



# INTERIM REPORT Q2 2006

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# TEMPORARY REDUCTION IN PRODUCTION CAPACITY RESULTED IN REDUCED TURNOVER

## HIGHLIGHTS

Figures in brackets refer to the second quarter of 2005 unless otherwise stated.

- **Profit before tax.** Profit before tax was NOK 1.1 million (NOK 0.2 million).
- **Reduced turnover.** NOK 395.2 million (NOK 421.6 million).
- **Satisfactory gross margin.** 40.7 per cent (40.5 per cent).
- **Operating profit.** EBITDA and EBIT were in profit both for EMS and the microelectronics operation by NOK 12.6 million (NOK 16.3 million) and NOK 5.7 million (NOK 6.4 million) respectively.
- **Reduced payroll and operating expenses.** The actual cost reduction amounted to NOK 12.9 million, but one-off costs related to payroll brought an extra expense of NOK 6.3 million during the quarter.
- **High inflow of orders and increasing order backlogs.** Order inflow increased by 19 per cent, to NOK 477 million (NOK 401 million). The order backlogs at the end of the quarter reached NOK 908 million (NOK 746 million).

Both the inflow of orders and the order backlog were high during the second quarter. Nevertheless the turnover fell somewhat compared to second quarter 2005, largely as a result of temporarily reduced production capacity caused by the previously announced and planned restructuring in the Norwegian EMS operation, Kitron AS. Normal production capacity is expected from the third quarter onwards.

## OPERATING INCOME

Kitron's operating income during the quarter was 6.3 per cent lower than in the same quarter 2005 and amounted to NOK 395.2 million (NOK 421.6 million). The reduction occurred within Electronic Manufacturing Services (EMS) in the Norwegian and Swedish operations. The reduction principally involves the Defence/Marine and Data/Telcom segments. The reduction in turnover in the Norwegian EMS operation is mainly the result of a temporary reduction in production capacity associated with the restructuring of Kitron AS. Considerable resources were used during the second quarter on completing the collocation project in the Norwegian EMS operation. Production lines, test equipment and other equipment for about 20 customers have been moved from Kilsund to Hisøy. In addition surface assembly lines, soldering lines, a paint robot and a stock of about 11,000 different components have been moved. Almost all of the 287 employees at the Kilsund factory have been transferred and integrated into the production, stores

and customer team on Hisøy. As a result of the relocation the production operations in Arendal have had a total down-time of one week, causing reduced production and delivery of about NOK 20 million during the second quarter. Completion of these deliveries has been delayed until the third quarter.

Furthermore both the Norwegian and the Swedish EMS operations have experienced a strong increase in demand following production of prototypes during the second quarter. This provides exciting opportunities for future production orders but at the same time has reduced ordinary production capacity to a certain extent. In addition the turnover was to some extent been affected by Easter falling in the second quarter this year (the first quarter in 2005). Kitron's EMS operation in Lithuania however had a 30 per cent growth compared to the corresponding period last year, partly because of the transfer of production orders from the Norwegian and Swedish EMS operation.

Turnover in the Norwegian EMS operation, Kitron AS, represented 55.0 per cent of the

### OPERATING INCOME Business areas

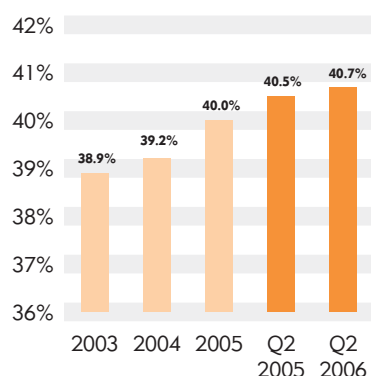
NOK million	Q2 2006	Q2 2005	30.06.2006	30.06.2005	31.12.2005
Kitron AS (EMS)	237.3	289.1	517.7	549.1	1 088.9
Kitron AB (EMS)	71.3	86.2	149.9	167.2	316.2
UAB Kitro (EMS)	48.9	37.5	89.2	70.4	129.5
Eliminations EMS	(35.3)	(36.5)	(69.4)	(71.3)	(124.6)
Total EMS	322.2	376.3	687.4	715.4	1 410.0
Microelectronics	73.7	50.9	143.5	96.9	195.5
Others and eliminations	(0.7)	(5.6)	(2.5)	(10.8)	(29.2)
Total group	395.2	421.6	828.4	801.5	1 576.3

### OPERATING PROFIT/(LOSS) Business areas

NOK million	Q2 2006	Q2 2005	30.06.2006	30.06.2005	31.12.2005
Kitron AS (EMS)	2.9	2.9	13.0	1.0	(39.3)
Kitron AB (EMS)	(0.9)	0.6	1.3	(0.1)	(2.1)
UAB Kitro (EMS)	3.5	3.0	5.1	4.6	6.4
Eliminations EMS	-	-	-	-	(0.3)
Total EMS	5.5	6.5	19.4	5.5	(35.3)
Microelectronics	5.8	4.2	13.5	5.6	9.1
Others and eliminations	(5.6)	(4.4)	(6.6)	(6.0)	(8.2)
Total group	5.7	6.4	26.3	5.1	(34.4)

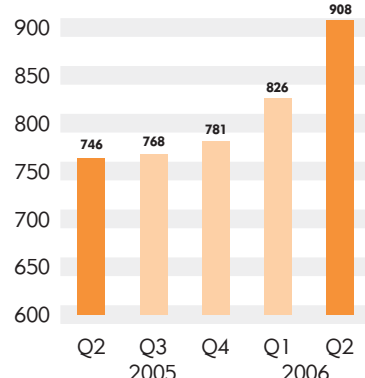
## GROSS MARGIN Group

NOK million



## ORDER BACKLOG Group

NOK million



## OPERATING INCOME Geographic distribution

NOK million	Q2 2006	Q2 2005	30.06.2006	30.06.2005	31.12.2005
Norway	177.0	221.6	382.6	408.4	819.0
Sweden	184.5	157.9	368.4	321.6	624.2
Rest of Europe	8.7	17.5	25.8	26.0	56.7
USA	10.9	6.5	19.5	12.9	14.5
Other	14.1	18.1	32.1	32.6	61.9
Total group	395.2	421.6	828.3	801.5	1 576.3

group's total turnover during the second quarter. The Swedish EMS operation, Kitron AB, provided 16.5 per cent of group turnover. Kitron Lithuania provided 11.3 per cent of the group's turnover during the second quarter. In total the EMS operation provided 81.4 per cent of turnover in the second quarter whereas during the same period last year it generated 88.1 per cent. Kitron Microelectronics increased its share correspondingly. The increase is a result of a combination of the temporary production reduction in the EMS operation and the very good market situation for Kitron Microelectronics.

The group's four market segments are of almost equal size in terms of turnover, which gives the group good balance and reduced risk.

The group's geographic distribution of operating income shows that Norway and Sweden are of equal dimensions for the first half of 2006. Sweden's share of the total turnover is however increasing and represents 47 per cent of the total turnover in the second quarter of 2006 as against 37 per cent of the total turnover during the same period last year. Norway represents 45 per cent during the second quarter of 2006 as against 53 per cent during the same period last year.

## GROSS MARGIN

The gross margin amounted to 40.7 per cent during the quarter. This represents an increase of 0.2 percentage points over the second quarter last year and the result is considered satisfactory.

## PROFIT

Kitron's operating profit for the second quarter was NOK 5.7 million compared to NOK 6.4 million for the corresponding period last year.

The reduction is largely a result of the temporary reduction in turnover as well as one-off costs related to payroll.

The company's payroll costs were NOK 3.4 million lower during the second quarter compared to the corresponding period last year. Since the accounts for the second quarter were subject to an extra one-off cost of NOK 6.3 million, the actual payroll reduction was NOK 9.7 million.

Other operating costs were reduced by NOK 3.2 million compared to the corresponding period last year. Therefore the actual total savings were NOK 12.9 million over the quarter.

The reduction in costs shows that the structural measures carried out partly in 2004 and partly during the fourth quarter of 2005 are providing the desired effect. The measures have been implemented according to plan and were in the main completed during the second quarter. The measures are expected to provide full impact from the third quarter.

During the second quarter, net financial costs amounted to NOK 4.6 million, NOK 1.7 million lower than in the same period last year. The reduction is mainly a result of exchange rate conditions and lower average interest-bearing debt during the period.

## BALANCE SHEET

The company's final balance as at 30 June 2006 amounted to NOK 668.5 million against NOK 590.8 million at the same time last year. Group equity was NOK 164.0 million, corresponding to an equity ratio of 24.5 per cent.

The capital tied up in stocks represented NOK 282.2 million as at 30 June 2006 against

NOK 231.0 million at the same time in 2005. The increase in stocks was a result of a higher proportion of work in progress as a result of delays of deliveries because of the reduction in capacity, as well as building up for higher production during the third quarter.

Capital tied up in accounts receivable and other receivables was NOK 171.5 million at the end of the second quarter 2006. Corresponding capital tie-up at the same time in 2005 was NOK 172.4 million. Sales of accounts receivable represented NOK 172 million as at 30 June 2006, against NOK 186 million on the same date last year.

Group capitalised interest-bearing debt totalled NOK 104.8 million as at 30 June 2006 of which long-term interest-bearing debt amounted to NOK 4.5 million. Capitalised interest-bearing debt at the end of the second quarter of 2005 was NOK 37.6 million. The increase is mainly a result of higher overdraft drawings at the end of the period this year.

Cash flow from operational activities for the second quarter of 2006 was negative by NOK 11.0 million, against NOK -6.8 million for the corresponding period last year. The negative cash flow is mainly a result of higher stocks as described previously.

In the cash flow analysis, cash and bank credit as at 30 June comprises the following:

(Figures in NOK million)

Cash and cash equivalents	50.4
Drawings on overdraft facilities	(92.2)
Restricted bank deposits	(28.6)
Total	(70.4)

Disposable liquidity (unrestricted bank deposits and unused drawing rights) amounted to NOK 42.5 million at the end of the second quarter.

## SHAREHOLDER MATTERS

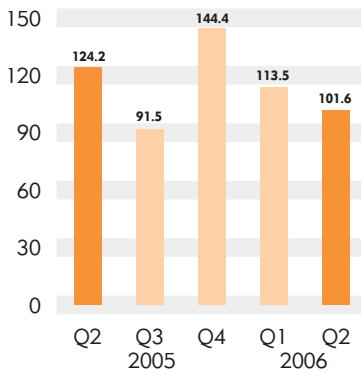
As at 30 June 2006 Kitron had 3,361 shareholders holding a total of 172,961,625 shares (NOK 1 per share nominal). The ten largest shareholders as at 30 June 2006 are:

Clearstream Banking S.A. (UAB Hermis Capital, 29,98%)	29.98%
Kongsberg Gruppen ASA	19.33%
ING Luxembourg SA	13.69%
SEB Vilniaus Bankas (UAB Hermis Capital, 10,01%)	10.45%
MP Pensjon	6.02%
Statoils Pensjonskasse	1.16%
SES AS	0.93%
AS Bemacs	0.90%
AS Hansabank Clients	0.88%
Statoil Forsikring AS	0.72%

In the ordinary general meeting 11 May 2006 and in the following board meeting, Carl Espen Wollebekk was elected as new chairman of the

## TURNOVER Defence/Marine

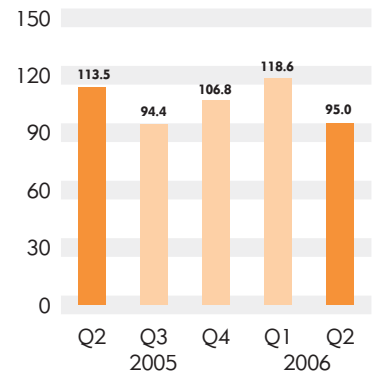
NOK million



■ ■ The second quarter was marked by a strong increase in the demand for production of prototypes.

## TURNOVER Data/Telecom

NOK million



### Turnover breakdown Defence/Marine

	Q2 2006		Q2 2005	
	NOK mill.	Share	NOK mill.	Share
Kitron AS (EMS)	70.7	70%	88.8	71%
Kitron AB (EMS)	26.1	26%	35.9	29%
UAB Kitron (EMS)	8.0	8%	1.9	2%
Microelectronics	0.2	0%	-	0%
Others and eliminations	(3.4)	(4%)	(2.4)	(2%)
<b>Total</b>	<b>101.6</b>	<b>100%</b>	<b>124.2</b>	<b>100%</b>

### Turnover breakdown Data/Telecom

	Q2 2006		Q2 2005	
	NOK mill.	Share	NOK mill.	Share
Kitron AS (EMS)	39.0	41%	82.0	72%
Kitron AB (EMS)	0.7	1%	0.3	0%
UAB Kitron (EMS)	3.1	3%	4.3	4%
Microelectronics	56.8	60%	38.8	34%
Others and eliminations	(4.6)	(5%)	(11.9)	(10%)
<b>Total</b>	<b>95.0</b>	<b>100%</b>	<b>113.5</b>	<b>100%</b>

board and replaced Nerijus Dagilis. Nerijus Dagilis continues as board member. Ian Hague was elected as new member of the board and replaced Per-Erik Mohlin. Arne Solberg and Kjell Almskog were re-elected as members of the board. Leif Henriksen was elected among the employees as new member of the board so that the employees now have three board members and one observer. Jørgen Bredesen was appointed as new CEO from mid May 2006 and replaced Jan T. Jørgensen.

## ORGANISATION

At the end of the second quarter the Kitron workforce corresponded to 1,226 full time equivalents (FTE). This represents an increase of 26 FTEs since the fourth quarter of 2005.

FTEs	30.06.06	31.12.05
Kitron AS	588	633
Kitron AB	222	228
UAB Kitron	264	198
Kitron Microelectronics	135	122
Kitron ASA and Kitron Sourcing AS	17	19
<b>Total</b>	<b>1 226</b>	<b>1 200</b>

## MARKET TRENDS

### EMS

The EMS market is expected to experience an annual growth of 10–12 per cent during the period up to 2010. Data and telecom is the leading segment in the electronics industry and it is also this market segment that is expected to contribute most to growth in the EMS market from now on. In addition to

general growth in the electronics industry it is also expected that production outsourced to EMS suppliers will increase from 23 per cent in 2005 to 29 per cent in 2010 (Source: ETP – The Worldwide Electronics Manufacturing Services Market, Third Edition). This corresponds well with the trend Kitron has observed in the Nordic EMS market where product proprietors increasingly outsource more links in the value chain.

The second quarter was marked by a strong increase in the demand for production of prototypes, mainly from existing customers. This applies both to the Norwegian and to the Swedish EMS operations. For Kitron this represents exciting signals on potential future production orders. To expand the capacity for production of prototypes it has been decided to establish two NPI (New Product Introduction) centres, one in Norway and one in Sweden.

The market is demanding more and more complicated modules and products. System assembly and system testing (high level assembly, HLA) is one of the tasks for which Kitron is experiencing a rising demand trend. For complex total solutions customers value geographic proximity to the manufacturer, something that ensures good communication and flexibility throughout the process.

Kitron's strong competency in all steps of the value chain, combined with labour-intensive production at low prices through UAB Kitron, is increasingly recognised as a powerful concept. Combined with determined efforts in marketing this is putting Kitron into a strengthened position.

The amalgamation of Kitron's develop-

ment and production units has had beneficial effects. The group is now better equipped to meet market demand for closer collaboration with the EMS provider throughout the development process – from concept to industrialisation and preparation for mass production.

### MICROELECTRONICS

This area of activity is experiencing a positive trend. Prioritisation of proactive selling efforts is paying off in the form of more enquiries that are expected to turn into new production orders in due course. The demand has been particularly large from motor vehicle industry operators. In addition Kitron has been pre-qualified as a supplier to a major international operator in lighting.

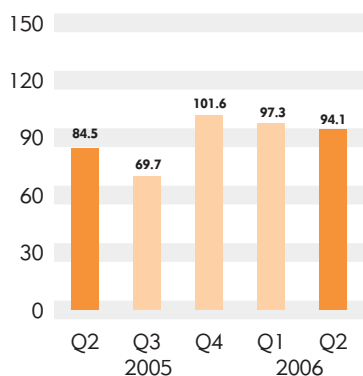
For Kitron Microelectronics growth is largely in the Industry and Data/Telecom segments. Furthermore in future there will be greater utilisation of microelectronics in new application areas, including in solutions for the motor vehicle industry. However Kitron's marketing work in Microelectronics is directed more towards technology than towards segment.

### HIGH ORDER INFLOW

Kitron's total inflow of orders during the second quarter of 2006 amounted to NOK 477 million. That is an increase of 19 per cent over the order inflow in the second quarter of 2005 (NOK 401 million) and an increase of well over four per cent on the order inflow in the fourth quarter last year (NOK 458 million). The high order inflow shows that Kitron's marketing efforts have paid off and this bodes well for the future.

## TURNOVER Medical Equipment

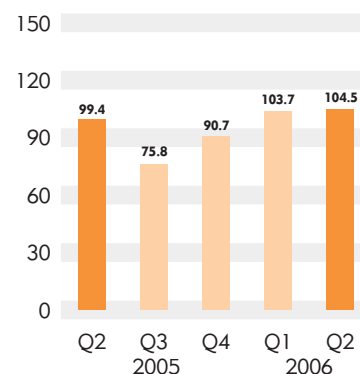
NOK million



■ ■ Kitron wishes to increase capacity in the introduction and production of new products to ensure optimal resource utilisation in the group.

## TURNOVER Industry

NOK million



### Turnover breakdown Medical Equipment

	Q2 2006		Q2 2005	
	NOK mill.	Share	NOK mill.	Share
Kitron AS (EMS)	55,6	59%	55.0	65%
Kitron AB (EMS)	32,9	35%	27.4	32%
UAB Kitron (EMS)	14,4	15%	17.9	21%
Microelectronics	4,8	5%	0.6	1%
Others and eliminations	(13,6)	(14%)	(16.4)	(19%)
<b>Total</b>	<b>94,1</b>	<b>100%</b>	<b>84.5</b>	<b>100%</b>

### Turnover breakdown Industry

	Q2 2006		Q2 2005	
	NOK mill.	Share	NOK mill.	Share
Kitron AS (EMS)	72.0	69%	63.2	63%
Kitron AB (EMS)	11.6	11%	22.7	23%
UAB Kitron (EMS)	23.4	22%	13.4	14%
Microelectronics	11.9	11%	11.6	12%
Others and eliminations	(14.4)	(13%)	(11.5)	(12%)
<b>Total</b>	<b>104.5</b>	<b>100%</b>	<b>99.4</b>	<b>100%</b>

Kitron's turnover in the second quarter of 2006 is distributed as follows:

Defence/Marine	26% (30%)
Data/Telecom	24% (27%)
Medical Equipment	24% (20%)
Industry	26% (23%)

### DEFENCE/MARINE

The turnover in this market segment reflects activity in the defence part of the segment being lower than before. This is in line with Kitron's reported expectations that 2006 would be an intermediate year with lower production in this market segment. Turnover is expected to revive in 2007.

The marine part of the segment comprises such as supplies to the shipping and the oil industry. Deliveries include equipment associated with seismic, inspection and monitoring systems for shipping and control and monitoring systems for sub-sea installations in the oil industry. Activity in this part of the market segment is significantly higher than previously but is not sufficient to counter-balance the reduction in production for the defence industry.

### DATA/TELECOM

Turnover in the Data/Telecom market segment is lower than at the same time last year because some major customers in the segment have transferred production to Asia. Because of low production complexity and large production runs this production was not very suitable for Kitron and the move was thus expected.

Within Microelectronics, Q-Free among others has contributed to increased turnover in this segment. Large production orders have come as a result of the company having won contracts linked to road toll projects in several places in Europe.

### MEDICAL EQUIPMENT

There is high activity in the medical equipment market sector. Determined selling, particularly in the Swedish market has produced increasing numbers of enquiries and high bidding activity. This is expected to result in new production orders as early as the second half-year. Activity in production of new prototypes is also high, in addition to new production orders for existing customers in Norway. The market is increasingly demanding complete products that incorporate system assembly and system testing (High Level Assembly, HLA). Kitron has the expertise to meet this trend and has worked for a long time to secure more such contracts than the group already has.

### INDUSTRY

Turnover in the segment was somewhat higher in the second quarter of 2006 than in the corresponding period last year. The increase is largely the result of somewhat higher production for existing customers.

A considerable amount of sales effort has been made within the industry segment, both in the EMS area and in Microelectronics. This has led to higher activity in enquiries. For Microelectronics this has primarily meant interesting enquiries from the motor vehicle industry.

Amongst the customers making a positive contribution in this segment are Tomra and Danaher Motion who have continued the strong trend from the first quarter.

The Swedish EMS operation has entered into some agreements during the quarter, including the previously reported agreement with MYDATA as the most important. This will lead to increased production activity during the coming quarters.

Good growth in the segment is expected from now on.

### FUTURE PROSPECTS

The restructuring work in Kitron has provided the planned results and is expected to provide further benefits in the time ahead. This, combined with positive development in the market, makes Kitron expect favourable trends in turnover and profitability from now on.

To ensure that Kitron will secure at least its share of the expected growth in the market, the marketing work will focus more than previously on international customers through better utilisation of the company's competitive advantages across the group. In this way capacity and market opportunities will be strengthened.

Kitron will continue to work to identify new improvement opportunities to further strengthen the operation and profitability in 2006.

Oslo, 16 August 2006

The Board of Directors of Kitron ASA

# PROFIT AND LOSS ACCOUNT

(Figures in NOK 1 000)	Q2 2006	Q2 2005	30.06.2006	30.06.2005	31.12.2005
Operating income	395 240	421 612	828 353	801 479	1 576 341
Cost of materials	234 551	250 676	495 362	472 528	945 342
Gross profit margin	40,7%	40,5%	40,2%	41,0%	40,0%
Payroll expenses	120 206	123 622	237 864	245 608	475 273
Other operational expenses	27 847	31 050	55 435	60 728	151 410
<b>EBITDA</b>	<b>12 636</b>	<b>16 264</b>	<b>39 692</b>	<b>22 615</b>	<b>4 316</b>
Depreciation and impairments	6 923	9 815	13 390	17 476	38 675
<b>Operating profit/(loss) (EBIT)</b>	<b>5 713</b>	<b>6 449</b>	<b>26 301</b>	<b>5 139</b>	<b>(34 359)</b>
Net financial costs	(4 568)	(6 248)	(9 040)	(11 924)	(23 854)
<b>Profit/(loss) before tax</b>	<b>1 145</b>	<b>201</b>	<b>17 261</b>	<b>(6 785)</b>	<b>(58 213)</b>
Taxes	661	-	912	-	726
<b>Profit/(loss) after tax</b>	<b>484</b>	<b>201</b>	<b>16 349</b>	<b>(6 785)</b>	<b>(58 939)</b>
Earnings per share	0.00	0.00	0.09	(0.05)	(0.39)
Dilluted earnings per share	0.00	0.00	0.09	(0.05)	(0.39)

# BALANCE SHEET

(Figures in NOK 1 000)	30.06.2006	30.06.2005	31.12.2005
<b>ASSETS</b>			
Tangible fixed assets	122 024	109 985	112 447
Goodwill	19 123	18 489	18 489
Investment in shares	190	190	190
Deferred tax assets	20 000	20 000	20 000
Other receivables	3 043	7 276	3 855
<b>Total fixed assets</b>	<b>164 380</b>	<b>155 940</b>	<b>154 981</b>
Inventory	282 161	231 019	242 542
Accounts receivable and other receivables	171 523	172 372	141 771
Cash and cash equivalents	50 411	31 429	113 229
<b>Total current assets</b>	<b>504 095</b>	<b>434 820</b>	<b>497 542</b>
<b>Total assets</b>	<b>668 475</b>	<b>590 760</b>	<b>652 523</b>
<b>LIABILITIES AND EQUITY</b>			
Equity	163 961	154 615	151 118
Minority interests	-	12 831	-
<b>Total equity</b>	<b>163 961</b>	<b>167 446</b>	<b>151 118</b>
Loans	35 314	38 754	40 678
Pension commitments	15 654	31 850	14 904
Other provisions	12 104	9 019	15 104
<b>Total long-term liabilities</b>	<b>63 072</b>	<b>79 623</b>	<b>70 686</b>
Accounts payable and other current liabilities	332 153	312 552	350 947
Loans	100 295	27 518	46 369
Other provisions	8 995	3 621	33 403
<b>Total current liabilities</b>	<b>441 443</b>	<b>343 691</b>	<b>430 719</b>
<b>Total liabilities and equity</b>	<b>668 475</b>	<b>590 760</b>	<b>652 523</b>

Financing of accounts receivable as at 30.06.2006 was NOK 172,2 million.

# CASH FLOW STATEMENT

(Figures in NOK 1 000)	Q2 2006	Q2 2005	30.06.2006	30.06.2005	31.12.2005
Net cash flow from operational activities*)	(10 987)	(6 804)	(84 866)	(35 144)	9 367
Net cash flow from investment activities	(25 766)	(1 180)	(27 921)	(4 804)	(39 495)
Net cash flow from financing activities	(7 989)	42 051	(10 413)	37 105	91 981
Change in cash and bank credit	(44 742)	34 067	(123 200)	(2 843)	61 853
Cash and bank credit opening balance	(25 651)	(45 956)	52 807	(9 046)	(9 046)
Cash and bank credit closing balance	(70 393)	(11 889)	(70 393)	(11 889)	52 807

\*) Negative cash flow related to provisions used during second quarter 2006 and per 30.06.2006 is NOK 16.1 million and NOK 27.4 million respectively.  
Cash flow from other operational activities in second quarter 2006 and per 30.06.2006 is NOK 5.1 million and NOK -57.5 million respectively.

# CHANGES IN EQUITY

(Figures in NOK 1 000)	30.06.2006	30.06.2005	31.12.2005
Equity opening balance	151 118	128 067	128 067
Profit/(loss) for the year	16 349	(6 785)	(58 939)
Share issue		46 977	90 760
Change in minority interests			(12 558)
Other*)	(3 506)	(813)	3 788
Equity closing balance	163 961	167 446	151 118

\*) Conversion differences, share-based compensation etc.

This interim report has been prepared in accordance with the same accounting principles that are applied to the annual accounts.



## Kitron ASA

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