

Interim report

Q1 2012

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## Key items

Figures in brackets refer to the first quarter of 2011 unless otherwise stated.

### Increased order intake

The order intake increased by 9.2 per cent to NOK 448.1 million (NOK 410.2 million). The order backlog at the end of the first quarter was NOK 797.0 million (NOK 817.1 million), 2.5 per cent lower than last year.

### Activity level increasing

Revenue increased by 4.8 per cent to NOK 450.4 million (NOK 429.8 million).

### Improved profitability

EBITDA and EBIT were NOK 30.4 million (NOK 18.8 million) and NOK 21.5 million (NOK 11.1 million) respectively.

### Profit before tax and discontinued operations

The profit before tax and discontinued operations amounted to NOK 13.9 million (NOK 5.2 million).

### Cash flow

Cash flow from operations in the first quarter was negative by NOK 10.9 million (negative NOK 38.3 million) due to build up of working capital.

## Higher profitability

Kitron's revenue amounted to NOK 450.4 million in the first quarter of 2012, a 4.8 per cent increase compared with the same period last year. EBIT was NOK 21.5 million (NOK 11.1 million). The profit before tax and discontinued operations was NOK 13.9 million (NOK 5.2 million in Q1 2011). Cash flow from operations was negative by NOK 10.9 million (negative NOK 38.3 million). The order intake was NOK 448.1 million and the order backlog was NOK 797.0 million, an increase of 9.2 per cent and a decrease of 2.5 per cent respectively.

### Positive market development

The market development was better than expected and overall there has been a strong demand from customers. The order backlog was stable and the revenue increased compared with last year.

The tender activity both towards existing and new customers continues to be high.

The risk of a negative development due to the recession has decreased somewhat and we are now cautiously optimistic about the market outlook.

### Improved profitability

The profitability continues to show a positive trend and improved significantly compared with the same period last year. The strong activity level, combined with the effect of the turnaround of the Swedish operation and an improved margin in Norway all helped to drive a positive development.

The start up entities in USA and China are ramping up the activity but the result was still negative in the quarter. It is expected that both operations will reach break even during the year and further contribute to a positive development in profitability. In the first quarter the negative result from start up operations was NOK 6.7 million.

### Close-down of the Karlskoga site

The process to close down the Karlskoga site continues and negotiations with the employees and unions are ongoing. It is expected that these negotiations will be concluded in the second quarter.

The cost of the close-down is fully provided for in the 2011 accounts and no further provisions are deemed necessary. The provision is mainly related to lay-off of personnel and facility costs.

### Revenue

Kitron's revenue in the first quarter was 4.8 per cent higher than in the same period in 2011, and amounted to NOK 450.4 million (NOK 429.8 million). Revenue in the market segment Defence/Aerospace was up 13.5 per cent, Energy/Telecoms was down 31.8 per cent, Industry increased by 27.5 per cent, Medical equipment was down by 14.4 per cent and Offshore/Marine was up 74.3 per cent compared to the first quarter of 2011.

Revenue in the Norwegian operation represented 49.3 per cent of Kitron's gross revenue during the first quarter (61.6 per cent). The Swedish operation represented 27.8 per cent of the group (20.7 per cent) and Kitron's operation in Lithuania provided for 19.7 per cent (17.7 per cent).

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

Defence/Aerospace	19 % (18%)
Energy/Telecoms	14 % (22%)
Industry	27% (22%)
Medical equipment	24% (28%)
Offshore/Marine	16% (10%)

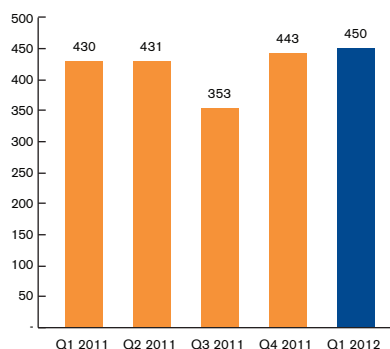
Revenue from customers in the Swedish market represented a 53.9 per cent share of the total revenue during the first quarter (39.2 per cent). The Norwegian market represented 40.6 per cent of Kitron's total revenue in the first quarter (52.7 per cent).

### Gross and net margin

The gross margin in first quarter 2012 was improved compared to first quarter last year, and amounted to 38.8 per cent (38.2 per cent). The net margin increased from 23.1 per cent in first quarter 2011 to 24.2 per cent in first quarter this year.

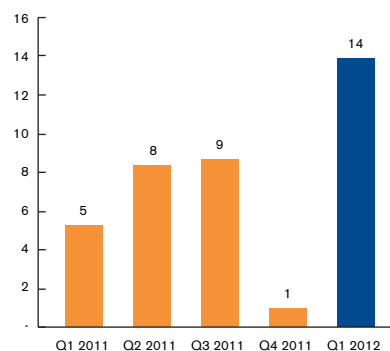
## REVENUE Group

NOK million



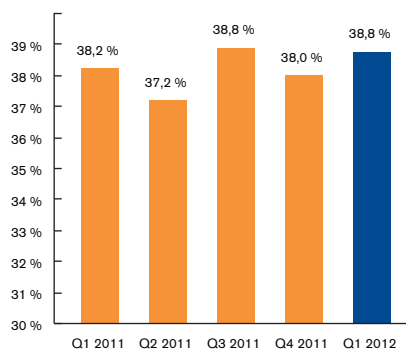
## PROFIT BEFORE TAX Group

NOK million



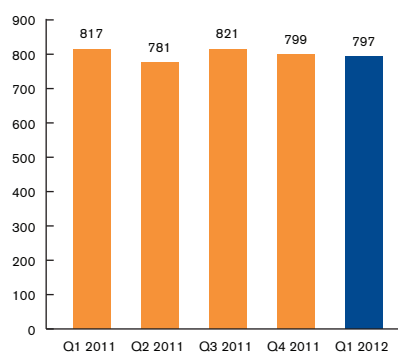
## GROSS MARGIN Group

Per cent



## ORDER BACKLOG Group

NOK million



## Profit

Kitron's operating profit (EBIT) in the first quarter was NOK 21.5 million, which is an increase of NOK 10.4 million compared with same period last year (NOK 11.1 million).

Profit before tax and discontinued operations in the first quarter of 2012 was NOK 13.9 million, which is an increase of NOK 8.7 million compared to the same period last year.

The company's total payroll expenses in the first quarter were NOK 0.5 million higher than the corresponding period in

2011. The relative payroll costs went from 26.1 per cent of revenue in first quarter 2011 to 25.5 per cent of revenue in the first quarter this year. Other operating costs decreased to 6.5 per cent of revenue in the first quarter of 2012 (7.2 per cent).

During the quarter net financial items amounted to a cost of NOK 7.6 million. This was an increase of NOK 1.7 million compared to the same period last year. The main reasons for the increase is currency effects.

## Revenue business areas

NOK million	Q1 2012	Q1 2011	31.12.2011
Norway	238.6	286.2	982.3
Sweden	134.3	96.2	435.2
Lithuania	95.4	82.4	354.6
Others	15.4	2.4	25.1
Group and eliminations	(33.2)	(37.3)	(141.2)
<b>Total group</b>	<b>450.4</b>	<b>429.8</b>	<b>1 656.1</b>

## Operating profit/(loss) business areas

NOK million	Q1 2012	Q1 2011	31.12.2011
Norway	8.0	7.1	28.0
Sweden	10.0	3.8	3.7
Lithuania	10.9	8.7	34.0
Others	(6.7)	(6.3)	(25.4)
Group and eliminations	(0.8)	(2.2)	(1.7)
<b>Total group</b>	<b>21.5</b>	<b>11.1</b>	<b>38.7</b>

## Order backlog business areas

NOK million	Defence/ Aerospace	Energy/ Telecoms	Industry	Medical equipment	Offshore/ Marine	Total
Norway	122.4	9.8	50.6	86.6	169.2	438.5
Sweden	56.4	61.0	23.6	75.6	-	216.6
Lithuania	-	18.4	88.5	9.7	1.0	117.5
Other	17.3	-	6.1	1.0	-	24.3
<b>Total group</b>	<b>196.1</b>	<b>89.2</b>	<b>168.6</b>	<b>172.9</b>	<b>170.2</b>	<b>797.0</b>

## Revenue geographic distribution customers

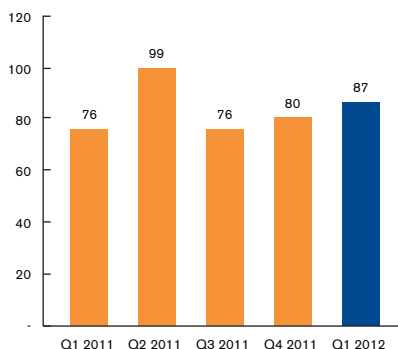
NOK million	Q1 2012	Q1 2011	31.12.2011
Norway	182.7	225.8	799.1
Sweden	242.9	176.7	760.9
Rest of Europe	13.2	15.9	57.6
USA	11.6	11.4	38.5
Others	-	-	-
<b>Total group</b>	<b>450.4</b>	<b>429.8</b>	<b>1 656.1</b>

## Full time employees

	31.03.2012	31.03.2011
Norway	516	543
Sweden	182	190
Lithuania	393	349
Other	116	59
<b>Total</b>	<b>1 207</b>	<b>1 141</b>

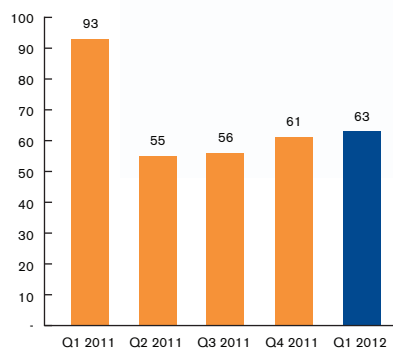
## REVENUE Defence/Aerospace

NOK million



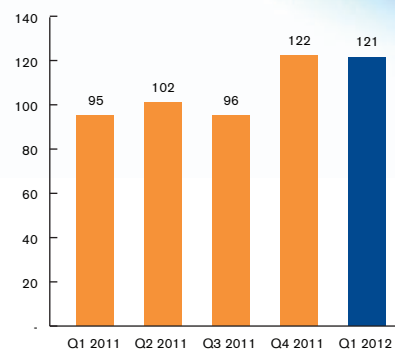
## REVENUE Energy/Telecoms

NOK million



## REVENUE Industry

NOK million



### Balance sheet

Kitron's gross balance as at 31 March 2012 amounted to NOK 1 080.6 million, against NOK 1 045.2 million at the same time in 2011. Equity was NOK 444.5 million (NOK 424.5 million), corresponding to an equity ratio of 41.1 per cent (40.6 per cent).

Inventory was NOK 382.7 million at 31 March 2012 (NOK 354.5 million). Inventory turns was down from 3.8 in first quarter 2011 to 3.7 in first quarter 2012.

Trade debtors and other receivables amounted to NOK 356.7 million at the end of the first quarter of 2012. The corresponding amount at the same time in 2011 was NOK 357.4 million.

The group's reported interest-bearing debt amounted to NOK 291.1 million as of 31 March 2012. Interest-bearing debt at the end of the first quarter 2011 was NOK 272.2 million.

Cash flow from operational activities for the first quarter of 2012 was negative by NOK 10.9 million (negative NOK 38.3 million). This is mainly due to working capital changes. Kitron's cash and bank credit at 31 March 2012 comprised the following:

(NOK million)

Cash and cash equivalents	49.7
Drawings on the overdraft facility	(53.2)
Restricted bank deposits	(19.8)
<b>Total</b>	<b>(23.3)</b>

Available liquidity (unrestricted bank deposits and unused credit lines) amounted to NOK 124.8 million at the end of the first quarter, versus NOK 96.7 million at the same time in 2011. The overall credit line at 31 March 2012 was NOK 130.2 million versus NOK 130.6 million at the same time last year.

### Organisation

The Kitron workforce corresponded to

1 207 FTEs at 31 March 2012. This represents an increase of 66 FTEs since the first quarter of 2011.

### 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 448.1 million, which is 9.2 per cent higher than for the first quarter 2011. The order backlog ended at NOK 797.0 million, which is 2.5 per cent lower than the same period last year. Four quarter moving average order intake was up from NOK 404.5 million at the beginning of the first quarter to NOK 414.0 million at the end of the quarter. While being somewhat lower than last year there are few signs of a negative impact from the recession. Kitron's order backlog generally includes four months customer forecast plus all firm orders for later delivery.

Looking into 2012 management believe overall in a stable or positive market scenario. The risk for negative impact from the recession is decreasing as the outlook for the global economy has improved somewhat. Furthermore, Kitron is pursuing new customers and markets, which may strengthen Kitron's position and has the potential to generate growth. The tender activity remains high, especially in the German and Swedish markets. 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. The cooperation between Kitron and Prevas AB is important in this respect

as a complement to the services offered by Kitron and as an additional market channel to the OEMs.

### Defence/Aerospace

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

The order backlog decreased by 23.8 per cent, while the revenue increased by 13.5 per cent compared to the first quarter in 2011. The negative development in order backlog is due to short term weaker demand from the Norwegian defence industry. The longer term outlook for the Defence/Aerospace segment remains positive.

Kitron is currently involved in defence programs with among other the Kongsberg Group and Lockheed Martin that could yield more than 1 billion NOK in revenue in the years to come. Kitron will manufacture, test, maintain and repair the Integrated Backplane Assembly in the F-35 Joint Strike Fighter globally. The contract with Kongsberg related to deliveries of electronics to the NSM (Naval Strike Missile) is further supporting the long term positive outlook. 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.

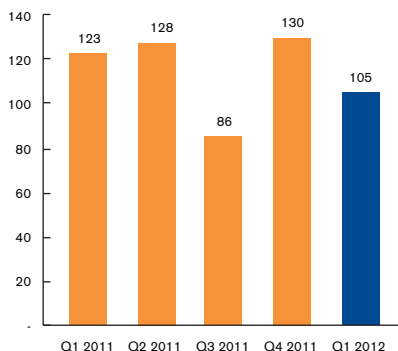
### Energy/Telecoms

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.

The order backlog increased by 7.5 per cent and revenue decreased by 31.8

## REVENUE Medical equipment

NOK million



per cent compared to the first quarter in 2011. The lower revenue is due to the phase out of one specific customer. Adjusting for this, the trend in this segment has been positive.

In general there is a strong competitive pressure in Energy/Telecoms. Despite this Kitron remains optimistic about the future development in this segment. Firstly, the factories in Lithuania and China make Kitron less vulnerable to competitive pressure from low cost. Secondly, the niches and customers that Kitron are involved with are showing a stronger trend than the market in general.

### 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.

The order backlog decreased by 3.8 per cent and revenue increased by 27.5 per cent compared to the first quarter in 2011. The revenue growth is primarily explained by the recovery in the Swedish industrial sector.

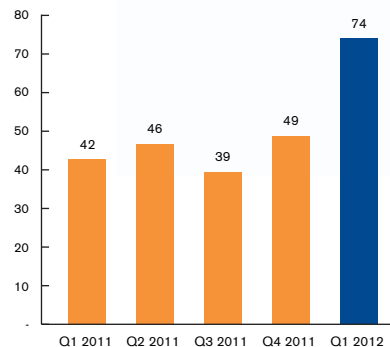
Industry is the market segment within Kitron that is most closely correlated with the general economic development. As the fear of a deep recession is slowly residing we are increasingly optimistic about the development in the Industry segment.

### 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).

## REVENUE Offshore/Marine

NOK million



The order backlog decreased by 19.0 per cent and revenue decreased by 14.4 per cent compared to the first quarter in 2011. The underlying trend by customer has been mixed.

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. Kitron is working on several interesting new prospects within this segment.

### 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 order backlog increased by 93.2 per cent and revenue increased by 74.3 per cent compared to the first quarter in 2011. The strong development is driven by the ramp up of production for existing clients.

The trend in the Offshore/Marine segment is closely correlated with the development of the oil price. During the whole of 2011 there was a strong recovery in the Offshore/Marine segment. It is expected that the strong trend within the Offshore/Marine segment will continue in 2012. We are in dialogue with existing and new customers about significant new business opportunities.

### 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.

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 is another factor which is expected to have a positive impact on the profitability.

Another significant factor is that we target that the new operations in USA, China and Germany will reach break even during 2012. This will gradually have a positive impact on the profitability compared to 2011. In 2011 the total cost (in terms of negative EBIT result) to start up new entities was NOK 27.6 million.

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

Board of directors, Kitron ASA  
Asker, 26 April 2012

## Condensed profit and loss statement

NOK 1 000	Q1 2012	Q1 2011	31.12.2011
Revenue	450 404	429 772	1 656 098
Cost of materials	276 115	266 094	1 024 618
Payroll expenses	115 043	114 521	431 560
Other operational expenses	29 160	30 870	126 067
Other gains / (losses)	324	499	(2 052)
<b>Operating profit before depreciation and impairments (EBITDA)</b>	<b>30 410</b>	<b>18 787</b>	<b>71 801</b>
Depreciation and impairments	8 919	7 682	33 137
<b>Operating profit (EBIT)</b>	<b>21 491</b>	<b>11 105</b>	<b>38 663</b>
Net financial items	(7 591)	(5 864)	(15 496)
<b>Profit (loss) before tax</b>	<b>13 900</b>	<b>5 240</b>	<b>23 167</b>
Tax	3 919	2 978	4 638
<b>Net profit (loss) from continuing operations</b>	<b>9 981</b>	<b>2 262</b>	<b>18 529</b>
Profit (loss) from discontinued operations	-	-	(986)
<b>Profit (loss) for the period</b>	<b>9 981</b>	<b>2 262</b>	<b>17 543</b>
Earnings per share (basic and diluted)	0,06	0,01	0,10

## Condensed balance sheet

NOK 1 000	31.03.2012	31.03.2011	31.12.2011
<b>ASSETS</b>			
Goodwill	26 786	26 786	26 786
Other intangible assets	39 685	37 580	40 743
Tangible fixed assets	133 465	135 460	139 520
Available for sale financial assets	1	1	1
Deferred tax assets	91 522	93 885	94 627
Other receivables	-	3 266	-
<b>Total fixed assets</b>	<b>291 459</b>	<b>296 979</b>	<b>301 677</b>
Inventory	382 743	354 531	346 795
Accounts receivable and other receivables	356 715	357 391	360 829
Cash and cash equivalents	49 703	36 329	50 916
<b>Total current assets</b>	<b>789 162</b>	<b>748 252</b>	<b>758 540</b>
<b>Total assets</b>	<b>1 080 620</b>	<b>1 045 230</b>	<b>1 060 217</b>
<b>LIABILITIES AND EQUITY</b>			
Equity	444 541	424 481	436 009
<b>Total equity</b>	<b>444 541</b>	<b>424 481</b>	<b>436 009</b>
Deferred tax liabilities	1 096	1 205	1 121
Loans	49 077	44 538	53 134
Pension commitments	8 921	12 076	8 921
<b>Total long-term liabilities</b>	<b>59 094</b>	<b>57 819</b>	<b>63 175</b>
Accounts payable and other current liabilities	308 048	315 113	285 314
Loans	241 998	227 670	246 042
Other provisions	26 940	20 147	29 677
<b>Total current liabilities</b>	<b>576 985</b>	<b>562 930</b>	<b>561 032</b>
<b>Total liabilities and equity</b>	<b>1 080 620</b>	<b>1 045 230</b>	<b>1 060 217</b>

## Condensed cash flow statement

NOK 1 000	Q1 2012	Q1 2011	31.12.2011
Net cash flow from operational activities	(10 938)	(38 306)	16 283
Net cash flow from investment activities	(3 924)	(17 885)	(50 041)
Net cash flow from financing activities	(4 929)	4 992	15 890
Change in cash and bank credit	(19 791)	(51 199)	(17 868)
Cash and bank credit opening balance	(3 514)	14 354	14 354
<b>Cash and bank credit closing balance</b>	<b>(23 306)</b>	<b>(36 845)</b>	<b>(3 514)</b>

## Consolidated statement of comprehensive income

NOK 1 000	Q1 2012	Q1 2011	31.12.2011
Profit (loss) for the period	9 981	2 262	17 543
Currency translation differences and other changes	(1 449)	1 644	(2 109)
<b>Total comprehensive income for the period</b>	<b>8 532</b>	<b>3 906</b>	<b>15 434</b>
<b>Allocated to shareholders</b>	<b>8 532</b>	<b>3 906</b>	<b>15 434</b>

## Changes in equity

NOK 1 000	31.03.2012	31.03.2011	31.12.2011
Equity opening balance	436 009	420 575	420 575
Comprehensive income for the period	8 532	3 906	15 434
<b>Equity closing balance</b>	<b>444 541</b>	<b>424 481</b>	<b>436 009</b>

## Notes to the financial statements

### Note 1 – General information and principles

The condensed consolidated financial statements for the first 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](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 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	Q1 2012	Q1 2011	31.12.2011
Revenue	-	-	-
Expenses	-	-	-
<b>Profit (loss) before income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>
Tax	-	-	-
<b>Profit (loss) after income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>
Post tax loss on disposal of discontinued operations	-	-	(986)
<b>Profit (loss) from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>(986)</b>

## Cash flow statement information from discontinued operations

NOK 1 000	Q1 2012	Q1 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	-	-	-
<b>Cash and bank credit closing balance</b>	<b>-</b>	<b>-</b>	<b>-</b>

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, components analysis, 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.

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