

Quarterly report for third quarter 2012

Q3 2012

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Sharp rise in EBIT and strong momentum in Defence

- * Major Defence contracts secured
- * Kitron China reaches break-even

- * Targets NOK 100 mill inventory reduction
- * Government funding for expansion

Kitron's revenue amounted to NOK 365.8 million in the third quarter of 2012, a 3.7 per cent increase compared with the same period last year. EBIT were NOK 15.4 million, a 67.9 per cent higher than same period last year. Operating cash flow for the third quarter was negative by NOK 15.4 million.

Offshore/Marine continues to be the strongest growing market segment with a 71.8 per cent leap in revenues compared to the same quarter last year. It is expected that this strong trend will continue. We are also bullish about the prospects in the Defence segment. The major contracts we secured during third quarter illustrate the strong momentum in this segment.

Major Defence contracts secured

Kitron has secured two significant contracts with KONGSBERG during Q3. Firstly, in August Kitron signed a manufacturing agreement for electronics modules that are part of the Kongsberg's newly won framework agreement with the US Army for the weapon station CROWS. The agreement means that Kitron is the preferred supplier of electronics to Kongsberg Protech Systems. The deliveries under the agreement will come from Kitron's subsidiary in Norway and the newly established operation in the US. For the US factory the CROWS program alone will generate revenue of more than NOK 60 million per annum over the next five years. The total potential under the contract is significantly higher. Secondly, in September Kitron received orders from KONGSBERG related to military communication equipment at a value of NOK 70 million. The deliveries will take place in 2013, 2014 and 2015.

Kitron China and Germany reach break-even

Kitron believes in improved profitability. The new factories in US and China and streamlined European operations play a key role in achieving this.

In the third quarter we reached a major milestone with both Kitron China and Kitron Germany reaching breakeven. The factory in China was opened one year ago and has now grown to more than 100 employees and an annual turnover approaching NOK 150 million. In Germany we have secured a number of new customers since the

start up and revenue volume is increasing. Most of the manufacturing for the German market is done in our factory in Lithuania.

While streamlining the operations in Norway and Sweden down to one factory per country, Kitron has during the past few years been expanding its operations globally. This has been part of a deliberate strategy to increase competitiveness and to follow the customers globally. The parallel establishment of factories in US and China while entering Germany through a smaller acquisition has been a major undertaking for Kitron and has had a significant negative impact on the result during the start-up phase.

Investment in distribution centre to drive inventory reduction

Kitron has decided to establish a distribution centre to streamline the logistics process and drive down inventory. Combined with other initiatives within logistics and supply chain process, Kitron is targeting to reduce inventory by at least NOK 100 million from the current level. The distribution centre will be established in Lithuania and will primarily serve the sites in Europe. The plan is to have the distribution centre in full operation during 2013.

Funding to expand operation in Lithuania

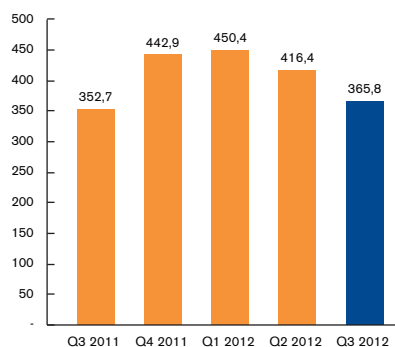
The ambition is to further expand Kitron's capacity for PCBA manufacturing in Lithuania. The Lithuanian government announced in early October that Kitron will receive up to LTL 4.5 million (NOK 10 million) in funding in relation to expansion investments over the coming years. The plans include an expansion of the factory in Kaunas and the establishment of a distribution centre as described above. The total investment is estimated to NOK 40 – 50 million over the next three years. The funding from Invest Lithuania is expected to cover up to 25% of the total investment.

Key figures

NOK million	Q3 2012	Q3 2011	Change	30.09.2012	30.09.2011	Change	31.12.2011
Revenue	365.8	352.7	13.1	1 232.6	1 213.2	19.4	1 656.1
EBIT	15.4	9.2	6.2	47.5	34.1	13.4	38.7
Order backlog	855.5	820.8	34.7	855.5	820.8	34.7	799.3
Operating cash flow	(15.4)	8.2	(23.6)	(42.4)	2.4	(44.8)	16.3
Net working capital	508.3	426.6	81.7	508.3	426.6	81.7	489.0

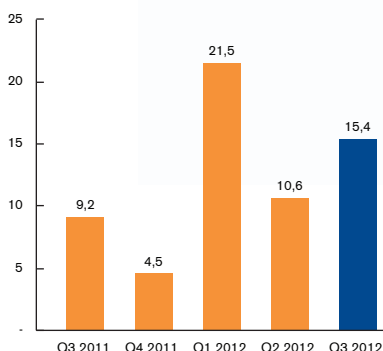
REVENUE Group

NOK million



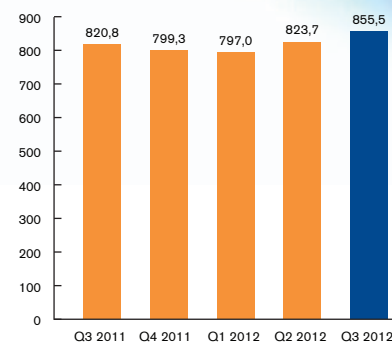
EBIT Group

NOK million



ORDER BACKLOG Group

NOK million



Revenue

Kitron's revenue in the third quarter was 3.7 per cent higher than in the same period in 2011, and amounted to NOK 365.8 million (NOK 352.7 million). Revenue in the market segment Offshore/Marine and Medical equipment was up 71.8 and 23.3 per cent, respectively. The three segments Defence/Aerospace, Energy/Telecoms and Industry decreased by 17.1, 16.1 and 13.5 per cent, respectively.

Kitron's revenue in the third quarter of 2012 was distributed as follows:

Defence/Aerospace	17% (22%)
Energy/Telecoms	13% (16%)
Industry	23% (27%)
Medical equipment	29% (24%)
Offshore/Marine	18% (11%)

Revenue in the Norwegian operation represented 48.1 per cent of Kitron's gross revenue during the third quarter (50.1 per cent). The Swedish operation represented 26.7 per cent of the group (26.4 per cent) and Kitron's operation in Lithuania provided for 15.3 per cent (20.4 per cent).

Revenue from customers in the Swedish market represented a 51.2 per cent share of Kitron's total revenue during the third quarter (51.2 per cent), while the Norwegian market represented 41.4 per cent (42.2 per cent).

Gross and net margin

The gross margin in third quarter 2012 was down compared to third quarter last year, and amounted to 37.7 per cent (38.7 per cent). The net margin decreased from 24.5 per cent to 23.4 per cent.

EBIT

Kitron's EBIT in the third quarter was NOK 15.4 million, which is 6.2 million higher than in third quarter last year. The profitability increased in both the Norwegian and Swedish operation. The Lithuanian operation showed a lower EBIT in the third quarter compared to last year. The operation in China showed a positive EBIT in third quarter for the first time, while start-up costs lead to a negative EBIT in third quarter for the US operation.

Profit before tax in the third quarter of 2012 was NOK 6.9 million, which is a decrease of NOK 1.7 million compared to the same period last year.

The company's total payroll expenses in the third quarter were NOK 1.3 million higher than the corresponding period in 2011. The relative payroll costs went from 24.9 per cent of revenue in third quarter 2011 to 24.3 per cent of revenue in the third quarter this year. Other operating costs decreased to 7.9 per cent of revenue in the third quarter of 2012 (9.1 per cent).

During the quarter net financial items amounted to a cost of NOK 8.5 million. This was an increase of NOK 7.9 million compared to the same period last year. The main reason for the increase is unrealized currency effects on long-term intercompany loans. For third quarter 2011 there was a positive effect on these items of NOK 3.8 million. The corresponding negative effect for third quarter this year was NOK 2.1 million. Interest costs for third quarter were NOK 0.7 million higher than last year due to higher interest bearing debt.

Balance sheet

Kitron's gross balance at 30 September 2012 amounted to NOK 1 051.7 million, against NOK 1 014.1 million at the same time in 2011. Equity was NOK 452.6 million (NOK 431.8 million), corresponding to an equity ratio of 43.0 per cent (42.6 per cent).

Net operating working capital was NOK 508.3 million at 30 September 2012 (NOK 426.6 million).

Inventory was NOK 386.3 million at 30 September 2012 (NOK 338.9 million). Inventory turns was 3.3 in third quarter 2012 (3.7).

Trade debtors and other receivables amounted to NOK 350.4 million at the end of the third quarter of 2012. The corresponding amount at the same time in 2011 was NOK 339.7 million. Credit losses have been insignificant.

The group's reported interest-bearing debt amounted to NOK 324.3 million as of 30 September 2012. Interest-bearing debt at the end of the third quarter 2011 was NOK 260.5 million.

Operating cash flow for the third quarter of 2012 was negative by NOK 15.4 million (NOK 8.3 million). This is mainly due to increase in net working capital.

Kitron's cash and bank credit at 30 September 2012 comprised the following:

NOK million	
Cash and cash equivalents	30.0
Drawings on the overdraft facility	(89.5)
Restricted bank deposits	(11.0)
Total	(70.6)

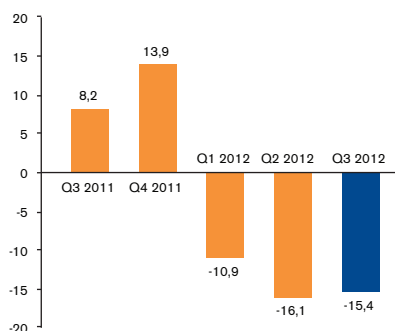
Available liquidity (unrestricted bank deposits and unused credit lines) amounted to NOK 119.6 million at the end of the third quarter, versus NOK 144.3 million at the same time in 2011. The overall credit line at 30 September 2012 was NOK 190.2 million versus NOK 165.7 million at the same time last year.

Organisation

The Kitron workforce corresponded to 1 187 FTEs at 30 September 2012. This represents an increase of 20 FTEs since the third quarter of 2011. There were a reduction of FTEs in Sweden and Lithuania and an increase in China.

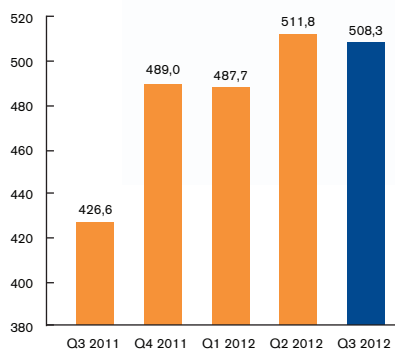
OPERATING CASH FLOW Group

NOK million



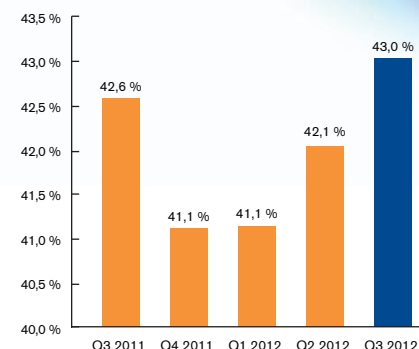
NET WORKING CAPITAL Group

NOK million



EQUITY RATIO Group

Per cent



Revenue business entities

NOK million	Q3 2012	Q3 2011	Change	30.09.2012	30.09.2011	Change	31.12.2011
Norway	201.1	196.0	5.1	683.6	749.4	(65.8)	982.3
Sweden	111.8	103.3	8.5	371.2	303.5	67.7	435.2
Lithuania	63.9	79.9	(16.1)	225.7	257.2	(31.5)	354.6
Others	41.3	11.8	29.5	81.2	17.1	64.1	25.1
Group and eliminations	(52.3)	(38.3)	(14.0)	(129.0)	(114.1)	(15.0)	(141.2)
Total group	365.8	352.7	13.1	1 232.6	1 213.2	19.4	1 656.1

EBIT business entities

NOK million	Q3 2012	Q3 2011	Change	30.09.2012	30.09.2011	Change	31.12.2011
Norway	8.1	5.4	2.7	21.7	17.7	4.0	28.0
Sweden	5.3	1.1	4.2	23.6	10.8	12.7	3.7
Lithuania	3.1	6.3	(3.2)	18.3	22.8	(4.5)	34.0
Others	(1.6)	(4.2)	2.5	(13.7)	(17.6)	3.9	(25.4)
Group and eliminations	0.6	0.7	(0.0)	(2.4)	0.4	(2.8)	(1.7)
Total group	15.4	9.2	6.2	47.5	34.1	13.4	38.7

Order backlog business entities and market segments

NOK million	Defence/ Aerospace	Energy/ Telecoms	Industry	Medical equipment	Offshore/ Marine	Total
Norway	200.8	9.8	43.5	103.5	196.9	554.4
Sweden	25.1	49.8	20.6	50.9	-	146.4
Lithuania	-	23.8	90.2	9.5	0.7	124.2
Other	13.4	-	14.4	2.7	-	30.5
Total group	239.3	83.5	168.6	166.6	197.6	855.5

Revenue geographic markets

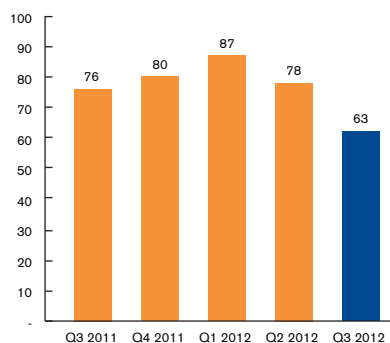
NOK million	Q3 2012	Q3 2011	Change	30.09.2012	30.09.2011	Change	31.12.2011
Norway	151.5	148.7	2.8	512.6	605.5	(92.9)	799.1
Sweden	187.2	180.6	6.6	641.9	535.9	106.0	760.9
Rest of Europe	14.5	12.6	1.9	40.5	44.4	(3.9)	57.6
USA	12.0	10.8	1.1	36.7	27.3	9.4	38.5
Others	0.6	-	0.6	0.9	-	0.9	-
Total group	365.8	352.7	13.1	1 232.6	1 213.2	19.4	1 656.1

Full time employees

	30.09.2012	30.09.2011	Change	31.12.2011
Norway	525	517	8	507
Sweden	159	180	(21)	182
Lithuania	352	393	(41)	398
Other	151	77	74	86
Total	1 187	1 167	20	1 173

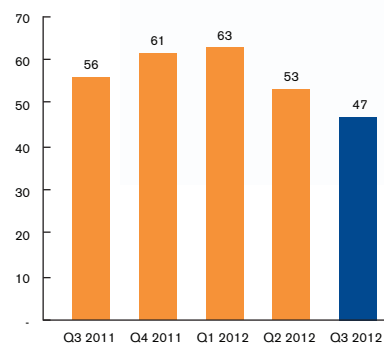
REVENUE Defence/Aerospace

NOK million



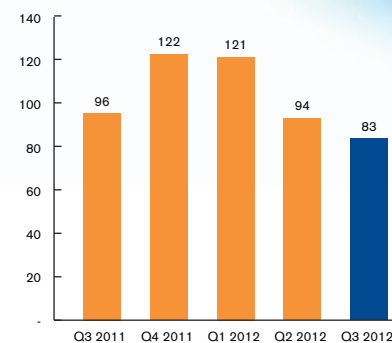
REVENUE Energy/Telecoms

NOK million



REVENUE Industry

NOK million



Market

Kitron's services are most competitive within complex products. Kitron has chosen to focus its sales and marketing activities within the Defence/Aerospace, Energy/Telecoms, Industry, Medical equipment and Offshore/Marine market segments.

Order intake in the quarter was NOK 397.5 million, which is 1.5 per cent higher than for the third quarter 2011. At the same time the order backlog grew by 4.2 per cent and ended at NOK 855.5 million. Four quarter moving average order intake was up from NOK 426.0 million at the beginning of the third quarter to NOK 427.5 million at the end of the quarter. The growth is driven by a continued strong trend in the Offshore segment. Kitron's order backlog generally includes four months customer forecast plus all firm orders for later delivery.

Overall in 2012 management believe in a stable or somewhat positive market development. The possible negative impacts of a recession are believed to be offset by a strong development in Offshore and Defence. Furthermore, Kitron is pursuing new customers and markets, which may strengthen Kitron's position and has the potential to generate growth. The strong interest in Kitron's capability within NPI (new product introduction) and testing is continuing. The close interaction between Kitron's experts and the R&D department of the customer is crucial for success.

Defence/Aerospace

The Defence/Aerospace segment consists of three main product divisions: military and civil avionics, military communication and weapon control systems.

Kitron is currently involved in defence programs with among other KONGSBERG and Lockheed Martin. Kitron will manufacture, test, maintain and repair the Integrated Backplane Assembly in the F-35

Joint Strike Fighter globally. The new contracts with KONGSBERG secured in the third quarter are further strengthening an already close relationship. Defence/Aerospace is also a prioritised area for our new operation in Germany and Kitron is in promising dialogue with a major German defence company.

We are bullish about the prospects in the Defence segment. An expected lower activity level in the Swedish Defence market in the short to medium term is compensated by growth prospects in other geographic markets.

Energy/Telecoms

Within the Energy/Telecoms segment Kitron offers clients particular expertise to realise products such as transmission systems, high frequency microwave modules, radio frequency (RF) and electrical metering.

Looking forward we expect a lower volume in this segment due to the downturn in the metering business. In general there is a strong competitive pressure in Energy/Telecoms and the outlook for this segment looks less promising than earlier communicated.

Industry

Within the Industry segment Kitron operates and delivers a complete range of services within industrial applications like automation, environmental, material warehousing and security. The Industry segment consists of three main product divisions: control systems, electronic control units (ECU) and automats.

Industry is the market segment within Kitron that is most closely correlated with the general economic development. In the last two quarters we have seen a slow down which is likely caused by the recessionary trend in Europe.

Revenue market segments

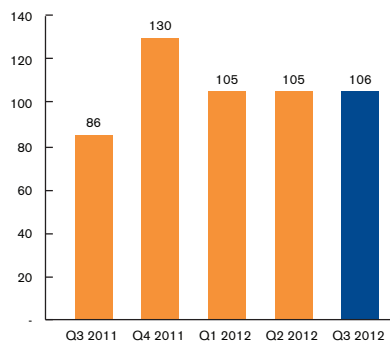
NOK million	Q3 2012	Q3 2011	Change	30.09.2012	30.09.2011	Change	31.12.2011
Defence/Aerospace	62.6	76.0	(13.4)	227.2	251.4	(24.2)	331.6
Energy/Telecoms	46.8	56.2	(9.5)	163.1	204.3	(41.2)	265.5
Industry	83.4	95.7	(12.3)	298.4	292.9	5.5	415.3
Medical equipment	105.7	85.5	20.1	316.6	336.7	(20.1)	467.0
Offshore/Marine	67.3	39.2	28.1	227.4	127.9	99.5	176.7
Total	365.8	352.7	13.1	1 232.6	1 213.2	19.4	1 656.1

Order Backlog market segments

NOK million	Q3 2012	Q3 2011	Change	31.12.2011
Defence/Aerospace	239.3	218.9	20.3	202.0
Energy/Telecoms	83.5	91.4	(8.0)	89.5
Industry	168.6	192.4	(23.8)	184.9
Medical equipment	166.6	176.8	(10.2)	176.4
Offshore/Marine	197.6	141.3	56.4	146.5
Total	855.5	820.8	34.7	799.3

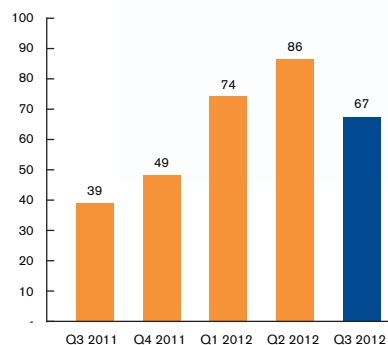
REVENUE Medical equipment

NOK million



REVENUE Offshore/Marine

NOK million



Medical equipment

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

The medical segment is less sensitive to the development in the global economy. Kitron focuses on additional growth in this segment and expects a long-term positive development with customers in Norway, Sweden and Germany. This trend is supported by strong market fundamentals for the products and services Kitron offers to the market.

Offshore/Marine

Kitron divides the Offshore/Marine segment into three main areas; sub sea production systems, oil and gas exploration equipment and navigation, positioning, automation and control systems for the marine sector.

The development in the Offshore/Marine segment is closely correlated with the development of the oil price. It is expected that the strong trend within the Offshore/Marine segment will continue in 2012.

Outlook

Kitron's markets are mainly Norway and Sweden, but most customers of Kitron sell their products on international markets. In 2012 Kitron management believe in a stable market and revenue

development overall but with variations between the segments. The strong trend within Offshore is expected to continue while the activity in particular in Industry and Energy/ Telecoms is expected to slow down.

Kitron is working on several operational improvement programs that should yield a positive contribution on the profitability going forward. The focus on manufacturing efficiency is continuing and global sourcing initiatives remain a priority area. Kitron's investments in China, US and Germany will expand our market reach and will provide new supply chain opportunities. The restructuring of the Swedish operation will continue to have a positive impact on the profitability.

To reach break-even in China and Germany in Q3 was an important milestone. With the recent contract awards we are also confident that Kitron US will reach break-even soon.

In summary Kitron believes in a relatively stable turnover and improved profitability in 2012 compared to 2011.

Board of directors, Kitron ASA
Asker, 23 October 2012

Condensed profit and loss statement

NOK 1 000	Q3 2012	Q3 2011	30.09.2012	30.09.2011	31.12.2011
Revenue	365 773	352 670	1 232 623	1 213 173	1 656 098
Cost of materials	227 987	216 083	754 551	750 547	1 024 618
Payroll expenses	89 052	87 734	320 986	312 681	431 560
Other operational expenses	29 027	32 017	85 089	90 144	126 067
Other gains / (losses)	4 843	368	2 280	(1 329)	(2 052)
Operating profit before depreciation and impairments (EBITDA)	24 549	17 204	74 277	58 472	71 801
Depreciation and impairments	9 117	8 014	26 746	24 338	33 137
Operating profit (EBIT)	15 432	9 190	47 531	34 134	38 663
Net financial items	(8 517)	(553)	(20 548)	(11 943)	(15 496)
Profit (loss) before tax	6 915	8 637	26 983	22 191	23 167
Tax	1 832	2 987	7 701	9 740	4 638
Net profit (loss) from continuing operations	5 083	5 649	19 282	12 451	18 529
Profit (loss) from discontinued operations	-	-	-	-	(986)
Profit (loss) for the period	5 083	5 649	19 282	12 451	17 543
Earnings per share (basic and diluted)	0,03	0,03	0,11	0,07	0,10

Condensed balance sheet

NOK 1 000	30.09.2012	30.09.2011	31.12.2011
ASSETS			
Goodwill	26 786	26 786	26 786
Other intangible assets	37 551	35 845	40 743
Tangible fixed assets	131 312	145 773	139 520
Available for sale financial assets	1	1	1
Deferred tax assets	89 339	88 236	94 627
Other receivables	-	3 125	-
Total fixed assets	284 990	299 767	301 677
Inventory	386 300	338 924	346 795
Accounts receivable and other receivables	350 448	339 745	360 829
Cash and cash equivalents	29 980	35 706	50 916
Total current assets	766 727	714 375	758 540
Total assets	1 051 717	1 014 142	1 060 217
LIABILITIES AND EQUITY			
Equity	452 557	431 754	436 009
Total equity	452 557	431 754	436 009
Deferred tax liabilities	1 066	1 211	1 121
Loans	49 353	44 100	53 134
Pension commitments	8 921	12 076	8 921
Total long-term liabilities	59 340	57 386	63 175
Accounts payable and other current liabilities	250 286	293 631	285 314
Loans	274 950	216 419	246 042
Other provisions	14 584	14 952	29 677
Total current liabilities	539 820	525 002	561 032
Total liabilities and equity	1 051 717	1 014 142	1 060 217

Condensed cash flow statement

NOK 1 000	Q3 2012	Q3 2011	30.09.2012	30.09.2011	31.12.2011
Net cash flow from operational activities	(15 360)	8 245	(42 377)	2 384	16 283
Net cash flow from investment activities	(3 270)	(3 183)	(18 481)	(41 992)	(50 041)
Net cash flow from financing activities	(4 165)	(1 376)	(6 188)	3 865	15 890
Change in cash and bank credit	(22 795)	3 686	(67 046)	(35 743)	(17 868)
Cash and bank credit opening balance	(47 765)	(25 075)	(3 514)	14 354	14 354
Cash and bank credit closing balance	(70 560)	(21 389)	(70 560)	(21 389)	(3 514)

Consolidated statement of comprehensive income

NOK 1 000	Q3 2012	Q3 2011	30.09.2012	30.09.2011	31.12.2011
Profit (loss) for the period	5 083	5 649	19 282	12 451	17 543
Currency translation differences and other changes	307	(1 148)	(2 734)	(1 273)	(2 109)
Total comprehensive income for the period	5 390	4 501	16 548	11 178	15 434
Allocated to shareholders	5 390	4 501	16 548	11 178	15 434

Changes in equity

NOK 1 000	30.09.2012	30.09.2011	31.12.2011
Equity opening balance	436 009	420 575	420 575
Comprehensive income for the period	16 548	11 178	15 434
Equity closing balance	452 557	431 754	436 009

Notes to the financial statements

Note 1 – General information and principles

The condensed consolidated financial statements for the third quarter of 2012 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 2011. 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 2011, which were prepared in accordance with the Norwegian Accounting Act and IFRS, as adopted by the EU. The consolidated financial statements for 2011 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 2011.

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 2012.

Note 4 – Discontinued operations

In June 2009 the Kitron Group sold Kitron Microelectronics AS. Loss on discontinued operations in 2011 is related to receivables. Financial information and cash flow relating to discontinued operations for the period to the date of disposal is set out below.

Note 5 – Other gains and losses

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

Income statement information from discontinued operations

NOK 1 000	Q3 2012	Q3 2011	30.09.2012	30.09.2011	31.12.2011
Revenue	-	-	-	-	-
Expenses	-	-	-	-	-
Profit (loss) before income tax	-	-	-	-	-
Tax	-	-	-	-	-
Profit (loss) after income tax	-	-	-	-	-
Post tax loss on disposal of discontinued operations	-	-	-	-	(986)
Profit (loss) from discontinued operations	-	-	-	-	(986)

Cash flow statement information from discontinued operations

NOK 1 000	30.09.2012	30.09.2011	31.12.2011
Net cash flow from operating activities	-	-	-
Net cash flow from investment activities	-	-	-
Net cash flow from financing activities	-	-	-
Change in cash and bank credit	-	-	-
Cash and bank credit opening balance	-	-	-
Cash and bank credit closing balance	-	-	-

Your ambition. Our passion.



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.

Kitron ASA

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