



Kitron

Your ambition. Our passion.

Q1
2017

First quarter report

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

Norway
Sweden
Lithuania
Germany
USA
China

Report first quarter 2017

Strong revenue growth and improved profitability

- Very strong growth
- Improved profitability
- Solid order backlog

Very strong growth

Kitron's revenue for the first quarter was NOK 585 million (NOK 497 million), which represents an increase of 17.7 per cent compared to the same period last year. Adjusted for foreign exchange effects* in consolidation, the increase was 23.1 per cent.

The growth reflects a robust underlying trend and is especially strong compared to first quarter last year. The company maintains its longer-term goal of an annual organic growth of approximately 10 per cent.

Growth compared to the same quarter last year was particularly strong in the Defence/Aerospace market sector. Industry and Energy/Telecoms also recorded solid growth, while Medical devices showed a slight decline. Offshore/Marine continues to decline, but has reached a level where the impact on group revenue is minimal.

Improved profitability

First quarter EBITDA* was NOK 42.7 million (NOK 31.5 million), an increase of 35.6 per cent compared to last year. Operating profit (EBIT)* for the first quarter ended at NOK 30.9 million (NOK 20.5 million), an increase of 50.5 per cent.

Profitability expressed as EBIT margin* was 5.3 per cent (4.1 per cent).

Profit after tax was NOK 21.6 million (NOK 10.0 million), an increase of 115.1 per cent and corresponding to NOK 0.12 earnings per share (NOK 0.06).

Solid order backlog

The order backlog* ended at NOK 1 059 million, an increase of 17.4 per cent compared to last year. Adjusted for foreign exchange effects in consolidation, the increase was 19.9 per cent.

Orders received in the quarter were NOK 619.8 million.

Improved capital efficiency

Net working capital* increased by 6.0 per cent from NOK 522 million to NOK 553 million compared to the same quarter last year, thus continuing the trend of decreasing net working capital compared to revenue.

- Improved capital efficiency
- Key defence orders
- Modern facility and new MD in Sweden

Return on operating capital (ROOC) R3* was 16.2 per cent compared to 11.5 per cent in the same quarter last year. Net working capital R3 as a percentage of revenue was 22.0 per cent, compared to 24.3 per cent last year. Cash conversion cycle (CCC) R3* was 80 days for the quarter. This is down from 91 days last year, an improvement of 11 days. Operating cash flow was negative NOK 15.4 million (negative NOK 25.3 million) for the quarter.

Key defence orders

During the quarter, Kitron reported two key defence orders.

Kitron received a NOK 120 million order from Kongsberg Defence Systems (KONGSBERG) for military communications equipment. Under this contract Kitron will supply various communications products, materials kits, technical services and test equipment. Manufacturing and technical services will be provided by Kitron in Arendal. The contract scope has an estimated value of NOK 120 million, and deliveries will take place from 2017 to 2020.

Further, Kitron signed an agreement with Rheinmetall MAN Military Vehicles. The potential contract value is NOK 250 million over a five-year period. The agreement covers manufacturing of electronics, measuring instruments and control devices. The production will take place at Kitron's plant in Kaunas, Lithuania.

Modern facility and new MD in Sweden

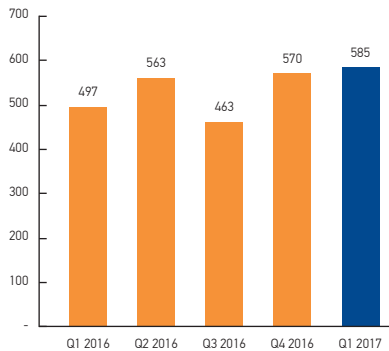
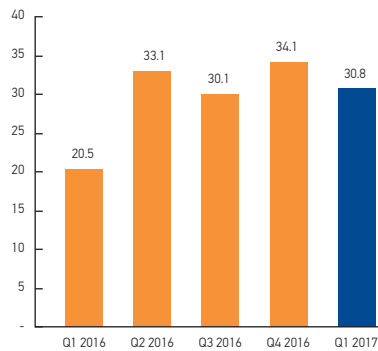
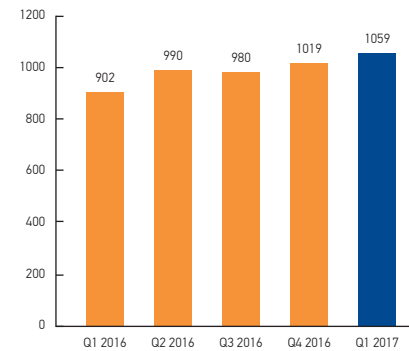
Kitron Sweden has relocated to the new-built facility in Torsvik. While the move was completed according to budget and without significant technical problems, some temporary inefficiencies impacted production in the first quarter.

In March, Stefan Hansson Mutas assumed the role of Managing Director of Kitron Sweden. Mr. Hansson Mutas has held management positions at a number of electronics and EMS companies, including Ericsson, Flextronics, Sanmina and Partnertech. His most recent position was as managing director of Duroc Machine Tool.

Key figures

NOK million	Q1 2017	Q1 2016	Change	31.12.2016
Revenue	585.1	497.0	88.1	2 093.0
EBIT	30.9	20.5	10.4	117.8
Order backlog	1 058.7	901.7	157.1	1 019.4
Operating cash flow	(15.5)	(25.3)	9.8	108.5
Net working capital	553.5	522.1	31.4	512.2

* 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 51.9 per cent share of the total revenue during the first quarter (53.0 per cent). The Norwegian market represented 27.8 per cent of Kitron's total revenue in the first quarter (33.4 per cent).

Variable contribution

The variable contribution*, defined as revenue minus cost of materials and direct payroll expenses, decreased from the same period last year, due to increase in material costs. This is due to increase in material cost as a result of change in production mix.

Profit

Kitron's operating profit (EBIT) in the first quarter was NOK 30.9 million, which was an increase of 10.4 million compared with the same period last year (NOK 20.5 million).

Profit before tax in the first quarter of 2017 was NOK 26.8 million, which was an increase of NOK 16.4 million compared to the same period last year.

The company's total payroll expenses in the first quarter were NOK 8.0 million higher than in the corresponding period in 2016. The relative payroll costs ended at 21.1 per cent, down from 23.3 per cent of revenue in the first quarter last year. Other operating costs were 5.2 per cent of revenue in the first quarter of 2017 (6.7 per cent).

During the quarter net financial items amounted to a net cost of NOK 4.1 million. The corresponding figure for first quarter last year was a net cost

of NOK 10.1 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 31 March 2017 total USD 11.1 million and EUR 1.9 million.

Balance sheet

Kitron's gross balance sheet as of 31 March 2017 amounted to NOK 1 413.4 million, compared to NOK 1 299.5 million at the same time in 2016. Equity was NOK 610.7 million (NOK 573.6 million), corresponding to an equity ratio of 43.2 per cent (44.1 per cent). Net gearing* of the company was 0.37 (0.40).

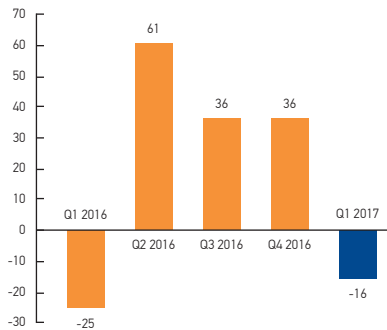
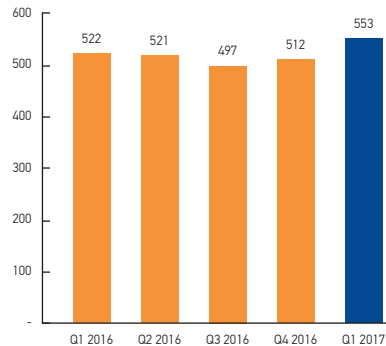
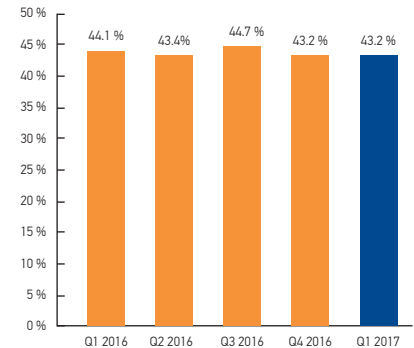
Inventory was NOK 448.2 million as of 31 March 2017 (NOK 421.6 million). Inventory turns was 4.2 in the first quarter 2017, which is an increase compared to first quarter last year (3.6).

Accounts receivables amounted to NOK 472.9 million at the end of the first quarter of 2017. The corresponding amount at the same time in 2016 was NOK 409.0 million.

The group's reported interest-bearing debt* amounted to NOK 323.4 million as of 31 March 2017. Interest-bearing debt at the end of the first quarter 2016 was NOK 309.9 million. Net interest bearing debt / EBITDA is 1.3 for the first quarter compared to 1.6 at the same time last year.

Cash flow from operating activities for the first quarter of 2017 was NOK minus 15.5 million (NOK minus 25.3 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	Q1 2017	Q1 2016	Change	31.12.2016
Norway	184.0	184.2	(0.2)	766.5
Sweden	162.0	129.8	32.2	592.5
Lithuania	212.6	173.4	39.2	635.9
Others	88.7	76.3	12.4	356.7
Group and eliminations	(62.1)	(66.7)	4.5	(258.7)
Total group	585.1	497.0	88.1	2 093.0

EBIT business entities

NOK million	Q1 2017	Q1 2016	Change	31.12.2016
Norway	8.1	0.6	7.5	27.5
Sweden	1.6	10.3	(8.7)	28.5
Lithuania	19.9	15.4	4.5	48.3
Others	7.2	3.4	3.8	34.6
Group and eliminations	(5.9)	(9.2)	3.3	(21.1)
Total group	30.9	20.5	10.4	117.8

Order backlog business entities and market sectors

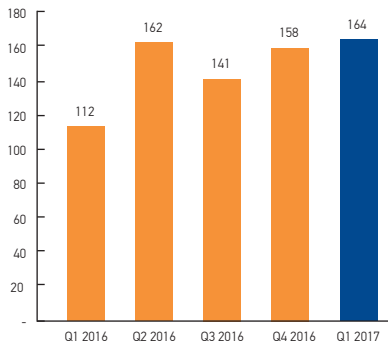
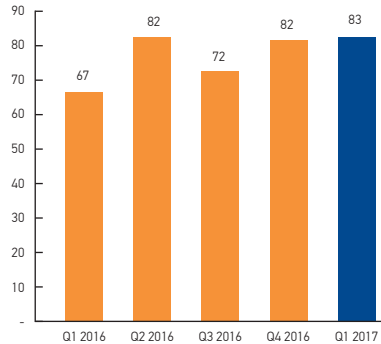
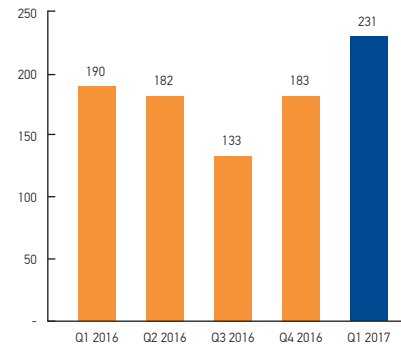
NOK million	Defence/ Aerospace	Energy/ Telecoms	Industry	Medical devices	Offshore/ Marine	Total
Norway	371.9	-	34.5	47.7	13.6	467.6
Sweden	52.7	103.3	42.1	68.2	-	266.3
Lithuania	0.9	31.3	184.0	23.5	-	239.6
Other	40.7	5.9	34.9	3.7	-	85.2
Total group	466.2	140.4	295.5	143.1	13.6	1 058.7

Revenue geographic markets

NOK million	Q1 2017	Q1 2016	Change	31.12.2016
Norway	162.6	168.9	(6.3)	662.3
Sweden	303.5	263.1	40.4	1 014.4
Rest of Europe	40.1	19.1	21.0	119.8
USA/Canada	76.3	38.3	38.0	283.5
Others	2.6	7.6	(5.0)	13.1
Total group	585.1	497.0	88.1	2 093.0

Full time employees

	31.03.2017	31.03.2016	Change	31.12.2016
Norway	336	380	(44)	334
Sweden	186	132	54	182
Lithuania	748	547	201	679
Other	187	194	(7)	182
Total group	1 458	1 253	205	1 377

REVENUE Defence/Aerospace
NOK million

REVENUE Energy/Telecoms
NOK million

REVENUE Industry
NOK million

Organisation

The Kitron workforce corresponded to 1 458 full-time employees on 31 March 2017. This is an increase of 205 since the first quarter of 2016. There is a decrease of 44 related to the operations in Norway, while there is an increase of the workforce in Lithuania and Sweden of 201 and 54 respectively. The number of full-time employees in low-cost regions now accounts for 64 per cent of the total.

Market

Order intake in the quarter was NOK 619.8 million, which is 41.4 per cent higher than for the first quarter 2016. The order backlog ended at NOK 1 058.7 million, which is 17.4 per cent higher than the same period last year.

Four-quarter moving average order intake was up from NOK 543.6 million at the beginning of the first quarter to NOK 589.0 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 46.3 per cent compared to last year. The order backlog at NOK 466.2 million increased

by NOK 17.0 million during the quarter. Compared to last year, the order backlog increased by NOK 65.2 million (16.3 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.

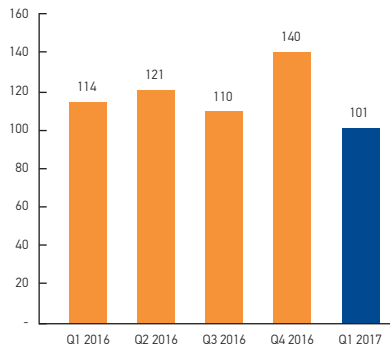
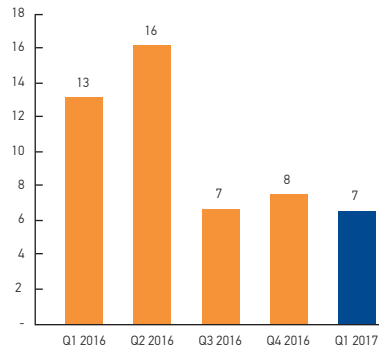
The Energy/Telecoms sector revenues increased by 23.3 per cent compared to last year. The order backlog is NOK 140.4 million, an increase of NOK 23.9 million compared to the fourth quarter in 2016, and NOK 52.7 million (59.9 per cent) higher than a year ago.

Revenue market sectors

NOK million	Q1 2017	Q1 2016	Change	31.12.2016
Defence/Aerospace	164.4	112.4	52.0	574.1
Energy/Telecoms	82.5	66.9	15.6	302.7
Industry	230.5	190.4	40.1	687.8
Medical devices	101.1	114.1	(13.0)	484.9
Offshore/Marine	6.5	13.2	(6.6)	43.5
Total group	585.1	497.0	88.1	2 093.0

Order Backlog market sectors

NOK million	31.03.2017	31.03.2016	Change	31.12.2016
Defence/Aerospace	466.2	401.0	65.2	449.2
Energy/Telecoms	140.4	87.8	52.7	116.5
Industry	295.5	243.0	52.4	302.3
Medical devices	143.1	148.7	(5.7)	139.7
Offshore/Marine	13.6	21.1	(7.6)	11.6
Total group	1 058.7	901.7	157.1	1 019.4

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 21.1 per cent compared to the first quarter last year, and an increase of 26.2 per cent from the fourth quarter of 2016. The order backlog increased by NOK 52.4 million (21.6 per cent) compared to the same period last year and decreased by NOK 6.8 million from the preceding quarter (2.2 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 11.4 per cent compared to the same period last year. The order backlog is NOK 143.1 million, down NOK 5.7 million (3.8 per cent) from the same period last year, and up NOK 3.4 million (2.4 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 50.8 per cent compared to the same period last year. The order backlog is NOK 13.6 million, an increase of NOK 2.0 million compared to the preceding quarter and a reduction of NOK 7.6 million compared to the same period last year (35.5 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. The 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 necessarily involves an element of uncertainty.

Oslo, 25 April 2017, Board of directors, Kitron ASA

Condensed profit and loss statement

NOK 1 000	Q1 2017	Q1 2016	31.12.2016
Revenue	585 082	497 006	2 093 001
Cost of materials	387 517	316 571	1 348 087
Payroll expenses	123 720	115 748	450 708
Other operational expenses	30 672	33 209	127 517
Other gains / (losses)	(433)	50	(2 737)
Operating profit before depreciation and impairments (EBITDA)	42 740	31 528	163 952
Depreciation and impairments	11 890	11 035	46 124
Operating profit (EBIT)	30 850	20 493	117 828
Net financial items	(4 069)	(10 126)	(19 016)
Profit (loss) before tax	26 780	10 367	98 812
Tax	5 199	336	24 261
Profit (loss) for the period	21 581	10 031	74 551
Earnings per share-basic	0.12	0.06	0.43
Earnings per share-diluted	0.12	0.06	0.41

Condensed balance sheet

NOK 1 000	31.03.2017	31.03.2016	31.12.2016
ASSETS			
Goodwill	26 786	26 786	26 786
Other intangible assets	16 091	23 820	17 736
Tangible fixed assets	237 218	205 461	232 301
Deferred tax assets	69 302	84 930	70 380
Total non-current assets	349 398	340 997	347 204
Inventory	448 177	421 628	384 869
Accounts receivable	472 889	408 976	442 459
Other receivables	47 561	47 506	44 060
Cash and cash equivalents	95 373	80 399	134 413
Total current assets	1 064 000	958 509	1 005 801
Total assets	1 413 398	1 299 506	1 353 005
LIABILITIES AND EQUITY			
Equity	610 719	573 577	584 799
Total equity	610 719	573 577	584 799
Deferred tax liabilities	953	1 045	944
Loans	59 399	58 064	61 462
Pension commitments	6 343	6 502	6 343
Total non-current liabilities	66 694	65 610	68 749
Accounts payable	367 572	308 512	315 133
Other payables	104 443	98 482	95 522
Loans	263 970	251 789	288 802
Other provisions	-	1 535	-
Total current liabilities	735 985	660 318	699 457
Total liabilities and equity	1 413 398	1 299 506	1 353 005

Condensed cash flow statement

NOK 1 000	Q1 2017	Q1 2016	31.12.2016
Profit before tax	26 780	10 367	98 812
Depreciations	11 890	11 035	46 124
Change in inventory, accounts receivable and accounts payable	(41 299)	(14 490)	(4 595)
Change in net other current assets and other operating related items	13 062	(6 762)	(40 435)
Change in factoring debt	(25 927)	(25 464)	8 576
Net cash flow from operating activities	(15 494)	(25 315)	108 482
Net cash flow from investing activities	(13 972)	(6 503)	(43 823)
Net cash flow from financing activities	(7 393)	(6 860)	(57 677)
Change in cash and bank credit	(36 859)	(38 678)	6 983
Cash and bank credit opening balance	53 523	43 645	43 645
Currency conversion of cash and bank credit	(248)	3 783	2 896
Cash and bank credit closing balance	16 416	8 750	53 523

Consolidated statement of comprehensive income

NOK 1 000	Q1 2017	Q1 2016	31.12.2016
Profit (loss) for the period	21 581	10 031	74 551
Actuarial gain / losses pensions	-	-	(134)
Gain / losses forward contract	-	-	672
Currency translation differences	3 463	(4 506)	(15 634)
Total comprehensive income for the period	25 044	5 525	59 455
Allocated to shareholders	25 044	5 525	59 455

Changes in equity

NOK 1 000	31.03.2017	31.03.2016	31.12.2016
Equity opening balance	584 799	566 510	566 510
Profit (loss) for the period	21 581	10 031	74 551
Paid dividends	-	-	(36 322)
Termination of options against cash consideration	-	-	(9 703)
Effect from option costs	875	1 542	4 534
Issue of ordinary shares	-	-	323
Other comprehensive income for the period	3 463	(4 506)	(15 096)
Equity closing balance	610 719	573 577	584 799

Notes to the financial statements

Note 1 – General information and principles

The condensed consolidated financial statements for the first quarter of 2017 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 2016. 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 2016 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 2016.

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 2017.

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.

EBITDA

Operating profit (EBIT) + Depreciation and Impairments

EBIT

Operating profit

EBIT margin (%)

Operating profit (EBIT) / Revenue

Net working capital

Inventory + Accounts Receivables – 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/Inventory)

Days of Inventory Outstanding R3

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

Days of Payables Outstanding (R3)

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

Interest-bearing debt

Loans (non-current liabilities) + Loans (current liabilities)

Inventory turns

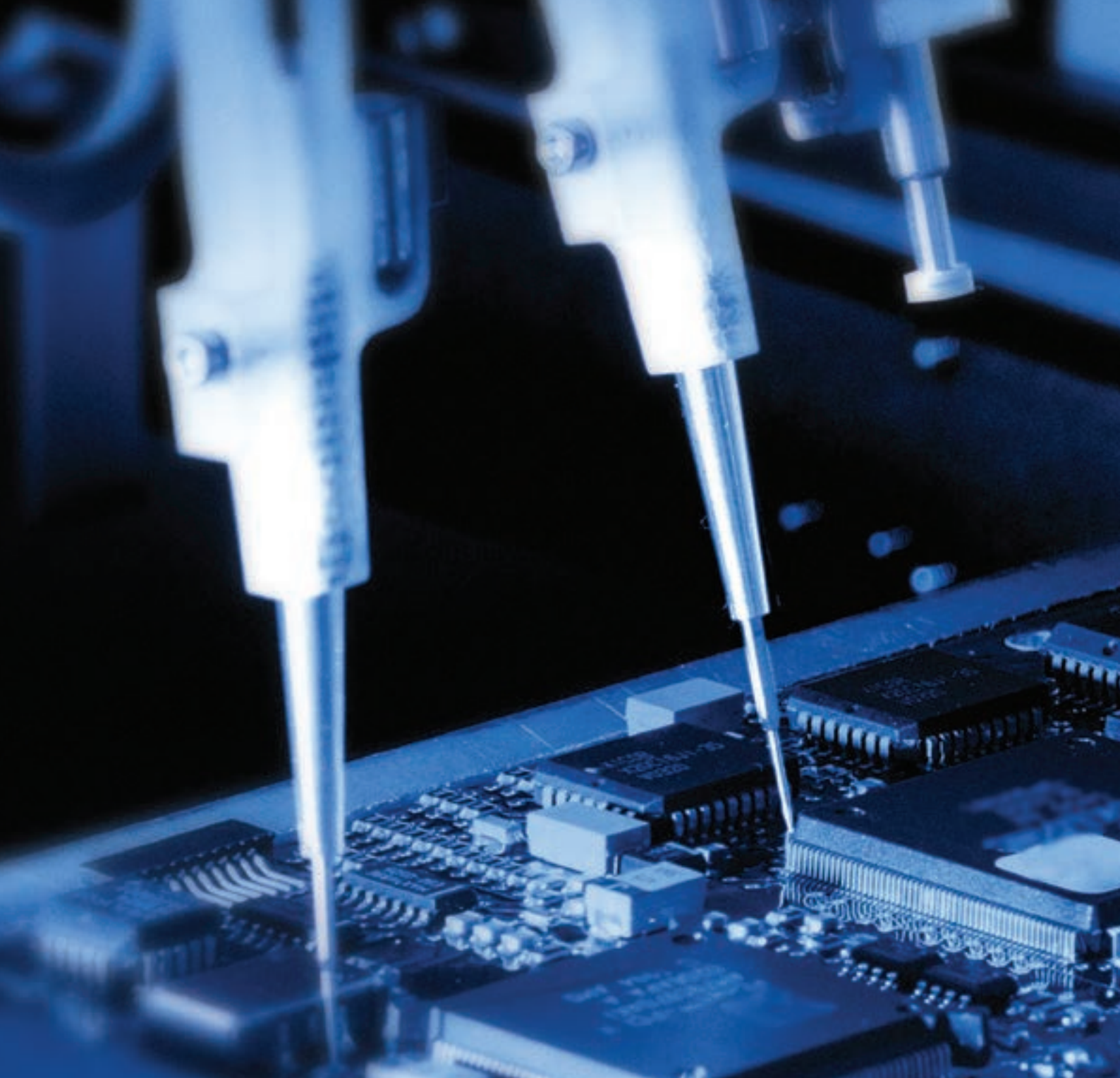
Annualised direct costs / Inventory

Variable contribution

Revenue - Direct cost

Net gearing

Net interest - bearing debt / Equity



Kitron

Your ambition. Our passion.

Q1
2017

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.