

Q1



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QUARTERLY REPORT



Continued revenue growth, but profitability remains challenging

- * Important customer contracts secured
- * Downsizing of the Arendal operations

Important contracts secured

Kitron AS in Arendal has received a new order worth approximately NOK 30 million from Kongsberg Gruppen to supply electronics modules for integration in Kongsberg's weapon guidance system Remote Weapon Station (RWS). In addition Kitron has received a prognosis for orders of a further NOK 20 million. The orders will be filled under the existing frame agreement between the companies. The products will mainly be delivered in 2014 and 2015, and manufactured at Kitron's plant in Arendal, Norway.

Kitron AB in Jönköping, Sweden signed a new two-year frame agreement for manufacturing of automatic speed surveillance and traffic light systems for Sensys Traffic AB. Sensys is the leading provider of road safety system solutions. The agreement is estimated at SEK 10-30 million during 2014-2015, with options of prolonging.

The order backlog was reduced by NOK 10.7 million in the quarter and ended at NOK 707.4 million, which is a reduction of NOK 50.0 million compared to last year. The reduction is foremost within the Offshore/Marine and Defence/Aerospace sectors.

Revenue continues to grow, profitability under pressure

Kitron's revenue for the first quarter was NOK 435.8 million, which is an increase of 15.2 per cent compared to the same period last year. Operating profit (EBIT) was reduced from NOK 4.0 million to NOK 2.0 million in the first quarter.

- * Revenue continues to grow
- * Reorganisation of sourcing operations

Profitability continues to be weak, and margins are at a lower level than previously. The main drivers affecting profitability are margin pressure on both new and existing customers as well as a negative development in product mix as low margin products have increased in volume. In addition, payroll expenses are higher.

Cash flow from operational activities for the first quarter of 2014 was negative by NOK 17.4 million (negative NOK 15.9 million). This is mainly due to working capital changes.

Downsizing of Arendal operations

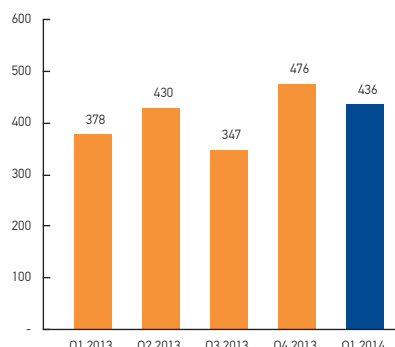
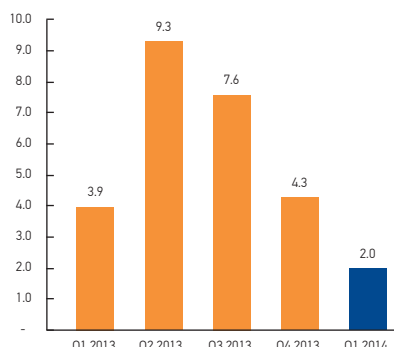
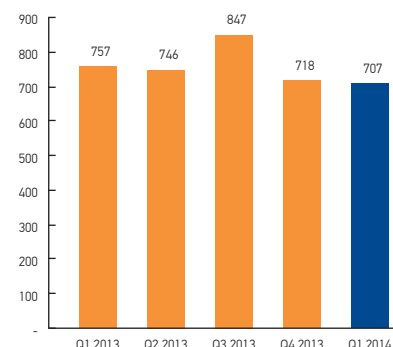
The Arendal operations in Norway will be downsized by 60-100 employees during 2014, compared to the level at year-end 2013. The reduction is a consequence of lower activity due to transfer of products and customers to other parts of Kitron as well as an expected decline in revenue in the offshore sector during the second half of 2014. In addition, the general cost base in Norway will be addressed.

Reorganisation of sourcing operations

The sourcing operation has been reorganised to accommodate cost savings in the organisation. The changes involve a reduction of the global sourcing staff and closer cooperation between the global and local sourcing activities. The reorganisation have caused one-off cost of NOK 2.0 million in the quarter.

Key figures

NOK million	Q1 2014	Q1 2013	Change
Revenue	435.8	378.3	57.5
EBIT	2.0	4.0	(2.0)
Order backlog	707.4	757.4	(50.0)
Operating cash flow	(17.4)	(15.9)	(1.5)
Net working capital	487.9	470.0	17.9

**REVENUE Group**
NOK million**EBIT Group**
NOK million**ORDER BACKLOG Group**
NOK million**Revenue**

Kitron's revenue in the first quarter was 15.2 per cent higher than in the same period last year, and amounted to NOK 435.8 million (NOK 378.3 million). Revenue in the market sector Defence/ Aerospace was up 27.1 per cent, Energy/Telecoms increased by 23.2 per cent, Industry was up 7.9 per cent, Medical equipment increased by 12.5 per cent and Offshore/Marine increased by 13.2 per cent compared to the first quarter of 2013.

Revenue in the Norwegian operation represented 48.3 per cent of Kitron's gross revenue during the first quarter (52.2 per cent). The Swedish operation represented 22.8 per cent of the group (20.2 per cent) and Kitron's operation in Lithuania provided for 20.2 per cent (19.4 per cent).

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

	Q1 2014	(Q1 2013)
Defence/Aerospace	20.1 %	(18.2 %)
Energy/Telecoms	11.4 %	(10.7 %)
Industry	24.9 %	(26.6 %)
Medical equipment	24.6 %	(25.2 %)
Offshore/Marine	19.0 %	(19.3 %)

Revenue from customers in the Swedish market represented a 45.7 per cent share of the total revenue during the first quarter (41.1 per cent). The Norwegian market represented 43.6 per cent of Kitron's total revenue in the first quarter (49.8 per cent).

Gross and net margin

The gross margin in first quarter 2014 decreased compared to first quarter last year, and amounted to 38.2 per cent (40.3 per cent). The net margin, defined as revenue minus cost of materials and direct payroll expenses, decreased from 23.4 per cent to 21.5 per cent this year. The main reasons for the change in margins are product mix variances and increased payroll expenses.

Profit

Kitron's operating profit (EBIT) in the first quarter was NOK 2.0 million, which was a decrease of NOK 2.0 million compared with same period last year (NOK 4.0 million).

Profit before tax in the first quarter of 2014 was NOK minus 3.3 million, which was a decrease of NOK 4.2 million compared to the same period last year.

The company's total payroll expenses in the first quarter were NOK 14.1 million higher than the corresponding period in 2013. The

relative payroll costs went from 29.3 per cent of revenue in first quarter 2013 to 28.7 per cent of revenue in the first quarter this year. Other operating costs decreased to 7.1 per cent of revenue in the first quarter of 2014 (7.6 per cent).

During the quarter net financial items amounted to a cost of NOK 5.3 million. This was an increase of NOK 2.2 million compared to the same period last year. The main reason for the increase was currency effects on intra-group financial loans.

Balance sheet

Kitron's gross balance as at 31 March 2014 amounted to NOK 1 065.3 million, against NOK 996.5 million at the same time in 2013. Equity was NOK 468.6 million (NOK 471.0 million), corresponding to an equity ratio of 44.0 per cent (47.3 per cent).

Inventory was NOK 383.9 million at 31 March 2014 (NOK 350.2 million). Inventory turns was up from 3.3 in first quarter 2013 to 3.5 in first quarter 2014.

Trade debtors and other receivables amounted to NOK 360.1 million at the end of the first quarter of 2014. The corresponding amount at the same time in 2013 was NOK 315.5 million.

The group's reported interest-bearing debt amounted to NOK 284.7 million as of 31 March 2014. Interest-bearing debt at the end of the first quarter 2013 was NOK 270.5 million.

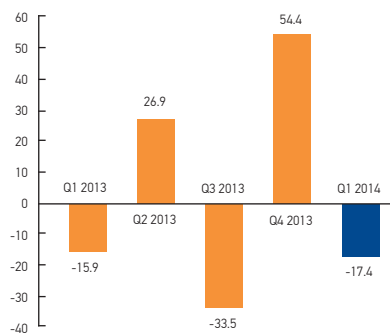
Cash flow from operational activities for the first quarter of 2014 was negative by NOK 17.4 million (negative NOK 15.9 million). This is mainly due to working capital changes. Kitron's cash and bank credit on 31 March 2014 comprised the following:

NOK million	
Cash and cash equivalents	40.9
Drawings on the overdraft facility	(81.2)
Restricted bank deposits	(10.2)
Total	(50.5)

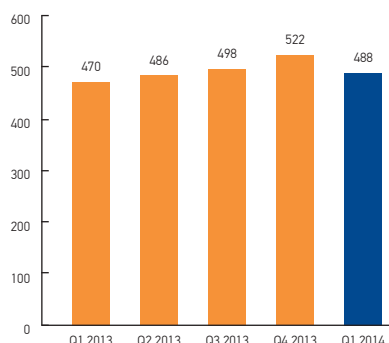
Available liquidity (unrestricted bank deposits and unused credit lines) amounted to NOK 133.6 million at the end of the first quarter, versus NOK 149.2 million at the same time in 2013. The overall credit line on 31 March 2014 was NOK 184.1 million versus NOK 180.8 million at the same time last year.



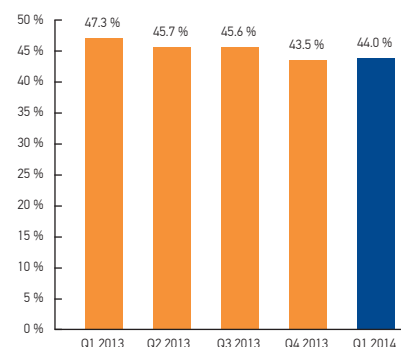
OPERATING CASH FLOW Group
NOK million



NET WORKING CAPITAL Group
NOK million



EQUITY RATIO Group
Per cent



Revenue business entities

NOK million	Q1 2014	Q1 2013	Change	31.12.2013
Norway	226.6	219.5	7.1	924.6
Sweden	107.2	84.8	22.4	382.5
Lithuania	94.8	81.7	13.1	329.9
Others	40.7	34.5	6.2	165.3
Group and eliminations	(33.5)	(42.2)	8.8	(170.8)
Total group	435.8	378.3	57.5	1 631.6

EBIT business entities

NOK million	Q1 2014	Q1 2013	Change	31.12.2013
Norway	(0.6)	1.6	(2.3)	23.9
Sweden	3.0	1.7	1.3	10.4
Lithuania	5.7	6.3	(0.6)	20.1
Others	(1.6)	(3.4)	1.8	(19.2)
Group and eliminations	(4.5)	(2.3)	(2.2)	(10.1)
Total group	2.0	4.0	(2.0)	25.1

Order backlog business entities and market sectors

NOK million	Defence/ Aerospace	Energy/ Telecoms	Industry	Medical equipment	Offshore/ Marine	Total
Norway	135.8	-	30.2	75.7	98.9	340.7
Sweden	14.8	76.0	16.7	46.2	-	153.7
Lithuania	8.9	16.0	89.4	14.7	2.5	131.4
Other	60.6	(0.1)	18.3	2.8	-	81.5
Total group	220.1	91.9	154.5	139.4	101.4	707.4

Revenue geographic markets

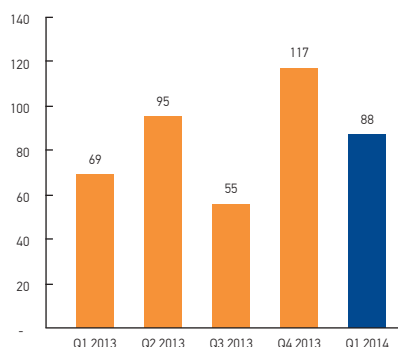
NOK million	Q1 2014	Q1 2013	Change	31.12.2013
Norway	190.0	188.5	1.5	786.9
Sweden	199.1	155.6	43.5	690.8
Rest of Europe	22.5	18.7	3.8	81.6
USA	23.4	14.7	8.8	69.7
Others	0.8	0.8	(0.1)	2.7
Total group	435.8	378.3	57.5	1 631.6

Full time employees

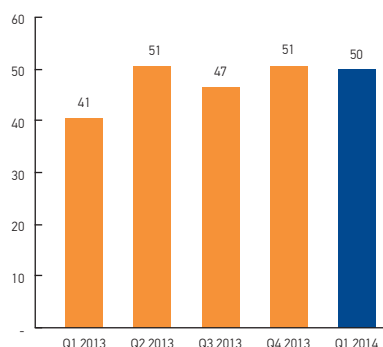
	31.03.2014	31.03.2013	Change
Norway	501	518	(17)
Sweden	138	136	2
Lithuania	388	338	50
Other	171	171	-
Total group	1 197	1 163	34



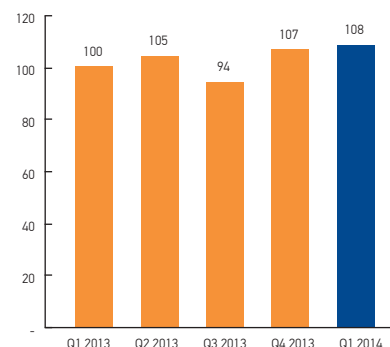
REVENUE Defence/Aerospace
NOK million



REVENUE Energy/Telecoms
NOK million



REVENUE Industry
NOK million



Organisation

The Kitron workforce corresponded to 1 197 FTEs on 31 March 2014. This represents an increase of 34 FTEs since the first quarter of 2013. The increase in workforce is mainly related to the operations in Lithuania, while there is a reduction in Norway.

Market

Order intake in the quarter was NOK 408.1 million, which is 13.5 per cent higher than for the first quarter 2013. The order backlog ended at NOK 707.4 million, which is 6.6 per cent lower than the same period last year. Four-quarter moving average order intake was up from NOK 393.4 million at the beginning of the first quarter to NOK 405.5 million at the end of the quarter. Kitron's order backlog 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 27.1 per cent compared to last year, due to increased demand from existing customers in Norway, US and Sweden. The order backlog at NOK 220.1 million is at the same level as last quarter. Compared to last year, the order backlog is reduced by NOK 36.1 million, primarily due to a reduction in Norway, partly compensated by an improvement in the US.

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 23.2 per cent compared to last year, primarily driven by demand from existing customers in Sweden. The order backlog is NOK 91.9 million, an increase of NOK 30 million compared to last quarter and last year. The improvement in order backlog is primarily related to the Swedish market.

Revenue market sectors

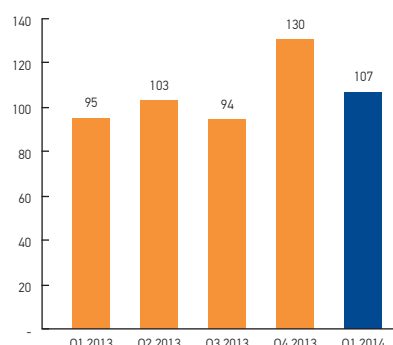
NOK million	Q1 2014	Q1 2013	Change	31.12.2013
Defence/Aerospace	87.6	68.9	18.7	336.4
Energy/Telecoms	49.9	40.5	9.4	188.3
Industry	108.4	100.5	7.9	407.0
Medical equipment	107.3	95.4	11.9	422.6
Offshore/Marine	82.6	73.0	9.7	277.3
Total group	435.8	378.3	57.5	1 631.6

Order Backlog market sectors

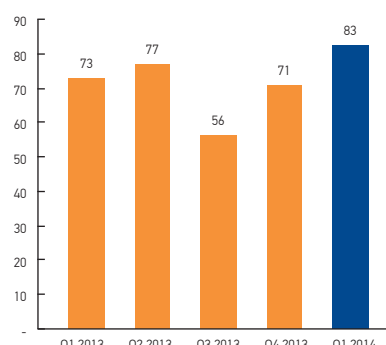
NOK million	31.03.2014	31.03.2013	Change	31.12.2013
Defence/Aerospace	220.1	256.3	(36.1)	217.5
Energy/Telecoms	91.9	58.7	33.3	59.2
Industry	154.5	165.7	(11.1)	173.3
Medical equipment	139.4	113.8	25.6	144.7
Offshore/Marine	101.4	163.0	(61.7)	123.5
Total group	707.4	757.4	(50.1)	718.1



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 segment consists of three main product areas: control systems, electronic control units (ECU) and automats.

The industry sector shows a revenue increase of 7.9 per cent compared to last year. The trend is quite similar across markets. The order backlog is down NOK 18.1 million from last quarter and down NOK 11.1 million from last year, again showing a similar trend across markets.

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 12.5 per cent compared to last year, the increase coming within the Swedish market. Order backlog is down NOK 5.3 million from last quarter, but increased by NOK 25.6 million compared to last year. The improvement is within the Swedish market.

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 increased 13.2 per cent compared to last year. The order backlog, however, is at NOK 101.4 million and reduced by NOK 22.1 million for the quarter and NOK 61.7 million compared to last year. The decline is primarily in the Norwegian market.

Outlook

Kitron expects a positive development in the Swedish and German markets, which suggests growth for the factories in Sweden and Lithuania. Growth is also expected in China and the US, whereas a lower volume is expected in the Norwegian operation.

Overall, Kitron expects growth in revenue in 2014, partly explained by development in foreign exchange. As a result of the reorganisation and other actions taken, Kitron expects the profitability to improve during the year.

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

Board of directors, Kitron ASA
Oslo, 23 April 2014

Condensed profit and loss statement

NOK 1 000	Q1 2014	Q1 2013	31.12.2013
Revenue	435 805	378 291	1 631 598
Cost of materials	269 591	225 730	998 069
Payroll expenses	124 912	110 858	443 428
Other operational expenses	30 861	28 743	126 338
Other gains / (losses)	125	(196)	331
Operating profit before depreciation and impairments (EBITDA)	10 566	12 764	64 095
Depreciation and impairments	8 594	8 814	38 971
Operating profit (EBIT)	1 972	3 950	25 123
Net financial items	(5 299)	(3 067)	(10 750)
Profit (loss) before tax	-3 327	883	14 373
Tax	(1 620)	(498)	6 045
Profit (loss) for the period	(1 707)	1 381	8 328
Earnings per share-basic	(0.01)	0.01	0.05
Earnings per share-diluted	(0.01)	0.01	0.05



Condensed balance sheet

NOK 1 000	31.03.2014	31.03.2013	31.12.2013
ASSETS			
Goodwill	26 786	26 786	26 786
Other intangible assets	34 903	36 775	37 475
Tangible fixed assets	115 859	125 866	122 695
Deferred tax assets	102 828	103 611	101 824
Total fixed assets	280 376	293 039	288 781
Inventory	383 859	350 243	367 454
Accounts receivable and other receivables	360 070	315 522	381 039
Cash and cash equivalents	40 948	37 665	51 387
Total current assets	784 876	703 429	799 879
Total assets	1 065 252	996 468	1 088 660
LIABILITIES AND EQUITY			
Equity	468 608	470 962	473 708
Total equity	468 608	470 962	473 708
Deferred tax liabilities	1 054	1 013	1 072
Loans	31 573	42 801	36 966
Pension commitments	8 552	10 982	8 552
Total long-term liabilities	41 179	54 796	46 589
Accounts payable and other current liabilities	299 660	242 541	285 376
Loans	253 100	227 714	279 902
Other provisions	2 705	455	3 084
Total current liabilities	555 465	470 710	568 362
Total liabilities and equity	1 065 252	996 468	1 088 660

Condensed cash flow statement

NOK 1 000	Q1 2014	Q1 2013	31.12.2013
Net cash flow from operational activities	(17 366)	(15 891)	31 934
Net cash flow from investment activities	(991)	(4 901)	(26 725)
Net cash flow from financing activities	(6 542)	(2 767)	(23 604)
Change in cash and bank credit	(24 900)	(23 559)	(18 395)
Cash and bank credit opening balance	(27 585)	(5 815)	(5 815)
Currency conversion of cash and bank credit	2 022	(2 258)	(3 375)
Cash and bank credit closing balance	(50 463)	(31 632)	(27 585)

Consolidated statement of comprehensive income

NOK 1 000	Q1 2014	Q1 2013	31.12.2013
Profit (loss) for the period	(1 707)	1 381	8 328
Actuarial gain / losses	-	-	(502)
Currency translation differences and other changes	(3 394)	3 394	16 399
Total comprehensive income for the period	(5 100)	4 775	24 225
Allocated to shareholders	(5 100)	4 775	24 225

Changes in equity

NOK 1 000	31.03.2014	31.03.2013	31.12.2013
Equity opening balance	473 708	466 187	466 187
Profit (loss) for the period	(1 707)	1 381	8 328
Other comprehensive income for the period	(3 394)	3 394	16 489
Dividends	-	-	(17 296)
Equity closing balance	468 608	470 962	473 708



Notes to the financial statements

Note 1 – General information and principles

The condensed consolidated financial statements for the first 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.

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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.