



Kitron

Your ambition. Our passion.

Q4
2017

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

Norway
Sweden
Lithuania
Germany
USA
China

Fourth
quarter report

Report fourth quarter 2017

Strong growth and profitability

- High order intake and order backlog
- Improved capital efficiency and cash flow
- Profitability improvement and increased dividend

High order intake and order backlog

Kitron's revenue for the fourth quarter was NOK 667.6 million (NOK 570.3 million), an increase of 17.1 per cent compared to the same period last year. Growth adjusted for foreign exchange effects in consolidation was 12.5 per cent.

The Industry market sector showed a particularly strong revenue growth of 46.6 per cent compared to the same quarter last year. Defence/Aerospace also recorded good growth, while Medical devices and Energy/Telecoms were essentially flat. Offshore/Marine recorded an increase, although at low volumes.

The order backlog ended at NOK 1 306 million, an increase of 28.2 per cent compared to last year. Growth in order backlog was particularly strong in the Industry sector and in the Defence/Aerospace sector, while other sectors were stable. Orders received in the quarter were NOK 941 million (NOK 598 million), an increase of 57 per cent.

Strong profitability

Fourth quarter EBITDA* was NOK 56.9 million (NOK 45.9 million), an increase of 23.7 per cent compared to last year. Operating profit (EBIT)* for the fourth quarter ended at NOK 43.1 million (NOK 34.1 million), an increase of 26.4 per cent.

Profitability expressed as EBIT margin* was 6.5 per cent (6.0 per cent).

Profit after tax was NOK 29.6 million (NOK 25.4 million), an increase of 16.5 per cent and corresponding to NOK 0.17 earnings per share (NOK 0.14).

Profitability improvement and increased dividend

Full year revenue of NOK 2 437 million (NOK 2 093 million) gave an overall revenue growth of 16.4 per cent for the year. Growth adjusted for foreign exchange effects in consolidation was 16.9 per cent. Operating profit for the year ended at NOK 148.7 million (NOK 117.8 million), resulting in an EBIT margin of 6.1 per cent (5.6 per cent).

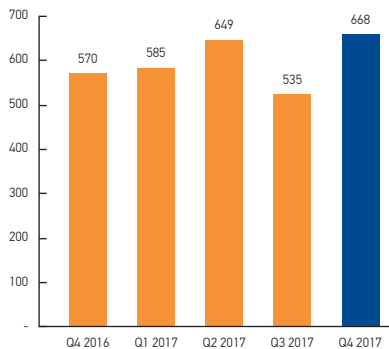
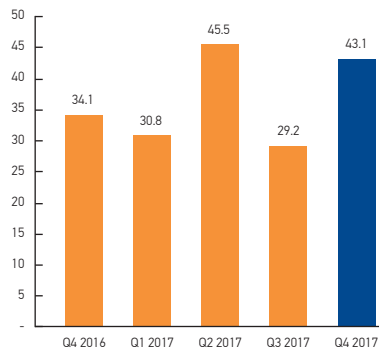
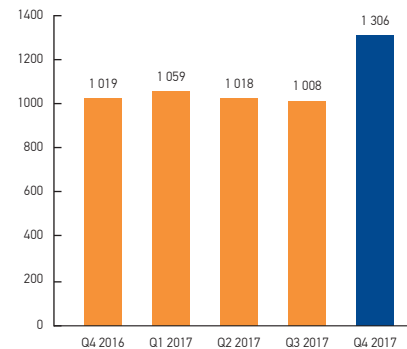
Profit after tax was NOK 99.0 million (NOK 74.6 million), corresponding to NOK 0.57 earnings per share (NOK 0.43).

The board proposes that the Annual General Meeting decides on an ordinary dividend of NOK 0.35 per share and an extraordinary dividend of NOK 0.20 per share, in total NOK 0.55 per share (NOK 0.25). The reason to propose the extraordinary dividend is the clearly improved free cash flow in 2017.

Key figures

NOK million	Q4 2017	Q4 2016	Change	31.12.2017	31.12.2016	Change
Revenue	667.6	570.3	97.3	2 436.7	2 093.0	343.7
EBIT	43.1	34.1	9.0	148.7	117.8	30.9
Order backlog	1 306.4	1 019.4	287.0	1 306.4	1 019.4	287.0
Operating cash flow	90.8	36.4	54.4	160.8	108.5	52.3
Net working capital	486.4	512.2	(25.8)	486.4	512.2	(25.8)

* 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 52.7 per cent share of the total revenue during the fourth quarter (49.7 per cent). The Norwegian market represented 25.6 per cent of Kitron's total revenue in the fourth quarter (29.5 per cent).

Variable contribution

The variable contribution*, defined as revenue minus cost of materials and direct payroll expenses, decreased slightly from the same period last year.

Profit

Kitron's operating profit (EBIT) in the fourth quarter was NOK 43.1 million, which was an increase of NOK 9.0 million compared with the same period last year (NOK 34.1 million).

Profit before tax in the fourth quarter of 2017 was NOK 44.7 million, which was an increase of NOK 8.0 million compared to the same period last year.

The company's total payroll expenses in the fourth quarter were NOK 11.5 million higher than in the corresponding period in 2016. The relative payroll costs ended at 19.8 per cent, down from 21.1 per cent of revenue in the fourth quarter last year. Other operating costs were 5.5 per cent of revenue in the fourth quarter of 2017 (6.3 per cent).

During the quarter, net financial items amounted to a net income of NOK 1.6 million. The corresponding figure for fourth quarter last year was a net income of NOK 2.5 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 December 2017 that are affecting net financial income total USD 5.1 million and EUR 1.9 million.

Tax cost and deferred tax assets are influenced by changes in tax rates in Norway and USA, resulting in a write down of deferred tax assets and an increase in tax cost of NOK 4.4 million in the fourth quarter.

Balance sheet

Kitron's gross balance sheet as of 31 December 2017 amounted to NOK 1 548.7 million, compared to NOK 1 353.0 million at the same time in 2016. Equity was NOK 663.6 million (NOK 584.8 million), corresponding to an equity ratio of 42.8 per cent (43.2 per cent). Net gearing* of the company was 0.26 (0.37).

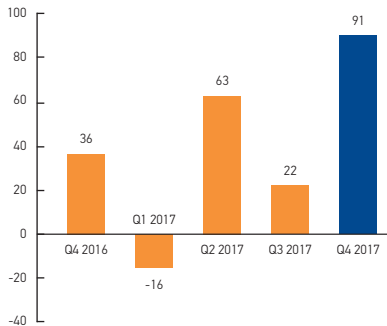
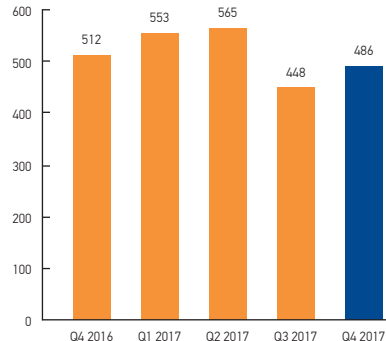
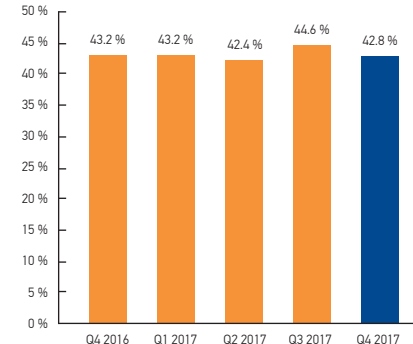
Inventory was NOK 398.9 million as of 31 December 2017 (NOK 384.9 million). Inventory turns was 4.7 in the fourth quarter 2017, which is an increase compared to fourth quarter last year (4.2).

Accounts receivables amounted to NOK 516.3 million at the end of the fourth quarter of 2017. The corresponding amount at the same time in 2016 was NOK 442.5 million.

The group's reported net interest-bearing debt* amounted to NOK 175.2 million as of 31 December 2017. Net interest-bearing debt at the end of the fourth quarter 2016 was NOK 215.9 million. Net interest-bearing debt/EBITDA is 0.9 for the fourth quarter compared to 1.3 at the same time last year.

Cash flow from operating activities for the fourth quarter of 2017 was NOK 90.8 million (NOK 36.4 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 2017	Q4 2016	Change	31.12.2017	31.12.2016	Change
Norway	191.6	202.0	(10.4)	737.6	766.5	(28.9)
Sweden	193.3	176.4	16.9	707.6	592.5	115.1
Lithuania	222.2	160.5	61.7	818.3	635.9	182.4
Others	106.5	83.7	22.7	394.9	356.7	38.2
Group and eliminations	(46.0)	(52.4)	6.3	(221.7)	(258.7)	37.0
Total group	667.6	570.3	97.3	2 436.7	2 093.0	343.7

EBIT business entities

NOK million	Q4 2017	Q4 2016	Change	31.12.2017	31.12.2016	Change
Norway	9.7	11.0	(1.3)	31.7	27.5	4.2
Sweden	7.0	5.0	2.0	26.7	28.5	(1.8)
Lithuania	21.8	9.9	11.9	69.1	48.3	20.8
Others	13.3	13.1	0.2	38.8	34.6	4.2
Group and eliminations	(8.7)	(4.9)	(3.8)	(17.6)	(21.1)	3.5
Total group	43.1	34.1	9.0	148.7	117.8	30.9

Order backlog business entities and market sectors

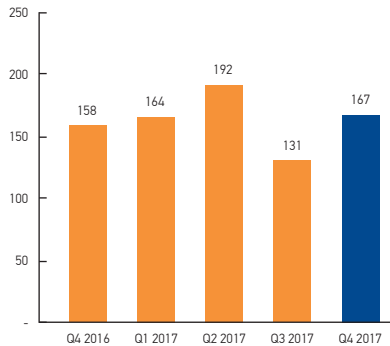
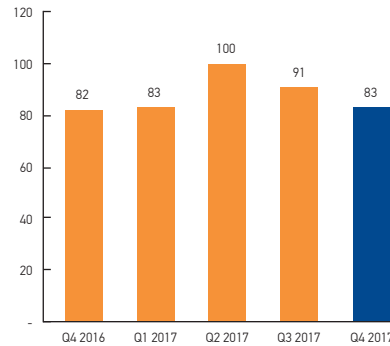
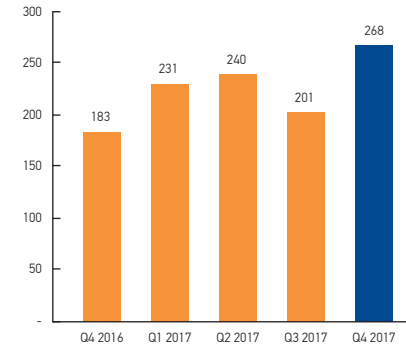
NOK million	Defence/ Aerospace	Energy/ Telecoms	Industry	Medical devices	Offshore/ Marine	Total
Norway	405.2	-	75.6	64.3	21.0	566.1
Sweden	62.6	87.7	52.1	58.5	-	260.9
Lithuania	-	22.0	317.4	16.6	-	356.0
Other	36.5	-	68.6	18.3	-	123.5
Total group	504.3	109.7	513.7	157.7	21.0	1 306.4

Revenue geographic markets

NOK million	Q4 2017	Q4 2016	Change	31.12.2017	31.12.2016	Change
Norway	171.0	168.2	2.8	629.0	662.3	(33.3)
Sweden	352.1	283.2	68.9	1 265.4	1 014.4	251.0
Rest of Europe	58.3	36.2	22.1	197.2	119.8	77.4
USA/Canada	78.1	79.6	(1.5)	319.3	283.5	35.9
Others	8.1	3.1	4.9	25.8	13.1	12.7
Total group	667.6	570.3	97.3	2 436.7	2 093.0	343.7

Full time employees

	31.12.2017	31.12.2016	Change
Norway	270	334	(64)
Sweden	180	182	(2)
Lithuania	798	679	119
Other	203	182	21
Total group	1 451	1 377	74

REVENUE Defence/Aerospace
NOK million

REVENUE Energy/Telecoms
NOK million

REVENUE Industry
NOK million

Organisation

The Kitron workforce corresponded to 1 451 full-time employees on 31 December 2017. This is an increase of 74 since the fourth quarter of 2016. There is a decrease of 64 related to the operations in Norway, a decrease of 2 in Sweden, while there is an increase of the workforce in Lithuania and China of 119 and 22 respectively. The number of full-time employees in low-cost regions now accounts for 69 per cent of the total.

Market

Order intake in the quarter was NOK 940.8 million, which is 57.2 per cent higher than for the fourth quarter 2016. The order backlog ended at NOK 1 306.4 million, which is 28.2 per cent higher than the same period last year.

Four-quarter moving average order intake was up from NOK 585.9 million at the beginning of the fourth quarter to NOK 671.5 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 5.8 per cent compared to last year. The order backlog at NOK 504.3 million increased

by NOK 157.1 million during the quarter. Compared to last year, the order backlog increased by NOK 55.1 million (12.3 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 in general characterized by project deliveries. Military aviation programs constitute an increasing share of Defence/ Aerospace revenue, and as a consequence there will be larger fluctuations in order backlog, as these customers tend to place longer orders than normal in the defence sector.

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.

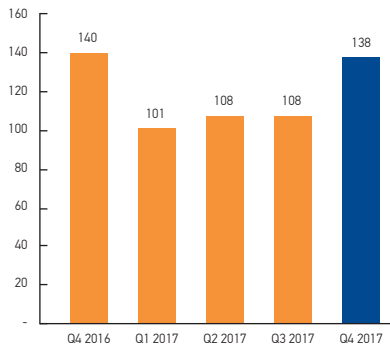
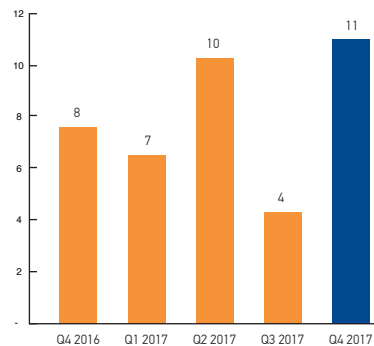
The Energy/Telecoms sector revenues increased by 2.1 per cent compared to last year. The order backlog is NOK 109.7 million, an increase of NOK 4.2 million compared to the third quarter in 2017, and NOK 6.8 million (5.8 per cent) lower than a year ago.

Revenue market sectors

NOK million	Q4 2017	Q4 2016	Change	31.12.2017	31.12.2016	Change
Defence/Aerospace	167.5	158.3	9.2	654.2	574.1	80.2
Energy/Telecoms	83.5	81.8	1.7	356.3	302.7	53.6
Industry	267.7	182.6	85.2	939.0	687.8	251.2
Medical devices	137.9	140.0	(2.1)	455.2	484.9	(29.7)
Offshore/Marine	11.0	7.5	3.4	32.0	43.5	(11.5)
Total group	667.6	570.3	97.3	2 436.7	2 093.0	343.7

Order Backlog market sectors

NOK million	31.12.2017	31.12.2016	Change
Defence/Aerospace	504.3	449.2	55.1
Energy/Telecoms	109.7	116.5	(6.8)
Industry	513.7	302.3	211.4
Medical devices	157.7	139.7	18.1
Offshore/Marine	21.0	11.6	9.4
Total group	1 306.4	1 019.4	287.0

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 and automation.

The industry sector showed a revenue increase of 46.6 per cent compared to the fourth quarter last year, and an increase of 33.1 per cent from the third quarter of 2017. The order backlog increased by NOK 211.4 million (69.9 per cent) compared to the same period last year and increased by NOK 156.3 million from the preceding quarter (43.7 per cent).

The industry sector continues to grow, primarily 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 1.5 per cent compared to the same period last year. The order backlog is NOK 157.7 million, an increase of NOK 18.1 million from the same period last year, and down NOK 24.2 million (13.3 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 was NOK 11.0 million in fourth quarter, compared to NOK 7.5 million in the same period last year. The order backlog is NOK 21.0 million, an increase of NOK 5.0 million compared to the preceding quarter and NOK 9.4 million higher than the same quarter last year. There are indications that the market bottomed out in 2017. We see growth moving ahead, albeit at comparatively low volumes.

Outlook

For 2018, Kitron expects revenue to grow to between NOK 2 500 and 2 700 million. EBIT margin is expected to be between 6.1 and 6.5 per cent. Growth is primarily driven by customers in the Industry and Energy sectors. Profitability 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, 15 February 2018, Board of directors, Kitron ASA

Condensed profit and loss statement

NOK 1 000	Q4 2017	Q4 2016	31.12.2017	31.12.2016
Revenue	667 574	570 302	2 436 729	2 093 001
Cost of materials	442 493	368 048	1 620 014	1 348 087
Payroll expenses	131 902	120 383	480 751	450 708
Other operational expenses	36 754	35 845	133 957	127 517
Other gains / (losses)	432	(109)	(861)	(2 737)
Operating profit before depreciation and impairments (EBITDA)	56 856	45 917	201 146	163 952
Depreciation and impairments	13 729	11 768	52 464	46 124
Operating profit (EBIT)	43 127	34 149	148 683	117 828
Net financial items	1 583	2 505	(16 183)	(19 016)
Profit (loss) before tax	44 710	36 653	132 499	98 812
Tax	15 097	11 268	33 502	24 261
Profit (loss) for the period	29 613	25 385	98 997	74 551
Earnings per share-basic	0.17	0.14	0.57	0.43
Earnings per share-diluted	0.17	0.14	0.57	0.41

Condensed balance sheet

NOK 1 000	31.12.2017	31.12.2016
ASSETS		
Goodwill	26 786	26 786
Other intangible assets	10 773	17 736
Tangible fixed assets	277 869	232 301
Deferred tax assets	58 024	70 380
Total non-current assets	373 451	347 204
Inventory	398 901	384 869
Accounts receivable	516 251	442 459
Other receivables	83 372	44 060
Cash and cash equivalents	176 725	134 413
Total current assets	1 175 248	1 005 801
Total assets	1 548 699	1 353 005
LIABILITIES AND EQUITY		
Equity	663 565	584 799
Total equity	663 565	584 799
Deferred tax liabilities	3 417	944
Loans	76 434	61 462
Pension commitments	6 205	6 343
Total non-current liabilities	86 056	68 749
Accounts payable	428 801	315 133
Other payables	86 282	90 776
Tax payable	8 515	4 746
Loans	275 481	288 802
Total current liabilities	799 079	699 457
Total liabilities and equity	1 548 699	1 353 005

Condensed cash flow statement

NOK 1 000	Q4 2017	Q4 2016	31.12.2017	31.12.2016
Profit before tax	44 710	36 653	132 499	98 812
Depreciations	13 729	11 768	52 464	46 124
Change in inventory, accounts receivable and accounts payable	(37 995)	(14 702)	25 845	(4 595)
Change in net other current assets and other operating related items	23 397	(14 514)	(29 808)	(40 435)
Change in factoring debt	46 971	17 168	(20 200)	8 576
Net cash flow from operating activities	90 812	36 374	160 800	108 482
Net cash flow from investing activities	3 554	(14 213)	(35 150)	(43 823)
Net cash flow from financing activities	(26 507)	(927)	(70 294)	(57 677)
Change in cash and bank credit	67 859	21 234	55 357	6 983
Cash and bank credit opening balance	42 055	34 497	53 523	43 645
Currency conversion of cash and bank credit	(1 176)	(2 207)	(142)	2 896
Cash and bank credit closing balance	108 738	53 523	108 738	53 523

Consolidated statement of comprehensive income

NOK 1 000	Q4 2017	Q4 2016	31.12.2017	31.12.2016
Profit (loss) for the period	29 613	25 385	98 997	74 551
Actuarial gain / (losses) pensions	(176)	(134)	(176)	(134)
Gain / (losses) forward contract	420	(223)	420	672
Exchange difference on translation of foreign operations	(1 870)	-	(1 870)	-
Currency translation differences	10 753	(173)	22 195	(15 634)
Total comprehensive income for the period	38 740	24 855	119 566	59 455
Allocated to shareholders	38 740	24 855	119 566	59 455

Changes in equity

NOK 1 000	31.12.2017	31.12.2016
Equity opening balance	584 799	566 510
Profit (loss) for the period	98 997	74 551
Paid dividends	(44 048)	(36 322)
Effect from options	3 247	4 534
Issue of ordinary shares	-	323
Termination of options against cash consideration	-	(9 703)
Other comprehensive income for the period	20 569	(15 094)
Equity closing balance	663 565	584 799

Notes to the financial statements

Note 1 – General information and principles

The condensed consolidated financial statements for the fourth 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 2016, 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

Note 5 – Implementation of IFRS 15 "Revenue from Contracts with Customers"

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18, which covers contracts for goods and services, and IAS 11 (construction contracts).

The new standard is based on the principle that revenue is recognized when control of goods or services transfers to a customer. The notion of control replaces the existing notion of risks and rewards. The most important change to current practice is that a significant portion of our

revenues will no longer be recognized at point in time when the goods have been delivered. Based on the guidance for IFRS 15, a significant portion of our revenues will be recognized over the contract period based on estimated percentage of completion for the relevant contracts going forward.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The group intends to adopt the standard using the prospective approach, which means that the cumulative impact of the adoption will be recognized in retained earnings as of 1 January 2018. The new accounting standard will have some effects for Kitron when it comes to the timing for recognizing revenue, cost of materials and tax. In addition, certain financial statement line items in the balance sheet will change going forward, which are mainly related to other receivables (contract assets) and inventory.

Kitron has made a preliminary analysis where the estimated cumulative effect for retained earnings as of 1 January 2018 is an increase of NOK 5.4 million.

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

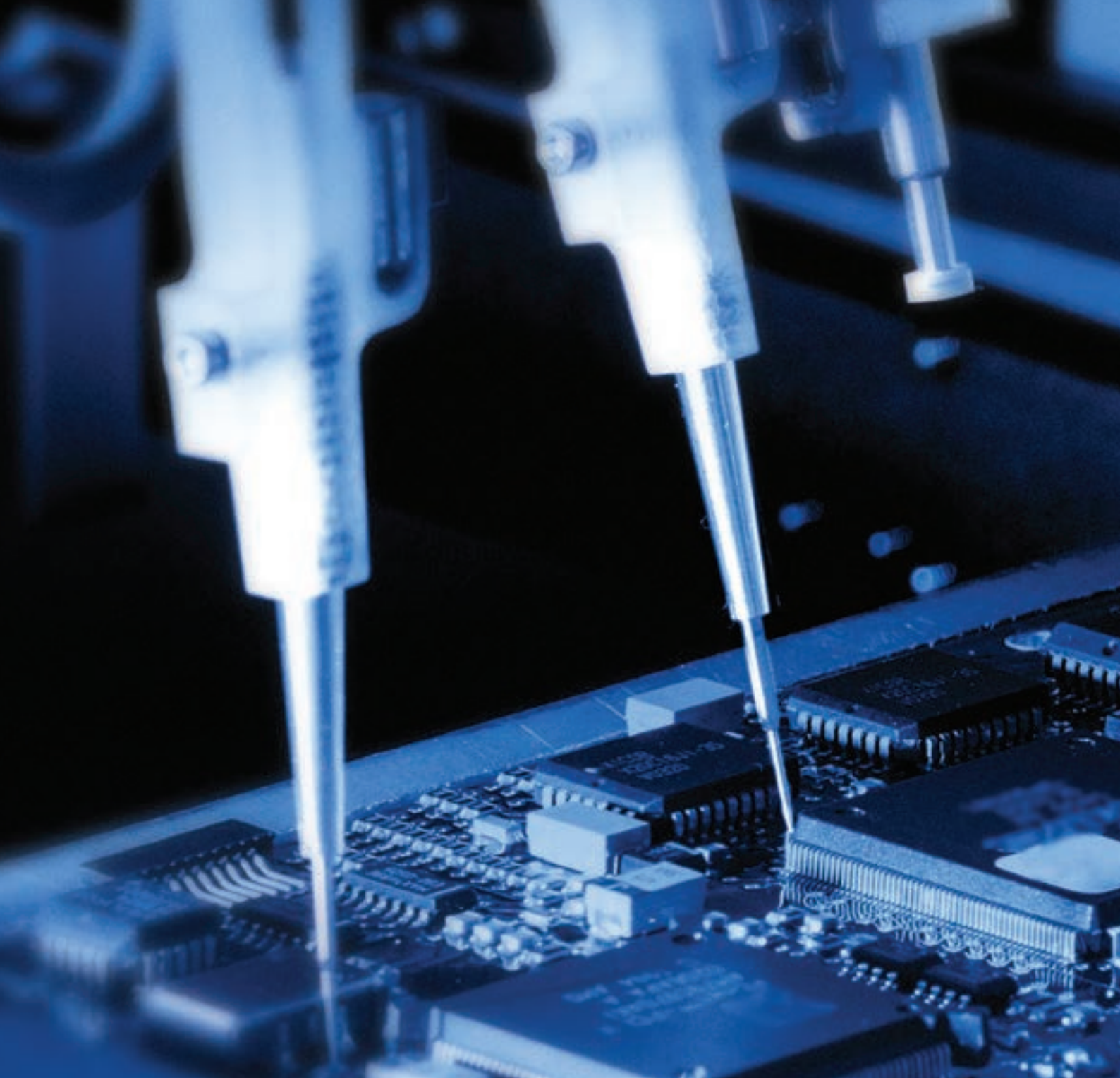
Annualised direct costs / Inventory

Variable contribution

Revenue - Direct cost

Net gearing

Net interest - bearing debt / Equity



Q4
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 1 450 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.