KONGSBERG

QUARTERLY REPORT

3RD QUARTER 2019

kongsberg.com

KONGSBERG

GEIR HÅØY
President & CEO

«This quarter, we report a solid growth in all business areas, both from existing businesses and companies that we have acquired. Order intake, particularly on the defence side, has been extremely strong. The NASAMS contract with Qatar is the Group's largest single order ever. Kongsberg Defence & Aerospace now has a record order backlog of BNOK 20, which will provide the basis for solid growth in the years ahead. Kongsberg Maritime has a good order intake within marine robotics and the after-sales market, although somewhat weaker for the new-builds market. The agreement with Shell on the digitalisation of Nyhamna establishes Kongsberg Digital as a leader in the market for dynamic digital twins.

Profitability trends are positive throughout the Group, and the integration of Commercial Marine is ahead of the schedule.»

Highlights

KONGSBERG	Increased order intake and 92 per cent growth in operating revenues to MNOK 6,046, of which 22 per cent is organic growth. Integration of the acquired companies is ahead of schedule.
KONGSBERG MARITIME	137 per cent growth in operating revenues to MNOK 4,255, of which 21 per cent is organic growth. Improved profitability in the 'formerly KM', compared to Q3 2018. Positive income trend from Commercial Marine (CM)
KONGSBERG DEFENCE & AEROSPACE	34 per cent growth in operating revenues to MNOK 1,578, of which 23 per cent is organic growth. Improved profitability and record order intake. Order backlog is now more than BNOK 20. This is an increase by more than BNOK 9 since the start of the year.
KONGSBERG DIGITAL	Increase in operating revenues and improved profitability. Breakthrough contract on dynamic digital twins after quarter end.

Key figures

	1.7. - 30.9.			1.1. - 30.9.			
MNOK	2019	2019 ex. IFRS 16	2018	2019	2019 ex. IFRS 16	2018	2018
Operating revenues	6 046	6 046	3 154	15 917	15 917	10 233	14 381
EBITDA	535	417	347	1 428	1 125	874	1 394
EBITDA (%)	8,8	6,9	11,0	9,0	7,1	8,5	9,7
EBIT	230	209	240	629	578	539	945
EBIT (%)	3,8	3,5	7,6	4,0	3,6	5,3	6,6
Earnings before tax	153	169	195	461	507	453	844
Earnings after tax	115	136	155	358	404	360	704
EPS (NOK)	0,62	0,72	1,29	1,97	2,22	3,01	5,58
Order Intake	12 325	12 325	4 477	25 708	25 708	12 715	16 574

MNOK	30.9. *2019*	30.6. *2019*	31.12. *2018*
Equity ratio (%) ex. IFRS 16	38,1	38,2	45,7
Equity ratio (%)	35,7	35,7	-
Net interest-bearing debt [1]	423	(173)	(5 706)
Working Capital [2]	1 666	765	(14)
ROACE (%) [3]	9,5	11,0	12,5
Order backlog	34 244	27 774	17 283
No. of employees	10 807	10 802	6 842

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

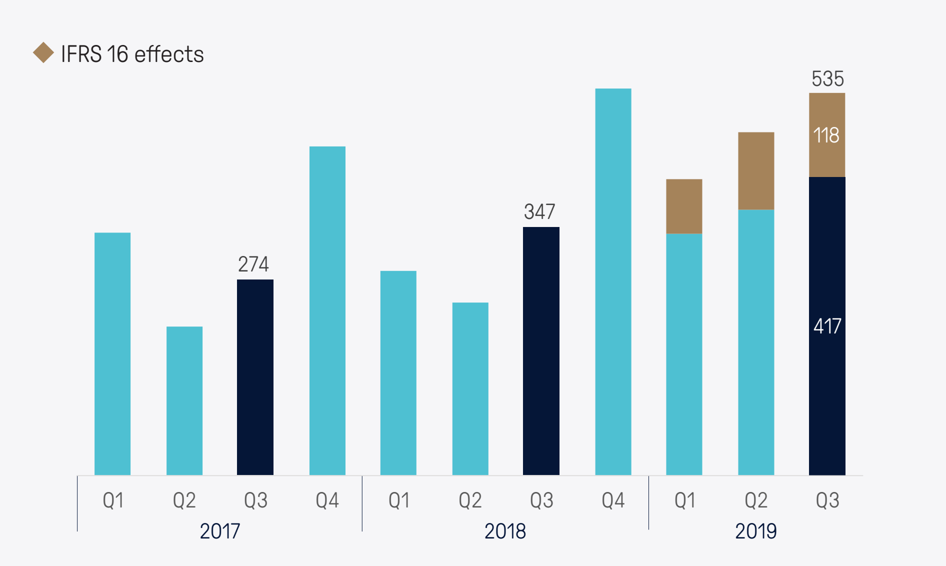
[2] Current assets (except cash and cash equivalents) minus non-interest-bearing liabilities (except taxes payable). Financial instruments recognised at fair value are not included in working capital.

[3] 12-month rolling EBIT excluding IFRS 16 divided by the 12-month mean of recognised equity and net interest-bearing debt. Net interest-bearing debt has been adjusted for the purchase price of Rolls-Royce Commercial Marine in relation to what was reported in Q1.

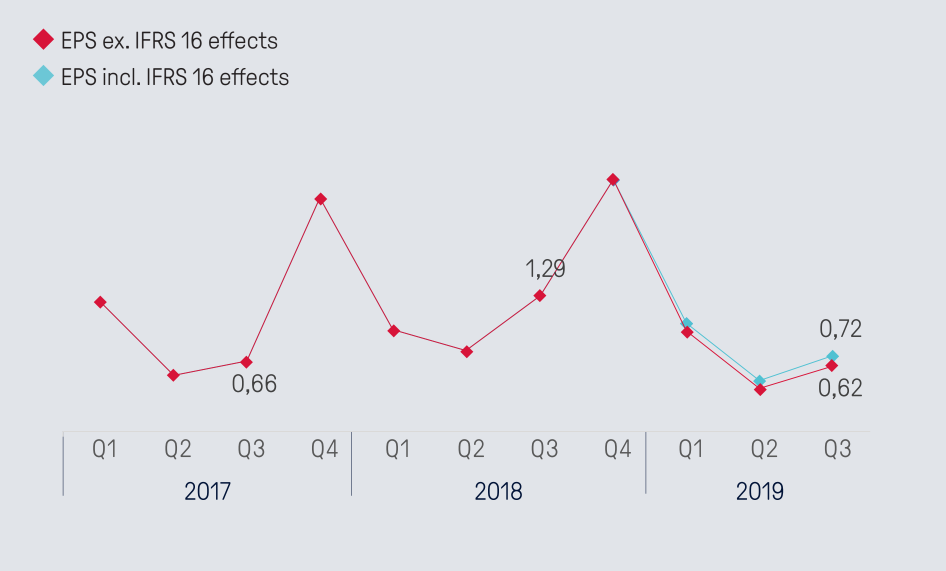
OPERATING REVENUES AND ORDER INTAKE

ORDER BACKLOG

EBITDA



EPS



The 2019 accounts take IFRS 16 into consideration, the 2018 figures have not been restated. For comparison purposes, figures excluding IFRS 16 effects have been incorporated elsewhere in the report. When this is the case, it is clearly stated.

Performance, market and orders

Operating revenues during Q3 amounted to MNOK 6,046, compared to MNOK 3,154 in the same quarter last year. Growth from acquired companies amounted to MNOK 2,215. So far this year, the Group has operating revenues of MNOK 15,917 compared to MNOK 10,233 for the same period in 2018. Adjusted for acquired companies, the growth in operating revenues represents 13.7 per cent so far this year.

EBITDA during Q3 was MNOK 535, an EBITDA-margin of 8.8 per cent compared to MNOK 347 (11.0 per cent) for the same quarter last year. Excluding IFRS 16 effects, EBITDA this quarter is MNOK 417 and the EBITDA-margin 6.9 per cent. Adjusted EBITDA[1] in the quarter was MNOK 687 (MNOK 569, excluding IFRS 16 effects).

So far this year, EBITDA amounts to MNOK 1,428 (9.0 per cent), compared to MNOK 874 (8.5 per cent) for the same period in 2018. Excluding IFRS 16 effects, EBITDA so far this year was 1,125 (7.1 per cent). Adjusted EBITDA[1] so far this year was MNOK 1,637 (MNOK 1,334, excluding IFRS 16 effects).

[1)]Adjusted EBITDA shows the Group's EBITDA before items that require special explanations. This applies to restructuring/integration costs and profit/loss resulting from sales of operations.

Presentation of adjusted EBITDA 2019 (MNOK):

	TOT	Q3	Q2	Q1
Adjusted EBITDA including IFRS 16	**1 637**	**687**	**564**	**386**
EBITDA effect, profit from sale of Kongsberg Evotec	107	-	-	107
Integration costs Commercial Marine	(229)	(96)	(54)	(79)
Restructuring costs Commercial Marine	(87)	(56)	(31)	-
EBITDA including IFRS 16 effects	**1 428**	**535**	**479**	**414**
IFRS 16 effects on EBITDA	(303)	(118)	(108)	(76)
EBITDA excluding IFRS 16 effects	**1 125**	**417**	**371**	**338**

Order intake in Q3 amounted to MNOK 12,325, compared to 4,477 for the same quarter last year. CM represents MNOK 1,840 of the order intake this quarter. The book-to-bill ratio during the quarter was 2.04. So far this year, KONGSBERG had an order intake of MNOK 25,708, compared to MNOK 12,715 for the same period last year. Kongsberg has thereby more than doubled its order intake so far this year, compared to the previous year, with around 35 per cent of the growth comes from acquired companies.

Order backlog at the end of Q3 was MNOK 34,244, compared to MNOK 17,602 at the same time last year. CM's share of the order backlog represented MNOK 7,077.

OPERATING REVENUES

6,046

MNOK

EBITDA-MARGIN

8.8%

ORDER INTAKE

12,325

MNOK

Cash flow

KONGSBERG recorded a net reduction in cash and cash equivalents of MNOK 855 in Q3. Net cash flow from operational activities was negative at MNOK 360. EBITDA was MNOK 535, while there was an increase in current assets and other operations-related items of MNOK 895. This was mainly linked to the build-up of project related working capital in KDA and temporary currency exchange rate effects recognised in the balance sheet. Cash flow from investment activities was negative at MNOK 172. Cash flow from financing activities was negative at MNOK 403, which includes the repayment of bond loan KOG07 amounting to MNOK 250.

So far this year, net cash and cash equivalents have been reduced by MNOK 6,371, mainly relating to the acquisition of Rolls-Royce Commercial Marine (RRCM) and the build-up of working capital in KDA.

Balance sheet

The Group has interest-bearing debt totalling MNOK 4,090. At the end of the quarter, long-term interest-bearing debt consists of five bond loans totalling MNOK 3,450 and other long-term interest-bearing debt of MNOK 20. The Group also has one bond loan for a total of MNOK 550, classified as short-term interest-bearing loan. Total short-term interest-bearing loans amount to MNOK 620. Bond loan KOG07 (MNOK 250) was repaid in September. See Note 6. At the end of Q3, the Group had MNOK 3,667 in cash and cash equivalents, compared to MNOK 10,038 at the end of Q4 2018.

At the end of the quarter, net interest-bearing debt closed at MNOK 423, compared to MNOK -5,706 at the end of 2018. The provisional settlement for the acquisition of RRCM took place on 1 April 2019 and is the main factor behind the net change in interest-bearing debt so far this year.

In addition, the Group has a syndicated and committed credit facility of MNOK 2,300 and an overdraft credit facility of MNOK 500. These are unused in 2019.

The overall balance sheet increased by MNOK 7,673 so far this year, primarily linked to the acquisition of RRCM and Aerospace Industrial Maintenance (AIM).

NET INTEREST-BEARING DEBT

423

MNOK

EQUITY RATIO

35.7%

	30.9.		30.6.		31.12.
MNOK	*2019*	*2019 eks. IFRS 16*	*2019*	*2019 eks. IFRS 16*	*2018*
Equity	12 618	12 665	12 341	12 370	12 626
Equity ratio (%)	35,7	38,1	35,7	38,2	45,7
Total assets	35 331	33 261	34 575	32 420	27 658
Working capital [1)]	1 666	1 666	765	765	(14)
Gross interest-bearing debt	4 090	4 090	4 349	4 349	4 332
Cash and cash equivalents	3 667	3 667	4 522	4 522	10 038
Net interest-bearing debt [1)]	423	423	(173)	(173)	(5 706)

[1)] See definitions note 12.

Currency

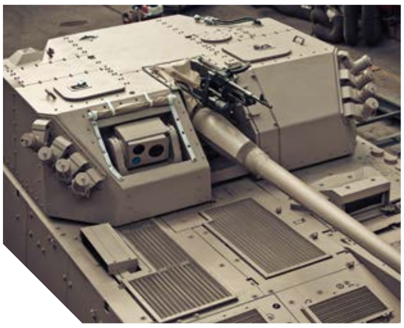
The company's currency policy means that contractual currency flows are hedged by forward contracts (fair value hedges). In addition, the Group hedges a proportion of expected order intake for large contracts according to the established policy (cash flow hedges). The company's portfolio of cash flow hedges has a fair value of MNOK -165 at the end of the quarter, which is recognised in equity. Also see Note 6. Significant delivery contracts could affect the company's liquidity if there are changes in contractual currency flows.

Product development

KONGSBERG is continually investing in product development, both through inhouse-funded and customer-funded programmes. Inhouse-funded product development and maintenance during the quarter totalled MNOK 332, of which MNOK 48 was capitalised. See the table in Note 7. Inhouse-funded development in the quarter is mainly related to projects in KDI and KDA.

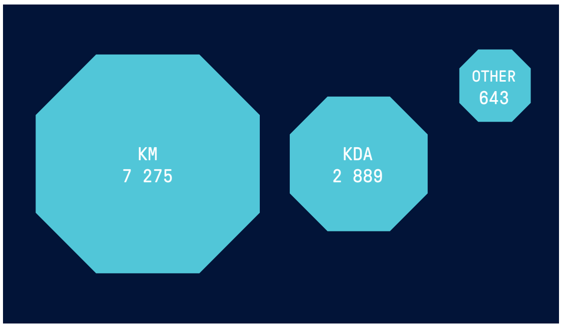
The largest capitalised projects at the end of the quarter is related to the development of a digital platform (Kognifai), Joint Strike Missile (JSM), medium-calibre weapon station (MCT), new integrated vessel solutions and remote towers for airports.

Customer-funded development is additional, either as part of delivery projects or as specific development assignments. Over time, the total costs of product development and maintenance account for about 10 per cent of operating revenues.



Human resources

The company has 10,807 employees at the end of the quarter. This is a net reduction of 63 employees in KM, mainly relating to the restructure and integration of CM. In terms of the restructuring of CM, it has been announced that the number of employees will be reduced by around 450. At the end of Q3, 259 of these employments are concluded, has signed redundancy agreement or have been given notice of the termination of employment. The further downsizing process of employees has been effectuated. In KDA, the number of employees has increased by 59 this quarter as a result of increased activity associated with new projects and strongly increasing order backlogs.



Number of employees by business areas

Other activities

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

In 2019, KDI has seen significantly increased revenues and improved profitability compared to the previous year. Operating revenues started to rise in the autumn of 2018, and this continued throughout 2019. Operating revenues so far this year are more than 30 per cent higher than the same period in 2018. Profitability has also significantly improved as a result of increased volumes and lower costs. Book-to-bill ratio in this quarter is 0.99 and 1.07 so far this year. KDI signed an agreement with Shell in October on the digitalisation of Nyhamna. This is a breakthrough for KONGSBERG's digital initiative.

Kongsberg Aviation Maintenance Services AS

The purchase of Aerospace Industrial Maintenance Norway AS was completed on 29 May 2019, and the new entity (Kongsberg Aviation Maintenance Services AS), was reported as part of Kongsberg Defence & Aerospace with effect from 29 May 2019. See Note 11.

Commercial Marine

The acquisition of Rolls-Royce Commercial Marine was completed on 1 April 2019, and the new entity (Commercial Marine) is recognised as part of Kongsberg Maritime with effect from Q2 2019.

The process of integrating and restructuring CM initially involves the systematic achievement of cost synergies. This is being achieved through co-location, a reduction in the workforce and support functions, the streamlining of IT systems and product optimisation. The target for 2019 has been to achieve MNOK 200 in cost synergies with a full-year effect. The integration and implementation of cost-saving measures have been making substantial progress and are ahead of schedule. We therefore expect to achieve MNOK 50 more in cost savings and are therefore adjusting the target for 2019 upwards to MNOK 250 in annual effect.

Events after balance date

The negotiations with Rolls-Royce on a final purchase price were concluded in October 2019, with the result that KONGSBERG was repaid MNOK 244. Expected net outgoing cash flow relating to the purchase has fallen from MNOK 5,145 to MNOK 4,862. A preliminary excess value analysis was presented in the Q1 report for 2019. An updated excess value analysis will be presented in the Q4 report.

KONGSBERG MARITIME

Background

On 1 April 2019, the acquisition of Rolls-Royce Commercial Marine (RRCM) from Rolls-Royce plc. was completed, and RRCM has since been integrated into Kongsberg Maritime (KM). The acquired entity is hereinafter referred to as Commercial Marine (CM). With effect from Q2 2019, CM's financial results have been consolidated into the results reported for KM.

In order to illustrate a comparable trend with respect to Q3 in 2018, the results are hereinafter presented as a total for the merged KM, as well as for "formerly KM" and for CM, hereinafter referred to as:

- KM: The integrated "new" Kongsberg Maritime, a leading turnkey supplier to the maritime industry, which comprises the following divisions: Sensors & Robotics, Integrated Solutions, Propulsion & Engines, Systems & Deck Machinery, and Global Customer Support.
- "Formerly KM": Comprises Sensors & Robotics, Integrated Solutions, and Global Customer Support.
- CM: Comprises Propulsion & Engines, Systems & Deck Machinery, and Marine Services (corresponding to Global Customer Support in "formerly KM").

Performance

Operating revenues were MNOK 4,255 in Q3, compared to MNOK 1,798 in the same quarter last year. Organic growth accounted for 21 per cent. Operating revenues from CM were MNOK 2,089 this quarter. Growth was mainly driven by Sensors & Robotics and Integrated Solutions, the latter mainly relates to deliveries of LNG vessels.

Accumulated operating revenues so far this year are MNOK 10,549, up from MNOK 5,504 at the same time in 2018. Organic growth accounted for around 17 per cent. CM has accumulated operating revenues in Q2 and Q3 of MNOK 4,118, an increase of around 2 per cent compared to 2018.

EBITDA during Q3 was MNOK 271, an EBITDA-margin of 6.4 per cent, compared to MNOK 205 (11.4 per cent) in the same quarter last year. Excluding IFRS 16 effects, EBITDA this quarter is MNOK 189 and the EBITDA-margin 4.4 per cent. Adjusted EBITDA[1] during the quarter was MNOK 423.

Accumulated EBITDA so far this year is MNOK 714, an EBITDA-margin of 6.8 per cent, compared to MNOK 454 (8.2 per cent) for the same period last year. Excluding IFRS 16 effects, EBITDA so far this year is MNOK 499 and the EBITDA-margin 4.7 per cent. Adjusted EBITDA[1] so far this year is MNOK 923.

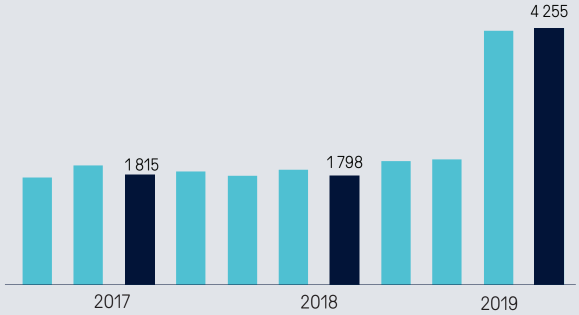
[1])Adjusted EBITDA shows the Group's EBITDA before items that require special explanations. This applies to restructuring/integration costs and profit/loss resulting from sales of operations.

KEY FIGURES

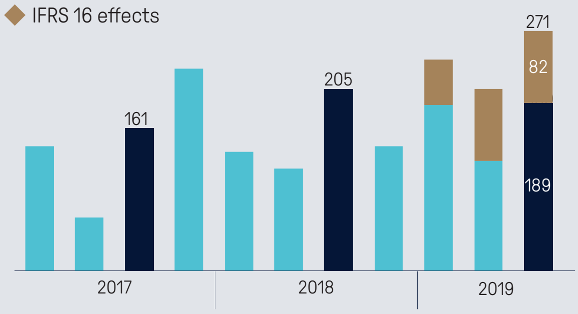
	1.7. - 30.9.		1.1. - 30.9.		
MNOK	2019	2018	2019	2018	2018
Operating revenues	4 255	1 798	10 549	5 504	7 545
EBITDA ex. IFRS 16	189	205	499	454	594
EBITDA	271	-	714	-	-
EBITDA (%) ex. IFRS 16	4,4	11,4	4,7	8,2	7,9
EBITDA (%)	6,4	-	6,8	-	-
Order Intake	3 860	3 024	11 511	7 031	8 884

	30.9.	30.6.	31.12.
MNOK	2019	2019	2018
Order backlog	13 386	13 519	5 739
No. of employees	7 275	7 338	3 794

Operating Revenues



EBITDA



Presentation of adjusted EDITDA Q3 2019 (MNOK):

	KM	«Formerly KM»	CM
Operating revenues	4 255	2 166	2 089
Adjusted EBITDA	**423**	**345**	**78**
Integration costs Commercial Marine	(96)	-	(96)
Restructuring costs Commercial Marine	(56)	-	(56)
EBITDA including IFRS 16 effects	**271**	**345**	**(74)**
IFRS 16 effects on EBITDA	(82)	(51)	(31)
EBITDA excluding IFRS 16 effects	**189**	**294**	**(105)**

Presentation of adjusted EDITDA so far this year 2019 (MNOK):

	KM	«Formerly KM»	CM
Operating revenues	10 549	6 431	4 118
Adjusted EBITDA	**923**	**794**	**129**
EBITDA effect, profit from sale of Kongsberg Evotec	107	107	-
Integration costs Commercial Marine	(229)	(79)*	(150)
Restructuring costs Commercial Marine	(87)	-	(87)
EBITDA including IFRS 16 effects	**714**	**822**	**(108)**
IFRS 16 effects on EBITDA	(215)	(154)	(61)
EBITDA excluding IFRS 16 effects	**499**	**668**	**(169)**

*) Costs associated with preparations for integration in Q1 2019

Adjusted margin in "formerly KM" is thereby 12.3 per cent so far this year (10.0 per cent, excluding IFRS 16) compared to an adjusted margin of 9.6 per cent for the same period in 2018.

Integration and restructuring costs in Q3 are primarily linked to the merging and streamlining of IT systems, as well as work reporting, restructuring processes and the detailing of organisational structure.

As part of the acquisition of CM, a broad integration programme has been initiated that will achieve annual cost savings of MNOK 500 by 2022. These savings will come from the merging of offices, reductions in overheads and streamlining of the digital technology initiative. Restructuring measures have also been announced involving an overall reduction of around 450 full-time equivalents.

Overall, the integration programme has made substantial progress and, so far, has achieved annual savings of MNOK 170 by the end of Q3 2019. The updated target for 2019 is annual cost savings of MNOK 250.

Market and orders

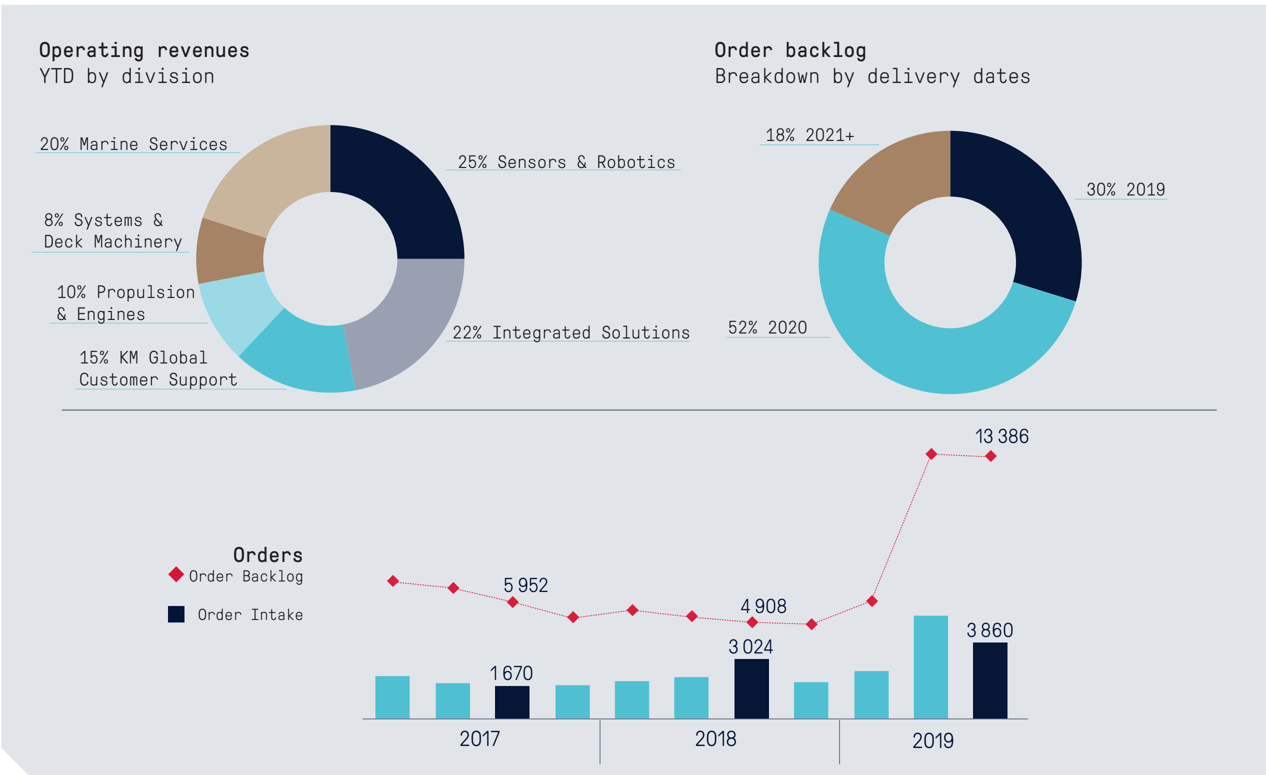
The order intake in Q3 was MNOK 3,860, which equates to a gross book-to-bill ratio of 0.91. The orders break down as follows:

- "Formerly KM" had an order intake of MNOK 2,020 and a book-to-bill ratio 0.93.
- CM had an order intake of MNOK 1,840, equivalent to a book-to-bill ratio of 0.88.

The order intake is good for the area of Sensors & Robotics, particularly within the Marine Robotics segment. The order intake from the after-sales market remains at a good level and is higher than the equivalent quarter in 2018, but slightly lower compared to the first six months. The order intake from the traditional vessel markets is slightly weaker in Q3, compared to the first two quarters of the year.

In September KM signed a contract with Damen Shipyards in the Netherlands for a delivery of KONGSBERG's most full-scope system for a vessel in the cruise ship market. With KONGSBERG's new "full-scale" portfolio, KM is combining technology, engineering and digital solutions in the broadest possible way. KM's solutions are compliant with the forthcoming international IMO emissions regulations. KM's expertise in energy management and fuel-saving technology sets a high standard for sustainability in the cruise ship sector.

Accumulated order intake so far this year amounts to MNOK 11,511. "Formerly KM" accounts for MNOK 7,026 of this, compared to MNOK 7,031 in the same period in 2018.



KONGSBERG DEFENCE & AEROSPACE

Performance

Operating revenues amounted to MNOK 1,578 compared to MNOK 1,180 during the same quarter last year, an increase of 23.0 per cent, excluding acquired company. Accumulated operating revenues as of Q3 are MNOK 4,776, compared to MNOK 4,206 last year. Organic growth accounted for 9.5 per cent. This quarter, the increase comes from the areas of Missiles, Aerostructures, Integrated Defence Systems and Protech Systems, which have all experienced growth of more than 20 per cent. Accumulated, the increase comes mainly from the same divisions, except for Protech Systems, whose revenues in the first six months of 2018 was characterised by high levels of deliveries of MCT-30.

The financial results for the acquired enterprise KAMS were consolidated into KDA with effect from 29 May 2019. The entity is 50.1 per cent owned by KDA and reported under the Aerostructures Division. Operating revenues in Q3 amount to MNOK 126 from KAMS, with KAMS similarly contributing total operating revenues of MNOK 169 from 29 May 2019.

EBITDA during Q3 was MNOK 248, an EBITDA-margin of 15.7 per cent, compared to MNOK 120 (10.2 per cent) for the same quarter last year. EBITDA excluding IFRS 16 amounted to MNOK 202. In the quarter KAMS EBITDA is included by MNOK 9.

So far this year, EBITDA amounts to MNOK 709, compared to MNOK 492 during the same period last year. EBITDA excluding IFRS 16 amounted to MNOK 592 in the same period. This results in a combined margin for the first three quarters of the year of 14.8 per cent (12.4 per cent excluding IFRS 16), compared to 11.7 per cent for the same period in 2018.

The share of net income from associated companies in KDA is included in EBITDA with MNOK -5 (MNOK 35) for Q3 and MNOK 33 (MNOK 99) so far this year. For Patria, this amounts to MNOK -31 (MNOK 7) for the third quarter of 2019 and MNOK -42 (MNOK 14) accumulated in 2019. For Kongsberg Satellite Services, this amounts to MNOK 33 (MNOK 28) and MNOK 88 (MNOK 82) for the corresponding periods. Also see Note 5.

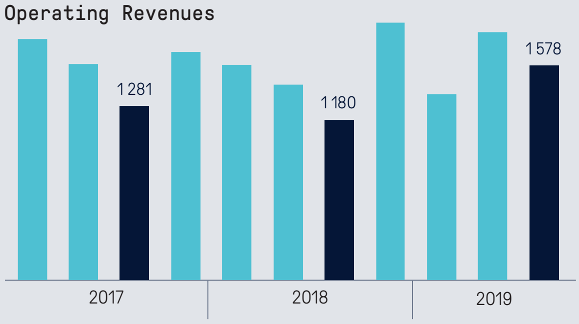
Patria recorded operating revenues of MEUR 103 during Q3, compared to MEUR 93 during the same quarter last year. The main portion of this increase comes from the acquired Belgium Engine Center. So far this year, operating revenues amount to MEUR 342, compared to MEUR 326 during the same period in 2018. In Q3, EBITDA amounts to MEUR 3, compared to MEUR 10 the same period in 2018. So far this year, EBITDA amounts to MEUR 18, compared to MEUR 26 during the same period last year. The decrease in Patria's performance, both in Q3 and so far this year, comes mainly from lower activities within the Land Division. See Note 5.

KEY FIGURES

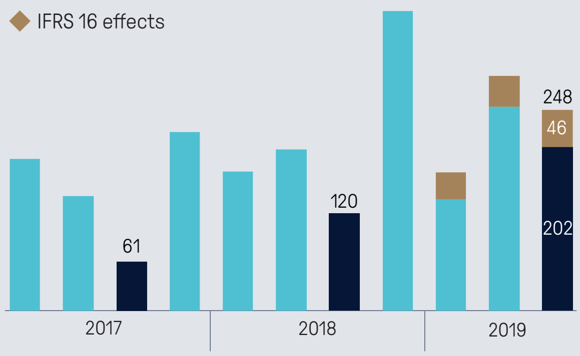
	1.7. - 30.9.		1.1. - 30.9.		
MNOK	2019	2018	2019	2018	2018
Operating revenues	1 578	1 180	4 776	4 206	6 104
EBITDA ex. IFRS 16	202	120	592	492	863
EBITDA	248	-	709	-	-
EBITDA (%) ex. IFRS 16	12,8	10,2	12,4	11,7	14,1
EBITDA (%)	15,7	-	14,8	-	-
Order Intake	8 254	1 272	13 551	5 115	6 885

	30.9.	31.3.	31.12.
MNOK	2019	2019	2018
Order backlog	20 027	13 433	10 744
No. of employees	2 889	2 830	2 448

Operating Revenues



EBITDA



Market and orders

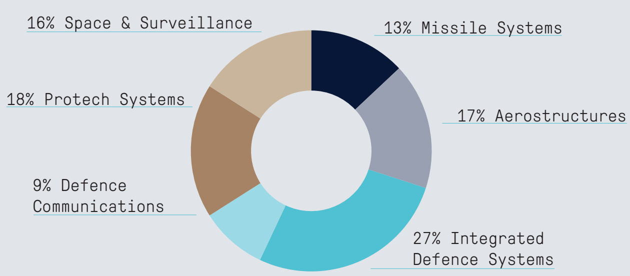
Order intake amounted to MNOK 8,254 in Q3, compared to MNOK 1,272 in the same quarter last year. This represents an increase of MNOK 6,982 and gives a book-to-bill ratio of 5.23. The order intake has been solid throughout the business area, and all divisions have increased their order intake compared to the equivalent quarter in 2018. The air defence contract with Qatar, which was signed in July 2019, represents the majority of the increase.

Accumulated order intake as per Q3 amounted to MNOK 13,551 compared to MNOK 5,115 in the same period last year. This gave KDA a record order backlog of MNOK 20,027 at the end of Q3.

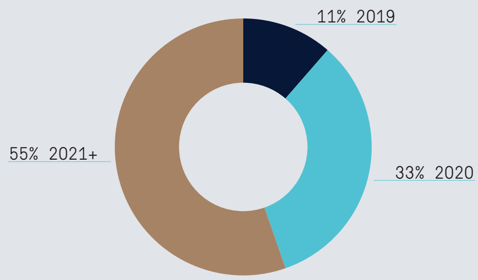
Key contracts signed in Q3:
- **NASAMS contract with Qatar worth MNOK 5,600.** Qatar is the 11th nation to order the NASAMS air defence system. The continuous technological development of the system and the fact that more and more countries are choosing NASAMS reaffirms the world-leading position of the system. Historically, this contract is the largest single contract signed by KDA.
- **Strong order intake for the American CROWS programme.** Contracts worth USD 131 associated with the CROWS framework agreement were signed this quarter.
- **KSAT contract with Space Norway worth MNOK 618.** Contract for the delivery of ground station services, which will provide access to satellite-based broadband in the Arctic. KSAT's order backlog has not been consolidated as part of KDA's order backlog. KSAT's order backlog at the end of Q3 amounts to about MNOK 3,000. KONGSBERG owns 50.0 per cent of the shares in KSAT.

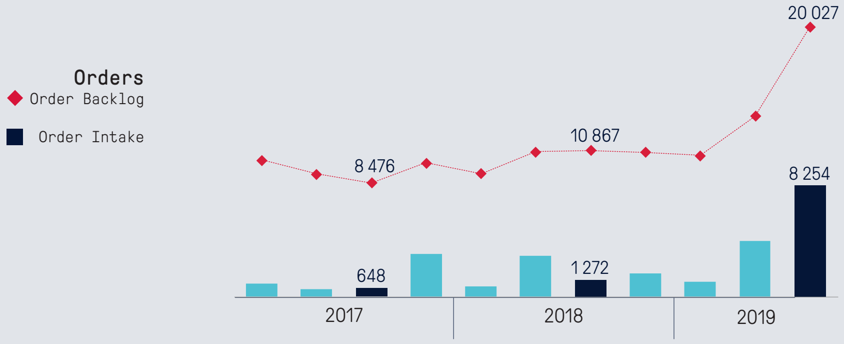
The defence market is characterised by relatively few, but large, contracts. Deliveries are normally made over an extended period and involve several milestones. Fluctuations in order intake and performance are therefore considered normal. In 2018 and so far in 2019, KONGSBERG has won strategically important contracts and expects further good order intake over the coming years as a result of KDA's strong market position in its segments. Investments in defence programmes are often long-term processes. It is the authorities in the countries in question that 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 dates





OUTLOOK

KONGSBERG maintains strong and important positions within both the civil and defence sectors, which should continue to develop positively in Q4 2019. At the same time, it will be a year in which results are affected by the costs associated with the integration and restructuring of the "new" Kongsberg Maritime. In our civil sectors, in a period of generally challenging markets, we have focused considerably on existing and new markets, as well as making a significant acquisition. There is a great deal of international interest in the modern product portfolio from our defence sector, which gives us good prospects for order intake in both the short and long term, and provides a solid foundation for growth. Fluctuations in the margin situation must be expected between quarters as a consequence of milestones achieved, the current combination of projects and the ongoing integration.

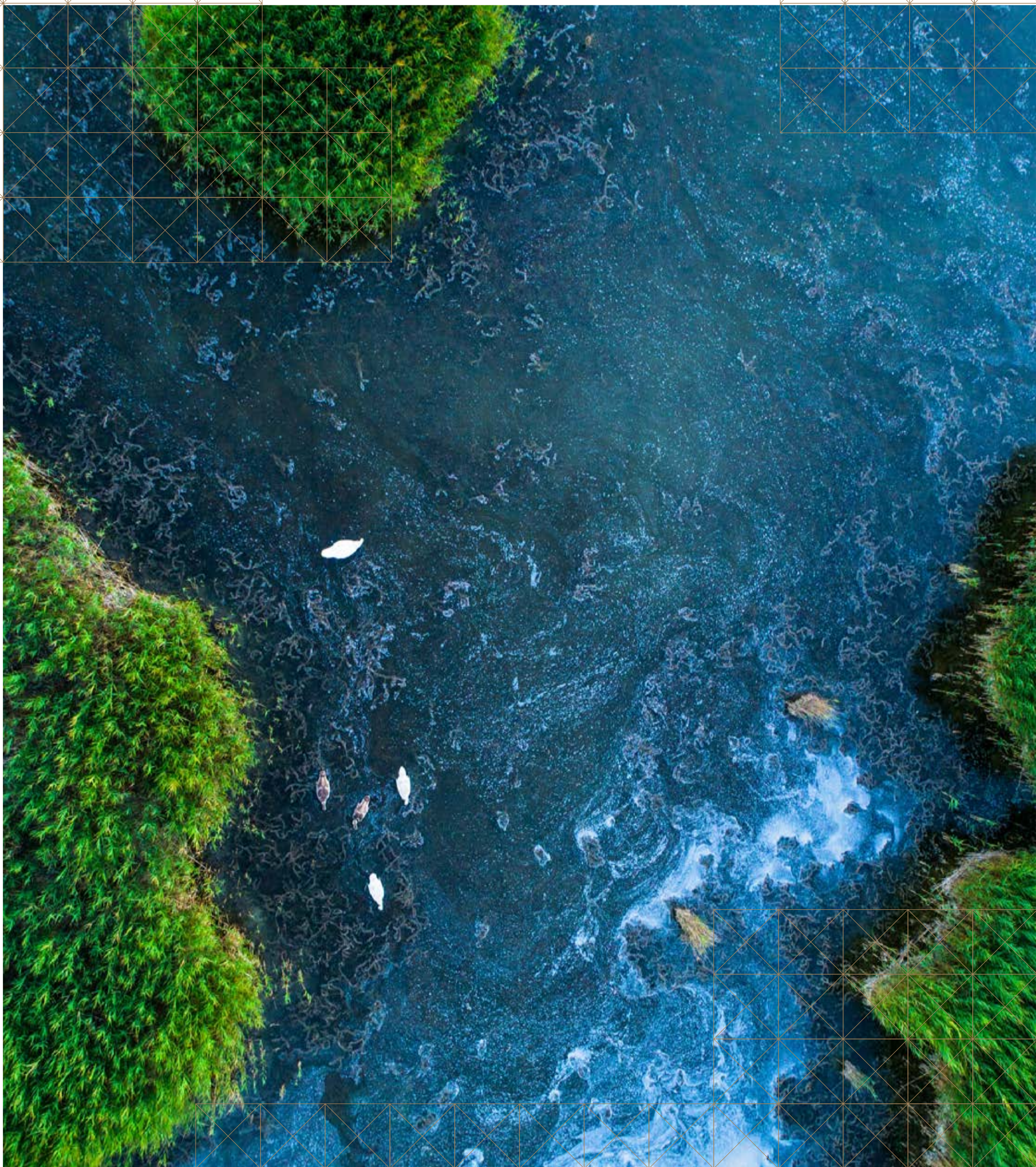
Kongsberg Maritime has developed into a supplier to all the maritime markets. This makes the company robust and less affected by cycles within individual segments. This robustness is underpinned by an annual after-sales market of around MNOK 7,000 relating to equipment installed on more than 30,000 vessels. The integration of Commercial Marine will impact on the financial results in both 2019 and 2020. It is expected that total costs relating to this will total around MNOK 240 in 2019. Restructuring costs will also accrue. Further strong development in the after-sales market is expected, while certain segments within the new-build market will remain challenging. Operating revenues will increase in 2019, and there are good conditions for continued growth in 2020. This is primarily a result of the strong order intake over the past year and some increase in activity in the after-sales market.

Kongsberg Defence & Aerospace is seeing an elevated level of market activity both with respect to programmes in which the business area has already been selected as the preferred supplier and with respect to new programmes. The strong order intake in Q3 implies that the order backlog has increased to just over BNOK 20. Of this, over MNOK 2,200 is for delivery during the last three months of the year, while over MNOK 6,600 is for delivery during 2020. This gives KDA a solid basis for growth going forward.

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 and maritime markets in recent years. The sector has experienced a strong increase in its order backlog over the past year, which provides a basis for further growth. It is important for KONGSBERG to maintain its leading digital position through continuous development. KDI's growth strategy has therefore been intensified during 2019, with an emphasis on product portfolio and strategic opportunities.

Kongsberg, 29 October 2019
The Board of Kongsberg Gruppen ASA

NUMBERS & NOTES



Key figures by quarter

KONGSBERG	2019 incl. IFRS 16 effects				2019 ex. IFRS 16 effects				2018					2017				
MNOK	*2019*	*Q3*	*Q2*	*Q1*	*2019*	*Q3*	*Q2*	*Q1*	*2018*	*Q4*	*Q3*	*Q2*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*
Operating revenues	15 917	6 046	6 244	3 627	15 917	6 046	6 244	3 627	14 381	4 148	3 154	3 525	3 554	14 490	3 757	3 279	3 733	3 721
EBITDA	1 428	535	479	414	1 126	417	371	338	1 394	520	347	241	286	1 279	459	274	207	339
EBITDA %	9,0	8,8	7,7	11,4	7,1	6,9	5,9	9,3	9,7	12,5	11,0	6,8	8,0	8,8	12,2	8,4	5,5	9,1
Order Intake	25 708	12 325	9 617	3 766	25 708	12 325	9 617	3 766	16 574	3 859	4 477	5 299	2 939	13 430	5 015	2 429	2 535	3 451
Order backlog	34 244	34 244	27 774	17 301	34 244	34 244	27 774	17 301	17 283	17 283	17 602	16 419	14 814	15 629	15 629	14 298	15 308	16 672
EBIT	629	230	160	239	578	209	141	229	945	406	240	124	175	772	299	162	91	220
EBIT %	4,0	3,8	2,6	6,6	3,6	3,5	2,3	6,3	6,6	9,8	7,6	3,5	4,9	5,3	8,0	4,9	2,4	5,9

KONGSBERG MARITIME	2019 incl. IFRS 16 effects				2019 ex. IFRS 16 effects				2018					2017				
MNOK	*2019*	*Q3*	*Q2*	*Q1*	*2019*	*Q3*	*Q2*	*Q1*	*2018*	*Q4*	*Q3*	*Q2*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*
Operating revenues	10 549	4 255	4 221	2 072	10 549	4 255	4 221	2 072	7 545	2 041	1 798	1 910	1 796	7 429	1 877	1 815	1 969	1 768
EBITDA	714	271	205	238	499	189	124	187	594	140	205	115	134	589	228	161	60	140
EBITDA %	6,8	6,4	4,9	11,5	4,7	4,4	2,9	9,0	7,9	6,9	11,4	6,0	7,5	7,9	12,1	8,9	3,0	7,9
Order Intake	11 511	3 860	5 238	2 413	11 511	3 860	5 238	2 413	8 884	1 853	3 024	2 107	1 900	7 336	1 693	1 670	1 813	2 160
Order backlog	13 386	13 386	13 519	5 981	13 386	13 386	13 519	5 981	5 739	5 739	5 975	4 919	4 740	4 820	4 820	4 908	5 197	5 519
EBIT	230	77	(12)	164	196	63	(24)	157	453	106	176	78	93	368	146	117	13	92
EBIT %	2,2	1,8	(0,3)	7,9	1,9	1,5	(0,6)	7,6	6,0	5,2	9,8	4,1	5,2	5,0	7,8	6,4	0,7	5,2

KONGSBERG DEFENCE & AEROSPACE	2019 incl. IFRS 16 effects				2019 ex. IFRS 16 effects				2018					2017				
MNOK	*2019*	*Q3*	*Q2*	*Q1*	*2019*	*Q3*	*Q2*	*Q1*	*2018*	*Q4*	*Q3*	*Q2*	*Q1*	*2017*	*Q4*	*Q3*	*Q2*	*Q1*
Operating revenues	4 776	1 578	1 829	1 369	4 776	1 578	1 829	1 369	6 104	1 898	1 180	1 441	1 585	6 333	1 683	1 281	1 591	1 778
EBITDA	709	248	291	171	592	202	252	138	863	371	120	200	172	612	221	61	142	188
EBITDA %	14,8	15,7	15,9	12,5	12,4	12,8	13,8	10,1	14,1	19,5	10,2	13,9	10,9	9,7	13,1	4,8	8,9	10,6
Order Intake	13 551	8 254	4 160	1 137	13 551	8 254	4 160	1 137	6 885	1 770	1 272	3 045	798	5 376	3 168	648	559	1 001
Order backlog	20 027	20 027	13 433	10 519	20 027	20 027	13 433	10 519	10 744	10 744	10 867	10 772	9 170	9 956	9 956	8 476	9 115	10 150
EBIT	422	145	196	81	406	139	190	77	621	309	58	137	117	409	165	13	93	138
EBIT %	8,8	9,2	10,7	5,9	8,5	8,8	10,4	5,6	10,2	16,3	4,9	9,5	7,4	6,5	9,8	1,0	5,8	7,8

*Pro forma figures, not audited *:*

COMMERCIAL MARINE	2019 incl. IFRS 16 effects				2019 ex. IFRS 16 effects				2018				
MNOK	*2019*	*Q3*	*Q2*	*Q1*	*2019*	*Q3*	*Q2*	*Q1*	*2018*	*Q4*	*Q3*	*Q2*	*Q1*
Operating revenues	5 989	2 089	2 029	1 871	5 989	2 089	2 029	1 871	8 215	2 475	1 980	2 054	1 706
EBITDA	96	78	52	(33)	4	46	22	(64)	(273)	(6)	(13)	(81)	(173)
EBITDA %	1,6	3,7	2,6	(1,8)	0,1	2,2	1,1	(3,4)	(3,3)	(0,2)	(0,7)	(3,9)	(10,1)
Order Intake	6 458	1 840	2 645	1 973	6 458	1 840	2 645	1 973	9 901	2 791	2 404	2 580	2 126
Order backlog	7 077	7 077	7 229	6 739	7 077	7 077	7 229	6 739	6 631	6 631	6 133	5 649	5 111
EBIT	(86)	26	(21)	(91)	(105)	19	(27)	(97)	(396)	(38)	(42)	(112)	(204)
EBIT %	(1,4)	1,2	(1,0)	(4,9)	(1,8)	0,9	(1,3)	(5,2)	(4,8)	(1,5)	(2,1)	(5,5)	(12,0)

*) The figures are exclusive of integration costs, restructuring costs and the amortisation of excess values in connection with the acquisition.

Condensed income statement

2019 is inclusive IFRS 16 effects.

		1.7. - 30.9.		1.1. - 30.9.		
MNOK	*Note*	*2019*	*2018*	*2019*	*2018*	*2018*
Operating revenues	4	6 046	3 154	15 917	10 233	14 381
Operating expenses	7	(5 502)	(2 837)	(14 512)	(9 449)	(13 168)
Share of net income from joint arrangements and associated companies	5	(9)	30	23	90	181
EBITDA	4,12	**535**	**347**	**1 428**	**874**	**1 394**
Depreciation of property, plant and equipment		(115)	(86)	(341)	(263)	(350)
Depreciation of leasing assets		(98)	-	(253)	-	-
Writedowns of property, plant and equipment		-	-	-	-	(6)
Amortisation of intangible assets		(92)	(21)	(205)	(72)	(93)
EBIT	4,12	**230**	**240**	**629**	**539**	**945**
Interest on leasing liabilities	2	(36)	-	(96)	-	-
Net financial items	6	(41)	(45)	(72)	(86)	(101)
Earnings before tax (EBT)		**153**	**195**	**461**	**453**	**844**
Income tax expenses	10	(38)	(40)	(103)	(93)	(140)
Earnings after tax		**115**	**155**	**358**	**360**	**704**
Attributable to:						
Equity holders of the parent		111	155	354	361	701
Non-controlling interests		4	-	4	(1)	3
Earnings per share (EPS) / EPS diluted in NOK		0,62	1,29	1,97	3,01	5,58

Condensed statement of comprehensive income

2019 is inclusive IFRS 16 effects.

		1.7. - 30.9.		1.1. - 30.9.		
MNOK	*Note*	*2019*	*2018*	*2019*	*2018*	*2018*
Earnings after tax		115	155	358	360	704
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	(107)	(70)	(122)	35	65
Tax effect cash flow hedges (Currency futures and interest rate swaps)		24	16	27	(8)	(16)
Translation differences and hedge of net investments, currency		245	12	183	(142)	70
Total items to be reclassified to profit or loss in subsequent periods		**162**	**(42)**	**88**	**(115)**	**119**
Items not to be reclassified to profit or loss:						
Actuarial gains/losses pensions		-	-	-	-	54
Income tax on items remaining in equity		-	-	-	-	(12)
Total items not to be reclassified to profit or loss		**-**	**-**	**-**	**-**	**42**
Comprehensive income after tax		**277**	**113**	**446**	**245**	**865**

Condensed statement of financial position

2019 is inclusive IFRS 16 effects.

		30.9.	30.6.	31.12.
MNOK	*Note*	*2019*	*2019*	*2018*
Property, plant and equipment		**4 069**	4 024	2 531
Leasing assets	2	**2 070**	2 155	-
Intangible assets	7	**6 436**	6 428	2 889
Shares in joint arrangements and associated companies	5	**3 269**	3 244	3 400
Other non-current assets		**232**	236	188
Total non-current assets		**16 076**	**16 087**	**9 008**
Inventories		**4 298**	4 143	2 174
Trade receivables		**4 126**	4 001	2 802
Customer contracts, asset		**5 689**	4 502	2 994
Other current assets		**1 475**	1 320	642
Cash and cash equivalents		**3 667**	4 522	10 038
Total current assets		**19 255**	**18 488**	**18 650**
Total assets		**35 331**	**34 575**	**27 658**
Issued capital		**5 933**	5 933	5 933
Retained earnings		**6 812**	6 457	6 748
Fair value of financial instruments		**(170)**	(87)	(75)
Non-controlling interests		**43**	38	20
Total equity		**12 618**	**12 341**	**12 626**
Long-term interest-bearing loans	6	**3 470**	3 469	4 020
Long-term leasing liabilities	2	**1 794**	1 863	-
Other non-current liabilities and provisions	3	**2 255**	2 296	1 970
Total non-current liabilities and provisions		**7 519**	**7 628**	**5 990**
Customer contracts, liabilities		**7 117**	7 118	5 157
Short-term interest-bearing loans	6	**620**	880	312
Short-term leasing liabilities	2	**324**	320	-
Other current liabilities and provisions	3	**7 133**	6 288	3 573
Total current liabilities and provisions		**15 194**	**14 606**	**9 042**
Total equity, liabilities and provisions		**35 331**	**34 575**	**27 658**
Equity ratio (%)		**35,7**	35,7	45,7
Net interest-bearing debt		**423**	(173)	(5 706)

Condensed statement of changes in equity

2019 is inclusive IFRS 16 effects.

MNOK	Note	30.9. 2019	30.6. 2019	31.12. 2018
Equity opening balance		12 626	12 626	7 365
Comprehensive income accumulated		446	169	865
Dividends		(450)	(450)	(450)
Treasury share		(3)	(3)	(3)
Capital increase		-	-	4 951
Dividends non-controlling interests		-	-	(5)
Change in non-controlling interests		(1)	(1)	(97)
Equity closing balance		**12 618**	**12 341**	**12 626**

Condensed cash flow statement

2019 is inclusive IFRS 16 effects.

	Note	1.7. - 30.9.		1.1. - 30.9.		
MNOK		2019	2018	2019	2018	2018
EBITDA		535	347	1 428	874	1 394
Change in net current assets and other operating related items		(895)	115	(1 659)	(9)	795
Net cash flow from operating activities		**(360)**	**462**	**(231)**	**865**	**2 189**
Acquisition/disposal of property, plant and equipment		(108)	(43)	(312)	(153)	(211)
Acquisition through business combinations		-	-	(3 819)	(10)	(30)
Repayment of loan in aqcuired business		-	-	(1 000)	-	-
Disposals of businesses		-	-	161	-	-
Other investing activities including capitalised self-financed development		(64)	(38)	(133)	(96)	(141)
Net cash flow from investing activities		**(172)**	**(81)**	**(5 103)**	**(259)**	**(382)**
Net change interest-bearing loans		(250)	(2)	(238)	(8)	996
Repayment of leasing liabilities		(83)	-	(208)	-	-
Net equity issue		-	-	-	-	4 937
Paid interests		(34)	(18)	(86)	(64)	(100)
Paid interests on leasing liabilities		(36)	-	(96)	-	-
Net payments for the acquisition/disposal of treasury shares		-	-	(27)	(20)	(20)
Transactions with non-controlling interests		-	-	-	(5)	(115)
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		**(403)**	**(20)**	**(1 103)**	**(545)**	**5 250**
Effect of changes in exchange rates on cash and cash equivalents		80	(1)	66	(27)	25
Net change in cash and cash equivalents		**(855)**	**360**	**(6 371)**	**34**	**7 082**
Cash and cash equivalents opening balance		**4 522**	**2 630**	**10 038**	**2 956**	**2 956**
Cash and cash equivalents closing balance		**3 667**	**2 990**	**3 667**	**2 990**	**10 038**

Note 1 | General information and principles

General information
The consolidated financial statement for Q3 (interim financial statement) covers Kongsberg Gruppen ASA (KONGSBERG), 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 2018. The consolidated financial statements for 2018 were prepared in compliance with the Norwegian Accounting Act and international standards for financial reporting (IFRS) established by the EU.
The consolidated financial statements for 2018 are available on www.kongsberg.com.

New standards that have been applied in 2019 are described in Note 2 of this report.

The interim financial statement has not been audited.

Note 2 | New standards as from 1.1.2019

"IFRS 16 Leases" has been 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. The asset is depreciated over the remaining period of the lease, and 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, which has also hired production facilities and vehicles. According to IAS 17, these were classified as operational lease agreements. With effect from 1 January 2019, lease agreements have been recognised on the balance sheet. The lease contracts will now be reflected as depreciation and interest expenses on the financial statement. KONGSBERG has applied the modified retrospective method for the transition to IFRS 16, which means that the comparative figures for 2018 have not been 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. The lease period for KONGSBERG's contracts ranges from 1 to 12 years.

IFRS 16 effects on condensed statement of financial position:	
Opening balance 01.01.2019	1 615
Depreciation Q1	(66)
Opening balance 01.04.2019	1 549
Addition AIM Q2	172
Addition CM Q2	523
Depreciation Q2	(89)
Opening Balance 01.07.2019	2 155
Addition Q3	13
Depreciation Q3	(98)
Closing balance 30.09.2019	**2 070**

ASSETS	**30.09.2019**	**30.06.2019**	**31.03.2019**	**01.01.2019**
Leasing assets	2070	2155	1 549	1 615
Total assets	**2 070**	**2 155**	**1 549**	**1 615**
Equity				
Effects on earned equity:				
Returned rent after tax	236	145	59	-
Depreciation and interest expensed after tax	(274)	(167)	(71)	-
Total equity	**(37)**	**(22)**	**(12)**	**-**
Long-term liabilities and provisions:				
Long-term leasing liabilities	1794	1863	1 362	1 362
Deferred tax	(10)	(5)	(3)	-
Total long-term liabilities and provisions:	**1 784**	**1 858**	**1 359**	**1 362**
Short-term liabilities and provisions:				
Short-term leasing liabilities	324	320	202	253
Total short-term liabilities and provisions:	**324**	**320**	**202**	**253**
Total equity, liabilities and provisions	**2 070**	**2 155**	**1 549**	**1 615**

IFRS 16 effects on condensed income statement in the period:

	1.7-30.9.2019	**1.4-30.6.2019**	**1.1-31.3.2019**	**1.1-30.9.2019**
Returned rental cost earlier included in EBITDA	(119)	(109)	(76)	(304)
Increased EBITDA in the period	**119**	**109**	**76**	**304**
Depreciation on leases	(98)	(89)	(66)	(253)
Increased EBIT in the period	**21**	**20**	**10**	**51**
Interest cost on leasing liabilities for the period	(36)	(35)	(25)	(96)
Reduced EBT in the period	**(15)**	**(15)**	**(15)**	**(45)**

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 obligations, revenues and expenses. Actual results may deviate from these estimates. The key considerations in connection with the application of the Group's accounting principles and the major sources of uncertainty remain the same as when the 2018 consolidated financial statements was compiled.

Note 4 | Segment information

2019 is inclusive IFRS 16 effects.

	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	*2019*	*2018*	*2019*	*2018*	*2018*	*2019*	*2018*	*2019*	*2018*	*2018*	*2019*	*2018*	*2019*	*2018*	*2018*
KM	**4 255**	1 798	**10 549**	5 504	7 545	**271**	205	**714**	454	594	**77**	176	**230**	347	453
KDA	**1 578**	1 180	**4 776**	4 206	6 104	**248**	120	**709**	492	863	**145**	58	**422**	312	621
Other	**213**	176	**592**	523	732	**16**	22	**5**	(72)	(63)	**8**	6	**(23)**	(120)	(129)
Group	**6 046**	**3 154**	**15 917**	**10 233**	**14 381**	**535**	**347**	**1 428**	**874**	**1 394**	**230**	**240**	**629**	**539**	**945**

On 21 January 2019, KONGSBERG entered into an agreement with Rome AS regarding the sale of the company Kongsberg Evotec AS, then owned by Kongsberg Maritime AS. The sale resulted from the acquisition of Rolls-Royce Commercial Marine. The sale was completed in January 2019 and is reflected in KM's revenues for the first half of the year in the form of a profit of MNOK 107.

External revenues for Kongsberg Evotec AS was MNOK 104 in the 2018 financial year and MNOK 83 in 2017.

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 to 30 September:

MNOK	Ownership	Carrying amount 1.1.19	Additions/ disposals in the period	Dividends received in the period	Share of net income in the period[1]	Other items and comprehensive income in the period	Carrying amount 30.9.19
Patria Oyj	49,9 %	2 807	(31)	(68)	(42)	-	2 666
Kongsberg Satellite Services AS	50,0 %	437	-	(55)	88	-	470
Other		156	-	-	(23)	-	133
Total		**3 400**	**(31)**	**(123)**	**23**	**-**	**3 269**

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

Bridge between EBITDA and KONGSBERG's share of Patria's performance after tax:

	1.7. - 30.9.		1.1. - 30.9.		1.1. - 31.12.	
	2019		*2019*		*2018*	
Millions	*EUR*	*NOK*	*EUR*	*NOK*	*EUR*	*NOK*
EBITDA	3		18		48	
Financial items, taxes, depreciations and amortisation	(7)		(20)		(18)	
Net income after tax	(5)		(2)		30	
KONGSBERG's share (49,9 %) [1]		(23)		(20)		122
Amortisation of excess values after tax		(8)		(22)		(42)
Share of net income recognised in KDA for the period		**(31)**		**(42)**		**80**

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

Note 6 | Financial instruments

Loans and credit facilities

The Group has six bond loans amounting to a total of MNOK 4,000. The loans are classified as long-term loans, except for KOG10 (nominal value of MNOK 550), which matures within one year and is therefore reclassified as short-term loan. The maturity dates of the long-term bond loans range from 2 June 2021 to 2 June 2026. The bond loan KOG07 (nominal value of MNOK 250) was repaid in its entirety when it matured in September 2019. In addition, the Group had a syndicated credit facility of MNOK 2,300 and an overdraft credit facility of MNOK 500. Both are unused.

Interest-bearing loans:

			30.9.2019	31.12.2018
MNOK	*Due date*	*Nominal interest rate*	*Value* [1]	*Value* [1]
Long-term loans:				
Bond issue KOG08 - floating interest rate	02.06.2021	2,86 %	1 000	1 000
Bond issue KOG09 - fixed interest rate	02.06.2026	3,20 %	1 000	1 000
Bond issue KOG10 - floating interest rate	05.03.2020	2,57 %	-	550
Bond issue KOG11 - fixed interest rate	05.12.2023	2,90 %	450	450
Bond issue KOG12 - floating interest rate	06.12.2021	2,54 %	500	500
Bond issue KOG13 - floating interest rate	06.06.2024	2,86 %	500	500
Other long-term loans [2]			20	20
Total long-term loans			**3 470**	**4 020**
Short-term loans:				
Bond issue KOG07 - fixed interest rate [3]		4,80 %	-	250
Bond issue KOG10 - floating interest rate	05.03.2020	2,57 %	550	-
Other short-term loans and interest rate swaps [3]			70	62
Total short-term loans			**620**	**312**
Total interest-bearing loans			**4 090**	**4 332**
Syndicated credit facility (unused borrowing limit)	15.03.2023		2 300	2 300
Overdraft facility (unused)			500	500

[1] Value is equal to nominal amount. For long-term 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 issue KOG07 and associated interest rate swap expired 11.9.19, and the value is MNOK 0 as of 30.9.19.

Forward exchange contracts and interest rate swaps

The fair value of balances classified as cash flow hedges fell by MNOK 122[2)] before tax during the period 1 January – 30 September 2019. Of this amount, the change in fair value of forward exchange contracts accounted for a reduction of MNOK 68 during the same period. The end-of-quarter spot prices were USD/NOK 9.09 and EUR/NOK 9.91.

Forward exchange contracts classified as cash flow hedging:

MNOK (before tax)	Due in 2019		Due in 2020 or later		Total		
	Value based on agreed exchange rates	Fair value at 30.9.19 [1]	Value based on agreed exchange rates	Fair value at 30.9.19 [1]	Value based on agreed exchange rates	Change in fair value from 31.12.18	Fair Value at 30.9.19 [1]
EUR	(152)	14	908	(20)	756	12	(6)
USD	(618)	4	(1)	(0)	(619)	(4)	4
Other	(24)	0	-	-	(24)	(76)	0
Sum	**(794)**	**18**	**907**	**(20)**	**113**	**(68)**	**(2)**
Roll-over of currency futures		(31)		(132)		(87)	(163)
Total	**(794)**	**(13)**	**907**	**(152)**	**113**	**(155)** [2]	**(165)**

[1] Fair value is calculated as the difference between the spot rate at 30 September 2019 and the forward rates on currency contracts.
[2] The difference between these two figures i.e. MNOK 33, is ascribable to a change in fair values of basis swaps and interest rate swaps of MNOK 14 and adjustments according to implementation of hedge accounting in aquired companies with MNOK 19.

Note 7 | Self-financed development

Inhouse-funded product maintenance, research and development recognised in the income statement during the period:

	1.7. - 30.9.		1.1. - 30.9.		
MNOK	*2019*	*2018*	*2019*	*2018*	*2018*
Product maintenance	112	57	323	194	280
Research and development cost	172	128	584	490	665
Total	**284**	**185**	**907**	**684**	**945**

Inhouse-funded development recognised in the balance sheet during the period:

	1.7. - 30.9.		1.1. - 30.9.		
MNOK	*2019*	*2018*	*2019*	*2018*	*2018*
Additions self-financed development	48	33	105	87	130

The largest capitalised projects are 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 Q3 associated with related parties that in any significant way have an impact on the Group's financial position and profit for the period, other than the fact that, during Q2, KONGSBERG acquired shares in Aerospace Industrial Maintenance Norway AS from the Ministry of Defence. See the discussion of the transaction in Note 11.

Note 9 | Important risk and uncertainty factors

The Group's risk management is described in the 2018 annual report. No new serious risk and uncertainty factors emerged during this quarter.

Note 10 | Tax

The effective tax rate as of Q3 is calculated to be 22.3 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.

Note 11 | Acquisitions

Rolls-Royce Commercial Marine
On 6 July 2018, KONGSBERG signed an agreement for the acquisition of Rolls-Royce Commercial Marine (RRCM) from Rolls-Royce Plc. The acquisition was completed on 1 April 2019, and the company is recognised as part of Kongsberg Maritime with effect from Q2 2019. The acquired entity is reported and referred to as 'Commercial Marine' below.

The negotiations with Rolls-Royce on a final purchase price were concluded in October 2019, with the result that KONGSBERG was repaid MNOK 244. Expected net outgoing cash flow relating to the purchase has fallen from MNOK 5,145 to MNOK 4,863. A preliminary excess value analysis was presented in the Q1 report for 2019. An updated excess value analysis will be presented in the Q4 report.

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 (AIM). The acquisition was completed on 29 May 2019, and the agreement concerning shared ownership with Patria was concluded on the same day. KONGSBERG is thereby the majority shareholder, with 50.1 per cent, while Patria (in which KONGSBERG has a 49.9 per cent stake) owns 49.9 per cent of the shares in AIM. The company is the Norwegian Armed Forces' organisation that deals with the maintenance, repair and inspection of aircraft and helicopters.

A preliminary excess value analysis was presented in the Q2 report for 2019.

In June, AIM was renamed Kongsberg Aviation Maintenance Services AS.

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.

Kongsberg considers *EBITDA* and *EBIT* to be normal accounting terms, but they are not included in the IFRS accounting standards. EBITDA is the abbreviation of "Earnings Before Interest, Taxes, Depreciation and Amortisation". KONGSBERG uses EBITDA in the income statement as a summation line for other accounting lines. These accounting lines are defined in our accounting principles, which are part of the 2018 financial statements. The same applies to EBIT.

Adjusted EBITDA shows the Group's EBITDA before items that require special explanations. This applies to restructuring/integration costs and profit/loss resulting from sales of operations.

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

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

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

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

RRCM is Rolls-Royce Commercial Marine

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

AIM is Aerospace Industrial Maintenance Norway AS

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

Restructuring costs are defined as salaries and social security tax upon termination of employment (such as severance and gratuity) in connection with workforce reductions. In addition to this are rent and other related costs and any one-off payments in the event of the premature termination of tenancy agreements for premises that are vacated, along with certain other costs related to restructuring processes.

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

Organic growth is change in operating revenues exclusive acquired companies.