

INTERIM REPORT Q2 2005



CONTINUED PROGRESS

Kitron maintained its improvement from the first quarter and returned to the black in the second quarter. The group is on the right course for meeting its goal of a profit in 2005 as a whole. Cost-saving measures are having the planned effect, and the market outlook is positive.

Highlights

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

- **Back in the black**
Pre-tax profit was **NOK 0.2 million** (loss of **NOK 47.1 million**)
- **Sales in line with expectations**
NOK 421.6 million (**NOK 453.1 million**)
- **Gross margin as planned**
40.5 per cent (**40.1 per cent**)
- **Improvement in operating profit**
EBITDA and EBIT were both positive at NOK 16.3 million (negative **NOK 32.2 million**) and **NOK 6.3 million** (negative **NOK 40.8 million**) respectively
- **Reduced cost base after measures in 2004**
Down by NOK 35.2 million in the second quarter and NOK 56.2 million for the first half-year (on target for the goal of **NOK 70 million in 2005 as a whole**)

OPERATING REVENUES BUSINESS AREAS

NOK million	Q2 2005	Q2 2004	30.06.05	30.06.04	31.12.04
Kitron AS	289.1	318.6	549.1	665.6	1 253.6
Kitron AB	86.2	90.7	167.2	162.7	333.3
Kitron Litauen	37.5	39.6	70.4	73.8	190.9
Microelectronics (Norway and Sweden)	50.9	50.2	96.9	92.8	142.9
Others and eliminations	(42.1)	(46.0)	(82.1)	(88.9)	(172.7)
Total group	421.6	453.1	801.5	906.0	1 748.0

OPERATING PROFIT/(LOSS) BUSINESS AREAS

NOK million	Q2 2005	Q2 2004	30.06.05	30.06.04	31.12.04
Kitron AS	2.9	(38.4)	1.0	(40.6)	(31.3)
Kitron AB	0.6	(2.5)	(0.1)	1.3	(9.3)
Kitron Litauen	3.0	3.1	4.6	6.6	12.6
Microelectronics (Norway and Sweden)	4.2	1.7	5.6	0.1	2.0
Others and eliminations	(4.4)	(4.7)	(6.0)	(7.6)	(27.3)
Total group	6.4	(40.8)	5.1	(40.2)	(53.3)

OPERATING REVENUES

Kitron's operating revenues for the second quarter totalled NOK 421.6 million, a seven per cent decline in turnover from NOK 453.1 million in the same period of 2004.

Sales by Kitron AS, the Norwegian electronic manufacturing services (EMS) business, were in line with the group's plans and account for 68.5 per cent of total turnover.

Growth in turnover at Kitron AB, the Swedish EMS business, was in line with expectations and the commitment to new sales in the Swedish markets has been strengthened. This company accounted for 20.4 per cent of overall group sales.

Kitron Microelectronics exceeded its growth target for turnover in the second quarter, and accounted for 12 per cent of total sales.

Kitron's overall gross margin amounted to 40.5 per cent in the second quarter, corresponding to an increase of 0.4 percentage points from the same period of last year.

The positive trend for gross margin noted in the report for the first quarter continued in the second three months. This primarily reflects the group's strategic commitment to a common sourcing function. Kitron achieves better procurement terms by concentrating on fewer suppliers and focusing even more strongly on sourcing purchases from low-cost manufacturers.

Microelectronics has a higher gross margin than EMS, and accounts for a larger proportion of Kitron's turnover. This also contributed to a higher overall gross margin for the group in the second quarter compared with the same period of 2004.

PROFIT AND LOSS ACCOUNT

Operating profit for the second quarter was NOK 6.4 million, up NOK 47.2 million from the same period of 2004. All the operational companies showed a positive operating profit in the second quarter. Operating profit for the second quarter of last year included NOK 24.2 million in provisions relating to structural activities.

As described in the interim report for the fourth quarter of 2004, the group implemented a number of measures last year which now lay the basis for profitable operation. The effect of these measures is also reflected in the accounts for the second quarter, not least through cuts of NOK 25.5 million in payroll expenses and NOK 9.7 million in other operating costs from the same period of 2004. Realised cost reductions of NOK 35.2 million in the second quarter and

NOK 56.2 million for the first half accord well with plans for reaching the target of NOK 70 million in savings for 2005 as a whole.

Goodwill was written down by NOK 2.1 million in the second quarter. This relates to a manufacturing contract terminated at 30 June.

Option costs totalling NOK 1.2 million were charged in the second quarter. The effect for the first half was NOK 2.4 million. These costs are a consequence of converting to the IFRS at 1 January 2005.

Net financial expenses for the second quarter totalled NOK 6.2 million, which was in line with the same period of last year. Net foreign currency losses owing to a stronger Norwegian krone accounted for about NOK 1.1 million of this.

BALANCE SHEET

Kitron's balance sheet at 30 June totalled NOK 583.6 million as against NOK 728.9 million a year earlier. Group equity amounted to NOK 168.6 million, giving an equity ratio of 28.9 per cent.

Capital tied up in inventory has been reduced, and was NOK 231 million at 30 June as against NOK 302.1 a year earlier.

Capital tied up in accounts receivable amounted to NOK 111.2 million at 30 June (NOK 158.6 million). Sales of accounts receivable represented NOK 186 million (NOK 235 million).

NOK 24.2 million in restructuring provisions were made at 30 June 2004. The remaining provision of NOK 5 million at 30 June will be used to cover outstanding rent for leased properties at Kongsberg after operations there were wound up last year and manufacturing moved to Arendal.

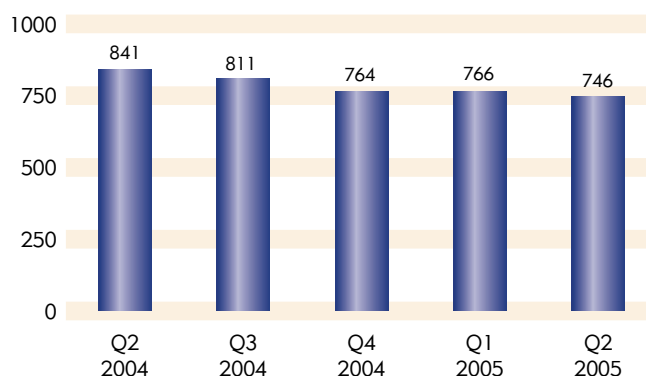
The company's capitalised interest-bearing debt totalled NOK 37.6 million at 30 June (NOK 48.6 million).

Cash flow from operations was negative in the second quarter, at NOK 6.8 million, compared with a negative NOK 2.6 million for the same period of last year. This primarily reflects a larger reduction in accounts payable and other current liabilities in the second quarter than in April-June 2004.

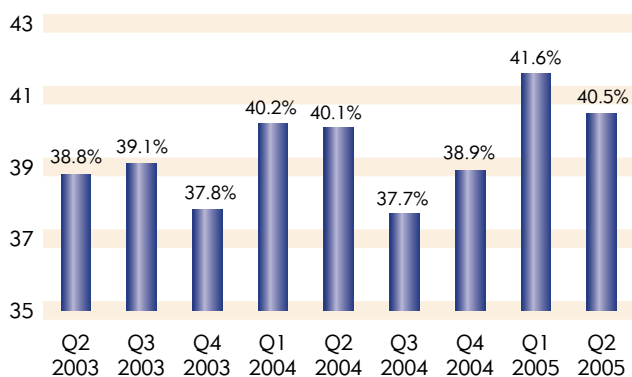
As described in the interim report for the first quarter, an extraordinary general meeting on 30 March 2005 approved a NOK 50 million rights issue covering 22 727 300 new shares at a subscription price of NOK 2.20 per share. This issue was over-subscribed, and strengthened

DEVELOPMENT IN ORDER BACKLOG GROUP

NOK MILLION



QUARTERLY MARGIN DEVELOPMENT GROUP



equity by about NOK 47 million during the second quarter.

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.

Realised cost reductions accord well with plans for reaching the target of NOK 70 million in savings for 2005 as a whole.

SHAREHOLDERS

The company had 3 371 shareholders at 30 June, who held 157 361 625 shares with a nominal value of NOK 1 each. The 10 largest shareholders at 30 June were:

Whitecliff AS	28.70%
Kongsberg Gruppen ASA	19.03%
MP Pensjon	5.98%
UAB Hermis Capital	3.47%
Statoil Pension Fund	2.45%
Skandinaviska Enskilda Banken	2.43%
Bankenes Sikringsfond	1.91%
Gambak	1.84%
Reidar Fougner	1.83%
Statoil Forsikring	1.63%

■ ■ The Nordic EMS market is expanding, with Sweden expected to show the strongest increase over the next few years.

Whitecliff AS sold its shareholding in Kitron ASA on 21 July to the Lithuanian private equity fund UAB Hermis Capital JSC. Per 15 August, the latter holds 35.6 per cent of the shares in Kitron ASA.

In ordinary general meeting 29 April 2005 Jan T Jørgensen resigned as member of the board of directors. Annette Malm Justad was elected to replace him.

ORGANISATION

Employees in Kitron at 30 June corresponded to 1 206 man-years, a decline of 169 man-years from the same period of 2004 and 19 from the first three months of 2005.

Of total man-years, 635 related to operations in Kitron AS, 232 to operations in Kitron AB, 196 to the activities in Lithuania and 121 to Kitron Microelectronics. The remaining 22 relate to Kitron ASA and Kitron Sourcing, and are tied to procurement and administration.

MARKET DEVELOPMENTS

The Nordic EMS market is expanding, with Sweden expected to show the strongest increase over the next few years.

Development of new products is one contributor to such growth. EMS manufacturers are invited to participate at several stages in the development process, from concept to industrialisation and preparations for series production. Kitron is active in all these stages, and focuses on assisting customers to realise producible and cost-optimal products. As a consequence, the company's development teams are now working

more closely than before with the manufacturing environments.

The German microelectronics market is expanding, and Kitron expects that its commitment there will yield positive results in the time to come.

Manufacturing electronics for the defence industry under offset agreements represents substantial opportunities for Kitron, and the group is focusing strongly on developing new and existing customer relationship in this area. Offset deals will secure a long-term and stable volume for Kitron, and play an important part in the further development of its expertise base.

Kitron has come a very long way in its efforts to achieve more environment-friendly manufacturing and products in line with the demands imposed by European Union directives on electronics manufacturers. The latter are required to remove lead and other substances hazardous to health from solder and components by 1 July 2006. Kitron is well prepared to meet the new standard.

The order backlog in Kitron consists of fixed orders and predictions related to frame agreements with a horizon of four months.

New orders for the second quarter totalled NOK 401 million (NOK 461 million). The order intake in this quarter is normally lower than turnover, in part because of the low level of new orders related to frame agreements for delivery and invoicing in July.

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

Defence/marine	29.5%	(26.9%)
Data/telecom	26.9%	(30.6%)
Medical equipment	20.0%	(20.8%)
Industry	23.6%	(21.7%)

DEFENCE/MARINE

Turnover in the defence/marine market segment was rather higher in the second quarter than in the same period of 2004. Kitron nevertheless expects sales for the year as a whole to be on a par with the 2004 figure.

Kitron AS secured two major contracts during the second quarter. The assignments for Kongsberg Protech AS and a large international company, worth NOK 33 million and NOK 50 million respectively, will contribute to a stable level of activity for the rest of 2005 and into 2006. Both contracts also provide opportunities to develop services for a larger part of the value chain.

Where offset agreements with defence equipment manufacturers are concerned, the contracts with Lockheed Martin, BAE Systems and SAAB Tech will be very significant. Kitron is now pursuing a number of opportunities in this market.

Existing contracts ensure a stable level of activity for the Swedish defence business until 2006.

The level of activity in marine operations is expanding. This sector is a growth area for monitoring and control systems for ships. The need to upgrade seismic survey equipment also makes a positive contribution to Kitron.

Turnover breakdown Defence/Marine

	NOK million	Share %
Kitron AS	88.8	71%
Kitron AB	35.9	29%
Kitron Litauen	1.9	2%
Microelectronics	-	0%
Others and eliminations	(2.4)	(2%)
TOTAL	124.2	100%

DATA/TELECOM

The level of activity in the data/telecom segment was again generally low during the second quarter, primarily because manufacturing ceased for a customer which opted to move its production to Asia.

However, microelectronics has strengthened its position in this market segment, primarily because of deliveries of vehicle on-board units to Q-Free for a toll-road project in Stockholm. In addition, sales to a handful of important customers increased by comparison with the same period of 2004.

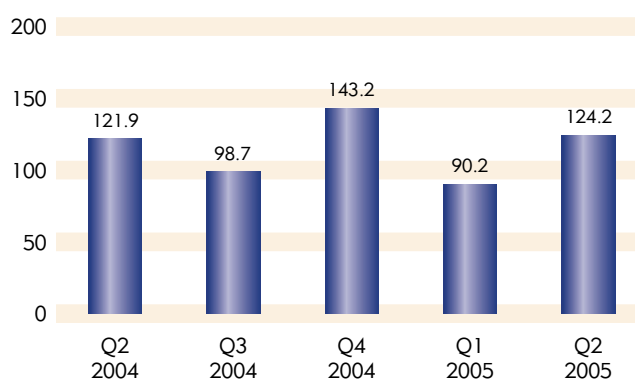
Kitron AS has begun production of the new RadioComponents telecommunications product during the second quarter, and its market potential appears to be positive.

Turnover breakdown Data/Telecom

	NOK million	Share %
Kitron AS	82.0	72%
Kitron AB	0.3	0%
Kitron Litauen	4.3	4%
Microelectronics	38.8	34%
Others and eliminations	(11.9)	(10%)
TOTAL	113.5	100%

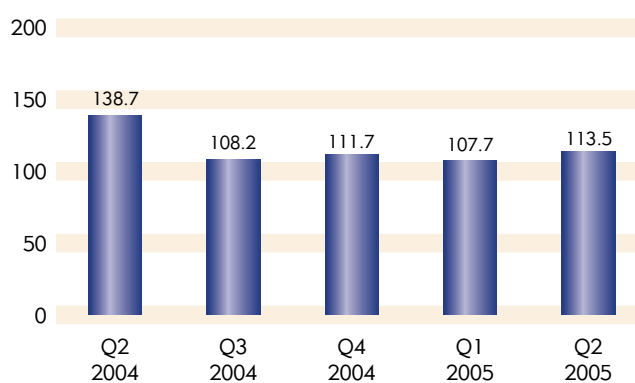
TURNOVER DEVELOPMENT DEFENCE/MARINE

NOK MILLION



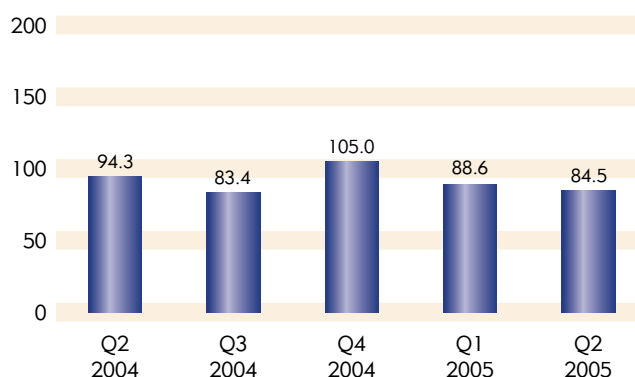
TURNOVER DEVELOPMENT DATA/TELECOM

NOK MILLION



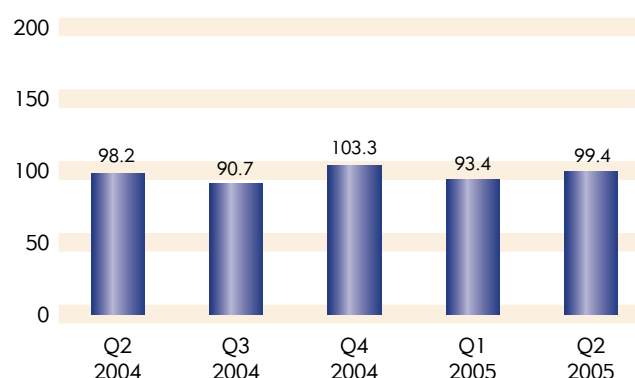
TURNOVER DEVELOPMENT MEDICAL EQUIPMENT

NOK MILLION



TURNOVER DEVELOPMENT INDUSTRY

NOK MILLION



■ ■ Kitron sees new opportunities in offering the assembly and delivery of products with an electronics content ready for the end user.

MEDICAL EQUIPMENT

Despite rather lower turnover for the medical equipment market segment during the second quarter compared with the same period of last year, sales for 2005 as a whole are expected to be on a par with 2004. The market is generally expanding, and Kitron has recently intensified its efforts to share in such growth. The company is now well positioned to secure new assignments in this segment.

During the third quarter, Kitron has won a strategically-significant contract for its medical equipment business. This covers the delivery of complete equipment for blood analysis to Cellavision AB in Sweden. The contract's value creation includes the assembly and testing of complete products, and it strengthens the business in Flen.

Turnover breakdown Medical Equipment		
	NOK million	Share %
Kitron AS	55.0	65%
Kitron AB	27.4	32%
Kitron Litauen	17.9	21%
Microelectronics	0.6	1%
Others and eliminations	(16.4)	(19%)
TOTAL	84.5	100%

INDUSTRY

Kitron achieved substantial additional sales to existing customers, which resulted in an increase in turnover from the same period of 2004.

Kitron Microelectronics has achieved the status of a certified Luxeon solutions partner for developing a whole new generation of lighting products with a considerable longer working life and lower power consumption than today's technology. This collaboration is expected to yield opportunities in a number of new markets in the future.

Turnover breakdown Industry		
	NOK million	Share %
Kitron AS	63.2	63%
Kitron AB	22.7	23%
Kitron Litauen	13.4	14%
Microelectronics	11.6	12%
Others and eliminations	(11.5)	(12%)
TOTAL	99.4	100%

PROSPECTS

Kitron takes a positive view of 2005 in light of general market trends and the extensive changes implemented by the group last year.

Priority will be given during 2005 to profitability and to implementing the organisational changes already approved, so that the identified savings of NOK 70 million per year can be achieved.

Norway and Sweden will remain the principal markets. A continued commitment in Lithuania is important in this context for maintaining the company's competitiveness. Kitron expects the Swedish part of the business to develop positively because this market is likely to have the strongest growth.

Positive effects in terms of reduced costs and greater competitiveness in the market are already being seen by Kitron from its corporate sourcing function.

Experience indicates that activity in the second half-year is rather higher than in the first six months. Kitron accordingly expects a profit for the year as a whole.

Oslo, 16 August 2005

The board of directors of Kitron ASA

KITRON ASA – INTERIM REPORT Q2 2005

Profit and loss (NOK 1 000)	Q2 2005	Q2 2004	30.06.2005	30.06.2004	31.12.2004
Operating income	421 612	453 135	801 479	905 960	1 748 047
Cost of materials	250 676	271 257	472 528	541 920	1 062 104
Gross profit margin	40.5 %	40.1 %	41.0 %	40.2 %	39.2 %
Payroll expenses	123 622	149 157	245 608	282 407	528 185
Other operational expenses	31 050	40 738	60 728	80 166	148 633
Restructuring costs	-	24 169	-	24 169	24 169
EBITDA	16 264	(32 186)	22 615	(22 702)	(15 044)
Ordinary depreciation	7 718	8 604	15 379	17 456	36 492
Write-down of goodwill	2 097	-	2 097	-	1 735
Operating profit/loss (EBIT)	6 449	(40 790)	5 139	(40 158)	(53 271)
Net financial costs	6 248	6 261	11 924	13 034	18 529
Profit/loss before tax	201	(47 051)	(6 785)	(53 192)	(71 800)
Taxes	-	-	-	-	2 007
Profit/loss after tax	201	(47 051)	(6 785)	(53 192)	(73 807)
Earnings per share	0.00	(0.36)	(0.05)	(0.41)	(0.56)
Diluted earnings per share	0.00	(0.36)	(0.05)	(0.41)	(0.56)

Balance sheet (NOK 1 000)	30.06.2005	30.06.2004	31.12.2004
Deferred tax credits	20 000	20 000	20 000
Other intangible fixed assets	19 630	19 187	21 727
Fixed assets	109 985	128 295	120 561
Financial assets	7 466	13 282	8 524
Total fixed assets	157 081	180 764	170 812
Inventory	231 019	302 119	246 394
Accounts receivable	111 212	158 584	130 819
Receivable	52 877	65 377	33 835
Funds available	31 429	22 082	30 065
Total current assets	426 537	548 162	441 113
Total assets	583 618	728 926	611 925

LIABILITIES AND SHAREHOLDERS' EQUITY (NOK 1 000)	30.06.2005	30.06.2004	31.12.2004
Paid-in equity	155 756	130 551	116 650
Retained earnings	-	-	-
Minority interests	12 831	10 608	12 558
Total shareholders' equity	168 587	141 159	129 208
Pension commitments	31 850	35 903	31 532
Provision for liabilities and charges	9 016	8 342	13 822
Debt to credit institutions	14 156	15 833	16 194
Other long term debt	16 315	27 874	22 792
Total long term debt	71 338	87 952	84 340
Debt to credit institutions	23 415	32 736	17 322
Provision for liabilities and charges	3 621	30 323	5 858
Other short term debt	316 658	436 756	375 197
Total short term debt	343 694	499 815	398 377
Total liabilities and shareholders' equity	583 618	728 926	611 925

Financing of accounts receivable as at 31.06.2005 was NOK 186,0 mill

Cash Flow Statement (NOK 1 000)	Q2 2005	Q2 2004	30.06.2005	30.06.2004	31.12.2004
Net cash flow from operational activities	(6 804)	(2 587)	(38 385)	(68 526)	(33 046)
Net cash flow from investment activities	(1 180)	(5 413)	(4 803)	(5 673)	(23 718)
Net cash flow from financing activities	3 464	6 993	44 552	44 147	34 695
Net change in cash	(4 520)	1 007	1 364	(30 052)	(22 069)
Cash balance opening balance	35 948	23 089	30 065	52 134	52 134
Cash balance closing balance	31 429	22 082	31 429	22 082	30 065

Shareholders' equity (NOK 1 000)	30.06.2005	30.06.2004	31.12.2004
Shareholders' equity opening balance	129 208	148 180	148 180
Profit/loss for the year	(6 785)	(53 192)	(73 807)
Conversion difference	(3 232)	(353)	(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	2 419	7 602	15 205
Shareholders' equity closing balance	168 587	141 159	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

Fornebuveien 1-3
Building 2, 2nd floor
P.O. box 332
NO-1326 Lysaker