

Q2



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First half year and  
second quarter



Report first half year and second quarter 2015

# Profitability improvement continued

- \* Fifth consecutive quarter of improved profits
- \* Continued strong growth in Defence
- \* Important new orders in Defence and Aerospace
- \* Cash flow significantly improved

## Fifth consecutive quarter of improved profits

Kitron's revenue for the second quarter was NOK 489.0 million (NOK 457.1 million), which represents an increase of 7.0 per cent compared to the same period last year. Growth adjusted for foreign exchange effects in consolidation was 1.9 per cent. The growth in revenue came within the Defence and Industry sectors whereas there was a reduction in the Offshore/Marine sector, in line with the previous quarter.

EBITDA was NOK 32.1 million (NOK 15.5 million), an increase of 107 per cent compared to last year. Profit after tax was NOK 13.3 million (NOK 3.9 million), corresponding to NOK 0.08 earnings per share (NOK 0.02).

Operating profit (EBIT) for the second quarter ended at NOK 22.1 million, compared to NOK 6.9 million in the same period last year. Profitability expressed as EBIT as a percentage of revenue was 4.5 per cent (1.5 per cent) for the second quarter. The improved results are a consequence of increased revenue and better margins, where there has been strong contribution from the service sales, both from development and engineering.

## Continued strong growth in Defence

Kitron's revenue in the second quarter was 7.0 per cent higher than last year, and amounted to NOK 489.0 million (NOK 457.1 million). Revenue in the market sector Defence/Aerospace increased by 55.6% per cent, Energy/Telecoms was up 3.8 per cent, Industry increased by 12.3 per cent, Medical equipment decreased by 4.6 per cent and Offshore/Marine was down 45.0 per cent compared to the second quarter of 2014.

## Important new orders in Defence and Aerospace

The order backlog ended at NOK 829.9 million (NOK 858.8 million). This is a decrease of NOK 28.9 million compared to last year. Compared to last year, growth in Energy/Telecom and Medical sectors offset reductions in the Offshore/Marine sector.

The downturn in the Offshore/Marine sector has caused a reduction of NOK 62.0 million. The Defence /Aerospace and Industry sectors are stable compared to last year. Orders received in the quarter were NOK 455.6 million (NOK 602.5 million), a decrease of 24.4 per cent compared to last year. The second quarter last year had a very strong order intake especially within Defence, and the orders received are also affected by the Offshore/Marine reductions.

Kitron Norway has received an order from Kongsberg Defence & Aerospace AS for military communications equipment linked to contracts for deliveries to Hungary. Kitron will supply various communications products, and production will be done by Kitron in Arendal. The contract has a value for Kitron of NOK 32 million, and deliveries will take place in 2015 and 2016.

Kitron Sweden signed a strategically important long-term frame agreement with Saab AB (Business Unit Avionics Systems) for military avionics and aeronautic electronic equipment. The equipment to be supplied by Kitron is to be incorporated by Saab in current and future avionics contracts globally. Kitron will supply assembled electronic circuit boards for military and civil products, and production will be done in Jönköping. The frame agreement has a potential order value of more than 400 million NOK over 20 years.

## Cash flow significantly improved

Operational cash flow was NOK 48.6 million (NOK 9.5 million) for the quarter, which is an increase of NOK 39.1 million compared to same quarter last year, primarily related to the improvement in profit and an improved development in working capital.

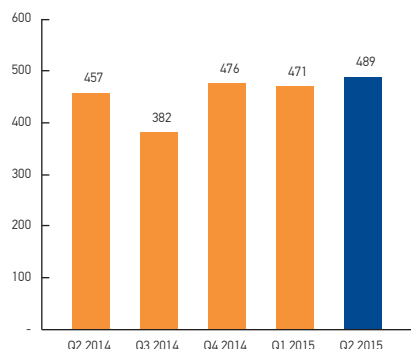
Cash conversion cycle based on three months rolling average is 106 days, compared to 105 days last year. Working capital reduction actions continue to be in focus.

## Key figures

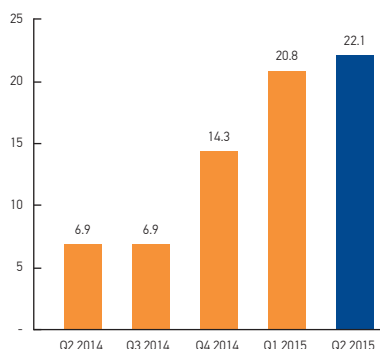
NOK million	Q2 2015	Q2 2014	Change	30.06.2015	30.06.2014	Change	31.12.2014
Revenue	489.0	457.1	31.9	959.6	892.9	66.7	1 751.3
EBIT	22.1	6.9	15.2	42.8	8.9	34.0	30.0
Order backlog	829.9	858.8	(28.9)	829.9	858.8	(28.9)	868.4
Operating cash flow	48.6	9.5	39.1	83.6	(7.9)	91.5	(4.8)
Net working capital	558.9	504.9	54.0	558.9	504.9	54.0	521.7



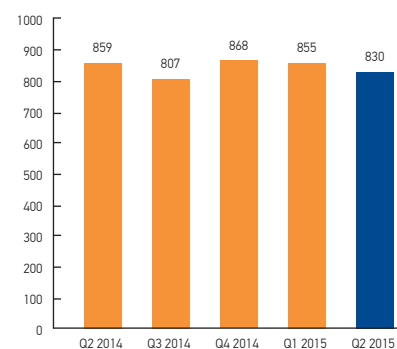
### REVENUE Group NOK million



### EBIT Group NOK million



### ORDER BACKLOG Group NOK million



Revenue from customers in the Swedish market represented a 46.5 per cent share of the total revenue during the second quarter (45.3 per cent). The Norwegian market represented 36.1 per cent of Kitron's total revenue in the second quarter (43.2 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 second quarter was NOK 22.1 million, which was an increase of NOK 15.2 million compared with the same period last year (NOK 6.9 million).

Profit before tax in the second quarter of 2015 was NOK 18.1 million, which was an increase of NOK 14.0 million compared to the same period last year.

The company's total payroll expenses in the second quarter were NOK 3.5 million higher than in the corresponding period in 2014. The relative payroll costs ended at 23.6 per cent, from 28.7 percent from revenue in first quarter of last year and from 24.4 per cent of revenue in the second quarter last year. Other operating costs were 6.2 per cent of revenue in the second quarter of 2015 (6.3 per cent).

During the quarter net financial costs amounted to NOK 4.0 million. This was an increase of NOK 1.3 million compared to the same period last year. The main reason for the increase was currency effects on intra-group financial loans.

#### Balance sheet

Kitron's gross balance as of 30 June 2015 amounted to NOK 1 195.1 million, compared to NOK 1 078.2 million at the same time in 2014. Equity was NOK 516.7 million (NOK 473.3 million), corresponding to an equity ratio of 43.2 per cent (43.9 per cent).

Inventory was NOK 408.5 million as of 30 June 2015 (NOK 357.7 million). Inventory turns was 3.6 in the second quarter 2015. For the second quarter 2014 inventory turns was 3.9.

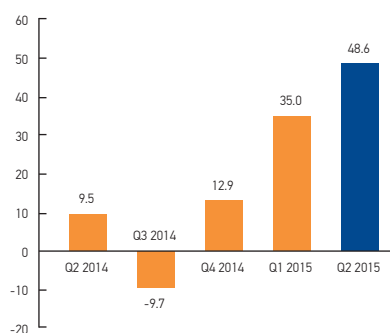
Accounts receivables amounted to NOK 389.0 million at the end of the second quarter of 2015. The corresponding amount at the same time in 2014 was NOK 369.0 million.

The group's reported interest-bearing debt amounted to NOK 320.9 million as of 30 June 2015. Interest-bearing debt at the end of the second quarter 2014 was NOK 274.3 million.

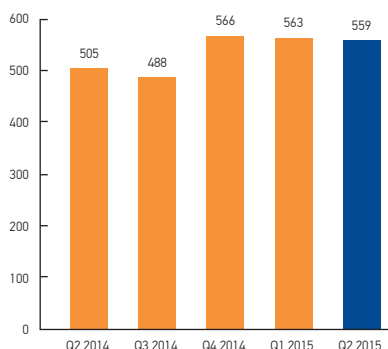
Cash flow from operational activities for the second quarter of 2015 was NOK 48.6 million (NOK 9.5 million).



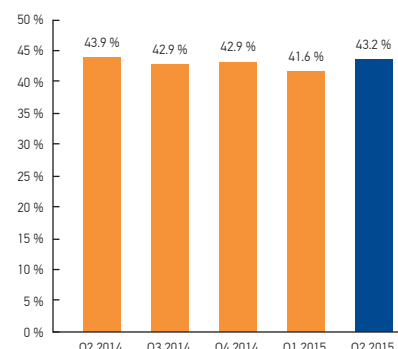
**OPERATING CASH FLOW Group**  
NOK million



**NET WORKING CAPITAL Group**  
NOK million



**EQUITY RATIO Group**  
Per cent



## Revenue business entities

NOK million	Q2 2015	Q2 2014	Change	30.06.2015	30.06.2014	Change	31.12.2014
Norway	215.9	225.3	(9.5)	447.2	451.9	(4.7)	857.5
Sweden	121.6	112.0	9.6	220.1	219.2	0.9	436.0
Lithuania	118.8	112.9	5.9	231.1	207.7	23.4	419.2
Others	103.9	59.3	44.6	189.8	100.0	89.8	239.4
Group and eliminations	(71.2)	(52.4)	(18.8)	(128.6)	(85.9)	(42.7)	(200.8)
<b>Total group</b>	<b>489.0</b>	<b>457.1</b>	<b>31.9</b>	<b>959.6</b>	<b>892.9</b>	<b>66.7</b>	<b>1 751.3</b>

## EBIT business entities

NOK million	Q2 2015	Q2 2014	Change	30.06.2015	30.06.2014	Change	31.12.2014
Norway	7.3	(7.5)	14.9	19.3	(8.2)	27.5	(10.0)
Sweden	7.5	2.7	4.7	10.9	5.8	5.1	14.5
Lithuania	6.6	8.5	(1.9)	11.7	14.2	(2.5)	27.0
Others	8.6	2.3	6.2	14.5	0.8	13.8	6.6
Group and eliminations	(8.0)	0.8	(8.8)	(13.6)	(3.7)	(10.0)	(8.1)
<b>Total group</b>	<b>22.1</b>	<b>6.9</b>	<b>15.2</b>	<b>42.8</b>	<b>8.9</b>	<b>34.0</b>	<b>30.0</b>

## Order backlog business entities and market sectors

NOK million	Defence/ Aerospace	Energy/ Telecoms	Industry	Medical equipment	Offshore/ Marine	Total
Norway	246.4	-	30.8	79.6	36.5	393.3
Sweden	8.7	63.1	17.7	73.3	-	162.7
Lithuania	4.9	20.1	83.5	20.3	2.4	131.2
Other	108.0	(0.6)	31.5	3.7	-	142.6
<b>Total group</b>	<b>368.0</b>	<b>82.6</b>	<b>163.5</b>	<b>176.9</b>	<b>38.9</b>	<b>829.9</b>

## Revenue geographic markets

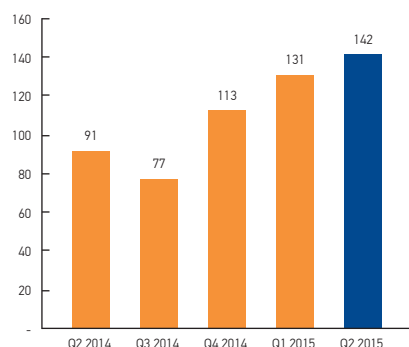
NOK million	Q2 2015	Q2 2014	Change	30.06.2015	30.06.2014	Change	31.12.2014
Norway	176.7	197.4	(20.7)	357.6	387.4	(29.8)	742.7
Sweden	227.3	206.9	20.4	437.4	406.0	31.4	829.3
Rest of Europe	15.2	25.0	(9.8)	33.3	47.5	(14.3)	91.2
USA	63.6	26.6	36.9	120.2	50.1	70.1	82.5
Others	6.2	1.2	5.1	11.2	1.9	9.2	5.7
<b>Total group</b>	<b>489.0</b>	<b>457.1</b>	<b>31.9</b>	<b>959.6</b>	<b>892.9</b>	<b>66.7</b>	<b>1 751.3</b>

## Full time employees

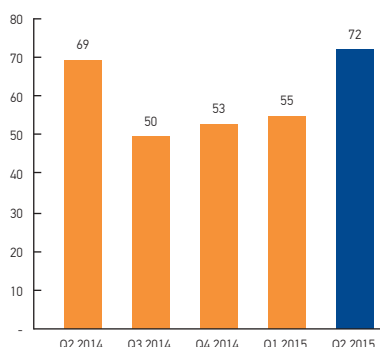
	30.06.2015	30.06.2014	Change
Norway	416	484	(68)
Sweden	136	132	4
Lithuania	412	413	(1)
Other	199	173	26
<b>Total group</b>	<b>1 163</b>	<b>1 201</b>	<b>(38)</b>



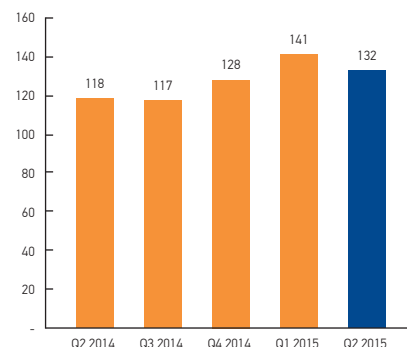
**REVENUE Defence/Aerospace**  
NOK million



**REVENUE Energy/Telecoms**  
NOK million



**REVENUE Industry**  
NOK million



**Organisation**

The Kitron workforce corresponded to 1 163 full-time employees on 30 June 2015. This is a decrease of 38 since the second quarter of 2014. There is a decrease of 68 related to the operations in Norway, while there is an increase of the workforce in China and USA of 26. The number of full-time employees in low-cost regions now accounts for 53 per cent of the total.

**Market**

Order intake in the quarter was NOK 455.6 million, which is 24.4 per cent lower than for the second quarter 2014. The order backlog ended at NOK 829.9 million, which is 3.4 per cent lower than the same period last year.

Four-quarter moving average order intake was down from NOK 472.0 million at the beginning of the second quarter to NOK 435.2 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 55.6 per cent compared to last year, and increased by 8.7 per cent compared to the first quarter 2015. The order backlog at NOK 368.0 million decreased by NOK 42.9 million during the quarter. Compared to last year, the order backlog increased by NOK 0.2 million (0.1 per cent).

The high level of activity within the Defence sector continues, including a new important order secured in the quarter from SAAB AB (Business Unit Avionics Systems).

**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 3.8 per cent compared to last year, and increased by 31.7 per cent compared to the first quarter of 2015. The order backlog is NOK 82.6 million, an increase of NOK 0.3 million compared to the first quarter in 2015, and NOK 16.1 million (24.2 per cent) higher than a year ago.

**Revenue market sectors**

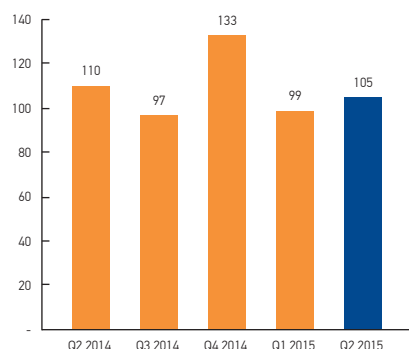
NOK million	Q2 2015	Q2 2014	Change	30.06.2015	30.06.2014	Change	31.12.2014
Defence/Aerospace	141.9	91.2	50.7	272.5	178.8	93.7	368.5
Energy/Telecoms	71.9	69.3	2.6	126.4	119.2	7.3	221.7
Industry	132.4	117.9	14.5	273.0	226.3	46.8	472.1
Medical equipment	105.0	110.0	(5.0)	204.1	217.3	(13.2)	446.8
Offshore/Marine	37.8	68.7	(31.0)	83.5	151.4	(67.8)	242.2
<b>Total group</b>	<b>489.0</b>	<b>457.1</b>	<b>31.9</b>	<b>959.6</b>	<b>892.9</b>	<b>66.7</b>	<b>1 751.3</b>

**Order Backlog market sectors**

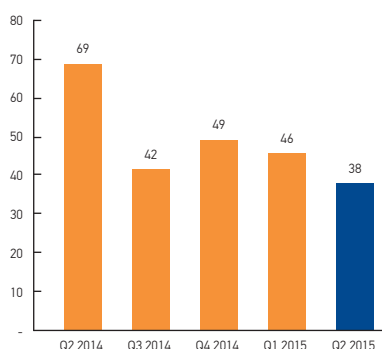
NOK million	30.06.2015	30.06.2014	Change	31.12.2014
Defence/Aerospace	368.0	367.8	0.2	362.2
Energy/Telecoms	82.6	66.5	16.1	83.7
Industry	163.5	165.0	(1.5)	188.0
Medical equipment	176.9	158.7	18.2	136.5
Offshore/Marine	38.9	100.9	(62.0)	98.0
<b>Total group</b>	<b>829.9</b>	<b>858.8</b>	<b>(28.9)</b>	<b>868.4</b>



**REVENUE Medical equipment**  
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 automats.

The industry sector showed a revenue increase of 12.3 per cent compared to the second quarter last year, but the revenue was 5.8 per cent lower than the first quarter of 2015. The order backlog decreased by NOK 1.5 million (0.9 per cent) compared to the same period last year and increased by NOK 7.3 million from the preceding quarter (4.6 per cent).

The Industry sector continues to grow, due to increased revenue with existing customers as well as new customers.

**Medical equipment**

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

Revenue in the Medical sector decreased by 4.5 per cent compared to the same period last year. The order backlog is NOK 176.9 million, up NOK 18.2 million (11.5 per cent) from the same period last year, and increased by NOK 34.3 million compared to the preceding quarter.

Demand in the Medical sector typically varies during the year.

**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 45.0 per cent compared to the same period last year. The order backlog is NOK 38.9 million, a decrease of NOK 23.7 million compared to the preceding quarter and a reduction of NOK 62.0 million compared to the same period last year (61.4 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 2015, Kitron expects growth and a clear improvement in profitability. Growth is driven by increased demand in the Defence sector for US and Norwegian markets, as well as increases in Energy/Telecoms and Industry. Offshore/Marine will have a reduction due to the oil service market in Norway.

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

Oslo, 16 July 2015, Board of directors, Kitron ASA

**Condensed profit and loss statement**

NOK 1 000	Q2 2015	Q2 2014	30.06.2015	30.06.2014	31.12.2014
Revenue	488 993	457 088	959 595	892 892	1 751 300
Cost of materials	313 971	298 588	612 864	568 179	1 114 612
Payroll expenses	115 173	111 645	226 666	236 557	442 817
Other operational expenses	30 385	28 906	58 936	59 767	127 640
Other gains / (losses)	2 624	(2 480)	1 626	(2 355)	(1 514)
<b>Operating profit before depreciation and impairments (EBITDA)</b>	<b>32 088</b>	<b>15 468</b>	<b>62 755</b>	<b>26 035</b>	<b>64 717</b>
Depreciation and impairments	10 036	8 587	19 913	17 181	34 675
<b>Operating profit (EBIT)</b>	<b>22 052</b>	<b>6 881</b>	<b>42 842</b>	<b>8 853</b>	<b>30 041</b>
Net financial items	(3 953)	(2 741)	(4 543)	(8 040)	(434)
<b>Profit (loss) before tax</b>	<b>18 099</b>	<b>4 140</b>	<b>38 299</b>	<b>814</b>	<b>29 607</b>
Tax	4 833	267	11 449	(1 353)	5 319
<b>Profit (loss) for the period</b>	<b>13 266</b>	<b>3 873</b>	<b>26 850</b>	<b>2 166</b>	<b>24 289</b>
Earnings per share-basic	0.08	0.02	0.16	0.01	0,14
Earnings per share-diluted	0.08	0.02	0.16	0.01	0,14



## Condensed balance sheet

NOK 1 000	30.06.2015	30.06.2014	31.12.2014
<b>ASSETS</b>			
Goodwill	26 786	26 786	26 786
Other intangible assets	28 766	34 307	32 409
Tangible fixed assets	156 251	123 011	162 147
Deferred tax assets	93 193	104 335	105 407
<b>Total non-current assets</b>	<b>304 997</b>	<b>288 440</b>	<b>326 750</b>
Inventory	408 452	357 715	402 260
Accounts receivable	388 976	369 029	377 824
Other receivables	53 659	42 187	32 823
Cash and cash equivalents	38 991	20 857	12 337
<b>Total current assets</b>	<b>890 077</b>	<b>789 788</b>	<b>825 244</b>
<b>Total assets</b>	<b>1 195 074</b>	<b>1 078 228</b>	<b>1 151 994</b>
<b>LIABILITIES AND EQUITY</b>			
Equity	516 708	473 328	494 683
<b>Total equity</b>	<b>516 708</b>	<b>473 328</b>	<b>494 683</b>
Deferred tax liabilities	1 050	1 072	1 081
Loans	42 671	29 128	15 277
Pension commitments	8 038	8 552	12 241
<b>Total non-current liabilities</b>	<b>51 759</b>	<b>38 752</b>	<b>28 599</b>
Accounts payable	238 529	221 811	214 611
Other payables	101 734	97 038	84 962
Loans	278 239	245 185	320 938
Other provisions	8 106	2 114	8 200
<b>Total current liabilities</b>	<b>626 608</b>	<b>566 148</b>	<b>628 712</b>
<b>Total liabilities and equity</b>	<b>1 195 074</b>	<b>1 078 228</b>	<b>1 151 994</b>

## Condensed cash flow statement

NOK 1 000	Q2 2015	Q2 2014	30.06.2015	30.06.2014	31.12.2014
Net cash flow from operational activities	48 627	9 469	83 588	(7 897)	(4 763)
Net cash flow from investment activities	(9 190)	(13 998)	(11 848)	(14 989)	(62 959)
Net cash flow from financing activities	(10 424)	(3 491)	10 725	(10 033)	(16 521)
Change in cash and bank credit	29 012	(8 020)	82 464	(32 919)	(84 244)
Cash and bank credit opening balance	(71 242)	(50 463)	(122 662)	(27 585)	(27 586)
Currency conversion og cash and bank credit	(1 635)	(1 559)	(3 667)	463	(10 832)
<b>Cash and bank credit closing balance</b>	<b>(43 864)</b>	<b>(60 042)</b>	<b>(43 864)</b>	<b>(60 042)</b>	<b>(122 662)</b>

## Consolidated statement of comprehensive income

NOK 1 000	Q2 2015	Q2 2014	30.06.2015	30.06.2014	31.12.2014
Profit (loss) for the period	13 266	3 873	26 850	2 166	24 289
Actuarial gain / losses	-	-	-	-	(4 337)
Currency translation differences and other changes	6 252	847	(5 330)	(2 547)	(234)
<b>Total comprehensive income for the period</b>	<b>19 518</b>	<b>4 720</b>	<b>21 519</b>	<b>(380)</b>	<b>19 718</b>
<b>Allocated to shareholders</b>	<b>19 518</b>	<b>4 720</b>	<b>21 519</b>	<b>(380)</b>	<b>19 718</b>

## Changes in equity

NOK 1 000	30.06.2015	30.06.2014	31.12.2014
Equity opening balance	494 683	473 709	473 709
Profit (loss) for the period	26 850	2 166	24 289
Effect from options	505	192	1 257
Other comprehensive income for the period	(5 330)	(2 739)	(4 571)
<b>Equity closing balance</b>	<b>516 708</b>	<b>473 328</b>	<b>494 683</b>



## Notes to the financial statements

**Note 1 – General information and principles**

The condensed consolidated financial statements for the second quarter of 2015 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 2014. 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 2014, which were prepared in accordance with the Norwegian Accounting Act and IFRS, as adopted by the EU. The consolidated financial statements for 2014 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 2014.

**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 2015.

**Note 4 – Other gains and losses**

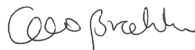
Other gains and losses consist of net currency gains and losses.

## Responsibility statement


We confirm, to the best of our knowledge, that the condensed set of financial statements for the period 1 January to 30 June 2015 has been prepared in accordance with IAS 34 - Interim Financial Reporting, and gives a true and fair view of the group's assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related parties transactions.

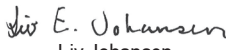
Oslo, 16 July 2015


  
Tuomo Lähdesmäki  
Chairman

  
Gro Brækken


  
Päivi Marttila

  
Arne Solberg  
Deputy chairman

  
Liv Johansen  
Employee elected board member

  
Bjørn Gottschlich  
Employee elected board member

  
Martynas Cesnavicius

  
Elisabeth Jacobsen  
Employee elected board member

  
Lars Peter Nilsson  
CEO





**Your ambition. Our passion.**

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**Kitron** is a medium-size Electronics Manufacturing Services company. The company has manufacturing facilities in Norway, Sweden, Lithuania, Germany, China and the US and has about 1 200 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.