounts to NOK 1,324. MNOK 804 is connected to improvements of net current assets and other operations-related items, mainly as a result of prepayments received in the defence sector.

The net change in cash and cash equivalents is MNOK 7,082 accumulated for 2018, compared to MNOK 1,068 in 2017. The increase chiefly comes from a capital increase and the issue of bond loans in Q4 as described above. The cash flow from operations in 2018 is MNOK 710 lower than in 2017.

See table on next page.

	1.10 - 31.12		1.1 - 31.12	
MNOK	*2018*	*2017*	*2018*	*2017*
EBITDA	520	459	1 394	1 279
Change in net current assets and other operating related items	804	1 290	795	1 620
Net cash flow from operating activities	**1 324**	**1 749**	**2 189**	**2 899**
Net cash flow used in investing activities	(123)	(151)	(382)	(528)
Net cash flow used in financing activities	5 795	(318)	5 250	(1 319)
Effect of changes in exchange rates on cash and cash equivalents	52	37	25	16
Net change in cash and cash equivalents	**7 048**	**1 317**	**7 082**	**1 068**

Balance sheet

Long-term interest-bearing debt consists of 6 bond loans totalling MNOK 4,000, and other interest-bearing debt of MNOK 20 at the end of Q4. The Group also has a bond loan of MNOK 250 maturing in 2019, which is classified as short-term interest-bearing debt. See also Note 6. At the end of 2018, the Group has MNOK 10,038 in cash and cash equivalents, compared to MNOK 2,956 at the end of 2017.

Net interest-bearing debt ended at MNOK -5,706, compared to MNOK 384 at the end of 2017. The settlement for RRCM is expected to take place on around 1 April 2019.

In addition, the Group has a syndicated credit facility of MNOK 2,300 and an overdraft credit facility of MNOK 500. At the end of 2018, these remained undrawn.

The equity ratio is 45.7 per cent, compared to 35.6 per cent at the end of 2017. In 2018, the equity book has increased by MNOK 5,261, MNOK 4,951 of which was obtained through the rights issue in November 2018 (net after issue costs).

NET INTEREST-BEARING DEBT

-5,706

MNOK

EQUITY RATIO

45.7%

	31.12	30.9	31.12
MNOK	*2018*	*2018*	*2017*
Equity	12 626	7 164	7 365
Equity ratio (%)	47,5	35,15	35,6
Total assets	27 658	20 203	20 676
Working capital[1]	(14)	870	955
Gross interest-bearing debt	4 332	3 326	3 340
Cash and cash equivalents	10 038	2 990	2 956
Net interest-bearing debt[1]	(5 706)	336	384

[1] See definitions note 13

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 has a fair value of minus MNOK 9 at the end of the quarter, which is recognised in equity. See also Note 6.

Product development

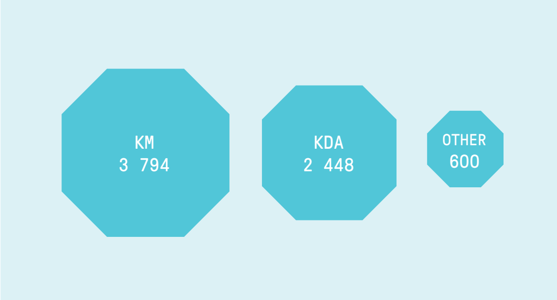
KONGSBERG is continually investing in product development, both through self-financed and customer-funded programmes. Self-financed product development and maintenance during Q4 totalled MNOK 304, of which NOK 43 million was capitalised. See the table in Note 7.

The largest capitalised projects relate to the development of a digital platform (Kognifai), Joint Strike Missile (JSM), medium-calibre weapon station (MCT), new integrated vessel 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

KONGSBERG had 6,842 employees at the end of the year, of whom around 34 per cent were employed by companies outside Norway. The number of employees increased by 81 during the quarter, chiefly coming from increased activity within Solutions in KM and project-related scaling in KDA. Over the year as a whole, the number of employees increased by 12.



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 Aerospace Industrial Maintenance Norway AS

In December 2018, KONGSBERG, through KDA, signed an agreement with the Ministry of Defence for the acquisition of Aerospace Industrial Maintenance Norway AS (AIM). AIM is the Norwegian Armed Forces' business that deals with the maintenance, overhauling and upgrading of the Norwegian Air Forces' planes and helicopters. KONGSBERG has signed an agreement with Patria on shared ownership, in order to further improve delivery capacity and expertise. KONGSBERG is the majority owner with 50.1 per cent, and Patria owns the remaining shares. The acquisition of AIM will strengthen KONGSBERG's role as a strategic partner for the Norwegian Armed Forces' operational needs.

The parties agree on an enterprise value of MNOK 151. AIM is committed to investing around MNOK 540 in a new engine depot for the F-35 aircraft at Rygge over the next 2–3 years. This is reflected in the agreed value.

The acquisition requires approval by the relevant authorities, and the transaction is expected to be completed in the first half of 2019.

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 agree on an enterprise value for RRCM of MGBP 500 on a cash and debt-free basis, and with normalised working capital.

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 that supplies equipment and maintenance services to most segments within offshore and merchant vessels. The company is considered to be the leading supplier of propulsion systems for offshore vessels, which is also its biggest product group. RRCM also supplies deck equipment, stabilising systems, ship design, electrical engineering, 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. Around 42 per cent are employed in Norway.

KONGSBERG and RRCM have largely complementary products, solutions and expertise. 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.

The transaction requires approval by the competition authorities in a number of countries before it can be completed. The process is expected to conclude on around 1 April 2019. Ahead of this, KONGSBERG has secured the necessary financing for the acquisition through a successful rights issue of around MNOK 5,000 and by issuing two bond loans amounting to a total of MNOK 1,000. The State, represented by the Ministry of Trade, Industry and Fisheries, participated in the rights issue with the State's pro rata share, and has maintained its stake after the issue (50.001 per cent). The rights issue closed on 22 November and new share capital was registered on 28 November 2018. The subscription rights had coverage of 99.2 per cent, of which the remaining subscription rights were distributed pro rata on oversubscription to subscribers with subscription rights. The rights issue had 25.7 per cent oversubscription. Offer shares were not awarded to subscribers other than holders of subscription rights.

KONGSBERG MARITIME

Performance

Operating revenues were MNOK 2,014 in Q4, which is 8.7 per cent higher than the same quarter last year. Turnover this quarter is higher both for deliveries to the new build market for traditional vessels and for the after-market. KM delivers to most vessel segments, which makes this business area robust.

EBITDA this quarter is MNOK 140, compared to MNOK 228 in Q4 2017. The EBITDA margin ended at 6.9 per cent, down from 12.1 per cent in Q4 2017. The margin this quarter is affected by MNOK 85 costs related to the imminent integration of RRCM. The bulk is related to IT, where there are a large number of systems that must be in place and coordinated before the takeover. Considerable work has also been invested in relation to various competition authorities and in planning the organisational structure. The EBITDA margin adjusted for integration costs is 11.0 per cent for Q4 2018.

Margins in KM fluctuate considerably between quarters, mainly as a result of the current project mix. Certain markets remain challenging, but adjustments have made KM more robust and better adapted to the current market situation.

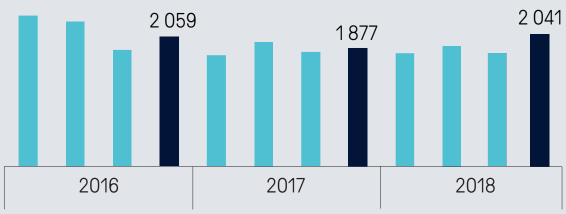
Operating revenues were MNOK 7,545 in 2018, 1.6 per cent up from 2017. The increase in the after-market and Subsea division are compensating for the reduction in traditional vessel deliveries. The EBITDA margin was 7.9 per cent, unchanged from 2017. In Q3 and Q4 2018, MNOK 110 was expensed for integration costs related to the ongoing acquisition. EBITDA in 2017 was affected by MNOK 93 in restructuring costs. Adjusted for integration costs, KM can show an EBITDA margin improvement from 9.2 per cent in 2017 to 9.3 per cent in 2018.

KEY FIGURES

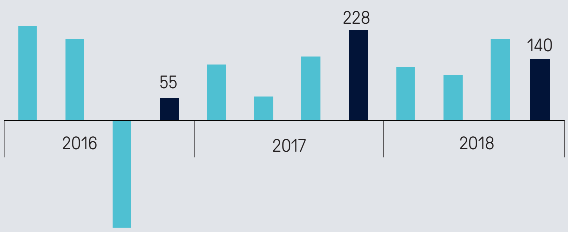
	1.10 - 31.12		1.1 - 31.12	
MNOK	2018	2017	2018	2017
Operating revenues	2 041	1 877	7 545	7 429
EBITDA	140	228	594	589
EBITDA %	6,9	12,1	7,9	7,9
New orders	1 853	1 693	8 884	7 336

	31.12	30.9	31.12
MNOK	*2018*	*2018*	*2017*
Order backlog	5 739	5 975	4 820
No. of employees	3 794	3 742	3 819

Operating revenues



EBITDA



Market and orders

In 2018, order intake was MNOK 8,884, equivalent to a book/bill of 1.18, compared to MNOK 7,336 in 2017. All KM divisions have a higher order intake than last year. Order intake during Q4 was MNOK 1,853, giving a book/bill of 0.91. KM has an order backlog of MNOK 5,739 at the end of 2018, compared to MNOK 4,820 at the end of last year.

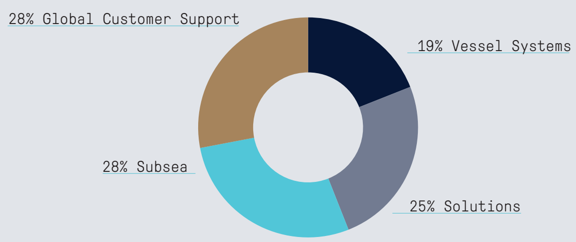
The Subsea division shows an all-time high order intake, with total orders of over MNOK 3,000 in 2018. There has been a particularly high order intake from hydrography and fisheries, as well as from the market for autonomous underwater vehicles (AUV). This applies to both the Norwegian and American segments of the business.

Order intake is over 30 per cent higher in 2018 than in 2017 for the divisions that deliver to the new build market (Vessel Systems and Solutions). In the traditional vessel markets, improvement comes particularly from the bulk carrier, shuttle tanker and LNG market. 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 an improved order intake in 2018.

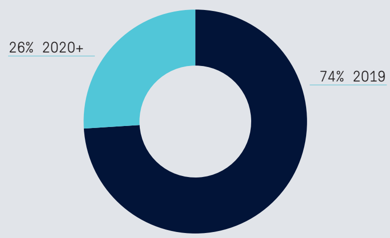
Global customer support has had high capacity utilisation and increasing activity in 2018. KM's after-market revenues are not included in the business area's order backlog. KM has a well-established organisation that services more than 18,000 vessels with KM equipment, and after-market activity represents about one third of KM's revenues. The competitive situation in traditional vessel solutions has been intensive in recent years, as a consequence of generally low contracts for deliveries. This is in addition to the fact that comprehensive integrated vessel systems, which include high proportions of third-party deliveries and generally result in lower margins, mean that the after-market is extremely important in terms of securing increased profitability in KM.

KM delivers to markets beyond the traditional offshore market, and several of these have shown positive development. Examples are fisheries, research, marine robotics and passenger ferries. There has been positive development in relation to the construction of modern low-emission and energy-efficient solutions in several vessel segments. This is partly due to new regulatory requirements for commissions from vessels, as well as attractive new build prices. The good order intake and profitability level in 2018 confirm that KM is able to adjust to changing market conditions. This has been achieved through restructuring, and a focus on expanded scope of delivery and concepts for new markets in KM.

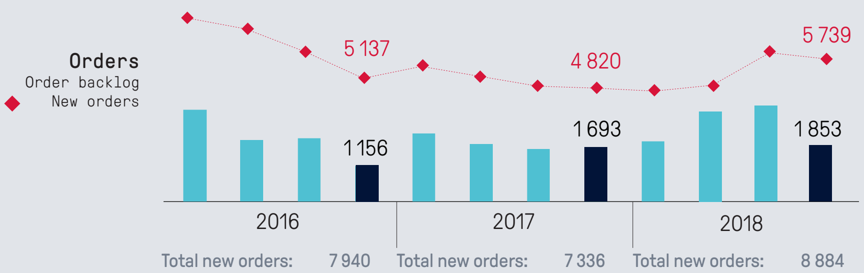
Operating revenues
YTD by division



Order backlog
Breakdown by delivery date



Orders



KONGSBERG DEFENCE & AEROSPACE

Performance

Operating revenues were MNOK 1,898 in Q4, 12.8 per cent higher than the same quarter last year. The increase comes mainly from missiles and air defence, where the projects for Malaysia and Lithuania respectively are now running.

EBITDA is MNOK 371, up from MNOK 221 in the same quarter in 2017. This has resulted in an EBITDA margin of 19.5 per cent this quarter, compared to 13.1 per cent in the same quarter in 2017. KDA still has good project execution and has achieved several milestones, and in addition Aerostructures is delivering a good quarter. In Q4 2017, KDA's EBITDA was negatively affected by restructuring costs of MNOK 16. The EBITDA figure includes MNOK 65 in share of net income from Patria, compared to MNOK 43 in Q4 2017.

Patria's operating revenues in Q4 amounted to MEUR 150, which is down 5.7 per cent compared to the same quarter last year. Aviation and Millog are seeing lower activity this quarter compared to last year. There is growth in the Systems division, mainly connected to the Hamina contract that was signed in January. EBITDA is MEUR 22 in Q4, compared to MEUR 21 in the same quarter last year. Patria's operating revenues ended up 2 per cent in 2018. Patria delivered total operating revenues of MEUR 476 in 2018, compared to MEUR 468 in 2017. EBITDA was MEUR 48, compared to MEUR 55 in 2017. For more details about Patria, see Note 5.

Operating revenues in KDA in 2018 were MNOK 6,104, 3.6 per cent lower than in 2017. There has been lower activity on deliveries of weapon stations, as a consequence of few MCT-30 deliveries between April and the end of the year. Activity in the major air defence programme that KDA signed with Raytheon in 2014 is also coming to an end. Two new air defence programmes that were won in Lithuania and Indonesia in Q4 2017 are now running. That compensates somewhat for the reduction in operating revenues within the air defence division. Missiles are increasing as a result of the NSM contract that was signed with Malaysia in April 2018. Aerostructures has increased activity related to the F-35 aircraft programme. In this sector, KONGSBERG is the exclusive supplier of selected advanced composite and titanium components for the new fighter jet.

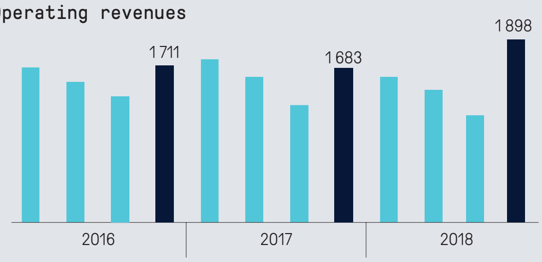
The EBITDA margin was 14.1 per cent in 2018, compared to 9.7 per cent in 2017. In 2017, EBITDA was affected by MNOK 103 in restructuring costs related to the merger of the two former business areas in the defence segment (KDS and KPS). This has contributed to a lower cost level throughout 2018, as planned. EBITDA has improved in 2018, despite a volume reduction of around 15 per cent in the Protech Systems division.

KEY FIGURES

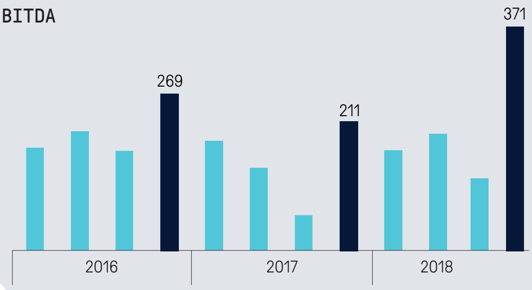
	1.10 - 31.12		1.1 - 31.12	
MNOK	2018	2017	2018	2017
Operating revenues	1 898	1 683	6 104	6 333
EBITDA	371	221	863	612
EBITDA %	19,5	13,1	14,1	9,7
New orders	1 770	3 168	6 885	5 376

MNOK	31.12 *2018*	30.9 *2018*	31.12 *2017*
Order backlog	10 744	10 867	9 956
No. of employees	2 448	2 426	2 421

Operating revenues



EBITDA



Market and orders

Order intake was MNOK 1,770, compared to MNOK 3,168 in Q4 2017, giving a book/bill of 0.93. Total order intake in 2018 was MNOK 6,885, compared to MNOK 5,376 the previous year, resulting a book/bill of 1.13. KDA has an order backlog of MNOK 10,774 at the end of 2018, compared to MNOK 9,956 at the end of 2017.

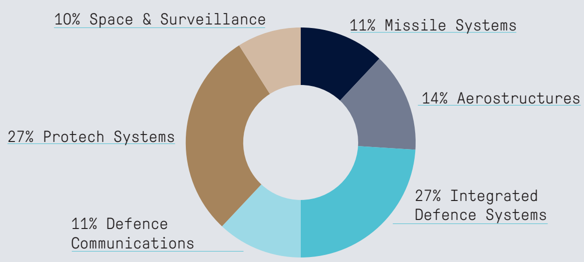
KONGSBERG started developing a new, advanced anti-ship missile, the Naval Strike Missile (NSM), for the Norwegian Armed Forces in 1996. The development process was scheduled to take more than 10 years. By 2018, the missile was operational in two countries, Norway and Poland. It is also selected as the new anti-ship missile in two more countries, Malaysia and Germany. In April, a contract was signed for the delivery of the Naval Strike Missile to Malaysia, and the first contract with Germany was signed in June. At the end of May/the beginning of June, the US Navy announced that the NSM is chosen to be the anti-ship missile for its Littoral Combat Ships and future frigates. The programme has been given the name “Over The Horizon”. This proves that KONGSBERG currently has the best expertise in advanced anti-ship missiles. It also marks the beginning of what could be several decades of deliveries to the biggest missile market in the world.

The USA is an extremely important market for KDA. The US Army chose KONGSBERG’s Protector system as its remote weapon station in 2007. Since then, KONGSBERG has delivered over 12,500 systems to the USA through the CROWS programme, which has also been used for deliveries to the US Navy, US Air Force and US Marine Corps. In September 2018, KDA signed a framework agreement with a value of up to MUSD 498 for the next five-year period of the CROWS programme. The first order of MUSD 74 under the agreement was also signed in September. Just before the New Year, weapon stations amounting to a further MNOK 805 were ordered under the same framework agreement. This makes KONGSBERG by far the leading global player in this market.

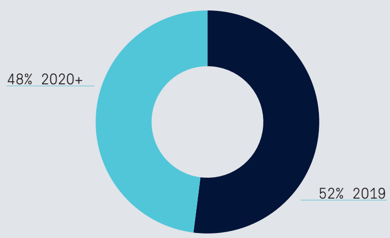
KDA has a product portfolio that is well adapted to future demands and anticipated future market development. KONGSBERG’s missiles, air defence systems, remote weapon stations, weapon control systems and other command/control systems attract considerable international attention. At the same time, there 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 aerospace sector in the Nordic region. Activity in this segment is increasing.

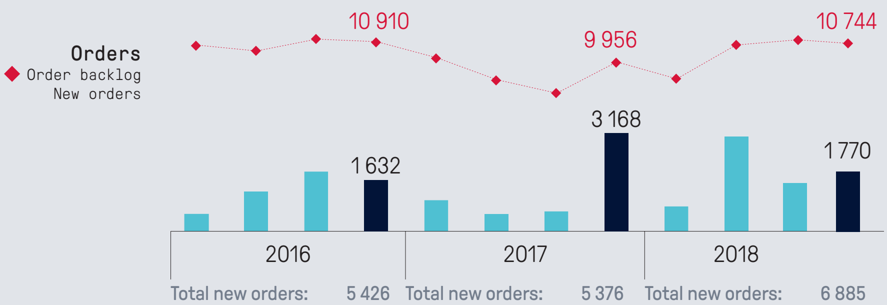
The defence market is characterised by relatively few, but large, contracts. Fluctuations in order intake are therefore to be regarded as normal. KONGSBERG expects a good order intake over the next few years, as a result of the strong market position held by KDA in its segments. Investments in defence programmes are often long-term processes. It is the authorities in the countries in question which are potential customers for major defence systems. 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.

Operating revenues
YTD by division



Order backlog
Breakdown by delivery date





KONGSBERG has established strong and important positions within both the civil and defence areas in recent years.

In our civil sectors, in a period of generally challenging markets, we have focused heavily in both existing and new markets. There is additionally strong international interest in the modern product portfolio from our defence area. This bodes well for future order intake in both the short and long term, and provides a solid foundation for long-term growth. Fluctuations in the margins must be expected between quarters, as a consequence of milestones achieved and the combination of projects in delivery.

In 2019, Kongsberg Maritime will have a strong focus on the completion, and then integration, of the ongoing acquisition of RRCM. Extensive preparations are under way to ensure that the process is successful. Kongsberg Maritime delivers to the entire vessel market, including merchant marine, offshore and other specialised vessels, which makes KM more robust. With equipment installed on over 18,000 vessels, a figure which will increase to 25,000 with RRCM, the after-market also offers significant opportunities for this business sector. We are expecting the new build market to continue to be challenging in 2019. However, operating revenues are expected to increase this year compared to last year, based on the order intake in 2018 and some improvement in the after-market.

Kongsberg Defence & Aerospace has been selected as the preferred supplier for several programmes, for which contracts are expected to be signed over the next 24 months. The contract signing dates could thereby affect operating revenues in the current year. Orders which have already been signed are providing the basis for some growth in 2019 compared to 2018, irrespective of these.

Kongsberg Digital has been investing considerably in establishing new positions and strengthening existing positions related to the digitalisation of core areas within the oil and gas, wind and merchant shipping markets in recent years. Order intake was around 25 per cent higher in 2018 than in 2017. There will continue to be a focus on developing this area.

Kongsberg, 13 February 2019

The Board in Kongsberg Gruppen ASA

NUMBERS & NOTES

Key figures by quarter

KONGSBERG	2018					2017					2016				
MNOK	*2018*	*Q4*	*Q3*	*Q2*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*	*2016*	*Q4*	*Q3*	*Q2*	*Q1*
Operating revenues	14 381	4 148	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	1 394	520	347	241	286	1 279	459	274	207	339	1 217	334	(40)	515	408
EBITDA %	9,7	12,5	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	16 574	3 859	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	17 283	17 283	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	945	406	240	124	175	772	299	162	91	220	692	188	(162)	383	283
EBIT %	6,6	9,8	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*	*Q4*	*Q3*	*Q2*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*	*2016*	*Q4*	*Q3*	*Q2*	*Q1*
Operating revenues	7 545	2 041	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	594	140	205	115	134	589	228	161	60	140	226	55	(272)	206	237
EBITDA %	7,9	6,9	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	8 884	1 853	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	5 739	5 739	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	453	106	176	78	93	368	146	117	13	92	18	(1)	(319)	154	184
EBIT %	6,0	5,2	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*	*Q4*	*Q3*	*Q2*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*	*2016*	*Q4*	*Q3*	*Q2*	*Q1*
Operating revenues	6 104	1 898	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	863	371	120	200	172	612	221	61	142	188	820	269	171	204	176
EBITDA %	14,1	19,5	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	6 885	1 770	1 272	3 045	798	5 376	3 168	648	559	1 001	5 426	1 632	1 932	1 276	586
Order backlog	10 744	10 744	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	621	309	58	137	117	409	165	13	93	138	626	220	122	154	130
EBIT %	10,2	16,3	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

		1.10 - 31.12		1.1 - 31.12	
MNOK	*Note*	*2018*	*2017*	*2018*	*2017*
Operating revenues	4	4 148	3 757	14 381	14 490
Operating expenses	7,11	(3 719)	(3 371)	(13 168)	(13 398)
Share of net income from joint arrangements and associated companies	5	91	73	181	187
EBITDA	**4,13**	**520**	**459**	**1 394**	**1 279**
Depreciation of property, plant and equipment		(87)	(90)	(350)	(353)
Impairment of property, plant and equipment		(6)	(40)	(6)	(40)
EBITA	**4,13**	**427**	**329**	**1 038**	**886**
Amortisation of intangible assets		(21)	(30)	(93)	(114)
EBIT	**13**	**406**	**299**	**945**	**772**
Net finiancial items	6	(15)	(33)	(101)	(118)
Earnings before tax (EBT)		**391**	**266**	**844**	**654**
Income tax expenses	10	(47)	4	(140)	(95)
Earnings after tax		**344**	**270**	**704**	**559**
Henførbart til :					
Equity holders of the parent		340	265	701	554
Non-controlling interests		4	5	3	5
Earnings per share (EPS)/EPS diluted in NOK		2,39	2,21	5,58	4,62
Average shares outstanding (million)	12	142	120	126	120

Condensed statement of comprehensive income

		1.10 - 31.12		1.1 - 31.12	
MNOK	*Note*	*2018*	*2017*	*2018*	*2017*
Earnings after tax		344	270	704	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	30	52	65	509
Tax effect cash flow hedges (Currency futures and interest rate swaps)		(8)	(14)	(16)	(124)
Translation differences and hedge of net investments (currency)		212	200	70	211
Total items to be reclassified to profit or loss in subsequent periods		**234**	**238**	**119**	**596**
Items not to be reclassified to profit or loss:					
Actuarial gains/losses pensions		54	(76)	54	(76)
Income tax on items remaining in equity		-	-	(12)	18
Total items not to be reclassfied to profit or loss		**54**	**(76)**	**42**	**(58)**
Comprehensive income after tax		**632**	**432**	**865**	**1 097**

Condensed statement of financial status

MNOK	Note	31.12 2018	30.9 2018	31.12* 2017
Property, plant and equipment		2 531	2 525	2 658
Intangible assets	7	2 889	2 849	2 803
Shares in joint arrangements and associated companies	5	3 400	3 207	3 358
Other non-current assets		188	195	204
Total non-current assets		**9 008**	**8 776**	**9 023**
Inventories	1,2	2 174	2 180	1 873
Trade receivables	1,2	2 802	2 745	2 755
Customer contracts, asset	1,2	2 994	2 979	3 498
Other current assets	1,2	642	533	571
Cash and cash equivalents		10 038	2 990	2 956
Total current assets		**18 650**	**11 427**	**11 653**
Total assets		**27 658**	**20 203**	**20 676**
Issued capital	12	5 933	982	982
Retained earnings		6 748	6 239	6 473
Fair value of financial instruments		(75)	(97)	(124)
Non-controlling interests		20	40	34
Total equity		**12 626**	**7 164**	**7 365**
Long-term interest-bearing loans	6	4 020	3 019	3 340
Other non-current liabilities and provisions	3	1 970	2 026	2 080
Total non-current liabilities and provisions		**5 990**	**5 045**	**5 420**
Customer contracts, liabilities	1,2	5 157	4 519	4 128
Short-term interest-bearing loans	6	312	307	-
Other current liabilities and provisions	1,2	3 573	3 168	3 763
Total current liabilities and provisions		**9 042**	**7 994**	**7 891**
Total equity, liabilities and provisions		**27 658**	**20 203**	**20 676**
Equity ratio (%)		45,7	35,5	35,6
Net interest-bearing liabilities	13	(5 706)	336	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 to equity

MNOK	Note	31.12 2018	30.9 2018	31.12 2017
Equity opening balance		7 365	7 365	6 725
Comprehensive income accumulated		865	245	1 097
Dividends		(450)	(450)	(450)
Treasury share		(3)	(3)	(2)
Equity issue	12	4 951	-	-
Dividends non-controlling interests		(5)	(5)	(3)
Change in non-controlling interests		(97)	12	(2)
Equity closing balance		**12 626**	**7 164**	**7 365**

Condensed cash flow statement

		1.10 - 31.12		1.1 - 31.12	
MNOK	*Note*	*2018*	*2017*	*2018*	*2017*
EBITDA		520	429	1 394	1 279
Change in net current assets and other operating related items		804	1 290	795	1 620
Net cash flow from operating activities		**1 324**	**1 749**	**2 189**	**2 899**
Acquisition/disposal of property, plant and equipment		(58)	(105)	(211)	(328)
Net payment for acquisition/disposal of subsidiaries, joint arrangements and associated companies		(20)	-	(30)	-
Net payment for the acquisition/disposal of shares		-	(5)	-	(11)
Other investing activities including capitalised self-financed development.		(45)	(41)	(141)	(189)
Net cash flow from investing activities		**(123)**	**(151)**	**(382)**	**(528)**
Net new loans raised		1 004	(287)	996	(740)
Net equity issue		4 937	-	4 937	-
Net interests received (paid)		(36)	(28)	(100)	(110)
Net payments for the acquisition/disposal of treasury shares		-	-	(20)	(18)
Transactions with non-controlling interests		(110)	(3)	(115)	(3)
Dividends paid to equity holders of the parent		-	-	(450)	(450)
- of which dividends from treasury shares		-	-	2	2
Net cash flow from financing activities		**5 795**	**(318)**	**5 250**	**(1 319)**
Effect of changes in exchange rates on cash and cash equivalents		52	37	25	16
Net change in cash and cash equivalents		**7 048**	**1 317**	**7 082**	**1 068**
Cash and cash equivalents opening balance		**2 990**	**1 639**	**2 956**	**1 888**
Cash and cash equivalents closing balance		**10 038**	**2 956**	**10 038**	**2 956**

Note 1 | Genral information and principles

General information
The consolidated financial statement for Q4 (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 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 from www.kongsberg.com.

New standards adopted in 2018 are described in Note 2 of this report, while "IFRS 16 Leases", which is being implemented on 1 January 2019, is described in the text below.

"IFRS 16 Leases" is being implemented with effect from 1 January 2019
IFRS 16 sets principles for recognition of rental agreements. The standard states that the lessee recognises the value of significant leases with a duration exceeding 12 months as assets and liabilities, and that the asset is depreciated over the period of the lease and that the lease payment is reclassified to payment of debt and interest in accordance with the annuity method. Hiring of property and buildings is substantial for KONGSBERG. In addition, there is some hiring of production facilities and vehicles. According to IAS 17, these are classified as operational lease agreements. These leases will be largely recognised on the balance sheet, and associated leasing costs will be reflected as depreciation and interest expense. KONGSBERG will apply the modified retrospective method for the transition to IFRS 16, which means that the comparative figures for 2018 are not updated, and that the overall effect on results of depreciation and interest expense will exceed the lease payments in the first few years of the leases with remaining terms.

Reflecting leasing obligations as per 1 January 2019, KONGSBERG is expecting the following accounting effects:

- Increased long-term assets and total assets in the statement of financial position by approximately MNOK 1,600 at implementation 1 January 2019.
- Increased financial liabilities and total liabilities in the statement of financial position by approximately MNOK 1,600 at implementation 1 January 2019.
- Reduced annual other operating costs (leasing costs) for 2019 by approximately MNOK 300.
- Annual depreciation in 2019 increases by approximately MNOK 260.
- Annual interest expenses increases in 2019 by approximately MNOK 100.
- Increased annual EBITDA in 2019 by approximately MNOK 300.
- Reduced annual profit before tax in 2019 by approximately MNOK -60.

The interim financial statement has not been audited.

Note 2 | New standards as of 01.01.2018

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

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

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

- The Group largely recognised revenue based on the project's percentage completion in accordance with IAS 11, with progress of completion normally being calculated based on costs incurred compared to total anticipated costs. KONGSBERG has maintained this practice following the implementation of IFRS 15 on 1 January 2018.
- Customer contracts that involve the delivery of several more or less identical units (serial delivery) are considered as a single performance obligation according to IFRS 15. The Group has several customer contracts of this type, which in 2017 were considered to be separate deliveries and recognised as revenue upon delivery according to IAS 18. The change had no significant impact on contracts that were delivered in 2017, but may have an effect on revenue recognition of customer contracts involving serial deliveries in the future.
- IFRS 15 contains more detailed provisions than IAS 11 and IAS 18. This concerns the recognition of contingent considerations, costs associated with tenders, waste cost, financing elements in contracts and costs associated with meeting contractual obligations. These provisions do not affect KONGSBERG to any significant extent.

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

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

Effect on Statement of financial status 31.12.2017:

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

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

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

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

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

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

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

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

Note 3 | Estimates

Preparing the interim financial statement involves assessments, estimates and assumptions that affect the use of accounting principles and posted amounts for assets and liabilities, 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 biggest sources of uncertainty remain the same as when the 2017 consolidated financial statements was compiled.

Note 4 | Segment information

	OPERATING REVENUES				EBITDA				EBIT			
	1.10 - 31.12		1.1 - 31.12		1.10 - 31.12.		1.1 - 31.12		1.10 - 31.12		1.1 - 31.12	
MNOK	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
KM	2 041	1 877	7 545	7 429	140	228	594	589	106	146	453	368
KDA	1 898	1 683	6 104	6 333	371	221	863	612	309	165	621	409
Other	209	197	732	728	9	10	(63)	78	(9)	(12)	(129)	(5)
GROUP	4 148	3 757	14 381	14 490	520	459	1 394	1 279	406	299	945	772

Other activities consist of Kongsberg Digital (KDI), real estate, 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 line "Shares in joint arrangements and associated companies" 1 January – 31 December:

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 31.12.18
Patria Oyj	49,9 %	2 806	-	(81)	80	2	2 807
Kongsberg Satellite Services AS	50,0 %	388	-	(55)	104	-	437
Other	-	164	17	(22)	(3)	-	156
Total		**3 358**	**17**	**(158)**	**181**	**2**	**3 400**

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

Bidge between EBITDA and KONGSBERG's share of Patria's et income after tax:

	1.10 - 31.12		1.1 - 31.12		1.1 - 31.12	
	2018		*2018*		*2017*	
Millions	*EUR*	*NOK*	*EUR*	*NOK*	*EUR*	*NOK*
EBITDA	22	-	49	-	55	-
Financial items, taxes, depreciations and	(5)	-	(19)	-	(25)	-
Net income after tax	17	-	30	-	30	-
KONGSBERG's share (49,9 %) [1]	-	76	-	122	-	121
Amortisation of excess value after tax	-	(11)	-	(42)	-	(46)
Share of net income recognised in KDA for the period	-	65	-	80	-	75

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

Note 6 | Financial instruments

Loans and credit facilities

On 21 November 2018, the Group issued two new bond loans related to the financing of the acquisition of RRCM. Both bonds (KOG12 and KOG13) have floating interest and the terms to maturity are 3 and 5.5 years respectively. The bond loan KOG07 with a nominal value of MNOK 250, in addition to associated interest rate swaps, have been reclassified as from Q3 from long-term loan to short-term loan. The loan has a fixed interest rate of 4.8 per cent and matures on 11 September 2019. In Q3, the Group also reclassified other interest-bearing loans with a nominal value of MNOK 53 to short-term loan.

Interest-bearing loans:

			31.12.2018	31.12.2017
MNOK	*Due date*	*Nominal interest*	*Value [1]*	*Value [1]*
Long-term loans:				
Bond issue KOG07 - fixed interest rate [3]	11.9.19	4,80 %	-	250
Bond issue KOG08 - floating interest rate	2.6.21	2,45 %	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	2,12 %	550	550
Bond issue KOG11 - fixed interest rate	5.12.23	2,90 %	450	450
Bond issue KOG12 - floating interest rate	6.12.21	2,13 %	500	-
Bond issue KOG13 - floating interest rate	6.6.24	2,45 %	500	-
Other long-term loans [2]			20	80
Interest rate swaps [3]			-	10
Total long-term loans			**4 020**	**3 340**
Short-term loans:				
Bond issue KOG07 - fixed rate [3]	11.9.19	4,80 %	250	-
Other short-term loans and interest rate swaps			62	307
Total short-term loans			**312**	**307**
Total interest-bearing loans			**4 332**	**3 647**
Syndicated credit facility (unused borrowing limit)	15.3.22		2 300	2 300
Overdraft credit facility (undrawn)			500	500

[1] Value is equal to nominal amount. For long-term loans, the carrying amount is equal to the nominal amount.
[2] "Other long-term loans" consists of smaller loans in local banks in some of the Group's subsidiaries
[3] The bond loan KOG07 with a nominal value of MNOK 250, in addition to associated interest rate swaps with a fair value of MNOK 4, 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 MNOK 65[2)] before tax during the period 1 January – 31 December 2018. Of this amount, the change in fair value of forward exchange contracts accounted for an increase of MNOK 41 during the same period. The end-of-quarter spot rates were USD/NOK 8.64 and EUR/NOK 9.90.

Forward exchange contracts classified as cash flow hedges:

	Due in 2018		Due in 2019 or later		Total		
MNOK (before tax)	*Value based on agreed exchange rates*	*Fair value at 31.12.18 [1)]*	*Value based on agreed exchange rates*	*Fair value at 31.12.18 [1)]*	*Value based on agreed exchange rates*	*Change in fair value from 31.12.17*	*Fair value at 31.12.18 [1)]*
EUR	(593)	9	-	-	(593)	14	9
USD	1 879	(10)	117	(8)	1 996	(28)	(18)
Other [3)]	(5 467)	77	-	-	(5 467)	56	77
Sum	**(4 181)**	**75**	**117**	**(8)**	**(4 064)**	**41**	**67**
Roll-over of currency futures	-	(46)	-	(30)	-	46	(76)
Total	**(4 181)**	**30**	**117**	**(39)**	**(4 064)**	**87 [2)]**	**(9)**

[1)] Fair value is calculated as the difference between the spot rate at 31 December 2018 and the forward rates on currency contracts.
[2)] The difference between these two figures i.e. MNOK 22, is ascribable to a change in fair values of basis swaps and interest rate swaps.
[3)] The acquisition of Rolls-Royce Commercial Marine (MGBP 500) 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:

	1.10 - 31.12		1.1 - 31.12	
MNOK	*2018*	*2017*	*2018*	*2017*
Product maintenance	86	65	280	272
Research and development cost	175	187	665	663
Total	**261**	**252**	**945**	**935**

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

	1.10 - 31.12		1.1 - 31.12	
MNOK	*2018*	*2017*	*2018*	*2017*
Additions self-financed development	43	42	130	187

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

Note 8 | Related parties

The Board is not aware of any changes or transactions in Q4 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 serious risk and uncertainty factors emerged during this quarter.

Note 10 | Tax

The effective tax rate as of Q4 is calculated to be 16.6 per cent. The effective tax rate is affected by source tax on dividends from foreign subsidiaries, adjustments in previous years and the fact that shares of net income from associated companies are recognised after tax. The applicable change in the tax rate from 23 per cent to 22 per cent from 2019 will also result a reduction of MNOK 60 in the year's tax.

Note 11 | Acquisitions

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 partners both value RRCM at MGBP 500. The final purchase price will depend on RRCM's cash holdings, debt and working capital at the time of the transaction. See page 9 for more information.

Aerospace Industrial Maintenance Norway AS
On 13 December 2018, KONGSBERG announced an agreement with the Ministry of Defence for the acquisition of Aerospace Industrial Maintenance Norway AS (AIM Norway). The parties agree on an enterprise value of MNOK 151 on a cash and debt-free basis, and with normalised working capital. Among other things, the agreed value reflects the fact that AIM is committed to investing around MNOK 540 in a new engine depot for the F-35 aircraft at Rygge over the next 2–3 years. The acquisition requires approval by the relevant authorities, and the transaction is expected to be completed in the first half of 2019. See page 9 for more information.

Note 12 | Rights issue

In 2018, the equity book has increased by MNOK 5,261, MNOK 4,951 of which was obtained through the rights issue in November 2018 (net after issue costs). The issue was completed on 28 November 2018.
The issue generated an increase in the number of shares from 120,000,000 to 179,099,065 shares. In calculating the earnings per share, the average shares outstanding were used as a basis for the quarter and for the year as a whole.

Note 13 | 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 that are part of the financial statements for 2017. The same applies for 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 related to restructuring processes.

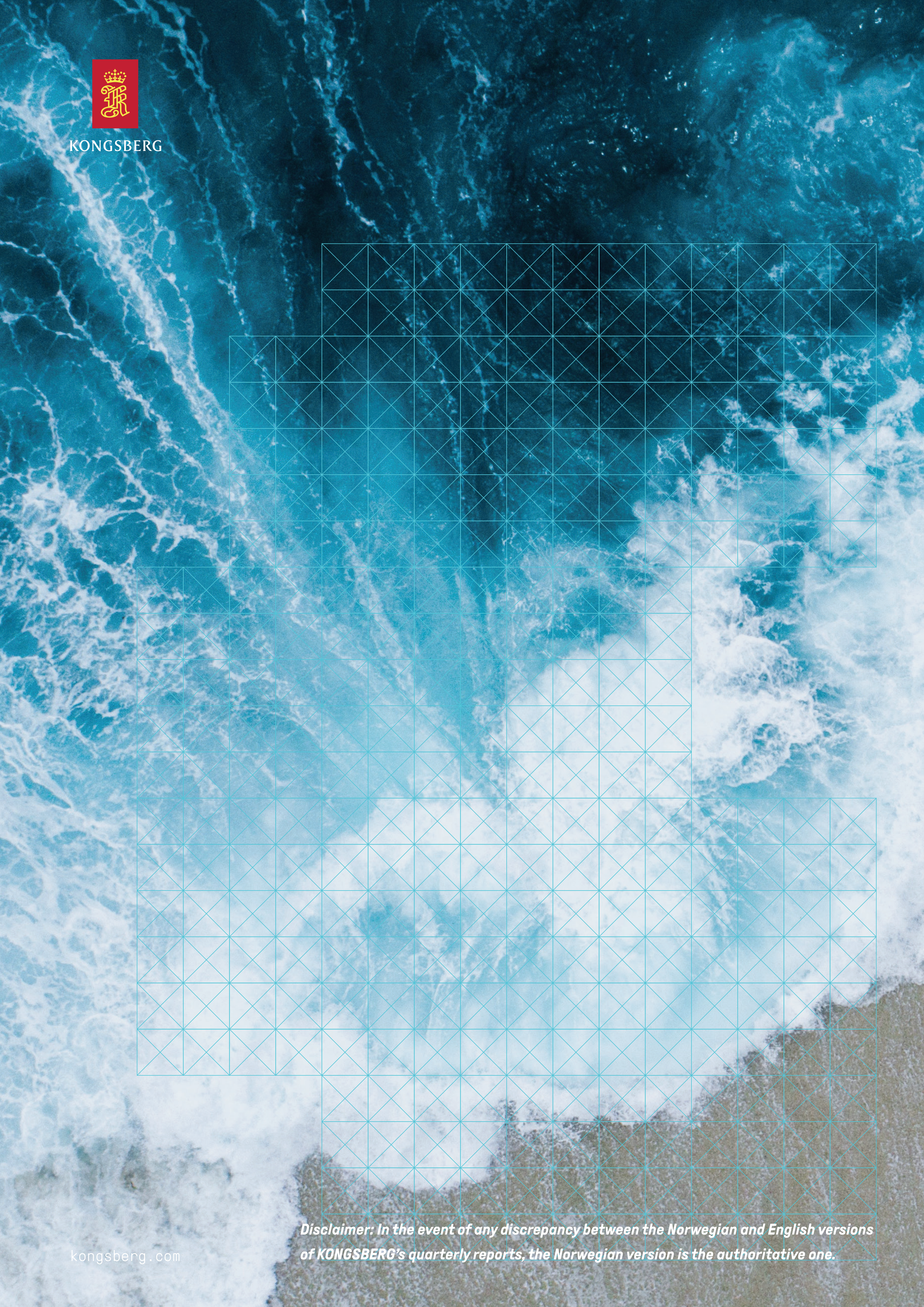
Return on Average Capital Employed (ROACE) is defined as the 12-month rolling EBIT divided by the 12-month mean of recognised equity and net interest-bearing debt.

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

Book/bill is order intake divided by operating revenues.

RRCM is Rolls-Royce Commercial Marine

AIM is Aerospace Industrial Maintenance Norway AS



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