

Q3



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Third quarter



Quarterly report for third quarter 2015

# Sixth consecutive quarter of improved profits

- \* Continued profitability improvement
- \* Strong overall revenue growth
- \* Defence orders strengthens future position
- \* Increased operational cash flow

## Continued profitability improvement

Kitron's revenue for the third quarter was NOK 467.7 million (NOK 382.1 million), which represents an increase of 22.4 per cent compared to the same period last year. Growth adjusted for foreign exchange effects in consolidation was 14.4 per cent. The third quarter EBITDA was NOK 36.9 million (NOK 15.2 million), an increase of 142 per cent compared to last year. Profit after tax was NOK 22.8 million (NOK 4.8 million), corresponding to NOK 0.13 earnings per share (NOK 0.03).

Operating profit (EBIT) for the third quarter ended at NOK 26.3 million, compared to NOK 6.9 million in the same period last year. Profitability expressed as EBIT as a percentage of revenue was 5.6 per cent (1.8 per cent) for the third quarter. The substantially improved results are a consequence of increased revenue, improved product mix and increased service sales, both from development and engineering. In general, there is a stronger demand for technical services than last year.

## Strong overall revenue growth

Kitron's revenue in the third quarter was 22.4 per cent higher than last year, and amounted to NOK 467.7 million (NOK 382.1 million). Growth adjusted for the reduction in the Offshore/Marine sector was 32.5 per cent. Revenue in the market sector Defence/Aerospace increased by 71.4 per cent, driven by roll-out of military communications equipment orders announced in the previous quarter. Medical equipment increased by 27.2 per cent driven by announced contracts and increased demand from existing customers. Energy/Telecoms was up 51.7 per cent, driven by growth in North America for existing customers. Offshore/Marine was down 60.4 per cent compared to the third quarter of 2014.

## Defence orders strengthens future position

The order backlog ended at NOK 915.7 million (NOK 807.2 million). This is an increase of NOK 108.6 million (13.5 per cent) compared to last year, in spite of a reduction of NOK 44.8 million within the Offshore/Marine sector. Orders received in the quarter were NOK 519.2 million (NOK 331.7 million), an increase of 56.5 per cent compared to last year. The defence contracts awarded in the quarter further underline Kitron's position as a strong partner within the Defence/Aerospace sector. In particular the expansion of the footprint in the F35 program secures this position for the future.

Kitron Norway has signed a long-term agreement with Northrop Grumman Corporation to supply subassembly electronic modules for F-35 Lightning II aircraft avionics. The agreement is effective through 30 June 2036 and includes rights for future extensions. Production will take place at Kitron's plant in Arendal.

Kitron Norway received order from Kongsberg Defence & Aerospace AS for military communications equipment. Some of the equipment to be supplied will be part of an upgrade of the NASAMS air defence system for the Norwegian Armed Forces. Kitron will supply various communications products. The contract has a value of NOK 56 million for Kitron, for deliveries in 2016. Production will take place at Kitron's plant in Arendal.

Kitron signed a contract with the defence division of Rheinmetall AG, Germany. The scope of the contract is delivery of electronics manufacturing services (EMS), including board assembling (PCBA), box-build, test development and high-level assembly. The contract has a value of NOK 100 million over a three-year period starting in the fourth quarter of 2015. Kitron's facilities in both Norway and Lithuania will contribute to the contract.

Kitron Norway signed a contract with a leading supplier of medical equipment. The agreement specifies that Kitron for specific products will be the supplier for a period of approximately two years from 2016. In this period the expected turnover related to the contract is between NOK 100 million and NOK 120 million. Production will take place at Kitron's plant in Arendal.

## Increased operational cash flow

Operational cash flow was NOK 32.7 million (negative by NOK 9.7 million) for the quarter, which is an increase of NOK 42.4 million compared to same quarter last year, primarily related to the significant improvement in profit.

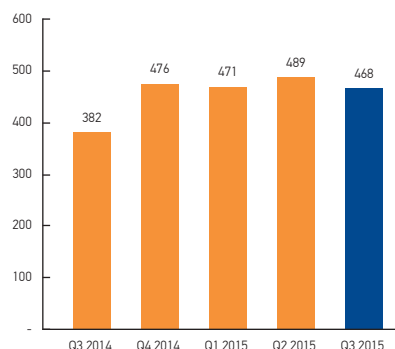
Cash conversion cycle based on three months rolling average is 105 days, compared to 115 days last year.

## Key figures

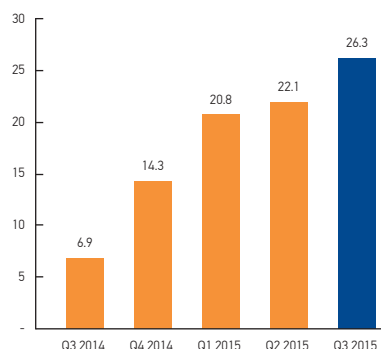
NOK million	Q3 2015	Q3 2014	Change	30.09.2015	30.09.2014	Change	31.12.2014
Revenue	467.7	382.1	85.6	1 427.3	1 275.0	152.3	1 751.3
EBIT	26.3	6.9	19.4	69.1	15.7	53.4	30.0
Order backlog	915.7	807.2	108.6	915.7	807.2	108.6	868.4
Operating cash flow	32.7	(9.7)	42.4	116.3	(17.6)	133.9	(4.8)
Net working capital	540.8	488.0	52.8	540.8	488.0	52.8	521.7



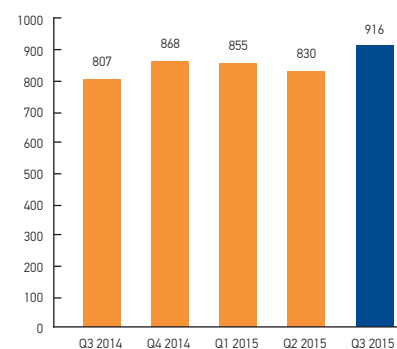
**REVENUE Group**  
NOK million



**EBIT Group**  
NOK million



**ORDER BACKLOG Group**  
NOK million



Revenue from customers in the Swedish market represented a 46.2 per cent share of the total revenue during the third quarter (47.1 per cent). The Norwegian market represented 35.4 per cent of Kitron's total revenue in the third quarter (36.6 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 third quarter was NOK 26.3 million, which was an increase of NOK 19.4 million compared with the same period last year (NOK 6.9 million).

Profit before tax in the third quarter of 2015 was NOK 31.1 million, which was an increase of NOK 25.2 million compared to the same period last year.

The company's total payroll expenses in the third quarter were NOK 0.5 million higher than in the corresponding period in 2014. The relative payroll costs ended at 20.1 per cent, down from 24.5 per cent of revenue in the third quarter last year. Other operating costs were 6.4 per cent of revenue in the third quarter of 2015 (7.6 per cent).

During the quarter net financial items amounted to a net gain of NOK 4.9 million. This was an increase of NOK 5.9 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 September 2015 amounted to NOK 1 242.0 million, compared to NOK 1 099.4 million at the same time in 2014. Equity was NOK 550.5 million (NOK 471.7 million), corresponding to an equity ratio of 44.3 per cent (42.9 per cent).

Inventory was NOK 396.3 million as of 30 September 2015 (NOK 411.5 million). Inventory turns was 3.6 in the third quarter 2015. For the third quarter 2014 inventory turns was 3.5.

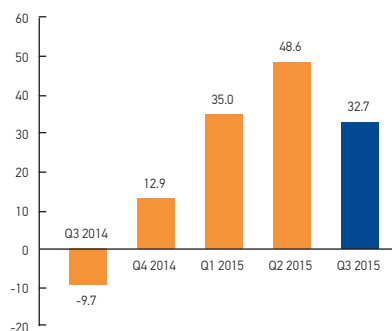
Accounts receivables amounted to NOK 405.1 million at the end of the third quarter of 2015. The corresponding amount at the same time in 2014 was NOK 338.0 million.

The group's reported interest-bearing debt amounted to NOK 320.8 million as of 30 September 2015. Interest-bearing debt at the end of the third quarter 2014 was NOK 282.8 million.

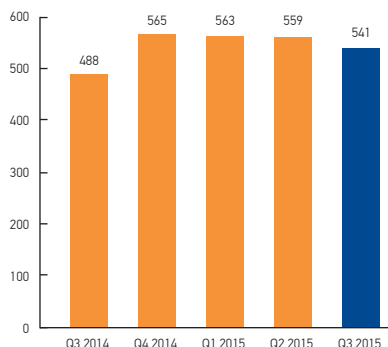
Cash flow from operational activities for the third quarter of 2015 was NOK 32.7 million (negative by NOK 9.7 million).



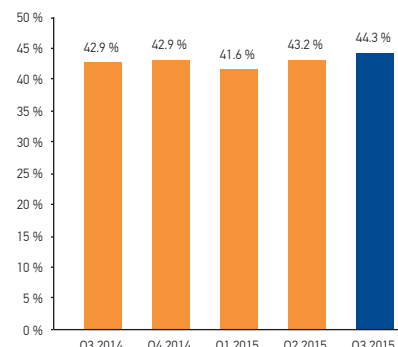
**OPERATING CASH FLOW Group**  
NOK million



**NET WORKING CAPITAL Group**  
NOK million



**EQUITY RATIO Group**  
Per cent



## Revenue business entities

NOK million	Q3 2015	Q3 2014	Change	30.09.2015	30.09.2014	Change	31.12.2014
Norway	184.3	180.5	3.8	631.5	632.4	(0.9)	857.5
Sweden	123.2	93.5	29.7	343.3	312.7	30.6	436.0
Lithuania	111.9	102.5	9.4	343.0	310.2	32.9	419.2
Others	107.5	67.9	39.7	297.3	167.9	129.5	239.4
Group and eliminations	(59.3)	(62.3)	3.0	(187.9)	(148.1)	(39.8)	(200.8)
<b>Total group</b>	<b>467.7</b>	<b>382.1</b>	<b>85.6</b>	<b>1 427.3</b>	<b>1 275.0</b>	<b>152.3</b>	<b>1 751.3</b>

## EBIT business entities

NOK million	Q3 2015	Q3 2014	Change	30.09.2015	30.09.2014	Change	31.12.2014
Norway	6,0	(5,3)	11,3	25,4	(13,4)	38,8	(10,0)
Sweden	8,9	1,5	7,4	19,8	7,2	12,5	14,5
Lithuania	4,3	6,8	(2,5)	16,0	21,0	(5,0)	27,0
Others	10,5	1,9	8,6	25,0	2,6	22,4	6,6
Group and eliminations	(3,4)	2,0	(5,4)	(17,1)	(1,7)	(15,4)	(8,1)
<b>Total group</b>	<b>26,3</b>	<b>6,9</b>	<b>19,4</b>	<b>69,1</b>	<b>15,7</b>	<b>53,4</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	284.9	-	25.7	81.8	38.5	430.8
Sweden	17.7	61.6	20.8	71.0	-	171.1
Lithuania	6.1	20.8	151.3	21.6	2.6	202.4
Other	82.8	(0.3)	24.9	3.9	-	111.4
<b>Total group</b>	<b>391.6</b>	<b>82.2</b>	<b>222.6</b>	<b>178.2</b>	<b>41.1</b>	<b>915.7</b>

## Revenue geographic markets

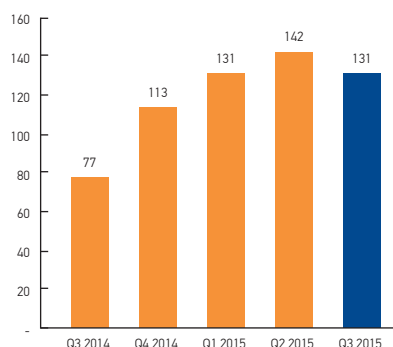
NOK million	Q3 2015	Q3 2014	Change	30.09.2015	30.09.2014	Change	31.12.2014
Norway	165.7	139.7	26.0	523.3	527.1	(3.8)	742.7
Sweden	216.2	179.8	36.4	653.6	585.8	67.8	829.3
Rest of Europe	17.2	21.2	(4.0)	50.5	68.8	(18.3)	91.2
USA	60.4	39.7	20.7	180.5	89.8	90.8	82.5
Others	8.1	1.6	6.5	19.3	3.5	15.8	5.7
<b>Total group</b>	<b>467.7</b>	<b>382.1</b>	<b>85.6</b>	<b>1 427.3</b>	<b>1 275.0</b>	<b>152.3</b>	<b>1 751.3</b>

## Full time employees

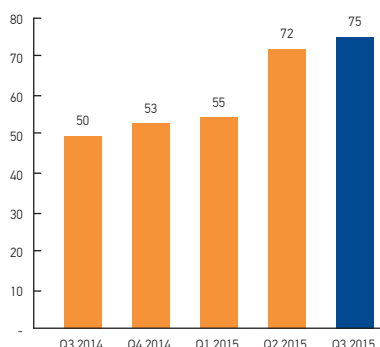
	30.09.2015	30.09.2014	Change
Norway	408	453	(45)
Sweden	130	137	(7)
Lithuania	426	413	13
Other	199	194	5
<b>Total group</b>	<b>1 163</b>	<b>1 197</b>	<b>(34)</b>



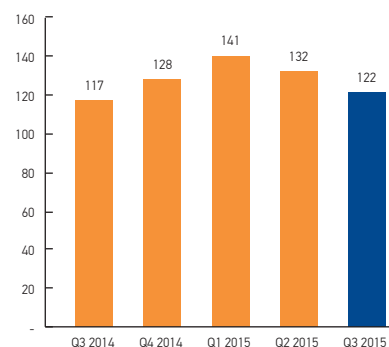
**REVENUE Defence/Aerospace**  
NOK million



**REVENUE Energy/Telecoms**  
NOK million



**REVENUE Industry**  
NOK million



**Organisation**

The Kitron workforce corresponded to 1 163 full-time employees on 30 September 2015. This is a decrease of 34 since the third quarter of 2014. There is a decrease of 52 related to the operations in Norway and Sweden, while there is an increase of the workforce in Lithuania, China and USA of 18. The number of full-time employees in low-cost regions now accounts for 54 per cent of the total.

**Market**

Order intake in the quarter was NOK 519.2 million, which is 56.5 per cent higher than for the third quarter 2014. The order backlog ended at NOK 915.7 million, which is 13.5 per cent higher than the same period last year.

Four-quarter moving average order intake was up from NOK 435.2 million at the beginning of the second quarter to NOK 482.1 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 71.4 per cent compared to last year, and decreased by 7.5 per cent compared to the

second quarter 2015. The order backlog at NOK 391.6 million increased by NOK 23.6 million during the quarter. Compared to last year, the order backlog increased by NOK 30.6 million (8.5 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 a quicker ramp-up of deliveries of defence projects in Sweden. Kitron's expansion of the footprint in F35 program secures the company's future position as a strong partner within 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 51.7 per cent compared to last year, and increased by 4.5 per cent compared to the second quarter of 2015. The order backlog is NOK 82.2 million, a decrease of NOK 0.4 million compared to the second quarter in 2015, and NOK 24.3 million (41.9 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	Q3 2015	Q3 2014	Change	30.09.2015	30.09.2014	Change	31.12.2014
Defence/Aerospace	131.3	76.6	54.7	403.8	255.4	148.4	368.5
Energy/Telecoms	75.1	49.5	25.6	201.5	168.7	32.9	221.7
Industry	121.5	117.4	4.1	394.5	343.7	50.9	472.1
Medical equipment	123.2	96.9	26.3	327.3	314.2	13.1	446.8
Offshore/Marine	16.5	41.7	(25.1)	100.1	193.0	(93.0)	242.2
<b>Total group</b>	<b>467.7</b>	<b>382.1</b>	<b>85.6</b>	<b>1 427.3</b>	<b>1 275.0</b>	<b>152.3</b>	<b>1 751.3</b>

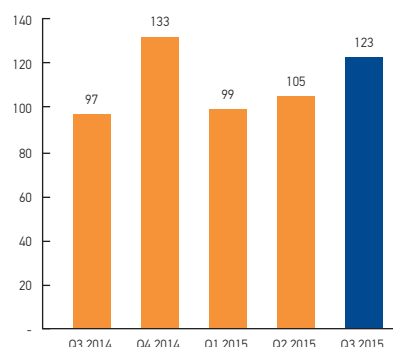
**Order Backlog market sectors**

NOK million	30.09.2015	30.09.2014	Change	31.12.2014
Defence/Aerospace	391.6	361.0	30.6	362.2
Energy/Telecoms	82.2	57.9	24.3	83.7
Industry	222.6	154.1	68.5	188.0
Medical equipment	178.2	148.2	30.1	136.5
Offshore/Marine	41.1	86.0	(44.8)	98.0
<b>Total group</b>	<b>915.7</b>	<b>807.2</b>	<b>108.6</b>	<b>868.4</b>



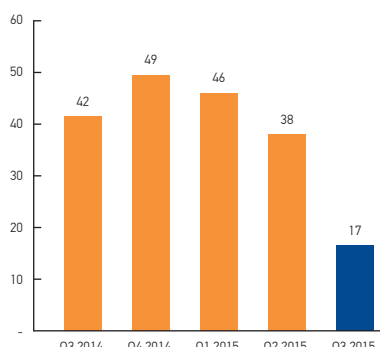
### REVENUE Medical equipment

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 3.5 per cent compared to the third quarter last year, but the revenue was 8.2 per cent lower than the second quarter of 2015. The order backlog increased by NOK 68.5 million (44.4 per cent) compared to the same period last year and increased by NOK 59.1 million from the preceding quarter (36.1 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 increased by 27.2 per cent compared to the same period last year. The order backlog is NOK 178.2 million, up NOK 30.1 million (20.3 per cent) from the same period last year, and increased by NOK 1.3 million compared to the preceding quarter.

The increase in revenue is due to previously announced contracts and 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 60.4 per cent compared to the same period last year. The order backlog is NOK 41.1 million, an increase of NOK 2.2 million compared to the preceding quarter and a reduction of NOK 44.9 million compared to the same period last year (52.2 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, 19 October 2015, Board of directors, Kitron ASA

## Condensed profit and loss statement

NOK 1 000	Q3 2015	Q3 2014	30.09.2015	30.09.2014	31.12.2014
Revenue	467 668	382 070	1 427 263	1 274 962	1 751 300
Cost of materials	308 013	243 910	920 877	812 089	1 114 612
Payroll expenses	93 998	93 500	320 664	330 057	442 817
Other operational expenses	30 024	29 072	88 960	88 839	127 640
Other gains / (losses)	1 310	(350)	2 936	(2 705)	(1 514)
<b>Operating profit before depreciation and impairments (EBITDA)</b>	<b>36 943</b>	<b>15 239</b>	<b>99 697</b>	<b>41 273</b>	<b>64 717</b>
Depreciation and impairments	10 690	8 384	30 603	25 565	34 675
<b>Operating profit (EBIT)</b>	<b>26 253</b>	<b>6 854</b>	<b>69 094</b>	<b>15 708</b>	<b>30 041</b>
Net financial items	4 853	(1 004)	310	(9 044)	(434)
<b>Profit (loss) before tax</b>	<b>31 106</b>	<b>5 850</b>	<b>69 405</b>	<b>6 664</b>	<b>29 607</b>
Tax	8 307	1 045	19 756	(308)	5 319
<b>Profit (loss) for the period</b>	<b>22 799</b>	<b>4 805</b>	<b>49 649</b>	<b>6 972</b>	<b>24 289</b>
Earnings per share-basic	0.13	0.03	0.29	0.04	0.14
Earnings per share-diluted	0.13	0.03	0.29	0.04	0.14



## Condensed balance sheet

NOK 1 000	30.09.2015	30.09.2014	31.12.2014
<b>ASSETS</b>			
Goodwill	26 786	26 786	26 786
Other intangible assets	27 642	33 445	32 409
Tangible fixed assets	196 208	128 020	162 147
Deferred tax assets	91 958	104 774	105 407
<b>Total non-current assets</b>	<b>342 594</b>	<b>293 026</b>	<b>326 750</b>
Inventory	396 314	411 521	402 260
Accounts receivable	405 056	338 039	377 824
Other receivables	45 218	37 695	32 823
Cash and cash equivalents	52 771	19 150	12 337
<b>Total current assets</b>	<b>899 358</b>	<b>806 405</b>	<b>825 244</b>
<b>Total assets</b>	<b>1 241 953</b>	<b>1 099 430</b>	<b>1 151 994</b>
<b>LIABILITIES AND EQUITY</b>			
Equity	550 538	471 673	494 683
<b>Total equity</b>	<b>550 538</b>	<b>471 673</b>	<b>494 683</b>
Deferred tax liabilities	1 136	1 045	1 081
Loans	71 555	23 399	15 277
Pension commitments	8 038	8 552	12 241
<b>Total non-current liabilities</b>	<b>80 729</b>	<b>32 997</b>	<b>28 599</b>
Accounts payable	260 595	261 601	214 611
Other payables	92 629	72 617	84 962
Loans	249 288	259 414	320 938
Other provisions	8 174	1 128	8 200
<b>Total current liabilities</b>	<b>610 685</b>	<b>594 761</b>	<b>628 712</b>
<b>Total liabilities and equity</b>	<b>1 241 953</b>	<b>1 099 430</b>	<b>1 151 994</b>

## Condensed cash flow statement

NOK 1 000	Q3 2015	Q3 2014	30.09.2015	30.09.2014	31.12.2014
Net cash flow from operational activities	32 693	(9 746)	116 281	(17 643)	(4 763)
Net cash flow from investment activities	(41 167)	(12 834)	(53 015)	(27 824)	(62 959)
Net cash flow from financing activities	36 818	(6 955)	47 543	(16 988)	(16 521)
Change in cash and bank credit	28 345	(29 535)	110 809	(62 454)	(84 244)
Cash and bank credit opening balance	(43 864)	(60 042)	(122 662)	(27 585)	(27 586)
Currency conversion on cash and bank credit	(9 548)	(3 235)	(13 215)	(2 772)	(10 832)
<b>Cash and bank credit closing balance</b>	<b>(25 068)</b>	<b>(92 811)</b>	<b>(25 068)</b>	<b>(92 811)</b>	<b>(122 662)</b>

## Consolidated statement of comprehensive income

NOK 1 000	Q3 2015	Q3 2014	30.09.2015	30.09.2014	31.12.2014
Profit (loss) for the period	22 799	4 805	49 649	6 972	24 289
Actuarial gain / losses	-	-	-	-	(4 337)
Currency translation differences and other changes	11 038	(7 347)	5 708	(9 894)	(234)
<b>Total comprehensive income for the period</b>	<b>33 838</b>	<b>(2 542)</b>	<b>55 357</b>	<b>(2 922)</b>	<b>19 718</b>
<b>Allocated to shareholders</b>	<b>33 838</b>	<b>(2 542)</b>	<b>55 357</b>	<b>(2 922)</b>	<b>19 718</b>

## Changes in equity

NOK 1 000	30.09.2015	30.09.2014	31.12.2014
Equity opening balance	494 683	473 708	473 708
Profit (loss) for the period	49 649	6 972	24 289
Effect from options	498	887	1 257
Other comprehensive income for the period	5 708	(9 894)	(4 571)
<b>Equity closing balance</b>	<b>550 538</b>	<b>471 673</b>	<b>494 683</b>



## Notes to the financial statements

**Note 1 – General information and principles**

The condensed consolidated financial statements for the third 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.





# Kitron

Your ambition. Our passion.

Kitron ASA  
Olav Brunborgs vei 4  
P.O. BOX 97  
NO-1375 Billingstad  
Norway

**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.