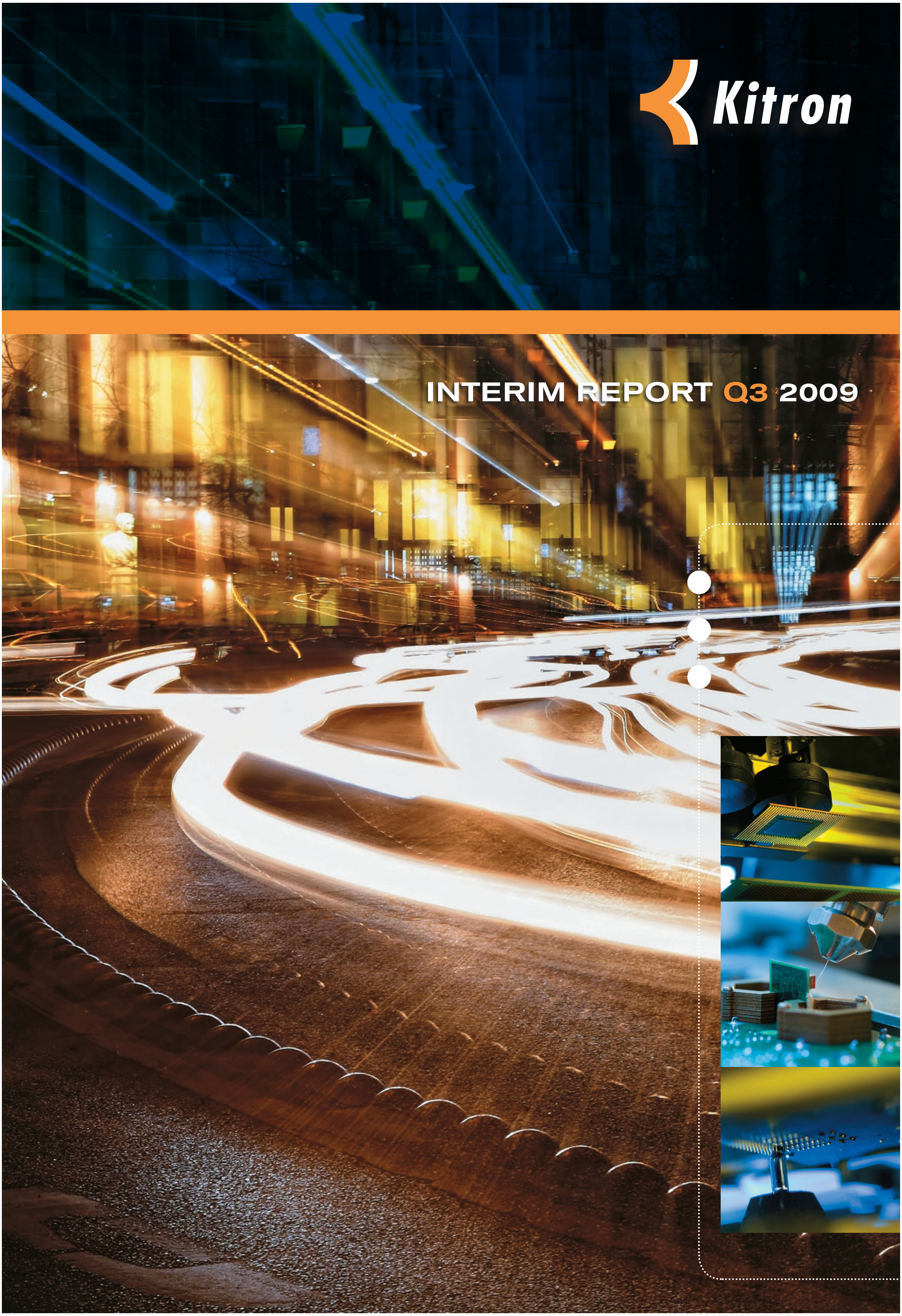
Kitron

INTERIM REPORT Q3 2009



Weak quarter – signs of improvements

Key items

Figures in brackets refer to the third quarter of 2008 unless otherwise stated.

- **Cash flow**
  Cash flow from operations in the third quarter was NOK 11.0 million (NOK 27.8 million). Before repayment of factoring debt the cash flow from operations was 19.0 million.
- **Strong solidity**
  The equity ratio continued to improve and reached 47.2 per cent in Q3 (34.9 per cent).
- **Revenue decline**
  Revenue decreased by 25.5 per cent to NOK 338.6 million (NOK 454.3 million).
- **Decrease in operating profit**
  EBITDA and EBIT were NOK 12.8 million (NOK 41.9 million) and NOK 4.4 million respectively (NOK 34.6 million).
- **Order intake and backlog**
  The order intake decreased by 34.8 per cent to NOK 377 million (NOK 578 million). The order backlog at the end of third quarter was NOK 778 million (NOK 1 100 million).

Revenue amounted to NOK 338.6 million in the third quarter, which represents a 25.5 per cent decrease compared with the same period last year. Loss before tax and discontinued operations was NOK 0.6 million, compared to a profit of NOK 27.6 million for the third quarter last year. Cash flow from operations was NOK 11.0 million compared to NOK 27.8 million in the same period last year. Before repayment of factoring debt the cash flow was NOK 19.0 million. The order intake was NOK 377 million and the order backlog was NOK 778 million, a decrease of 34.8 per cent and 29.3 per cent respectively.

Aligned with the market

Kitron has successfully implemented a capacity adjustment program during 2009 and has managed to maintain a solid financial position during the recession. Kitron is ready for a market recovery and expect that the profitability will improve as a result of the meassures taken as well as the continued focus on operational improvements. Already in the second half of the third quarter we started to see some improvements in activity and performance. The quarter as a whole is seasonally weak due to the holiday season in July-August.

Going forward further streamlining to improve profitability can not be ruled out. Transfer of manufacturing to low cost countries will be an important driver in this resepect.

Revenue decline

Kitron's revenue in the third quarter was 25.5 per cent lower than in the same period last year and amounted to NOK 338.6 million (NOK 454.3 million). The Defence/Offshore segment was down 34.3 per cent compared to the third quarter of 2008. Data/ Telecoms showed 21.1 per cent reduction, while revenues within the Industry segment declined by 50.6 per cent. Revenues in the Medical segment however, was up 14.5 per cent.

Revenue in the Norwegian operation represented 65.9 per cent of Kitron's gross revenue during the third quarter (61.7 per cent). The Swedish operation represented 19.0 per cent of the group (20.5 per cent) and Kitron's operation in Lithuania provided for 15.1 per cent (17.8 per cent).

Kitron's revenue in the third quarter of 2009 was distributed as follows:

Data/Telecoms	29.5% (27.8%)
Defence/Offshore	26.4% (29.9%)
Medical equipment	28.4% (18.5%)
Industry	15.7% (23.7%)

Sales to customers in the Swedish market represented a 33.8 per cent share of the total revenue (44.9 per cent). The Norwegian market represented 58.5 per cent of Kitron's total revenue (46.0 per cent).

Gross and net margin

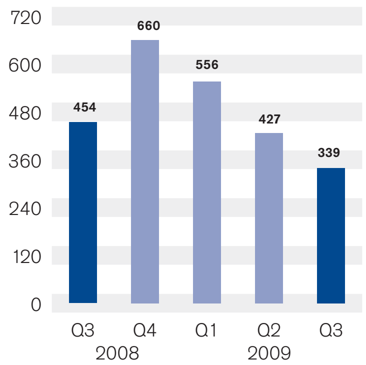
Due to different product mix in the Norwegian operations and a reduction in revenues from development activities the gross margin decreased in the third quarter 2009 compared to the same period last year, and amounted to 37.1 per cent (38.6 per cent). The net margin decreased from 23.9 per cent to 21.1 per cent.

Profit

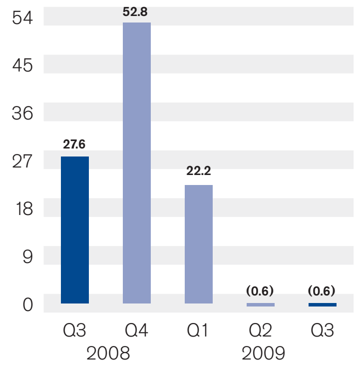
Kitron's operating profit (EBIT) in the third quarter was NOK 4.4 million, which is a decrease of NOK 30.2 million compared to the same period in 2008 (34.6 million). Loss before tax was NOK 0.6 million (profit of 27.6 million).

The company's total payroll expenses were NOK 16.5 million lower than the corresponding period in 2008. This is mainly due to effects from employee reductions. However, the relative payroll costs increased from 22.8 per cent of revenue last year to 25.7 per cent this year due to significant lower revenue.

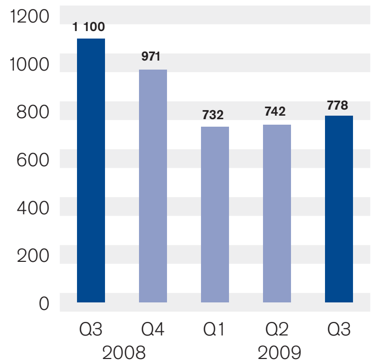
REVENUE Group
NOK million



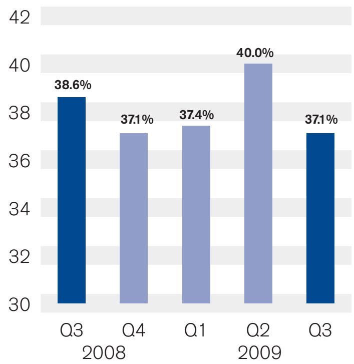
PROFIT BEFORE TAX Group
NOK million



ORDER BACKLOG Group
NOK million



GROSS MARGIN Group
Per cent



REVENUE BUSINESS AREAS

NOK million	Q3 2009	Q3 2008	30.09.2009	30.09.2008	31.12.2008
Norway	236.5	296.0	874.3	949.5	1 358.6
Sweden	68.1	97.9	256.7	340.1	498.8
Lithuania	54.2	86.3	270.0	292.2	421.7
Others and eliminations	(20.3)	(25.9)	(79.4)	(98.3)	(135.9)
Total group	338.6	454.3	1 321.6	1 483.5	2 143.2

OPERATING PROFIT/(LOSS) BUSINESS AREAS

NOK million	Q3 2009	Q3 2008	30.09.2009	30.09.2008	31.12.2008
Norway	2.2	26.5	28.6	68.1	105.2
Sweden	(0.8)	4.9	(2.0)	16.4	27.5
Lithuania	0.9	0.9	16.0	21.4	33.6
Others and eliminations	2.1	2.3	(3.9)	(3.3)	(11.7)
Total group	4.4	34.6	38.8	102.6	154.5

ORDER BACKLOG BUSINESS AREAS

NOK million	Data/ Telecoms	Defence/ Offshore	Medical equipment	Industry	Total
Norway	91.3	246.0	128.7	63.5	529.5
Sweden	29.0	59.0	93.1	11.6	192.7
Lithuania	12.4	7.6	8.2	27.8	55.9
Total group	132.7	312.6	229.9	102.9	778.2

REVENUE GEOGRAPHIC DISTRIBUTION CUSTOMERS

NOK million	Q3 2009	Q3 2008	30.09.2009	30.09.2008	31.12.2008
Norway	198.0	209.0	824.8	689.7	1 011.7
Sweden	114.5	203.8	412.8	675.6	963.0
Rest of Europe	16.3	14.9	46.9	53.8	76.7
USA	9.2	23.5	36.0	42.5	60.6
Others	0.5	3.1	1.1	21.9	31.2
Total group	338.6	454.3	1 321.6	1 483.5	2 143.2

Other operating costs were NOK 4.0 million lower in the quarter (7.6 per cent of revenue) than the same period last year (6.5 per cent of revenue).

During the quarter net financial items amounted to a cost of NOK 5.0 million. This was NOK 2.0 million lower than in the third quarter 2008. The principal reason for the decrease is lower interest costs due to a reduction of interest bearing debt.

Balance sheet

Kitron's gross balance at 30 September 2009 amounted to NOK 942.0 million (NOK 1 146.1 million). Equity was NOK 445.1 million (NOK 400.4 million), resulting in an equity ratio of 47.2 per cent (34.9 per cent).

Inventory was NOK 291.3 million at 30 September (NOK 353.4 million). Inventory turns has decreased from 4.3 in the third quarter last year to 3.7 in the same period this year. Kitron has not managed to reduce inventory level proportionally compared to the revenue decline.

Trade debtors and other receivables amounted to NOK 314.6 million at the end of the third quarter (NOK 434.8 million). Credit losses have been insignificant.

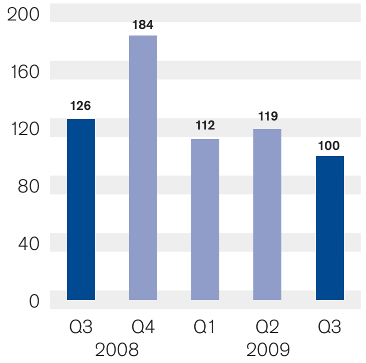
The group's reported interest-bearing debt totalled NOK 202.0 million as of 31 September 2009. Interest-bearing debt at the end of the third quarter of 2008 was NOK 336.8 million.

Cash flow from operational activities for the third quarter of 2009 was NOK 11.0 million (NOK 27.8 million). Kitron's cash and bank credit at 30 September 2009 comprised the following:

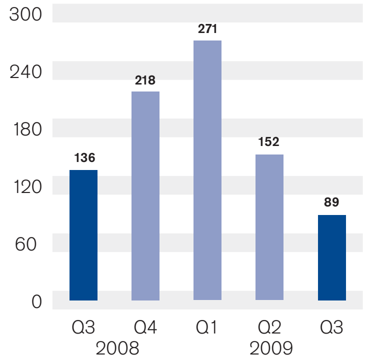
NOK million	
Cash and cash equivalents	65.3
Drawings on the overdraft facility	(10.6)
Restricted bank deposits	(18.2)
Total	36.5

Available liquidity (unrestricted bank deposits and unused credit lines) amounted to NOK 122.0 million at the end of the third quarter, versus NOK 152.7 million at the same time in 2008.

REVENUE Data/Telecoms
NOK million



REVENUE Defence/Offshore
NOK million



The market has levelled out and the order situation has stabilised.

Organisation

The Kitron workforce decreased by 24 full time equivalents (FTE) in the quarter, and added up to 1 121 FTEs at 30 September. This represents a decrease of 333 FTEs since the third quarter of 2008.

Full time equivalents	30.09.09	30.08.08	31.12.08
Norway	573	753	749
Sweden	216	256	254
Lithuania	325	440	464
Other	7	5	5
Total	1 121	1 454	1 472

Market

Kitron's services are most competitive within complex manufacturing processes that require niche expertise. Kitron has chosen to focus its sales and marketing activities within the Data/Telecoms, Defence/Offshore, Medical equipment and Industry market segments.

The market has levelled out and the order situation has stabilised. Order intake in the quarter was NOK 377 million, which is 34.8 per cent lower than the third quarter 2008. The order backlog improved in the quarter by NOK 36 million and ended at NOK 778 million, which is 29.3 per cent lower than the same time last year. Four quarter moving average order intake was down from NOK 476 million at the beginning of the third quarter to NOK 425 million at the end of the quarter.

There are some signs of a slow recovery with customers starting to cautiously building up their inventory levels. Customers are still careful in starting up new projects and are safeguarding their current operations to the best degree possible. It shall be emphasized that no significant customer accounts have been lost and it is expected that the volume of new orders will recover fully once the market development turns into growth.

Kitron's order backlog generally includes four months customer forecast plus all firm orders.

Data/Telecoms

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

The order backlog decreased by 37.7 per cent and revenue decreased by 21.1 per cent compared to the third quarter in 2008. The Data/Telecoms segment is characterised by strong competition and high price sensitivity. The customers are still having a strong focus on internal costs and stock levels.

The outlook for video projection equipment remains positive. Kitron has so far in 2009 secured incremental orders at an annual value of about NOK 100 million within the segment. Furthermore the economic stimulus packages and new regulation being initiated by local governments are expected to have a positive impact on the demand for infrastructure related products.

Defence/Offshore

The Defence segment consists of three main product divisions: military avionics, military communication and weapon control systems. Kitron divides the Offshore segment into three main areas; sub sea production systems, oil and gas exploration equipment and navigation, positioning, automation and control systems for the offshore sector.

The order backlog decreased by 37.7 per cent while the revenue decreased by 34.3 per cent compared to the third quarter in 2008. The decline in order backlog and revenue is related to the Offshore segment while Defence is showing a positive development.

The long-term outlook for the Defence segment remains positive and is normally less cyclical than other sectors. However, cost cutting programmes within the Defence segment will add risk, but also opportunities to Kitron's business. Technical upgrades and the development of new technology within the defence industry contribute to growing demand in a segment where Kitron has a strong position. The positive trend in the Swedish defence industry is further supporting our optimistic outlook.

The trend in the Offshore segment is closely correlated with the development of the oil price. In the last year there has been a sharp drop in demand from the offshore segment but lately the development has stabilised and there are even some positive signs. Kitron still expects a stable trend within this segment for the rest of the year and are increasingly optimistic about the longer-term outlook.

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 increased by 12.3 per cent and revenue increased by 14.5 per cent compared to the third quarter in 2008. The positive development is driven by ramp up of production for existing clients.

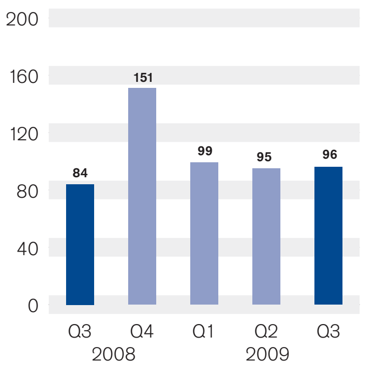
The Medical equipment segment is less cyclical than other market segments. Kitron focuses on additional growth in this segment and expects a long-term positive development with customers in both Norway and Sweden. This trend is supported by strong market fundamentals for the products and services Kitron offers to the market.

Industry

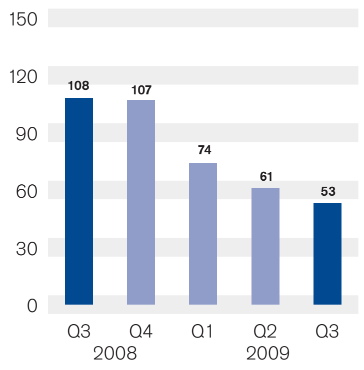
Within the Industry segment Kitron operates and delivers a complete range of services within industrial applications like automation, energy, environmental, material warehousing and security. The Industry segment consists of three main product divisions: control systems, electronic control units (ECU)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

The order backlog decreased by 43.0 per cent and revenue decreased by 50.6 per cent compared to the third quarter in 2008. Of the Kitron market segments the industry segment has been most affected by the recession.

REVENUE Medical equipment
NOK million



REVENUE Industry
NOK million



It is expected that the profitability will improve in the fourth quarter.

The market situation within the Industry segment has stabilised and there are some signs of a slow recovery. In the third quarter the order backlog improved by NOK 17 million. While this is a small positive change there are signals of increasing demand from several customers. The order intake is gradually picking up again and we see an increasing number of RFI/RFQs in the market.

Outlook

Kitron's markets are mainly Norway and Sweden, but most customers of Kitron sell their products on international markets. In addition Kitron is now actively marketing its services towards the German EMS market.

The effects of the recession have developed as predicted. Significant capacity adjustments have been implemented partly as a consequence of decreasing demand and partly as a result of Kitron's effort to drive operational improvements.

The announced adjustments of the manufacturing capacity are yielding the desired effect. These efforts are mainly focusing on reducing direct and indirect personnel. Including the divestment of Kitron Microelectronic AS it is expected that revenue will be down by about 20 per cent and that the work force will be reduced by about 420 FTEs.

The capacity adjustments and other initiatives to reduce cost will result in a NOK 70 million reduction of the cost base in 2009 (excluding the impact of the divestment of Kitron Microelectronics AS). The annualised cost reduction is about NOK 130 million.

The strong focus on profitability and cash will continue and Kitron expects to protect the long-term margin through productivity improvements, cost-efficient materials sourcing and transfer of production to lower cost manufacturing units.

In addition operating expenses and investments are carefully monitored and managed. Investments that improve Kitron's competitiveness are being prioritised while pure capacity related investments are being postponed. Training of employees and competency enhancing initiatives will still be prioritised.

It is expected that we will see the profitability improve in the fourth quarter compared to the result in the second and third quarter.

Asker, 3 November 2009
Board of directors, Kitron ASA

Condensed profit and loss statement

NOK 1 000	Q3 2009	Q3 2008	30.09.2009	30.09.2008	31.12.2008
Revenue	338 608	454 258	1 321 585	1 483 508	2 143 207
Cost of materials	213 048	279 108	817 521	95 148	1 316 132
Payroll expenses	87 038	103 515	349 114	358 819	504 186
Other operational expenses	25 755	29 736	90 054	95 148	134 762
Operating profit before depreciation and impairments (EBITDA)	12 767	41 899	64 896	128 079	188 126
Depreciation and impairments	8 389	7 311	26 120	25 469	33 591
Operating profit (EBIT)	4 378	34 588	38 776	102 610	154 535
Net financial items	(5 007)	(7 023)	(17 847)	(17 979)	(17 155)
Profit before tax	(629)	27 565	20 929	84 631	137 381
Tax	(288)	(65 824)	4 601	(63 183)	(76 286)
Net profit (loss) from continuing operations	(341)	93 389	16 328	147 814	213 666
Profit (loss) from discontinued operations	(320)	1 699	(21 092)	3 013	646
Profit (loss) for the period	(661)	95 088	(4 764)	150 827	214 312
Earnings per share (basic and diluted)	(0.00)	0.55	(0.03)	0.87	1.24

Condensed balance sheet

NOK 1 000	30.09.2009	30.09.2008	31.12.2008
ASSETS			
Goodwill	24 519	25 514	25 714
Tangible fixed assets	142 141	175 617	188 970
Investment in shares	9	36	36
Deferred tax assets	100 183	90 835	106 304
Other receivables	3 891	-	-
Total fixed assets	270 743	292 001	321 024
Inventory	291 348	353 382	326 381
Accounts receivable and other receivables	314 623	434 804	503 827
Cash and cash equivalents	65 315	65 873	98 970
Total current assets	671 286	854 059	929 178
Total assets	942 029	1 146 060	1 250 202
LIABILITIES AND EQUITY			
Equity	445 084	400 416	480 398
Total equity	445 084	400 416	480 398
Loans	18 169	24 945	29 139
Pension commitments	21 569	21 360	21 164
Total long-term liabilities	39 738	46 305	50 303
Accounts payable and other current liabilities	273 412	386 678	375 504
Loans	183 795	311 863	343 998
Other provisions	-	798	-
Total current liablities	457 207	699 339	719 502
Total liabilities and equity	942 029	1 146 060	1 250 202

Condensed cash flow statement

NOK 1 000	Q3 2009	Q3 2008	30.09.2009	30.09.2008	31.12.2008
Net cash flow from operational activities	10 983	27 755	31 518	18 512	85 030
Net cash flow from investment activities	(4 413)	(15 581)	(12 302)	(61 511)	(76 278)
Net cash flow from financing activities	110	1 860	(14 518)	(4 571)	(5 107)
Change in cash and bank credit	6 680	14 034	4 698	(47 571)	3 645
Cash and bank credit opening balance	29 826	(33 441)	31 808	28 164	28 164
Cash and bank credit closing balance	36 506	(19 407)	36 506	(19 407)	31 809

Statement of comprehensive income

NOK 1 000	Q3 2009	Q3 2008	30.09.2009	30.09.2008	31.12.2008
Profit (loss) for the period	(661)	95 089	(4 764)	150 827	214 312
Currency translation differences and other changes	(7 830)	2 276	(30 550)	2 592	19 089
Total comprehensive income for the period	(8 491)	97 365	(35 314)	153 419	233 401
Profit attributable to shareholders	(661)	95 089	(4 764)	150 827	214 312

Changes in equity

NOK 1 000	30.09.2009	30.09.2008	31.12.2008
Equity opening balance	480 398	246 997	246 997
Comprehensive income for the period	(35 314)	153 419	233 401
Equity closing balance	445 084	400 416	480 398

Notes to the financial statements (unaudited)

Note 1 – General information and principles
The condensed consolidated financial statements for the third quarter of 2009 have been prepared in accordance with International Financial Accounting Standards (IFRS) and IAS 34 for interim financial reporting. Except as described below, Kitron has applied the same accounting policies as in the consolidated financial statements for 2008. The following new standards and amendments to standards are mandatory for the first time for the year beginning 1 January 2009:

IAS 1 (revised), "Presentation of Financial Statements". The financial statements are prepared in accordance with IAS 1 (revised). The main changes comprise the "Statement of comprehensive income" and incorporation of comprehensive income in "Changes in equity".

IFRS 8 "Operating segments". Kitron reports only one operational segment, Electronic Manufacturing Services. The changes in IFRS 8 have not affected Kitron's interim reporting.

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 2008, which were prepared in accordance with the Norwegian Accounting Act and IFRS, as adopted by the EU. The consolidated financial statements for 2008 are available upon request from the company and at 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 2008.

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 2009.

Note 4 – Discontinued operations
On June 30 2009, the Kitron group sold Kitron Microelectronics AS for cash consideration of NOK 1.00. Kitron Microelectronics AS results are presented in this condensed interim financial information as discontinued operations. Comparative figures have been restated. 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	30.09.2009	30.09.2008
Revenue	30 313	109 744
Expenses	(35 362)	(107 746)
Profit (loss) before income tax	(5 049)	1 998
Tax	-	-
Profit (loss) after income tax	(5 049)	1 998
Post tax loss on disposal of discontinued operations	(16 043)	-
Profit (loss) from discontinued operations	(21 092)	1 998

Cash flow statement information from discontinued operations

NOK 1 000	30.09.2009	30.09.2008
Net cash flow from operating activities	(72)	(4 398)
Net cash flow from investment activities	(482)	(8 872)
Net cash flow from financing activities	(1 527)	4 457
Change in cash and bank credit	(2 081)	(8 813)
Cash and bank credit opening balance	(903)	11 137
Cash and bank credit closing balance	(2 984)	2 324

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Kitron

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Our solutions deliver success

Kitron is a medium-size high mix low volume Electronic Manufacturing Services (EMS) company. The company has manufacturing facilities in Norway, Sweden and Lithuania, 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.