

INTERIM REPORT Q3 2005



ADDITIONAL COST CUTTING BY SIMPLIFYING THE STRUCTURE

Kitron showed a slight loss for the third quarter. Group sales proved to be lower than expected, but the results in Microelectronics have continued to increase throughout the quarter. Measures to improve efficiency have been approved. The operations in southern Norway are being merged and the Oslo manufacturing unit will be discontinued. The board has proposed a strengthening of the company's share capital through an issue underwritten by its two principal shareholders, UAB Hermis Capital and Kongsberg Gruppen ASA.

Highlights

Figures in brackets refer to the third quarter of 2004 unless otherwise specified.

- **Weak pre-tax result**
The pre-tax loss was NOK 1.4 million (profit of NOK 0.8 million)
- **Decline in turnover**
NOK 331.4 million (NOK 381 million)
- **Gross margin satisfactory**
39.6 per cent (37.7 per cent)
- **Operating profit**
EBITDA and EBIT were NOK 12.3 million (NOK 14.8 million) and NOK 4.1 million (NOK 5.3 million) respectively
- **Measures in 2004 having desired effect**
Costs down by NOK 10.1 million in the third quarter
- **New structure will improve operational efficiency**
The manufacturing units at Hisøy and Kilsund are being merged, while production in Oslo will be discontinued.

OPERATING REVENUES

Kitron's operating revenues for the third quarter totalled NOK 331.4 million, representing a 13 per cent decline in turnover from NOK 381 million in the same period of 2004. About NOK 9 million of the decline in revenue refers to higher currency rates compared to the same period 2004.

Sales by Kitron AS, the Norwegian electronic manufacturing services (EMS) business, came to NOK 236.2 million and account for 71.3 per cent of total group turnover. Turnover at Kitron AB, the Swedish EMS business, was NOK 53.8 million and corresponded to 16.2 per cent of overall group sales. Kitron Microelectronics achieved a turnover of NOK 43.9 million in the third quarter and accounted for 13.2 per cent of total sales.

Kitron's overall gross margin amounted to 39.6 per cent in the third quarter, corresponding to an increase of 1.9 percentage points from the same period of last year. This positive trend reflects a changed product mix and a strong continued commitment to the common sourcing function.

OPERATING REVENUES BUSINESS AREAS

NOK mill.	Q3 2005	Q3 2004	30.09.05	30.09.04	31.12.04
Kitron AS	236.2	271.0	785.3	936.9	1 253.6
Kitron AB	53.8	68.0	221.0	230.7	333.3
Kitron Litauen	28.0	35.5	98.5	109.3	190.9
Microelectronics (Norway and Sweden)	43.9	43.8	140.8	136.5	142.9
Others and eliminations	(30.5)	(37.3)	(112.7)	(126.5)	(172.7)
Total group	331.4	381.0	1 132.9	1 286.9	1 748.0

OPERATING PROFIT/(LOSS) BUSINESS AREAS

NOK mill.	Q3 2005	Q3 2004	30.09.05	30.09.04	31.12.04
Kitron AS	2.5	8.2	3.5	(34.2)	(31.3)
Kitron AB	(2.2)	(4.6)	(2.3)	(3.2)	(9.3)
Kitron Litauen	1.0	2.8	5.7	9.3	12.6
Microelectronics (Norway and Sweden)	4.0	3.2	9.6	3.4	2.0
Others and eliminations	(1.2)	(4.3)	(7.2)	(10.1)	(27.3)
Total group	4.1	5.3	9.3	(34.8)	(53.3)

PROFIT AND LOSS ACCOUNT

Operating profit for the third quarter was NOK 4.1 million, down by NOK 1.2 million from the same period of 2004.

Kitron implemented a number of measures last year which have reduced its cost base. This was also reflected in results for the third quarter, with payroll expenses and other operating costs reduced by NOK 4.8 million and NOK 5.3 million respectively from the same period of 2004. Realised cost reductions of NOK 10.1 million in the third quarter and NOK 66.3 million for the first nine months are in line with the target of NOK 70 million in savings for 2005 as a whole.

NOK 1.2 million was charged to the accounts in the third quarter for the cost of the option programme covering senior employees and other key persons. The effect for the first nine months was NOK 3.6 million. These costs

are a consequence of converting to the IFRS at 1 January 2005.

Net financial expenses for the third quarter totalled NOK 5.6 million, up by NOK 1 million from the same period of last year. Net foreign currency losses owing to a stronger Norwegian krone accounted for about NOK 1 million of this.

BALANCE SHEET

Kitron's balance sheet at 30 September totalled NOK 602.5 million as against NOK 727.8 million a year earlier. Group equity amounted to NOK 168.7 million, giving an equity ratio of 28.0 per cent.

Capital locked up in stocks has been reduced, and was NOK 248.7 million at 30 September as against NOK 303.9 a year earlier. Capital tied up in accounts receivable amounted to NOK 109.9 million at 30 September (NOK 162.6 million). Sales of accounts receivable represented NOK 175.7 million (NOK 213.9 million).

NOK 4 million remained at 30 September from the restructuring provision made in the second quarter of 2004. This provision will cover outstanding lease obligations at Kongsberg after operations there were wound up and manufacturing moved to Arendal.

The company's capitalised interest-bearing debt totalled NOK 63.5 million at 30 September (NOK 99.1 million).

Cash flow from operations was negative in the third quarter, at NOK 17.1 million, compared with a negative NOK 47.1 million for the same period of last year. The improvement in cash flow from operational activities is due to lower payments on accounts payable and other short term debt. The liquidity position is satisfactorily due to a leaner balance sheet.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

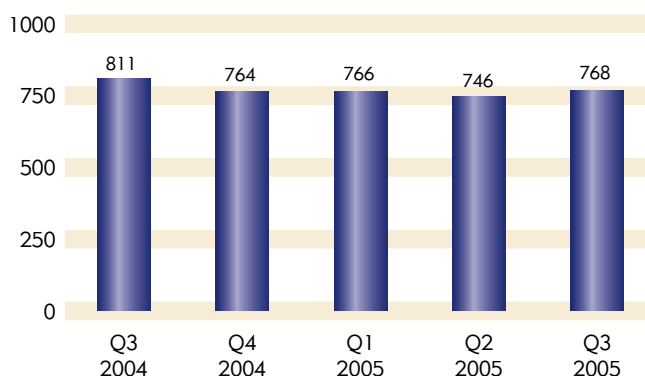
Kitron has reported in accordance with the IFRS from the first quarter of 2005. This interim report contains comparable figures for 2004 which have been restated to comply with the IFRS. The effect of the transition to new accounting standards is described in more detail in the first-quarter report.

SHAREHOLDERS

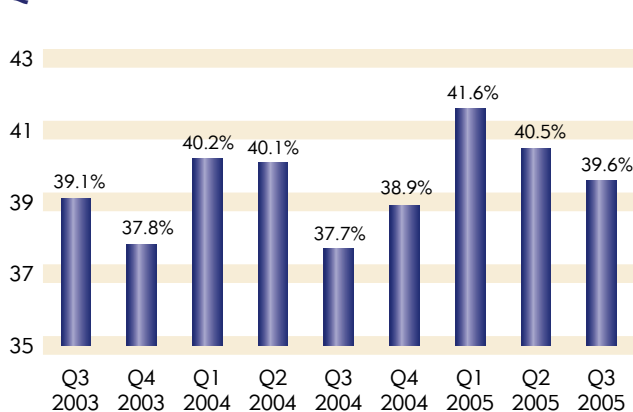
The company had 3 288 shareholders at 30 September, who held 157 361 625 shares with a

DEVELOPMENT IN ORDER BACKLOG GROUP

NOK MILLION



QUARTERLY MARGIN DEVELOPMENT GROUP



nominal value of NOK 1 each. The 10 largest shareholders at 30 September were:

UAB Hermis Capital	39.99 %
Kongsberg Gruppen ASA	19.03 %
MP Pensjon	5.98 %
ING Luxembourg SA	2.62 %
Gambak	2.54 %
Statoil Pension Fund	2.04 %
JP Morgan Chase Bank	1.91 %
Statoil Forsikring	1.41 %
OKO Osuuspankkien KE	1.12 %
Verdipapirfondet NOR	1.05 %

At an extraordinary general meeting on 16 August, Nerius Dagilis, Titas Sereika and Magnus B Linseth were elected as new directors. Mr Dagilis was elected as the new chairman. Kjell E Almskog and Annette Malm Justad ceased to be directors. At another extraordinary general

■ ■ The positive trend the gross margin reflects a changed product mix and a strong continued commitment to the common sourcing function.

meeting on 26 September, Mr Lindseth ceased to be a director and Mr Almskog was re-elected to the board.

ORGANISATION

Employees in Kitron at 30 September corresponded to 1 184 work-years, a decline of 89 work-years from the same period of 2004 and 22 since the end of second quarter 2005.

Of total work-years, 616 related to operations in Kitron AS, 231 to operations in Kitron AB, 196 to the activities in Lithuania and 122 to Kitron Microelectronics. The remaining 19 relate to Kitron ASA and Kitron Sourcing, and are tied to procurement and administration.

MARKET DEVELOPMENTS

EMS

A number of analysts have been forecasting growth in the Nordic EMS market. Such expansion has been modest so far.

One positive trend is that product owners are increasingly looking to outsource several stages in their manufacturing processes, such as system assembly and testing (high level assembly, HLA). EMS companies are being invited into a larger part of the development process, from concept to industrialisation and preparations for series production. Kitron is active here at every stage.

The EMS market is characterised by hard competition. Norwegian players have found the strength of the NOK a substantial challenge. However, Kitron's deliveries are characterised by a high technology content, low volumes and considerable flexibility, and this type of delivery is expected to hold up in the Nordic and Baltic markets.

Norway's EMS market is currently characterised by limited availability of new high-volume products. Although the number of new customers has increased, it will take time before the manufacturing volume becomes sizable. The Swedish market is growing, and operations established here by Kitron are expected to yield results in the form of increased market share. In the rest of Europe, technology owners continue to do much of their manufacturing in-house. This offers a substantial potential for EMS manufacturers. Kitron is working to forge new contacts in this market.

The company is well prepared to meet European Union requirements for removing lead and other substances hazardous to health from solder and components after 1 July 2006.

Microelectronics

The market for microelectronics is expanding, and some other Nordic companies show interest. Kitron has a competitive advantage through its experience, expertise and established customer relations.

Growth in this market is primarily taking place in the data/telecom and industry segments. Microelectronics for new applications will also become more relevant in future, not least in lighting solutions and deliveries to the car industry.

New orders for the third quarter totalled NOK 353 million (NOK 351 million).

Kitron's sales in the third quarter break down as follows:

Defence/Marine:.....	27.6 %	(25.9 %)
Data/Telecom:.....	28.5 %	(28.4 %)
Medical Equipment:.....	21.1 %	(21.9 %)
Industry:.....	22.8 %	(23.8 %)

DEFENCE/MARINE

The competitive position for the defence and marine segment is stable in both Norway and Sweden. Kitron ranks as the leading supplier of contract manufacturing to the defence industry, and the number of competitors is limited.

During the third quarter, Kitron worked to develop new customer relations both nationally and internationally. Cooperation with the Norwegian and Swedish defence industries was further developed. Although the defence sector is not expanding, Kitron is working to increase its volume of business by gaining entry to larger parts of the development and manufacturing process.

Turnover in the defence/marine segment was somewhat lower in the third quarter than for the same period of last year. Activity is also expected to be down in the fourth quarter compared with the last three months of 2004.

Turnover breakdown Defence/Marine		
	NOK mill.	Share %
Kitron AS	70.6	77 %
Kitron AB	21.2	23 %
Kitron Litauen	1.2	1 %
Microelectronics	-	0 %
Others and eliminations	(1.5)	(1 %)
TOTAL	91.5	100 %

■ ■ Product owners are increasingly looking to outsource several stages in their manufacturing processes, high level assembly.

DATA/TELECOM

The data/telecom segment is expanding, but primarily within the high volume - high mix segment. Such modules are largely manufactured in Asia. Kitron's marketing efforts have therefore been aimed at winning customers focused on radio/microwave technology.

RadioComponents is an example of the latter, and Kitron has industrialised and developed one of their new products. Kitron has high expectations for this collaboration in future.

Where microelectronics is concerned, growth during the third quarter was highest in the data/telecom and industry segments. Tendering has increased, and is expected to yield higher activity in the time to come.

Turnover breakdown Data/Telecom

	NOK mill.	Share %
Kitron AS	60.7	64 %
Kitron AB	0.6	1 %
Kitron Litauen	7.4	8 %
Microelectronics	35.1	37 %
Others and eliminations	(9.4)	(10 %)
TOTAL	94.4	100 %

MEDICAL EQUIPMENT

Volume in the medical equipment market segment is increasing, while prices are under pressure.

The goal of marketing work for this segment has been to reinforce and continue developing relations with existing customers. Kitron is positioning itself to be able to produce complete systems for its customers. An agreement concluded with Cellavision AB in Sweden during the third quarter means that Kitron will not only manufacture electronic components but also assemble and test complete products. This deal confirms that Kitron has the right qualifications to produce complete products (HLA). This deal implies a strengthening of the business in Flen.

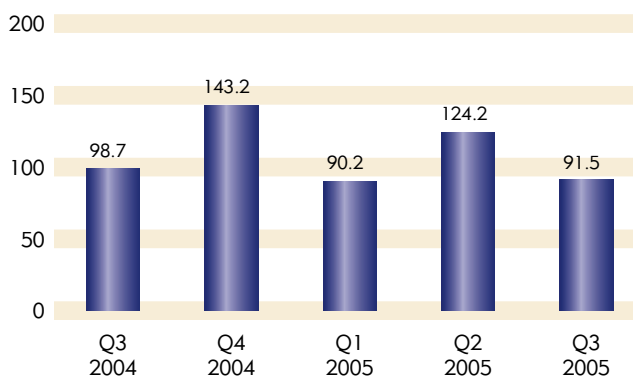
Kitron is focusing on expanding its Swedish market share during 2006, and has strengthened its sales organisation for that purpose.

Several interesting microelectronics projects are offered by the medical equipment segment at both new and existing customers. New customer relations have been established in the areas of X-rays and radiology, medical diagnostics and applications for medical research.

Despite rather lower turnover in the medical equipment segment during the third quarter

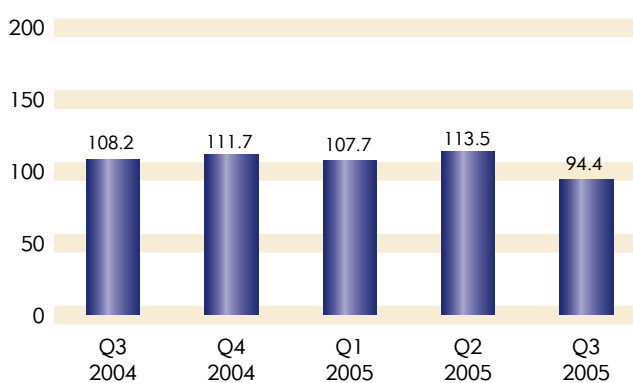
TURNOVER DEVELOPMENT DEFENCE/MARINE

NOK MILLION



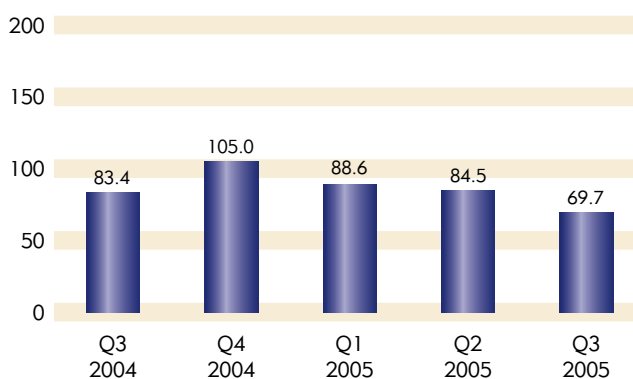
TURNOVER DEVELOPMENT DATA/TELECOM

NOK MILLION



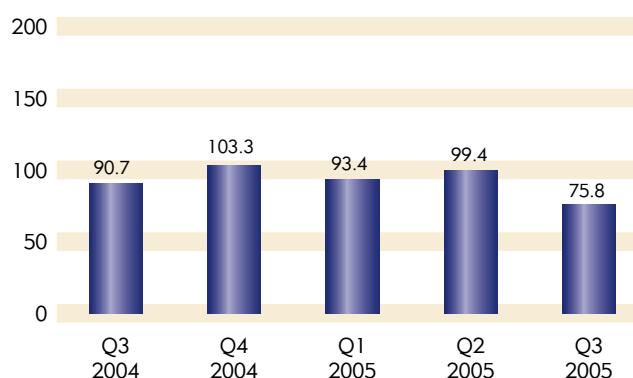
TURNOVER DEVELOPMENT MEDICAL EQUIPMENT

NOK MILLION



TURNOVER DEVELOPMENT INDUSTRY

NOK MILLION



■ ■ The restructuring provides annual savings of approximately NOK 50 million from the second quarter of 2006.

compared with the same period of 2006, sales for the year as a whole are expected to be at the same level as in 2004.

Turnover breakdown Medical Equipment		
	NOK mill.	Share %
Kitron AS	46.7	67 %
Kitron AB	23.5	34 %
Kitron Litauen	8.8	13 %
Microelectronics	0.5	1 %
Others and eliminations	(9.8)	(15 %)
TOTAL	69.7	100 %

INDUSTRY

Substantial resources have been committed during 2005 to strengthening relations with existing clients. A change of product family generations is under way at a number of Kitron's customers, and providing support for this process is crucial to securing a competitive position in relation to the new products. Kitron's development resources make a strong contribution to these processes, and the group is involved in the redesign of existing products for a number of its customers.

Turnover breakdown Industry		
	NOK mill.	Share %
Kitron AS	58.2	77 %
Kitron AB	8.5	11 %
Kitron Litauen	10.7	14 %
Microelectronics	8.2	11 %
Others and eliminations	(9.8)	(13 %)
TOTAL	75.8	100 %

MORE EFFICIENT OPERATION

As a result of several quarters with falling turnover and weak profitability, Kitron has now decided to reducing capacity in its Norwegian business. These measures are necessary, and are expected to contribute to profitable operation from the first quarter of 2006.

The Norwegian EMS business, Kitron AS, comprises manufacturing operations at Kilsund, Hisøy and Oslo. The Kilsund operation is being moved to and merged with the Hisøy plant, while the manufacturing unit in Oslo will be discontinued and its activities transferred to

Kitron's other production plants, including the Lithuania plant.

This merger and closure will reduce employees by approximately 100 work-years. The restructuring provides annual savings of approximately NOK 51 million from the second quarter of 2006. A provision of NOK 55 million will be made in the accounts for the fourth quarter of 2005.

As a result of the above-mentioned restructuring, the board of Kitron ASA takes the view that the company's equity position will need to be strengthened. The board has accordingly resolved to propose to an extraordinary general meeting that it be authorised to issue up to 16 million shares. The company's two principal shareholders, UAB Hermis Capital and Kongsberg Gruppen ASA, who are both represented on the board of Kitron ASA, will participate in a possible issue.

PROSPECTS

Kitron has earlier communicated a profit expectation for 2005 as a whole. A lower order intake and delays to starting production under important contracts mean that activity and turnover have been lower than expected. The structural measures now being implemented are necessary for achieving profitability. With a provision of NOK 55 million in the fourth-quarter accounts, the goal of a profit will not be attainable in 2005.

During the first nine months of the year, Kitron achieved cost savings of NOK 66.3 million as a result of measures taken in 2004. The target of NOK 70 million is within reach. With the structural measures now adopted, Kitron will secure a further NOK 51 million in annual savings from the second quarter of 2006.

The board takes the view that the composition of resources and expertise at Kitron AS is now adapted to the market we see in the time to come. Improvements at Kitron AB will also be considered.

Kitron's operations in Lithuania are becoming steadily more important for its ability to offer competitive solutions to customers. The principal markets will remain Norway and Sweden. Kitron expects the Swedish part of the business to develop positively, since growth is likely to be highest in this market.

Oslo, 26 October 2005

The board of directors of Kitron ASA

KITRON ASA – INTERIM REPORT Q3 2005

Profit and loss (NOK 1 000)	Q3 2005	Q3 2004	30.09.05	30.09.04	31.12.04
Operating income	331 405	380 977	1 132 884	1 286 937	1 748 047
Cost of materials	200 276	237 296	672 804	779 216	1 062 104
Gross profit margin	39.6 %	37.7 %	40.6 %	39.5 %	39.2 %
Payroll expenses	91 134	95 885	336 742	378 292	528 185
Other operational expenses	27 665	33 010	88 393	113 176	148 633
Restructuring costs				24 169	24 169
EBITDA	12 329	14 786	34 945	(7 916)	(15 044)
Ordinary depreciation	8 197	9 446	23 576	26 902	36 492
Write-down of goodwill			2 097		1 735
Operating profit/loss (EBIT)	4 132	5 340	9 271	(34 818)	(53 271)
Net financial costs	5 556	4 574	17 480	17 608	18 529
Profit/loss before tax	(1 424)	766	(8 209)	(52 426)	(71 800)
Taxes					2 007
Profit/loss after tax	(1 424)	766	(8 209)	(52 426)	(73 807)
Earnings per share	(0.01)	0.01	(0.06)	(0.40)	(0.56)
Diluted earnings per share	(0.01)	0.01	(0.06)	(0.40)	(0.56)

Balance sheet (NOK 1 000)	30.09.05	30.09.04	31.12.04
Deferred tax credits	20 000	20 000	20 000
Other intangible fixed assets	19 630	19 187	21 727
Fixed assets	108 428	123 402	120 561
Financial assets	6 587	13 103	8 524
Total fixed assets	154 645	175 692	170 812
Inventory	248 737	303 852	246 394
Accounts receivable	109 901	162 596	130 819
Receivable	58 196	63 968	33 835
Funds available	31 002	21 730	30 065
Total current assets	447 835	552 146	441 113
Total assets	602 480	727 838	611 925

LIABILITIES AND SHAREHOLDERS' EQUITY (NOK 1 000)	30.09.05	30.09.04	31.12.04
Paid-in equity	155 704	133 472	116 650
Retained earnings			
Minority interests	12 994	11 967	12 558
Total shareholders' equity	168 698	145 439	129 208
Pension commitments	31 850	35 633	31 532
Provision for liabilities and charges	6 998	7 288	13 822
Debt to credit institutions	12 563	14 224	16 194
Other long term debt	13 875	27 255	22 792
Total long term debt	65 286	84 400	84 340
Debt to credit institutions	50 973	84 924	17 322
Provision for liabilities and charges	3 038	15 766	5 858
Other short term debt	314 485	397 309	375 197
Total short term debt	368 496	497 999	398 377
Total liabilities and shareholders' equity	602 480	727 838	611 925

Financing of accounts receivable as at 30.09.2005 was NOK 175,7 mill

Cash Flow Statement (NOK 1 000)	Q3 2005	Q3 2004	30.09.05	30.09.04	31.12.04
Net cash flow from operational activities	(17 106)	(47 064)	(55 489)	(115 590)	(33 046)
Net cash flow from investment activities	(6 638)	(3 781)	(11 442)	(9 453)	(23 718)
Net cash flow from financing activities	23 317	50 493	67 868	94 639	34 695
Net change in cash	(427)	(352)	937	(30 404)	(22 069)
Cash balance opening balance	31 429	22 082	30 065	52 134	52 134
Cash balance closing balance	31 002	21 730	31 002	21 730	30 065

Shareholders' equity (NOK 1 000)	30.09.05	30.09.04	31.12.04
Shareholders' equity opening balance	129 208	148 180	148 180
Profit/loss for the year	(8 209)	(52 426)	(73 807)
Conversion difference	(2 906)	(639)	(2 579)
Share issue after issue costs	46 977	37 791	43 348
Change in minority interests		1 130	(1 139)
Equity provided through options	3 628	11 403	15 205
Shareholders' equity closing balance	168 698	145 439	129 208

This interim report has been prepared in accordance with IAS 34. The IFRS figures are to be regarded as temporary, since the interpretation of the standards could still be subject to change during 2005. Furthermore, Kitron could choose different accounting principles to ones it has previously applied in areas where the IFRS allows freedom of choice. The figures are unaudited.



Kitron ASA

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