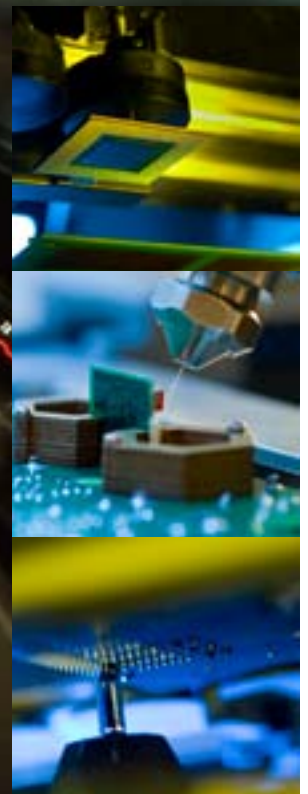




INTERIM REPORT Q3 2011





## Stable market development

### Key items

Figures in brackets refer to the third quarter of 2010 unless otherwise stated.

#### ■ Order intake and backlog rebounding

The order intake increased by 17.2 per cent to NOK 391.6 million (NOK 334.0 million). The order backlog at the end of the third quarter was NOK 820.8 million (NOK 848.2 million). The order backlog increased by NOK 39.4 million compared with Q2 2011.

#### ■ Global expansion ongoing

A new factory in China was officially opened in September 2011. Production has started and strong growth expected over the next 12 to 18 months.

#### ■ Revenue stable

Revenue increased by 0.2 per cent to NOK 352.7 million (NOK 351.9 million).

#### ■ Operating profit

EBITDA and EBIT were NOK 17.2 million (NOK 19.3 million) and NOK 9.2 million (NOK 11.2 million) respectively. Adjusting for start up cost (NOK 4.2 million) the profitability continues to improve.

#### ■ Profit before tax and discontinued operations

Profit before tax and discontinued operations amounted to NOK 8.6 million (NOK 7.8 million), which reflects a margin of 2.5 per cent (2.2 per cent).

#### ■ Cash flow

Cash flow from operations in the third quarter was positive by NOK 8.3 million (NOK -39.8 million) due to the positive operating result and working capital changes.

Kitron's revenue amounted to NOK 352.7 million in the third quarter of 2011, a 0.2 per cent increase compared with the same period last year (351.9). EBIT were NOK 9.2 million (NOK 11.2 million), a 17.8 percentage point decrease compared with same period last year. The profit before tax and discontinued operations was NOK 8.6 million (NOK 7.8 million) which reflects a margin of 2.3 per cent (2.2 per cent). Cash flow from operations was positive by NOK 8.3 million (NOK -39.8 million). The order intake was NOK 391.6 million and the order backlog was NOK 820.8 million, an increase of 17.2 and a decrease of 3.2 per cent respectively.

#### Market situation remains stable

The development in the markets where Kitron operate remains stable amid an increasingly uncertain global economic outlook. So far there are few signs of a slow down in the demand. The order intake was relatively strong in the third quarter and the backlog improved. The positive development is explained by increased demand in the Swedish market and strong trend within the Norwegian offshore sector.

In line with the rest of the industry Kitron has struggled with component sourcing in the last two years. In the last few quarters there has been a gradual improvement and the market is now back to a normal situation. This is positive both from a competitive and operational efficiency point of view.

#### Merger of Swedish entities into one operation completed

As previously announced Kitron is reorganising its Swedish operations to increase its competitiveness and improve profitability. This involves transfer of production to lower cost countries and to optimise the production between the operating units in Sweden. A merger of the Swedish operations were completed in the beginning of September. The restructuring is progressing well and the Swedish operation is profitable in the third quarter.

#### New factory in China officially opened

A new factory in China was officially opened in the end of Q3 2011. Kitron's site in China specialises in the entire value chain around the manufacturing and assembly of electron-

ics products. The market segments include Medical equipment, Industry, Energy, Offshore/Marine and Telecoms.

Kitron's set-up in Ningbo is based on a strategy to offer electronics manufacturing services (EMS) to existing and new customers in the Asian markets and to provide competitive manufacturing services to Kitron's operations in Norway, Sweden, Lithuania and Germany.

The start up of new entities in China, USA and Germany has been a major investment and operational undertaking for Kitron during the first three quarters of 2011. Adjusted for the negative impact from start up activities the year to date EBIT result would have been NOK 17.6 million higher (the impact from start up activities in Q3 was NOK 4.2 million). It is expected that the new entities will turn profitable during 2012.

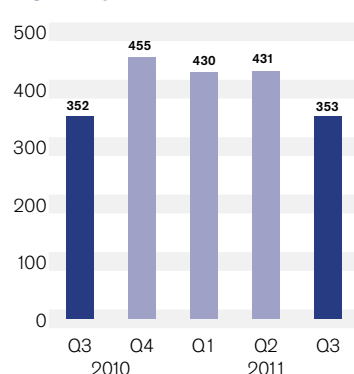
#### Revenue

Kitron's revenue in the third quarter was 0.2 per cent higher than in the same period in 2010, and amounted to NOK 352.7 million (NOK 351.9 million). Revenue in the market segment Defence/Aerospace was down 12.7 per cent, Energy/Telecoms was down 29.1 per cent, Industry increased by 44.7 per cent, Medical equipment was down by 20.0 per cent and Offshore/Marine was up 213.2 per cent compared to the third quarter of 2010.

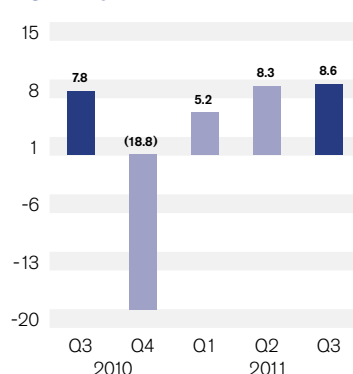
Revenue in the Norwegian operation represented 51.7 per cent of Kitron's gross revenue during the third quarter (65.6 per cent). The Swedish operation represented 27.2 per cent of the group (18.7 per cent) and Kitron's operation in Lithuania provided for 21.1 per cent (15.7 per cent).

- ■ The new factory in China was officially opened in the end of third quarter.

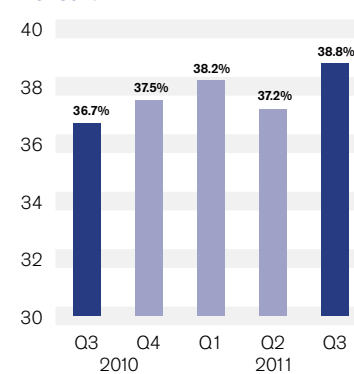
### REVENUE Group



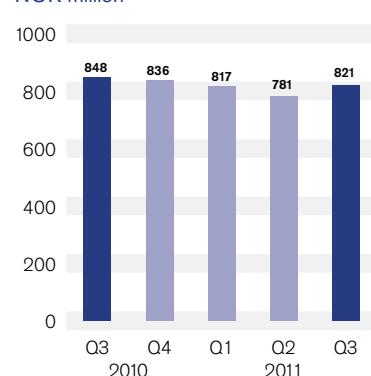
### PROFIT BEFORE TAX Group



### GROSS MARGIN Group



### ORDER BACKLOG Group



Kitron's revenue in the third quarter of 2011 was distributed as follows:

Defence/Aerospace	22%	(25%)
Energy/Telecoms	16%	(22%)
Industry	27%	(19%)
Medical equipment	24%	(30%)
Offshore/Marine	11%	(4%)

Revenue from customers in the Swedish market represented a 51.2 per cent share of the total revenue during the third quarter (34.6 per cent). The Norwegian market represented 42.2 per cent of Kitron's total revenue in the third quarter (52.9 per cent).

### Gross and net margin

The gross margin in third quarter 2011 was up compared to third quarter last year, and amounted to 38.8 per cent (36.7 per cent).

### REVENUE BUSINESS AREAS

NOK million	Q3 2011	Q3 2010	30.09.2011	30.09.2010	31.12.2010
Norway	196.0	246.8	749.4	796.3	1 088.8
Sweden	103.3	70.1	303.5	276.5	389.7
Lithuania	79.9	59.1	257.2	202.5	282.0
Others	11.8	1.8	17.1	4.3	6.1
Group and eliminations	(38.3)	(25.9)	(114.1)	(90.9)	(122.7)
<b>Total group</b>	<b>352.7</b>	<b>351.9</b>	<b>1 213.2</b>	<b>1 188.7</b>	<b>1 643.9</b>

### OPERATING PROFIT/(LOSS) BUSINESS AREAS

NOK million	Q3 2011	Q3 2010	30.09.2011	30.09.2010	31.12.2010
Norway	5.4	9.9	17.7	31.2	41.8
Sweden	1.1	(2.1)	10.8	(20.3)	(42.3)
Lithuania	6.3	2.7	22.8	14.1	21.1
Others	(4.2)	(2.8)	(17.6)	(4.5)	(12.1)
Group and eliminations	0.7	3.4	0.4	1.0	(0.6)
<b>Total group</b>	<b>9.2</b>	<b>11.2</b>	<b>34.1</b>	<b>21.5</b>	<b>7.9</b>

### ORDER BACKLOG BUSINESS AREAS

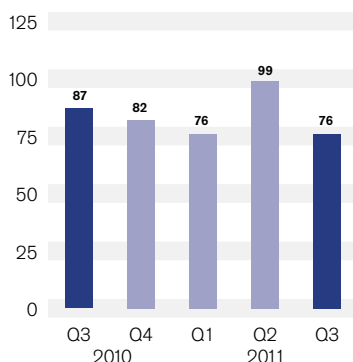
NOK million	Defence/Aerospace	Energy/Telecoms	Industry	Medical equipment	Offshore/Marine	Total
Norway	123.0	7.7	67.9	109.0	136.3	443.8
Sweden	80.6	58.3	21.3	53.8	-	214.0
Lithuania	-	25.5	99.2	14.0	5.0	143.6
Germany	15.3	-	4.1	-	-	19.4
<b>Total group</b>	<b>218.9</b>	<b>91.4</b>	<b>192.4</b>	<b>176.8</b>	<b>141.3</b>	<b>820.8</b>

### REVENUE GEOGRAPHIC DISTRIBUTION CUSTOMERS

NOK million	Q3 2011	Q3 2010	30.09.2011	30.09.2010	31.12.2010
Norway	148.7	186.0	605.5	662.2	893.2
Sweden	180.6	121.8	535.9	456.5	646.8
Rest of Europe	12.6	11.9	44.4	19.8	35.6
USA	10.8	32.1	27.3	50.2	68.4
Others	-	-	-	-	-
<b>Total group</b>	<b>352.7</b>	<b>351.9</b>	<b>1 213.2</b>	<b>1 188.7</b>	<b>1 643.9</b>

**REVENUE** Defence/Aerospace

NOK million



The gross margin is also up from second quarter 2011 with 1.6 percentage points. The net margin increased from 21.9 per cent to 24.6 per cent.

**Profit**

Kitron's operating profit (EBIT) in the third quarter was NOK 9.2 million, which is 2.0 million lower than in third quarter last year. There is increased profitability both in the Norwegian, Swedish and Lithuanian operation. However, start-up costs in the US- and Chinese operations bring the EBIT somewhat lower than third quarter last year.

Profit before tax and discontinued operations in the third quarter of 2011 was NOK 8.6 million, which is an increase of NOK 0.8 million compared to the same period last year (NOK 7.8 million).

The company's total payroll expenses in the third quarter were NOK 5.6 million higher than the corresponding period in 2010. The relative payroll costs went from 23.3 per cent of revenue in third quarter 2010 to 24.9 per cent of revenue in the third quarter this year. Other operating costs increased to 9.1 per cent of revenue in the third quarter of 2011 (7.8 per cent).

During the quarter net financial items amounted to a cost of NOK 0.6 million. This was a decrease of NOK 2.8 million compared to the same period last year. The main reason for the decrease is positive currency effects in third quarter 2011.

**Balance sheet**

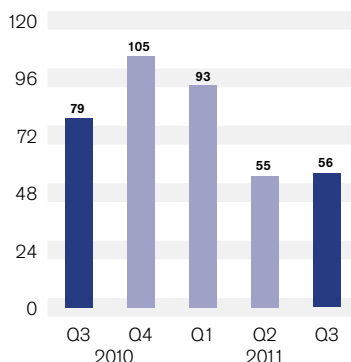
Kitron's gross balance as at 30 September 2011 amounted to NOK 1 014.1 million, against NOK 1 009.2 million at the same time in 2010. Equity was NOK 431.8 million (NOK 444.7 million), corresponding to an equity ratio of 42.6 per cent (44.1 per cent).

Inventory was NOK 338.9 million at 30 September 2011 (NOK 335.9 million). Inventory turns was 3.7 in third quarter 2011 (4.2).

Trade debtors and other receivables amounted to NOK 339.8 million at the end of the third quarter of 2011. The corresponding amount at the same time in 2010 was NOK

**REVENUE** Energy/Telecoms

NOK million



347.3 million. Credit losses have been insignificant.

The group's reported interest-bearing debt amounted to NOK 260.5 million as of 30 September 2011. Interest-bearing debt at the end of the third quarter 2010 was NOK 248.5 million.

Cash flow from operational activities for the third quarter of 2011 was positive by NOK 8.3 million (NOK -39.8 million). This is due to a positive result and working capital changes. Kitron's cash and bank credit at 30 September 2011 comprised the following:

NOK million

Cash and cash equivalents	35.7
Drawings on the overdraft facility	(38.2)
Restricted bank deposits	(18.9)
<b>Total</b>	<b>(21.4)</b>

Available liquidity (unrestricted bank deposits and unused credit lines) amounted to NOK 133.2 million at the end of the third quarter, versus NOK 90.6 million at the same time in 2010. The overall credit line at 30 September 2011 was NOK 150.4 million versus NOK 116.1 million at the same time last year.

**Organisation**

The Kitron workforce corresponded to 1 167 FTEs at 30 September 2011. This represents an increase of 89 FTEs since the third quarter of 2010 (1 078).

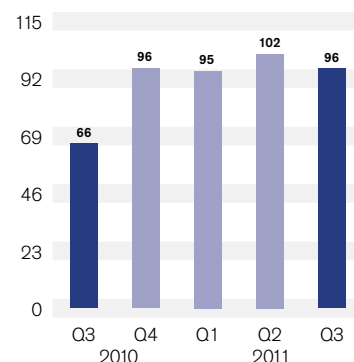
Full time equivalents	30.09.2011	30.09.2010
Norway	517	532
Sweden	180	188
Lithuania	393	325
Other	77	33
<b>Total</b>	<b>1 167</b>	<b>1 078</b>

**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,

**REVENUE** Industry

NOK million



Industry, Medical equipment and Offshore/Marine market segments.

Order intake in the quarter was NOK 391.6 million, which is 17.2 per cent higher than for the third quarter 2010. The order backlog was up by NOK 39.4 million in the quarter and ended at NOK 820.8 million, which is NOK 27.4 million (3.2 per cent) lower than the same period last year. Four quarter moving average order intake was up from NOK 395.6 million at the beginning of the third quarter to NOK 410.0 million at the end of the quarter. Kitron's order backlog generally includes four months customer forecast plus all firm orders.

The market conditions remain stable although there are concerns about the impact of a negative development in the global economy. The tender activity remains high, especially in the German market. Furthermore the offshore segment is recovering to a more normal level.

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. This is an important channel to new business as most clients maintain a strong R&D presence in Scandinavia even if the manufacturing to a certain degree is moved to lower cost countries.

**Defence/Aerospace**

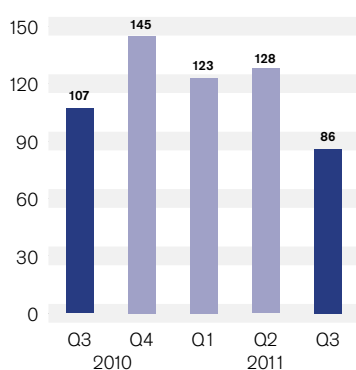
The Defence/Aerospace segment consists of three main product divisions: military and civil avionics, military communication and weapon control systems.

The order backlog decreased by 5.0 per cent and the revenue decreased by 12.7 per cent compared to the third quarter in 2010. The development is due to short term weaker demand from the Norwegian defence industry while the demand in the Swedish market has improved.

While the short term trend is expected to be stable or even negative, the longer term outlook for the Defence/Aerospace segment remains positive. The recent announcement from Kongsberg, one of the major cli-

**REVENUE Medical equipment**

NOK million



ents within the Defence segment, regarding the demand for the CROWS system is not expected to have a negative impact on Kitron in the longer term. Kongsberg consider that the change is not a direct consequence of reduced need for CROWS-systems but rather a changed purchasing strategy due to the current budget situation in the USA.

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. Under the Manufacturing License Agreement between Kitron ASA and Lockheed Martin Maritime Systems and Sensors Kitron will manufacture, test, maintain and repair the Integrated Backplane Assembly in the F-35 Joint Strike Fighter globally. The new contract with Kongsberg related to deliveries of electronics to the NSM (Naval Strike Missile) is further supporting the long term positive outlook. In addition a letter of intent to co-operate in the first phase of the manufacturing of electronics for the JSM (Joint Strike Missile) has been entered into. The positive trend in the Swedish defence industry is also contributing to our long term optimistic 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.

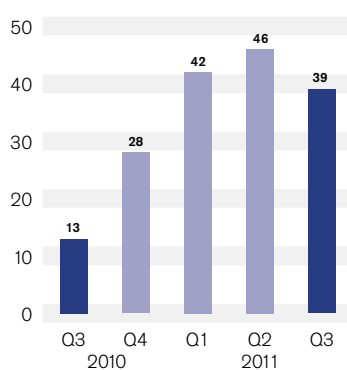
**Energy/Telecoms**

Within the Energy/Telecoms segment Kitron offers clients particular expertise to realise products such as transmission systems, high frequency microwave modules, radio frequency (RF), electrical metering and data/video projection equipment.

The order backlog decreased by 27.4 per cent and revenue decreased by 29.1 per cent compared to the third quarter in 2010. The lower revenue is due to the phase out of a business for one specific customer. Adjusting for this, the trend in this segment has been positive.

**REVENUE Offshore/Marine**

NOK million



The general longer term outlook for Energy/Telecoms products is promising. Among Kitron's customers in this segment we have one of the fastest growing mid sized Telecoms companies in Europe. Another growth driver is the demand within the electrical metering business. Kitron has during the last year secured contracts with several metering companies and the growth in 2011 and beyond is expected to be strong.

**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 increased by 17.5 per cent, and revenue increased by 44.7 per cent compared to the third quarter in 2010. The revenue growth is primarily explained by the recovery in the Swedish industrial sector.

The market situation in particular within the Swedish industry sector has improved and it is expected that the positive trend will continue in the near future. The order intake is gradually picking up and we see an increasing number of RFI/RFQs in the market.

**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).

The order backlog decreased by 27.6 per cent and revenue decreased by 20 per cent compared to the third quarter in 2010. The lower order backlog reflects a reduction in order lead times rather than a drop in demand.

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 68.3 per cent and revenue increased by 213.2 per cent compared to the third quarter in 2010. The strong development is driven by the recovery in the oil and gas sector and a ramp up of production for existing clients.

The trend in the Offshore/Marine segment is closely correlated with the development of the oil price. It is expected that the Offshore/Marine segment will continue to recover in the last quarter of 2011.

**Outlook**

Kitron's markets are mainly Norway and Sweden, but most customers of Kitron sell their products on international markets. The development in the market segments where Kitron operate is currently stable or positive. In the longer term this is expected to result in revenue growth. In the short term however, we expect a strong development in Offshore/Marine and Industry while the outlook for Defence/Aerospace, Medical and Energy/Telecoms is stable or weaker. There are also concerns about the global economic outlook which may affect the demand for Kitron's services. On balance Kitron is expecting a relatively flat top line development in 2011 compared to 2010.

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 compared with 2010.

The strong focus on balance sheet management and cash flow will continue. Management will focus on reducing inventory as the component situation has normalised.

Operating expenses and investments are carefully monitored and managed. Investments that improve Kitron's competitiveness are being prioritised. Training of employees and competency enhancing initiatives are given high attention.

Board of directors, Kitron ASA  
Asker, 26 October 2011

## Condensed profit and loss statement

NOK 1 000	Q3 2011	Q3 2010	30.09.2011	30.09.2010	31.12.2010
Revenue	352 670	351 917	1 213 173	1 188 705	1 643 948
Cost of materials	215 715	222 879	751 876	758 993	1 043 639
Payroll expenses	87 734	82 091	312 681	299 988	429 530
Other operational expenses	32 017	27 621	90 144	84 591	131 811
Operating profit before depreciation and impairments (EBITDA)	17 204	19 326	58 472	45 133	38 969
Depreciation and impairments	8 014	8 164	24 338	23 623	31 076
Operating profit (EBIT)	9 190	11 162	34 134	21 510	7 894
Net financial items	(553)	(3 364)	(11 943)	(8 997)	(14 220)
Profit (loss) before tax	8 637	7 798	22 191	12 513	(6 326)
Tax	2 987	2 728	9 740	694	9 664
Net profit (loss) from continuing operations	5 649	5 070	12 451	11 819	(15 991)
Profit (loss) from discontinued operations	-	136	-	(9 375)	(9 375)
Profit (loss) for the period	5 649	5 206	12 451	2 444	(25 366)
Earnings per share (basic and diluted)	0.03	0.03	0.07	0.01	(0.15)

## Condensed balance sheet

NOK 1 000	30.09.2011	30.09.2010	31.12.2010
<b>ASSETS</b>			
Goodwill	26 786	26 786	26 786
Other intangible assets	35 845	29 327	31 438
Tangible fixed assets	145 773	129 784	132 069
Available for sale financial assets	1	1	1
Deferred tax assets	88 236	96 633	95 847
Other receivables	3 125	3 229	3 227
Total fixed assets	299 767	285 760	289 368
Inventory	338 924	335 928	325 251
Accounts receivable and other receivables	339 745	347 264	352 678
Cash and cash equivalents	35 706	40 213	48 243
Total current assets	714 375	723 405	726 171
Total assets	1 014 142	1 009 165	1 015 539
<b>LIABILITIES AND EQUITY</b>			
Equity	431 754	444 715	420 575
Total equity	431 754	444 715	420 575
Deferred tax liabilities	1 211	-	1 200
Loans	44 100	18 086	38 832
Pension commitments	12 076	11 199	12 076
Total long-term liabilities	57 386	29 285	52 108
Accounts payable and other current liabilities	293 631	304 702	294 174
Loans	216 419	230 462	225 201
Other provisions	14 952	-	23 481
Total current liabilities	525 002	535 164	542 855
Total liabilities and equity	1 014 142	1 009 165	1 015 539

## Condensed cash flow statement

NOK 1 000	Q3 2011	Q3 2010	30.09.2011	30.09.2010	31.12.2010
Net cash flow from operational activities	8 245	(39 764)	2 384	(85 153)	(46 088)
Net cash flow from investment activities	(3 183)	(13 509)	(41 992)	(35 692)	(49 577)
Net cash flow from financing activities	(1 376)	8 844	3 865	4 163	23 265
Change in cash and bank credit	3 686	(44 428)	(35 743)	(116 681)	(72 401)
Cash and bank credit opening balance	(25 075)	14 502	14 354	86 755	86 755
Cash and bank credit closing balance	(21 389)	(29 927)	(21 389)	(29 927)	14 354

## Consolidated statement of comprehensive income

NOK 1 000	Q3 2011	Q3 2010	30.09.2011	30.09.2010	31.12.2010
Net profit	5 649	5 206	12 451	2 444	(25 366)
Currency translation differences and other changes	(1 148)	744	(1 273)	(8 135)	(4 465)
Total comprehensive income for the period	4 501	5 951	11 178	(5 690)	(29 830)
Allocated to shareholders	4 501	5 951	11 178	(5 690)	(29 830)

## Changes in equity

NOK 1 000	30.09.2011	30.09.2010	31.12.2010
Equity opening balance	420 575	450 406	450 406
Comprehensive income for the period	11 178	(5 690)	(29 830)
Equity closing balance	431 754	444 715	420 575

## Notes to the financial statements

### Note 1 – General information and principles

The condensed consolidated financial statements for the third quarter of 2011 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 2010.

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 2010, which were prepared in accordance with the Norwegian Accounting Act and IFRS, as adopted by the EU. The consolidated financial statements for 2010 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 2010.

### 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 2011.

### Note 4 – Discontinued operations

In the second quarter 2010 Kitron signed an agreement to sell its Development Department located in Oslo to some of the local employees and Simpro AS. The transaction was closed June 1 2010. Kitron booked a loss of NOK 4.5 million in connection with the transaction. The loss and the operating result of Kitron Development for the first five months of 2010 have been booked as discontinued operations.

Financial information and cash flow relating to discontinued operations for the period to the date of disposal is set out below.

## Income statement information from discontinued operations

NOK 1 000	Q3 2011	Q3 2010	30.09.2011	30.09.2010	31.12.2010
Revenue	-	-	-	5 936	5 936
Expenses	-	-	-	(10 947)	(10 947)
Profit (loss) before income tax	-	-	-	(5 011)	(5 011)
Tax	-	-	-	-	-
Profit (loss) after income tax	-	-	-	(5 011)	(5 011)
Post tax loss on disposal of discontinued operations	-	136	-	(4 364)	(4 364)
Profit (loss) from discontinued operations	-	136	-	(9 375)	(9 375)

## Cash flow statement information from discontinued operations

NOK 1 000	30.09.2011	30.09.2010	31.12.2010
Net cash flow from operating activities	-	(409)	(409)
Net cash flow from investment activities	-	-	-
Net cash flow from financing activities	-	-	-
Change in cash and bank credit	-	(409)	(409)
Cash and bank credit opening balance	-	409	409
Cash and bank credit closing balance	-	-	-



## Kitron ASA

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P O Box 97  
NO-1375 Billingstad  
Norway

## 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.