

REPORT

Q3 2016



Kitron

Your ambition. Our passion.



Defence/Aerospace
Energy/Telecoms
Industry
Medical devices
Offshore/Marine

Norway
Sweden
Lithuania
Germany
USA
China



Report third quarter 2016

Margin improvements on track

- * Stable revenue, solid order backlog
- * Key customer agreements signed
- * Significant change in shareholder structure

- * Improved underlying profitability
- * Improved capital efficiency

Stable revenue, solid order backlog

Kitron's revenue for the third quarter was NOK 463 million (NOK 468 million), which represents a decrease of 1.1 per cent compared to the same period last year. Adjusted for foreign exchange effects in consolidation the decrease was 2.1 per cent.

The third quarter sales were affected by normal seasonality while the seasonality last year was unusually weak. In addition, some customer projects were postponed.

The pattern from the preceding quarters continued, with the market Sectors Defence/Aerospace and Industry growing compared to the same quarter last year. The Offshore/Marine downward trend continues and revenue was further reduced by 60 per cent.

The order backlog ended at NOK 979.9 million, an increase of 7 per cent compared to last year. Adjusted for foreign exchange effects in consolidation, the increase was 11 per cent. The solid order backlog underpins a positive outlook for Kitron's revenue.

Orders received in the quarter were NOK 479.0 million.

Improved underlying profitability

Third quarter EBITDA was NOK 41.3 million (NOK 36.9 million), an increase of 11.9 per cent compared to last year. Operating profit (EBIT) for the third quarter ended at NOK 30.1 million (NOK 26.3 million).

Profitability expressed as EBIT margin was 6.5 per cent (5.6 per cent). This is an improvement not only from the third quarter last year but also from the first and second quarter this year.

Profit after tax was NOK 17.7 million (NOK 22.8 million), corresponding to NOK 0.10 earnings per share (NOK 0.13). The decrease is primarily due to currency effects on intra-group financial loans.

Key customer agreements

Kitron signed two strategically important customer agreements in the third quarter.

In July, Kitron was selected as a new preferred supplier for Dentsply Sirona, the world's largest manufacturer of professional dental products and technologies, validating Kitron's long-term investments in the German market.

In September, Kitron received orders from Aidon OY of Finland for communication modules with a value for Kitron of more than NOK 100 million over the next three years. This increases the current business scope with Aidon. Production will take place at Kitron's plant in Kaunas, Lithuania.

Improved capital efficiency

Kitron's consistent efforts to reduce working capital continue to yield results. Net working capital was reduced by 7.9 per cent from NOK 541 million to NOK 498 million compared to the same quarter last year.

Return on operating capital (ROOC) was 17.2 per cent compared to 14.4 per cent in the third quarter last year. Net working capital as a percentage of revenue was 25.8 per cent, compared to 27.8 per cent last year. Cash conversion cycle (CCC) was at 99 for the quarter. This is down from 105 last year, an improvement of 6 days. Operational cash flow was NOK 36.4 million (NOK 32.7 million) for the quarter.

Significant change in shareholder structure

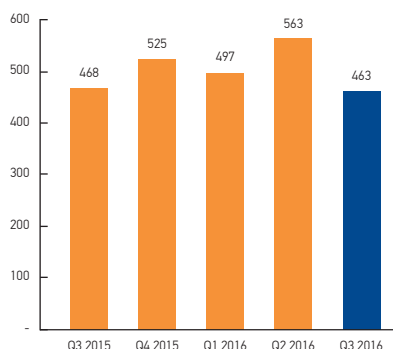
During October, the two largest shareholders sold all their shares resulting in a significant increase in the float of the Kitron share.

Key figures

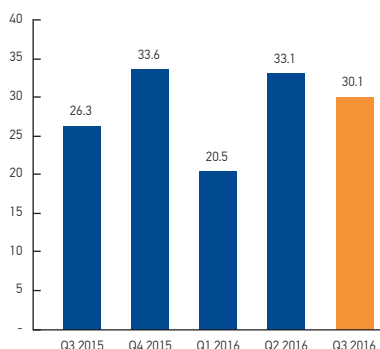
NOK million	Q3 2016	Q3 2015	Change	30.09.2016	30.09.2015	Change	31.12.2015
Revenue	462.6	467.7	(5.1)	1 522.7	1 427.3	95.4	1 951.8
EBIT	30.1	26.3	3.8	83.7	69.1	14.6	102.7
Order backlog	979.9	915.7	64.2	979.9	915.7	64.2	975.6
Operating cash flow	36.4	32.7	3.7	72.1	116.3	(44.2)	204.1
Net working capital	497.5	540.8	(43.3)	497.5	540.8	(43.3)	565.5



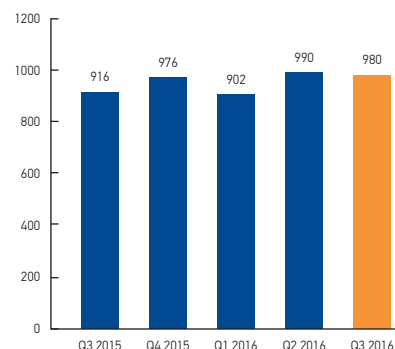
REVENUE Group
NOK million



EBIT Group
NOK million



ORDER BACKLOG Group
NOK million



Key figures

Revenue from customers in the Swedish market represented a 47.2 per cent share of the total revenue during the third quarter (46.2 per cent). The Norwegian market represented 30.2 per cent of Kitron's total revenue in the third quarter (35.4 per cent).

Contribution margin

The contribution margin, defined as revenue minus cost of materials and direct payroll expenses, increased from the same period last year, both due to reductions in material costs and labour costs.

Profit

Kitron's operating profit (EBIT) in the third quarter was NOK 30.1 million, which was an increase of 3.8 million compared with the same period last year (NOK 26.3 million).

Profit before tax in the third quarter of 2016 was NOK 22.7 million, which was a decrease of NOK 8.4 million compared to the same period last year.

The company's total payroll expenses in the third quarter were NOK 4.1 million lower than in the corresponding period in 2015. The relative payroll costs ended at 19.4 per cent, down from 20.1 per cent of revenue in the third quarter last year. Other operating costs were 5.7 per cent of revenue in the third quarter of 2016 (6.4 per cent).

During the quarter net financial items amounted to a net cost of NOK 7.4 million. The corresponding figure for third quarter last year was a net gain of NOK 4.9 million. The main reason for the change was currency effects

on intra-group financial loans. Intra-group financial loans to subsidiaries in foreign currencies as of 30 September 2016 total USD 11.0 million and EUR 1.9 million.

Balance sheet

Kitron's gross balance as of 30 September 2016 amounted to NOK 1 271.7 million, compared to NOK 1 242.0 million at the same time in 2015. Equity was NOK 568.9 million (NOK 550.5 million), corresponding to an equity ratio of 44.7 per cent (44.3 per cent).

Inventory was NOK 411.6 million as of 30 September 2016 (NOK 396.3 million). Inventory turns was 3.5 in the third quarter 2016, which is a decrease compared to third quarter last year (3.6).

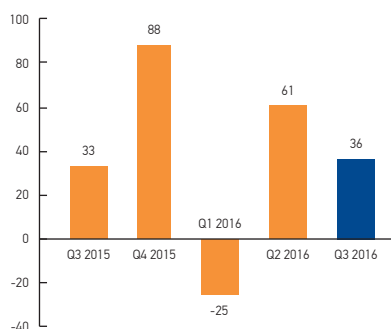
Accounts receivables amounted to NOK 391.7 million at the end of the third quarter of 2016. The corresponding amount at the same time in 2015 was NOK 405.1 million.

The group's reported interest-bearing debt amounted to NOK 309.9 million as of 30 September 2016. Interest-bearing debt at the end of the third quarter 2015 was NOK 320.8 million. Net Interest Bearing Debt/ EBITDA is 1.3 for the third quarter compared to 2.2 at the same time last year.

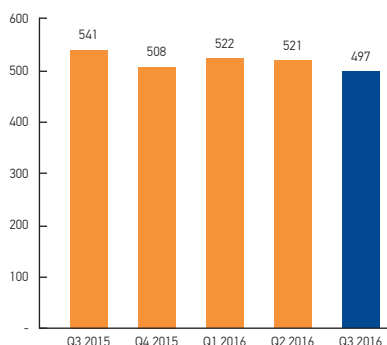
Cash flow from operational activities for the third quarter of 2016 was NOK 36.4 million (NOK 32.7 million).



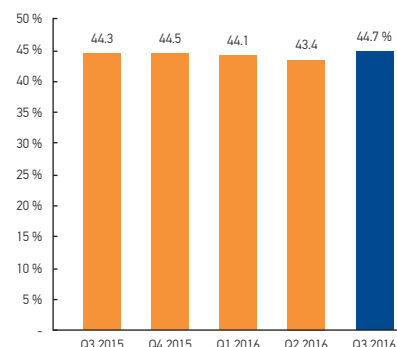
OPERATING CASH FLOW Group
NOK million



NET WORKING CAPITAL Group
NOK million



EQUITY RATIO Group
Per cent



Revenue business entities

NOK million	Q3 2016	Q3 2015	Change	30.09.2016	30.09.2015	Change	31.12.2015
Norway	156.2	184.3	(28.1)	564.6	631.5	(67.0)	859.2
Sweden	139.7	123.2	16.5	416.1	343.3	72.8	483.5
Lithuania	129.5	111.9	17.5	475.5	343.0	132.4	472.2
Others	103.1	107.5	(4.5)	272.9	297.3	(24.4)	387.1
Group and eliminations	(65.8)	(59.3)	(6.5)	(206.3)	(187.9)	(18.4)	(250.2)
Total group	462.6	467.7	(5.1)	1 522.7	1 427.3	95.4	1 951.8

EBIT business entities

NOK million	Q3 2016	Q3 2015	Change	30.09.2016	30.09.2015	Change	31.12.2015
Norway	5.7	6.0	(0.3)	16.5	25.4	(8.9)	36.7
Sweden	8.1	8.9	(0.8)	23.5	19.8	3.7	26.5
Lithuania	8.1	4.3	3.8	38.5	16.0	22.5	23.5
Others	10.6	10.5	0.1	21.5	25.0	(3.6)	32.7
Group and eliminations	(2.4)	(3.4)	1.0	(16.2)	(17.1)	0.9	(16.6)
Total group	30.1	26.3	3.8	83.7	69.1	14.6	102.7

Order backlog business entities and market sectors

NOK million	Defence/ Aerospace	Energy/ Telecoms	Industry	Medical equipment	Offshore/ Marine	Total
Norway	349.1	-	29.0	70.5	14.0	462.6
Sweden	37.1	88.9	24.3	84.7	-	235.1
Lithuania	4.7	20.1	181.3	23.7	-	229.8
Other	26.8	1.6	20.5	3.6	-	52.4
Total group	417.7	110.6	255.0	182.5	14.0	979.9

Revenue geographic markets

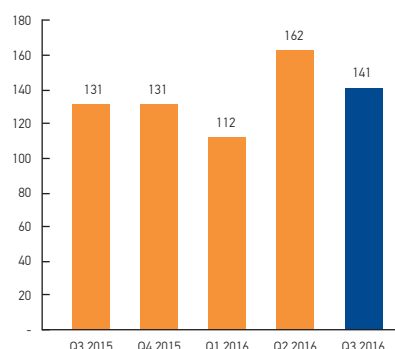
NOK million	Q3 2016	Q3 2015	Change	30.09.2016	30.09.2015	Change	31.12.2015
Norway	139.9	165.7	(25.9)	494.2	523.3	(29.2)	719.7
Sweden	218.5	216.2	2.3	747.0	653.6	93.4	902.2
Rest of Europe	25.7	17.2	8.5	67.7	50.5	17.3	68.4
USA/Canada	75.6	60.4	15.2	203.8	180.5	23.3	234.9
Others	2.9	8.1	(5.2)	10.0	19.3	(9.3)	26.7
Total group	462.6	467.7	(5.1)	1 522.7	1 427.3	95.4	1 951.8

Full time employees

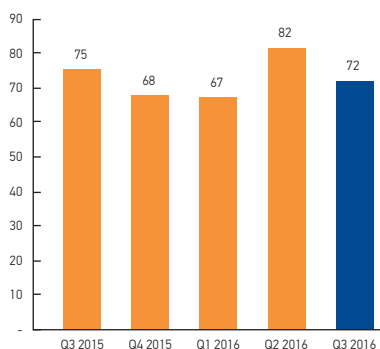
FULL TIME EMPLOYEES	30.09.2016	30.09.2015	Change
Norway	336	408	(72)
Sweden	164	130	34
Lithuania	578	426	152
Other	190	199	(9)
Total group	1 268	1 163	105



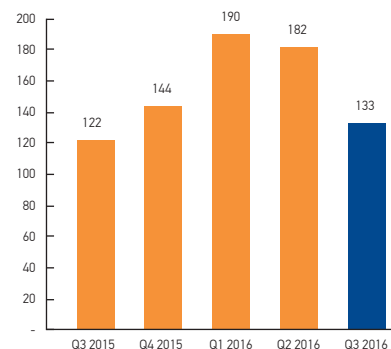
REVENUE Defence/Aerospace
NOK million



REVENUE Energy/Telecoms
NOK million



REVENUE Industry
NOK million



Organisation

The Kitron workforce corresponded to 1 268 full-time employees on 30 September 2016. This is an increase of 105 since the third quarter of 2015. There is a decrease of 72 related to the operations in Norway, while there is an increase of the workforce in Lithuania and Sweden of 152 and 34 respectively. The number of full-time employees in low-cost regions now accounts for 60 per cent of the total.

Market

Order intake in the quarter was NOK 479.0 million, which is 7.7 per cent lower than for the third quarter 2015. The order backlog ended at NOK 979.9 million, which is 7.0 per cent higher than the same period last year.

Four-quarter moving average order intake was down from NOK 545.7 million at the beginning of the third quarter to NOK 535.6 million at the end of the quarter. Kitron's order backlog includes four months customer forecast plus all firm orders for later delivery.

Defence/Aerospace

The Defence/Aerospace sector consists of three main product divisions: military and civil avionics, military communication and weapon control systems.

The Defence/Aerospace sector revenue increased by 7.5 per cent compared to last year. The order backlog at NOK 417.7 million decreased

by NOK 62.1 million during the quarter. Compared to last year, the order backlog increased by NOK 26.1 million (6.7 per cent).

The high level of activity in the defence sector continues, driven by roll-out of military communications equipment in Norway and supported by increased defence project deliveries in Sweden. Kitron's expansion of its footprint in the F35 program secures the company's future position as a strong partner within the defence sector.

The Defence /Aerospace is characterised by project deliveries, which vary between the quarters and causes revenue and inventory to fluctuate.

Energy/Telecoms

Within the Energy/Telecoms sector Kitron offers clients particular expertise in manufacturing products such as transmission systems, high frequency microwave modules, radio frequency (RF) and remote measurement of electrical metering.

The Energy/Telecoms sector revenues decreased by 4.0 per cent compared to last year. The order backlog is NOK 110.6 million, an increase of NOK 2.1 million compared to the second quarter in 2016, and NOK 28.4 million (34.5 per cent) higher than a year ago.

Revenue market sectors

NOK million	Q3 2016	Q3 2015	Change	30.09.2016	30.09.2015	Change	31.12.2015
Defence/Aerospace	141.1	131.3	9.8	415.8	403.8	12.0	535.2
Energy/Telecoms	72.1	75.1	(3.0)	220.9	201.5	19.4	269.6
Industry	132.9	121.5	11.4	505.2	394.5	110.7	538.5
Medical devices	109.9	123.2	(13.3)	344.8	327.3	17.5	472.6
Offshore/Marine	6.6	16.5	(9.9)	35.9	100.1	(64.1)	135.8
Total group	462.6	467.7	(5.1)	1 522.7	1 427.3	95.4	1 951.8

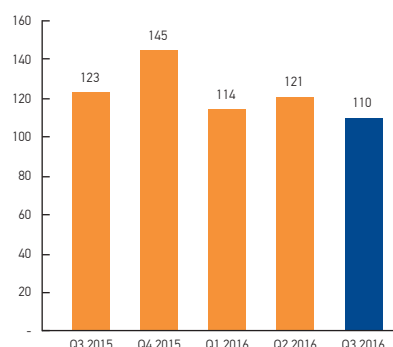
Order Backlog market sectors

NOK million	30.09.2016	30.09.2015	Change	31.12.2015
Defence/Aerospace	417.7	391.6	26.1	422.8
Energy/Telecoms	110.6	82.2	28.4	96.0
Industry	255.0	222.6	32.4	285.5
Medical devices	182.5	178.2	4.2	148.2
Offshore/Marine	14.0	41.1	(27.1)	23.1
Total group	979.9	915.7	64.2	975.6



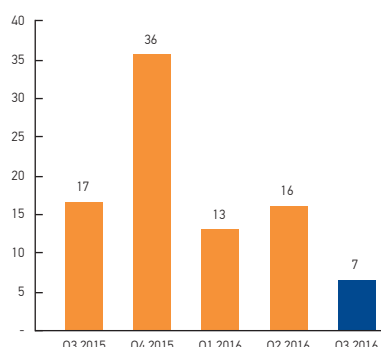
REVENUE Medical devices

NOK million



REVENUE Offshore/Marine

NOK million



Industry

Within the Industry sector Kitron operates and delivers a complete range of services within industrial applications like automation, environmental, material warehousing and security. The Industry sector consists of three main product areas: control systems, electronic control units (ECU) and automation.

The industry sector showed a revenue increase of 9.4 per cent compared to the third quarter last year, but a decline of 27.0 per cent from the second quarter of 2016. The order backlog increased by NOK 32.4 million (14.6 per cent) compared to the same period last year and increased by NOK 38.0 million from the preceding quarter (17.5 per cent).

The industry sector continues to grow due to strong growth in Lithuania. Order backlog is affected by seasonality.

Medical devices

The Medical device sector consists of three main product areas: ultrasound and cardiology systems, respiratory medical devices and Lab/IVD (In-Vitro Diagnostics).

Revenue in the Medical device sector decreased by 10.8 per cent compared to the same period last year. The order backlog is NOK 182.5 million, up NOK 4.3 million (2.4 per cent) from the same period last year, and up NOK 15.1 million (9.0 per cent) compared to the preceding quarter.

Offshore/Marine

Kitron divides the Offshore/Marine sector into three main areas; subsea production systems, oil and gas exploration equipment and navigation, positioning, automation and control systems for the marine sector.

The Offshore/Marine sector revenue decreased by 60.0 per cent compared to the same period last year. The order backlog is NOK 14.0 million, a decrease of NOK 2.6 million compared to the preceding quarter and a reduction of NOK 27.1 million compared to the same period last year (65.9 per cent). The decline in revenue is due to the previously announced reduction in the Norwegian market, which is connected to the general adjustment in the oil service market.

Outlook

For 2016, Kitron has previously indicated revenue of between NOK 2 050 and 2 250 million and EBIT margin of 5.3 to 6.3 per cent. Due to currency effects and postponed projects, revenue is now expected to be in the lower half of the indicated range. The growth is driven by increased demand in the Industry and Defence/Aerospace sectors. The profitability increase is driven by cost reduction activities and improved efficiency.

The board emphasizes that every assessment of future conditions necessarily involves an element of uncertainty.

Oslo, 24 October 2016, Board of directors, Kitron ASA

Condensed profit and loss statement

NOK 1 000	Q3 2016	Q3 2015	30.09.2016	30.09.2015	31.12.2015
Revenue	462 582	467 668	1 522 699	1 427 263	1 951 818
Cost of materials	304 675	308 013	980 039	920 877	1 244 121
Payroll expenses	89 905	93 998	330 325	320 664	443 656
Other operational expenses	26 155	30 024	91 672	88 960	123 693
Other gains / (losses)	(514)	1 310	(2 628)	2 936	3 697
Operating profit before depreciation and impairments (EBITDA)	41 333	36 943	118 035	99 697	144 044
Depreciation and impairments	11 239	10 690	34 356	30 603	41 303
Operating profit (EBIT)	30 093	26 253	83 680	69 094	102 741
Net financial items	(7 417)	4 853	(21 521)	310	(422)
Profit (loss) before tax	22 677	31 106	62 159	69 405	102 319
Tax	4 962	8 307	12 992	19 756	30 094
Profit (loss) for the period	17 715	22 799	49 167	49 649	72 225
Earnings per share-basic	0.10	0.13	0.28	0.29	0.42
Earnings per share-diluted	0.10	0.13	0.28	0.28	0.41



Condensed balance sheet

NOK 1 000	30.09.2016	30.09.2015	31.12.2015
ASSETS			
Goodwill	26 786	26 786	26 786
Other intangible assets	19 677	27 642	25 843
Tangible fixed assets	201 774	196 208	211 828
Deferred tax assets	73 630	91 958	84 810
Total non-current assets	321 868	342 594	349 267
Inventory	411 556	396 314	361 350
Accounts receivable	391 735	405 056	398 500
Other receivables	40 979	45 218	45 900
Cash and cash equivalents	105 610	52 771	118 958
Total current assets	949 879	899 358	924 709
Total assets	1 271 747	1 241 953	1 273 976
LIABILITIES AND EQUITY			
Equity	568 874	550 538	566 510
Total equity	568 874	550 538	566 510
Deferred tax liabilities	998	1 136	1 068
Loans	50 018	71 555	64 170
Pension commitments	6 502	8 038	6 502
Total non-current liabilities	57 518	80 729	71 740
Accounts payable	305 798	260 595	252 250
Other payables	78 337	92 629	96 382
Loans	259 919	249 288	281 687
Other provisions	1 302	8 174	5 407
Total current liabilities	645 355	610 685	635 726
Total liabilities and equity	1 271 747	1 241 953	1 273 976

Condensed cash flow statement

NOK 1 000	Q3 2016	Q3 2015	30.09.2016	30.09.2015	31.12.2015
Net cash flow from operational activities	36 404	32 693	72 109	116 281	204 070
Net cash flow from investment activities	(17 924)	(41 167)	(29 610)	(53 015)	(75 926)
Net cash flow from financing activities	(8 108)	36 818	(56 750)	47 543	56 033
Change in cash and bank credit	10 372	28 345	(14 251)	110 809	184 176
Cash and bank credit opening balance	22 679	(43 864)	43 644	(122 662)	(122 662)
Currency conversion of cash and bank credit	1 446	(9 548)	5 103	(13 215)	(17 870)
Cash and bank credit closing balance	34 497	(25 068)	34 497	(25 068)	43 644

Consolidated statement of comprehensive income

NOK 1 000	Q3 2016	Q3 2015	30.09.2016	30.09.2015	31.12.2015
Profit (loss) for the period	17 715	22 799	49 167	49 649	72 225
Actuarial gain / losses pensions			-	-	143
Actuarial gain / losses forward contract	631		895	-	(1 063)
Currency translation differences	(9 503)	(5 330)	(15 461)	14 356	7 374
Total comprehensive income for the period	8 843	17 469	34 600	64 005	78 678
Allocated to shareholders	8 843	17 469	34 600	64 005	78 678

Changes in equity

NOK 1 000	30.09.2016	30.09.2015	31.12.2015
Equity opening balance	566 510	494 683	494 683
Profit (loss) for the period	49 167	49 649	72 225
Paid dividends	(36 322)	(8 648)	(8 648)
Effect from options	4 085	498	1 797
Other comprehensive income for the period	(14 566)	14 356	6 454
Equity closing balance	568 874	550 538	566 510



Notes to the financial statements

Notes to the financial statements

Note 1 – General information and principles

The condensed consolidated financial statements for the third quarter of 2016 have been prepared in accordance with International Financial Accounting Standards (IFRS) and IAS 34 for interim financial reporting. Kitron has applied the same accounting policies as in the consolidated financial statements for 2015. The interim financial statements do not include all the information required for a full financial report and should therefore be read in conjunction with the consolidated financial statements for 2015, which were prepared in accordance with the Norwegian Accounting Act and IFRS, as adopted by the EU. The consolidated financial statements for 2015 are available upon request from the company and at www.kitron.com

Note 2 – Estimates

The preparation of the interim financial statements requires the use of evaluations, estimates and assumptions that affect the application of the accounting principles and amounts recognised as assets and liabilities, income and expenses. The actual results may deviate from these estimates. The important assessments underlying the application of Kitron's accounting policy and the main sources of uncertainty are the same for the interim financial statements as for the consolidated statements for 2015.

Note 3 – Financial risk management

Kitron's business exposes the company to financial risks. The purpose of the company's procedures for risk management is to minimise possibly negative effects caused by the company's financial arrangements. There has been no change of impact or material incidents in 2016.

Note 4 – Other gains and losses

Other gains and losses consist of net currency gains and losses.



Kitron ASA
Olav Brunborgs vei 4
P.O. BOX 97
NO-1375 Billingstad
Norway
www.kitron.com

Kitron is an international Electronics Manufacturing Services company. The company has manufacturing facilities in Norway, Sweden, Lithuania, China and the US and has about 1200 employees. Kitron manufactures both electronics that are embedded in the customers' own product, as well as box-built electronic products. Kitron also provides high-level assembly (HLA) of complex electromechanical products for its customers.

Kitron offers all parts of the value chain: from design via industrialisation, manufacturing and logistics, to repairs. The electronics content may be based on conventional printed circuit boards or ceramic substrates.

Kitron also provides various related services such as cable harness manufacturing and components analysis, and resilience testing, and also source any other part of the customer's product. Customers typically serve international markets and provide equipment or systems for professional or industrial use.