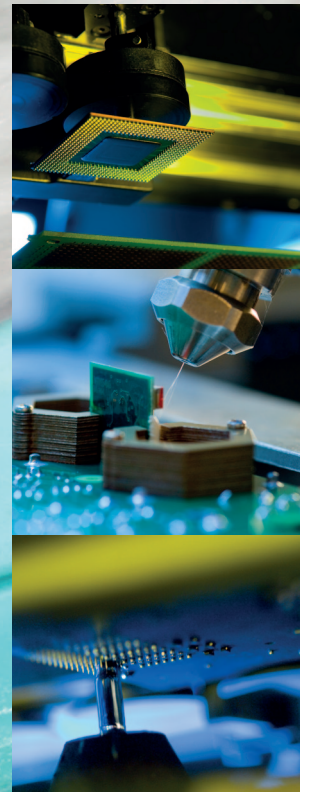


**INTERIM REPORT Q1 2011**





## Profitability recovering

### Key items

Figures in brackets refer to the first quarter of 2010 unless otherwise stated.

#### ■ Order development stable

The order intake increased by 0.9 per cent to NOK 410.2 million (NOK 406.7 million). The order backlog at the end of the first quarter was NOK 817.1 million (NOK 783.5 million), 4.3 per cent higher than last year.

#### ■ Activity level increasing

Revenue increased by 4.5 per cent to NOK 429.8 million (NOK 411.1 million) amid the difficult component situation.

#### ■ Operating profit improving

EBITDA and EBIT were positive by NOK 18.8 million (NOK 13.4 million) and NOK 11.1 million (NOK 5.9 million) respectively due to higher revenue and improved performance in the Swedish operation.

#### ■ Profit before tax and discontinued operations

The profit before tax and discontinued operations amounted to NOK 5.2 million (NOK 3.0 million).

#### ■ Build up of working capital

Cash flow from operations in the first quarter was negative by NOK 38.3 million (negative NOK 31.7 million) due to build up of working capital.

Kitron's revenue amounted to NOK 429.8 million in the first quarter of 2011, a 4.5 per cent increase compared with the same period last year. EBIT was positive by NOK 11.1 million (NOK 5.9 million). The profit before tax and discontinued operations was NOK 5.2 million (NOK 3.3 million in Q1 2010). Cash flow from operations was negative by NOK 38.3 million (negative NOK 31.7 million). The order intake was NOK 410.2 million and the order backlog was NOK 817.1 million, an increase of 0.9 per cent and 4.3 per cent respectively.

#### New contracts secured

The general trend within Kitron's market segments is positive although concerns remains about the global economic outlook. In the first quarter Kitron secured important new contracts within Defence, Medical and Offshore. Within Defence Kitron has signed a 5 year manufacturing agreement with Kongsberg related to deliveries of electronics to the NSM (Naval Strike Missile). The parties have also agreed on a letter of intent to co-operate in the first phase of the manufacturing of electronics for the JSM (Joint Strike Missile). The long term potential is believed to be significant. New orders were also secured in the Offshore/Marine segment and it is expected that we will see a rebound in 2011 in this segment.

#### Restructuring of Kitron Sweden ongoing

As previously announced Kitron is reorganising its Swedish operations to increase its competitiveness and improve profitability. This involves transfer of production to lower cost countries and to optimise the production between the operating units in Sweden. Furthermore the intention is to merge the Swedish legal entities and to centralise all the administration to Jönköping in order to reduce indirect costs. The reorganisation will primarily affect the operation in Karlskoga. The negotiations with the labour unions have been completed and an agreement has been reached. The restructuring will be implemented over the next twelve months. The full financial impact of the restructuring was booked in the 2010 accounts and it is not foreseen that there will be any further negative impact.

#### Component shortage still a challenge

The first quarter showed a growth trend compared to the same period last year but the recovery is slowed down by the shortage of components. There is both a negative effect on revenue and margin due to the reduced manufacturing efficiency. While there is a gradual improvement in the component market it is expected that the difficulties will continue in 2011.

#### Establishment of new entities on track

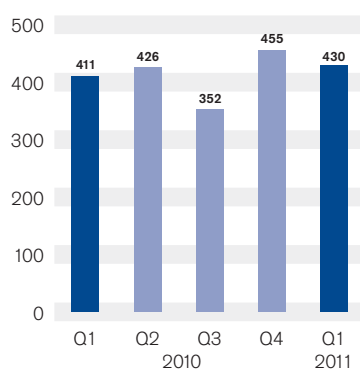
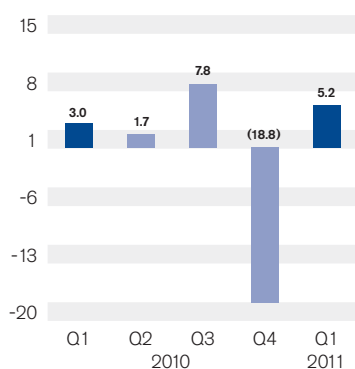
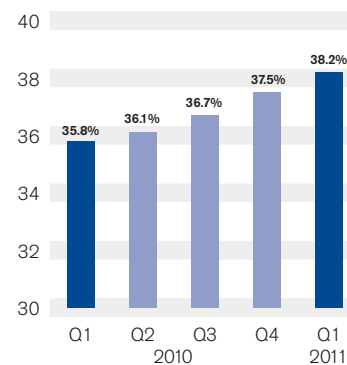
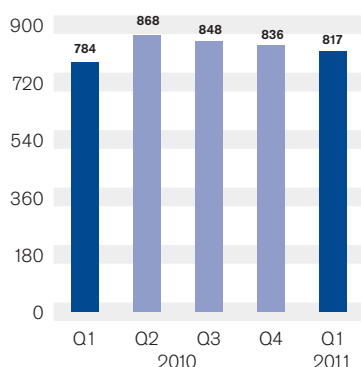
As earlier announced Kitron is setting up operations in Germany, China and USA. The establishment of these operations is on track but in line with the plan there will not be any significant revenue generation until earliest the second half of 2011.

#### Revenue

Kitron's revenue in the first quarter was 4.5 per cent higher than in the same period in 2010, and amounted to NOK 429.8 million (NOK 411.1 million). Revenue in the market segment Energy/Telecoms was down 18.1 per cent, Defence/Aerospace was down 4.8 per cent, Industry increased by 41.3 per cent, Medical equipment was up by 2.2 per cent and Offshore/Marine was up 42.2 per cent compared to the first quarter of 2010.

Revenue in the Norwegian operation represented 61.6 per cent of Kitron's gross revenue during the first quarter (60.1 per cent). The Swedish operation represented 20.7 per cent of the group (22.9 per cent) and Kitron's operation in Lithuania provided for 17.7 per cent (17.0 per cent).

Kitron's revenue in the first quarter of 2011 was distributed as follows:

**REVENUE Group**  
 NOK million

**PROFIT BEFORE TAX Group**  
 NOK million

**GROSS MARGIN Group**  
 Per cent

**ORDER BACKLOG Group**  
 NOK million


Energy/Telecoms	22%	(28%)
Defence/Aerospace	18%	(20%)
Industry	22%	(16%)
Medical equipment	28%	(30%)
Offshore/Marine	10%	(7%)

Revenue from customers in the Swedish market represented a 39.2 per cent share of the total revenue during the first quarter (34.4 per cent). The Norwegian market represented 52.7 per cent of Kitron's total revenue in the first quarter (60.0 per cent).

**Gross and net margin**

The gross margin in first quarter 2011 was improved compared to first quarter last year, and amounted to 38.2 per cent (35.8 per cent). The gross margin is up from fourth quarter 2010 with 1.7 percentage points. The net margin increased from 21.9 per cent

**REVENUE BUSINESS AREAS**

NOK million	Q1 2011	Q1 2010	31.12.2010
Norway	286.2	267.0	1 088.8
Sweden	96.2	101.5	389.7
Lithuania	82.4	75.5	282.0
Others and eliminations	(34.9)	(33.0)	(116.6)
<b>Total group</b>	<b>429.8</b>	<b>411.1</b>	<b>1 643.9</b>

**OPERATING PROFIT/(LOSS) BUSINESS AREAS**

NOK million	Q1 2011	Q1 2010	31.12.2010
Norway	7.1	14.2	41.8
Sweden	3.8	(13.8)	(42.3)
Lithuania	8.7	6.9	21.1
Others and eliminations	(8.5)	(1.4)	(12.7)
<b>Total group</b>	<b>11.1</b>	<b>5.9</b>	<b>7.9</b>

**ORDER BACKLOG BUSINESS AREAS**

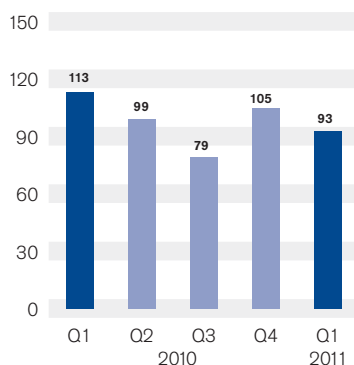
NOK million	Energy/ Telecoms	Defence/ Aerospace	Industry	Medical equipment	Offshore/ Marine	Total
Norway	10.7	149.3	81.4	138.3	82.7	462.5
Sweden	49.7	87.9	16.5	67.1	-	221.2
Lithuania	22.6	-	73.3	8.0	5.4	109.3
Germany	-	20.1	4.1	-	-	24.1
<b>Total group</b>	<b>83.0</b>	<b>257.3</b>	<b>175.3</b>	<b>213.5</b>	<b>88.1</b>	<b>817.1</b>

**REVENUE GEOGRAPHIC DISTRIBUTION CUSTOMERS**

NOK million	Q1 2011	Q1 2010	31.12.2010
Norway	226.7	246.6	893.2
Sweden	168.5	141.4	646.8
Rest of Europe	15.5	11.4	35.6
USA	19.0	11.2	68.4
Others	0.2	0.5	-
<b>Total group</b>	<b>429.8</b>	<b>411.1</b>	<b>1 643.9</b>

**REVENUE Energy/Telecoms**

NOK million



in first quarter 2010 to 23.1 per cent in first quarter this year.

**Profit**

Kitron's operating profit (EBIT) in the first quarter was positive by NOK 11.1 million, which is an increase of NOK 5.2 million compared with same period last year (NOK 5.9 million). The situation in the component market has had a negative effect on the productivity and efficiency in all operations and the margin has suffered as a result also in the first quarter.

Profit before tax and discontinued operations in the first quarter of 2011 was NOK 5.2 million, which is an increase of NOK 2.2 million compared to the same period last year.

The company's total payroll expenses in the first quarter were NOK 13.2 million higher than the corresponding period in 2010. The relative payroll costs went from 24.7 per cent of revenue in first quarter 2010 to 26.1 per cent of revenue in the first quarter this year. Other operating costs decreased to 7.2 per cent of revenue in the first quarter of 2011 (7.9 per cent).

During the quarter net financial items amounted to a cost of NOK 5.9 million. This was an increase of NOK 3.1 million compared to the same period last year. The main reasons for the increase is currency losses on intra-group financial loans (NOK 1.2 million) and increased interest and factoring costs (NOK 1.6 million) due to increased external funding in first quarter 2011.

**Balance sheet**

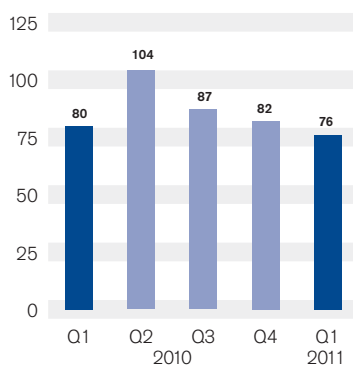
Kitron's gross balance as at 31 March 2011 amounted to NOK 1 045.2 million, against NOK 971.1 million at the same time in 2010. Equity was NOK 424.5 million (NOK 443.5 million), corresponding to an equity ratio of 40.6 per cent (45.6 per cent).

Inventory was NOK 354.5 million at 31 March 2011 (NOK 277.5 million). Inventory turns was down from 4.7 in first quarter 2010 to 3.8 in first quarter 2011.

Trade debtors and other receivables amounted to NOK 357.4 million at the end of the first quarter of 2011. The corresponding

**REVENUE Defence/Aerospace**

NOK million



amount at the same time in 2010 was NOK 339.6 million.

The group's reported interest-bearing debt amounted to NOK 272.2 million as of 31 March 2011. Interest-bearing debt at the end of the first quarter 2010 was NOK 215.3 million.

Cash flow from operational activities for the first quarter of 2011 was negative by NOK 38.3 million (negative NOK 31.7 million). This is mainly due to working capital changes. Kitron's cash and bank credit at 31 March 2011 comprised the following:

NOK million	
Cash and cash equivalents	36.3
Drawings on the overdraft facility	(54.5)
Restricted bank deposits	(18.7)
<b>Total</b>	<b>(36.8)</b>

Available liquidity (unrestricted bank deposits and unused credit lines) amounted to NOK 96.7 million at the end of the first quarter, versus NOK 124.2 million at the same time in 2010. The overall credit line at 31 March 2011 was NOK 130.6 million versus NOK 73.0 million at the same time last year.

**Organisation**

The Kitron workforce corresponded to 1 141 FTEs at 31 March 2011. This represents an increase of 35 FTEs since the first quarter of 2010.

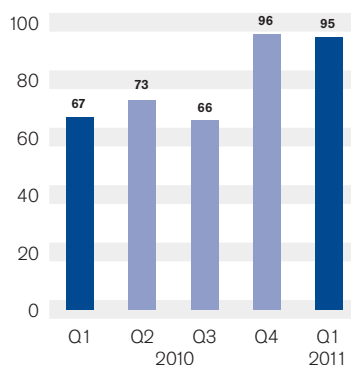
Full time equivalents	31.03.2011	31.03.2010
Norway	543	531
Sweden	190	218
Lithuania	349	335
Other	59	22
<b>Total</b>	<b>1 141</b>	<b>1 106</b>

**Market**

Kitron's services are most competitive within complex products. Kitron has chosen to focus its sales and marketing activities within the Energy/Telecoms, Defence/Aerospace,

**REVENUE Industry**

NOK million



Industry, Medical equipment and Offshore/Marine market segments.

Overall the order intake and backlog trend has been relatively stable in the quarter. Order intake was NOK 410.2 million, which is 0.9 per cent higher than for the first quarter 2010. The order backlog ended at NOK 817.1 million, which is NOK 33 million (4.3 per cent) higher than the same period last year. Four quarter moving average order intake was up from NOK 423 million at the beginning of the first quarter to NOK 424 million at the end of the quarter. Kitron's order backlog generally includes four months customer forecast plus all firm orders.

The market conditions are gradually improving and there is a positive momentum in the market. The tender activity remains high, especially in the German market, and several smaller contracts with future potential has been secured in the first quarter. Furthermore the offshore segment is heading towards recovery and we are starting to see an increased demand from customers in this segment. The Defence/Aerospace segment on the contrary looks weaker than expected in the short term, but the long term positive outlook remains.

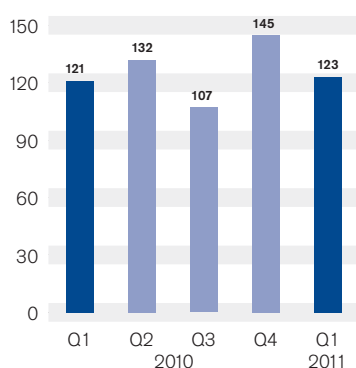
The strong interest in Kitron's capability within NPI (new product introduction) and testing is continuing. The close interaction between Kitron's experts and the R&D department of the customer is crucial for success. This is an important channel to new business as most clients maintain a strong R&D presence in Scandinavia even if the manufacturing to a certain degree is moved to lower cost countries.

**Energy/Telecoms**

Within the Energy/Telecoms segment Kitron offers clients particular expertise to realise products such as transmission systems, high frequency microwave modules, radio frequency (RF), electrical metering and data/video projection equipment.

The order backlog decreased by 42.8 per cent and revenue decreased by 18.1 per cent compared to the first quarter in 2010. The

## REVENUE Medical equipment NOK million



downturn is due to the loss of a major Norwegian Energy/Telecoms client reported in the third quarter 2010. This loss is partly offset by new orders from a Swedish Energy/Telecoms client and a generally positive development with other customers.

In the next quarter it is expected that the negative development will continue as the customer which has terminated the contract with Kitron is being phased out. This said the general longer term outlook for Energy/Telecoms products is promising. Among Kitron's customers in this segment we have one of the fastest growing mid sized Telecoms companies in Europe. Another growth driver is the demand within the electrical metering business. Kitron has during the last year secured contracts with several metering companies and the growth in 2011 and beyond is expected to be strong.

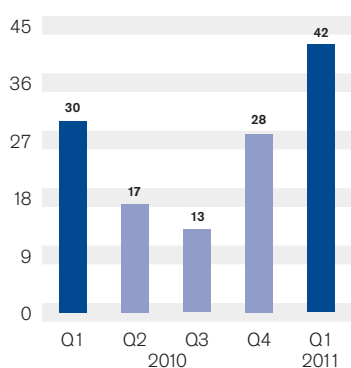
### Defence/Aerospace

The Defence/Aerospace segment consists of three main product divisions: military avionics, military communication and weapon control systems.

The order backlog increased by 2.7 per cent and the revenue decreased by 4.8 per cent compared to the first quarter in 2010. The development is driven by the demand from the Swedish and Norwegian defence industries.

In the short term the trend is stable or even negative due to less orders than expected so far in 2011. The longer term outlook for the Defence/Aerospace segment, however, remains strong. Kitron is currently involved in defence programs with among others the Kongsberg Group and Lockheed Martin that could yield more than 1 billion NOK in revenue in the years to come. Under the Manufacturing License Agreement between Kitron ASA and Lockheed Martin Maritime Systems and Sensors Kitron will manufacture, test, maintain and repair the Integrated Backplane Assembly in the F-35 Joint Strike Fighter globally. The new contract with Kongsberg related to deliveries of electronics to the NSM (Naval Strike Missile) is further supporting the long term positive

## REVENUE Offshore/Marine NOK million



outlook. In addition a letter of intent to cooperate in the first phase of the manufacturing of electronics for the JSM (Joint Strike Missile) has been entered into. The positive trend in the Swedish defence industry is further supporting our long term optimistic outlook. Defence/Aerospace is also a prioritised area for our new operation in Germany.

### Industry

Within the Industry segment Kitron operates and delivers a complete range of services within industrial applications like automation, environmental, material warehousing and security. The Industry segment consists of three main product divisions: control systems, electronic control units (ECU) and automats.

The order backlog increased by 47.5 per cent and the revenue increased by 41.3 per cent compared to the first quarter in 2010. The strong revenue growth is primarily explained by the recovery in the Swedish industrial sector.

The market situation within the Industry segment has improved and it is expected that the positive trend will continue in 2011. The order intake is gradually picking up again and we see an increasing number of RFI/RFOs in the market.

### Medical equipment

The Medical equipment segment consists of three main product groups: ultrasound and cardiology systems, respiratory – medical devices and Lab/IVD (In-Vitro Diagnostics).

The order backlog decreased by 4.9 per cent and revenue increased by 2.2 per cent compared to the first quarter in 2010. The underlying trend by customer has been mixed with strong demand and ramp up for some customers while the demand from others has been weaker than expected.

Kitron focuses on additional growth in this segment and expects a long-term positive development with customers in Norway, Sweden and Germany. This trend is supported by strong market fundamentals for the products and services Kitron offers to the market. Kitron is working on several interesting new

prospects within this segment. In the short term, however, it is expected that the overall volume development will be relatively flat due to weak demand from some customers.

### Offshore/Marine

Kitron divides the Offshore/Marine segment into three main areas; sub sea production systems, oil and gas exploration equipment and navigation, positioning, automation and control systems for the marine sector.

The revenue increased by 42.2 per cent and the order backlog increased by 98.0 per cent compared to the first quarter in 2010. The strong development is driven by the recovery in the oil and gas sector and a ramp up of production for existing clients.

The trend in the Offshore/Marine segment is closely correlated with the development of the oil price. In the last two years there has been a sharp drop in demand from the offshore segment but lately the outlook has improved. It is expected that the Offshore/Marine segment will recover in 2011.

### Outlook

Kitron's markets are mainly Norway and Sweden, but most customers of Kitron sell their products on international markets. As the recovery in the global economy continues Kitron expects to see an increased demand from its customers.

The overall economic trend combined with a relatively strong trend in several of the market segments Kitron are targeting indicates that revenue will increase in 2011. However, the loss of a major Energy/Telecoms customer will largely offset this impact and as a consequence the revenue development in 2011 is expected to be relatively flat.

Kitron is working on several operational improvement programs that should yield a positive contribution on the profitability going forward. The focus on manufacturing efficiency is continuing and global sourcing initiatives remain a priority area. Kitron's investments in China, USA and Germany will expand our market reach and will provide new supply chain opportunities. Overall it is expected that the profitability will improve in 2011 compared with 2010.

The strong focus on balance sheet management and cash flow will continue in 2011. Management will focus on reducing inventory as the component situation gradually is improving.

Operating expenses and investments are carefully monitored and managed. Investments that improve Kitron's competitiveness are being prioritised. Training of employees and competency enhancing initiatives are still given high attention.

## Condensed profit and loss statement

NOK 1 000	Q1 2011	Q1 2010	31.12.2010
Revenue	429 772	411 103	1 643 948
Cost of materials	265 595	264 002	1 043 639
Payroll expenses	114 521	101 349	429 530
Other operational expenses	30 870	32 330	131 811
Operating profit before depreciation and impairments (EBITDA)	18 787	13 421	38 969
Depreciation and impairments	7 682	7 565	31 076
Operating profit (EBIT)	11 105	5 856	7 894
Net financial items	(5 864)	(2 823)	(14 220)
Profit (loss) before tax	5 240	3 033	(6 326)
Tax	2 978	618	9 664
Net profit (loss) from continuing operations	2 262	2 414	(15 991)
Profit (loss) from discontinued operations	-	(2 223)	(9 375)
Profit (loss) for the period	2 262	191	(25 366)
Earnings per share (basic and diluted)	0.01	0.00	(0.15)

## Condensed balance sheet

NOK 1 000	31.03.2011	31.03.2010	31.12.2010
<b>ASSETS</b>			
Goodwill	26 786	26 826	26 786
Other intangible assets	37 580	19 573	31 438
Tangible fixed assets	135 460	126 138	132 069
Available for sale financial assets	1	9	1
Deferred tax assets	93 885	94 247	95 847
Other receivables	3 266	3 205	3 227
Total fixed assets	296 979	269 999	289 368
Inventory	354 531	277 459	325 251
Accounts receivable and other receivables	357 391	339 556	352 678
Cash and cash equivalents	36 329	73 273	48 243
Total current assets	748 252	690 288	726 171
Assets of disposal group classified as held for sale	-	10 822	-
Total assets	1 045 230	971 109	1 015 539
<b>LIABILITIES AND EQUITY</b>			
Equity	424 481	443 542	420 575
Total equity	424 481	443 542	420 575
Deferred tax liabilities	1 205	-	1 200
Loans	44 538	12 618	38 832
Pension commitments	12 076	10 929	12 076
Total long-term liabilities	57 819	23 547	52 108
Accounts payable and other current liabilities	315 113	296 077	294 174
Loans	227 670	202 659	225 201
Other provisions	20 147	-	23 481
Total current liabilities	562 930	498 736	542 855
Liabilities of disposal group classified as held for sale	-	5 284	-
Total liabilities and equity	1 045 230	971 109	1 015 539

## Condensed cash flow statement

NOK 1 000	Q1 2011	Q1 2010	31.12.2010
Net cash flow from operational activities	(38 306)	(31 713)	(46 088)
Net cash flow from investment activities	(17 885)	(4 068)	(49 577)
Net cash flow from financing activities	4 992	(543)	23 265
Change in cash and bank credit	(51 199)	(36 324)	(72 400)
Cash and bank credit opening balance	14 354	86 755	86 755
Cash and bank credit closing balance	(36 845)	50 431	14 354

## Consolidated statement of comprehensive income

NOK 1 000	Q1 2011	Q1 2010	31.12.2010
Net profit	2 262	191	(25 366)
Currency translation differences and other changes	1 644	(7 054)	(4 465)
Total comprehensive income for the period	3 906	(6 863)	(29 830)
Allocated to shareholders	3 906	(6 863)	(29 830)

## Changes in equity

NOK 1 000	Q1 2011	Q1 2010	31.12.2010
Equity opening balance	420 575	450 406	450 406
Comprehensive income for the period	3 906	(6 863)	(29 830)
Equity closing balance	424 481	443 542	420 575

## Notes to the financial statements (unaudited)

### Note 1 – General information and principles

The condensed consolidated financial statements for the first quarter of 2011 have been prepared in accordance with International Financial Accounting Standards (IFRS) and IAS 34 for interim financial reporting. Kitron has applied the same accounting policies as in the consolidated financial statements for 2010.

The interim financial statements do not include all the information required for a full financial report and should therefore be read in conjunction with the consolidated financial statements for 2010, which were prepared in accordance with the Norwegian Accounting Act and IFRS, as adopted by the EU. The consolidated financial statements for 2010 are available upon request from the company and at [www.kitron.com](http://www.kitron.com).

### Note 2 – Estimates

The preparation of the interim financial statements requires the use of evaluations, estimates and assumptions that affect the application of the accounting principles and amounts recognised as assets and liabilities, income and expenses. The actual results may deviate from these estimates. The important assessments underlying the application of Kitron's accounting policy and the main sources of uncertainty are the same for the interim financial statements as for the consolidated statements for 2010.

### Note 3 – Financial risk management

Kitron's business exposes the company to financial risks. The purpose of the company's procedures for risk management is to minimise possibly negative effects caused by the

company's financial arrangements. There has been no change of impact or material incidents in 2011.

### Note 4 – Discontinued operations

In the second quarter 2010 Kitron signed an agreement to sell its Development Department located in Oslo to some of the local employees and Simpro AS. The transaction was closed June 1 2010. Kitron booked a loss of NOK 4.5 million in connection with the transaction. The loss and the operating result of Kitron Development for the first five months of 2010 have been booked as discontinued operations.

Financial information and cash flow relating to discontinued operations for the period to the date of disposal is set out below.

## Income statement information from discontinued operations

NOK 1 000	Q1 2011	Q1 2010	31.12.2010
Revenue	-	3 939	5 936
Expenses	-	(6 162)	(10 947)
Profit (loss) before income tax	-	(2 223)	(5 011)
Tax	-	-	-
Profit (loss) after income tax	-	(2 223)	(5 011)
Post tax loss on disposal of discontinued operations	-	-	(4 364)
Profit (loss) from discontinued operations	-	(2 223)	(9 375)

## Cash flow statement information from discontinued operations

NOK 1 000	Q1 2011	Q1 2010	31.12.2010
Net cash flow from operating activities	-	(409)	(409)
Net cash flow from investment activities	-	-	-
Net cash flow from financing activities	-	-	-
Change in cash and bank credit	-	(409)	(409)
Cash and bank credit opening balance	-	409	409
Cash and bank credit closing balance	-	-	-



## Kitron ASA

Olav Brunborgs vei 4  
P O Box 97  
NO-1375 Billingstad  
Norway

## Your ambition. Our passion.

**Kitron** is a medium-size Electronic Manufacturing Services company. The company has manufacturing facilities in Norway, Sweden, Lithuania, Germany, China and the US and has about 1 100 employees. Kitron manufactures both electronics that are embedded in the customers' own product, as well as box-built electronic products. Kitron also provides high-level assembly (HLA) of complex electromechanical products for its customers.

**Kitron** offers all parts of the value chain: from design via industrialisation, manufacturing and logistics, to repairs. The electronics content may be based on conventional printed circuit boards or ceramic substrates.

**Kitron** also provides various related services such as cable harness manufacturing and components analysis, and resilience testing, and also source any other part of the customer's product. Customers typically serve international markets and provide equipment or systems for professional or industrial use.