

Quarterly report for fourth quarter 2012

Q4 2012

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# Strong growth in cash flow and profitability

- \* Significant inventory reduction
- \* Restructuring of Sweden completed
- \* Trend towards higher profitability
- \* Major Medical contract secured

Kitron's revenue amounted to NOK 462.4 million in the fourth quarter of 2012, a 4.4 per cent increase compared with the same period last year. EBIT increased 416 per cent from fourth quarter last year to NOK 23.4 million. Operating cash flow for the fourth quarter was NOK 84.8 million compared to NOK 13.9 million same period last year.

Offshore/Marine continues to be the strongest growing market segment with a 78.5 per cent leap in revenues compared to the same quarter last year. Also the Defence/Aerospace and Medical segments show a positive trend with revenue growth of 8.3 and 8.8 per cent respectively. Kitron is particularly bullish about the outlook for the Defence/Aerospace segment.

## Significant inventory reduction

Kitron is targeting to significantly reduce the capital tied up in operations. During the fourth quarter inventory was reduced by more than NOK 50 million and the company achieved a positive cash flow of NOK 84.8 million. The improvement is the result of close follow-up during the quarter across all entities. As announced in the last report Kitron is targeting further inventory reductions going forward. Based on today's business volume an additional reduction of at least NOK 50 million is expected, mainly as the result of the implementation of a common distribution centre for the Kitron manufacturing entities. The establishment of the distribution centre has started and will be completed during 2013.

## The restructuring of Sweden completed

The restructuring of the Swedish operation which has been on-going for the last couple of years has now been fully completed. Following a number of years with poor profitability the Swedish posted a solid EBIT margin of 6.3 per cent for the year as a total. The Swedish operation has now been concentrated in Jönköping which enables further streamlining of the operation and reduction of the operating cost.

## Trend towards higher profitability

The improved profitability in the quarter and for the year in total is partly the result of the successful restructuring in Sweden and partly due to the

improved profitability from new operations. The new operations in China and Germany are now profitable, while the factory in US is expected to be profitable from the second quarter of 2013 onwards.

While streamlining the operations in Norway and Sweden down to one factory per country, Kitron has during the past few years been expanding its operations globally. This has been part of a deliberate strategy to increase competitiveness and to follow the customers. The parallel establishment of factories in US and China while entering Germany through a smaller acquisition has been a major undertaking for Kitron and has had a significant negative impact on the result during the start-up phase. In Germany we have secured a number of new customers since the start up and revenue volume is increasing. Most of the manufacturing for the German market is done in our factory in Lithuania.

## Major medical contract secured

Kitron secured the extension of a major contract within the Medical segment during the fourth quarter. The agreement means that Kitron will be supplier for an additional period of approximately 2 years. During this period, Kitron expects that revenue under the agreement will be between NOK 350 and NOK 400 million. Manufacturing will mainly take place at Kitron's factory in Arendal, while parts of the product will be manufactured at Kitron's factory in Ningbo, China.

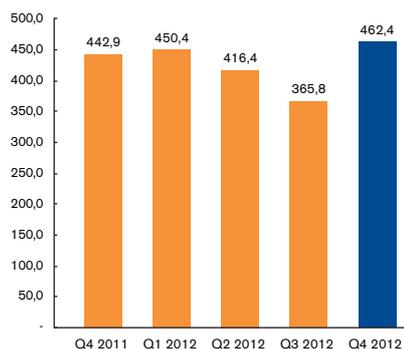
During the fourth quarter Kitron further announced the first order in the Netherlands. Lely has selected Kitron as manufacturing partner for their milking robots. This agreement is strategically important for Kitron. Agriculture machinery is getting more 'intelligent' and Lely is at the forefront of this trend. The production of the electronics for Lely's milking robots will take place at Kitron's factory in Lithuania.

## Key figures

NOK million	Q4 2012	Q4 2011	Change	31.12.2012	31.12.2011	Change
Revenue	462.4	442.9	19.5	1 695.0	1 656.1	38.9
EBIT	23.4	4.5	18.9	70.9	38.7	32.2
Order backlog	776.2	799.3	(23.1)	776.2	799.3	(23.1)
Operating cash flow	84.8	13.9	70.9	42.4	16.3	26.1
Net working capital	505.4	489.0	16.4	505.4	489.0	16.4

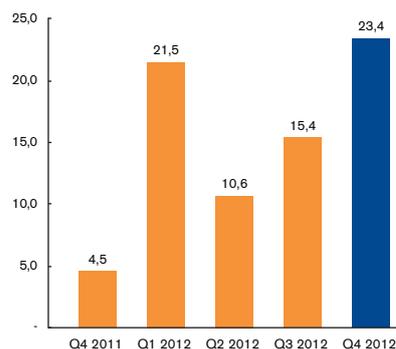
## REVENUE Group

NOK million



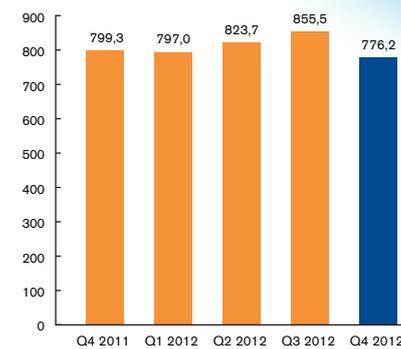
## EBIT Group

NOK million



## ORDER BACKLOG Group

NOK million



### Revenue

Kitron's revenue in the fourth quarter was 4.4 per cent higher than in the same period in 2011, and amounted to NOK 462.4 million (NOK 442.9 million). Revenue in the market segments Offshore/Marine, Medical equipment and Defence/Aerospace were up 78.5, 8.8 and 8.3 per cent, respectively. Energy/Telecoms and Industry decreased by 13.7 and 23.3 per cent, respectively.

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

Defence/Aerospace	19% (18%)
Energy/Telecoms	11% (14%)
Industry	20% (28%)
Medical equipment	31% (29%)
Offshore/Marine	19% (11%)

Revenue in the Norwegian operation represented 53.1 per cent of Kitron's gross revenue during the fourth quarter (49.5 per cent). The Swedish operation represented 25.2 per cent of the group (28.0 per cent) and Kitron's operation in Lithuania provided for 14.2 per cent (20.7 per cent).

Revenue from customers in the Swedish market represented a 43.4 per cent share of the total revenue during the fourth quarter (50.8 per cent), while the Norwegian market represented 48.9 per cent of Kitron's total revenue in the fourth quarter (43.7 per cent).

### Gross and net margin

The gross margin in fourth quarter 2012 increased compared to fourth quarter last year, to 38.6 per cent from 38.0 per cent. The net margin increased from 22.7 per cent to 24.6 per cent.

### EBIT

Kitron's EBIT in the quarter was NOK 23.4 million, which is 18.8 million higher than in fourth quarter last year. The profitability increased in both the Norwegian and Swedish operation. The Lithuanian operation, however, showed a lower EBIT in the fourth quarter compared to last year. The operation in China showed a positive EBIT in the quarter, while start-up costs led to a negative EBIT in fourth quarter for the US operation.

Profit before tax in the fourth quarter of 2012 was NOK 17.8 million, which is an increase of NOK 16.9 million compared to the same period last year.

The company's total payroll expenses in the fourth quarter were NOK 8.3 million lower than the corresponding period in 2011. The relative payroll costs went from 26.8 per cent of revenue in fourth quarter 2011 to 23.9 per cent of revenue in the fourth quarter this year. Other operating costs decreased to 7.7 per cent of revenue in the fourth quarter of 2012 (8.1 per cent).

During the quarter net financial items amounted to a cost of NOK 5.5 million. This was an increase of NOK 2.0 million compared to the same period last year. The main reason for the increase is unrealized currency losses on long-term intercompany loans.

### Balance sheet

Kitron's gross balance as at 31 December 2012 amounted to NOK 1 017.8 million, against NOK 1 060.2 million at the same time in 2011. Equity was NOK 469.9 million (NOK 436.0 million), corresponding to an equity ratio of 46.2 per cent (41.1 per cent).

Net operating working capital was NOK 505.4 million at 31 December 2012 (NOK 489.0 million).

Inventory was NOK 336.7 million at 31 December 2012 (NOK 346.8 million). There is a reduction in inventory from 30 September 2012 of NOK 49.6 million. Inventory turns was 3.8 in fourth quarter 2012 (3.8).

Trade debtors and other receivables amounted to NOK 335.1 million at the end of the fourth quarter of 2012. The corresponding amount at the same time in 2011 was NOK 360.8 million. There is a reduction in trade debtors and other receivables from 30 September 2012 of NOK 15.4. Credit losses have been insignificant.

The group's reported interest-bearing debt amounted to NOK 308.1 million as of 31 December 2012. Interest-bearing debt at the end of the fourth quarter 2011 was NOK 299.2 million.

Operating cash flow for the fourth quarter of 2012 was NOK 84.8 million (NOK 13.9 million). This is mainly due to working capital improvements.

Kitron's cash and bank credit at 31 December 2012 comprised the following:

NOK million	
Cash and cash equivalents	56.8
Drawings on the overdraft facility	(51.5)
Restricted bank deposits	(11.1)
<b>Total</b>	<b>(5.8)</b>

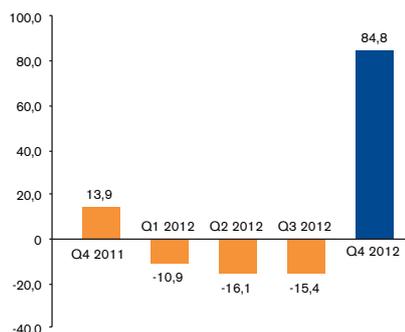
Available liquidity (unrestricted bank deposits and unused credit lines) amounted to NOK 172.4 million at the end of the fourth quarter, versus NOK 136.9 million at the same time in 2011. The overall credit line at 31 December 2012 was NOK 178.2 million versus NOK 145.7 million at the same time last year.

### Organisation

The Kitron workforce corresponded to 1 169 FTEs at 31 December 2012. This represents a decrease of 4 FTEs since the fourth quarter of 2011 (1 173). There were a reduction of FTEs in Sweden and Lithuania and an increase in China.

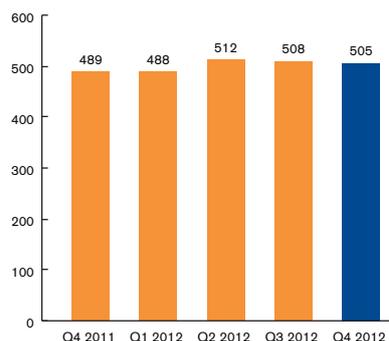
## OPERATING CASH FLOW Group

NOK million



## NET WORKING CAPITAL Group

NOK million



## EQUITY RATIO Group

Per cent



## Revenue business entities

NOK million	Q4 2012	Q4 2011	Change	31.12.2012	31.12.2011	Change
Norway	271.1	232.9	38.2	954.7	982.3	(27.6)
Sweden	128.8	131.7	(2.9)	500.0	435.2	64.8
Lithuania	72.3	97.5	(25.2)	298.0	354.6	(56.6)
Others	38.1	8.0	30.1	119.3	25.1	94.1
Group and eliminations	(47.9)	(27.2)	(20.7)	(176.9)	(141.2)	(35.7)
<b>Total group</b>	<b>462.4</b>	<b>442.9</b>	<b>19.5</b>	<b>1 695.0</b>	<b>1 656.1</b>	<b>38.9</b>

## EBIT business entities

NOK million	Q4 2012	Q4 2011	Change	31.12.2012	31.12.2011	Change
Norway	18.8	10.3	8.6	40.6	28.0	12.6
Sweden	8.0	(7.1)	15.1	31.6	3.7	27.9
Lithuania	3.9	11.2	(7.3)	22.2	34.0	(11.8)
Others	(0.7)	(7.8)	7.1	(14.4)	(25.4)	11.0
Group and eliminations	(6.7)	(2.1)	(4.6)	(9.1)	(1.7)	(7.4)
<b>Total group</b>	<b>23.4</b>	<b>4.5</b>	<b>18.9</b>	<b>70.9</b>	<b>38.7</b>	<b>32.2</b>

## Order backlog business entities and market segments

NOK million	Defence/ Aerospace	Energy/ Telecoms	Industry	Medical equipment	Offshore/ Marine	Total
Norway	194.1	9.8	44.0	82.4	146.0	476.2
Sweden	12.3	39.4	22.3	38.0	-	112.0
Lithuania	-	13.5	105.8	10.1	0.7	130.0
Other	46.1	-	9.8	2.0	-	58.0
<b>Total group</b>	<b>252.5</b>	<b>62.7</b>	<b>181.8</b>	<b>132.5</b>	<b>146.7</b>	<b>776.2</b>

## Revenue geographic markets

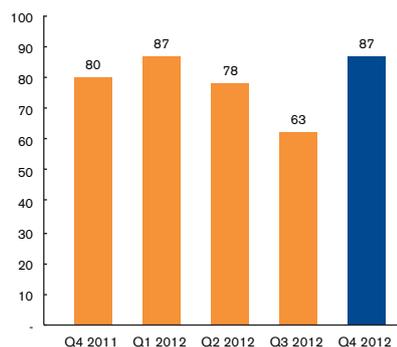
NOK million	Q4 2012	Q4 2011	Change	31.12.2012	31.12.2011	Change
Norway	226.0	193.6	32.3	738.5	799.1	(60.6)
Sweden	200.5	224.9	(24.4)	842.4	760.9	81.6
Rest of Europe	17.6	13.2	4.3	58.0	57.6	0.4
USA	15.5	11.2	4.3	52.3	38.5	13.7
Others	2.8	-	2.8	3.8	-	3.8
<b>Total group</b>	<b>462.4</b>	<b>442.9</b>	<b>19.5</b>	<b>1 695.0</b>	<b>1 656.1</b>	<b>38.9</b>

## Full time employees

	31.12.2012	31.12.2011	Change
Norway	516	507	9
Sweden	139	182	(43)
Lituhania	349	398	(49)
Other	165	86	79
<b>Total group</b>	<b>1 169</b>	<b>1 173</b>	<b>(4)</b>

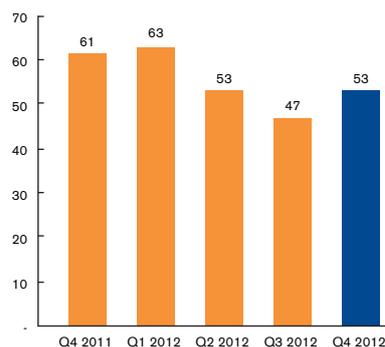
## REVENUE Defence/Aerospace

NOK million



## REVENUE Energy/Telecoms

NOK million



## REVENUE Industry

NOK million



### 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 383.1 million, which is 9.1 per cent lower than for the fourth quarter 2011. The order backlog ended at NOK 776.2 million, which is 2.9 per cent lower than the same period last year. Four quarter moving average order intake was down from NOK 427.5 million at the beginning of the fourth quarter to NOK 417.9 million at the end of the quarter. While the order book contracted somewhat the activity level was relatively strong in the quarter. Kitron's order backlog generally includes four months customer forecast plus all firm orders for later delivery.

In 2013 Kitron foresee a mixed market development. The Swedish industry is looking increasingly uncertain and the demand from the defence sector is expected to contract during the year. The Norwegian market on the contrary looks more stable, and we expect continued growth in particular within defence. Furthermore, Kitron is pursuing new customers and markets, which may strengthen Kitron's position and has the potential to generate growth.

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.

### Defence/Aerospace

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

Kitron is currently involved in defence programs with among other KONGSBERG and Lockheed Martin. Kitron will manufacture, test, maintain and repair the Integrated Backplane Assembly in the F-35 Joint Strike Fighter globally. New and prospective contracts with KONGSBERG are further strengthening an already close relationship. Defence/Aerospace is a prioritised area for our new operation in Germany and Kitron is in promising dialogue with a major German defence company.

We are bullish about the prospects in the Defence segment. An expected lower activity level in the Swedish Defence market in the short to medium term is compensated by growth prospects in other geographical markets.

### 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 remote measurement of electrical metering.

Looking forward we expect that the volume will stabilize on the current lower level. While the metering business has been shrinking for Kitron and is not expected to recover it is expected that other key customers in the Telecoms market will show a modest growth.

### 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 areas: control systems, electronic control units (ECU) and automats.

## Revenue market segments

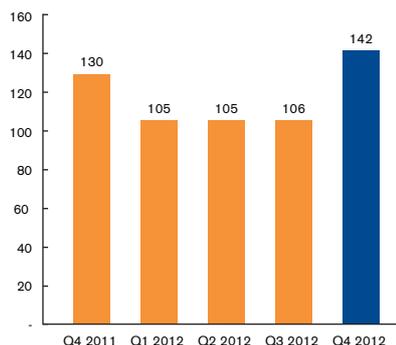
NOK million	Q4 2012	Q4 2011	Change	31.12.2012	31.12.2011	Change
Defence/Aerospace	86.9	80.3	6.7	314.1	331.6	(17.5)
Energy/Telecoms	52.8	61.2	(8.4)	215.9	265.5	(49.6)
Industry	94.0	122.4	(28.5)	392.3	415.3	(23.0)
Medical equipment	141.7	130.2	11.4	458.2	467.0	(8.7)
Offshore/Marine	87.0	48.7	38.3	314.5	176.7	137.8
<b>Total group</b>	<b>462.4</b>	<b>442.9</b>	<b>19.5</b>	<b>1 695.0</b>	<b>1 656.1</b>	<b>38.9</b>

## Order Backlog market segments

NOK million	Q4 2012	Q4 2011	Change	31.12.2011
Defence/Aerospace	252.5	202.0	50.5	202.0
Energy/Telecoms	62.7	89.5	(26.8)	89.5
Industry	181.8	184.9	(3.0)	184.9
Medical equipment	132.5	176.4	(43.9)	176.4
Offshore/Marine	146.7	146.5	0.2	146.5
<b>Total group</b>	<b>776.2</b>	<b>799.3</b>	<b>(23.1)</b>	<b>799.3</b>

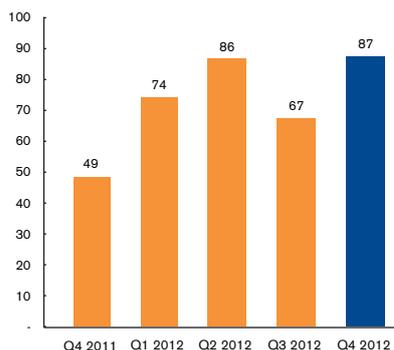
## REVENUE Medical equipment

NOK million



## REVENUE Offshore/Marine

NOK million



Industry is the market segment within Kitron that is most closely correlated with the general economic development. However, despite a challenging market the key customers in this segment indicate a modest growth and overall we believe in a stable development in 2013.

### Medical equipment

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

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. In the short term (2013), however, we believe in a flat development in sales as the market growth is offset with reduced scope/volume for one of the key customers in 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 development in the Offshore/Marine segment closely correlates with the oil price. Following a period of strong growth we believe the volume will stabilize on the current level in 2013.

### Outlook

Kitron's markets are mainly Norway and Sweden, but most customers of Kitron sell their products on international markets. In 2013 Kitron believes in a stable revenue development overall but with variations between the segments.

Kitron has launched several operational improvement programs that should yield a positive contribution to the profitability going forward. The improvement programs are focusing on driving long term growth, reducing the cost base and increasing the efficiency and reducing the capital tied up in operation. Furthermore the positive development in the new operations in China, Germany and US as well as the turnaround of the Swedish operation should have a positive impact going forward.

Board of directors, Kitron ASA  
Asker, 13 February 2013

## Condensed profit and loss statement

NOK 1 000	Q4 2012	Q4 2011	31.12.2012	31.12.2011
Revenue	462 403	442 925	1 695 026	1 656 098
Cost of materials	285 429	274 070	1 039 980	1 024 618
Payroll expenses	110 597	118 878	431 583	431 560
Other operational expenses	35 616	35 924	120 704	126 068
Other gains / (losses)	1 468	(723)	3 748	(2 052)
<b>Operating profit before depreciation and impairments (EBITDA)</b>	<b>32 229</b>	<b>13 328</b>	<b>106 505</b>	<b>71 800</b>
Depreciation and impairments	8 847	8 799	35 592	33 137
<b>Operating profit (EBIT)</b>	<b>23 382</b>	<b>4 529</b>	<b>70 913</b>	<b>38 663</b>
Net financial items	(5 547)	(3 552)	(26 095)	(15 495)
<b>Profit (loss) before tax</b>	<b>17 835</b>	<b>977</b>	<b>44 818</b>	<b>23 168</b>
Tax	(9 280)	(5 102)	(1 579)	4 638
<b>Net profit (loss) from continuing operations</b>	<b>27 115</b>	<b>6 078</b>	<b>46 397</b>	<b>18 529</b>
Profit (loss) from discontinued operations	-	(986)	-	(986)
<b>Profit (loss) for the period</b>	<b>27 115</b>	<b>5 092</b>	<b>46 397</b>	<b>17 543</b>
Earnings per share (basic and diluted)	0,16	0,03	0,27	0,10

## Condensed balance sheet

NOK 1 000	31.12.2012	31.12.2011
<b>ASSETS</b>		
Goodwill	26 786	26 786
Other intangible assets	36 888	40 743
Tangible fixed assets	127 168	139 520
Available for sale financial assets	1	1
Deferred tax assets	98 416	94 627
<b>Total fixed assets</b>	<b>289 259</b>	<b>301 677</b>
Inventory	336 683	346 795
Accounts receivable and other receivables	335 077	360 829
Cash and cash equivalents	56 820	50 916
<b>Total current assets</b>	<b>728 580</b>	<b>758 540</b>
<b>Total assets</b>	<b>1 017 839</b>	<b>1 060 217</b>
<b>LIABILITIES AND EQUITY</b>		
Equity	469 921	436 009
<b>Total equity</b>	<b>469 921</b>	<b>436 009</b>
Deferred tax liabilities	1 000	1 121
Loans	44 407	53 134
Pension commitments	5 795	8 921
<b>Total long-term liabilities</b>	<b>51 202</b>	<b>63 175</b>
Accounts payable and other current liabilities	228 757	285 314
Loans	263 690	246 042
Other provisions	4 269	29 677
<b>Total current liabilities</b>	<b>496 716</b>	<b>561 032</b>
<b>Total liabilities and equity</b>	<b>1 017 839</b>	<b>1 060 217</b>

## Condensed cash flow statement

NOK 1 000	Q4 2012	Q4 2011	31.12.2012	31.12.2011
Net cash flow from operational activities	84 784	13 899	42 407	16 283
Net cash flow from investment activities	(4 935)	(8 050)	(23 416)	(50 041)
Net cash flow from financing activities	(15 104)	12 025	(21 292)	15 890
Change in cash and bank credit	64 745	17 875	(2 301)	(17 868)
Cash and bank credit opening balance	(70 560)	(21 389)	(3 514)	14 354
<b>Cash and bank credit closing balance</b>	<b>(5 815)</b>	<b>(3 514)</b>	<b>(5 815)</b>	<b>(3 514)</b>

## Consolidated statement of comprehensive income

NOK 1 000	Q4 2012	Q4 2011	31.12.2012	31.12.2011
Profit (loss) for the period	27 115	5 092	46 397	17 543
Currency translation differences and other changes	(1 103)	(836)	(3 837)	(2 109)
<b>Total comprehensive income for the period</b>	<b>26 012</b>	<b>4 256</b>	<b>42 560</b>	<b>15 434</b>
<b>Allocated to shareholders</b>	<b>26 012</b>	<b>4 256</b>	<b>42 560</b>	<b>15 434</b>

## Changes in equity

NOK 1 000	31.12.2012	31.12.2011
Equity opening balance	436 009	420 575
Comprehensive income for the period	42 560	15 434
Dividend	(8 648)	-
<b>Equity closing balance</b>	<b>469 921</b>	<b>436 009</b>

## Notes to the financial statements

### Note 1 – General information and principles

The condensed consolidated financial statements for the fourth 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	Q4 2012	Q4 2011	31.12.2012	31.12.2011
Revenue	-	-	-	-
Expenses	-	-	-	-
<b>Profit (loss) before income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Tax	-	-	-	-
<b>Profit (loss) after income tax</b>	<b>-</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>-</b>	<b>(986)</b>

## Cash flow statement information from discontinued operations

NOK 1 000	31.12.2012	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>

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.

**Kitron ASA**

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