



INTERIM REPORT
Q3 2006



PROGRESS IN A GOOD MARKET

KEY ITEMS

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

Improved result before tax

Profit before tax was NOK 10.1 million (NOK -1.4 million).

Increased turnover

NOK 350.4 million (NOK 331.4 million), corresponding to an increase of 5.7 per cent.

Satisfactory gross margins

39.5 per cent (39.6 per cent).

Positive operating profit

EBITDA and EBIT were positive both for the EMS and the microelectronics operations, NOK 21.7 million (NOK 12.3 million) and NOK 14.3 million (NOK 4.1 million) respectively.

Reduced payroll and operating expenses

The payroll and operating expenses were NOK 2.1 million lower after reorganisation of the Norwegian EMS operation notwithstanding increased turnover during the period.

High order intake and increasing order backlog

The order intake during the third quarter increased by 14 per cent to NOK 402 million (NOK 353 million) and by 21 per cent during the first nine months of the year. The order backlog at the end of the quarter reached NOK 978 million (NOK 768 million).

Cash flow

Net cash flow from operational activities was negative by NOK 45.1 million (NOK -17.1 million). Increase in inventory and receivables in the quarter accounted for NOK 52.3 million.

Higher turnover and profitable operation have led to progress for Kitron in the third quarter. The Group increased production for existing customers during the quarter, and increased order backlog provides for further improved operation and profitability.

OPERATING INCOME

Kitron's operating income for the quarter was 5.7 per cent higher than during the same period in 2005 and amounted to NOK 350.4 million (NOK 331.4). Due to stronger turnover in the Swedish part of the Microelectronics business area the EMS operation had a slight decrease in turnover, mainly in the Norwegian operation. The reduction is particularly a result of lower activity in the Defence/Marine market segment, but also to some extent in the Data/Telecoms segment. On the other hand the Industry segment and the Medical Equipment segment show increased turnover compared to the corresponding period last year.

Optimising working procedures has somewhat slowed Kitron AS' production during the third quarter due to the co-location in Arendal. The optimisation work will start to pay off for the operation from the start of the fourth quarter.

Turnover in the Norwegian EMS operation, Kitron AS, amounted to 53.9 per cent of the Group's combined turnover during the third quarter. The Swedish EMS operation, Kitron AB, represented 14.6 per cent and UAB Kitron contributed 13.4 per cent of the Group's turnover during the third quarter. In total the EMS business generated 80.5 per cent of the turnover during the third quarter

whilst during the same period last year it represented 86.8 per cent. Kitron Microelectronics has increased its share correspondingly. The increase is largely the result of a sound market situation for 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 geographic distribution of the operating revenues shows that Sweden is a larger market than Norway for Kitron. Sweden's proportion of the total turnover is increasing and represented 47 per cent of the total turnover during the third quarter of 2006 against 43 per cent during the same period last year. Norway represents 43 per cent during the third quarter against 49 per cent during the same period last year.

GROSS MARGIN

The gross margin amounted to 39.5 per cent during the quarter, which is in line with the gross margin for the same period last year.

PROFIT

Kitron's operating profit for the third quarter was NOK 14.3 million compared to NOK 4.1 million for the corresponding period last year. The progress results from higher turnover and

OPERATING INCOME Business areas

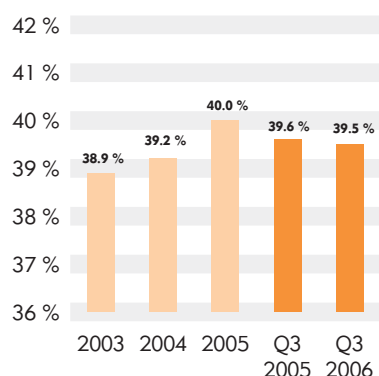
NOK million	Q3 2006	Q3 2005	30.09.2006	30.09.2005	31.12.2005
Kitron AS (EMS)	204.4	236.2	722.1	785.3	1 088.9
Kitron AB (EMS)	55.2	53.8	205.2	221.0	316.2
UAB Kitron (EMS)	50.9	28.0	140.1	98.5	129.5
Eliminations EMS	(27.2)	(30.4)	(93.3)	(91.4)	(124.6)
Total EMS	283.3	287.6	974.1	1 013.4	1 410.0
Microelectronics	68.5	43.9	212.0	140.8	195.5
Others and eliminations	(1.4)	(0.1)	(7.3)	(21.3)	(29.2)
Total group	350.4	331.4	1 178.8	1 132.9	1 576.3

OPERATING PROFIT/(LOSS) Business areas

NOK million	Q3 2006	Q3 2005	30.09.2006	30.09.2005	31.12.2005
Kitron AS (EMS)	5.7	2.5	18.7	3.5	(39.3)
Kitron AB (EMS)	(3.2)	(2.2)	(1.9)	(2.3)	(2.1)
UAB Kitron (EMS)	5.1	1.0	10.2	5.7	6.4
Eliminations EMS	-	-	-	-	(0.3)
Total EMS	7.6	1.3	24.7	6.9	(35.3)
Microelectronics	5.9	4.0	19.4	9.6	9.1
Others and eliminations	0.8	(1.2)	(5.8)	(7.2)	(8.2)
Total group	14.3	4.1	40.6	9.3	(34.4)

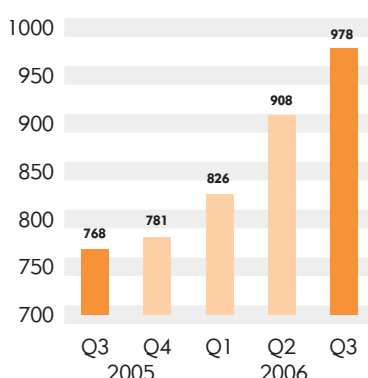
GROSS MARGIN Group

NOK million



ORDER BACKLOG Group

NOK million



toring arrangement in which Kitron's trade debtors will be recorded in the company's balance sheet. This will mean an increase of the Group's total balance sheet and thus a reduction in equity ratio. However, the change has no impact on the size of the Group's equity. It is also expected that the new arrangement will contribute to a reduction of Kitron's financial expenses.

Group interest-bearing debt totalled NOK 148.0 million as at 30 September 2006, of which long-term interest-bearing bank debt amounted to NOK 4.0 million. Interest-bearing debt at the end of the third quarter of 2005 was NOK 63.5 million. The increase is mainly a result of higher drawings on the overdraft facility at the end of the period this year. This is connected to increased stocks and increased trade debtors at the end of the period.

Cash flow from operational activities for the third quarter of 2006 was negative by NOK 45.1 million, against NOK -17.1 million for the corresponding period last year. Increase in inventory and receivables in the quarter accounted for NOK 52.3 million.

In the cash flow statement, cash and bank credit as at 30 September comprise the following:

(Figures in NOK million)	
Cash and cash equivalents	43.6
Drawings on the overdraft facility	(133.6)
Restricted bank deposits	(28.3)
Total	(118.3)

Available liquidity (unrestricted bank deposits and unused credit lines) amounted to NOK 34.7 million at the end of the third quarter.

SHAREHOLDER MATTERS

As at 30 September 2006 Kitron had 3 265 shareholders with a total of 172 961 625 shares (NOK 1.- nominal per share). The ten largest shareholders as at 30 September 2006 were:

Clearstream Banking S.A. (UAB Hermis Capital, 29.98%)	29.98%
Kongsberg Gruppen ASA	19.33%
ING Luxembourg SA	13.69%
SEB Vilnius Bankas (UAB Hermis Capital, 10.01%)	10.56%
MP Pensjon	6.02%
Statoils Pensjonskasse	1.05%
AS Bemacs	0.98%
SES AS	0.95%
AS Hansabank Clients	0.92%
Statoil Forsikring AS	0.66%
The securities fund NORDEA SMB	0.60%

ORGANISATION

At the end of the third quarter the Kitron workforce totalled 1,241 full time equivalents (FTE). This represents an increase of 41 FTE

OPERATING INCOME Geographic distribution

NOK million	Q3 2006	Q3 2005	30.09.2006	30.09.2005	31.12.2005
Norway	152.0	163.2	517.8	553.9	819.0
Sweden	163.2	141.7	550.0	476.5	624.2
Rest of Europe	9.8	7.9	29.9	35.0	56.7
USA	10.8	3.7	30.4	17.2	14.5
Others	14.6	14.9	50.7	50.3	61.9
Total group	350.4	331.4	1 178.8	1 132.9	1 576.3

ORDER BACKLOG By business segment

NOK million	Defence/ Marine	Data/ Telecom	Medical equipment	Industry	Total
Kitron AS (EMS)	287	71	207	112	677
Kitron AB (EMS)	89	0	62	19	170
UAB Kitron (EMS)	4	5	4	8	21
Microelectronics	-	74	10	26	110
Total	380	150	283	165	978

the benefits of the reorganisation Kitron has carried out in the Norwegian operation during the first and second quarters this year.

Despite the increase in turnover during the period the total payroll expenses were in line with corresponding expenses during the same period last year.

As a result of the increased activity during the third quarter it has not been appropriate to reduce manning as much as the Group warned of in connection with the restructuring in the Norwegian EMS operation.

Other operational expenses have been reduced by NOK 2.2 million compared to the corresponding period last year.

The reduction in costs shows that the structural measures carried out are providing the desired effect.

During the third quarter, net financial costs amounted to NOK 4.2 million, NOK 1.3 million lower than in the same period last year. The reduction is mainly the result of foreign exchange effects.

BALANCE SHEET

The company's final balance as at 30 September 2006 amounted to NOK 718.4 million as against NOK 608.2 million at the same

time last year. Group equity was NOK 175.9 million, corresponding to an equity ratio of 24.5 per cent.

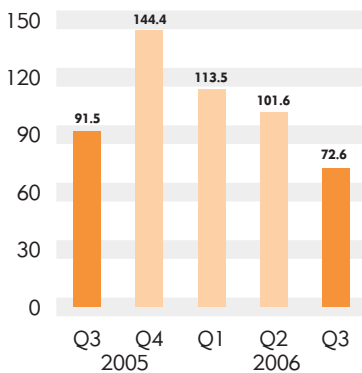
The capital tied up in inventory was NOK 317.3 million as at 30 September 2006 as against NOK 248.7 million at the same time last year. The higher capital tie-up is the result of the build-up for higher production during the fourth quarter – in line with Kitron's higher order backlog through recent quarters.

Capital tied up in trade debtors and other receivables was NOK 188.7 million at the end of the third quarter 2006. Corresponding capital tie-up at the same time in 2005 was NOK 175.0 million. The increase is mainly due to higher outstanding receivables in Kitron Microelectronics AB as a result of considerably higher turnover. Sales of trade debtors represented NOK 199 million as at 30 September 2006 versus NOK 176 million on the same date last year.

Recently Kitron has been working on replacing the existing factoring arrangement with a new and improved solution. The new factoring system will be implemented from the start of the fourth quarter. The existing model with sale of the company's trade debtors will be replaced by an conventional fac-

TURNOVER Defence/Marine

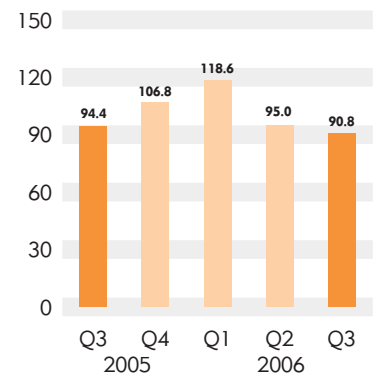
NOK million



■ ■ A high order backlog is expected to provide good momentum into 2007

TURNOVER Data/Telecom

NOK million



TURNOVER BREAKDOWN Defence/Marine

	Q3 2006		Q3 2005	
	NOK mill.	Share	NOK mill.	Share
Kitron AS (EMS)	56.9	78%	70.6	77%
Kitron AB (EMS)	15.7	22%	21.2	23%
UAB Kitron (EMS)	1.4	2%	1.2	1%
Microelectronics	-	0%	-	0%
Others and eliminations	(1.4)	(2%)	(1.5)	(1%)
Total	72.6	100%	91.5	100%

TURNOVER BREAKDOWN Data/Telecom

	Q3 2006		Q3 2005	
	NOK mill.	Share	NOK mill.	Share
Kitron AS (EMS)	33.6	37%	60.7	64%
Kitron AB (EMS)	0.3	0%	0.6	1%
UAB Kitron (EMS)	5.0	6%	7.4	8%
Microelectronics	54.1	60%	35.1	37%
Others and eliminations	(2.2)	(3%)	(9.4)	(10%)
Total	90.8	100%	94.4	100%

since the fourth quarter of 2005.

The work force has increased in UAB Kitron and Kitron Microelectronics to meet the increased activity. At the same time the work force is reduced in Kitron AS and Kitron AB.

FTEs	30.09.06	31.12.05
Kitron AS	592	633
Kitron AB	219	228
UAB Kitron	273	198
Kitron Microelectronics	140	122
Kitron ASA and Kitron Sourcing AS	17	19
Total	1 241	1 200

MARKET TRENDS

EMS

The EMS market has grown considerably in recent times and is expected to have annual growth of about 11.6 per cent during the period up to 2010. International analyses demonstrate this (ETP – The Worldwide Electronics Manufacturing Services Market, Third Edition). There is general growth in the electronics industry and the fastest growing market segment is data/telecom. It is expected that more of the electronics manufacturers will outsource an increasing proportion of their production to EMS suppliers. The increase is expected to be from 23 per cent in 2005 to 29 per cent in 2010.

Kitron is also experiencing this trend and is increasingly invited to outline solutions and bid for outsourcing tasks.

In addition there is a trend towards customers' procurement functions becoming more active so that suppliers more frequently have to prepare new bids to existing customers. This involves more work but also means that the suppliers are invited to tender to potential customers.

The strong growth Kitron experienced during the second quarter in demand for production of prototypes has continued into the third quarter. This production brings good opportunities to demonstrate Kitron's competency and ability to design good solutions that can rapidly be industrialised and manufactured. Furthermore, production of prototypes means exciting signals about possible future manufacturing orders.

To expand the capacity for production of prototypes Kitron is to establish two NPI (New Product Introduction) centres, one in Norway and one in Sweden. The new production line in Norway will be ready for use at the end of the fourth quarter.

The high level of activity in world markets is creating greater demand for existing products and the development of new ones. System assembly and testing (high level assembly, HLA) are some of the tasks for which Kitron continues to experience increased order quantities. For complex total solutions customers value geographic proximity to the manufacturer, something that ensures flexibility throughout the process.

MICROELECTRONICS

The business area is experiencing positive trends with existing customers demanding more and new customers wanting products

industrialised. The technology within the Microelectronics business area is recognised in all segments. Attractive technology and great flexibility in production and volume matching have brought Kitron a range of new orders from existing customers – and the landing of some new ones. The demand has been particularly large from motor vehicle industry operators.

The demand for assembly of complete products (HLA) is also increasing in the market for microelectronics.

HIGH ORDER INTAKE

Kitron's order intake during the third quarter increased by 14 per cent to NOK 402 million (NOK 353 million) and by 21 per cent during the first nine months of the year. The order backlog at the end of the quarter had reached NOK 978 million (NOK 768 million).

The high order intake shows that Kitron's efforts have paid off both in the work on building existing customers' loyalty and in marketing work directed at new customers. A high order backlog is expected to provide good momentum into 2007.

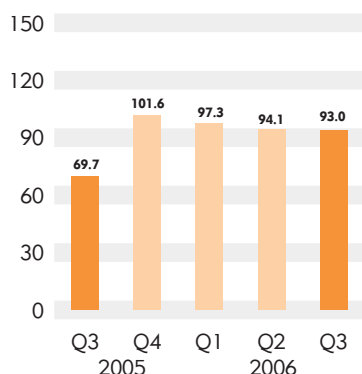
The order intake during the first nine months amounted to NOK 1,376 million, which represents an increase of 21 per cent compared to the same period last year.

Kitron's turnover in the third quarter of 2006 is broken down as follows:

Defence/Marine	21% (28%)
Data/Telecom	26% (28%)
Medical equipment	26% (21%)
Industry	27% (23%)

TURNOVER Medical equipment

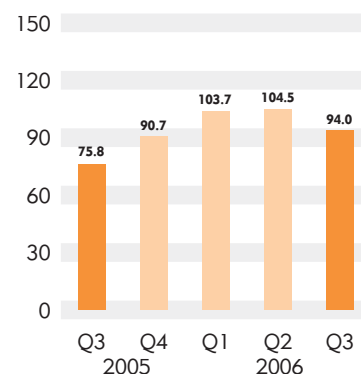
NOK million



■ ■ The high level of activity gives Kitron good opportunities to ensure more dedicated customer follow-up and sales effort

TURNOVER Industry

NOK million



TURNOVER BREAKDOWN Medical equipment

	Q3 2006		Q3 2005	
	NOK mill.	Share	NOK mill.	Share
Kitron AS (EMS)	55.7	60%	46.7	67%
Kitron AB (EMS)	27.7	30%	23.5	34%
UAB Kitron (EMS)	16.5	18%	8.8	13%
Microelectronics	4.9	5%	0.5	1%
Others and eliminations	(11.8)	(13%)	(9.8)	(15%)
Total	93.0	100%	69.7	100%

TURNOVER BREAKDOWN Industry

	Q3 2006		Q3 2005	
	NOK mill.	Share	NOK mill.	Share
Kitron AS (EMS)	58.2	62%	58.2	77%
Kitron AB (EMS)	11.5	12%	8.5	11%
UAB Kitron (EMS)	28.0	30%	10.7	14%
Microelectronics	9.5	10%	8.2	11%
Others and eliminations	(13.2)	(14%)	(9.8)	(13%)
Total	94.0	100%	75.8	100%

DEFENCE/MARINE

The turnover in this market segment during the third quarter reflects activity in the defence part of the segment being lower than before. This is in line with the situation during the second quarter and expectations for the year. Turnover is expected to recover somewhat in 2007.

Positioning work in regard to offset contracts linked to the defence industry is a long term effort. The Group is now working on actual opportunities with great potential. Kitron is also well positioned for offset contracts with all suppliers of fighter aircraft being considered for delivery to the Norwegian Defence Forces. The political decision associated with fighter aircraft is expected to be taken in 2008.

The order backlog in the market segment at the end of the third quarter was NOK 380 million.

DATA/TELECOM

Turnover in the Data/Telecom market segment is lower than at the same time last year because during the second quarter customers in the segment transferred production to suppliers in Asia. The fall is partially compensated for by new orders within the segment, including Transmode AB.

It is particularly supply of infrastructure products in the cable networks and microelectronics that is in demand.

The order backlog in the market segment at the end of the third quarter was NOK 150 million.

MEDICAL EQUIPMENT

There is a high level of activity in the medical equipment market segment. Demand from existing customers is increasing and the market is increasingly demanding complete products that incorporate system assembly and system testing (HLA). Kitron has the competency to meet this trend.

The order backlog in the market segment at the end of the third quarter was NOK 283 million.

INDUSTRY

The turnover in the segment was significantly higher during the third quarter of 2006 than in the corresponding period last year. The increase is the result of higher production for existing customers. In addition some new customers have been added.

New customers coming to Kitron demands deliveries to throughout the whole value chain from design of the product via industrialisation, production, to system assembly.

A considerable sales effort has been made within the industry segment, in both the EMS and the Microelectronics business areas. This has contributed to higher activity levels.

The order backlog in the market segment at the end of the third quarter was NOK 165 million.

PROSPECTS

Kitron expects further progress in the time ahead. The Group is participating in the upswing and high level of activity in the market. At the same time the restructuring of Kitron AS is providing a positive impact.

To ensure that Kitron secures its share of market growth, marketing work will be coordinated across the Group to a greater extent than before. This is expected to contribute to better capacity utilisation.

Increased order backlog and continuing effort to achieve an efficient operation are expected to contribute to a positive development.

Oslo, 26 October 2006

The Board of Directors of Kitron ASA

PROFIT AND LOSS ACCOUNT

(Figures in NOK 1 000)	Q3 2006	Q3 2005	30.09.2006	30.09.2005	31.12.2005
Operating income	350 429	331 405	1 178 782	1 132 884	1 576 341
Cost of materials	212 033	200 276	707 395	672 804	945 342
Gross profit margin	39.5%	39.6%	40.0%	40.6%	40.0%
Payroll expenses	91 221	91 134	329 086	336 742	475 273
Other operational expenses	25 490	27 665	80 925	88 393	151 410
EBITDA	21 684	12 329	61 376	34 945	4 316
Depreciation and impairments	7 393	8 197	20 784	25 673	38 675
Operating profit/(loss) (EBIT)	14 291	4 132	40 592	9 271	(34 359)
Net financial items	(4 222)	(5 556)	(13 262)	(17 480)	(23 854)
Profit/(loss) before tax	10 069	(1 424)	27 330	(8 209)	(58 213)
Tax	1 039	-	1 951	-	726
Profit/(loss) after tax	9 030	(1 424)	25 379	(8 209)	(58 939)
Earnings per share	0.05	(0.01)	0.15	(0.06)	(0.39)
Diluted earnings per share	0.05	(0.01)	0.15	(0.06)	(0.39)

BALANCE SHEET

(Figures in NOK 1 000)	30.09.2006	30.09.2005	31.12.2005
ASSETS			
Tangible fixed assets	126 947	108 428	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	2 633	6 399	3 855
Total fixed assets	168 893	153 506	154 981
Inventory	317 266	248 737	242 542
Accounts receivable and other receivables	188 713	174 959	141 771
Cash and cash equivalents	43 555	31 002	113 229
Total current assets	549 534	454 698	497 542
Total assets	718 427	608 204	652 523
LIABILITIES AND EQUITY			
Equity	175 874	154 563	151 118
Minority interests	-	12 994	-
Total equity	175 874	167 557	151 118
Loans	45 527	33 303	40 678
Pension commitments	16 212	31 850	14 904
Other provisions	9 308	6 998	15 104
Total long-term liabilities	71 047	72 151	70 686
Accounts payable and other current liabilities	323 580	308 258	350 947
Loans	143 985	57 200	46 369
Other provisions	3 941	3 038	33 403
Total current liabilities	471 506	368 496	430 719
Total liabilities and equity	718 427	608 204	652 523

Financing of accounts receivable as at 30.09.2006 was NOK 198.6 million.

CASH FLOW STATEMENT

(Figures in NOK 1 000)	Q3 2006	Q3 2005	30.09.2006	30.09.2005	31.12.2005
Net cash flow from operational activities *	(45 100)	(17 105)	(129 966)	(52 249)	9 367
Net cash flow from investment activities	(12 316)	(6 638)	(40 237)	(11 442)	(39 495)
Net cash flow from financing activities	9 469	(3 499)	(944)	33 606	91 981
Change in cash and bank credit	(47 947)	(27 242)	(171 147)	(30 085)	61 853
Cash and bank credit opening balance	(70 393)	(11 889)	52 807	(9 046)	(9 046)
Cash and bank credit closing balance	(118 340)	(39 131)	(118 340)	(39 131)	52 807

* The negative cash flows linked to provisions used in third quarter 2006 and as at 30 September 2006 amount to NOK 7.9 million and NOK 35.3 million respectively.
Negative cash flow regarding increased inventory and receivables in the third quarter and as at 30 September 2006 amount to NOK 52.3 million and NOK 121.7 million respectively.

CHANGES IN EQUITY

(Figures in NOK 1 000)	30.09.2006	30.09.2005	31.12.2005
Equity opening balance	151 118	128 067	128 067
Profit/(loss) for the year	25 379	(8 209)	(58 939)
Share issue		46 977	90 760
Change in minority interests			(12 558)
Other *	(623)	722	3 788
Equity closing balance	175 874	167 557	151 118

* Conversion differences, share-based salary payments etc.

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



Kitron ASA

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