

# REPORT

## Q4 2016



**Kitron**

Your ambition. Our passion.



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

Norway  
Sweden  
Lithuania  
Germany  
USA  
China



Report fourth quarter 2016

# Solid growth in revenue and order backlog

- \* Strong revenue, solid order backlog
- \* Improved capital efficiency
- \* Proposed dividend of NOK 0.25

- \* Key customer agreements signed
- \* Improved underlying profitability
- \* Facility relocation in Sweden

## Strong revenue, solid order backlog

Kitron's revenue for the fourth quarter was NOK 570 million (NOK 525 million), which represents an increase of 8.7 per cent compared to the same period last year. Adjusted for foreign exchange effects\* in consolidation the increase was 12.7 per cent.

The pattern from the preceding quarters continued, with the market sectors Defence/Aerospace and Industry growing compared to the same quarter last year.

The order backlog\* ended at NOK 1 019 million, an increase of 4.5 per cent compared to last year. Adjusted for foreign exchange effects in consolidation, the increase was 9.2 per cent. The solid order backlog underpins a positive outlook for Kitron's revenue.

Orders received in the quarter were NOK 598.3 million.

## Improved profitability

Fourth quarter EBITDA was NOK 45.9 million (NOK 44.3 million), an increase of 3.6 per cent compared to last year. Operating profit (EBIT) for the fourth quarter ended at NOK 34.1 million (NOK 33.6 million).

Profitability expressed as EBIT margin\* was 6.0 per cent (6.4 per cent).

Profit after tax was NOK 25.4 million (NOK 22.6 million), corresponding to NOK 0.14 earnings per share (NOK 0.13).

## Full year improvement

Full year revenue of NOK 2 093 million (NOK 1 952 million) gave an overall revenue growth of 7.2 per cent for the year. Growth adjusted for foreign exchange effects in consolidation was 5.4 per cent. Operating profit for the year ended at NOK 117.8 million (NOK 102.7 million), resulting in an EBIT margin of 5.6 per cent (5.3 per cent).

Profit after tax was NOK 74.6 million (NOK 72.2 million), corresponding to NOK 0.43 earnings per share (NOK 0.42).

The board proposes that the Annual General Meeting decides on a dividend of NOK 0.25 per share (NOK 0.21).

## Key customer agreements

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

In November, Kitron was selected by Northrop Grumman Corporation as an international source for manufacturing of the sub-assembly for the Dual Channel Transmit/Receive (DCTR) module for the F-35 Joint Strike Fighter. The potential value for Kitron is more than NOK 1 billion over the lifetime of the agreement, which runs until 2036.

The contract covers the initial steps of transferring technical knowhow and manufacturing prototypes for testing and validation. This process will be on-going through 2017. Kitron will then be awarded production contracts with deliveries starting in 2018.

In December, Kitron signed an agreement with a leading industrial supplier with a potential contract value of NOK 300 million over a three-year period. The agreement covers manufacturing of electronics and related technical services for automation and power technologies. Production will mainly take place at Kitron's plant in Norway.

## Improved capital efficiency

Net working capital\* increased by 0.9 per cent from NOK 508 million to NOK 512 million compared to the same quarter last year, continuing the trend of decreasing net working capital compared to revenue.

Return on operating capital (ROOC) R3\* was 18.5 per cent compared to 17.8 per cent in the fourth quarter last year. Net working capital R3 as a percentage of revenue was 22 per cent, compared to 25 per cent last year. Cash conversion cycle (CCC) R3\* was at 79 for the quarter. This is down from 90 last year, an improvement of 11 days. Operating cash flow was NOK 36.4 million (NOK 87.8 million) for the quarter.

## Facility relocation in Sweden

Kitron Sweden relocated during December to the new-built facility in Torsvik, not far from the current facility in Jönköping. The move has been completed according to budget and without significant technical problems. Some temporary inefficiencies remain in production.

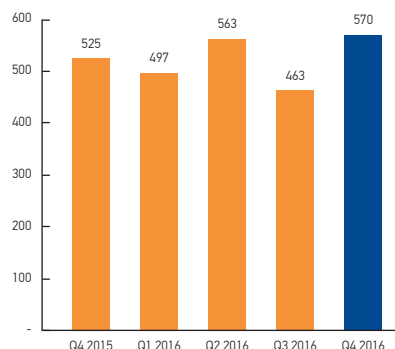
## Key figures

NOK million	Q4 2016	Q4 2015	Change	31.12.2016	31.12.2015	Change
Revenue	570.3	524.6	45.7	2 093.0	1 951.8	141.2
EBIT	34.1	33.6	0.5	117.8	102.7	15.1
Order backlog	1 019.4	975.6	43.8	1 019.4	975.6	43.8
Operating cash flow	36.4	87.8	(51.4)	108.5	204.1	(95.6)
Net working capital	512.2	507.6	4.6	512.2	507.6	4.6

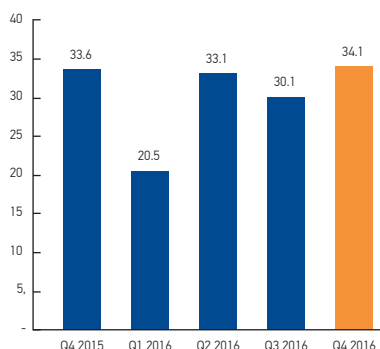
\* For definition – See Appendix «Definition of Alternative Performance Measures»



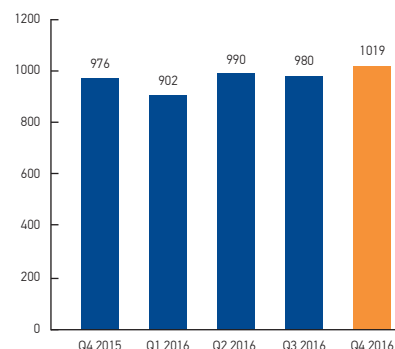
### REVENUE Group NOK million



### EBIT Group NOK million



### ORDER BACKLOG Group NOK million



#### Key figures

Revenue from customers in the Swedish market represented a 49.7 per cent share of the total revenue during the fourth quarter (47.4 per cent). The Norwegian market represented 29.5 per cent of Kitron's total revenue in the fourth quarter (37.4 per cent).

#### Contribution margin

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

#### Profit

Kitron's operating profit (EBIT) in the fourth quarter was NOK 34.1 million, which was an increase of 0.5 million compared with the same period last year (NOK 33.6 million).

Profit before tax in the fourth quarter of 2016 was NOK 36.7 million, which was an increase of NOK 3.7 million compared to the same period last year.

The company's total payroll expenses in the fourth quarter were NOK 2.6 million lower than in the corresponding period in 2015. The relative payroll costs ended at 21.1 per cent, down from 23.4 per cent of revenue in the fourth quarter last year. Other operating costs were 6.3 per cent of revenue in the fourth quarter of 2016 (6.6 per cent).

During the quarter net financial items amounted to a net income of NOK 2.5 million. The corresponding figure for fourth quarter last year was a net cost of NOK 0.7 million. The main reason for the change was non-cash currency effects on intra-group financial loans. Intra-group financial

loans to subsidiaries in foreign currencies as of 31 December 2016 total USD 11.1 million and EUR 1.9 million.

The tax cost in fourth quarter and the value of deferred tax assets at 31 December 2016 are influenced, as a one-time effect, by the reduction in tax rate in Norway from 2017 (from 25 per cent to 24 per cent).

#### Balance sheet

Kitron's gross balance as of 31 December 2016 amounted to NOK 1 353.0 million, compared to NOK 1 274.0 million at the same time in 2015. Equity was NOK 584.8 million (NOK 566.5 million), corresponding to an equity ratio of 43.2 per cent (44.5 per cent).

Inventory was NOK 384.9 million as of 31 December 2016 (NOK 361.4 million). Inventory turns was 4.2 in the fourth quarter 2016, which is an increase compared to fourth quarter last year (4.0).

Accounts receivables amounted to NOK 442.5 million at the end of the fourth quarter of 2016. The corresponding amount at the same time in 2015 was NOK 398.5 million.

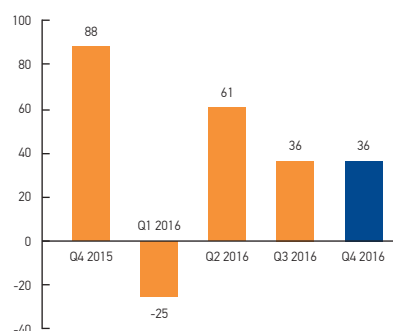
The group's reported interest-bearing debt amounted to NOK 350.3 million as of 31 December 2016. Interest-bearing debt at the end of the fourth quarter 2015 was NOK 345.9 million. Net interest bearing debt\* / EBITDA is 1.3 for the fourth quarter compared to 1.6 at the same time last year.

Cash flow from operating activities for the fourth quarter of 2016 was NOK 36.4 million (NOK 87.8 million).

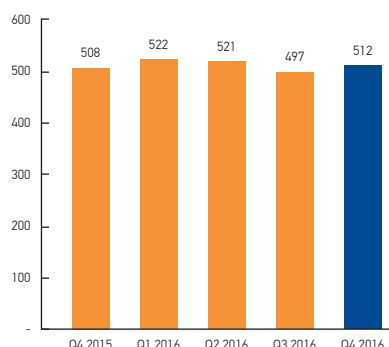
\* For definition – See Appendix «Definition of Alternative Performance Measures»



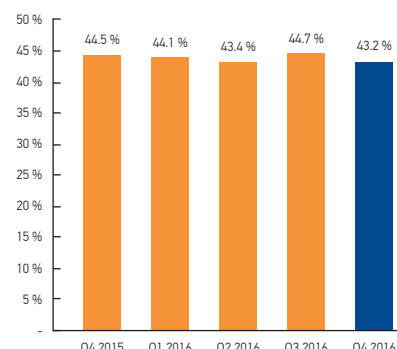
**OPERATING CASH FLOW Group**  
NOK million



**NET WORKING CAPITAL Group**  
NOK million



**EQUITY RATIO Group**  
Per cent



## Revenue business entities

NOK million	Q4 2016	Q4 2015	Change	31.12.2016	31.12.2015	Change
Norway	202.0	227.7	(25.7)	766.5	859.2	(92.7)
Sweden	176.4	140.2	36.3	592.5	483.5	109.1
Lithuania	160.5	129.2	31.3	635.9	472.2	163.8
Others	83.7	89.8	(6.1)	356.7	387.1	(30.4)
Group and eliminations	(52.4)	(62.3)	9.9	(258.7)	(250.2)	(8.5)
<b>Total group</b>	<b>570.3</b>	<b>524.6</b>	<b>45.7</b>	<b>2 093.0</b>	<b>1 951.8</b>	<b>141.2</b>

## EBIT business entities

NOK million	Q4 2016	Q4 2015	Change	31.12.2016	31.12.2015	Change
Norway	11.0	11.3	(0.3)	27.5	36.7	(9.2)
Sweden	5.0	6.7	(1.7)	28.5	26.5	2.1
Lithuania	9.9	7.5	2.3	48.3	23.5	24.8
Others	13.1	7.6	5.5	34.6	32.7	1.9
Group and eliminations	(4.9)	0.5	(5.3)	(21.1)	(16.6)	(4.5)
<b>Total group</b>	<b>34.1</b>	<b>33.6</b>	<b>0.5</b>	<b>117.8</b>	<b>102.7</b>	<b>15.1</b>

## Order backlog business entities and market sectors

NOK million	Defence/ Aerospace	Energy/ Telecoms	Industry	Medical equipment	Offshore/ Marine	Total
Norway	328.0	-	27.0	55.2	11.6	421.8
Sweden	57.2	89.1	40.0	63.2	-	249.4
Lithuania	1.9	21.6	212.1	17.7	-	253.3
Other	62.1	5.9	23.3	3.6	-	94.9
<b>Total group</b>	<b>449.2</b>	<b>116.5</b>	<b>302.3</b>	<b>139.7</b>	<b>11.6</b>	<b>1 019.4</b>

## Revenue geographic markets

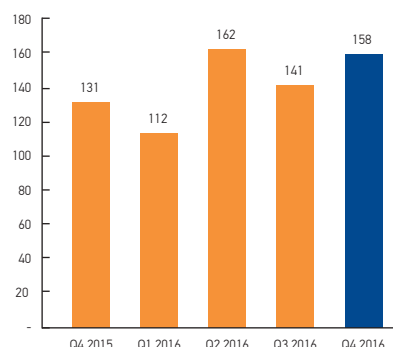
NOK million	Q4 2016	Q4 2015	Change	31.12.2016	31.12.2015	Change
Norway	168.2	196.4	(28.2)	662.3	719.7	(57.4)
Sweden	283.2	248.6	34.6	1 014.4	902.2	112.2
Rest of Europe	36.2	17.9	18.3	119.8	68.4	51.4
USA/Canada	79.6	54.3	25.3	283.5	234.9	48.6
Others	3.1	7.4	(4.2)	13.1	26.7	(13.6)
<b>Total group</b>	<b>570.3</b>	<b>524.6</b>	<b>45.7</b>	<b>2 093.0</b>	<b>1 951.8</b>	<b>141.2</b>

## Full time employees

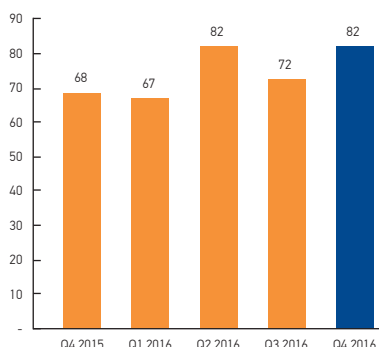
	31.12.2016	31.12.2015	Change
Norway	334	414	(80)
Sweden	182	130	52
Lithuania	679	478	202
Other	182	199	(17)
<b>Total group</b>	<b>1 377</b>	<b>1 221</b>	<b>157</b>



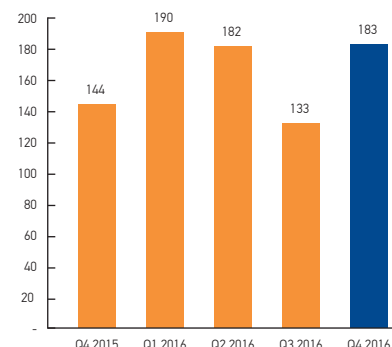
**REVENUE Defence/Aerospace**  
NOK million



**REVENUE Energy/Telecoms**  
NOK million



**REVENUE Industry**  
NOK million



**Organisation**

The Kitron workforce corresponded to 1 377 full-time employees on 31 December 2016. This is an increase of 157 since the fourth quarter of 2015. There is a decrease of 80 related to the operations in Norway, while there is an increase of the workforce in Lithuania and Sweden of 202 and 52 respectively. The number of full-time employees in low-cost regions now accounts for 63 per cent of the total.

**Market**

Order intake in the quarter was NOK 598.3 million, which is 5.6 per cent higher than for the fourth quarter 2015. The order backlog ended at NOK 1 019.4 million, which is 4.5 per cent higher than the same period last year.

Four-quarter moving average order intake was up from NOK 535.6 million at the beginning of the fourth quarter to NOK 543.6 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 20.5 per cent compared to last year. The order backlog at NOK 449.2 million increased

by NOK 31.5 million during the quarter. Compared to last year, the order backlog increased by NOK 26.5 million (6.3 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 sector is characterised by project deliveries, which vary from quarter to quarter and cause 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 increased by 20.2 per cent compared to last year. The order backlog is NOK 116.5 million, an increase of NOK 5.9 million compared to the third quarter in 2016, and NOK 20.5 million (21.4 per cent) higher than a year ago.

**Revenue market sectors**

NOK million	Q4 2016	Q4 2015	Change	31.12.2016	31.12.2015	Change
Defence/Aerospace	158.3	131.4	26.9	574.1	535.2	38.9
Energy/Telecoms	81.8	68.1	13.7	302.7	269.6	33.1
Industry	182.6	144.0	38.6	687.8	538.5	149.3
Medical devices	140.0	145.3	(5.3)	484.9	472.6	12.2
Offshore/Marine	7.5	35.8	(28.2)	43.5	135.8	(92.4)
<b>Total group</b>	<b>570.3</b>	<b>524.6</b>	<b>45.7</b>	<b>2 093.0</b>	<b>1 951.8</b>	<b>141.2</b>

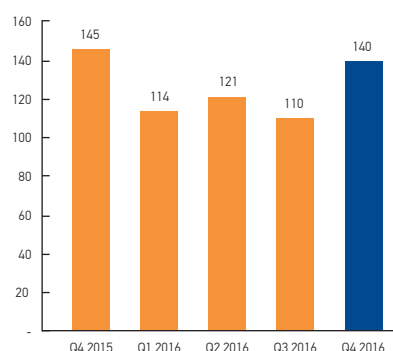
**Order Backlog market sectors**

NOK million	31.12.2016	31.12.2015	Change
Defence/Aerospace	449.2	422.8	26.5
Energy/Telecoms	116.5	96.0	20.5
Industry	302.3	285.5	16.8
Medical devices	139.7	148.2	(8.5)
Offshore/Marine	11.6	23.1	(11.5)
<b>Total group</b>	<b>1 019.4</b>	<b>975.6</b>	<b>43.8</b>



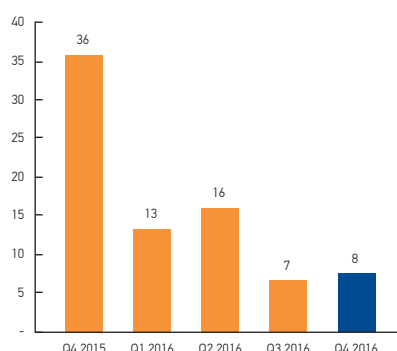
### REVENUE Medical devices

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 26.8 per cent compared to the fourth quarter last year, and an increase of 36.1 per cent from the third quarter of 2016. The order backlog increased by NOK 16.8 million (5.9 per cent) compared to the same period last year and increased by NOK 47.3 million from the preceding quarter (18.5 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 3.6 per cent compared to the same period last year. The order backlog is NOK 139.7 million, down NOK 8.5 million (5.7 per cent) from the same period last year, and down NOK 42.8 million (23.4 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 78.9 per cent compared to the same period last year. The order backlog is NOK 11.6 million, a decrease of NOK 2.4 million compared to the preceding quarter and a reduction of NOK 11.5 million compared to the same period last year (49.8 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 2017, Kitron expects revenue to grow to between NOK 2 150 and 2 350 million. EBIT margin is expected to be between 5.6 and 6.4 per cent. The growth is primarily driven by customers in the Industry sector. The profitability increase is driven by cost reduction activities and improved efficiency.

The board emphasizes that every assessment of future conditions involves elements of uncertainty.

Oslo, 15 February 2017, Board of directors, Kitron ASA

## Condensed profit and loss statement

NOK 1 000	Q4 2016	Q4 2015	31.12.2016	31.12.2015
Revenue	570 302	524 555	2 093 001	1 951 818
Cost of materials	368 048	323 244	1 348 087	1 244 121
Payroll expenses	120 383	122 992	450 708	443 656
Other operational expenses	35 845	34 734	127 517	123 693
Other gains / (losses)	(109)	761	(2 737)	3 697
<b>Operating profit before depreciation and impairments (EBITDA)</b>	<b>45 917</b>	<b>44 347</b>	<b>163 952</b>	<b>144 044</b>
Depreciation and impairments	11 768	10 700	46 124	41 303
<b>Operating profit (EBIT)</b>	<b>34 149</b>	<b>33 647</b>	<b>117 828</b>	<b>102 741</b>
Net financial items	2 505	(733)	(19 016)	(422)
<b>Profit (loss) before tax</b>	<b>36 653</b>	<b>32 914</b>	<b>98 812</b>	<b>102 319</b>
Tax	11 268	10 339	24 261	30 094
<b>Profit (loss) for the period</b>	<b>25 385</b>	<b>22 575</b>	<b>74 551</b>	<b>72 225</b>
Earnings per share-basic	0.14	0.13	0.43	0.42
Earnings per share-diluted	0.14	0.13	0.41	0.41



## Condensed balance sheet

NOK 1 000	31.12.2016	31.12.2015
<b>ASSETS</b>		
Goodwill	26 786	26 786
Other intangible assets	17 736	25 843
Tangible fixed assets	232 301	211 828
Deferred tax assets	70 380	84 810
<b>Total non-current assets</b>	<b>347 204</b>	<b>349 267</b>
Inventory	384 869	361 350
Accounts receivable	442 459	398 500
Other receivables	44 060	45 900
Cash and cash equivalents	134 413	118 958
<b>Total current assets</b>	<b>1 005 801</b>	<b>924 709</b>
<b>Total assets</b>	<b>1 353 005</b>	<b>1 273 976</b>
<b>LIABILITIES AND EQUITY</b>		
Equity	584 799	566 510
<b>Total equity</b>	<b>584 799</b>	<b>566 510</b>
Deferred tax liabilities	944	1 068
Loans	61 462	64 170
Pension commitments	6 343	6 502
<b>Total non-current liabilities</b>	<b>68 749</b>	<b>71 740</b>
Accounts payable	315 133	252 250
Other payables	95 522	96 382
Loans	288 802	281 687
Other provisions	-	5 407
<b>Total current liabilities</b>	<b>699 457</b>	<b>635 726</b>
<b>Total liabilities and equity</b>	<b>1 353 005</b>	<b>1 273 976</b>

## Condensed cash flow statement

NOK 1 000	Q4 2016	Q4 2015	31.12.2016	31.12.2015
Net cash flow from operational activities	36 374	87 789	108 482	204 070
Net cash flow from investment activities	(14 213)	(22 911)	(43 823)	(75 926)
Net cash flow from financing activities	(927)	8 490	(57 677)	56 033
Change in cash and bank credit	21 234	73 367	6 983	184 176
Cash and bank credit opening balance	34 497	(25 068)	43 645	(122 662)
Currency conversion of cash and bank credit	(2 207)	(4 655)	2 896	(17 870)
<b>Cash and bank credit closing balance</b>	<b>53 523</b>	<b>43 644</b>	<b>53 523</b>	<b>43 644</b>

## Consolidated statement of comprehensive income

NOK 1 000	Q4 2016	Q4 2015	31.12.2016	31.12.2015
Profit (loss) for the period	25 385	22 575	74 551	72 225
Actuarial gain / losses pensions	(134)	143	(134)	143
Gain / losses forward contract	(223)	(1 063)	672	(1 063)
Currency translation differences	(173)	(6 982)	(15 634)	7 374
<b>Total comprehensive income for the period</b>	<b>24 855</b>	<b>14 673</b>	<b>59 455</b>	<b>78 678</b>
<b>Allocated to shareholders</b>	<b>24 855</b>	<b>14 673</b>	<b>59 455</b>	<b>78 678</b>

## Changes in equity

NOK 1 000	31.12.2016	31.12.2015
Equity opening balance	566 510	494 683
Profit (loss) for the period	74 551	72 225
Paid dividends	(36 322)	(8 648)
Effect from options	(5 167)	1 797
Issue of ordinary shares	323	-
Other comprehensive income for the period	(15 096)	6 454
<b>Equity closing balance</b>	<b>584 799</b>	<b>566 510</b>



## Notes to the financial statements

### Notes to the financial statements

#### Note 1 – General information and principles

The condensed consolidated financial statements for the fourth 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](http://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.

## Appendix

### Definition of Alternative Performance Measures

#### Order backlog

All firm orders and 4 months of committed customers forecast at revenue value as at balance sheet date.

#### Foreign exchange effects

Group consolidation restated with exchange rates as comparable period the previous year. Change in volume or balance calculated with the same exchange rates for the both periods are defined as underlying growth. Change based on the change in exchange rates are defined as foreign exchange effects. The sum of underlying growth and foreign exchange effects represent the total change between the periods.

#### EBIT margin (%)

Operating profit (EBIT) / Revenue

#### Net working capital

Inventory + Accounts Receivable – Accounts Payable

#### Operating capital

Other intangible assets + Tangible fixed assets + Net working capital

#### Return on operating capital (ROOC) %

Annualised Operating profit (EBIT) / Operating Capital

#### Return on operating capital (ROOC) R3 %

(Last 3 months Operating profit (EBIT))\*4 / (Last 3 months Operating Capital /3)

#### Direct Cost

Cost of material + Direct wages (subset of personnel expenses only to include personnel directly involved in production)

#### Days of Inventory Outstanding

360/ (Annualised Direct Costs/Trade Payables)

#### Days of Inventory Outstanding R3

360/ ((Last 3 months Direct Costs \*4) / (Last 3 months Trade Payables/3))

#### Days of Receivables Outstanding

360/ (Annualised Revenue/Trade Receivables)

#### Days of Receivables Outstanding R3

360/ ((Last 3 months Revenue\*4)/(Last 3 months Trade Receivables/3))

#### Days of Payables outstanding

360/ ((Annualised Cost of Material + Annualised other operational expenses) / Trade Receivables)

#### Days of Payables Outstanding (R3)

360/ (((Last 3 months (Cost of Material + other operational expenses)\*4) / (Last 3 months Trade Receivables)/3))

#### Cash conversion cycle (CCC)

Days of inventory outstanding + Days of receivables outstanding – Days of payables outstanding

#### Cash conversion cycle (CCC) R3

Days of inventory outstanding (R3) + Days of receivables outstanding (R3) – Days of payables outstanding (R3)

#### Net Interest-bearing debt

- Cash and cash equivalents + Loans (Non-current liabilities) + Loans (Current liabilities)





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**Kitron** is an international Electronics Manufacturing Services company. The company has manufacturing facilities in Norway, Sweden, Lithuania, China and the US and has about 1 350 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.