

Quarterly report

Q4 2013

Quarterly report for fourth quarter 2013



Revenue growth but lower profitability in the fourth quarter

- * Important customer contracts secured
- * Change of strategy regarding distribution centre

A high activity level in the quarter results in increased revenue. Lower profitability is due to product mix. Lower order intake in the quarter reduces the order backlog. Operational cash flow is positive.

Important contracts secured

Kitron has during the fourth quarter renewed the agreement with Maquet Critical AB, a part of the Getinge Group. The agreement includes deliveries of mechanical and electronic-based products within the Medical-segment.

Husquarna has also decided to renew its contract with Kitron and has increased the contract scope by adding new products. The annual revenues under the new contract could be in the range of NOK 25 million until 2017 and the contract will position Kitron as one of the largest supplier of Printed Circuit Board Assembly (PCBA) to Husqvarna Group.

Kitron has in addition received the first orders from Cassidian Optronics GmbH, a worldwide leader in optronic defense and security solutions. The orders cover prototype production of power supply units for one of Cassidian Optronics' target acquisition systems. These initial orders are of limited value in terms of revenue, but they are a milestone for Kitron's operations in Germany. They exemplify our objective of doing business with the major players within our defined segments.

The order backlog was reduced by NOK 128.9 million in the quarter and ended at NOK 718.1 million, which is a reduction of NOK 58.1 million compared to last year. The reduction of the order backlog is within the Defence/Aerospace and Offshore/Marine segments.

Revenue growth, but lower profitability

Kitron's revenue for the fourth quarter was NOK 476.3 million, which is an increase of 3.0 per cent compared to the same period last year. Operating profit (EBIT) was reduced from NOK 24.4 million to NOK 4.3 million in the fourth quarter.

The reduction in profitability compared to last year is partly due to changed product mix and partly due to costs related to change of strategy regarding the distribution centre in Lithuania.

There has been a negative development in the product mix compared to previous periods as low margin products have increased in volume. Also, Kitron experiences a strong margin pressure, both on existing and new customers.

Operational cash flow amounted to NOK 51.0 million, which is a reduction of NOK 33.8 million, primarily due to an increase in working capital.

Change of strategy regarding distribution centre

Kitron has over the last year been in a process to establish a distribution centre in Lithuania. However, the project has proved to be costlier and more complex than originally assumed. Kitron has therefore decided to terminate the project, partly to avoid increased operating costs going forward.

The termination led to a one-off cost in December of NOK 8.7 million in order to cover incurred costs and incurred liabilities. In addition, NOK 2.1 million has been expensed during the year, of which NOK 0.7 million in the fourth quarter. Kitron will take other measures in order to achieve the cost savings that the project was meant to deliver.

Asa-Matti Lytinen to resign as chairman

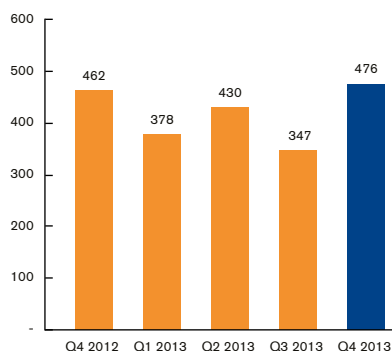
After closing of the quarter it was announced that Chairman of the board Asa-Matti Lytinen wished to resign. Lytinen has been chairman from November 2010 and will stay in position until a new chairman has been elected.

Key figures

NOK million	Q4 2013	Q4 2012	Change	31.12.2013	31.12.2012	Change
Revenue	476.3	462.4	13.9	1 631.6	1 695.0	(63.4)
EBIT	4.3	24.4	(20.1)	25.1	72.0	(46.8)
Order backlog	718.1	776.2	(58.1)	718.1	776.2	(58.1)
Operating cash flow	51.0	84.8	(33.8)	28.6	42.4	(13.8)
Net working capital	521.7	505.4	16.3	521.7	505.4	16.3

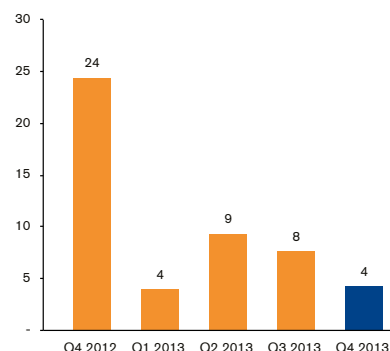
REVENUE Group

NOK million



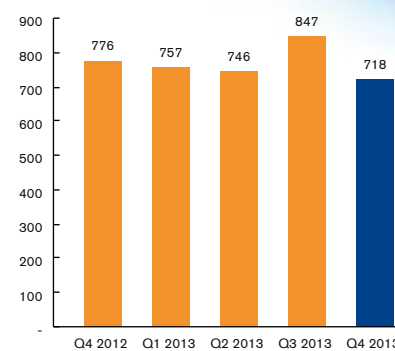
EBIT Group

NOK million



ORDER BACKLOG Group

NOK million



Revenue

Kitron's revenue in the fourth quarter was 3.0 per cent higher than in the same period last year, and amounted to NOK 476.3 million (NOK 462.4 million). Revenue in the market segment Defence/Aerospace was up 34.5 per cent, Energy/Telecoms was similar to last year, Industry increased by 14.3 per cent, Medical equipment was down by 7.9 per cent and Offshore/Marine was down 18.4 per cent compared to the fourth quarter of 2012.

Revenue in the Norwegian operation represented 53.2 per cent of Kitron's gross revenue during the fourth quarter (53.1 per cent). The Swedish operation represented 21.4 per cent of the group (25.2 per cent) and Kitron's operation in Lithuania provided for 16.6 per cent (14.2 per cent).

Kitron's revenue in the fourth quarter of 2013 was distributed as follows:

	Q4 2013	(Q4 2012)
Defence/Aerospace	24.5 %	(18.9 %)
Energy/Telecoms	10.6 %	(11.4 %)
Industry	22.6 %	(20.3 %)
Medical equipment	27.4 %	(30.6 %)
Offshore/Marine	14.9 %	(18.8 %)

Revenue from customers in the Swedish market represented a 40.8 per cent share of the total revenue during the fourth quarter (43.4 per cent). The Norwegian market represented 50.1 per cent of Kitron's total revenue in the fourth quarter (48.9 per cent).

Gross and net margin

The gross margin in fourth quarter 2013 decreased compared to fourth quarter last year, and amounted to 37.7 per cent (38.6 per cent). The net margin, defined as revenue minus cost of materials and direct payroll expenses, decreased from 24.6 per cent to 21.8 per cent in the same period last year. The main reason for the change in margins are product mix variances and increased direct payroll expenses.

Profit

Kitron's operating profit (EBIT) in the fourth quarter was NOK 4.3 million, which was a decrease of NOK 20.1 million compared with same period last year (NOK 24.4 million).

Profit before tax and discontinued operations in the fourth quarter of 2013 was NOK 0.6 million, which was a decrease of NOK 18.3 million compared to the same period last year.

The company's total payroll expenses in the fourth quarter were NOK 15.1 million higher than the corresponding period in 2012. The relative payroll costs went from 23.7 per cent of revenue in fourth

quarter 2012 to 26.2 per cent of revenue in the fourth quarter this year. Other operating costs increased to 8.1 per cent of revenue in the fourth quarter of 2013 (7.7 per cent).

Kitron has over the last year been in process to establish a common distribution centre. Kitron decided to terminate the project in fourth quarter. The termination led to a profit and loss charge in fourth quarter of NOK 8.7 million. Of this NOK 4.7 million is other operational expenses and NOK 4.0 million depreciation and impairments.

During the quarter net financial items amounted to a cost of NOK 3.7 million. This was a decrease of NOK 1.8 million compared to the same period last year. The main reason for the decrease was currency effects on intra-group financial loans.

Balance sheet

Kitron's gross balance as at 31 December 2013 amounted to NOK 1 088.7 million, against NOK 1 019.3 million at the same time in 2012. Equity was NOK 473.7 million (NOK 466.2 million), corresponding to an equity ratio of 43.5 per cent (45.7 per cent).

Inventory was NOK 367.5 million at 31 December 2013 (NOK 336.7 million). Inventory turns was at the same level as last year, 3.9 in fourth quarter 2013.

Trade debtors and other receivables amounted to NOK 381.0 million at the end of the fourth quarter of 2013. The corresponding amount at the same time in 2012 was NOK 335.1 million.

The group's reported interest-bearing debt amounted to NOK 316.9 million as of 31 December 2013. Interest-bearing debt at the end of the fourth quarter 2012 was NOK 308.1 million.

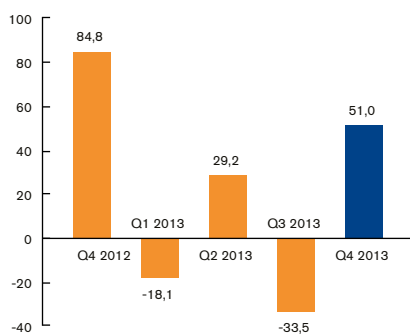
Cash flow from operational activities for the fourth quarter of 2013 was NOK 51.0 million (NOK 84.8 million). This is mainly due to working capital changes. Kitron's cash and bank credit at 31 December 2013 comprised the following:

NOK million	
Cash and cash equivalents	51.4
Drawings on the overdraft facility	(67.7)
Restricted bank deposits	(11.3)
Total	(27.6)

Available liquidity (unrestricted bank deposits and unused credit lines) amounted to NOK 158.7 million at the end of the fourth quarter, versus NOK 172.4 million at the same time in 2012. The overall credit line at 31 December 2013 was NOK 186.3 million versus NOK 190.2 million at the same time last year.

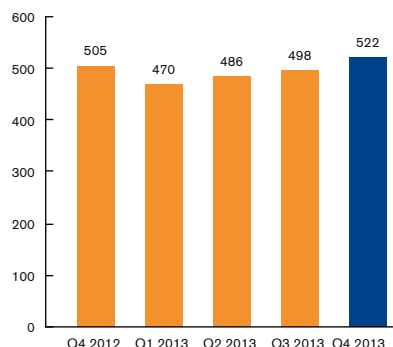
OPERATING CASH FLOW Group

NOK million



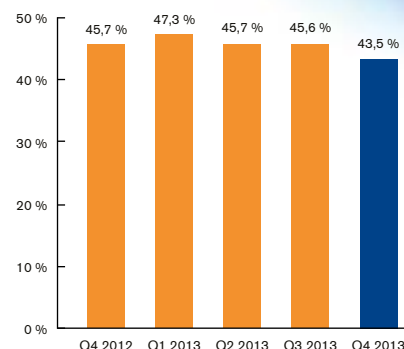
NET WORKING CAPITAL Group

NOK million



EQUITY RATIO Group

Per cent



Revenue business entities

NOK million	Q4 2013	Q4 2012	Change	31.12.2013	31.12.2012	Change
Norway	273.8	271.1	2.7	924.6	954.7	(30.2)
Sweden	110.1	128.8	(18.7)	382.5	500.0	(117.5)
Lithuania	85.4	72.3	13.1	329.9	298.0	31.9
Others	45.7	38.1	7.6	165.3	119.3	46.1
Group and eliminations	(38.6)	(47.9)	9.3	(170.8)	(176.9)	6.2
Total group	476.3	462.4	13.9	1 631.6	1 695.0	(63.4)

EBIT business entities

NOK million	Q4 2013	Q4 2012	Change	31.12.2013	31.12.2012	Change
Norway	10.5	19.9	(9.4)	23.9	41.6	(17.7)
Sweden	4.3	8.0	(3.7)	10.4	31.6	(21.2)
Lithuania	3.9	3.9	(0.0)	20.1	22.2	(2.1)
Others	(11.5)	(0.7)	(10.8)	(19.2)	(14.4)	(4.9)
Group and eliminations	(2.9)	(6.7)	3.8	(10.1)	(9.1)	(1.1)
Total group	4.3	24.4	(20.1)	25.1	72.0	(46.8)

Order backlog business entities and market segments

NOK million	Defence/ Aerospace	Energy/ Telecoms	Industry	Medical equipment	Offshore/ Marine	Total
Norway	150.1	0.4	28.6	86.7	124.9	390.8
Sweden	11.7	50.4	17.1	37.1	-	116.4
Lithuania	-	8.4	111.9	18.2	(1.4)	137.1
Other	55.6	(0.1)	15.7	2.7	-	73.9
Total group	217.5	59.2	173.3	144.7	123.5	718.1

Revenue geographic markets

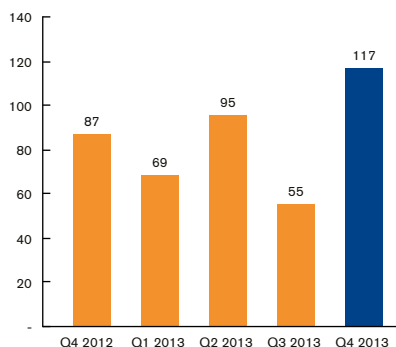
NOK million	Q4 2013	Q4 2012	Change	31.12.2013	31.12.2012	Change
Norway	238.7	226.0	12.7	786.9	738.5	48.4
Sweden	194.4	200.5	(6.2)	690.8	842.4	(151.7)
Rest of Europe	18.9	17.6	1.3	81.6	58.0	23.6
USA	23.7	15.5	8.1	69.7	52.3	17.4
Others	0.7	2.8	(2.1)	2.7	3.8	(1.1)
Total group	476.3	462.4	13.9	1 631.6	1 695.0	(63.4)

Full time employees

	31.12.2013	31.12.2012	Change
Norway	525	516	9
Sweden	142	139	3
Lithuania	351	349	2
Other	171	165	6
Total group	1 188	1 169	19

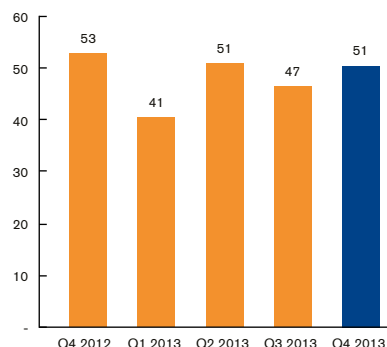
REVENUE Defence/Aerospace

NOK million



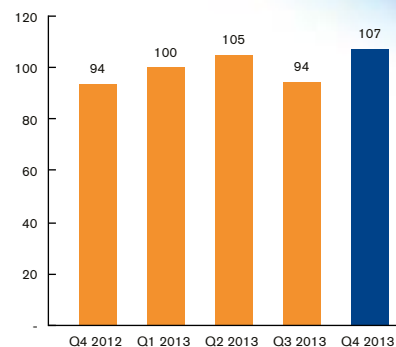
REVENUE Energy/Telecoms

NOK million



REVENUE Industry

NOK million



Organisation

The Kitron workforce corresponded to 1 188 FTEs at 31 December 2013. This represents an increase of 19 FTEs since the fourth quarter of 2012. The increase in workforce is mainly related to the operations in Norway and China.

Market

Order intake in the quarter was NOK 347.5 million, which is 9.3 per cent lower than for the fourth quarter 2012. The order backlog ended at NOK 718.1 million, which is 7.5 per cent lower than the same period last year. Four-quarter moving average order intake was down from NOK 402.3 million at the beginning of the fourth quarter to NOK 393.4 million at the end of the quarter. Kitron's order backlog includes four months customer forecast plus all firm orders for later delivery.

General market reports indicate a better market for the EMS industry in 2014 than in 2013, due to improved financial expectations both in Europe and in the US. Kitron expects growth, especially in Sweden and Lithuania. The Norwegian EMS market seems more uncertain, and there can be variations related to individual customers and their projects. Kitron has signed several new customers in the German market and we also expect growth here in 2014.

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 others KONGSBERG and Lockheed Martin. Kitron will manufacture, test, maintain and repair the Integrated Backplane Assembly in the F-35 Joint Strike Fighter globally. Defence/Aerospace is a prioritised segment for our operation in Germany, and Kitron is working towards specific new prospective customers in both Germany and Norway.

Kitron has had a strong quarter in Defence/Aerospace but expects a more stable level going forward.

Energy/Telecoms

Within the Energy/Telecoms segment 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.

Kitron expects growth within the Energy/Telecoms segment in 2014, primarily driven by larger individual customers and their projects.

Revenue market segments

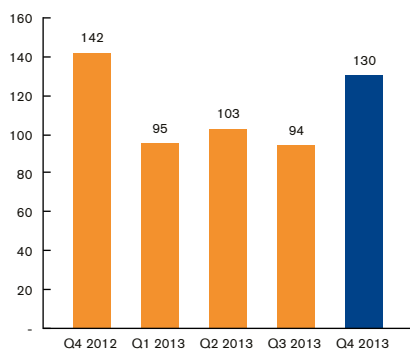
NOK million	Q4 2013	Q4 2012	Change	31.12.2013	31.12.2012	Change
Defence/Aerospace	116.9	86.9	30.0	336.4	314.1	22.2
Energy/Telecoms	50.6	52.8	(2.3)	188.3	215.9	(27.6)
Industry	107.4	94.0	13.5	407.0	392.3	14.7
Medical equipment	130.4	141.7	(11.2)	422.6	458.2	(35.6)
Offshore/Marine	71.0	87.0	(16.0)	277.3	314.5	(37.1)
Total group	476.3	462.4	13.9	1 631.6	1 695.0	(63.4)

Order Backlog market segments

NOK million	31.12.2013	31.12.2012	Change
Defence/Aerospace	217.5	252.5	(35.1)
Energy/Telecoms	59.2	62.7	(3.5)
Industry	173.3	181.8	(8.6)
Medical equipment	144.7	132.5	12.2
Offshore/Marine	123.5	146.7	(23.2)
Total group	718.1	776.2	(58.1)

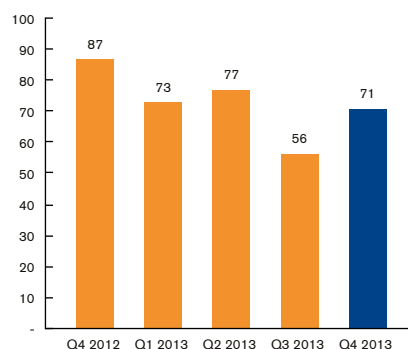
REVENUE Medical equipment

NOK million



REVENUE Offshore/Marine

NOK million



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 areas: 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. Kitron has had growth within the Industry segment for the last three quarters and growth is also expected for the next quarter.

Medical equipment

The Medical equipment segment consists of three main product areas: 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.

Offshore/Marine

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

While the long term prospects in the Oil and Gas market segment remain positive, Kitron foresees stable demand at previous levels for the first half of 2014.

Outlook

Kitron expects a positive development in the Swedish and German markets, which suggests growth for the factories in Sweden and Lithuania. Growth is also expected in China, whereas the development in the Norwegian market is more uncertain.

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

Board of directors, Kitron ASA
Oslo, 11 February 2014

Condensed profit and loss statement

NOK 1 000	Q4 2013	Q4 2012	31.12.2013	31.12.2012
Revenue	476 349	462 403	1 631 598	1 695 026
Cost of materials	298 951	285 429	998 069	1 039 980
Payroll expenses	124 653	109 557	443 428	430 543
Other operational expenses	38 365	35 616	126 338	120 705
Other gains / (losses)	2 342	1 468	331	3 748
Operating profit before depreciation and impairments (EBITDA)	16 722	33 269	64 095	107 545
Depreciation and impairments	12 437	8 847	38 971	35 592
Operating profit (EBIT)	4 285	24 422	25 123	71 953
Net financial items	(3 723)	(5 547)	(10 750)	(26 095)
Profit (loss) before tax	562	18 875	14 373	45 858
Tax	4 597	(8 989)	6 045	(1 288)
Profit (loss) for the period	(4 035)	27 864	8 328	47 146
Earnings per share-basic	(0.02)	0.16	0.05	0.27
Earnings per share-diluted	(0.02)	0.16	0.05	0.27

Condensed balance sheet

NOK 1 000	31.12.2013	31.12.2012	01.01.2012
ASSETS			
Goodwill	26 786	26 786	26 786
Other intangible assets	37 475	36 888	40 743
Tangible fixed assets	122 695	127 168	139 520
Available for sale financial assets	-	1	1
Deferred tax assets	101 824	99 868	96 157
Total fixed assets	288 781	290 712	303 207
Inventory	367 454	336 683	346 795
Accounts receivable and other receivables	381 039	335 077	360 829
Cash and cash equivalents	51 387	56 820	50 916
Total current assets	799 879	728 580	758 541
Total assets	1 088 660	1 019 292	1 061 747
LIABILITIES AND EQUITY			
Equity	473 708	466 187	432 073
Total equity	473 708	466 187	432 073
Deferred tax liabilities	1 072	1 000	1 121
Loans	36 966	44 407	53 134
Pension commitments	8 552	10 982	14 387
Total long-term liabilities	46 589	56 389	68 641
Accounts payable and other current liabilities	285 376	228 757	285 314
Loans	279 902	263 690	246 042
Other provisions	3 084	4 269	29 677
Total current liabilities	568 362	496 716	561 032
Total liabilities and equity	1 088 660	1 019 292	1 061 747

Condensed cash flow statement

NOK 1 000	Q4 2013	Q4 2012	31.12.2013	31.12.2012
Net cash flow from operational activities	51 022	84 784	28 559	42 407
Net cash flow from investment activities	(7 306)	(4 935)	(26 725)	(23 416)
Net cash flow from financing activities	(358)	(15 104)	(23 604)	(21 292)
Change in cash and bank credit	43 358	64 745	(21 770)	(2 301)
Cash and bank credit opening balance	(70 944)	(70 560)	(5 815)	(3 514)
Cash and bank credit closing balance	(27 585)	(5 815)	(27 585)	(5 815)

Consolidated statement of comprehensive income

NOK 1 000	Q4 2013	Q4 2012	31.12.2013	31.12.2012
Profit (loss) for the period	(4 035)	27 864	8 328	47 146
Actuarial gain / losses pensions	(185)	(549)	(185)	(549)
Currency translation differences and other changes	3 457	(10 298)	16 674	(3 835)
Total comprehensive income for the period	(763)	17 017	24 817	42 762
Allocated to shareholders	(763)	17 017	24 817	42 762

Changes in equity

NOK 1 000	31.12.2013	31.12.2012	01.01.2012
Equity opening balance before change in accounting principle	466 187	432 073	436 009
Change in accounting principle			(3 936)
Equity opening balance after change in accounting principle	466 187	432 073	432 073
Profit (loss) for the period	8 328	47 146	-
Other comprehensive income for the period	16 489	(4 384)	-
Dividends	(17 296)	(8 648)	-
Equity closing balance	473 708	466 187	432 073

Notes to the financial statements

Note 1 – General information and principles

The condensed consolidated financial statements for the fourth quarter of 2013 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 2012, except for the implementation described in note 5. 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 2012, which were prepared in

accordance with the Norwegian Accounting Act and IFRS, as adopted by the EU. The consolidated financial statements for 2012 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 2012.

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 2013.

Note 4 – Other gains and losses

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

Note 5 – Implementation of IAS 19R

The revised standard on accounting for employee benefits, IAS 19R, has been implemented from January 1st 2013. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised in the profit and loss in the period when a plan is amended. To get figures which are

comparable the actuarial gains and losses by end of 2011 are included in the balance per January 1st 2012. New actuarial gains and losses are calculated by the end of the year. The total effect in the profit and loss for 2012 is shown by the end of the year. The tables in connection with this note show the changes in profit and loss, balance and comprehensive income. For the equity there is shown a reconciliation from earlier reported values in 2012 and new values after implementing IAS 19R in the ordinary reconciliation earlier in the report.

As of 31.12.2012 pension commitments are increased by NOK 5.2 million (NOK 5.5 million per 01.01.2012) and deferred tax assets increased by NOK 1.5 million (NOK 1.5 million per 01.01.2012). The accounting effect on the Group's equity amounts to NOK minus 3.9 million per 01.01.2012 and NOK minus 3.7 million per 31.12.2012.

Impact on condensed profit and loss statement

NOK 1 000	Q4 2012	31.12.2012
Payroll expenses	(1 040)	(1 040)
Operating profit (EBIT)	1 040	1 040
Tax	291	291
Profit (loss) for the period	749	749

Impact on consolidated statement of comprehensive income

NOK 1 000	Q4 2012	31.12.2012
Profit (loss) for the period	749	749
Actuarial gain / losses pensions	(549)	(549)
Total comprehensive income for the period	200	200

Impact on condensed balance sheet

NOK 1 000	31.12.2012	01.01.2012
ASSETS		
Deferred tax assets	1 452	1 530
Total assets	1 452	1 530
LIABILITIES AND EQUITY		
Equity	(3 735)	(3 936)
Total equity	(3 735)	(3 936)
Pension commitments	5 187	5 466
Total long-term liabilities	5 187	5 466
Total liabilities and equity	1 452	1 530

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

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