

Q3



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Third quarter



Quarterly report for third quarter 2014

Continued growth outside Norway

- * Important defence orders for Kitron Inc., USA
- * Continued revenue growth
- * Growth and improved profitability outside Scandinavia
- * Restructuring for competitiveness in the operation in Norway

Important defence orders for Kitron Inc., USA

In June and July, Kitron Inc. received orders of NOK 18 and 13 million respectively, from Kongsberg Protech Systems related to electronic modules that are part of Kongsberg Protech's Remote Weapon Station (RWS). The orders are connected to the CROWS program in the United States.

The products will be shipped from the fall of 2014 until mid-2016. Forecasts have also been received for upgrades and repairs of units that have already been delivered for the CROWS program. These forecasts indicate a volume in the area of approximately NOK 125 million over the next 36 months.

In addition, in the beginning of October, Kitron Inc. received a new order worth approximately NOK 51 million from Kongsberg Gruppen for delivery of electronic modules that are also part the RWS. This production will take place at Kitron's plants in Johnstown, United States, and Arendal, Norway. Product deliveries will begin in early 2015 and continue throughout 2015.

Continued revenue growth

Kitron's revenue for the third quarter was NOK 382.1 million, which is an increase of 10.2 per cent compared to the same period last year. 1.7 per cent of the growth is due to currency translation effects in consolidation.

Revenue in the third quarter is normally lower than in the second and fourth quarters due to seasonality.

The order backlog was reduced by NOK 51.7 million in the quarter and ended at NOK 807.2 million, which is a decrease of NOK 39.9 million compared to the same period last year. Compared to last year, the Defence/Aerospace sector backlog is strengthened by NOK 96.1 million, primarily due to the announced orders from Kongsberg. The Offshore/Marine sector declined by NOK 96.4 million.

Operating profit (EBIT) for the third quarter ended at NOK 6.9 million, compared to NOK 7.6 million in the same period last year.

The profitability expressed by EBIT as a percentage of revenue is 1.8 per cent for the third quarter, compared to 2.2 per cent for the same period last year, and 1.5 per cent in the preceding quarter. Margins, although still lower than last year, have increased compared to the second quarter this year.

The EBIT is still negatively affected by the situation in Arendal, but in the third quarter the effect is compensated for by growth in both revenue and EBIT outside of Scandinavia.

Operational cash flow was NOK minus 9.7 million for the quarter, which is an improvement of NOK 24.2 million compared to the same period last year. Trade payables have increased more than the growth in inventory from last year.

Growth and improved profitability outside Scandinavia

The operations outside Scandinavia (Lithuania, US and China) collectively increased their revenue by 42 per cent compared to the same period last year, and the results have increased by over 200 per cent over the same period. The improvement in profitability is due to improved utilisation of factory capacity as a result of increased volumes.

The revenue increase in the US is due to the above-mentioned orders from Kongsberg within the Defence sector. In China growth comes from existing customers primarily in the Industry and Medical sectors that are ramping up volume.

For Lithuania, the growth compared to the same quarter last year is with existing customers within the Industry sector. It is a combination of additional orders and growth in general.

Restructuring for competitiveness of the operation in Norway

The Norwegian operation in Arendal is restructuring in order to secure a competitive setup for the future. Several activities are initiated to reduce operational cost and increase profitability, and further actions are evaluated.

As informed earlier, the current plans imply a reduction of 85 employees during 2014. At the end of September, 70 of these have left the company. The full reduction in number of employees will be in effect from year-end 2014, and during the fourth quarter the need for further reductions will be assessed.

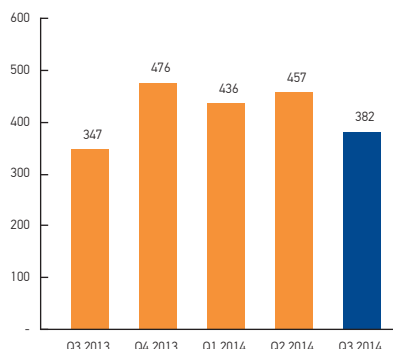
The Norwegian operation expects to have positive EBIT in the fourth quarter of 2014.

Key figures

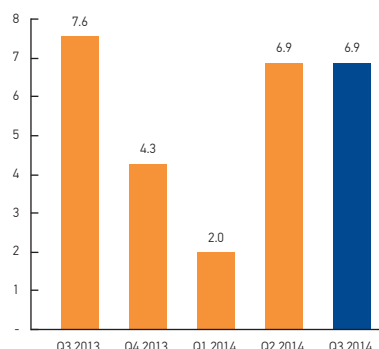
NOK million	Q3 2014	Q3 2013	Change	30.09.2014	30.09.2013	Change	31.12.2013
Revenue	382.1	346.6	35.5	1 275.0	1 155.2	119.8	1 631.6
EBIT	6.9	7.6	(0.7)	15.7	20.8	(5.1)	25.1
Order backlog	807.2	847.1	(39.9)	807.2	847.1	(39.9)	718.1
Operating cash flow	(9.7)	(33.9)	24.2	(17.6)	(19.5)	1.9	31.9
Net working capital	488.0	498.2	(10.2)	488.0	498.2	(10.2)	521.7



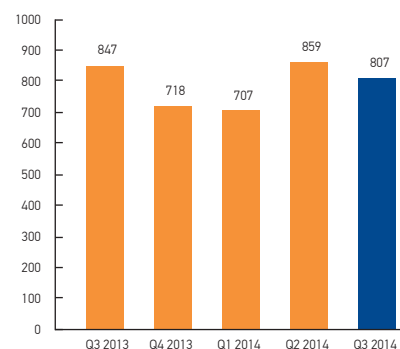
REVENUE Group NOK million



EBIT Group NOK million



ORDER BACKLOG Group NOK million



Revenue

Kitron's revenue in the third quarter was 10.2 per cent higher than in the same period last year, and amounted to NOK 382.1 million (NOK 346.6 million). Revenue in the market sector Defence/Aerospace increased by 38.0 per cent, Energy/Telecoms was up 6.5 per cent, Industry increased by 24.4 per cent, Medical equipment increased by 3.1 per cent and Offshore/Marine was down 25.8 per cent compared to the third quarter of 2013.

Revenue in the Norwegian operation represented 40.6 per cent of Kitron's gross revenue during the third quarter (46.0 per cent). The Swedish operation represented 21.0 per cent of the group (22.9 per cent) and Kitron's operation in Lithuania provided for 23.0 per cent (20.8 per cent).

Kitron's revenue in the third quarter of 2014 was distributed as follows:

	Q3 2014	(Q3 2013)
Defence/Aerospace	20 %	(16 %)
Energy/Telecoms	13 %	(14 %)
Industry	31 %	(27 %)
Medical equipment	25 %	(27 %)
Offshore/Marine	11 %	(16 %)

Revenue from customers in the Swedish market represented a 47.1 per cent share of the total revenue during the third quarter (46.3 per cent). The Norwegian market represented 36.6 per cent of Kitron's total revenue in the third quarter (42.1 per cent).

Gross and net margin

The gross margin in the third quarter 2014 was reduced compared to the third quarter last year and amounted to 36.1 per cent (39.2 per cent). The net margin decreased from 24.6 per cent to 21.5 per cent in the same period last year. The reasons behind the margin decrease are mixed and relate both to changes in product mix, price pressure on products and currency rate effects.

Profit

Kitron's operating profit (EBIT) in the third quarter was NOK 6.9 million, which was a decrease of NOK 0.7 million compared with the same period last year (NOK 7.6 million).

Profit before tax in the third quarter of 2014 was NOK 5.9 million, which was an increase of NOK 3.2 million compared to the same period last year.

The company's total payroll expenses in the third quarter were NOK 3.0 million higher than in the corresponding period in 2013. The relative payroll costs went from 26.1 per cent of revenue in the third quarter 2013 to 24.5 per cent of revenue in the third quarter this year. Other operating costs decreased to 7.6 per cent of revenue in the third quarter of 2014 (8.3 per cent).

During the quarter net financial costs amounted to NOK 1.0 million. This was a decrease of NOK 3.9 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 of 30 September 2014 amounted to NOK 1 099.4 million, against NOK 1 040.1 million at the same time in 2013. Equity was NOK 471.7 million (NOK 474.3 million), corresponding to an equity ratio of 42.9 per cent (45.6 per cent).

Inventory was NOK 411.5 million as of 30 September 2014 (NOK 386.9 million). Inventory turns was up from 3.3 in the third quarter 2013 to 3.5 in the third quarter 2014.

Trade debtors and other receivables amounted to NOK 375.7 million at the end of the third quarter of 2014. The corresponding amount at the same time in 2013 was NOK 345.4 million.

The group's reported interest-bearing debt amounted to NOK 282.8 million as of 30 September 2014. Interest-bearing debt at the end of the third quarter 2013 was NOK 288.4 million.

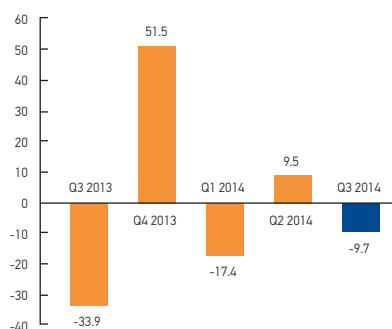
Cash flow from operational activities for the third quarter of 2014 was NOK minus 9.7 million (negative by NOK 33.9 million). Kitron's cash and bank credit as of 30 September 2014 comprised the following:

NOK million	
Cash and cash equivalents	19.2
Drawings on the overdraft facility	(101.7)
Restricted bank deposits	(10.3)
Total	(92.8)

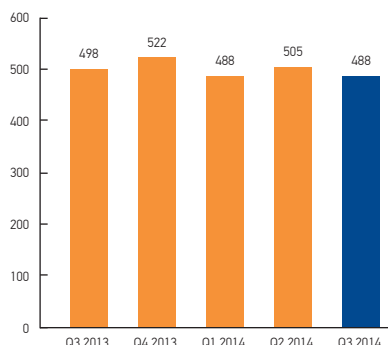
Available liquidity (unrestricted bank deposits and unused credit lines) amounted to NOK 124.0 million at the end of the third quarter, versus NOK 133.6 million at the same time in 2013. The overall credit line as of 30 September 2014 was NOK 207.9 million versus NOK 203.9 million at the same time last year.



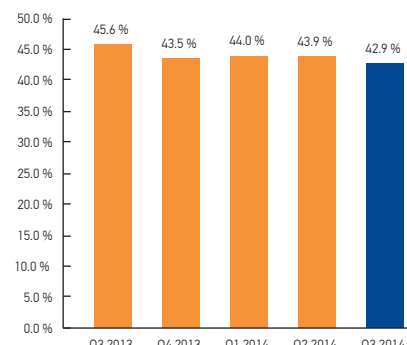
OPERATING CASH FLOW Group
NOK million



NET WORKING CAPITAL Group
NOK million



EQUITY RATIO Group
Per cent



Revenue business entities

NOK million	Q3 2014	Q3 2013	Change	30.09.2014	30.09.2013	Change	31.12.2013
Norway	180.5	181.2	(0.7)	632.4	650.8	(18.4)	924.6
Sweden	93.5	90.2	3.3	312.7	272.5	40.2	382.5
Lithuania	102.5	81.7	20.8	310.2	244.5	65.7	329.9
Others	67.9	40.5	27.4	167.9	119.6	48.2	165.3
Group and eliminations	(62.3)	(47.0)	(15.3)	(148.1)	(132.2)	(15.9)	(170.8)
Total group	382.1	346.6	35.5	1 275.0	1 155.2	119.8	1 631.6

EBIT business entities

NOK million	Q3 2014	Q3 2013	Change	30.09.2014	30.09.2013	Change	31.12.2013
Norway	(5.3)	5.5	(10.7)	(13.4)	13.5	(26.9)	23.9
Sweden	1.5	2.3	(0.8)	7.2	6.1	1.1	10.4
Lithuania	6.8	4.4	2.4	21.0	16.3	4.7	20.1
Others	1.9	(2.7)	4.6	2.6	(7.8)	10.4	(19.2)
Group and eliminations	2.0	(1.9)	3.8	(1.7)	(7.2)	5.5	(10.1)
Total group	6.9	7.6	(0.7)	15.7	20.8	(5.1)	25.1

Order backlog business entities and market sectors

NOK million	Defence/ Aerospace	Energy/ Telecoms	Industry	Medical equipment	Offshore/ Marine	Total
Norway	245.1	-	31.4	74.8	83.5	434.6
Sweden	8.7	45.5	18.3	59.7	-	132.2
Lithuania	0.4	12.5	80.6	10.7	2.5	106.7
Other	106.7	(0.1)	23.9	3.1	-	133.6
Total group	361.0	57.9	154.1	148.2	86.0	807.2

Revenue geographic markets

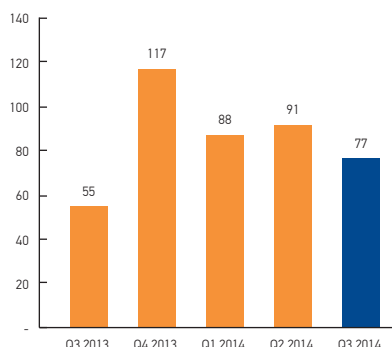
NOK million	Q3 2014	Q3 2013	Change	30.09.2014	30.09.2013	Change	31.12.2013
Norway	139.7	145.8	(6.1)	527.1	548.2	(21.1)	786.9
Sweden	179.8	160.6	19.2	585.8	496.4	89.4	690.8
Rest of Europe	21.2	26.7	(5.5)	68.8	62.7	6.1	81.6
USA	39.7	12.9	26.8	89.8	46.0	43.7	69.7
Others	1.6	0.6	1.0	3.5	1.9	1.6	2.7
Total group	382.1	346.6	35.5	1 275.0	1 155.2	119.8	1 631.6

Full time employees

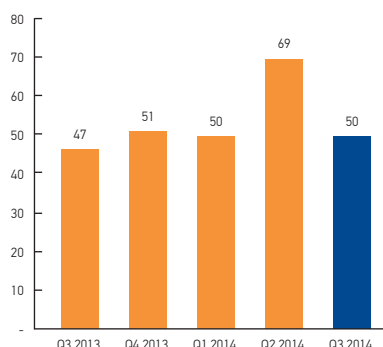
	30.09.2014	30.09.2013	Change
Norway	453	508	(55)
Sweden	139	148	(9)
Lithuania	423	339	84
Other	194	168	27
Total group	1 209	1 163	46



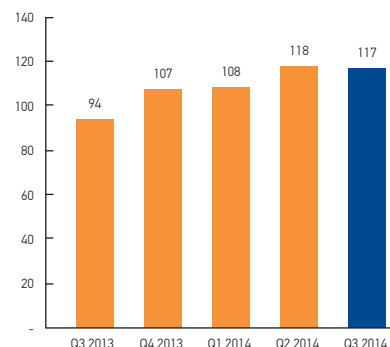
REVENUE Defence/Aerospace
NOK million



REVENUE Energy/Telecoms
NOK million



REVENUE Industry
NOK million



Organisation

The Kitron workforce corresponded to 1 209 full-time employees on 30 September 2014. This represents an increase of 46 since the third quarter of 2013. There is an increase of 110 related to the operations in Lithuania, US and China, while there is a decrease of the workforce in Norway and Sweden of 64.

Market

Order intake in the quarter was NOK 331.7 million, which is 25.9 per cent lower than for the third quarter 2013. The order backlog ended at NOK 807.2 million, which is 4.7 per cent lower than the same period last year.

Four-quarter moving average order intake was down from NOK 451.5 million at the beginning of the third quarter to NOK 422.4 million at the end of the quarter. Kitron's order backlog generally includes four months customer forecast plus all firm orders for later delivery.

Defence/Aerospace

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

The Defence/Aerospace sector revenue increased by 38.0 per cent compared to last year, but decreased by 16 per cent compared to the second quarter 2014. The order backlog at NOK 361 million decreased by NOK 6.8 million during the quarter. Compared to last year, the order backlog increased by NOK 96.2 million.

The increase in the quarter is due to orders from Kongsberg Protech Systems related to electronic modules that are part of Kongsberg Protech's Remote Weapon Station. The orders are connected to the CROWS program in the United States.

Energy/Telecoms

Within the Energy/Telecoms sector Kitron offers clients particular expertise in manufacturing products such as transmission systems, high frequency microwave modules, radio frequency (RF) and remote measurement of electrical metering.

The Energy/Telecoms sector revenues increased by 6.4 per cent compared to last year, but decreased by 28.6 per cent compared to the second quarter of 2014. The order backlog is NOK 57.9 million, a decrease of NOK 8.6 million compared to the second quarter in 2014, but NOK 6 million higher than a year ago. The reduction in order backlog is primarily due to project deliveries in Sweden.

Revenue market sectors

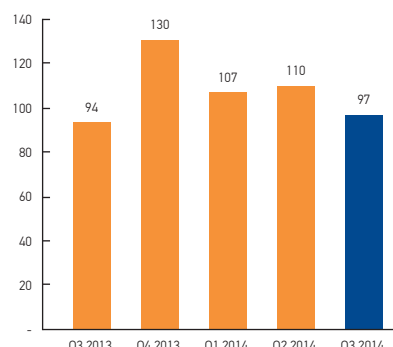
NOK million	Q3 2014	Q3 2013	Change	30.09.2014	30.09.2013	Change	31.12.2013
Defence/Aerospace	76.6	55.5	21.1	255.4	219.5	36.0	336.4
Energy/Telecoms	49.5	46.5	3.0	168.7	137.7	30.9	188.3
Industry	117.4	94.4	23.0	343.7	299.6	44.1	407.0
Medical equipment	96.9	94.0	2.9	314.2	292.2	22.0	422.6
Offshore/Marine	41.7	56.2	(14.6)	193.0	206.3	(13.3)	277.3
Total group	382.1	346.6	35.5	1 275.0	1 155.2	119.8	1 631.6

Order Backlog market sectors

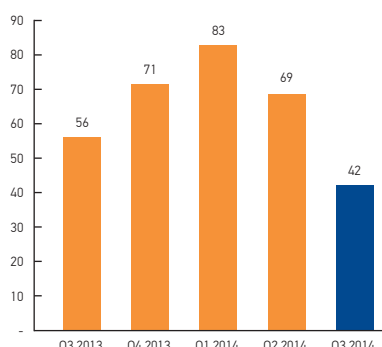
NOK million	30.09.2014	30.09.2013	Change	31.12.2013
Defence/Aerospace	361.0	264.8	96.1	217.5
Energy/Telecoms	57.9	51.9	6.0	59.2
Industry	154.1	183.4	(29.3)	173.3
Medical equipment	148.2	164.6	(16.4)	144.7
Offshore/Marine	86.0	182.3	(96.4)	123.5
Total group	807.2	847.1	(39.9)	718.1



REVENUE Medical equipment
NOK million



REVENUE Offshore/Marine
NOK million



Industry

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

The industry sector shows a revenue increase of 24.4 per cent compared to the third quarter last year and is at the same level as the second quarter of 2014. Compared to last year the sector shows growth for the quarter in China and Lithuania whereas there is a slight reduction in Norway and Sweden. The order backlog is reduced by NOK 29.3 million compared to the same period last year and reduced by NOK 10.9 million from the preceding quarter. The reduction in backlog is primarily in Lithuania, where the Industry sector has adopted more conservative forecasting even though the current revenue is strong.

Medical equipment

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

Revenue in the medical sector has improved by 3.1 per cent compared to the same period last year, the increase coming within the Swedish market. Order backlog is down NOK 16.4 million from the same period last year, and decreased by NOK 10.5 million compared to the preceding quarter. The backlog reduction compared to last year is within the Norwegian market where the order intake has been reduced during 2014. This is partly compensated by increased demand in Sweden.

Offshore/Marine

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

The Offshore/Marine sector revenue decreased by 25.8 per cent compared to the same period last year. The order backlog is NOK 86 million, a reduction of NOK 14.9 million compared to the preceding quarter and a reduction of NOK 96.3 million compared to the same period last year. The decline is due to the previously announced reduction in the Norwegian market, which is connected to the general adjustment in the oil service market in Norway.

Outlook

Kitron expects growth in revenue in 2014, partly explained by development in foreign exchange. The growth in the first nine months has been significant, while the expectations for the fourth quarter are slightly lower than in 2013.

In spite of revenue growth, profitability is not satisfactory for the first three quarters and actions are initiated to rectify the situation and target improved profitability.

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

Board of directors, Kitron ASA Oslo, 22 October 2014

Condensed profit and loss statement

NOK 1 000	Q3 2014	Q3 2013	30.09.2014	30.09.2013	31.12.2013
Revenue	382 070	346 641	1 274 962	1 155 249	1 631 598
Cost of materials	243 910	210 129	812 089	699 117	998 069
Payroll expenses	93 500	90 544	330 057	318 775	443 428
Other operational expenses	29 072	28 752	88 839	87 973	126 338
Other gains / (losses)	(350)	(758)	(2 705)	(2 011)	331
Operating profit before depreciation and impairments (EBITDA)	15 239	16 458	41 273	47 372	64 095
Depreciation and impairments	8 384	8 875	25 565	26 534	38 971
Operating profit (EBIT)	6 854	7 583	15 708	20 838	25 123
Net financial items	(1 004)	(4 896)	(9 044)	(7 027)	(10 750)
Profit (loss) before tax	5 850	2 687	6 664	13 811	14 373
Tax	1 045	(511)	(308)	1 449	6 045
Profit (loss) for the period	4 805	3 198	6 972	12 363	8 328
Earnings per share-basic	0.03	0.02	0.04	0.07	0.05
Earnings per share-diluted	0.03	0.02	0.04	0.07	0.05



Condensed balance sheet

NOK 1 000	30.09.2014	30.09.2013	31.12.2013
ASSETS			
Goodwill	26 786	26 786	26 786
Other intangible assets	33 445	39 484	37 475
Tangible fixed assets	128 020	124 264	122 695
Deferred tax assets	104 774	104 533	101 824
Total fixed assets	293 026	295 068	288 781
Inventory	411 521	386 926	367 454
Accounts receivable and other receivables	375 734	345 358	381 039
Cash and cash equivalents	19 150	12 699	51 387
Total current assets	806 405	744 984	799 879
Total assets	1 099 430	1 040 051	1 088 660
LIABILITIES AND EQUITY			
Equity	471 673	474 286	473 708
Total equity	471 673	474 286	473 708
Deferred tax liabilities	1 045	1 102	1 072
Loans	23 399	40 981	36 966
Pension commitments	8 552	10 982	8 552
Total long-term liabilities	32 997	53 065	46 589
Accounts payable and other current liabilities	334 218	265 321	285 376
Loans	259 414	247 379	279 902
Other provisions	1 128	-	3 084
Total current liabilities	594 761	512 700	568 362
Total liabilities and equity	1 099 430	1 040 051	1 088 660

Condensed cash flow statement

NOK 1 000	Q3 2014	Q3 2013	30.09.2014	30.09.2013	31.12.2013
Net cash flow from operational activities	(9 746)	(33 931)	(17 643)	(19 544)	31 934
Net cash flow from investment activities	(12 834)	(6 286)	(27 824)	(19 419)	(26 725)
Net cash flow from financing activities	(6 955)	871	(16 988)	(23 246)	(23 604)
Change in cash and bank credit	(29 535)	(38 886)	(62 454)	(61 749)	(18 395)
Cash and bank credit opening balance	(60 042)	(32 060)	(27 586)	(5 815)	(5 815)
Currency conversion of cash and bank credit	(3 235)	462	(2 772)	(2 919)	(3 375)
Cash and bank credit closing balance	(92 812)	(70 944)	(92 812)	(70 944)	(27 585)

Consolidated statement of comprehensive income

NOK 1 000	Q3 2014	Q3 2013	30.09.2014	30.09.2013	31.12.2013
Profit (loss) for the period	4 805	3 198	6 972	12 363	8 328
Actuarial gain / losses	-	-	-	-	(502)
Currency translation differences and other changes	(6 460)	6 219	(9 007)	(4 264)	16 399
Total comprehensive income for the period	(1 655)	9 417	(2 035)	8 099	24 225
Allocated to shareholders	(1 655)	9 417	(2 035)	8 099	24 225

Changes in equity

NOK 1 000	30.09.2014	30.09.2013	31.12.2013
Equity opening balance	473 708	466 187	466 187
Profit (loss) for the period	6 972	12 363	8 328
Other comprehensive income for the period	(9 007)	(4 264)	16 489
Dividends	-	-	(17 296)
Equity closing balance	471 673	474 286	473 708



Notes to the financial statements

Note 1 – General information and principles

The condensed consolidated financial statements for the third quarter of 2014 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 2013. 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 2013, which were prepared in accordance with the Norwegian Accounting Act and IFRS, as adopted by the EU. The consolidated financial statements for 2013 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 2013.

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 2014.

Note 4 – Other gains and losses

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



Kitron

Your ambition. Our passion.

Kitron ASA
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NO-1375 Billingstad
Norway

Kitron is a medium-size Electronics Manufacturing Services company. The company has manufacturing facilities in Norway, Sweden, Lithuania, Germany, China and the US and has about 1 200 employees. Kitron manufactures both electronics that are embedded in the customers' own product, as well as box-built electronic products. Kitron also provides high-level assembly (HLA) of complex electromechanical products for its customers.

Kitron offers all parts of the value chain: from design via industrialisation, manufacturing and logistics, to repairs. The electronics content may be based on conventional printed circuit boards or ceramic substrates.

Kitron also provides various related services such as cable harness manufacturing and components analysis, and resilience testing, and also source any other part of the customer's product. Customers typically serve international markets and provide equipment or systems for professional or industrial use.