Kitron

ANNUAL REPORT 2005

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HIGHLIGHTS OF 2005

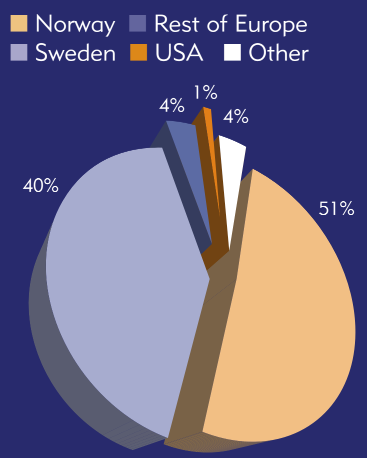
- Acquisition of 33.4 per cent of the shares in UAB Kitron in December. This company is thereby wholly-owned by Kitron ASA.
- Decision to close the Oslo manufacturing facility of the Norwegian EMS business area and to merge its two plants in Arendal. A NOK 45 million private placement to finance the structural measures is approved in October.
- The Hermis Capital private equity fund acquires Whitecliff ASA's shares in Kitron during July, making it the company's largest shareholder.
- A rights issue raises NOK 50 million in April to maintain Kitron's loan covenants.

FINANCIAL CALENDAR 2006

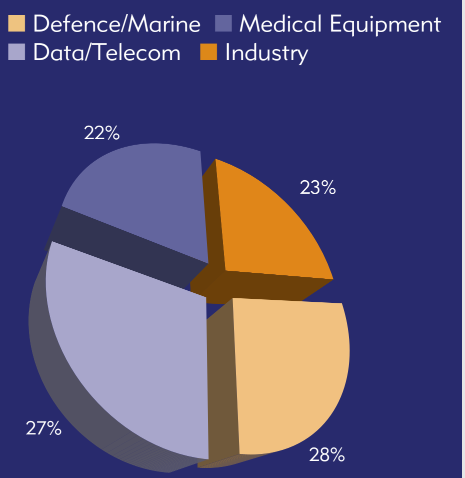
Presentation of results for the first quarter	11 May
Annual general meeting	11 May
Presentation of results for the second quarter	16 August
Presentation of results for the third quarter	27 October

KEY FIGURES

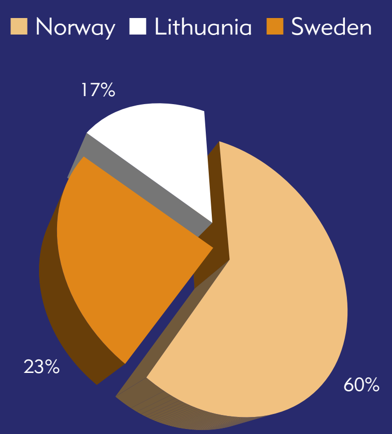
TURNOVER
BY GEOGRAPHICAL AREA



TURNOVER
BY MARKET SEGMENT



MAN-YEARS
BY GEOGRAPHICAL AREA



(Amounts in NOK million)	**2005**	2004	2003 (NGAAP)
ORDERS AND RESULTS			
New orders	**1 593**	1 722	1 894
Order backlog at 31 December	**781**	764	790
Turnover	**1 576.3**	1 748.0	1 821.4
Gross margin	**40.3%**	39.2%	38.9%
EBITDA	**(2.6)**	(15.0)	72.4
Loss before tax	**(58.2)**	(71.8)	(9.2)
Earnings per share (NOK)	**(0.39)**	(0.57)	(0.45)
BALANCE SHEET			
Equity at 31 December	**151.1**	128.1	251.5
Equity ratio at 31 December	**23.2%**	21.0%	34.2%
Interest-bearing debt at 31 December	**49.0**	33.5	38.0
Total capital at 31 December	**652.5**	610.8	734.9
SHARE			
Share price at 31 December (NOK)	**2.92**	2.79	5.35
Average number of shares	**151 599 225**	131 645 503	108 666 555
Number of shares at 31 December	**172 961 625**	134 634 325	125 543 325
EMPLOYEES			
Employees at 31 December	**1 282**	1 333	1 379
Man-years at 31 December	**1 200**	1 250	1 282
Sickness absence	**5.9%**	6.2%	7.3%

KITRON IN BRIEF

EXPERTISE AND FLEXIBILITY AT EVERY STAGE

Kitron is one of Scandinavia's leading companies for the development, industrialisation and production of specially-tailored electronics which contribute in turn to customer success. It is characterised by long experience, a high level of expertise and great flexibility in the process from idea to overall finished product. Confidence in quality and the ability to deliver at competitive prices are important reasons why demanding customers choose Kitron.

With 1 282 employees, the group pursues development and manufacturing operations at nine facilities in Norway, Sweden and Lithuania. Kitron gives priority to the Defence/Marine, Industry, Data/Telecom and Medical Equipment business segments. Close cooperation between the Kitron group's units create great flexibility and a short distance from drawing board to finished product, as well as competitive costs.

TWO BUSINESS AREAS

The Kitron group embraces two business areas. One is electronics manufacturing services (EMS), represented by the Kitron AB, Kitron AS and UAB Kitron subsidiaries. These units account for about 90 per cent of group turnover.

Accounting for about 10 per cent of group turnover, the other area is microelectronics. This is organised in Kitron Microelectronics AS and Kitron Microelectronics AB.

COMMON SOURCING

The two business areas are served by a common sourcing function. Kitron Sourcing ensures that the group achieves the best prices and terms at all times for its raw materials and components. Quality assurance of each supplier's quality and ability to deliver is also essential for the business.

FLEXIBLE TURNKEY SUPPLIER

Kitron is working to enhance its competitiveness even further by expanding its range of services to embrace an even larger part of the value chain.

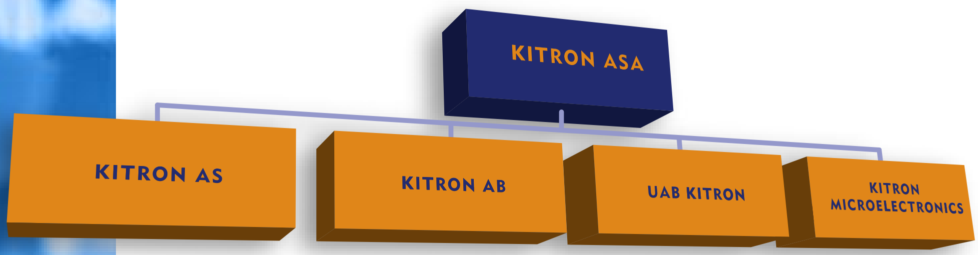
Services range from development and design, via Industryalisation, sourcing and logistics, to manufacturing, re-design and upgrading of products to extend their useful life in the market.

VISION

Kitron will be the leading provider of contract electronics manufacturing in Scandinavia and the natural choice for demanding customers.

BUSINESS CONCEPT

Kitron will strengthen the competitiveness of its customers by offering services throughout the value chain.



HISTORY OF KITRON

1966	Kitron (Statronics) is founded at Kilsund in Arendal as a supplier of electronic products to the merchant fleet and the defence forces.
1978	Name becomes Kitron, and the business concept is changed to contract manufacturing of electronics.
1989	Alcatel acquires Kitron.
1997	Kitron sold to financial investors, and receives a listing on the Oslo Stock Exchange. Acquires the Nera ASA manufacturing unit in Risør.
1998	Kitron acquires Propartner AS.
1999	Kitron acquires Contec Design AS and Combitech Electronics AB, and merges with Alphatron Industryer ASA.
2000	Kitron acquires the electronics manufacturing business of Saab Bofors Dynamics in Karlskoga and merges with Sonec ASA, which represents the continuation of electronics manufacturing at Tandberg Data, Elektrisk Bureau in Arendal, Kongsberg Electronics AS and Siemens AS in Oslo.
2001	Kitron acquires UAB Audiocom in Lithuania.
2002	Acquisition of manufacturing operations at Tandberg Data AS and electronics division of Alcatel Norway AS.
2003	Kitron disposes of Capinor AS subsidiary at Gjøvik.
2004	Acquisition of HGL Flen AB in Sweden. Kitron's operations at Kongsberg are wound up, with production transferred to Arendal.
2005	Kitron simplifies its corporate structure, closes the Oslo manufacturing unit and combines the two plants in Arendal on a single site.

BUSINESS AREAS

KITRON ELECTRONIC MANUFACTURING SERVICES (EMS):

Kitron's services for contract electronics manufacturing embrace more than production. Geographical proximity to the customer is crucial for most of these processes. Kitron has an advantage here in its geographical markets.

A growing proportion of its customers are transferring responsibility to Kitron for an increasing part of the value chain. Integrated sourcing and high-level assembly (HLA) of complete products are among the assignments taken on by the group. For the customer, this means reduced costs and an assurance of efficiency, price and delivery.

KITRON MICROELECTRONICS:

Demanding and robust technology solutions in every area from lighting and vehicle on-board units for toll roads to control systems for the defence forces and car industry are developed and manufactured by Kitron Microelectronics. This business is characterised by great flexibility and a strong focus on technology.

Kitron Microelectronics offers development, Industryalisation and production of electronic modules based on thick-film and high-frequency microwave technologies, and represents an important priority area for the group. Microelectronics is distinguished from conventional electronics by the connection techniques employed.

The market for microelectronics is expanding, and certain other Nordic players are showing an interest. Kitron has a competitive edge through its experience, expertise and established customer relations. Most of the growth in this market is taking place in the Data/Telecom and Industry segments.

MARKET SEGMENTS

DEFENCE/MARINE

Defence/Marine was Kitron's largest market segment in 2005, with a turnover of NOK 450.3 million (2004: NOK 524.1 million), or 28.6 per cent of group turnover (2004: 30 per cent).

Kitron ranks as one of the leading contract manufacturers for the defence industry, and has a limited number of competitors. Cooperation with the Norwegian and Swedish defence sectors was further extended during 2005. Although the defence industry is not expanding, Kitron is working to grow its contracts by gaining entry to a larger part of the development and manufacturing process. A stronger focus on offset agreements in Norway means that the group is now pursuing a number of opportunities in this segment.

The level of marine activity is also rising. This sector represents a growth area through monitoring and control systems for ships. The need to upgrade seismic survey equipment is making a positive contribution to Kitron.

DATA/TELECOM

Turnover in the Data/Telecom segment totalled NOK 422.4 million (2004: NOK 489.5 million), or 26.8 per cent of group turnover (2004: 28 per cent).

EMS turnover was low throughout 2005 in this segment, partly because two manufacturing assignments were transferred to Asia. Data/Telecom is characterised by longer production series than the group's other segments, and accordingly faces greater competition from Asian low-cost nations. Closeness to customers is nevertheless important, particularly in relation to Industryalisation processes and development work. Kitron is well positioned through a high level of development expertise, closeness to customers, and low-cost production at its Lithuanian plant.

MEDICAL EQUIPMENT

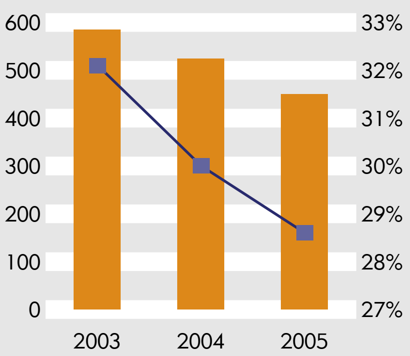
Turnover in the Medical Equipment segment was good throughout 2005, and totalled NOK 344.4 million (2004: NOK 364.2 million), or 21.9 per cent of group turnover (2004: 20.8 per cent).

The market is growing, and Kitron has retained its share. Demand for manufacturing medical equipment is also rising globally, while products are becoming more complex. Competition on the manufacturing side nevertheless means that prices are under pressure. Through a commitment extending over several years, however, Kitron is well positioned against competition from players large and small in this segment. Marketing work has involved strengthening and further developing existing customer relations and positioning the group to manufacture complete systems for customers.

Through contracts secured during the year, Kitron has confirmed that it has the requirements needed for high-level assembly (HLA) assignments. The trend towards more HLA work is continuing, and Kitron is well positioned.

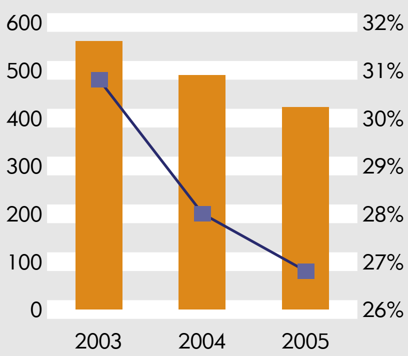
TURNOVER DEVELOPMENT
DEFENCE/MARINE

Turnover in NOK million
Share of total turnover in per cent



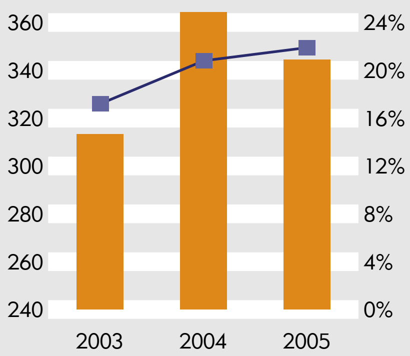
TURNOVER DEVELOPMENT
DATA/TELECOM

Turnover in NOK million
Share of total turnover in per cent



TURNOVER DEVELOPMENT
MEDICAL EQUIPMENT

Turnover in NOK million
Share of total turnover in per cent

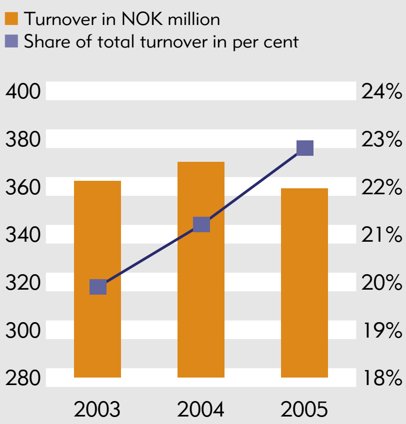


INDUSTRY

Turnover in the Industry segment totalled NOK 359.3 million (2004: NOK 372.5 million), or 22.8 per cent of group turnover (2004: 21.2 per cent).

This segment is characterised by stability and continuity in customer relations and volumes. A change in product family generations is under way at a number of Kitron's customers. The ability to support these customers is crucial for 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 at a number of customers.

TURNOVER DEVELOPMENT
INDUSTRY



Following an extra round of restructuring which has cut costs, Kitron takes an optimistic view of the future. New market opportunities have emerged, and we have demonstrated our competitiveness along a larger part of the value chain for electronic products.

ROBUST AND FORWARD-LOOKING

We experienced 2005 as yet another year when substantial measures were needed to reduce our vulnerability to market fluctuations. The decision was taken to close the manufacturing unit in Oslo, and its output has now been transferred to other parts of the group. It was also resolved to concentrate the two facilities in Arendal at the Hisøy site during the first half of 2006. This restructuring gives our group a simpler structure, which makes us more competitive in a developing market.

SAVINGS TARGET REACHED

The savings promised as a result of the action taken in 2004 were achieved with a margin, but the need for capacity reductions and simplification of the business proved greater than we had expected a year earlier. The reduced scope of orders from a number of large customers weakened results for the Norwegian business.

Whitecliff, our principal shareholder, sold its holding in the group to Lithuanian investment company UAB Hermis Capital in July 2005. This led to changes in our board. We have owners with great faith in the business. They provided the necessary capital on two occasions during the year to allow us to create a basis for profitability.

CONTINUOUS IMPROVEMENT

As part of the work of building confidence among customers, suppliers, owners and the financial market, we will work hard to make our performance more predictable. This requires us to follow developments closely and seize opportunities for quick changes of pace in response to the market. We will constantly seek to identify opportunities to work even more efficiently in order to achieve profitability.

Our markets are developing rapidly. Flexibility and adaptability are accordingly crucial for our ability to create value over time. We have the experience, expertise and flexibility needed to continue fighting in the front line of our market segments.

TURNKEY SUPPLIER

Our most important competitive advantages are closeness to customers, flexibility, cost-efficiency, quality and the ability to deliver throughout the value chain for electronics manufacturing. We won several important orders during 2005 on the basis of these advantages. New contracts which make us responsible for assembly and system testing of complete products for the end user confirm our credibility as a supplier of expanded services relating to electronics manufacturing. Offset opportunities in the defence segment also offer an exciting potential for Kitron in the future.

We have big ambitions in the Swedish market, and are pleased that our dedicated efforts in that country are now starting to bear fruit. The potential is also present for good growth in our Lithuanian business, which has an important role in our future strategy.

Kitron Microelectronics exceeded expectations in 2005, and is constantly securing openings in new sectors and markets on the basis of its technology. It has achieved the status of preferred partner in developing a new lighting solution with great potential, for instance.

IMPRESSIVE COMMITMENT

Our employees are showing a big commitment to delivering quality at every level, continuing to develop good customer relations, winning new projects

and not least improving the profitability of existing work. Even after the turbulence in late 2005, employees have shown an impressive attitude and commitment. They deserve praise for that.

We now have a simple and orderly structure in which each employee and manager has a clear responsibility. Our common goals are profitability, efficient processes and good technical solutions. This is how we will succeed in contributing to the success of our customers.

Jan T. Jørgensen
President and CEO

Restructuring made its mark on Kitron's results for 2005. Cost savings realised during the year and the decision to implement new adjustments to a lower level of activity have greatly reduced the group's cost base which, together with a higher order backlog, will contribute to profitability in 2006.

BOARD OF DIRECTORS' REPORT

GROUP OPERATIONS

Kitron's business concept is to offer electronics development, design, Industryalisation and manufacturing services to Industryal players. These activities are pursued at Arendal, Røros and Oslo in Norway, at Jönköping, Karlskoga and Flen in Sweden, and at Kaunas in Lithuania. Operations in Lithuania are pursued to Scandinavian standards with highly-qualified personnel.

The group's activities are divided into the following business areas:

Kitron Electronic Manufacturing Services (EMS) covers a broad range of services relating to electronics manufacturing. Long experience and a high level of expertise in such manufacturing, combined with great flexibility and modern equipment, ensure high quality. Efficient processes, good sourcing function and low-cost manufacturing secure profitability. Good logistics solutions are offered, and Kitron delivers in many cases directly to the ultimate customer.

Kitron Microelectronics offers development, Industryalisation and manufacturing of electronic modules based on thick-film and high-frequency microwave technologies. The market for such deliveries represents an important priority area for Kitron. Microelectronics is distinguished from conventional electronics by the connection techniques employed.

MARKET SEGMENTS

Kitron's business is characterised by complex manufacturing processes and a high content of specialised expertise. On this basis, the group has chosen to focus its sales efforts on the Defence/Marine, Data/Telecom, Medical Equipment and Industry segments.

Defence/Marine

Defence/Marine was Kitron's largest market segment in 2005, with a turnover of NOK 450.3 million (2004: NOK 524.1 million), or 28.6 per cent of group turnover (2004: 30 per cent).

Data/Telecom

Turnover in the Data/Telecom segment totalled NOK 422.4 million (2004: NOK 489.5 million), or 26.8 per cent of group turnover (2004: 28 per cent).

Medical Equipment

Turnover in the Medical Equipment segment was good throughout 2005, and totalled NOK 344.4 million (2004: NOK 364.2 million), or 21.9 per cent of group turnover (2004: 20.8 per cent).

Industry

Turnover in the Industry segment totalled NOK 359.3 million (2004: NOK 370.3 million), or 22.8 per cent of group turnover (2004: 21.3 per cent).

HIGHLIGHTS OF 2005

Reduced orders and delayed production starts for significant contracts meant that activity and turnover in 2005 were lower than planned. After several quarters with declining sales and weak profitability, the Kitron board resolved to reduce capacity in the Norwegian EMS business. Manufacturing operations in Kilsund and Hisøy are to be concentrated at the Kitron premises in Hisøy during the first half of 2006. The manufacturing unit in Oslo is being closed down, with production transferred to UAB Kitron in Lithuania and the group's other factories in the first quarter of 2006. This merger and closure affect roughly 100 man-years in total.

These measures were necessary to secure the group's future profitability, and are expected to yield annual savings of about NOK 51 million from the second quarter of 2006.

Improvement opportunities will also be assessed in Kitron's Swedish business. Development activities in the group are not affected by the measures being taken. Kitron's strategy is unchanged, and its marketing efforts are being intensified.

FINANCIAL ASPECTS

The board considers that the annual accounts provide a true and fair view of Kitron ASA as well as the group's assets and liabilities, financial position and result.

Kitron is reporting in accordance with the International Financial Reporting Standards (IFRS) from 2005. Comparative figures for 2004 have been restated to the IFRS. The accounting principles applied under the IFRS do not differ significantly for Kitron from Norwegian generally-accepted accounting principles. The differences relate primarily to pension obligations, tax and goodwill.

PROFIT AND LOSS ACCOUNT

Operating income for 2005 totalled NOK 1 576.3 million compared with NOK 1 748 million the year before, which represented a decline of 9.8 per cent. About NOK 36 million of the turnover reduction reflects a rise in the NOK exchange rate. Although turnover was lower than expected, the microelectronics business area made very positive progress during 2005. Kitron EMS accounted for 89.5 per cent of operating income in 2005, Kitron Microelectronics for 12.4 per cent, while other items and eliminations amounted to a negative 1.9 per cent. The group's order backlog at 31 December 2005 totalled NOK 781 million, compared with NOK

764 million a year earlier.

The gross margin for 2005 was 40.3 per cent compared with 39.2 per cent the year before. This positive development primarily reflects the strategic commitment to the group's sourcing function. A larger share of Kitron's turnover occurs in the microelectronics business area, which has a higher gross margin than EMS.

The number of man-years declined from 1 250 at 31 December 2004 to 1 200 at the end of 2005. Group payroll costs simultaneously declined from NOK 528.2 million in 2004 to NOK 475.3 million.

Operating results for 2004 and 2005 include provisions of NOK 24.2 million and NOK 49.5 million respectively for structural activities. The cost-cutting measures implemented in 2004 yielded the planned results in 2005. As communicated earlier, the goal was to reduce costs by NOK 70 million for 2005 as a whole. Excluding provisions for structural activities in 2004 and 2005, payroll and operating costs declined by NOK 64.7 million and NOK 23.9 million respectively as a result of the measures – a combined total of NOK 88.6 million.

After several quarters with declining turnover and weak profitability in 2005, the board resolved in October to implement additional restructuring measures. A total of NOK 49.5 million has been charged to the 2005 accounts for the reorganisation of the Norwegian EMS business, including NOK 11.6 million charged to payroll costs and NOK 37.9 million to other operating costs. The measures adopted are expected to yield annual savings of roughly NOK 51 million from the second quarter of 2006.

The group made an operating loss of NOK 34.4 million in 2005, which represents an improvement of NOK 18.9 million from 2004.

Net financial expenses for the group rose from NOK 18.5 million in 2004 to NOK 23.9 million. This increase can be attributed to currency gains in 2004 and losses in 2005. Kitron thereby made a pre-tax loss of NOK 58.2 million in 2005 (2004: NOK 71.8 million).

Kitron's tax for 2005 differs strongly from theoretical tax mainly as a result of not having recorded deferred tax assets on the basis of the company's tax loss for 2005.

The group showed a net loss of NOK 58.9 million (2004: NOK 73.8 million), representing negative earnings per share of NOK 0.39 (2004: NOK 0.57).

CASH FLOW

Cash flow from operations was NOK 9.4 million, compared with a negative figure of NOK 32.4 million for 2004.

The difference in cash flow from operational activities and the company's operating result is to a large extent due to the provisions for restructuring and write-down of property.

Net cash flow from investment was negative at NOK 39.5 million (2004: NOK 23.7 million). The liquidity effect of investment in tangible fixed assets came to NOK 28.5 million.

Net cash flow from financing amounted to NOK 92 million. Kitron carried out a rights issue and a private placement in 2005 which raised NOK 50 million and NOK 45 million respectively. This provided the company with NOK 90.8 million in net equity. NOK 4.3 million in long-term debt was repaid during the year.

BALANCE SHEET AND LIQUIDITY

The total balance sheet at 31 December 2005 was NOK 652.5 million (2004: NOK 610.8 million). Equity at the same date was NOK 151.1 million (2004: NOK 128.1 million).

Liquid assets totalled NOK 113.2 million at 31 December (2004: NOK 30.1 million).

Capital tied up in inventory was reduced by NOK 3.9 million during 2005, and totalled NOK 242.5 million at 31 December (2004: NOK 246.4 million). The company is continuing its efforts to achieve further reductions in capital tied up in inventory. Capital tied up in accounts receivable totalled NOK 90.4 million at 31 December (2004: NOK 130.8 million). Sales of accounts receivable represented NOK 208 million at 31 December (2004: NOK 223 million).

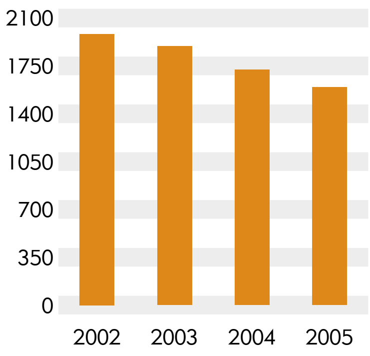
In connection with the restructuring of the Norwegian EMS business, provisions totalling NOK 49.5 million were made in the fourth quarter of 2005 for payroll and other operating costs as well as impairment loss on real property. At 31 December, a residual provision of NOK 39.4 million was available to cover payroll and other operating costs.

The group's interest-bearing debt totalled NOK 49 million at 31 December (2004: NOK 33.5 million). This included NOK 11.8 million (2004: NOK 16.2 million) in long-term debt.

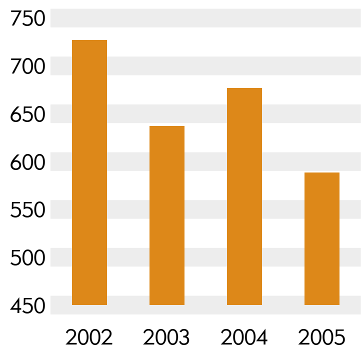
FINANCIAL CONDITIONS

In order to strengthen the company's capital base, an extraordinary general meeting of 30 March 2005 resolved to carry out a rights issue. This was needed to satisfy conditions set by the company's principal banks for a continuation of existing loans and credit facilities for the group. A total of 22 727 300 new shares were issued at a subscription price of NOK 2.20 per share, yielding gross proceeds of NOK 50 million. The issue was completed on 20 April.

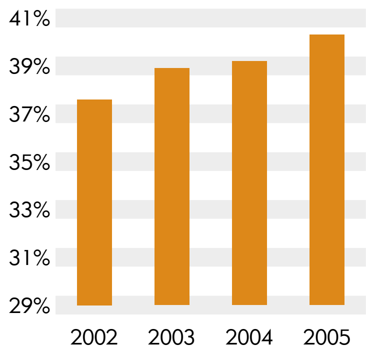
TURNOVER
NOK million



OPERATING EXPENSES
NOK million



GROSS MARGIN DEVELOPMENT
Per cent



At its meeting of 21 November 2005, the Kitron board resolved to carry out a private placement of 15.6 million shares at a subscription price of NOK 2.90 per share, corresponding to gross proceeds of NOK 45.2 million. The issue was carried out to strengthen equity as a result of the structural measures approved by the company's board on 26 October 2005.

GOING CONCERN

Pursuant to section 3-3 in the Norwegian Accounting Act, the board confirms that the accounts have been prepared on the assumption that the company is a going concern and that this assumption is realistic.

FINANCIAL MARKET RISK

Changes in exchange rates affect Kitron both directly and indirectly. The direct impact reflects the fact that about 40 per cent of the company's materials purchases are made in foreign currencies and will accordingly be affected positively by a strengthening of the Norwegian krone and negatively by a weakening. Group earnings in foreign currencies will be inversely affected by such developments. Efforts are made to balance the company's revenues in foreign currencies against materials purchased in foreign currencies in order to minimise the currency risk.

Changes in general market interest rates will affect Kitron's results through changes in its financial expenses. Kitron has not hedged its borrowing through financial interest rate instruments.

Kitron hedges the credit risk for about 85 per cent of its turnover through its factoring arrangement. The remaining sales represent traditional credit risk. Historically, Kitron's bad debts have been low.

A total of NOK 90.8 million in net new equity was raised during 2005. As mentioned above, these issues were necessary to secure the flexibility required by the group to make the structural changes needed and to maintain existing loans and credit facilities. The board regards the company's future liquidity as satisfactory.

HEALTH, SAFETY AND THE ENVIRONMENT

The group had a total of 1 282 employees, representing 1 200 man-years, at 31 December 2005. These personnel are distributed geographically as shown in the tables on the next page.

No serious work accidents or occupational injuries were suffered by employees during 2005. Total sickness absence in Kitron declined from 6.2 per cent in 2004 to 5.9 per cent. To contribute to an improved working environment and a further reduction in sickness absence, the group's Norwegian companies have concluded inclusive workplace (IA) agreements with their workforces. These efforts will continue in the time to come.

The group causes no pollution of the natural environment worth mentioning. Several of its subsidiaries are certified in accordance with the NS ISO 14000 series of environmental management standards.

EQUAL OPPORTUNITIES

Women accounted for 48 per cent of the 1 200 man-years in the company at 31 December 2005, and 54 per cent of the 865 man-years involved directly in manufacturing. They also accounted for 31 per cent of the company's 335 man-years in other indirect functions, while men account for 69 per cent.

The average pay of women working directly in manufacturing in the Norwegian and Swedish companies is roughly 94 per cent of the average pay for men. A large proportion of the workforce in this category is union members, whose pay is determined by negotiated agreements. Their pay rates are based primarily on expertise and seniority. Pay rates can vary between the various subsidiaries, but do not distinguish between genders.

Other indirect functions embrace personnel in management, staffs and other support services. The corporate and company managements are currently dominated by men, even though women are represented both in the corporate management team and in the local management teams. No gender-based differences exist with regard to working hours.

The company's basic attitude is that men and women should have equal opportunities for work and career development in Kitron. Its factory-based manufacturing operations have traditionally employed a large proportion of female personnel. This trend is expected to continue.

Management development processes have been pursued with a particular focus on middle management, both male and female, in various functions. In the longer term, this is expected to help ensure an increase in the number of women managers in the company. Activities have also been launched to increase female representation in the boardroom.

CHANGES IN THE BOARD

As a result of Whitecliff selling his shares in Kitron to Hermis Capital, a new board was elected at an extraordinary general meeting on 16 August 2005. Following demands from shareholders that

GEOGRAPHIC DISTRIBUTION – EMPLOYEES

	Norway	Sweden	Lithuania	Total
Employees at 31 December 2004	814	319	200	1 333
Changes	(23)	(32)	4	(51)
Employees at 31 December 2005	791	287	204	1 282

represented more than five per cent of the shares in the company, there was a notice for a new extraordinary general meeting on 26 September 2005. Kjell E. Almskog was once again elected to be a member of the board, while Magnus B. Lindseth resigned his post and entered the board as an observer.

CORPORATE GOVERNANCE

The board of Kitron has adopted principles for corporate governance to safeguard the interests of the company's owners, employees and other stakeholders. These principles are also intended to clarify the division of roles between shareholders, directors and management. The object of the company's principles is to enhance predictability and transparency, and thereby reduce uncertainties associated with the business. They will underpin the objectives which guide Kitron's activities. The board seeks to have guidelines for corporate governance which accord with the Norwegian code of practice in this area (see pages 54 and 55).

PROSPECTS

Due to reduced orders and delayed production starts for significant contracts the activity and turnover for 2005 were lower than planned. This combined with considerable restructuring of the Norwegian part of the business, resulted in the fact that the expectations of profit did not happen.

NOK 49.5 million in restructuring costs have been charged to the 2005 accounts as a consequence of the approved merger of the group's manufacturing facilities in Arendal and the closure of its Oslo plant. These measures will eliminate about 100 man-years. The restructuring is expected to yield annual savings of roughly NOK 51 million from the second quarter of 2006. In the board's view, the present composition of Kitron's Norwegian business in terms of resources, expertise and increased flexibility is tailored to the future market envisaged by the group. Improvement opportunities in Kitron's Swedish business will also be assessed.

On the basis of the extensive changes implemented by Kitron in 2005, the board takes a positive view of developments in 2006. Kitron will give priority during the latter year to profitability and to implementing the organisational changes already sanctioned so that identified cost savings are achieved and the basis thereby laid for future profitability.

The principal markets will remain Norway and Sweden, and a continued commitment to Lithuania is important in this context in order to be competitive. Further development of the Swedish organisation is very important for the success of the aggressive commitment being made to this market.

Kitron's strategic sourcing function will be an increasingly important element in the company's competitiveness.

Experience shows that activity varies between the various quarters. This trend is expected to continue in 2006. The board expects a profit for the year as a whole. The board underlines however that the assessment of prospects are attached with uncertainty.

NET LOSS AND ALLOCATIONS

Kitron ASA made a net loss of NOK 5 601 000. The board proposes that this loss be covered through the transfer of NOK 5 601 000 from the share premium account. The company had no free equity at 31 December 2005. No dividend is proposed for 2005.

Kaunas, 28 March 2006

Nerijus Dagilis Chair	Arne Solberg Deputy chair	Kjell E. Almskog Director	Titas Sereika Director
Per-Erik Mohlin Director	Liv Johansen Director	Preben Jensen Director	Jan T. Jørgensen President and CEO

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Amounts in NOK 1 000)	Note	2005 (IFRS)	2004 (IFRS)	2004 (NGAAP)	2003 (NGAAP)
Operating income					
Sales revenues	6	**1 576 341**	1 748 047	1 748 047	1 821 367
Operating costs					
Cost of goods sold		**945 342**	1 062 104	1 062 104	1 112 010
Payroll expenses	8, 9	**475 273**	528 185	518 103	501 097
Depreciation and impairments	10, 11	**38 675**	38 227	42 315	52 892
Other operating expenses		**151 410**	172 802	172 802	135 834
Total operating expenses		**1 610 700**	1 801 318	1 795 324	1 801 833
Operating profit/(loss)		**(34 359)**	(53 271)	(47 277)	19 534
Financial income and expenses					
Net financial items	21	**(23 854)**	(18 529)	(18 529)	(28 776)
Loss before tax		**(58 213)**	(71 800)	(65 806)	(9 242)
Tax	16	**726**	2 007	22 513	36 375
Net loss		**(58 939)**	(73 807)	(88 319)	(45 617)
Allocation					
Shareholders		**(58 939)**	(75 191)	(89 703)	(49 361)
Minority share		-	1 384	1 384	3 744

Earnings per share for that part of the net loss allocated to the company's shareholders

(NOK per share)				
Earnings per share	**(0.39)**	(0.57)	(0.68)	(0.45)
Diluted earnings per share	**(0.39)**	(0.57)	(0.68)	(0.45)

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(Amounts in NOK 1 000)	Note	2005	2004
ASSETS			
Fixed assets			
Tangible fixed assets	10	**112 447**	120 561
Goodwill	11	**18 489**	20 586
Investment in shares	18	**190**	190
Deferred tax assets	17	**20 000**	20 000
Other receivables	12	**3 855**	8 334
Total fixed assets		**154 981**	169 671
Current assets			
Inventory	7	**242 542**	246 394
Accounts receivable and other receivables	12	**141 771**	164 654
Cash and cash equivalents	23	**113 229**	30 065
Total current assets		**497 542**	441 113
Total assets		**652 523**	610 784

(Amounts in NOK 1 000)	Note	2005	2004
LIABILITIES AND EQUITY			
EQUITY			
Equity allocated to shareholders			
Share capital and share premium reserve	28	**629 020**	533 423
Other equity unrecognised in profit and loss		**(3 204)**	(2 155)
Retained earnings		**(474 698)**	(415 759)
Minority interests		**-**	12 558
Total equity		**151 118**	128 067
LIABILITIES			
Long-term liabilities			
Loans	14, 22	**40 678**	38 986
Pension commitments	9	**14 904**	31 532
Other provisions	15	**15 104**	13 822
Total long-term liabilities		**70 686**	84 340
Current liabilities			
Accounts payable and other current liabilities	13	**350 577**	367 722
Tax payable	16	**370**	1 899
Loans	14, 22	**46 369**	22 898
Other provisions	15	**33 403**	5 858
Total current liabilities		**430 719**	398 377
Total liabilities		**501 405**	482 717
Total liabilities and equity		**652 523**	610 784

Kaunas, 28 March 2006

Nerijus Dagilis Chair	Arne Solberg Deputy chair	Kjell E. Almskog Director	Titas Sereika Director
Per-Erik Mohlin Director	Liv Johansen Director	Preben Jensen Director	Jan T. Jørgensen President and CEO

CHANGES IN CONSOLIDATED EQUITY

(Amounts in NOK 1 000)	Allocated to shareholders: Share capital and share premium reserve	Other equity unrecognised in profit and loss	Retained earnings	Minority interests	**Total**
Equity at 1 January 2004	479 484	-	(342 533)	10 087	**147 038**
Conversion differences	-	(2 155)	-	(423)	**(2 578)**
Net loss	-	-	(75 191)	1 384	**(73 807)**
Equity provided through employee options	15 205	-	-	-	**15 205**
New shares issued	40 000	-	-	4 614	**44 614**
Issue costs	(1 266)	-	-	-	**(1 266)**
Change in minority interests	-	-	1 965	(3 104)	**(1 139)**
Equity at 31 December 2004	533 423	(2 155)	(415 759)	12 558	**128 067**
Equity at 1 January 2005	533 423	(2 155)	(415 759)	12 558	**128 067**
Conversion differences	-	(1 049)	-	-	**(1 049)**
Net loss	-	-	(58 939)	-	**(58 939)**
Equity provided through employee options	4 837	-	-	-	**4 837**
New shares issued	95 240	-	-	-	**95 240**
Issue costs	(4 480)	-	-	-	**(4 480)**
Change in minority interests	-	-	-	(12 558)	**(12 558)**
Equity at 31 December 2005	629 020	(3 204)	(474 698)	-	**151 118**

CONSOLIDATED CASH FLOW STATEMENT

(Amounts in NOK 1 000)	Note	2005	2004
Cash flow from operational activities			
Cash flow from operations	29	**22 376**	(18 007)
Interest		**(13 009)**	(13 869)
Taxes		**-**	(569)
Net cash flow from operational activities		**9 367**	(32 445
Cash flow from investment activities			
Acquisition of subsidiaries	5	**(11 030)**	(8 702)
Acquisition of tangible fixed assets	10	**(28 465)**	(21 266)
Disposal of tangible fixed assets	10	**-**	6 250
Net cash flow from investment activities		**(39 495)**	(23 718)
Cash flow from financing activities			
Proceeds from issuing ordinary shares		**90 760**	42 855
Proceeds from new loans		**6 593**	7 280
Repayment of loans		**(4 342)**	(24 551)
Payment to minority interests		**(1 030)**	-
Net cash flow from financing activities		**91 981**	25 584
Change in cash and bank credit		**61 853**	(30 579)
Cash and bank credit at 1 January		**(9 046)**	21 534
Cash and bank credit at 31 December	23	**52 807**	(9 046)

NOTES TO THE CONSOLIDATED ACCOUNTS

NOTE 1 GENERAL INFORMATION

Kitron ASA and its subsidiaries (the group) comprise one of Scandinavia's leading enterprises in the development, industrialisation and manufacturing of electronics for the data/telecom, defence/marine, medical equipment and industry segments. The group has operations in Norway, Sweden and Lithuania. Kitron ASA has its head office at Lysaker outside Oslo in Norway and is listed on the Oslo Stock Exchange. The consolidated accounts were considered and approved by the company's board of directors on 28 March 2006.

NOTE 2 SUMMARY OF THE MOST SIGNIFICANT ACCOUNTING PRINCIPLES

The most significant accounting principles applied in the preparation of the consolidated accounts are detailed below. These principles have been applied uniformly in all the periods unless otherwise stated.

BASIC PRINCIPLES

In connection with the conversion to the International Financial Reporting Standards (IFRS), Kitron is reporting its consolidated accounts from 2005 in accordance with the IFRS. The annual accounts for 2004 were accordingly the last to be based on Norwegian generally accepted accounting principles (NGAAP). The annual accounts for 2005 present comparative figures for 2004 which have been restated in accordance with the IFRS. The profit and loss account also shows comparable figures for 2004 and 2003 prepared in accordance with NGAAP. Information required by IFRS 1 and the Oslo Stock Exchange is presented in note 30.

The consolidated accounts have been prepared in accordance with the historical cost convention.

Preparing the accounts in accordance with the IFRS requires the use of estimates. Application of the company's accounting principles also means that the management must exercise discretion. Areas where such discretionary assessments have been made to a particular extent or which have a high degree of complexity, or where assumption and estimates are significant for the consolidated accounts, are described in note 4.

Standards, interpretation and changes in existing standards which had not come into effect at 31 December 2005

Certain new standards, changes and interpretations of existing standards have been published and will be obligatory for the group in 2006 or later. Standards, changes and interpretations of existing standards which could have been relevant for the consolidated accounts in 2005 have been assessed but not adopted. These are:

- IAS 19 (Amendment) employee benefits (in force 1 January 2006)
- IFRS 7 financial instruments; disclosures, and a supplementary change in IAS 1, presentation of financial statements – capital disclosures (in force 1 January 2007)
- IFRIC 4, determining whether an arrangement contains a Lease (in force 1 January 2006)

CONSOLIDATION PRINCIPLES

Subsidiaries

The consolidated accounts include the parent company, Kitron ASA, and all its subsidiaries. Subsidiaries are all units in which the group has a controlling influence on the unit's financial and operational strategy, normally through owning more than half the voting capital. When determining whether a controlling influence exists, the effect of potential voting rights which can be exercised or converted on the balance sheet date are taken into account. Subsidiaries are consolidated from the time when control transfers to the group, and deconsolidated when the control ceases.

The purchase method is used to consolidate acquired subsidiaries. The acquisition cost at the transaction date is attributed to the fair value of assets provided as consideration for the acquisition, equity instruments issued, liabilities incurred through the transfer of control and direct transaction costs. Identifiable assets and debt acquired are recognised at their fair value at the transaction date, regardless of possible minority interests. Transaction costs which exceed the fair value of identifiable net assets in the subsidiary are carried as goodwill. If the transaction costs are lower than the fair value of identifiable net assets in the subsidiary, the difference is recognised in the profit and loss account at the acquisition date.

Intra-group transactions, balances and unrealised gains are eliminated. Unrealised losses are eliminated, but are assessed as an indicator of impairment loss on the transferred asset. The accounting principles for subsidiaries have been amended to accord with the group's principles.

Transactions and minority interests

Transactions with minority interests are treated as transactions with third parties. When shares in subsidiaries are sold to minority interests, the group's gain or loss is recognised in the profit and loss account. When shares in subsidiaries are acquired from minority interests, goodwill will arise. This goodwill will be the difference between the consideration and the acquired share of the book equity in the subsidiary.

Associated companies

The group has no joint ventures or associated companies.

SEGMENT REPORTING

A business area is part of the business which delivers products or services exposed to risks and returns which differ from those of other business areas. A geographical market is part of the business which delivers products and services within a defined geographical area which is subject to risks and returns which differ from those in other geographical areas.

TRANSLATION OF FOREIGN CURRENCIES

Functional and presentation currencies

The accounts of the individual units are compiled in the principal currency used in the economic area in which the unit operates (the functional currency). The consolidated accounts are presented in NOK, which is both the functional and the presentation currency for the parent company.

Transaction and balance sheet items

Transactions in foreign currency are translated to the functional currency at the exchange rate prevailing at the transaction date. Currency gains and losses which arise from the settlement of such transactions, and when translating monetary items (assets and liabilities) in foreign currencies at 31 December at the exchange rate on the balance sheet date, are recognised in the profit and loss account.

Group companies

The profit and loss accounts and balance sheets for group units (none of which are affected by hyperinflation) in functional currencies which differ from the presentation currency are translated as follows:

- the balance sheet is translated at the closing exchange rate on the balance sheet date
- the profit and loss account is translated at the average exchange rate
- translation differences are recognised directly in equity and specified separately.

TANGIBLE FIXED ASSETS

Tangible fixed assets primarily embrace buildings and land, machinery, equipment, and fixtures and fittings. They also include leased buildings, machinery and equipment where the lease is considered to be a financing method (financial leasing). Tangible fixed assets are stated at historical cost less accumulated depreciation and impairments. They are recognised in the balance sheet and depreciated on a straight-line basis to their residual value over their expected useful life, which is:

Buildings	20-33 years
Machinery and operating equipment	3-10 years

Land is not depreciated.

The useful life of fixed assets and their residual value are reassessed on every balance sheet date and amended if necessary. When the carrying amount of a fixed asset is higher than the estimated recoverable amount, the value is written down to the recoverable amount.

On-going maintenance of fixed assets is charged as an operating cost, which upgrading or improvements are added to the historical cost of the asset and depreciated accordingly.

Gain and loss on disposals is recognised in the profit and loss account as the difference between the sales price and the carrying amount.

GOODWILL

Goodwill is the difference between the acquisition of a business and the fair value of the group's share of net identifiable assets in the business at the acquisition date. Goodwill is tested annually for impairment and recognised in the balance sheet at its acquisition cost less impairment charges. Impairment losses on goodwill are not reversed.

When assessing the need to make an impairment charge on goodwill, the goodwill is allocated to relevant cash-generating units. The allocation is made to those cash-generating units or groups of such units which are expected to benefit from the acquisition. The group allocates goodwill to each business area in each country in which it operates.

Impairment of non-financial assets (other than goodwill)

Assets considered to have an indefinite useful life and which are not depreciated are tested annually for possible impairment. Fixed assets subject to depreciation are tested for impairment when conditions arise which indicate a fall in value. An impairment charge if recognised in the profit and loss account as the difference between the carrying amount and the recoverable amount. The recoverable amount is the utility value.

When assessing impairment, fixed assets are grouped at the lowest level for which identifiable independent cash inflows exist (cash-generating units). At each reporting date, an assessment is made of the opportunity for reversing earlier impairment charges on fixed assets.

FINANCIAL ASSETS

The group classifies financial assets in the following categories based on the reason for acquiring the asset: loans and receivables and investment in shares. The management reassess this classification of financial assets at each reporting date.

Investment in shares

Investment in shares is recognised at fair value. Since the group's investment in shares for 2004 and 2005 consists solely of holdings in small companies which are not traded in an effective market, these holdings are recognised at historical cost.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed payments which are not traded in an active market. They are classified as current assets unless they mature more than 12 months after the balance sheet date. When maturing more than 12 months after the balance sheet date, loans and receivables are classified as fixed assets. Loans and receivables are classified as accounts receivable and other receivables in the balance sheet.

INVENTORY

Inventory comprises purchased raw materials, work in progress and finished goods. It is stated at the lower of average acquisition cost and fair value (net realisable value). Acquisition cost for work in progress are direct material costs and payroll expenses plus indirect costs (based on normal capacity).

ACCOUNTS RECEIVABLE

Accounts receivable are recognised initially in the balance sheet at their fair value. Provision for bad debts is recognised in the accounts when objective indicators suggest that the group will not receive a settlement in accordance with the original terms. Significant financial problems at the customer, the probability that the customer will go into liquidation or undergo financial reconstruction, and postponements of or shortfalls in payment are regarded as indicators that a receivable needs to be written down. The provision represents the difference between the face value and the recoverable amount, which is the present value of expected cash flows discounted by the effective interest rate. Changes in the provision are recognised in the profit and loss account as other operating expenses.

A significant proportion of accounts are credit-hedged as part of the company's factoring arrangement. Hedged accounts receivable are removed from the balance sheet when a settlement is received from the factoring company (normally after three working days). Unhedged accounts receivable are removed from the balance sheet when a settlement is received by the factoring company from the customer.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, deposits in ordinary bank accounts and undrawn overdraft facilities. Amounts drawn on overdraft facilities are included in loans under current liabilities.

SHARE CAPITAL

The share capital comprises the number of shares multiplied by their nominal value, and are classified as equity. Expenses which can be attributed directly to the issue of new shares or options (less tax) are recognised in equity as a reduction in the proceeds received.

LOANS

Loans are recognised at their nominal amount when the loan is established. Instalments falling due within one year of the balance sheet date are classified as current liabilities. Instalments falling due more than one year after the balance sheet date are classified as long-term liabilities.

DEFERRED TAX

Deferred tax is calculated using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. If, however, deferred tax arises when initially recognising a liability or asset in a transaction which is not the integration of a business and which at the transaction date has no effect on the profit and loss account or on tax, it is not recognised. Deferred tax is determined using tax rates and laws which have been substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available, and that the temporary differences can be deducted from this profit.

Deferred tax is calculated on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary differences is controlled by the group and it is probable that they will not be reversed in the foreseeable future.

PENSION COMMITMENTS, BONUS SCHEMES AND OTHER COMPENSATION FOR EMPLOYEES

Pension commitments

Group companies have various pension schemes. These schemes are generally funded through payments to insurance companies or pension funds on the basis of periodic actuarial calculations. The group has both defined contribution and defined benefit plans. A defined contribution plan is one under which the group pays fixed contributions to a separate legal entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is one which is not a defined contribution plan, and typically defines an amount of pension benefit an employee will receive on retirement. That benefit is normally dependent on one or more factors such as age, years of service and pay.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, adjusted for unrecognised actuarial gains or losses. The pension commitment is calculated annually by an independent actuary using a straight-line earnings method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates corresponding to a 10-year Norwegian government bond extended in duration to provide a term to maturity approximating to the terms of the related pension liability. Estimated payroll tax on the net pension commitment calculated by an actuary is added to the carrying amount of the obligation.

Changes in pension plan benefits are recognised immediately in the profit and loss account unless rights in the new pension plan are conditional on the employee remaining in service for a specific period of time (the vesting period). In that case, the costs associated with the change in benefit are amortised on a straight-line basis over the vesting period.

Changes to estimates arising from new information or changes to actuarial assumptions are recognised in the profit and loss account over a period corresponding to the expected average remaining working lives of the employees.

For defined contribution plans, the group pays contribution to publicly- or privately-administered pension insurance plans on an obligatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as a payroll expense when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based compensation

The fair value of share options granted is assessed at the granting date and expensed over the period from the granting date to the exercise date. The cost also includes payroll tax.

Bonus schemes

Certain senior executives have bonus agreements related to the attainment of specified targets for the business (budgets and activities). Obligations (provisions) and costs (pay) are recognised for bonuses in accordance with the company's contractual obligations.

Severance pay

Severance pay is given when the contract of employment is terminated by the group before the normal age of retirement or when an employee voluntarily agrees to leave in return for such a payment. The group recognises severance pay in the accounts when it is demonstrably obliged either to terminate the contract of employment for existing employees in accordance with a formal, detailed plan which the group cannot rescind, or to make a payment as a consequence of an offer made to encourage voluntary resignations. Severance pay which falls due more than 12 months after the balance sheet date is discounted to present value.

PROVISIONS

The group makes provisions when a legal or constructive obligation exists as a result of past events, it is more likely than not that an transfer of financial resources will be required to settle the obligation, and the amount of the obligation can be estimated with a sufficient degree of reliability. Provisions relate primarily to restructuring costs. Obligations falling due more than 12 months after the balance sheet date is discounted to present value.

REVENUE RECOGNITION

Revenue from the sale of goods and services is recognised at fair value, net of VAT, returns, discounts and rejects.

Sales of goods

Sales of goods are recognised in the profit and loss account when a unit within the group has delivered its products to the customer and the customer has accepted the product.

Sales of services

Sales of services embrace development assignments and services related to Industryalisation. Service deliveries are partly project-based and partly hourly-based. Sales of project-based services are recognised in the period in which the services are rendered, based on the degree of completion of the relevant project. The degree of completion is determined by measuring the services provided as a proportion of the total services to be rendered. Hourly-based services are recognised in the period when the service is rendered.

Interest income

Interest on bank deposits is recognised in the period when it is earned.

LEASING

Leases where a significant portion of the risks associated with the fixed asset are retained by the lessor are classified as operating leasing. Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the period of the lease.

DIVIDEND PAYMENTS

Possible dividend payments to the company's shareholders are recognised as a liability in the group's financial statements in the period when the dividend is approved by the general meeting.

NOTE 3 FINANCIAL RISK

The company is exposed through its business to a number of financial risks. Its corporate routines for risk management focus on the unpredictability of the financial markets, and endeavour to minimise potential negative effects arising from the company's financial dispositions.

MARKET RISK

Currency risk: The group is exposed to changes in foreign exchange rates because raw materials are sourced in foreign currencies and because a proportion of its goods and services are sold in such currencies. To reduce the currency risk relating to procurement, the company's standard contracts with its customers include currency clauses which allow the company to adjust its sales price when the actual exchange rate for raw material purchases differs significantly from the agreed base rate. The group has not established other significant currency hedge arrangements over and above its standard contracts with customers.

Price risk: The company is exposed to price risk both because raw materials follow international market prices for electronic and mechanical components and because the company's goods and services are subject to price pressures. Routines have been established for procurement by the company's own sourcing organisation, which negotiates group contracts. This centralisation of the sourcing function allows Kitron to achieve improved material prices

CREDIT RISK

The bulk of the group's customers are credit-hedged as part of the company's factoring agreement. Kitron accordingly bears credit risk only for customers who are not hedged through the factoring agreement. The company has routines to ensure that sales on credit are made only to creditworthy customers.

LIQUIDITY RISK

Kitron's financing is primarily short-term. and based on factoring finance for accounts receivable. This means that fluctuations in turnover affect the company's liquidity. In addition, drawing facilities have been established in banks which counteract the liquidity fluctuations related to turnover.

INTEREST RATE RISK

Interest on the group's interest-bearing debt is charged at the relevant market rate prevailing at any given time (three months Norwegian interbank offered rate – Nibor – plus the agreed interest margin). External financing for the group's operational companies takes place in the functional currency. No interest rate instruments have been established in the group. The company does not have significant interest-bearing assets, so that its income and cash flow from operational activities are not significantly exposed to changes in the market interest rate.

NOTE 4 IMPORTANT ACCOUNTING ESTIMATES AND DISCRETIONARY ASSESSMENTS

Estimates and discretionary assessments are based on historical experience and other factors, including expectations of future events which are considered to be likely under present conditions.

IMPORTANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The group prepares estimates and makes assumptions about the future. Accounting estimates derived from these will by definition seldom accord fully with the final outcome. Estimates and assumptions which represent a substantial risk for significant changes in the carrying amount of assets and liabilities during the coming fiscal year are discussed below.

Estimated value of goodwill

The group performs annual tests to assess the fall in value of goodwill and tangible fixed assets. The recoverable amount from cash-generating units is determined on the basis of present-value calculations of expected annual cash flows. These calculations require the use of estimates for cash flows and the choice of discount rate before tax for discounting the cash flows. A 10 per cent reduction in the estimated contribution margin or increase in the discount rate before tax for discounting cash flows would not have generated an additional impairment charge for goodwill.

Deferred tax assets

The group performs annual tests for impairment of deferred tax assets. Part of the basis for recognising deferred tax assets is based on applying the loss carried forward against future taxable income in the group. This requires the use of estimates for calculating future taxable income. A 10 per cent reduction in future taxable income in the group would not have generated an additional impairment charge for goodwill.

NOTE 5 ACQUISITION OF MINORITY

Kitron exercised its option in December 2005 to buy the remaining 33.4 per cent of the shares in UAB Kitron for NOK 11.0 million. The minority's share of equity at the acquisition date was NOK 12.0 million. The transaction led to the recognition of NOK 1.0 million in income, so that the group's equity was reduced by NOK 11.0 million through the transaction. The transaction did not lead to any change in the carrying amount of goodwill.

NOTE 6 SALES REVENUES AND BUSINESS AREAS

Kitron provides goods and services within development, industrialisation and manufacturing for the electronics sector in various geographical areas and different market segments.

Primary reporting format – business areas

The group's business is grouped in two main areas: electronic manufacturing services (EMS) and Kitron Microelectronics (KM). For a more detailed description of these individual business areas, see the presentation in the directors' report.

Breakdown by business areas:

	Electronic Manufacturing Services			Kitron Microelectronics			Other and eliminations		
(Amounts in NOK 1 000)	**2005**	2004	2003*	**2005**	2004	2003*	**2005**	2004	2003*
Sales revenues	**1 410 048**	1 597 163	1 727 758	**195 464**	190 896	130 694	**(29 171)**	(40 012)	(37 085)
Other operating costs	**1 415 006**	1 595 525	1 648 351	**182 246**	185 737	131 093	**(25 227)**	(18 171)	(30 503)
Depreciation/impairment	**30 343**	32 093	44 942	**4 089**	3 179	4 295	**4 243**	2 955	3 655
Operating profit/(loss)	**(35 301)**	(30 455)	34 465	**9 129**	1 981	(4 694)	**(8 187)**	(24 797)	(10 237)
Assets	**569 004**	622 105	700 313	**89 693**	82 480	83 743	**(6 174)**	(93 801)	(49 127)
Liabilities	**464 337**	470 321	514 499	**74 382**	66 397	63 937	**(37 314)**	(54 001)	(94 978)
Investment	**17 783**	16 987	24 310	**12 156**	2 352	1 868	**745**	4 151	4 096

Assets and liabilities are the carrying amounts in the accounts of the companies included in the business areas. Transactions and balances within each business area are eliminated.

Sales by market segment:

(Amounts in NOK 1 000)	2005	2004	2003*
Data /Telecom	**422 361**	489 461	567 517
Defence/marine	**450 315**	524 094	586 650
Medical Equipment	**344 410**	364 218	308 356
Industry	**359 255**	370 274	358 844
Total sales revenues	**1 576 341**	1 748 047	1 821 367

SECONDARY REPORTING FORMAT – GEOGRAPHICAL AREA

Geographical breakdown of sales revenues:

(Amounts in NOK 1 000)	2005	2004	2003*
Norway	**819 015**	1 043 223	1 287 887
Sweden	**624 157**	553 405	421 319
Rest of Europe	**56 702**	55 502	31 675
USA	**14 544**	9 991	11 743
Other	**61 923**	85 926	68 743
Total	**1 576 341**	1 748 047	1 821 367

Geographical breakdown of assets and investments:

	Norway			Sweden			Lithuania		
(Amounts in NOK 1 000)	**2005**	2004	2003*	**2005**	2004	2003*	**2005**	2004	2003*
Assets	**440 910**	396 484	607 582	**156 956**	151 091	130 768	**69 330**	65 486	57 087
Investments	**27 283**	12 065	15 738	**1 650**	2 915	1 727	**1 751**	8 510	12 809

* 2003 figures in accordance with NGAAP.

NOTE 7 INVENTORY

(Amounts in NOK 1 000)	2005	2004
Raw materials and purchased semi-manufactures	**172 244**	173 104
Work in progress	**52 324**	72 076
Finished goods	**17 974**	1 214
Total inventory	**242 542**	246 394

The total impairment charge recognised in the profit and loss account for the year is NOK 11.7 million (2004: NOK 9.6 million). Inventory at 31 December 2005 provided security for NOK 195.3 million in mortgage debt (2004: NOK 216.1 million). See note 22.

NOTE 8 PAYROLL COSTS

(Amounts in NOK 1 000)	2005	2004
Pay	**358 693**	396 751
Payroll tax	**71 316**	78 736
Net pension costs defined benefit plans (note 9)	**9 336**	11 645
Pension costs defined contribution plans	**8 849**	8 866
Options	**4 837**	15 200
Other remuneration	**22 242**	16 987
Total	**475 273**	528 185
Average number of employees	**1 307**	1 356

NOTE 9 PENSIONS AND RELATED OBLIGATIONS

Employees in Kitron's Norwegian companies are covered by pension plans which give the right to defined future benefits. Until 31 December 2005, all employees in Kitron's Norwegian companies were covered by funded defined benefit plans (with life insurance companies). At 31 December 2005, the funded plans were discontinued and replaced with a contribution-based pension scheme. The Norwegian plans embrace 682 employees.

Employees in Kitron's Norwegian companies are also covered by unfunded defined benefit plans (AFP early retirement scheme). The company's chief executive is covered by his own unfunded defined benefit plan. Employees in Kitron's Swedish companies are covered by contribution-based pension plans.

(Amounts in NOK 1 000)	**2005**	2004
Carrying amount of the obligation:		
Pension benefits	**14 904**	31 532
Costs recognised in profit and loss account (incl in note 8)		
Pension benefits	**9 336**	11 645

PENSION BENEFITS

Carrying amount of the obligation is determined as follows:

(Amounts in NOK 1 000)	**2005**	2004
Present value of accrued commitments in funded defined benefit plans	-	(106 615)
Fair value of pension fund assets	-	81 045
Unrecognised variances from estimates	-	10 011
Accrued payroll tax	-	(2 055)
Net commitments in funded defined benefit plans	-	(17 614)
Present value of accrued commitments in unfunded defined benefit plans	**(15 363)**	(11 512)
Unrecognised variances from estimates	**2 625**	(686)
Accrued payroll tax	**(2 166)**	(1 720)
Net commitments in unfunded defined benefit plans	**(14 904)**	(13 918)
Net pension commitment in the balance sheet	**(14 904)**	(31 532)

Net pension costs comprise:

(Amounts in NOK 1 000)	**2005**	2004
Present value of pension earnings for the year	**1 149**	9 582
Interest cost	**667**	7 496
Expected return on pension fund assets	-	(6 555)
Recognised changes in/variances from estimates	**(1 064)**	(305)
Payroll taxes	**252**	1 427
Costs associated with terminated funded insured benefits*	**8 332**	-
Total, included in payroll costs (note 8)	**9 336**	11 645

* Costs associated with terminated funded insured benefits comprise recognised commitments, premium paid for the year, premium for technical insurance underfunding and administrative reserve.

Change in carrying amount of pension commitments:

(Amounts in NOK 1 000)	**2005**	2004
Opening balance	**31 532**	40 881
Costs recognised in profit and loss account for the year	**9 336**	11 645
Pension premium paid	**(25 964)**	(20 994)
Closing balance	**14 904**	31 532

The following assumptions have been applied in calculating pension commitments:

(Amounts in NOK 1 000)	2005	2004
Discount rate	**4.3%**	5.5%
Expected return on pension funds	**5.3%**	6.0%
Annual pay adjustment	**2.9%**	2.5%
Annual pension adjustment	**2.4%**	2.0%

Assumptions on mortality rates are based on published statistics in Norway (K63).

NOTE 10 TANGIBLE FIXED ASSETS AND DEPRECIATION

(Amounts in NOK 1 000)	Machinery and equipment	Buildings and land	Total
At 1 January 2004			
Acquisition cost	478 320	68 069	**546 389**
Accumulated depreciation/impairment	390 270	19 174	**409 444**
Accounting carrying amount	88 050	48 895	**136 945**
Fiscal 2004			
Opening balance	88 050	48 895	**136 945**
Conversion difference	(248)	(521)	**(769)**
Additions	24 910	386	**25 296**
Disposals	-	4 419	**4 419**
Depreciation	33 522	2 970	**36 492**
Closing balance	79 190	41 371	**120 561**
At 31 December 2004			
Acquisition cost	490 656	63 385	**554 041**
Accumulated depreciation/impairment	411 466	22 014	**433 480**
Accounting carrying amount	79 190	41 371	**120 561**
Fiscal 2005			
Opening balance	79 190	41 371	**120 561**
Conversion difference	(761)	(565)	**(1 326)**
Additions	28 721	1 963	**30 684**
Disposals	(894)	-	**(894)**
Depreciation	(27 913)	(2 865)	**(30 778)**
Impairment	-	(5 800)	**(5 800)**
Closing balance	78 343	34 104	**112 447**
At 31 December 2005			
Acquisition cost	517 722	64 783	**582 505**
Accumulated depreciation/impairment	(439 379)	(30 679)	**(470 058)**
Accounting carrying amount	78 343	34 104	**112 447**

Accounting carrying amount includes the carrying amount of fixed assets which are treated for accounting purposes as financial leasing. See note 24.

Machinery, equipment, buildings and land were provided at 31 December as security for mortgage loans of NOK 62.7 million and NOK 34.1 million respectively (2004: NOK 57.9 million and NOK 41.4 million). See note 22.

In connection with the restructuring of the Norwegian EMS business, the company's factory in Kilsund was written down by NOK 5.8 million in 2005. This write-down was made because the company's activity in Kilsund is being moved to and merged with the business at Hisøy. See note 15.

NOTE 11 GOODWILL

(Amounts in NOK 1 000)	Goodwill
At 1 January 2004	
Acquisition cost	17 827
Accumulated impairment charge	-
Accounting carrying amount	17 827
Fiscal 2004	
Opening balance	17 827
Additions	4 494
Depreciation	1 735
Closing balance	20 586
At 31 December 2004	
Acquisition cost	22 321
Accumulated impairment charge	1 735
Accounting carrying amount	20 586
Fiscal 2005	
Opening balance	20 586
Depreciation	2 097
Closing balance	18 489
At 31 December 2005	
Acquisition cost	22 321
Accumulated impairment charge	3 832
Accounting carrying amount	18 489

The company's cash-generating units are identified for the electronic manufacturing services (EMS) and Kitron Microelectronics (KM) business areas, and by country.

Allocation of carrying amount of goodwill by business area and by country:

	2005		2004	
(Amounts in NOK 1 000)	**EMS**	**KM**	EMS	KM
Norway	**702**	**1 195**	2 799	1 195
Sweden	**2 921**		2 921	
Lithuania	**13 671**		13 671	
Total	**17 294**	**1 195**	19 391	1 195

The recoverable amount for a cash-generating unit is based on a calculation of utility value.

The cash flow assumption is based on financial budgets approved by the company's management. These calculation is based on growth assumptions which correspond with industry expectations of growth in the EMS market in coming years (7.5 per cent annually). The calculations are based on cash flows for the next five years and a discount rate of 15 per cent.

Impairment charges in 2004 related to corporate goodwill associated with the Norwegian share of Kitron Development. Kitron Development was merged in 2005 with Kitron AS. Additions in 2004 related to the acquisition of Kitron Flen AB and regulation of the purchase price for UAB Kitron.

Impairment charges in 2005 resulted from one of the company's customers moving its production to Asia.

NOTE 12 ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

(Amounts in NOK 1 000)	2005	2004
Accounts receivable	96 417	118 819
Provision for bad debts	(6 000)	(4 000)
Accounts receivable – net	90 417	114 819
Receivable from related parties (note 19)	-	16 000
Earned, non-invoiced income	20 421	5 690
Pre-paid costs	16 570	15 980
Other receivables	18 218	20 499
Total	145 626	172 988
Deducted long-term items	3 855	8 334
Current items	141 771	164 654

Long-term receivables are non-interest-bearing long-term receivables. All long-term receivables fall due within five years from the balance sheet date.

Fair value of accounts receivable and other receivables:

(Amounts in NOK 1 000)	2005	2004
Accounts receivable - net	90 417	114 819
Receivable from related parties (note 19)	-	16 000
Earned, non-invoiced income	20 421	5 690
Pre-paid costs	16 570	15 980
Other receivables	17 919	19 627
Total	145 327	172 116

The discount rate for calculating fair value of long-term items in 4.5 per cent (2004: 5.5 per cent). For current receivables, the carrying amount is virtually identical with the fair value.

Credit risk
No special concentration of accounts receivable exists which poses an abnormal credit risk. Accounts receivable and other receivables at 31 December 2005 provided security for NOK 145.6 million in mortgage debt (2004: NOK 173 million). See note 22.

NOTE 13 ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

(Amounts in NOK 1 000)	2005	2004
Accounts payable	230 317	223 287
Public duties	25 751	39 425
Payable to related parties (note 19)	1 371	6 687
Costs incurred	93 138	98 323
Total	350 577	367 722

NOTE 14 LOANS

(Amounts in NOK 1 000)	2005	2004
Long-term loans		
Bank loans	11 852	16 194
Other loans	28 826	22 792
Total	40 678	38 986
Current loans		
Overdraft facilities	31 931	9 111
Bank loans	5 173	8 211
Other loans	9 265	5 576
Total	46 369	22 898
Total loans	87 047	61 884

Other loans primarily involve leasing liabilities (see note 24) and factoring debt.

Periods to maturity of long-term loans:

(Amounts in NOK 1 000)	2005	2004
Between 1 and 2 years	**12 715**	9 766
Between 2 and 5 years	**15 684**	17 341
More than 5 years	**12 279**	11 879
Total	**40 678**	38 986

Effective interest rate at the balance sheet date:

	2005		2004	
	NOK	**Other**	NOK	Other
Overdraft facilities	**4.25%**	**4.0-11%**	3.75%	4.0-9.0%
Bank loans	**4.3%**	**5.4-6.5%**	3.8-5.0%	5.0-6.5%
Other loans	**4.0%**	**6.2%**	4.8 %	6.2%

Carrying amount and fair value of long-term loans:

	Carrying amount		Fair value	
(Amounts in NOK 1 000)	**2005**	2004	**2005**	2004
Long-term bank loans	**11 852**	16 194	**10 733**	14 044
Other loans	**28 826**	22 792	**25 147**	18 291
Total	**40 678**	38 986	**35 880**	32 335

Fair value is based on discounted cash flow with a discount rate of 4.5 per cent (2004: 5.5 per cent). The carrying amount of current loans is virtually identical with fair value.

Carrying amount of the group's loans in various currencies:

(Amounts in NOK 1 000)	2005	2004
NOK	**41 620**	23 563
SEK	**19 281**	12 065
LTL	**10 909**	11 631
EURO	**15 237**	-
USD	**-**	14 625
Total	**87 047**	61 884

The company's financing agreements include covenants relating to such factors as the company's equity and earnings. Due to restructuring costs (see note 15) and acquisition of minority in UAB Kitron (see note 5) the company did not comply with these covenants at 31 December 2005. However, through a dialogue with the banks in the subsequent period waivers were issued. The conditions for the loans were renegotiated and the company was in compliance with covenants at the date when the accounts were presented. Loans include NOK 80 million (2004: NOK 61.9 million) in secured commitments (bank loans and other secured loans). See note 22.

NOTE 15 PROVISIONS

(Amounts in NOK 1 000)	Restructuring
At 1 January 2005	19 680
Recognised in consolidated profit and loss account	-
Provisions for the year	43 700
Reversal of unused provisions from earlier periods	-
Used during the year	(14 873)
At 31 December 2005	48 507

Classification in the balance sheet:

(Amounts in NOK 1 000)	2005	2004
Long-term liabilities	**15 104**	13 822
Current liabilities	**33 403**	5 858
Total	**48 507**	19 680

It was resolved in the third quarter of 2005 to reduce capacity in the Norwegian business. The Norwegian EMS business has comprised manufacturing activities in Kilsund, Hisøy and Oslo. The Kilsund activity is being moved to and merged with the business at Hisøy. The manufacturing unit in Oslo is being closed down, and its production transferred to other units – including the company's facility in Lithuania. NOK 49.5 million relating to the move has been charged to the profit and loss account for 2005, including NOK 5.8 million as an impairment charge on buildings. The transfer process is due to be completed during the second quarter of 2006.
Total provisions at 31 December 2005 came to NOK 48.5 million. In addition to the provision of NOK 43.7 million for the year, which relates to the transfer of production and downsizing at plants in Norway as well as leasing costs, outstanding provisions relate to restructuring measures in earlier periods.
The amount used during the year is in line with plans and accords with the restructuring provisions made in earlier periods.

NOTE 16 TAX

(Amounts in NOK 1 000)	**2005**	2004
Tax payable	**726**	2 007
Deferred tax (note 17)	**-**	-
Total	**726**	2 007

Tax on the group's pre-tax result varies from the amount which would have arisen if the group's weighted average tax rate had been applied.

The difference is explained as follows:

(Amounts in NOK 1 000)	**2005**	2004
Ordinary loss before tax	**(58 213)**	(71 800)
Tax calculated at the various national rates	**(16 540)**	(21 630)
Issue costs, unrecognised	**(1 254)**	(493)
Non-tax-deductible expenses	**819**	182
Application of tax loss carried forward	**-**	-
Tax loss unrecognised as tax asset	**17 701**	23 948
Tax cost	**726**	2 007

The average tax rate was 28 per cent (2004: 30 per cent). This change reflects the change in mutual profitability in the group's subsidiaries in the respective countries.

NOTE 17 DEFERRED TAX

Deferred tax is recognised net when the group has a legal right to net deferred tax assets against deferred tax in the balance sheet and if the deferred tax is payable to the same tax authority. The following amounts have been netted:

Deferred tax benefit:

(Amounts in NOK 1 000)	**2005**	2004
Deferred tax asset which reverses in more than 12 months	**20 000**	20 000
Deferred tax asset which reverses in less than 12 months	**-**	-
Total	**20 000**	20 000

Change in carrying amount of deferred tax asset:

(Amounts in NOK 1 000)	**2005**	2004
Opening balance	**20 000**	20 000
Conversion differences	**-**	-
Profit and loss account	**-**	-
Tax recognised against equity	**-**	-
Closing balance	**20 000**	20 000

Changes in deferred tax assets and deferred tax (with netting in same tax regime)

Deferred tax:

(Amounts in NOK 1 000)	Gain and loss account	Financial leasing	**Total**
At 1 January 2004	1 739	-	**1 739**
Loss for the period	(348)	-	**(348)**
Conversion differences	-	-	**-**
At 31 December 2004	1 391	-	**1 391**
Loss for the period	(278)	106	**(172)**
Conversion differences	-	-	**-**
At 31 December 2005	1 113	106	**1 219**

Deferred tax assets:

(Amounts in NOK 1 000)	Provision and current assets	Fixed assets and goodwill	Loss carried forward	Pension	**Total**
At 1 January 2004	10 410	470	-	10 859	**21 739**
Recognised in profit and loss account for the period	(1 244)	2 896	-	(2 030)	**(378)**
Conversion differences	23	7	-	-	**30**
At 31 December 2004	9 189	3 373	-	8 829	**21 391**
Recognised in profit and loss account for the period	(5 021)	(856)	10 394	(4 656)	**(139)**
Conversion differences	(28)	(5)	-	-	**(33)**
At 31 December 2005	4 140	2 512	10 394	4 173	**21 219**

Deferred tax assets related to tax loss carried forward is recognised in the balance sheet to the extent that it is probable that the group can apply this against future taxable profit. The group has an unrecognised deferred tax asset of NOK 110 404 000 (2004: NOK 116 689 000) related to a tax loss carried forward of NOK 431 420 000 (2004: NOK 416 746 000). There are no restrictions on the right to carry the tax loss forward.

NOTE 18 INVESTMENT IN OTHER COMPANIES

Investment in shares:

Group	Business office	Shareholding	Voting share	Acquisition cost	Book value
Company's name					
Let`s Train AS	Notodden	20%	20%	150	150
IUC AB	Jönköping	3%	3%	4	4
Elektronikcentrum i Karlskoga AB	Karlskoga	10%	10%	10	10
Telespor AS	Bærum	5%	5%	26	26
Total				190	190

NOTE 19 RELATED PARTIES

i) Sale of goods and services

(Amounts in NOK 1 000)	**2005**	2004
Sales of goods[1]	**188 863**	255 401

ii) Purchase of goods and services

(Amounts in NOK 1 000)	**2005**	2004
Purchase of goods[1]	**3 729**	15 539

iii) Remuneration of senior executives

(Amounts in NOK 1 000)	**2005**	2004
Pay and other short-term benefits[2]	**7 381**	8 095
Option costs	**4 124**	11 397
Severance pay	-	3 088
Total	**11 505**	22 580

iv) Balance sheet items at 31 December resulting from purchase/sale of goods and services

(Amounts in NOK 1 000)	**2005**	2004
Receivable from related parties		
Shareholders[1]	-	16 000
Total	-	16 000

Receivable from related parties:		
Shareholders[1]	**1 371**	3 599
Senior executives[3]	-	3 088
Total	**1 371**	6 687

[1] Kongsberg Gruppen ASA owns 19.3 per cent of the shares in Kitron ASA. Purchase and sales of goods and services consist almost entirely of transactions with Kongsberg Gruppen ASA. All contracts and transactions between companies in the Kitron group and Kongsberg Gruppen with subsidiaries are made on commercial terms at the market price for goods and services.
[2] Senior executives comprise the corporate management team at Kitron ASA. Senior executives in Norway and Sweden are members of the company's collective pension scheme. The chief executive has an additional agreement on early retirement. See note 20. Some senior executives have bonus agreements related to the company's results.
[3] The amount at 31 December 2004 comprises debt to the previous chief executive in respect of severance pay.

NOTE 20 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND AUDITOR

(Amounts in NOK 1 000)	**2005**	2004
Directors' fees	**860**	816
- chair	**200**	200
- board members	**660**	616
Auditor's fees		
- legally-required audit	**1 794**	1 776
- other non-auditing services	**1 229**	1 061

Pay and other remuneration to the chief executive in 2005:

(Amounts in NOK 1 000)	Pay	Other remuneration	Severance pay
President and CEO	2 112	162	-
Former president and CEO	-	-	3 088

The president and CEO is entitled to receive his salary for 18 months if the employer cancels his contract of employment.

The president and CEO's contract of employment gives him a right to options. See note 25.

The company has the right to ask the chief executive to resign when he reaches the age of 64. The chief executive has the same right to resign. On resigning at the age of 64, the chief executive will continue to receive 50 per cent of his annual salary at the time of his departure from the company until he reaches the age of 67. All other remuneration and benefits received by the chief executive from the company will cease on his resignation.

NOTE 21 FINANCIAL EXPENSES

(Amounts in NOK 1 000)	**2005**	2004
Interest expenses	**13 009**	13 869
Other financial expenses	**7 439**	5 786
Interest income	**1 568**	1 564
Currency loss	**6 886**	5 820
Currency gain	**(1 912)**	(5 382)
Net currency loss	**4 974**	438
Net financial costs	**23 854**	18 529

NOTE 22 MORTGAGES

(Amounts in NOK 1 000)	**2005**	2004
Debt secured by mortgages	**79 994**	72 202

Carrying amount of assets provided as security:

(Amounts in NOK 1 000)	**2005**	2004
Buildings and land	**34 105**	41 371
Machinery and equipment	**62 667**	57 883
Receivables	**145 626**	172 988
Inventory	**195 329**	216 139
Total	**437 727**	488 381

Debt secured by mortgages includes leasing liabilities for fixed assets treated for accounting purposes as financial leasing. The carrying amount of these fixed assets is included in the carrying amount of assets provided as security. Of the mortgage debt in the consolidated accounts, the commitment related to leasing recognised in the balance sheet amounted to NOK 29.7 million at 31 December 2005 and 20.0 million at 31 December 2004.

Up to NOK 115 million in letting rights to buildings has been provided by the group as security. Conditions in the form of vendor's fixed charge are moreover related to deliveries from Kitron's suppliers of goods.

The group's receivables recognised in the balance sheet are provided as security (factoring mortgage) for obligations to DnB Nor Finans which arise as a result of possible claims relating to sold accounts receivable. Such claims can only be made in relation to the validity and similar aspects of the sold receivables, and do not relate to credit risk, currency risk and the like. The risk for sold receivables has been transferred to DnB Nor Finans. Sales of accounts receivable at 31 December 2005 amounted to NOK 208 million.

The group's bankers had provided guarantees at 31 December for leasing obligations and tax due but not paid. These totalled NOK 7.5 million and NOK 14.4 million respectively for the group.

NOTE 23 CASH AND CASH EQUIVALENTS

(Amounts in NOK 1 000)	**2005**	2004
Cash and cash equivalents	**113 229**	30 065

Cash and cash equivalents in the cash flow statement comprise:

(Amounts in NOK 1 000)	**2005**	2004
Cash and cash equivalents	**113 229**	30 065
Overdraft drawn down	**(31 931)**	(9 111)
Locked-in bank deposits	**(28 491)**	(30 000)
Total	**52 807**	(9 046)

(Amounts in NOK 1 000)	**2005**	2004
Bank overdraft facilities 31 December	**85 150**	86 300
Net drawn on overdraft facilities 31 December	**31 931**	9 111
Locked-in bank deposits 31 December		
Security for tax withholding	**1 366**	2 900
Security for factoring receivables	**20 329**	20 000
Security for rent guarantee	**6 796**	7 100
Total	**28 491**	30 000

Kitron ASA has established a group account agreement with the company's principal banks. This embraces Kitron ASA and certain of its Norwegian subsidiaries.

NOTE 24 LEASING AGREEMENTS

LEASING AGREEMENTS RECOGNISED IN THE BALANCE SHEET

Fixed assets:

(Amounts in NOK 1 000)	Carrying amount 31 Dec 2005	Depreciation for the year	Remaining lease	Nominal rent	Present value of future rent
Buildings and land	17 214	1 478	13 years	22 790	15 237
Machinery and equipment	24 028	3 521	1-5 years	16 108	14 416

Buildings and land includes factory premises in Lithuania.

Specification of estimated rent falling due within:

(Amounts in NOK 1 000)		Nominal rent	Present value of future rent
	1 year	8 737	7 365
	2-5 years	16 193	11 463
	> 5 years	13 969	10 825

With some of the leases for machinery and equipment, the company has the right to buy the leased object at the termination of the lease period. The buy-out price stands at one-three months rent. No such purchase option is included in the lease for buildings and land in Lithuania.

UNRECOGNISED LEASING AGREEMENTS

Fixed assets:

(Amounts in NOK 1 000)	Rent in 2005	Remaining lease
Buildings and land	29 719	1-10 years
Machinery and equipment	6 718	1-5 years

Buildings and land are located in Norway and Sweden.

Specification of estimated rent falling due within:

(Amounts in NOK 1 000)		Nominal rent	Present value of future rent
	1 year	33 705	32 128
	2-5 years	73 450	63 155
	> 5 years	42 588	28 704

With some of the leases for machinery and equipment, the company has a limited right to buy at the termination of the lease period. The buy-out price is the normal market price for the relevant leased object.

NOTE 25 SHARES AND SUBSCRIPTION RIGHTS SENIOR EMPLOYEES

Schemes have been established for granting subscription rights to senior executives and other key persons. There were 4 000 000 outstanding options at 31 December 2005[4]. The share price at 31 December 2005 was NOK 2.92 per share. The overview below shows the number of shares and subscription rights held by directors and members of the corporate management team at 31 December 2005.

Board	Number of shares
Nerijus Dagilis, chair[1]	-
Arne Solberg, deputy chair[2]	-
Kjell Almskog, director	-
Titas Sereika, director[3]	-
Per-Erik Mohlin, director	-
Liv Ester Johansen, director	-
Preben Jensen, director	-
Leif Henriksen, observer	-
Trygve Størseth, observer	-
Magnus B. Lindseth, observer	-

Corporate management	Number of shares
Jan T. Jørgensen, president and CEO[4]	93 504
Morten Jurs, chief financial officer	100 003
Jan Sigvartsen, vice president	-
Leif Tore Smedås, vice president	52 787
Jonas Eklind, vice president	-
Vidar Hole, vice president	58 440

[1] Nerijus Dagilis is chair of UAB Hermis Capital, which owns 69 134 583 shares (39.97 per cent) in Kitron ASA.
[2] Arne Solberg is chief financial officer of Kongsberg Gruppen ASA, which owns 33 439 153 shares (19.33 per cent) in Kitron ASA.
[3] Titas Sereika is a vice president of UAB Hermis Capital, which owns 69 134 583 shares (39.97 per cent) in Kitron ASA.
[4] The chief executive's contract of employment entitles him for receive 2 000 000 options in the company at a strike price of NOK 4.35 and 2 000 000 options at a strike price of NOK 6.32. The chief executive can decide for himself when to exercise the options, but they must be exercised in tranches of 2 000 000 and no later than three years after he took office in 2004. After three years, possible unexercised options will be forfeited. Should the chief executive be dismissed or resign, unexercised options will be forfeited unless they are exercised within one month from the date of dismissal/resignation.

NOTE 26 SHARES AND SHAREHOLDER INFORMATION

The company's share capital at 31 December 2005 comprised 172 961 625 shares with a nominal value of NOK 1 each. Each share carries one vote. There were 3 087 shareholders at 31 December 2005.

The 20 largest shareholders in Kitron ASA at 31 December 2005:

Shareholder	Number	Percentage
UAB Hermis Capital	69 134 583	39.97%
Kongsberg Gruppen ASA	33 439 153	19.33%
ING Luxembourg SA	16 243 000	9.39%
MP Pensjon	10 406 211	6.02%
Statoils Pensjonskasse	3 560 305	2.06%
JP Morgan Chase Bank	3 000 000	1.73%
Statoil Forsikring	2 426 520	1.40%
OKO Osuupankkien KE	1 759 000	1.02%
Verdipapirfondet NOR	1 592 964	0.92%
A/S Bemacs	1 332 606	0.77%
SEB Vilniaus Bankas	1 284 073	0.74%
SES AS	1 170 650	0.66%
Lauvheim Holding AS	740 000	0.43%
AS Hansabank	702 000	0.41%
NHO's Landsforening	665 495	0.38%
SEB Eesti Uhispank	653 530	0.38%
Aksjespareklubben TA	500 000	0.29%
BRAS AS	496 000	0.29%
Skandinaviska Enskilda	460 000	0.27%
Skjønhaug Malvin	395 685	0.23%
Total 20 largest shareholders	149 961 775	86.70%
Total other shareholders	22 999 850	13.30%
Total outstanding shares	172 961 625	100.00%

NOTE 27 EARNINGS PER SHARE

Earnings per share is calculated by dividing the group's net result for the year with a time-weighted average of the number of outstanding ordinary shares in Kitron ASA. Since the company made a loss in 2005, the diluted earnings per share will correspond to earnings per share.

	2005	2004
Net loss (NOK 1 000)	**(58 939)**	(73 807)
Earnings per share (NOK)	**(0.39)**	(0.56)
Diluted earnings per share (NOK)	**(0.39)**	(0.56)
Time-weighted number of shares	**151 599 225**	131 645 503
Time-weighted number of shares including options	**159 236 725**	141 870 503

NOTE 28 SHARE CAPITAL AND SHARE PREMIUM RESERVE

(Amounts in NOK 1 000)	Number of shares	Ordinary shares	Share premium reserve	Total
At 1 January 2004	125 543	125 543	353 941	479 484
Share option scheme for employees				
- received from employees	-	-	15 205	15 205
New shares issued	9 092	9 092	29 642	38 734
At 31 December 2004	134 635	134 635	398 788	533 423
Share option scheme for employees				
- received from employees	-	-	4 837	4 837
New shares issued	38 327	38 327	52 433	90 760
At 31 December 2005	172 962	172 962	456 058	629 020

The general meeting has authorised the board to issue up to 10 million shares for use with the option programme for employees.

Share options
A scheme has been established for granting options to senior executives and key persons. At 31 December 2005, only the chief executive is entitled to receive options. See also note 25. The options run until 2007.

Change in the number of outstanding share options and related weighted average strike price:

	2005		2004	
	Average strike price per share	**Number of options**	Average strike price per share	Number of options
At 1 January	**6.00**	**8 850 000**	6.22	13 600 000
Granted	-	-	5.40	4 000 000
Exercised	-	-	-	-
Forfeited	-	-	5.43	8 750 000
Expired	**6.49**	**4 850 000**	-	-
At 31 December	**5.34**	**4 000 000**	6.00	8 850 000

All outstanding options were exercisable at 31 December 2005 (the corresponding figure at 31 December 2004 was 8 850 000).

Outstanding share options at 31 December had the following expiry dates and strike prices:

		Shares	
Expiry date - 1 October	Strike price in NOK per share	**2005**	2004
2005	5.98/7.00	-	4 850 000
2007	4.35/6.32	**4 000 000**	4 000 000
Total		**4 000 000**	8 850 000

The fair value of the options awarded in 2004, calculated using the Black-Scholes option pricing model, was NOK 3.6 million. The most important input data were the share price at the granting date, the strike price shown above, the standard deviation on the expected share yield of 73 per cent, an expected dividend of 0, the term of the options shown above, and an annual risk-free interest rate of 3.73 per cent. Volatility measured by the standard deviation for expected share yield is based on a statistical analysis of daily share prices over the past three years. No shares were issued in connection with the option programmes during the period.

NOTE 29 CASH FLOW FROM OPERATIONS

(Amounts in NOK 1 000)	**2005**	2004
Ordinary loss before tax	**(58 213)**	(71 800)
Depreciation	**30 779**	36 492
Impairment charges	**7 897**	1 735
(Gain)/loss on sale of fixed assets	-	(1 558)
Change in inventory	**3 852**	67 922
Change in accounts receivable	**40 402**	(23 960)
Change in accounts payable	**4 802**	(38 520)
Change in pension funds/obligations	**(16 628)**	(7 591)
Expensed share-based compensation	**4 837**	15 200
Change in other accrual items	**(9 870)**	(10 396)
Change in locked-in bank deposits	**1 509**	600
Interest expense	**13 009**	13 869
Cash flow from operations	**22 376**	(18 007)

NOTE 30 CONVERSION TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In connection with the conversion to the International Financial Reporting Standards (IFRS), Kitron is reporting its consolidated accounts from 2005 in accordance with the IFRS. The annual accounts for 2004 were accordingly the last to be based on Norwegian generally accepted accounting principles (NGAAP). The annual accounts for 2005 present comparative figures for 2004 which have been restated in accordance with the IFRS.

The accounting principles applied under the IFRS do not differ significantly for Kitron from Norwegian generally accepted accounting principles. An overview is provided below of the areas where changes have occurred in the accounting principles and the accounting effects of the conversion to the IFRS.

Pension commitments
According to IFRS 1, unamortised variances from estimates are set to zero when implementing the new accounting standards. This reduces equity and increases results as shown in the tables below.

Tax
Kitron has assumed that implemented IAS 12 will reduce the carrying amount of deferred tax asset. This implementation results in a reduction in equity and increased results as shown in the table below.

Goodwill
Implementing the IFRS means that goodwill is not longer amortised, but must be tested regularly for impairment. Goodwill with a negative carrying amount must be set to zero. This results in increased equity and results as shown in the tables below.

Share-based compensation
In accordance with IFRS 2, the fair value of granted share options must be expensed in the period from the granting date to the exercise date. This reduces results as shown in the table below.

Share capital, share premium reserve, unrecognised other equity and retained earnings
Implementing the IFRS means that losses in earlier years are presented under retained earnings and not regulated against the share premium reserve and the share capital. The conversion difference is presented under other equity unrecognised in profit and loss.

Current portion of long-term debt
Implementing the IFRS means that the current portion of long-term debt is reclassified from long-term to current liabilities.

Cash flow statement
In the cash flow statement, cash in hand/bank deposits and draw-down of overdraft facilities are presented net after deducting locked-in bank deposits.

Effects of implementing the IFRS on results:

(Amounts in NOK million)	2004
Net loss under NGAAP	(88.3)
Effects of implementing the IFRS:	
Pension costs	5.1
Tax costs	20.5
Goodwill amortisation	4.1
Expensed share-based compensation	(15.2)
Net result under the IFRS	(73.8)

Effects of implementing the IFRS on equity:

(Amounts in NOK million)	01.01.2004	31.12.2004
Equity under NGAAP	251.5	202.8
Effects of implementing the IFRS:		
Pension costs	(58.7)	(53.9)
Deferred tax assets	(47.9)	(27.9)
Goodwill	2.2	7.1
Equity under the IFRS	147.1	128.1

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Amounts in NOK 1 000)	2004 (NGAAP)	Effects of IFRS	2004 (IFRS)
Operating income			
Sales revenues	1 748 047	-	1 748 047
Operating costs			
Cost of goods sold	1 062 104	-	1 062 104
Payroll expenses	518 103	10 082	528 185
Depreciation and impairments	42 315	(4 088)	38 227
Other operating expenses	172 802	-	172 802
Total operating expenses	1 795 324	5 994	1 801 318
Operating loss	(47 277)	(5 994)	(53 271)
Financial income and expenses			
Net financial items	(18 529)	-	(18 529)
Loss before tax	(65 806)	(5 994)	(71 800)
Tax	22 513	(20 506)	2 007
Net profit/(loss)	(88 319)	14 512	(73 807)

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(Amounts in NOK 1 000)	2004 (NGAAP)	Effects of IFRS	2004 (IFRS)
ASSETS			
Fixed assets			
Tangible fixed assets	120 561	-	120 561
Goodwill	13 466	7 120	20 586
Investment in shares	190	-	190
Deferred tax assets	47 882	(27 882)	20 000
Other receivables	8 334	-	8 334
Net pension funds	33 576	(33 576)	-
Total fixed assets	224 009	(54 338)	169 671
Current assets			
Inventory	246 394	-	246 394
Accounts receivable and other receivables	164 654	-	164 654
Cash and cash equivalents	30 065	-	30 065
Total current assets	441 113	-	441 113
Total assets	665 122	(54 338)	610 784

LIABILITIES AND EQUITY

EQUITY			
Equity allocated to shareholders			
Share capital and share premium reserve	190 225	343 198	533 423
Other equity unrecognised in profit and loss	-	(2 155)	(2 155)
Retained earnings	-	(415 759)	(415 759)
Minority interests	12 558	-	12 558
Total equity	202 783	(74 716)	128 067
LIABILITIES			
Long-term liabilities			
Loans	52 773	(13 787)	38 986
Pension commitments	11 154	20 378	31 532
Other provisions	13 822	-	13 822
Total long-term liabilities	77 749	6 591	84 340
Current liabilities			
Accounts payable and other current liabilities	367 722	-	367 722
Tax payable	1 899	-	1 899
Loans	9 111	13 787	22 898
Other provisions	5 858	-	5 858
Total current liabilities	384 590	13 787	398 377
Total liabilities	462 339	20 378	482 717
Total liabilities and equity	665 122	(54 338)	610 784

CONSOLIDATED CASH FLOW STATEMENT

(Amounts in NOK 1 000)	2004 (NGAAP)	Effects of IFRS	2004 (IFRS)
Cash flow from operational activities			
Cash flow from operations	(18 607)	600	(18 007)
Interest	(13 869)	-	(13 869)
Taxes	(569)	-	(569)
Net cash flow from operational activities	(33 045)	600	(32 445)
Cash flow from investment activities			
Acquisition of subsidiaries	(8 702)	-	(8 702)
Acquisition of tangible fixed assets	(21 266)	-	(21 266)
Disposal of tangible fixed assets	6 250	-	6 250
Net cash flow from investment activities	(23 718)	-	(23 718)
Cash flow from financing activities			
Proceeds from issuing ordinary shares	42 855	-	42 855
Proceeds from new loans	16 391	(9 111)	7 280
Repayment of loans	(24 551)	-	(24 551)
Net cash flow from financing activities	34 695	(9 111)	25 584
Change in cash and cash equivalent	(22 068)	(8 511)	(30 579)
Cash and bank credit at 1 January	52 134	(30 600)	21 534
Cash and bank credit at 31 December	30 065	(39 111)	(9 046)

PROFIT AND LOSS ACCOUNT KITRON ASA

(Amounts in NOK 1 000)	Note	2005	2004
Operating income			
Sales revenues	3	**27 492**	47 827
Other operating income		**-**	352
Total operating income		**27 492**	48 179
Operating costs			
Payroll expenses	4, 5, 15	**11 632**	35 772
Depreciation of tangible and intangible fixed assets	6, 7	**5 345**	6 372
Other operating expenses		**14 999**	26 866
Total operating expenses		**31 976**	69 010
Operating loss		**(4 484)**	(20 831)
Financial income and expenses			
Income from investment in subsidiaries		**-**	1 325
Intragroup interest income		**128**	818
Other interest income		**339**	321
Other financial income		**230**	105
Other interest expenses		**560**	1 080
Other financial expenses		**1 254**	894
Net financial items	21	**(1 117)**	595
Loss before tax		**(5 601)**	(20 236)
Tax	9	**-**	11 451
Net loss		**(5 601)**	(31 687)

BALANCE SHEET AT 31 DECEMBER KITRON ASA

(Amounts in NOK 1 000)	Note	2005	2004
ASSETS			
FIXED ASSETS			
Intangible fixed assets			
Deferred tax assets	9	**17 137**	17 137
Goodwill	7	**4 646**	6 746
Total intangible fixed assets		**21 783**	23 883
Tangible fixed assets			
Machinery, equipment, etc	6,18	**4 620**	7 118
Financial fixed assets			
Investment in subsidiaries	10,18	**371 938**	300 773
Intra-group loans	8,16,18	**14 970**	37 920
Investments in shares	11	**26**	26
Other long-term receivables		**1 800**	5 621
Total financial fixed assets		**388 734**	344 340
Total fixed assets		**415 137**	375 341
CURRENT ASSETS			
Receivables			
Accounts receivables	8,18	**18 757**	29 070
Other receivables	8,18,19	**26 678**	8 158
Total receivables		**45 435**	37 228
Bank deposits, cash in hand, etc	19	**80 916**	21 142
Total current assets		**126 351**	58 370
Total assets		**541 488**	433 711

(Amounts in NOK 1 000)	Note	2005	2004
LIABILITIES AND EQUITY			
EQUITY			
Paid-in equity			
Share capital 172 961 625 at NOK 1	12, 14	**172 962**	134 634
Share premium reserve	12	**252 087**	205 255
Total paid-in equity		**425 049**	339 889
Total equity		**425 049**	339 889
LIABILITIES			
Provisions			
Pension commitments	2, 5	**953**	2 098
Other long-term liabilities			
Liabilities to financial institutions	17	**2 027**	7 684
Current liabilities			
Liabilities to financial institutions	18, 19	**18 276**	28 029
Accounts payable		**3 982**	3 734
Public duties payable		**954**	2 394
Other current liabilities	8, 19	**90 247**	49 883
Total current liabilities		**113 459**	84 040
Total liabilities		**116 439**	93 822
Total liabilities and equity		**541 488**	433 711

Kaunas, 28 March 2006

Nerijus Dagilis
Chair

Arne Solberg
Deputy chair

Kjell E. Almskog
Director

Titas Sereika
Director

Per-Erik Mohlin
Director

Liv Johansen
Director

Preben Jensen
Director

Jan T. Jørgensen
President and CEO

CASH FLOW STATEMENT KITRON ASA

(Amounts in NOK 1 000)	2005	2004
Cash flow from operational activities		
Ordinary loss before tax	**(5 601)**	(20 236)
Tax paid for the period	**-**	-
Ordinary depreciation	**5 345**	6 372
Change in accounts receivable	**10 313**	(27 534)
Change in accounts payable	**247**	337
Difference between expensed pension and payments in/out to pension schemes	**(1 145)**	20
Change in other accrual items	**(14 699)**	7 604
Net cash flow from operational activities	**(5 540)**	(33 437)
Cash flow from investment activities		
Acquisition of tangible fixed assets	**(747)**	(4 151)
Acquisition of shares in other companies	**-**	(26)
Acquisition of subsidiaries	**(71 165)**	(18 928)
Repayment of lendings	**22 950**	-
Loan disbursements	**-**	(4 500)
Net cash flow from investment activities	**(48 962)**	(27 605)
Cash flow from financing activities		
New long-term loans	**-**	2 885
Repayment of long-term loans	**(5 657)**	(13 625)
Repayment of short-term loans	**38 926**	-
Net change in overdraft facilities	**(9 753)**	28 029
Equity paid in	**90 760**	38 241
Net cash flow from financing activities	**114 276**	55 530
Net change in cash and cash equivalents	**59 774**	(5 512)
Cash and cash equivalents at 1 January	**21 142**	26 654
Cash and cash equivalents at 31 December	**80 916**	21 142

NOTES TO THE ACCOUNTS

ACCOUNTING PRINCIPLES

The annual accounts have been prepared in accordance with the Norwegian Accounting Act and Norwegian generally-accepted accounting principles (NGAAP). All amounts are in NOK 1 000 unless otherwise stated.

INCOME RECOGNITION

Income from the sale of goods and services is recognised at the time of delivery.

CLASSIFYING AND RECOGNISING ASSETS AND LIABILITIES

Assets intended for long-term ownership or use are classified as fixed. Other assets are classified as current. Accounts receivable which fall due within one year are always classified as current assets. Analogous criteria are applied in classifying liabilities.

Current assets are recognised at the lower of cost price and fair value. Current liabilities are recognised in the balance sheet at the nominal value on the establishment date.

Fixed assets are recognised at their acquisition cost. Tangible fixed assets which decline in value are depreciated on a straight-line basis over their expected useful lifetime. Fixed assets are written down to their fair value where this is lower than the cost price and the decline in value is not considered to be temporary. Long-term debt in Norwegian kroner, with the exception of other provisions, is recognised at the nominal value on the establishment date. Provisions are discounted if the interest element is significant.

INTANGIBLE FIXED ASSETS

Intangible fixed assets, excluding deferred tax benefit, consist of goodwill. Goodwill is amortised on a straight-line basis over its expected useful life.

TANGIBLE FIXED ASSETS

Tangible fixed assets are recognised in the balance sheet and depreciated on a straight-line basis over their expected useful lifetime if they have and expected lifetime of more than three years and a cost price which exceeds NOK 15 000. Maintenance costs for tangible fixed assets are recognised as an operating expense as they arise, while upgrades or improvements are added to the cost price of the asset and depreciated accordingly. The distinction between maintenance and upgrading/improvement is calculated in relation to the condition of the asset when it was acquired.

Leased fixed assets are recognised in the balance sheet as tangible fixed assets if the lease is regarded as financial.

SUBSIDIARIES

Subsidiaries are recognised in the company accounts using the cost method. The investment is written down to its fair value when the fair value is lower than the cost price and this fall in value is not expected to be temporary.

ACCOUNTS RECEIVABLE

Accounts receivable from customers and other receivables are recorded at their nominal value after deducting a provision for bad debts. The latter is based on an individual assessment of each receivable. An unspecified provision is made for minor receivables to cover estimated bad debts.

SHORT-TERM PLACEMENTS

Short-term placements (shares regarded as current assets) are recognised at the lower of their average cost price and their fair value on the balance sheet date. Dividends received and other payments are recognised as other financial income.

FOREIGN CURRENCIES

Holdings in the foreign currencies are translated at the rates prevailing at the balance sheet date.

PENSIONS

Pension costs and obligations are calculated on a linear earning of pension rights, based on assumptions concerning the discount rate, future pay adjustments, state pensions and other social security benefits, the expected return on pension fund assets, and actuarial assumptions on mortality, voluntary retirement and so forth. Pension funds are recognised in the balance sheet at their fair value less net pension commitments. Changes in pension commitments relating to changes in pension plans are allocated over the average remaining period of service. The same applies to variances in underlying pension assumptions to the extent that these exceed 10 per cent of the larger of pension commitments and pension fund assets (corridor). Payroll tax is expensed for funded (collective) pension plans, and accrued in accordance with changes in the pension commitment for unfunded pensions.

The company terminated its collective funded defined benefit pension plan at 31 December 2005, and established a defined contribution plan.

TAX

Tax cost in the profit and loss account comprises the sum of tax payable for the period and changes to deferred tax or deferred tax assets. Deferred tax is calculated at a rate of 28 per cent on the basis of temporary differences between accounting and tax values, plus possible tax loss for carrying forward at the end of the fiscal year. Tax increasing and reducing temporary differences which reverse or could reverse in the same period are eliminated. and are recorded net in the balance sheet. Recognition of deferred tax assets on net tax-reducing differences which have not been eliminated, and tax loss for carrying forward, is based on expected future earnings. Deferred tax and tax assets which can be recognised in the balance sheet are stated net.

Tax on group contribution paid which is recognised as an increase in the cost price of shares in other companies, and tax on group contribution received which is recognised directly against equity, is recognised directly against tax in the balance sheet (against tax payable if the group contribution has an effect on tax payable and against deferred tax if the group contribution has an effect on deferred tax).

CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method. Cash and cash equivalents include cash in hand, bank deposits and other short-term liquid placements which can be immediately and with insignificant currency risk converted to known amounts of cash and with a maturity which is less than three months from the acquisition date.

NOTE 1 FINANCIAL RISK

Interest rate risk
Interest on the group's interest-bearing debt is charged at the relevant market rate prevailing at any given time (three months Norwegian interbank offered rate – Nibor – plus the agreed interest margin). No interest rate instruments have been established in the company. The company does not have significant interest-bearing assets, so that its income and cash flow from operational activities are not significantly exposed to changes in the market interest rate.

Currency risk
Exchange rate developments represent a risk for the company both directly and indirectly. No contracts which reduce this risk had been concluded at 31 December 2005.

Price risk
The raw materials price risk for the company's business is small. Nevertheless, the risk of price fluctuations is hedged through long-term purchase contracts as well as the conclusion of strategic agreements with suppliers and other players in the market.

NOTE 2 CHANGE OF PRINCIPLE

The company has changed its accounting principle for defined benefit pension plans. This was previously based on Norwegian Generally Accepted Accounting Standard (NGAAP) 6, but NRS 6A is now used. When restating the figures in accordance with NRS 6A, the effect on the opening balance for 2004 was to reduce equity by NOK 2 549 000. The restatement also had an effect of NOK 111 000 on the profit and loss account for 2004.

NOTE 3 SALES REVENUES

Kitron provides development, industrialisation and manufacturing services to the electronics industry in various geographical areas and market segments. Given that the parent company's revenues cannot be said to relate to significantly different segments, the sales revenues are not broken down further into segments. The business of Kitron ASA is administration of its subsidiaries, and revenues consist primarily of group contributions.

Sales revenues by geographical area

(Amounts in NOK 1 000)	**2005**	2004
Norway	**18 896**	34 599
Sweden	**6 387**	10 450
Lithuania	**2 209**	2 778
Total	**27 492**	47 827

NOTE 4 PAYROLL COSTS

(Amounts in NOK 1 000)	**2005**	2004
Pay	**5 930**	29 072
Payroll taxes	**3 173**	3 973
Pension costs	**1 391**	976
Other remuneration	**1 138**	1 751
Total	**11 632**	35 772

Average number of employees	**10**	30

NOTE 5 PENSION COSTS, FUNDS AND COMMITMENTS

Employees in Kitron ASA are covered by pension plans which give the right to defined future benefits. Until 31 December 2005, all employees in Kitron were covered by funded defined benefit plans (with life insurance companies). At 31 December 2005, the funded plans were discontinued and replaced with a contribution-based pension scheme. The plan embraces 24 employees.

Employees in Kitron ASA are also covered by unfunded defined benefit plans (AFP early retirement scheme). The company's chief executive is covered by his own unfunded defined benefit plan.

Funded benefits

Net pension commitments and overfunded pension commitments can be specified as follows:

(Amounts in NOK 1 000)	**2005**	2004
Present value of accrued pension commitments	-	5 930
- value of pension fund assets	-	(4 605)
+/- unamortised variances from estimates	-	48
+/- accrued payroll taxes	-	195
Net pension commitments/(funds)	-	1 568

Unfunded benefits

Net pension commitments can be specified as follows:

(Amounts in NOK 1 000)	**2005**	2004
Present value of accrued pension commitments	**820**	340
- value of pension funds	-	-
+/- unrecognised variances from estimates	**15**	124
+/- accrued payroll taxes	**118**	66
Net pension commitments/(funds)	**953**	530

Pension costs for the year comprise:

(Amounts in NOK 1 000)	**2005**	2004
+ Present value of pension earnings for the year	**339**	817
+ Interest expense on accrued pension commitments	**23**	339
- Expected return on pension fund assets	-	(301)
+ Amortisation of variances from estimates	-	-
+ Payroll taxes	**51**	121
Net pension cost of unfunded plans	**413**	976
Termination recognised in the profit and loss account*	**120**	
Net pension costs included in note 4	**533**	976

* Termination recognised in the profit and loss account refers to recognition of pension commitments, premium for technical insurance underfunding, administration reserve and payroll taxes at termination, as well as premium payments related to the terminated scheme.

The following economic and actuarial assumptions have been applied:

	2005	2004
Discount rate	**4.3%**	5.5%
Expected return	**5.3%**	6.0%
Pay adjustment	**2.9%**	2.5%
Inflation	**2.9%**	2.5%
Pension adjustment	**2.4%**	2.0%
Payroll taxes	**14.1%**	14.1%
Expected utilisation rate (AFP)	**30.0%**	30.0%

NOTE 6 TANGIBLE FIXED ASSETS AND DEPRECIATION

(Amounts in NOK 1 000)	Machinery and equipment
Acquisition cost at 1 January	18 162
Additions during the year	747
Acquisition cost at 31 December	18 909
Accumulated depreciation 1 January	11 044
Depreciation during the year	3 245
Accumulated depreciation at 31 December	14 289
Book value 31 December	4 620
Useful lifetime	3 – 5 years
Depreciation plan	Linear

Annual lease of fixed asset unrecognised in the balance sheet:

Fixed asset	Length of lease	Annual rent
Premises	> 2007	410
Operating equipment	> 2010	118
Vehicles	> 2008	302

The company has an option to buy leased printers.

NOTE 7 INTANGIBLE FIXED ASSETS

(Amounts in NOK 1 000)	Goodwill
Acquisition cost at 1 January	15 146
Additions during the year	-
Acquisition cost at 31 December	15 146
Accumulated amortisation at 31 December	10 500
Book value 31 December	4 646
Ordinary amortisation for the year	2 100
Useful lifetime	5 years

Goodwill is amortised over its expected useful lifetime.

NOTE 8 INTRA-GROUP ACCOUNTS

(Amounts in NOK 1 000)	**2005**	2004
Current receivables	**44 371**	29 070
Current liabilities	**88 847**	42 439
Intra-group loans	**14 970**	37 920

NOTE 9 TAXES

(Amounts in NOK 1 000)	**2005**	2004
Tax cost for the year breaks down into:		
Tax payable	-	-
Change in deferred tax	-	11 451
Total tax cost	-	11 451
Calculation of tax base for the year:		
Loss before tax	**(5 601)**	(20 236)
Permanent differences*	**(1 995)**	168
Change in temporary differences	**(2 924)**	(649)
Tax base for the year	**(10 520)**	(20 717)
Overview of temporary differences		
Receivables	**(55)**	(180)
Fixed assets	**(2 658)**	(941)
Provisions under good accounting practice	-	(4 058)
Pensions	**(952)**	(2 098)
Gain and loss account	**2 753**	3 441
Total	**(912)**	(3 836)
Loss carried forward	**(159 271)**	(148 752)
Total	**(160 183)**	(152 588)
28% deferred tax	**(44 851)**	(42 725)
Deferred tax asset unrecorded in balance sheet	**(27 714)**	(25 588)
Deferred tax asset	**17 137**	17 137
Explanation of why tax cost for the year does not equal 28% of pre-tax result		
28% of loss before tax	**(1 568)**	(5 666)
Permanent differences (28%)	**(559)**	47
Effect of deferred tax asset unrecorded in balance sheet	**2 127**	5 619
Calculated tax cost	-	-
Effective tax rate**	**0.0%**	0.0%

* Includes non-tax-deductible costs such as entertainment and issue expenses.
** Tax cost in relation to pre-tax result.

NOTE 10 INVESTMENT IN SUBSIDIARIES

(Amounts in NOK 1 000)	Business office	Share-holding	Voting share	Equity past year	Result past year	Book value
Company						
Kitron AS	Arendal	100%	100%	47 896	(52 713)	232 337
Kitron Microelectronics AS	Røros	100%	100%	12 634	4 715	15 848
Kitron Sourcing AS	Oslo	100%	100%	9 234	1 541	11 400
Kitron AB	Karlskoga, Sweden	100%	100%	17 055	1 192	44 696
Kitron Microelectronics AB	Jönköping, Sweden	100%	100%	2 677	756	13 463
Kitron Flen AB	Flen, Sweden	100%	100%	4 473	(6 798)	25 014
UAB Kitron	Kaunas, Lithuania	100%	100%	34 564	944	29 180
Total investment in subsidiaries						371 938

The Kitron AS subsidiary owns shares in the following subsidiary:

Company	Business office	Share-holding	Voting share	Book value
Kilsund Teknologi AS	Arendal	100%	100%	1 141

NOTE 11 INVESTMENT IN OTHER COMPANIES

Company name	Business office	Share-holding	Voting share	Cost price	Book value
Telespor AS	Bærum	5%	5%	26	26

NOTE 12 EQUITY

(Amounts in NOK 1 000)	Share capital	Share premium fund	Total equity
At 31 December 2004	134 634	205 255	339 889
Net loss	-	(5 601)	(5 601)
New capital paid in	38 327	52 433	90 760
At 31 December 2005	172 962	252 087	425 049

NOTE 13 SHARES AND SUBSCRIPTION RIGHTS SENIOR EMPLOYEES

Schemes have been established for granting subscription rights to senior executives and other key persons. There were 4 000 000 outstanding options at 31 December 20054. The share price at 31 December 2005 was NOK 2.92 per share. The overview below shows the number of shares and subscription rights held by directors and members of the corporate management team at 31 December 2005.

Board	Number of shares
Nerijus Dagilis, chair[1]	-
Arne Solberg, director[2]	-
Kjell E. Almskog, director	-
Titas Sereika, director[3]	-
Per-Erik Mohlin, director	-
Liv Ester Johansen, director	-
Preben Jensen, director	-
Leif Henriksen, observer	-
Trygve Størseth, observer	-
Magnus B. Lindseth, observer	-

Corporate management	Number of shares
Jan T. Jørgensen, president and CEO[4]	93 504
Morten Jurs, chief financial officer	100 003
Jan Sigvartsen, vice president	-
Leif Tore Smedås, vice president	52 787
Jonas Eklind, vice president	-
Vidar Hole, vice president	58 440

[1] Nerijus Dagilis is chair of UAB Hermis Capital, which owns 69 134 583 shares (39.97 per cent) in Kitron ASA.
[2] Arne Solberg is chief financial officer of Kongsberg Gruppen ASA, which owns 33 439 153 shares (19.33 per cent) in Kitron ASA.
[3] Titas Sereika is a vice president of UAB Hermis Capital, which owns 69 134 583 shares (39.97 per cent) in Kitron ASA.
[4] The chief executive's contract of employment entitles him for receive 2 000 000 options in the company at a strike price of NOK 4.35 and 2 000 000 options at a strike price of NOK 6.32. The chief executive can decide for himself when to exercise the options, but they must be exercised in tranches of 2 000 000 and no later than three years after he took office in 2004. After three years, possible unexercised options will be forfeited. Should the chief executive be dismissed or resign, unexercised options will be forfeited unless they are exercised within one month from the date of dismissal/resignation.

NOTE 14 SHARES AND SHAREHOLDER INFORMATION

The company's share capital at 31 December 2005 comprised 172 961 625 shares with a nominal value of NOK 1 each. Each share carries one vote. There were 3 087 shareholders at 31 December 2005.

The 20 largest shareholders in Kitron ASA at 31 December 2005:

Shareholder	Number	Percentage
UAB Hermis Capital	69 134 583	39.97%
Kongsberg Gruppen ASA	33 439 153	19.33%
ING Luxembourg SA	16 243 000	9.39%
MP Pensjon	10 406 211	6.02%
Statoils Pensjonskasse	3 560 305	2.06%
JP Morgan Chase Bank	3 000 000	1.73%
Statoil Forsikring	2 426 520	1.40%
OKO Osuupankkien KE	1 759 000	1.02%
Verdipapirfondet NOR	1 592 964	0.92%
A/S Bemacs	1 332 606	0.77%
SEB Vilniaus Bankas	1 284 073	0.74%
SES AS	1 170 650	0.66%
Lauvheim Holding AS	740 000	0.43%
AS Hansabank	702 000	0.41%
NHO's Landsforening	665 495	0.38%
SEB Eesti Uhispank	653 530	0.38%
Aksjespareklubben TA	500 000	0.29%
BRAS AS	496 000	0.29%
Skandinaviska Enskilda	460 000	0.27%
Skjønhaug Malvin	395 685	0.23%
Total 20 largest shareholders	149 961 775	86.70%
Total other shareholders	22 999 850	13.30%
Total outstanding shares	172 961 625	100.00%

NOTE 15 REMUNERATION OF SENIOR EXECUTIVES, DIRECTORS AND AUDITOR

(Amounts in NOK 1 000)	Pay	Other remuneration	Severance pay
President and CEO	2 112	162	-
Former president and CEO	-	-	3 088

The president and CEO is entitled to receive his salary for 18 months if the employer cancels his contract of employment. The president and CEO's contract of employment gives him a right to options. See note 13.

The company has the right to ask the chief executive to resign when he reaches the age of 64. The chief executive has the same right to resign. On resigning at the age of 64, the chief executive will continue to receive 50 per cent of his annual salary at the time of his departure from the company until he reaches the age of 67. All other remuneration and benefits received by the chief executive from the company will cease on his resignation.

Certain leading executives have bonus agreements related to the company's results.

NOK 860 000 was paid in fees to directors and the chair in 2005.

NOK 1 226 000 was expensed for fees to the auditor of Kitron ASA. This breaks down as follows:

(Amounts in NOK 1 000)	**2005**
Legally-required audit	**473**
Other non-auditing services	**793**
Total fees	**1 266**

NOTE 16 RECEIVABLES

NOK 14 970 000 of the NOK 14 970 000 in intra-group loans at 31 December 2005 falls due later than one year after the end of the fiscal year.

(Amounts in NOK 1 000)	2005	2004
Kitron AS	**4 500**	34 500
Kitron AB	**10 470**	3 420
Total	**14 970**	37 920

NOTE 17 INFORMATION ON LONG-TERM LIABILITIES TO FINANCIAL INSTITUTIONS

Long-term liabilities to financial institutions have the following repayment profile:

(Amounts in NOK 1 000)	2006	2007	2008	2009	2010 and later
Long-term liabilities to financial institutions have the following repayment profile	1 022	1 005	-	-	-

Interest is not calculated on the loan. The long-term financing includes covenants relating to such factors as the company's equity and earnings. Due to restructuring costs (see note 15) and acquisition of minority in UAB Kitron (see note 5) the company did not comply with these covenants at 31 December 2005. However, through a dialogue with the banks in the subsequent period waivers were issued. The conditions for the loans were renegotiated and the company was in compliance with covenants at the date when the accounts were presented.

NOTE 18 MORTGAGES

(Amounts in NOK 1 000)	2005	2004
Debt secured by mortgages	**18 276**	32 828

Carrying amount of assets provided as security

(Amounts in NOK 1 000)	2005	2004
Machinery and equipment	**4 620**	7 118
Investment in subsidiaries	**371 938**	300 773
Receivables	**60 405**	75 146
Total	**436 963**	383 037

The company's bankers had provided guarantees of NOK 2 million at 31 December 2005 for tax due but not paid in Kitron ASA.

NOTE 19 LIQUID ASSETS

Kitron ASA has established a group account agreement with the company's principal banks. This embraces Kitron ASA and certain of its Norwegian subsidiaries. The annual accounts for Kitron ASA present net deposits/drawings for all the group companies included in the scheme. This means that the net deposits/drawings by subsidiaries are recognised as a balance with Kitron ASA.

The company has a cash deposit of NOK 20.3 million related to agreements with DnB Nor Finans concerning the purchase of customer receivables.

NOTE 20 RELATED PARTIES

No loans/security have been provided to the chief executive, the chair or other related parties. No single loan/security totals more than five per cent of the company's equity.

NOTE 21 ITEMS CONSOLIDATED IN THE ACCOUNTS

(Amounts in NOK 1 000)	**2005**	2004
Financial income		
Other financial income	**71**	-
Currency gain	**159**	105
Total financial income	**230**	105
Financial expenses		
Other financial expenses	**1 156**	684
Currency loss	**98**	210
Total financial expenses	**1 254**	894

PRICEWATERHOUSECOOPERS

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To the Annual Shareholders' Meeting of Kitron ASA

Auditor's report for 2005

We have audited the annual financial statements of Kitron ASA as of December 31, 2005, showing a loss of TNOK 5 601 for the parent company and a loss of TNOK 58 939 for the group. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The annual financial statements comprise the financial statements of the parent company and the group. The financial statements of the parent company comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The financial statements of the group comprise the balance sheet, the statement of income and cash flows, the statement of changes in equity and the accompanying notes. The regulations of the Norwegian accounting act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the parent company. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the group. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements of the parent company have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the company as of December 31, 2005, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the financial statements of the group have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the group as of December 31, 2005, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit are consistent with the financial statements and comply with the law and regulations

Oslo, March 28, 2006
PricewaterhouseCoopers AS

Håvard S. Abrahamsen
State Authorised Public Accountant (Norway)
Note: This translation from Norwegian has been prepared for information purposes only.

The board of Kitron has adopted principles for corporate governance to safeguard the interests of the company's owners, employees and other stakeholders. These principles are also intended to clarify the division of roles between shareholders, directors and management, and to help safeguard the interests of owners, employees and other stakeholders such as customers and suppliers.

CORPORATE GOVERNANCE

The primary motivation is the desire to create increased predictability and transparency, and thereby reduce uncertainties associated with the business. Kitron seeks to have guidelines for corporate governance which accord with the Norwegian code of practice in this area.

THE BUSINESS

The company's business is defined as follows in its articles of association:

"Manufacturing activities, purchase and sale of shares and companies, development and sale of products in an international market, consultancy activities and all activities associated therewith."

SHARE CAPITAL AND DIVIDEND

Share capital

The company's share capital at 31 December 2005 totalled NOK 172.9 million. Its equity capital at the same date was NOK 151 million, corresponding to an equity ratio of 23.2 per cent. Kitron implemented a rights issue and a private placement during 2005, raising NOK 50 million and NOK 45 million respectively. In the board's view, the company now has an equity tailored to the nature and scope of the business. The private placement was implemented to strengthen the company's equity position in connection with the approved restructuring of Kitron's Norwegian EMS activity. It was carried out as a private placement because of the board needed to be flexible in putting the issue in place quickly.

Dividend

Kitron ASA will pay a dividend corresponding to 30-50 per cent of net profit, providing the company's share capital and liquidity position are acceptable.

Authorities

Existing authorities are described in more detail in the shareholder information section of this annual report.

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

Kitron has established guidelines and control procedures through an insider regulation. These guidelines include a definition of what the company deems to be insider information and conflicts of interest between an insider and the company. Furthermore, all Kitron's shareholders have equal voting rights and there is only one class of share.

NEGOTIABILITY

The shares are freely negotiable.

GENERAL MEETING

Shareholders exercise ultimate authority in Kitron through the annual general meeting. All shareholders are entitled to attend a general meeting, where representatives of the board and the auditor will also be present. Notice of the meeting and its agenda are issued at least two weeks before a general meeting takes place.

The general meeting deals with such matters as are specified by Norwegian law, including adoption of the annual accounts and the directors' report. It also elects directors and the external auditor. The board keeps the general meeting informed about existing remuneration and incentive programmes.

ELECTION COMMITTEE

The company has an election committee elected by the general meeting. It is not required by the articles of association. The present committee has the following composition:

Titas Sereika, chair
(until the 2007 AGM)
Darius Janulevicius
(until the 2007 AGM)
Arne Solberg
(until the 2006 AGM)
Jan Eiler Fleischer
(until the 2006 AGM)

Two of the election committee members are also directors. Kitron will endeavour to fulfil the requirements for an election committee specified in the Norwegian code of practice for corporate governance.

BOARD COMPOSITION AND INDEPENDENCE

Seeing that the board has a composition which ensures that it always acts independently of special interests represents a significant requirement. The chief executive is not a member of the board.

The election committee, on which the largest shareholders are represented, proposes candidates for election to the board. Directors are elected for two-year terms. The board's composition is designed to ensure that it can discharge the supervisory and strategic functions which fall within its area of responsibility in an effective and proactive manner.

The present board has the following shareholder-elected members:

Nerijus Dagilis, chair
(until the 2007 AGM)
Arne Solberg, deputy chair
(until the 2006 AGM)
Titas Sereika
(until the 2007 AGM)
Kjell E. Almskog
(until the 2007 AGM)
Per-Erik Mohlin
(until the 2007 AGM)

Magnus B. Lindseth has also been elected as an observer until the 2007 AGM.

Three of the five shareholder-elected directors represent UAB Hermis Capital and Kongsberg Gruppen ASA, the company's principal shareholders. All the shareholder-elected directors are independent of the company management.

WORK OF THE BOARD

The board has overall responsibility for safeguarding the interests of shareholders through good corporate governance. This also means taking account of other stakeholders. Furthermore, it is the board's duty and responsibility to exercise overall control of the company, and to supervise the management and the company's operations. The division of roles between board and management is specified in Kitron's rules of procedure for the board. In addition, the board has established an annual plan for its work with a special focus on goals, strategies and execution.

The chair has a particular responsibility for ensuring that the board functions satisfactorily and that its duties are discharged in the best possible way. This also includes making an assessment of each director's performance, the resources available to the board and whether the number of meetings held is sufficient for the workload.

Kitron's board will serve as a constructive and qualified sparring partner for the management. One of its key duties is to define appropriate strategies for the company. It is important in this context that the board, in cooperation with management, ensures that the necessary strategies are continuously developed and followed up, and that they are implemented. Kitron has defined performance parameters for the strategies adopted which enable the company to measure performance against specific success factors.

Relevant financial reports are received by the board on a monthly basis. The input for these is prepared by the management of the various subsidiaries. This information is checked, consolidated and processed by the group's corporate financial staff to produce the final reports submitted to the board. Reporting also covers relevant non-financial details such as customers, production, market developments and logistics. The group has no separate internal audit function. Controls on the accounts are exercised through various forms of division of labour, guidelines and approval routines. The corporate financial staff is responsible for establishing guidelines and principles. The group's financial transactions are handled by the corporate finance staff. Responsibility for the commercial content of significant procurement contracts rests with the corporate sourcing organisation.

Annual evaluations of the management and its performance are conducted by the board. These evaluations also cover an assessment of cooperation between board and management. The results of these evaluations represent an important element in remuneration and incentive programmes. Such programmes are described in note 25 to the annual accounts.

RISK MANAGEMENT

In a complex business environment, the lack of a clear risk picture can have substantial consequences for the company's value. Kitron accordingly takes a systematic and comprehensive approach to identifying, controlling and managing risk. For Kitron, effective risk management is more than a defensive measure. It represents a key element in corporate strategic planning to create lasting value for the company and its owners. Kitron takes the view that effective risk management can improve its competitive position, provide protection against market and credit risks, stabilise earnings and strengthen profitability.

Integrated risk management calls for enhanced awareness at all levels in the organisation. This strengthens Kitron's ability to apply multidisciplinary perspectives in finding solutions. A unified approach means that risk management is integrated with other critical processes such as budgeting, strategy development, reporting, product development and quality assurance.

The choice of optimum approach depends on whether the risk in question can be transferred to a counterparty, financed by a third party, limited by agreement, or reduced through a reallocation of resources or changing processes.

REMUNERATION OF DIRECTORS

Remuneration paid to directors reflects their responsibility and expertise, the amount of time devoted to the work, and the complexity of the business. Information about directors' remuneration, including shares and subscription rights, is provided in notes 20 and 25 to the accounts. Should directors accept special assignments for the company in addition to their directorship, this will be reported in the annual report. The board must be kept informed of such assignments at all times.

REMUNERATION OF SENIOR EXECUTIVES

Guidelines for remunerating senior executives are specified by the board. The president and CEO is responsible for determining such remuneration.

The board considers it important to provide Kitron's key employees with a financial incentive which ensures the necessary stability and increases motivation. In the board's view, such an option programme will contribute to a positive development in the company's value, with increased interest in the company's shares among potential shareholders. The framework for option programmes and schemes for awarding shares to employees must be approved in advance by the general meeting. At the AGM on 29 April 2005, the board was authorised to increase the company's share capital by up to NOK 10 million through the issue of new shares in one or more private placements directed at the group's key employees. This authority is described in greater detail under shareholder information in this annual report.

Kitron reports all forms of remuneration received by the chief executive. See notes 20 and 25.

COMMUNICATION

Kitron wants to maintain good communication with its shareholders and other stakeholders. This duty to inform is based on openness, and will help to ensure that Kitron's shareholders and other stakeholders are able to make a continuous assessment of the company and its prospects. Procedures have been established to ensure a flow of relevant and reliable information. Kitron presents a financial calendar every year with dates for important events. The group endeavours to ensure that all shareholders have access to the same information.

TAKEOVERS

The board will not seek to prevent anyone from making an offer for Kitron's business or shares. Nor will the board exploit possible authorities to issue shares in an attempt to prevent a bid from succeeding unless such a course of action has been approved by the general meeting after the offer is made public. Existing authorities are described in greater detail under shareholder information in this annual report.

AUDITOR

PricewaterhouseCoopers AS has been the company's auditor in 2005.

SHAREHOLDER INFORMATION

SHARE CAPITAL

Kitron ASA has only one share class. Each share carries one vote at the company's general meeting. The shares are freely negotiable.

The registered share capital of Kitron ASA at 31 December 2005 was NOK 172 961 625, divided between 172 961 625 shares with a nominal value of NOK 1.00 each. The time-weighted average number of shares used as the basis for calculating key figures is 151 599 225 (excluding options).

STOCK MARKET LISTING

The company's share is listed on the Oslo Stock Exchange (ticker code: KIT).

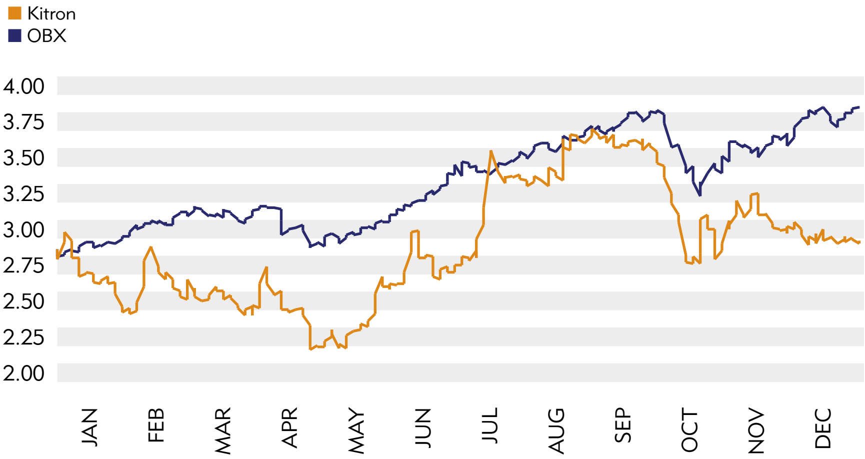
During 2005 and up to March 2006, Kitron had an agreement with DnB NOR Markets on a liquidity guarantee for the company's shares. Under this arrangement, DnB NOR Markets set binding purchase and sales prices for the share. In addition, Kitron had a market-making agreement with Fondsfinans ASA. This has also been cancelled. These arrangements were intended to stimulate increased trading the company's shares within the framework provided by the Oslo Stock Exchange's liquidity guarantee scheme.

The share price developed during 2005 from NOK 2.79 per share to NOK 2.92, corresponding to an increase of 4.7 per cent. A total of 197 820 210 shares were traded during the year, corresponding to a turnover rate of 1.3.

SHAREHOLDER STRUCTURE

Kitron had 3 087 shareholders at 31 December 2005, compared with 3 403 a year earlier. At the same date, the overall foreign shareholding was 54.5 per cent. The Hermis Capital private equity fund acquired all the shares owned by Whitecliff ASA in July 2005, and became the company's largest shareholder. At 31 December, Hermis Capital owned 39.97 per cent of the shares in Kitron ASA. Kongsberg Gruppen ASA is the second-largest shareholder in the company, owning 19.33 per cent of the shares in Kitron ASA at 31 December 2005. Kongsberg Gruppen is also one of the company's largest customers. The 20 largest shareholders collectively owned 86.7 per cent of the company's shares at 31 December.

SHARE PRICE DEVELOPENT KITRON vs OSLO STOCK EXCHANGE – 2005



AUTHORITIES

Increasing the share capital

The ordinary general meeting of 29 April 2005 resolved to authorise the board to increase the company's share capital by up to NOK 10 million through subscription to new shares through one or more private placements towards the group's key employees. Each option will give the employee the right to purchase one share in the company, but with the right for the company at the exercise date to choose to honour the options either by the award of shares or by paying a cash bonus corresponding to the value of the options. The board has been authorised to determine the subscription price for the new shares and to make the necessary amendments to the articles of association required by the capital increase. This authority remains valid for two years from 29 April 2005. It can be used for acquisitions pursuant to section 5-15 of the Norwegian Stock Exchange Act and section 4-17 of the Norwegian Act on Securities Trading.

The authority had not been exercised at 31 December 2005.

An extraordinary general meeting on 18 November 2005 authorised the board the increase the company's share capital by up to NOK 16 million in order to strengthen equity through one or more share issues following structural changes in the group. These measures were approved by the company's board on 26 October 2005. The pre-emptive right of the shareholders can be set aside. The board was authorised to fix the subscription price. The authority applies for two years from 18 November 2005.

Kitron's board resolved at its meeting of 21 November 2005 to implement a private placement of NOK 15.6 million shares at a subscription price of NOK 2.90 per share, corresponding to gross issue proceeds of NOK 45.24 million. No other use has been made of this authority.

Own shares – authority

The board is not authorised to undertake transactions in the company's own shares.

DIVIDEND POLICY

Kitron ASA will pay a dividend corresponding to 30-50 per cent of net profit, providing the company's share capital and liquidity position are acceptable.

INFORMATION POLICY

Kitron wants to maintain good communication with its shareholders and other stakeholders. Its information practice is based on openness, and will help to ensure that Kitron's shareholders and other stakeholders are able to make a continuous assessment of the company and its prospects. Procedures have been established to ensure a flow of relevant and reliable information. Kitron presents a financial calendar every year with dates for important events.

RISK

To prevent double taxation of shareholders/companies, the Risk scheme allows Norwegian shareholders to adjust the cost of shares for capital gains tax purposes in line with changes in taxed capital in the company.

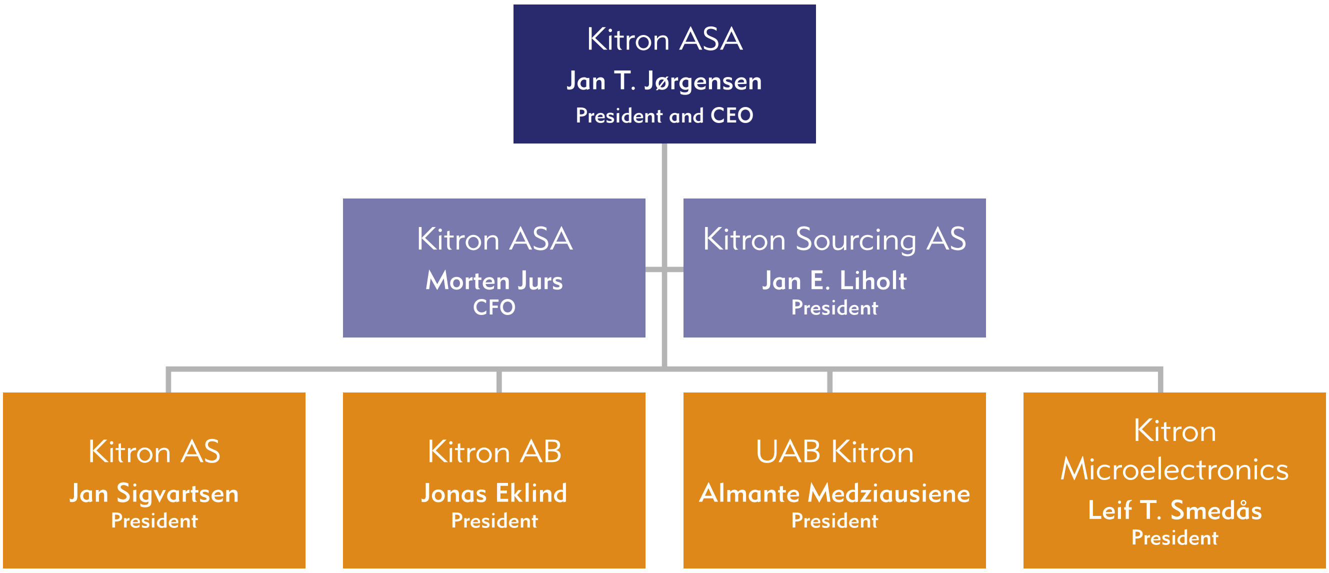
The Risk value for fiscal 2005 is expected to be NOK 0.0 per share.

The Risk system has been abolished with effect from 1 January 2006 as part of a Norwegian tax reform, and replaced by a shielding method for tax on share gains (dividend and price development). Share gains will be taxed at a flat rate of 28 per cent after a calculated shielding deduction.

KITRON'S 20 LARGEST SHAREHOLDERS PER 31 MARCH 2006

No.	No. of shares	Name	Per cent	Nationality
1	69 134 583	Clearstream Banking CID Dept., Frankfurt	39.97%	LUX
2	33 439 153	Kongsberg Gruppen ASA	19.33%	NOR
3	23 672 000	Ing. Luxembourg SA general account	13.69%	LUX
4	10 406 211	MP Pensjon	6.02%	NOR
5	2 747 655	Statoils pensjonskasse v/ Statoil Kapitalforvaltning ASA	1.59%	NOR
6	1 727 170	Statoil Forsikring AS v/ Statoil Kapitalforvaltning ASA	1.00%	NOR
7	1 374 530	AS Hansabank clients	0.79%	EST
8	1 354 606	AS Bemacs c/o advokat Bertel O. Steen	0.78%	NOR
9	1 342 984	Verdipapirfondet NOR v/ Nordea Fondene AS	0.78%	NOR
10	1 270 650	SES AS c/o advokat Bertel O. Steen	0.73%	NOR
11	665 495	NHOs Arbeidsmiljøfond v/ Bjørn Lundaas	0.38%	NOR
12	648 073	SEB Vilniaus Bankas a/c clients account	0.37%	LTU
13	560 281	Skandinaviska Enskilda Banken a/c clients account	0.32%	SWE
14	500 000	Aksjespareklubben TA v/ Eva Karin Haugen	0.29%	NOR
15	500 000	Orion Securities ASA meglerkonto innland	0.29%	NOR
16	400 000	Sven Kristian Nissen	0.23%	NOR
17	395 685	Malvin Skjønhaug	0.23%	NOR
18	386 326	AS Skjærdalen Eiendom	0.22%	NOR
19	348 637	Bjørn Håheim	0.20%	NOR
20	330 749	JPMorgan Chase Bank omnibus lending account	0.19%	USA

CORPORATE MANAGEMENT TEAM



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