

# Quarterly presentation Q3 2006

## Kitron ASA



27 October 2006

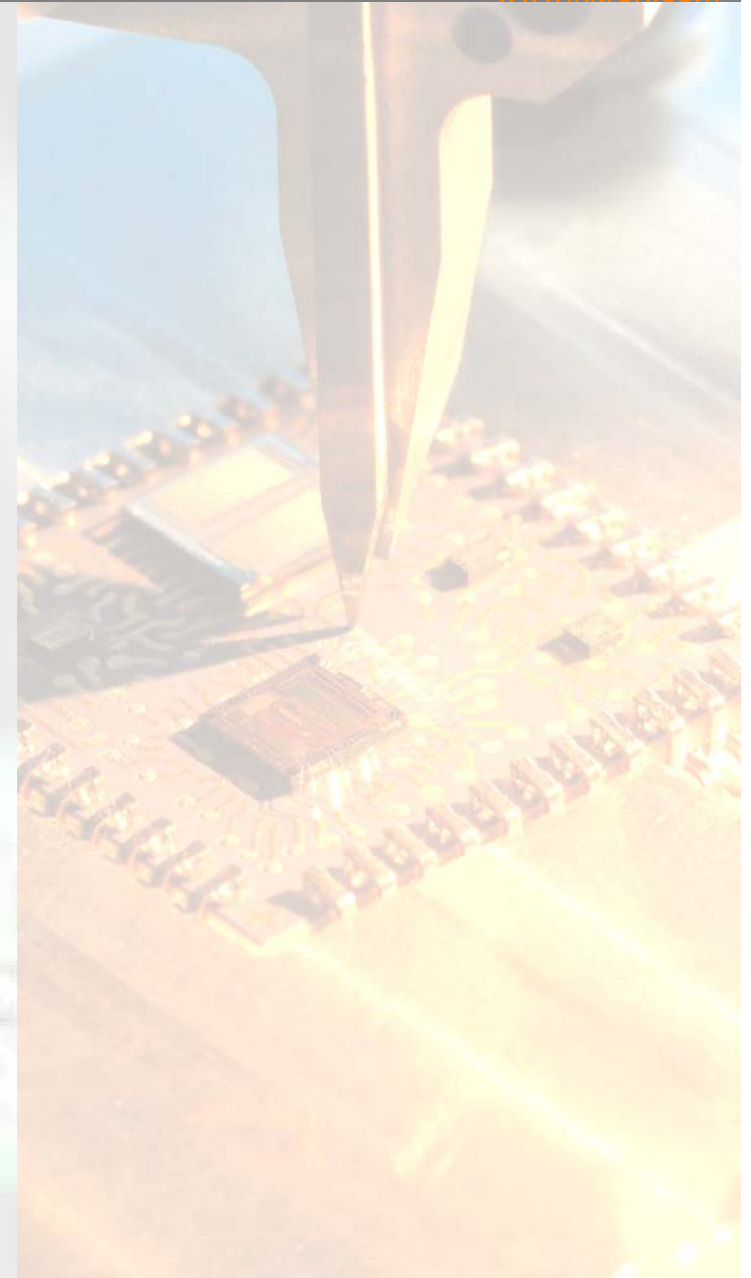




# Progress in Q3

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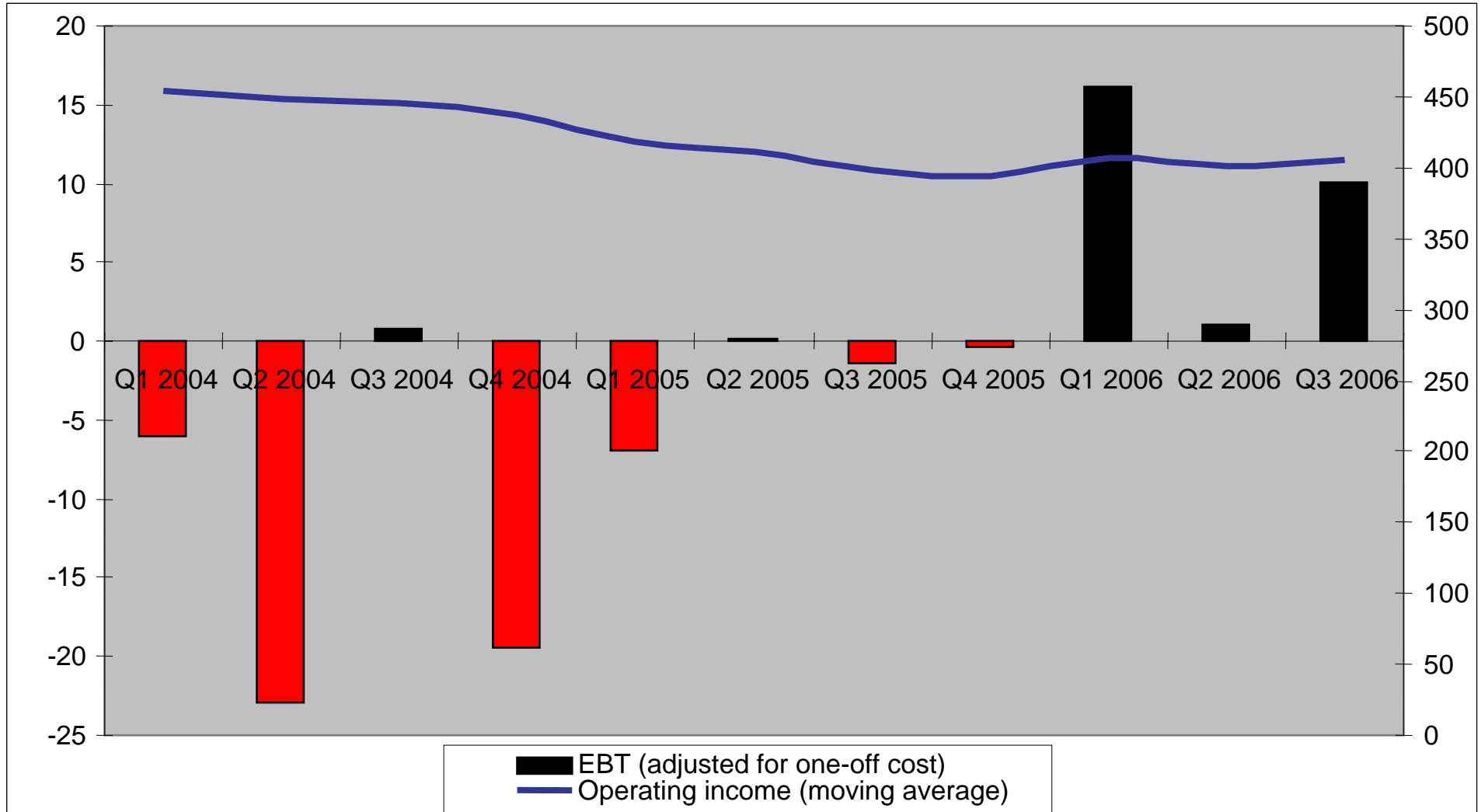
- **Continued growth in operating income and order intake**
- **Strengthened operating profit**
  - Operating profit in both business areas
- **Satisfactory gross margin**
- **Restructuring in Norway (EMS) has been completed**
  - Adjustments following the co-location in Q3
  - Planned cost reductions were curbed in the quarter to meet increased demand
- **Stronger focus on sourcing activities**
- **Increased capacity utilization in Sweden initiated**





# Positive turn for operating income and restored positive EBT

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# Financial information Q3 2006

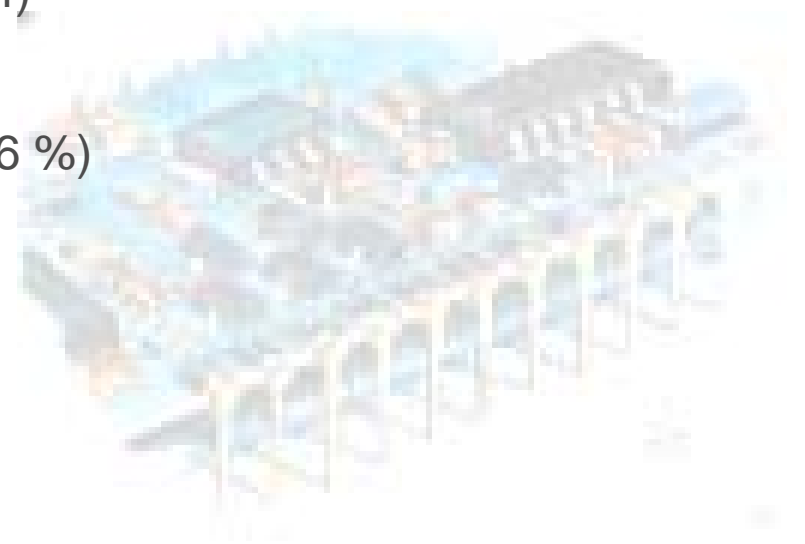




# Increased profitability in Q3

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- Operating income **MNOK 350.2** (MNOK 331.4)
- Satisfactory gross profit margin **39.5 %** (39.6 %)
- EBITDA **MNOK 21.7** (MNOK 12.3)
- EBIT **MNOK 14.3** (MNOK 4.1)
- Strong order backlog **MNOK 978** (MNOK 768)
- Net financial costs **MNOK 4.2** (MNOK 5.6)
- Satisfactory liquidity





# Profit and loss account Q3 2006

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Profit & loss (NOK mill)	Q3 2006	Q3 2005	30.09.2006	30.09.2005	31.12.2005
Operating income	350,4	331,4	1 178,8	1 132,9	1 576,3
Cost of material	212,0	200,3	707,4	672,8	945,3
<b>Gross profit margin</b>	<b>39,5 %</b>	<b>39,6 %</b>	<b>40,0 %</b>	<b>40,6 %</b>	<b>40,0 %</b>
Payroll expences	91,2	91,1	329,1	336,7	475,3
Other operational expences	25,5	27,7	80,9	88,4	151,4
<b>EBITDA</b>	<b>21,7</b>	<b>12,3</b>	<b>61,4</b>	<b>34,9</b>	<b>4,3</b>
Depreciations and impairments	7,4	8,2	20,8	25,7	38,7
<b>Operating profit/loss (EBIT)</b>	<b>14,3</b>	<b>4,1</b>	<b>40,6</b>	<b>9,3</b>	<b>-34,4</b>
Net financial items	-4,2	-5,6	13,3	-17,5	-23,9
<b>Profit/loss before tax</b>	<b>10,1</b>	<b>-1,4</b>	<b>27,3</b>	<b>-8,2</b>	<b>-58,2</b>
Tax	1,0		1,9		0,7
<b>Profit/loss after tax</b>	<b>9,0</b>	<b>-1,4</b>	<b>25,4</b>	<b>-8,2</b>	<b>-58,9</b>
<b>Earnings per share</b>	<b>0,05</b>	<b>-0,01</b>	<b>0,15</b>	<b>-0,06</b>	<b>-0,39</b>
<b>Dilluted earnings per share</b>	<b>0,05</b>	<b>-0,01</b>	<b>0,15</b>	<b>-0,06</b>	<b>-0,39</b>



# Key items – balance sheet

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- **Equity MNOK 175.9** (MNOK 167.6)
  - Equity ratio 24.5% (27.5%)
- **Total balance MNOK 718.4** (MNOK 608.2)
- **Capital tied up in inventory MNOK 317.3** (MNOK 248.7)
  - Adjusted to a higher level of activity in Q4
- **Accounts receivable and other receivables MNOK 188.7** (MNOK 175.0)
  - Accounts receivable MNOK 124.8 (MNOK 109.9)
  - Other receivables MNOK 63.9 (MNOK 65.1)
- **Deferred tax assets MNOK 20** (MNOK 20.0)
- **Capitalised interest-bearing debt MNOK 148.0** (MNOK 63.5)
- **Remaining restructuring provision MNOK 13.3**
  - Co-location in Arendal MNOK 9.9
  - Other provisions MNOK 3.4



# Balance sheet – assets

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Balance sheet (NOK mill.)	30.09.2006	30.09.2005	31.12.2005
<b>Assets</b>			
Tangible fixed assets	126,9	108,4	112,4
Goodwill	19,1	18,5	18,5
Investment in shares	0,2	0,2	0,2
Deferred tax assets	20,0	20,0	20,0
Other receivables	2,6	6,4	3,9
<b>Total fixed assets</b>	<b>168,9</b>	<b>153,5</b>	<b>155,0</b>
Inventory	317,3	248,7	242,5
Accounts receivable and other receivables	188,7	175,0	141,8
Cash and cash equivalents	43,6	31,0	113,2
<b>Total current assets</b>	<b>549,5</b>	<b>454,7</b>	<b>497,5</b>
<b>Total assets</b>	<b>718,4</b>	<b>608,2</b>	<b>652,5</b>





# Balance sheet – equity and liabilities

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<b>Liabilities and equity (NOK mill)</b>	<b>30.09.2006</b>	<b>30.09.2005</b>	<b>31.12.2005</b>
Equity	175,9	154,6	151,1
Minority interests		13,0	0,0
<b>Total equity</b>	<b>175,9</b>	<b>167,6</b>	<b>151,1</b>
Loans	45,5	33,3	40,7
Pension commitments	16,2	31,9	14,9
Other provisions	9,3	7,0	15,1
<b>Total long term-liabilities</b>	<b>71,0</b>	<b>72,2</b>	<b>70,7</b>
Accounts payable and other current liabilities	323,6	308,3	350,9
Loans	144,0	57,2	46,4
Other provisions	3,9	3,0	33,4
<b>Total current liabilities</b>	<b>471,5</b>	<b>368,5</b>	<b>430,7</b>
<b>Total liabilities and equity</b>	<b>718,4</b>	<b>608,2</b>	<b>652,5</b>
Financing of accounts receivable	198,6	175,7	213,9



# Cash flow and consolidated equity

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## Cash flow statement (NOK mill.)

	Q3 2006	Q3 2005	30.09.2006	30.09.2005	31.12.2005
Net cash flow from operational activities (*)	-45,1	-17,1	-130,0	-52,2	9,4
Net cash flow from investment activities	-12,3	-6,6	-40,2	-11,4	-39,5
Net cash flow from financing activities	9,5	-3,5	-0,9	33,6	92,0
Change in cash and bank credit	-47,9	-27,2	-171,1	-30,1	61,9
Cash and bank credit opening balance	-70,4	-11,9	52,8	-9,0	-9,0
<b>Cash and bank credit closing balance</b>	<b>-118,3</b>	<b>-39,1</b>	<b>-118,3</b>	<b>-39,1</b>	<b>52,8</b>

## Changes in consolidated equity (NOK mill.)

	30.09.2006	30.09.2005	31.12.2005
Equity opening balance	151,1	128,1	128,1
Profit/loss for the year	25,4	-8,2	-58,9
Shares issue		47,0	90,8
Change in minority interests			-12,6
Other (**)	-0,6	0,7	3,8
<b>Equity closing balance</b>	<b>175,9</b>	<b>167,4</b>	<b>151,1</b>

\* The negative cash flow linked to provision used in Q3 2006 and as at 30 September 2006 amount to NOK 7,9 mill. and NOK 35,3 mill. respectively. Negative cash flow regarding increased inventory and receivables in the Q3 and as at 30 September 2006 amount to NOK 52,3 mill. and NOK 121,7 mill. respectively.

\*\* Conversion differences, share-based salary payments etc.



# New factoring arrangement and ICP in Q4 www.kitron.com

- **Previous arrangement: Sale of accounts receivable**
- **New arrangement: Accounts receivable mortgage**
- **Accounts receivable will be recorded in the Group's balance sheet**
- **Implies increase of total balance and decrease of equity ratio**
  - No changes in the equity amount
- **Kitron has taken out credit insurance directly with insurance company**
  - Estimated savings approx. MNOK 2
- **International Cash Pool**
  - Optimises cash flows and reduces financial costs

# Market development

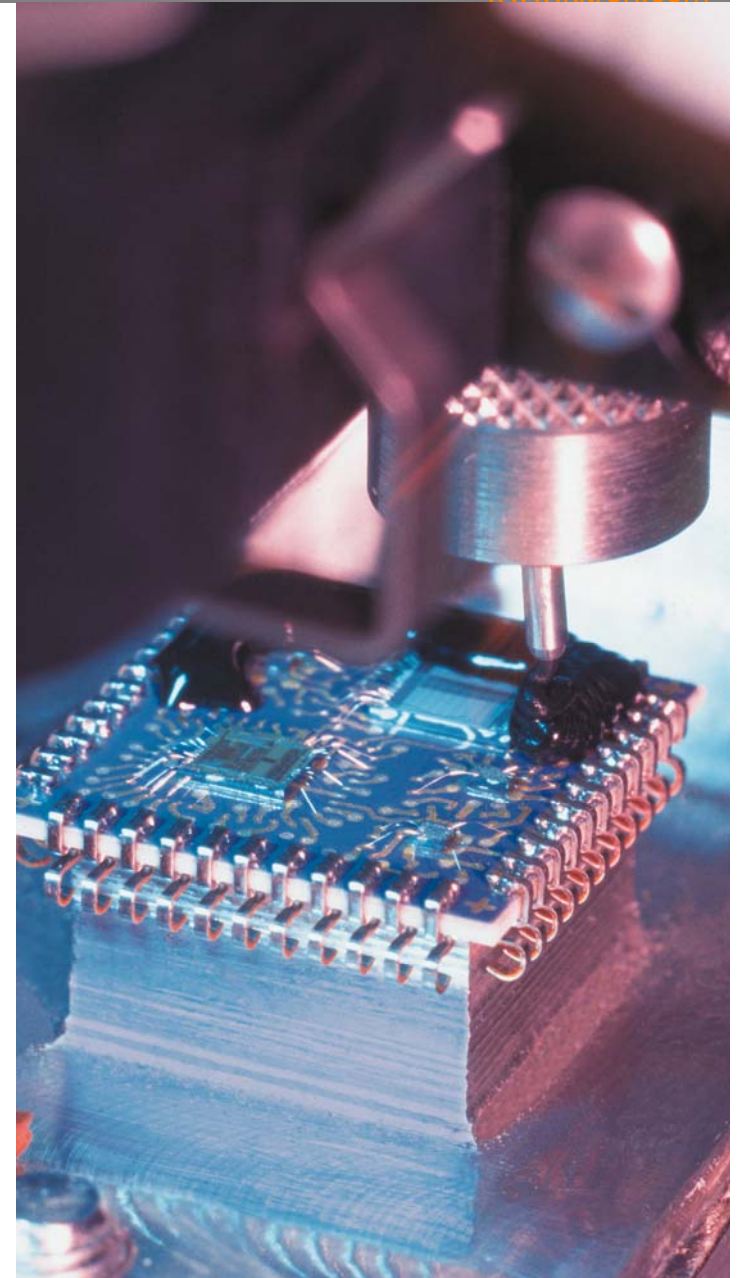




# A sound market in Q3

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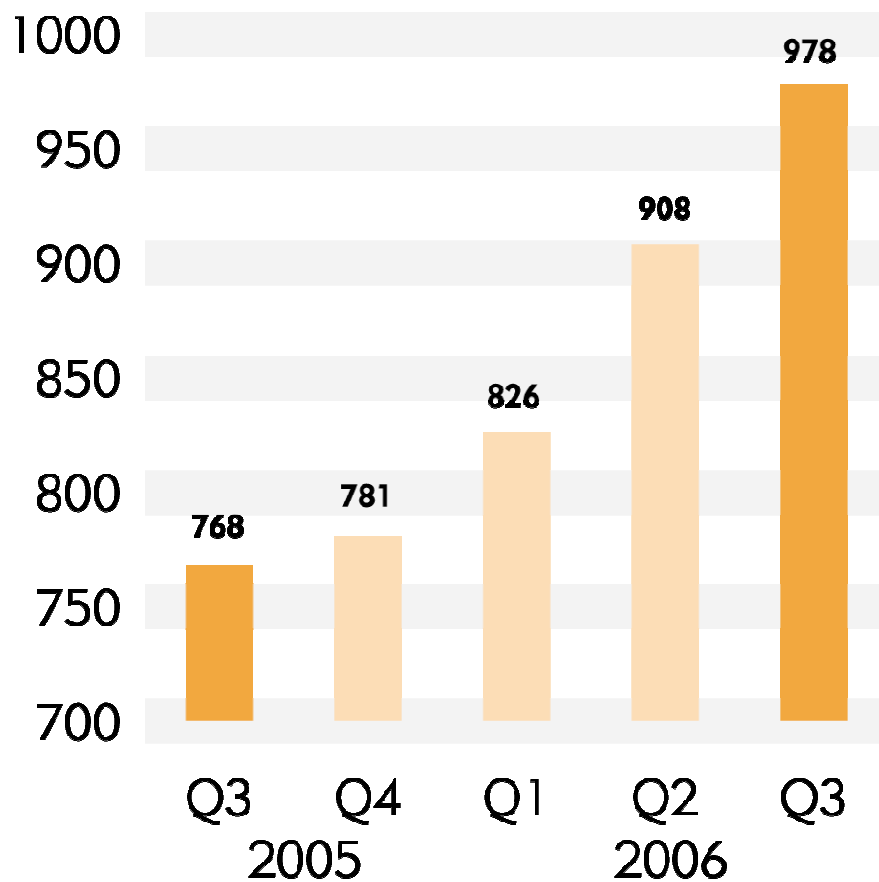
- **Increased volumes and new orders primarily from current customers**
- **Increased inquiries from new customers in the medical equipment and industry segments**
  - Higher recognition in the market has contributed to more inquiries
- **More prototype productions**
  - New Product Introduction centre under establishment in Kitron AS in Q4
- **Competence and quality in execution is continuously more important – also for development and full-range deliveries**
- **Kitron's operation in Lithuania experiences increased attention from customers in Germany and the UK related to backplane and cable production**





# ORDER BACKLOG Group

NOK million



## Order backlog per country of production

Country	30.09.2006	30.09.2005
Norway	736.7	529.2
Sweden	220.0	231.2
Lithuania (external)	21.6	7.7
<b>Total</b>	<b>978.3</b>	<b>768.1</b>



# Order backlog per segment

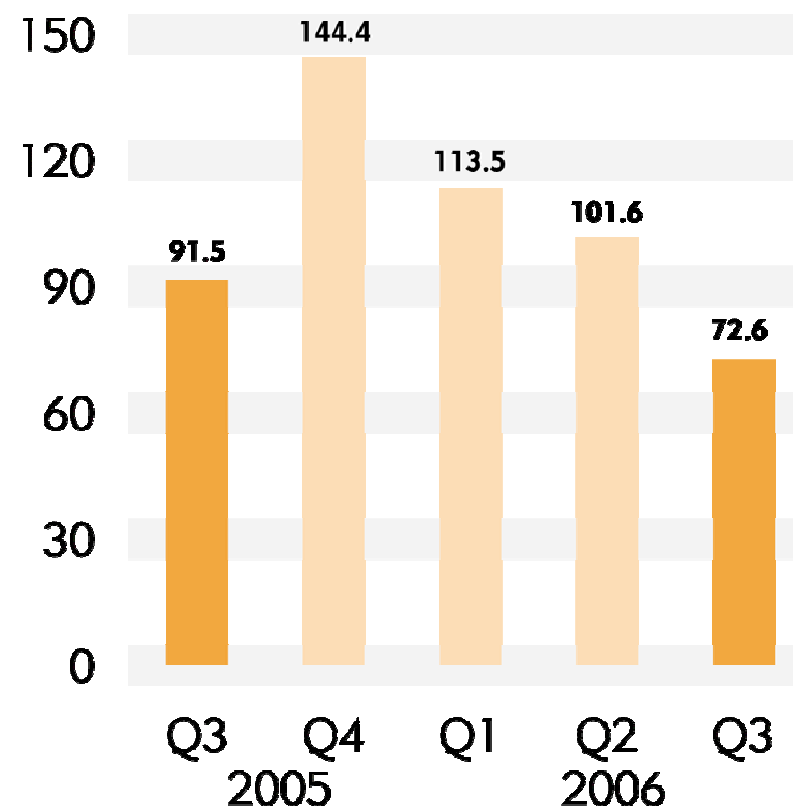
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<b>NOK mill.</b>	<b>Defence/ marine</b>	<b>Data/ telecom</b>	<b>Medical equipment</b>	<b>Industry</b>	<b>Total</b>
Kitron AS (EMS)	287,8	71,0	206,8	111,5	677,1
Kitron AB (EMS)	88,6	0,1	62,5	19,0	170,1
UAB Kitron (EMS)	4,0	4,9	5,0	7,7	21,6
Microelectronics	-	74,1	9,7	25,8	109,5
<b>Total</b>	<b>380,3</b>	<b>150,1</b>	<b>283,9</b>	<b>164,0</b>	<b>978,3</b>
<b>Percentage of total</b>	<b>38,9</b>	<b>15,3</b>	<b>29,0</b>	<b>16,8</b>	<b>100,0</b>



- Reduced turnover within the defence part of the segment
- Reduced turnover in the segment expected for the year as a whole compared to 2005
- Marine sector expected to continue growing - based on high oil prices
- Well positioned for offset contracts related to the future Norwegian purchase of fighter aircrafts

## **TURNOVER** Defence/Marine NOK million



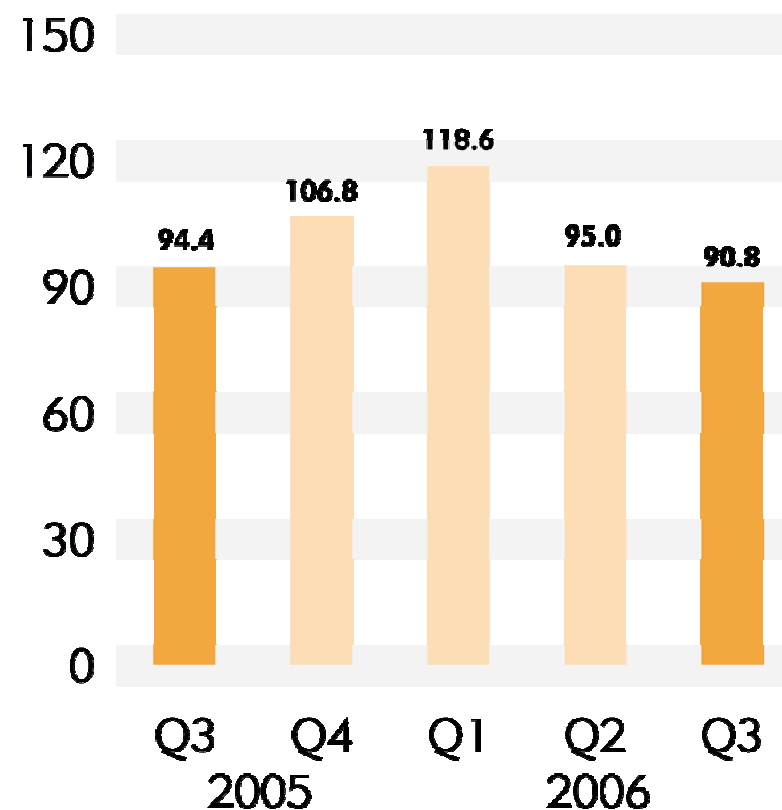




- Slightly lower turnover than in Q3 2005
- New customers have replaced customers that have moved their production to Asia
  - Contract with Transmode awarded in September with valued MSEK 50 per year
- Attractive and growing EMS market
  - Kitron strengthens sales organisation within the segment
- Represents an emerging market for Microelectronics
  - Technology recognised in all segments

## TURNOVER Data/Telecom

NOK million





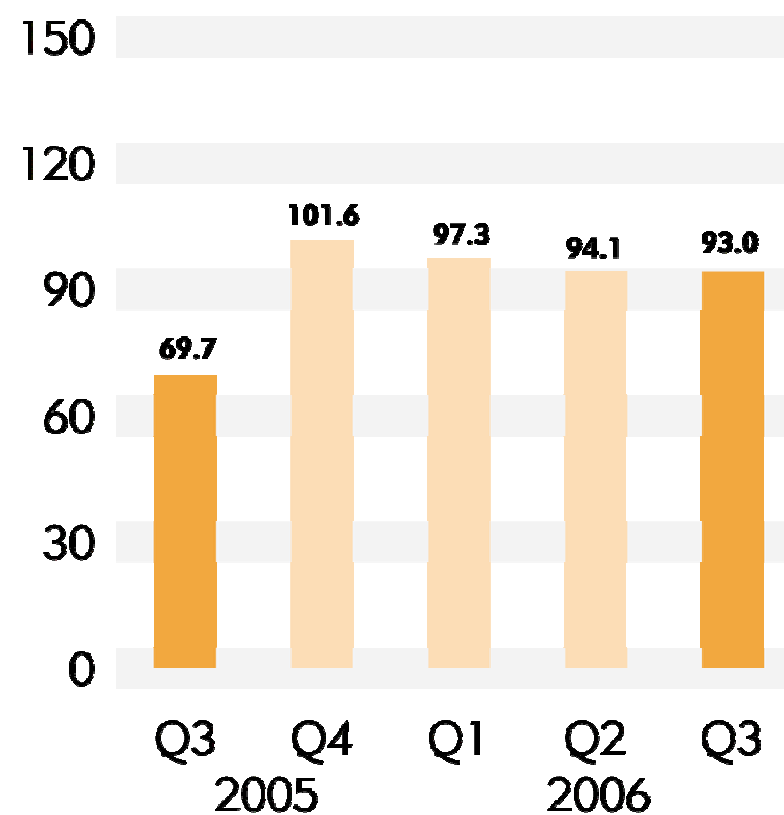
# Medical Equipment

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- Higher turnover than in Q3 2005
- General growth in the segment and Kitron gains market share
- Production of turn-key products (High Level Assembly). New production line in Horten

## **TURNOVER** Medical equipment

NOK million



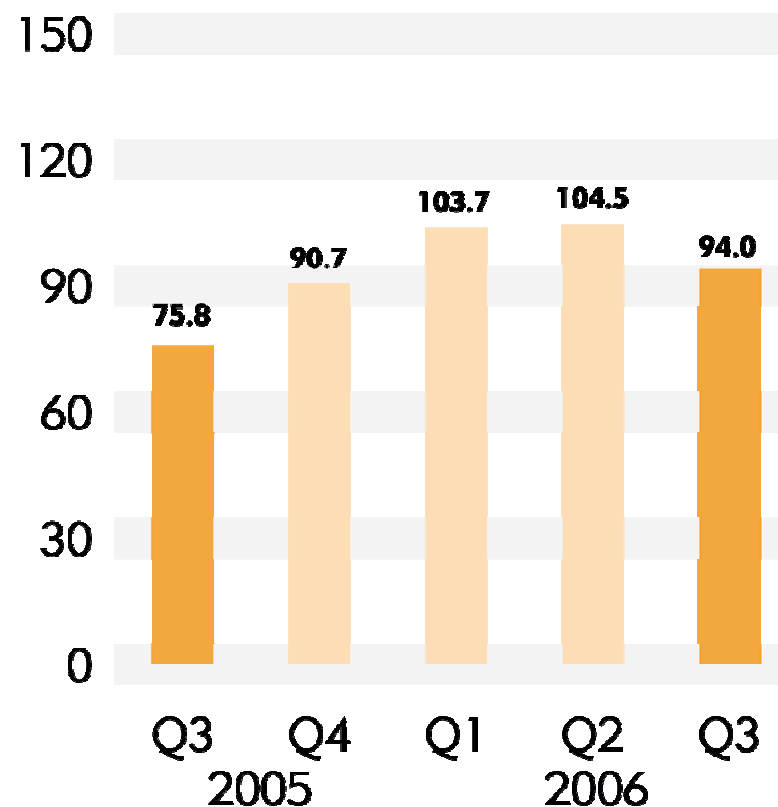


# Industry

- Higher turnover than in Q3 2005
- Increased production on existing customers
- Some new customers won in Q3
- Microelectronics meets more business in automotive

## TURNOVER Industry

NOK million





# Good market prospects

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- **Market growth of 10–12 per cent is expected until 2010**
  - Increased degree of outsourcing (expected to grow from 25% to 30% by 2010)
  - Increased degree of product development and prototype productions
  - New products introduction
  - Increased volume in existing products
- **Kitron expects to increase its market share**
  - Customers want proximity to production
  - Recognised for competence, accuracy and flexibility
  - High quality in deliveries and competitive prices



Focus on a more efficient operation





# Alignment of the Swedish operation

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## Potential for operational gains in Sweden

- Sweden is Kitron's greatest home market
  - The total market is approximately three times as large as the Norwegian market
- The CEO is managing Kitron AB directly
- **Kitron establishes one management team for the Swedish operations**
  - Strengthens competitiveness
  - Effective coordination between the factories
  - Sales and market organisation will be unified and strengthened

	Geographical breakdown of operating income				
	Q3 2006	Q3 2005	30.09.2006	30.09.2005	31.12.2005
Norway	152,0	163,2	517,8	553,9	819,0
Sweden	163,2	141,7	550,0	476,5	624,2
Rest of Europe	9,8	7,9	29,9	35,0	56,7
USA	10,8	3,7	30,4	17,2	14,5
Other	14,6	14,9	50,7	50,3	61,9
<b>Total Group</b>	<b>350,4</b>	<b>331,4</b>	<b>1 178,8</b>	<b>1 132,9</b>	<b>1 576,3</b>



# New production line in Horten

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- Production for key customer in the medicine segment
- HLA production
- Production of prototypes has started
- Serial production starts in Q4



# Prospects







# Positive outlook

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- **Continued good market development**
- **Improved efficiency of operation**
  - Better margins
  - Enhanced capacity
- **Targeted sales activities**
  - Increased order intake and order backlog
  - Sales and market efforts further strengthened – particularly in Sweden
- **Improved profitability**
  - More attractive orders
  - Phasing out customers with low profitability
  - Better utilization of capacity

# Kitron - One step ahead

