

Q4



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Fourth quarter



Quarterly report for fourth quarter 2014

Initiatives yield improved profitability

- * Important orders in the fourth quarter
- * Improved profitability in the fourth quarter
- * Full year profitability improvement
- * Kitron invests in its Arendal operations

Important orders in the fourth quarter

Kitron AS, in Arendal, Norway, received orders from a leading company within the offshore industry. The orders had a value for Kitron of NOK 25 million, and will be fulfilled during 2015. The order helps secure the revenue in 2015 and is important as the offshore sector is experiencing reduced order intake. Production will take place at Kitron's plant in Arendal, Norway.

Kitron ASA's subsidiary Kitron AB, in Jönköping, Sweden, signed a three-year frame agreement with Speed Identity AB for production and related services for its biometric identification systems. The agreement has an estimated value of at least SEK 30 million during the three years, with options of prolonging. Production will take place at Kitron's plant in Jönköping, Sweden.

Improved profitability in the fourth quarter

Kitron's revenue for the fourth quarter was NOK 476.3 million and is at the same level as last year.

The order backlog ended at NOK 868.4 million (NOK 718.1 million). This is an increase of NOK 150.3 million compared to last year and an increase of NOK 61.3 million during the quarter. The increased order backlog is a result of orders within the defence industry for the Norwegian and US markets.

Operating profit (EBIT) for the fourth quarter ended at NOK 14.3 million, compared to NOK 4.3 million in the same period last year. In the fourth quarter, one-off costs of NOK 6,9 million related to the relocation of the Arendal operations, Norway, were booked. In the fourth quarter 2013, one-off costs related to the close down of the Distribution centre were booked with NOK 8.7 million.

The profitability expressed as EBIT as a percentage of revenue was 3.0 per cent (0.9 per cent) for the fourth quarter, compared to 1.8 per cent in the preceding quarter. The full year EBIT margin increased compared to the previous quarters this year and full year 2013. The EBIT margin increase is a result of all units being profitable in the fourth quarter.

Operational cash flow was NOK 12.9 million (NOK 51.5 million) for the quarter, which is a decrease of NOK 38.6 million compared to the

same period last year. The decrease in cash flow was primarily due to temporarily increased working capital in Norway due to project deliveries. The cash conversion cycle for the quarter was 106 days, up from 100 during the same period last year.

Full year profitability improvement

Full year revenue of NOK 1751.3 million (NOK 1631.6 million) gave an overall revenue growth of 7.3 per cent for the year. The increase, driven by strong demand outside of Scandinavia and supported by the exchange rate development, compensated for a decline in revenue in Norway.

Operating profit for the year ended at NOK 30.0 million (NOK 25.1 million), resulting in an EBIT margin of 1.7 per cent, an increase of 0.2 percentage points compared to last year. Profitability has been challenging during the year, and there have been strong shifts in the profitability between sites. China and the US both deliver full year profits for the first time, Sweden and Lithuania show increased profitability. Arendal ended the fourth quarter with a profit, in spite of a very challenging year. In Arendal, actions have been taken to reduce cost and personnel, and so far a reduction of 82 employees has been performed.

The board proposes that the Annual General Meeting decides on a dividend of NOK 0.05 per share.

Kitron invests in its Arendal operations

In December, it was announced that Kitron AS will move its operations from Hisøy to Kilsund. Both locations are in Arendal, Norway. Whereas the Hisøy plant is a leased facility, the Kilsund plant is owned by Kitron and was Kitron's main production facility from 1985 until 2005.

Kitron will make investments estimated at NOK 45 million in order to upgrade and expand the Kilsund facility and increase the efficiency of the Arendal operations.

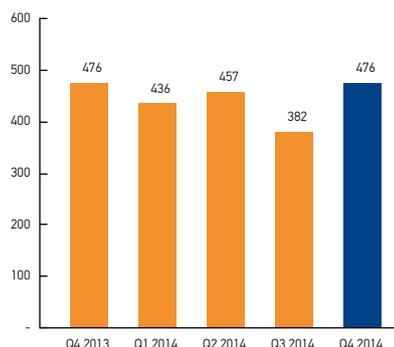
The move is expected to take place early in 2016. One-off costs relating to the move are expected to be NOK 6,9 million and were charged in the fourth quarter of 2014.

Key figures

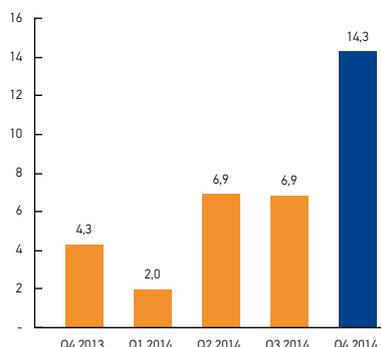
NOK million	Q4 2014	Q4 2013	Change	31.12.2014	31.12.2013	Change
Revenue	476.3	476.3	(0.0)	1 751.3	1 631.6	119.7
EBIT	14.3	4.3	10.0	30.0	25.1	4.9
Order backlog	868.4	718.1	150.3	868.4	718.1	150.3
Operating cash flow	12.9	51.5	(38.6)	(4.8)	31.9	(36.7)
Net working capital	565.5	521.7	43.7	565.5	521.7	43.7



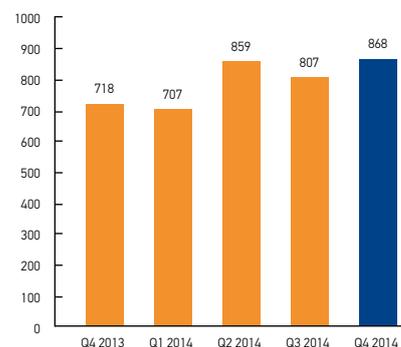
REVENUE Group
NOK million



EBIT Group
NOK million



ORDER BACKLOG Group
NOK million



Revenue

Kitron's revenue in the fourth quarter was at the same level as last year, and amounted to NOK 476.3 million (NOK 476.3 million). Revenue in the market sector Defence/Aerospace decreased by 3.3 per cent, Energy/Telecoms was up 4.7 per cent, Industry increased by 19.6 per cent, Medical equipment increased by 1.8 per cent and Offshore/Marine was down 30.7 per cent compared to the fourth quarter of 2013.

Revenue in the Norwegian operation represented 42.6 per cent of Kitron's gross revenue during the fourth quarter (53.2 per cent). The Swedish operation represented 23.3 per cent of the group (21.4 per cent) and Kitron's operation in Lithuania provided for 20.6 per cent (16.6 per cent).

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

	Q4 2014	Q4 2013
Defence/Aerospace	23.7 %	(24.5 %)
Energy/Telecoms	11.1 %	(10.6 %)
Industry	27.0 %	(22.6 %)
Medical equipment	27.9 %	(27.4 %)
Offshore/Marine	10.3 %	(14.9 %)

Revenue from customers in the Swedish market represented a 51.1 per cent share of the total revenue during the fourth quarter (40.8 per cent). The Norwegian market represented 45.3 per cent of Kitron's total revenue in the fourth quarter (50.1 per cent).

Contribution margin

The contribution margin, defined as revenue minus cost of materials and direct payroll expenses, increased from 21.8 per cent in the same period last year to 23.0 per cent. The reasons behind the margin increase are mixed and relate both to changes in product mix, currency rate effects and higher share of direct employees in low-cost countries.

Profit

Kitron's operating profit (EBIT) in the fourth quarter was NOK 14.3 million, which was an increase of NOK 10.0 million compared with the same period last year (NOK 4.3 million).

Profit before tax in the fourth quarter of 2014 was NOK 22.9 million, which was an increase of NOK 22.4 million compared to the same period last year.

The company's total payroll expenses in the fourth quarter were NOK 11.9 million lower than in the corresponding period in 2013. The relative payroll costs went from 26.2 per cent of revenue in the fourth quarter 2013 to 23.7 per cent of revenue in the fourth quarter this year. Other operating costs were 8.1 per cent of revenue in the fourth quarter of 2014 (8.1 per cent).

During the quarter net financial items were positive NOK 8.6 million, compared to negative NOK 3.7 million in the same period last year. The main reason for the change was currency effects on intra-group financial loans.

Balance sheet

Kitron's gross balance as of 31 December 2014 amounted to NOK 1 152.0 million, against NOK 1 088.7 million at the same time in 2013. Equity was NOK 494.7 million (NOK 473.7 million), corresponding to an equity ratio of 42.9 per cent (43.5 per cent).

Inventory was NOK 402.3 million as of 31 December 2014 (NOK 367.5 million). Inventory turns was down from 3.9 in the fourth quarter 2013 to 3.5 in the fourth quarter 2014.

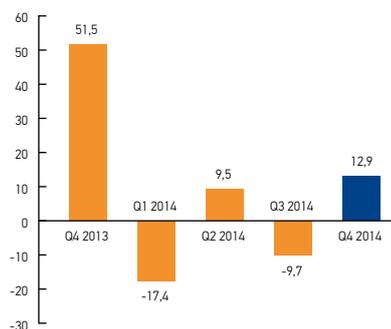
Accounts receivables amounted to NOK 377.8 million at the end of the fourth quarter of 2014. The corresponding amount at the same time in 2013 was NOK 350.6 million.

The group's reported interest-bearing debt amounted to NOK 336.2 million as of 31 December 2014. Interest-bearing debt at the end of the fourth quarter 2013 was NOK 316.9 million.

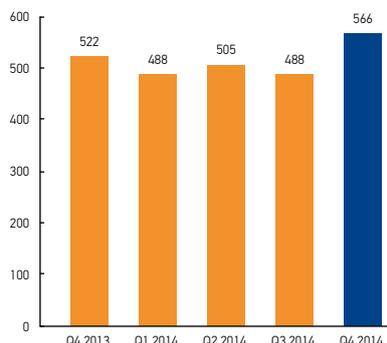
Cash flow from operational activities for the fourth quarter of 2014 was NOK 12.9 million (NOK 51.5 million).



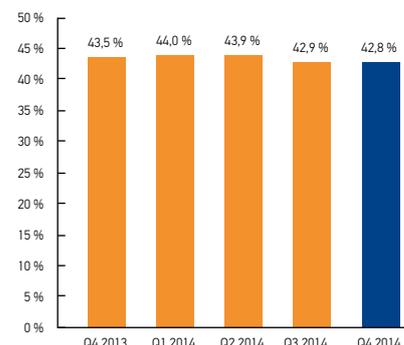
OPERATING CASH FLOW Group
NOK million



NET WORKING CAPITAL Group
NOK million



EQUITY RATIO Group
Per cent



Revenue business entities

NOK million	Q4 2014	Q4 2013	Change	31.12.2014	31.12.2013	Change
Norway	225.1	273.8	(48.6)	857.5	924.6	(67.0)
Sweden	123.3	110.1	13.3	436.0	382.5	53.5
Lithuania	109.1	85.4	23.7	419.2	329.9	89.3
Others	71.5	45.7	25.8	239.4	165.3	74.0
Group and eliminations	(52.7)	(38.6)	(14.1)	(200.8)	(170.8)	(30.1)
Total group	476.3	476.3	(0.0)	1 751.3	1 631.6	119.7

EBIT business entities

NOK million	Q4 2014	Q4 2013	Change	31.12.2014	31.12.2013	Change
Norway	3.5	10.5	(7.0)	(10.0)	23.9	(33.9)
Sweden	7.3	4.3	3.0	14.5	10.4	4.1
Lithuania	6.0	3.9	2.2	27.0	20.1	6.9
Others	4.0	(11.5)	15.4	6.6	(19.2)	25.9
Group and eliminations	(6.4)	(2.9)	(3.5)	(8.1)	(10.1)	2.0
Total group	14.3	4.3	10.0	30.0	25.1	4.9

Order backlog business entities and market sectors

NOK million	Defence/ Aerospace	Energy/ Telecoms	Industry	Medical equipment	Offshore/ Marine	Total
Norway	208.6	-	38.7	65.0	95.5	407.7
Sweden	6.2	65.3	23.2	58.2	-	152.9
Lithuania	2.5	18.6	100.7	9.8	2.5	134.1
Other	144.9	(0.1)	25.4	3.5	-	173.7
Total group	362.2	83.7	188.0	136.5	98.0	868.4

Revenue geographic markets

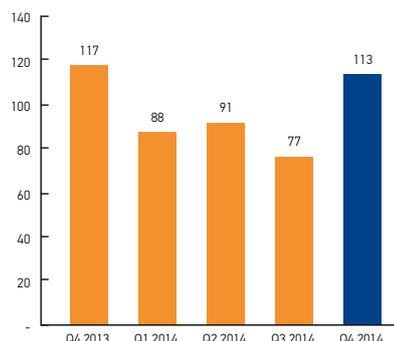
NOK million	Q4 2014	Q4 2013	Change	31.12.2014	31.12.2013	Change
Norway	215.6	238.7	(23.1)	742.7	786.9	(44.2)
Sweden	243.5	194.4	49.2	829.3	690.8	138.6
Rest of Europe	22.4	18.9	3.5	91.2	81.6	9.6
USA	(7.3)	23.7	(31.0)	82.5	69.7	12.8
Others	2.1	0.7	1.4	5.7	2.7	3.0
Total group	476.3	476.3	(0.0)	1 751.3	1 631.6	119.7

Full time employees

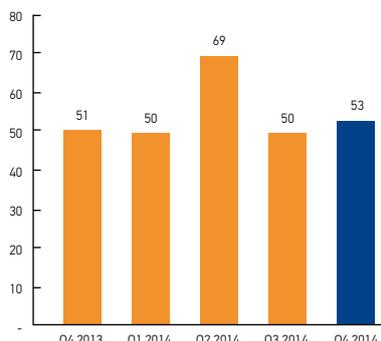
	31.12.2014	31.12.2013	Change
Norway	442	525	(82)
Sweden	130	142	(12)
Lithuania	423	351	73
Other	201	171	30
Total group	1 196	1 188	9



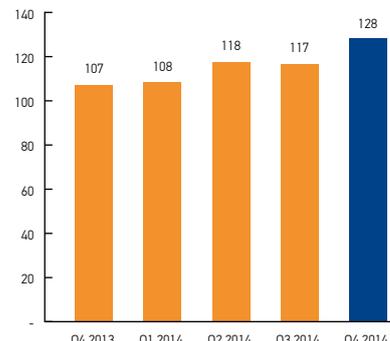
REVENUE Defence/Aerospace
NOK million



REVENUE Energy/Telecoms
NOK million



REVENUE Industry
NOK million



Organisation

The Kitron workforce corresponded to 1 196 full-time employees on 31 December 2014. This is an increase of 8 since the fourth quarter of 2013. There is an increase of 102 related to the operations in Lithuania, US and China, while there is a decrease of the workforce in Norway and Sweden of 94. The number of full-time employees in low-cost regions now accounts for 52 per cent of the total.

Market

Order intake in the quarter was NOK 492.6 million, which is 41.8 per cent higher than for the fourth quarter 2013. The order backlog ended at NOK 868.4 million, which is 20.9 per cent higher than the same period last year.

Four-quarter moving average order intake was up from NOK 422.4 million at the beginning of the fourth quarter to NOK 458.7 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 decreased by 3.3 per cent compared to last year, but increased by 47.5 per cent compared to the third quarter 2014. The order backlog at NOK 362 million increased by NOK 1.2 million during the quarter. Compared to last year, the order backlog increased by NOK 144.7 million (66 per cent).

The increase in revenue in the quarter is due to the previously reported large defence orders from Kongsberg for the US and Norwegian markets.

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 4.9 per cent compared to last year, and increased by 10.7 per cent compared to the third quarter of 2014. The order backlog is NOK 83.7 million, an increase of NOK 25.8 million compared to the third quarter in 2014 (41 per cent), and NOK 24.5 million higher than a year ago.

Revenue market sectors

NOK million	Q4 2014	Q4 2013	Change	31.12.2014	31.12.2013	Change
Defence/Aerospace	113.0	116.9	(3.9)	368.5	336.4	32.1
Energy/Telecoms	53.0	50.6	2.5	221.7	188.3	33.4
Industry	128.4	107.4	21.0	472.1	407.0	65.0
Medical equipment	132.7	130.4	2.2	446.8	422.6	24.3
Offshore/Marine	49.2	71.0	(21.8)	242.2	277.3	(35.1)
Total group	476.3	476.3	(0.0)	1 751.3	1 631.6	119.7

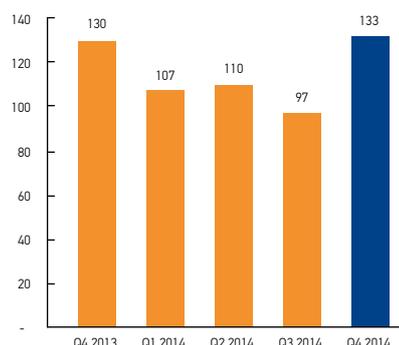
Order Backlog market sectors

NOK million	31.12.2014	31.12.2013	Change
Defence/Aerospace	362.2	217.5	144.7
Energy/Telecoms	83.7	59.2	24.5
Industry	188.0	173.3	14.7
Medical equipment	136.5	144.7	(8.2)
Offshore/Marine	98.0	123.5	(25.5)
Total group	868.4	718.1	150.3



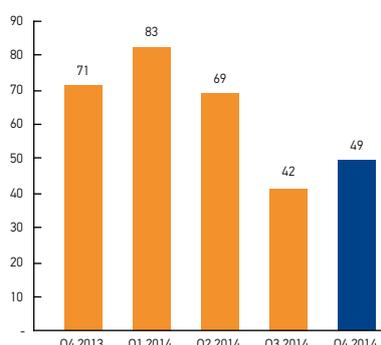
REVENUE Medical equipment

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 19.5 per cent compared to the fourth quarter last year, and the revenue is 9.4 per cent higher than the third quarter of 2014. The order backlog is increased by NOK 14.7 million compared to the same period last year (8 per cent) and by NOK 33.9 million from the preceding quarter. The Industry segment continues to grow, due to increased revenue with existing customers as well as new customers.

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 1.7 per cent compared to the same period last year. The order backlog is NOK 136.5 million, a decrease of NOK 8.2 million from the same period last year (-6 per cent), and decreased by NOK 11.7 million compared to the preceding quarter. The backlog reduction compared to last year is within the Norwegian market. 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 30.7 per cent compared to the same period last year. The order backlog is NOK 98 million, an increase of NOK 12.0 million compared to the preceding quarter and a reduction of NOK 25.5 million compared to the same period last year (-20 per cent). The decline in revenue is due to the previously announced reduction in the Norwegian market, which is connected to the general adjustment in the oil service market. The order backlog increase is related to the large order reported in the fourth quarter.

Outlook

For 2015, Kitron expects growth and a clear improvement in profitability. However during first quarter the revenue outlook is slightly down sequentially due to seasonality.

Growth is driven by increased demand in Defence sector for US and Norwegian markets, as well as increases in Energy/Telecoms and Industry. Offshore/Marine will have reduction due to oil service market in Norway.

Kitron continue to monitor the volatile currency markets and its effect on our operations.

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

Board of directors, Kitron ASA Oslo, 10 February 2015

Condensed profit and loss statement

NOK 1 000	Q4 2014	Q4 2013	31.12.2014	31.12.2013
Revenue	476 337	476 349	1 751 300	1 631 598
Cost of materials	302 523	298 951	1 114 612	998 069
Payroll expenses	112 760	124 653	442 817	443 428
Other operational expenses	38 802	38 365	127 640	126 338
Other gains / (losses)	1 191	2 342	(1 514)	331
Operating profit before depreciation and impairments (EBITDA)	23 443	16 722	64 717	64 095
Depreciation and impairments	9 110	12 437	34 675	38 971
Operating profit (EBIT)	14 333	4 285	30 041	25 123
Net financial items	8 610	(3 723)	(434)	(10 750)
Profit (loss) before tax	22 943	562	29 607	14 373
Tax	5 626	4 597	5 319	6 045
Profit (loss) for the period	17 317	(4 035)	24 289	8 328
Earnings per share-basic	0.10	(0.02)	0.14	0.05
Earnings per share-diluted	0.10	(0.02)	0.14	0.05



Condensed balance sheet

NOK 1 000	31.12.2014	31.12.2013
ASSETS		
Goodwill	26 786	26 786
Other intangible assets	32 409	37 475
Tangible fixed assets	162 147	122 695
Deferred tax assets	105 407	101 824
Total fixed assets	326 750	288 781
Inventory	402 260	367 454
Accounts receivable	377 824	350 585
Other receivables	32 823	30 454
Cash and cash equivalents	12 337	51 387
Total current assets	825 244	799 879
Total assets	1 151 994	1 088 660
LIABILITIES AND EQUITY		
Equity	494 683	473 708
Total equity	494 683	473 708
Deferred tax liabilities	1 081	1 072
Loans	15 277	36 966
Pension commitments	12 241	8 552
Total long-term liabilities	28 599	46 589
Accounts payable	214 611	196 310
Other payables	84 962	89 066
Loans	320 938	279 902
Other provisions	8 200	3 084
Total current liabilities	628 712	568 362
Total liabilities and equity	1 151 994	1 088 660

Condensed cash flow statement

NOK 1 000	Q4 2014	Q4 2013	31.12.2014	31.12.2013
Net cash flow from operational activities	12 879	51 478	(4 763)	31 934
Net cash flow from investment activities	(35 136)	(7 306)	(62 959)	(26 725)
Net cash flow from financing activities	467	(358)	(16 521)	(23 604)
Change in cash and bank credit	(29 850)	43 814	(92 304)	(18 395)
Cash and bank credit opening balance	(92 812)	(70 944)	(27 586)	(5 815)
Currency conversion of cash and bank credit	(8 060)	(456)	(10 832)	(3 375)
Cash and bank credit closing balance	(122 662)	(27 585)	(122 662)	(27 585)

Consolidated statement of comprehensive income

NOK 1 000	Q4 2014	Q4 2013	31.12.2014	31.12.2013
Profit (loss) for the period	17 317	(4 035)	24 289	8 328
Actuarial gain / losses	(4 337)	(502)	(4 337)	(502)
Currency translation differences and other changes	8 773	20 663	(234)	16 399
Total comprehensive income for the period	21 753	(16 126)	19 718	24 225
Allocated to shareholders	21 753	(16 126)	19 718	24 225

Changes in equity

NOK 1 000	31.12.2014	31.12.2013
Equity opening balance	473 708	466 187
Profit (loss) for the period	24 289	8 328
Other comprehensive income for the period	(4 571)	15 897
Effect from options	1 257	592
Dividends	-	(17 296)
Equity closing balance	494 683	473 708



Notes to the financial statements

Note 1 – General information and principles

The condensed consolidated financial statements for the fourth 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.



Your ambition. Our passion.

Kitron ASA
Olav Brunborgs vei 4
P.O. BOX 97
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.