

REPORT

Q2 2016

Report first half year
and second quarter 2016



Kitron

Your ambition. Our passion.



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

Norway
Sweden
Lithuania
Germany
USA
China



Report first half year and second quarter 2016

Solid improvement of all key figures

- * Strong growth in revenue and order backlog
- * Improved profitability
- * Defence communications order
- * Capacity adjustments
- * Improved capital efficiency

Strong growth in revenue and order backlog

Kitron's revenue for the second quarter was NOK 563 million (NOK 489 million), which represents an increase of 15.2 per cent compared to the same period last year. Growth adjusted for foreign exchange effects in consolidation was 9.8 per cent.

The growth pattern from the first quarter continued into the second quarter. The Industry sector showed growth of 37 per cent, with strong progress in Lithuania and Sweden, which increased revenues by 46 and 21 per cent, respectively. The Defence/Aerospace, Medical devices, and Energy/Telecoms sectors all grew around 14-15 per cent. The Offshore/Marine downward trend continues and revenue was further reduced by 57 per cent.

The order backlog ended at NOK 989.4 million, an increase of 19 per cent compared to last year. Growth in order backlog was especially strong in the Defence/Aerospace and Industry sectors, showing increases of 30 and 33 per cent respectively.

As in preceding quarters, the order backlog within Offshore/Marine continues to fall due to the general downturn in the oil service market.

Orders received in the quarter were NOK 658.8 million

Improved profitability

The second quarter EBITDA was NOK 45.2 million (NOK 32.1 million), an increase of 41 per cent compared to last year. Operating profit (EBIT) for the second quarter ended at NOK 33.1 million (NOK 22.1 million).

Profitability expressed as EBIT margin was 5.9 per cent (4.5 per cent). This is an improvement not only from the second quarter last year but also from the first quarter this year.

Profit after tax was NOK 21.4 million (NOK 13.3 million), corresponding to NOK 0.12 earnings per share (NOK 0.08).

Defence communications order

Kitron received an order from Kongsberg Defence & Aerospace AS for military communications equipment, for supplies to an existing contract for deliveries to Hungary.

Kitron will supply various communications products, and production will take place by Kitron in Norway. The contract has a value for Kitron of NOK 37 million, and deliveries will take place in 2016 and 2017.

For the last twelve months Kongsberg have placed orders totaling 157 MNOK to Kitron for advanced tactical communications equipment.

Capacity adjustments

Due to the strong revenue growth, Kitron decided to increase production capacity by investing in two new SMT lines, one in Lithuania and one in Sweden. They will be in place in the fourth quarter 2016 in Lithuania and in the first quarter 2017 in Sweden.

The temporary drop in efficiency in the factory in Norway due to the relocation has now been remedied.

During the third quarter, Norway is adjusting the indirect resources with 16 personnel to compensate for the longer-term downturn in the Offshore/Marine sector. In addition, due to short-term reduction of activity and change in product mix to less labour-intensive products, up to 60 employees might be furloughed during the third quarter.

Improved capital efficiency

Our consistent efforts to reduce working capital are yielding results. Net working capital was reduced by 6.7 per cent from NOK 559 million to NOK 521 million compared to the same quarter last year.

Return on operating capital (ROOC) was 17.6 per cent compared to 11.8 per cent in the second quarter last year. Net working capital as a percentage of revenue was 23.8 per cent, compared to 28.8 per cent last year.

Cash conversion cycle (CCC) was at 86 for the quarter. This is down from 106 last year, an improvement of 20 days.

Operational cash flow was NOK 61.0 million (NOK 48.6 million) for the quarter. The improvement compared to last year is attributable to increased profitability.

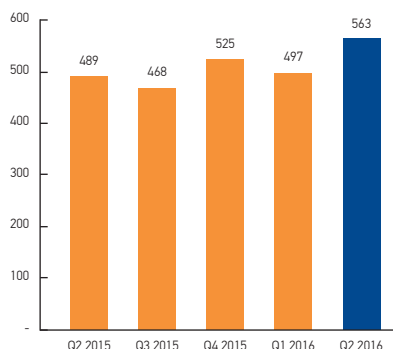
Key figures

NOK million	Q2 2016	Q2 2015	Change	30.06.2016	30.06.2015	Change	31.12.2015
Revenue	563.1	489.0	74.1	1 060.1	959.6	100.5	1 951.8
EBIT	33.1	22.1	11.0	53.6	42.8	10.7	102.7
Order backlog	989.4	829.9	159.4	989.4	829.9	159.4	975.6
Operating cash flow	61.0	48.6	12.4	35.7	83.6	(47.9)	204.1
Net working capital	521.5	558.9	(37.4)	521.5	558.9	(37.4)	565.5



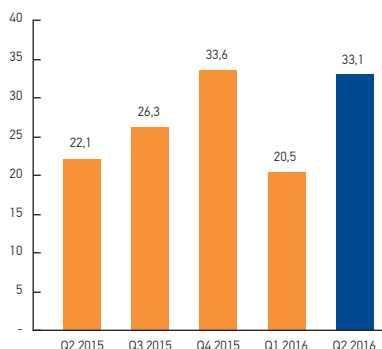
REVENUE Group

NOK million



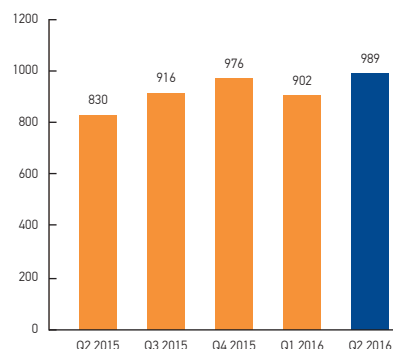
EBIT Group

NOK million



ORDER BACKLOG Group

NOK million



Key figures

Revenue from customers in the Swedish market represented a 47.1 per cent share of the total revenue during the second quarter (46.5 per cent). The Norwegian market represented 32.9 per cent of Kitron's total revenue in the second quarter (36.1 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 33.1 million, which was an increase of 11.0 million compared with the same period last year (NOK 22.1 million).

Profit before tax in the second quarter of 2016 was NOK 29.1 million, which was an increase of NOK 11.0 million compared to the same period last year.

The company's total payroll expenses in the second quarter were NOK 9.5 million higher than in the corresponding period in 2015. The relative payroll costs ended at 22.1 per cent, down from 23.6 per cent of revenue in the second quarter last year. Other operating costs were 5.7 per cent of revenue in the second quarter of 2016 (6.2 per cent).

During the quarter net financial items amounted to a net cost of NOK 4.0 million. This is at the same level as for the second quarter last year.

Balance sheet

Kitron's gross balance as of 30 June 2016 amounted to NOK 1 288.0 million, compared to NOK 1 195.1 million at the same time in 2015. Equity was NOK 559.5 million (NOK 516.7 million), corresponding to an equity ratio of 43.4 per cent (43.2 per cent).

Inventory was NOK 401.6 million as of 30 June 2016 (NOK 408.5 million). Inventory turns was 4.1 in the second quarter 2016, which is an improvement compared to second quarter last year (3.6).

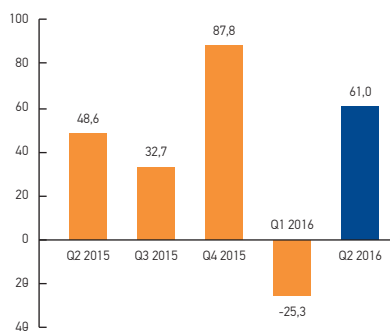
Accounts receivables amounted to NOK 424.3 million at the end of the second quarter of 2016. The corresponding amount at the same time in 2015 was NOK 389.0 million.

The group's reported interest-bearing debt amounted to NOK 310.0 million as of 30 June 2016. Interest-bearing debt at the end of the second quarter 2015 was NOK 320.9 million. Net Interest Bearing Debt/EBITDA is 1.4 for the second quarter compared to 2.8 at the same time last year.

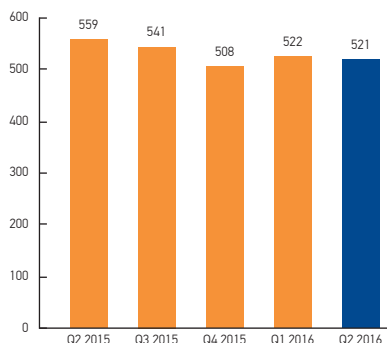
Cash flow from operational activities for the second quarter of 2016 was NOK 61.0 million (NOK 48.6 million).



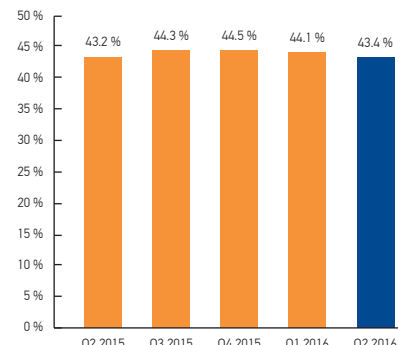
OPERATING CASH FLOW Group
NOK million



NET WORKING CAPITAL Group
NOK million



EQUITY RATIO Group
Per cent



Revenue business entities

NOK million	Q2 2016	Q2 2015	Change	30.06.2016	30.06.2015	Change	31.12.2015
Norway	224.2	215.9	8.3	408.3	447.2	(38.8)	859.2
Sweden	146.6	121.6	25.0	276.4	220.1	56.3	483.5
Lithuania	172.6	118.8	53.8	346.0	231.1	114.9	472.2
Others	93.6	103.9	(10.4)	169.9	189.8	(19.9)	387.1
Group and eliminations	(73.8)	(71.2)	(2.7)	(140.5)	(128.6)	(11.9)	(250.2)
Total group	563.1	489.0	74.1	1 060.1	959.6	100.5	1 951.8

EBIT business entities

NOK million	Q2 2016	Q2 2015	Change	30.06.2016	30.06.2015	Change	31.12.2015
Norway	10.2	7.3	2.9	10.8	19.3	(8.5)	36.7
Sweden	5.1	7.5	(2.4)	15.4	10.9	4.5	26.5
Lithuania	15.0	6.6	8.4	30.3	11.7	18.6	23.5
Others	7.5	8.6	(1.1)	10.8	14.5	(3.7)	32.7
Group and eliminations	(4.7)	(8.0)	3.3	(13.8)	(13.6)	(0.2)	(16.6)
Total group	33.1	22.1	11.0	53.6	42.8	10.7	102.7

Order backlog business entities and market sectors

NOK million	Defence/ Aerospace	Energy/ Telecoms	Industry	Medical devices	Offshore/ Marine	Total
Norway	387.3	-	37.6	54.3	16.6	495.9
Sweden	29.1	87.7	22.1	86.0	-	224.8
Lithuania	7.8	21.1	134.3	23.4	-	186.6
Other	55.7	(0.3)	22.9	3.7	-	82.0
Total group	479.8	108.5	217.0	167.4	16.6	989.4

Revenue geographic markets

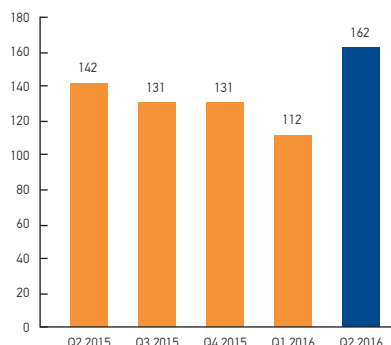
NOK million	Q2 2016	Q2 2015	Change	30.06.2016	30.06.2015	Change	31.12.2015
Norway	185.4	176.7	8.7	354.3	357.6	(3.3)	719.7
Sweden	265.4	227.3	38.1	528.5	437.4	91.1	902.2
Rest of Europe	22.9	15.2	7.6	42.0	33.3	8.8	68.4
USA/Canada	90.1	63.6	26.5	128.2	120.2	8.0	234.9
Others	(0.6)	6.2	(6.8)	7.1	11.2	(4.1)	26.7
Total group	563.1	489.0	74.1	1 060.1	959.6	100.5	1 951.8

Full time employees

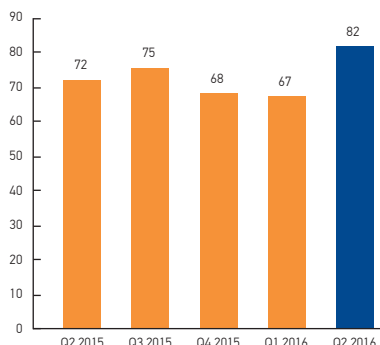
	30.06.2016	30.06.2015	Change
Norway	380	416	(37)
Sweden	142	136	6
Lithuania	535	412	123
Other	187	199	(12)
Total group	1 244	1 163	81



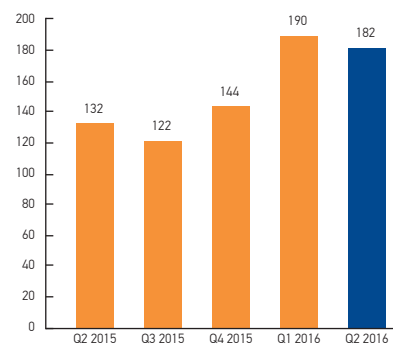
REVENUE Defence/Aerospace
NOK million



REVENUE Energy/Telecoms
NOK million



REVENUE Industry
NOK million



Organisation

The Kitron workforce corresponded to 1 244 full-time employees on 30 June 2016. This is an increase of 81 since the second quarter of 2015. There is a decrease of 37 related to the operations in Norway, while there is an increase of the workforce in Lithuania of 123. The number of full-time employees in low-cost regions now accounts for 58 per cent of the total.

Market

Order intake in the quarter was NOK 658.8 million, which is 44.6 per cent higher than for the second quarter 2015. The order backlog ended at NOK 989.4 million, which is 19.2 per cent higher than the same period last year.

Four-quarter moving average order intake was up from NOK 494.9 million at the beginning of the second quarter to NOK 545.7 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 14.4 per cent compared to last year. The order backlog at NOK 479.8 million increased by NOK 78.8 million during the quarter. Compared to last year, the order backlog increased by NOK 111.9 million (30.4 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 increased by 13.9 per cent compared to last year, and increased by 22.4 per cent compared to the first quarter of 2016. The order backlog is NOK 108.5 million, an increase of NOK 20.7 million compared to the first quarter in 2016, and NOK 25.9 million (31.3 per cent) higher than a year ago.

The revenue increase is driven by growth in North America for existing customers.

Revenue market sectors

NOK million	Q2 2016	Q2 2015	Change	30.06.2016	30.06.2015	Change	31.12.2015
Defence/Aerospace	162.3	141.9	20.3	274.7	272.5	2.2	535.2
Energy/Telecoms	81.9	71.9	10.0	148.9	126.4	22.4	269.6
Industry	182.0	132.4	49.6	372.4	273.0	99.3	538.5
Medical devices	120.8	105.0	15.8	234.9	204.1	30.8	472.6
Offshore/Marine	16.2	37.8	(21.6)	29.3	83.5	(54.2)	135.8
Total group	563.1	489.0	74.1	1 060.1	959.6	100.5	1 951.8

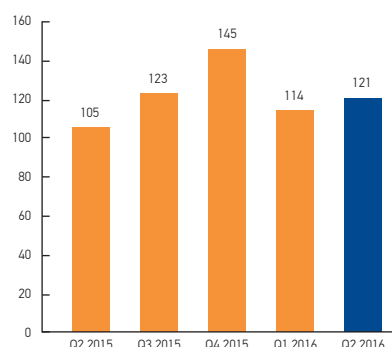
Order Backlog market sectors

NOK million	30.06.2016	30.06.2015	Change	31.12.2015
Defence/Aerospace	479.8	368.0	111.9	422.8
Energy/Telecoms	108.5	82.6	25.9	96.0
Industry	217.0	163.5	53.5	285.5
Medical devices	167.4	176.9	(9.5)	148.2
Offshore/Marine	16.6	38.9	(22.3)	23.1
Total group	989.4	829.9	159.4	975.6



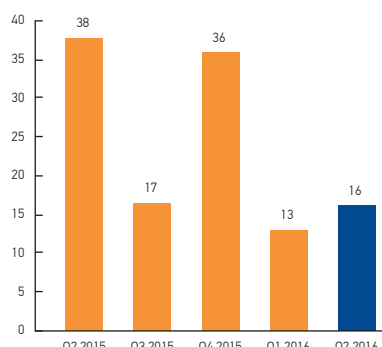
REVENUE Medical devices

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 37.5 per cent compared to the second quarter last year, but a decline of 4.4 per cent from the first quarter of 2016. The order backlog increased by NOK 53.5 million (32.7 per cent) compared to the same period last year and decreased by NOK 26.0 million from the preceding quarter (10.7 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 increased by 15.0 per cent compared to the same period last year. The order backlog is NOK 167.4 million, down NOK 9.5 million (5.4 per cent) from the same period last year, and up NOK 18.7 million (12.6 per cent) compared to the preceding quarter.

The increase in revenue is due to increased demand from existing customers.

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 57.3 per cent compared to the same period last year. The order backlog is NOK 16.6 million, a decrease of NOK 4.5 million compared to the preceding quarter and a reduction of NOK 22.3 million compared to the same period last year (57.3 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 expects revenue of between NOK 2 050 and 2 250 million and EBIT margin of 5.3 to 6.3 per cent. 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, 13 July 2016, Board of directors, Kitron ASA

Condensed profit and loss statement

NOK 1 000	Q2 2016	Q2 2015	30.06.2016	30.06.2015	31.12.2015
Revenue	563 112	488 993	1 060 117	959 595	1 951 818
Cost of materials	358 793	313 971	675 364	612 864	1 244 121
Payroll expenses	124 672	115 173	240 420	226 666	443 656
Other operational expenses	32 307	30 385	65 517	58 936	123 693
Other gains / (losses)	(2 164)	2 624	(2 114)	1 626	3 697
Operating profit before depreciation and impairments (EBITDA)	45 175	32 088	76 703	62 755	144 044
Depreciation and impairments	12 082	10 036	23 116	19 913	41 303
Operating profit (EBIT)	33 094	22 052	53 586	42 842	102 741
Net financial items	(3 979)	(3 953)	(14 104)	(4 543)	(422)
Profit (loss) before tax	29 115	18 099	39 482	38 299	102 319
Tax	7 694	4 833	8 030	11 449	30 094
Profit (loss) for the period	21 421	13 266	31 452	26 850	72 225
Earnings per share-basic	0.12	0.08	0.18	0.16	0.42
Earnings per share-diluted	0.12	0.08	0.18	0.15	0.41



Condensed balance sheet

NOK 1 000	30.06.2016	30.06.2015	31.12.2015
ASSETS			
Goodwill	26 786	26 786	26 786
Other intangible assets	21 782	28 766	25 843
Tangible fixed assets	199 082	156 251	211 828
Deferred tax assets	79 115	93 193	84 810
Total non-current assets	326 766	304 997	349 267
Inventory	401 556	408 452	361 350
Accounts receivable	424 325	388 976	398 500
Other receivables	38 210	53 659	45 900
Cash and cash equivalents	97 130	38 991	118 958
Total current assets	961 221	890 077	924 709
Total assets	1 287 987	1 195 074	1 273 976
LIABILITIES AND EQUITY			
Equity	559 531	516 708	566 510
Total equity	559 531	516 708	566 510
Deferred tax liabilities	1 032	1 050	1 068
Loans	54 988	42 671	64 170
Pension commitments	6 502	8 038	6 502
Total non-current liabilities	62 522	51 759	71 740
Accounts payable	304 426	238 529	252 250
Other payables	105 078	101 734	96 382
Loans	255 044	278 239	281 687
Other provisions	1 386	8 106	5 407
Total current liabilities	665 934	626 608	635 726
Total liabilities and equity	1 287 987	1 195 074	1 273 976

Condensed cash flow statement

NOK 1 000	Q2 2016	Q2 2015	30.06.2016	30.06.2015	31.12.2015
Net cash flow from operational activities	61 020	48 627	35 705	83 588	204 070
Net cash flow from investment activities	(5 182)	(9 190)	(11 685)	(11 848)	(75 926)
Net cash flow from financing activities	(41 782)	(10 424)	(48 642)	10 725	56 033
Change in cash and bank credit	14 056	29 012	(24 622)	82 464	184 176
Cash and bank credit opening balance	8 749	(71 242)	43 644	(122 662)	(122 662)
Currency conversion of cash and bank credit	(126)	(1 635)	3 657	(3 667)	(17 870)
Cash and bank credit closing balance	22 679	(43 864)	22 679	(43 864)	43 644

Consolidated statement of comprehensive income

NOK 1 000	Q2 2016	Q2 2015	30.06.2016	30.06.2015	31.12.2015
Profit (loss) for the period	21 421	13 266	31 452	26 850	72 225
Actuarial gain / losses pensions	-	-	-	-	143
Actuarial gain / losses forward contract	264	-	264	-	(1 063)
Currency translation differences	(1 453)	6 252	(5 959)	3 318	7 374
Total comprehensive income for the period	20 232	19 518	25 757	30 167	78 678
Allocated to shareholders	20 232	19 518	25 757	30 167	78 678

Changes in equity

NOK 1 000	30.06.2016	30.06.2015	31.12.2015
Equity opening balance	566 510	494 683	494 683
Profit (loss) for the period	31 452	26 850	72 225
Paid dividends	(36 322)	(8 648)	(8 648)
Effect from options	3 585	505	1 797
Other comprehensive income for the period	(5 695)	3 318	6 454
Equity closing balance	559 531	516 708	566 510



Notes to the financial statements

Note 1 – General information and principles

The condensed consolidated financial statements for the second 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.

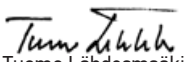
Note 4 – Other gains and losses

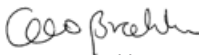
Other gains and losses consist of net currency gains and losses.

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 2016 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, 13 July 2016


Tuomo Lähdesmäki
Chairman


Gro Brækken

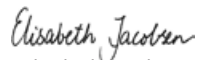

Päivi Marttila


Arne Solberg
Deputy chairman


Tanja Rørheim
Employee elected board member


Bjørn Gottschlich
Employee elected board member


Martynas Cesnavicius


Elisabeth Jacobsen
Employee elected board member


Lars Peter Nilsson
CEO



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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 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.