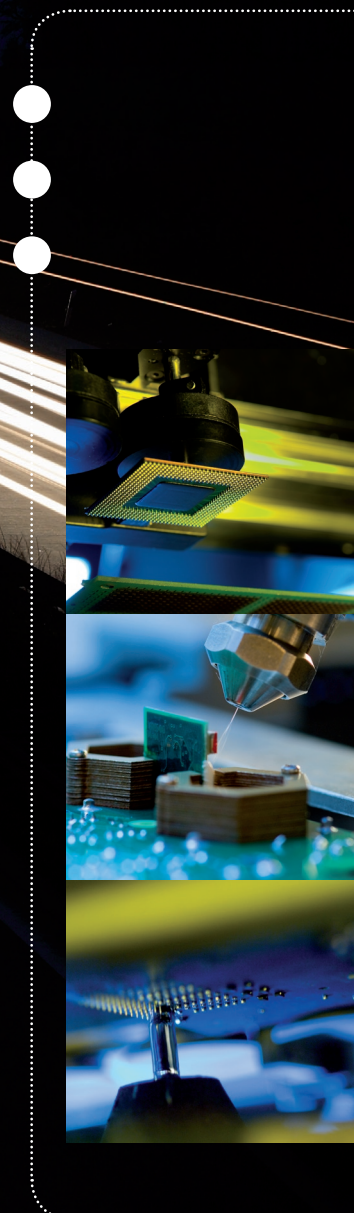




INTERIM REPORT **Q1** 2010





## Market conditions continue to improve

### Key items

Figures in brackets refer to the first quarter of 2009 unless otherwise stated.

#### ■ Positive order development

The order intake increased by 12.9 per cent to NOK 406.7 million (NOK 360.2 million). The order backlog at the end of the first quarter was NOK 783.5 million (NOK 731.9 million).

#### ■ Expanding market coverage

The integration and set up of the new operations in Germany and China are progressing according to plan.

#### ■ Lower revenue

Revenue decreased by 25.4 per cent to NOK 411.1 million (NOK 550.7 million). First quarter 2009 reflects a phasing out of backlog before the impact of the recession.

#### ■ Operating profit

EBITDA and EBIT were NOK 13.4 million (NOK 43.5 million) and NOK 5.9 million (NOK 34.3 million) respectively. Restructuring costs of NOK 6.0 million related to the Swedish operation in Karlskoga were charged to the profit and loss in first quarter 2010. The Karlskoga operation showed a negative EBIT of NOK 14.0 million in the first quarter.

#### ■ Profit before tax

Profit before tax amounted to NOK 3.0 million (NOK 25.0 million), which reflects a margin of 0.7 per cent (4.5 per cent).

#### ■ Weak cash flow

Cash flow from operations in the first quarter was negative by NOK 31.7 million (NOK 35.0 million) mainly due to working capital changes.

The order intake increased by 12.9% compared with last year and reached NOK 406.7 million. Revenue amounted to NOK 411.1 million in first quarter of 2010, a 25.4 per cent decrease compared with the same period last year. First quarter 2009 reflects a phasing out of backlog before the impact of the recession. The profit before tax was NOK 3.0 million (NOK 25.0 million). Cash flow from operations was negative by NOK 31.7 million (NOK 35.0 million). The order intake was NOK 406.7 million and the order backlog was NOK 783,5 million, an increase of 12.9 and 7.1 per cent respectively.

#### Expanding market coverage

While the activity level in first quarter 2010 is lower than the same period in 2009 we see a stable trend towards improved market conditions quarter by quarter. The sales and marketing activity is high and there is an increase in the value of pending prospects.

Kitron has also taken strategic steps to expand the market coverage and further improve its competitiveness. As reported last quarter Kitron has acquired a small German EMS company (about 20 employees) as a stepping-stone to approach the German, Austrian and Swiss markets. In China Kitron has decided to set up a competitive manufacturing unit to serve Kitron's existing customers and the Asian market. The integration and set up of these new operations are progressing according to plan. In addition Kitron has decided to establish an operation in North America in order to be able to serve its customers on a global basis.

#### Poor performance in Karlskoga operation

As announced on March 12 Kitron's subsidiary Kitron AB in Karlskoga Sweden has faced operational challenges in the first quarter. The challenges are related to unsatisfactory margins for certain customers and overcapacity within the work force. Kitron booked NOK 14 million of losses in Kitron AB whereof NOK 6 million are provisions for restructuring costs. Firm measures are being taken to turn around Kitron AB and it is expected that performance will improve during the rest of 2010.

#### Positive impact from reversal of pension liability

Kitron Group has during this quarter recognised effects of reversal of pension provisions for early retirement (AFP) according to the old scheme with a net effect of NOK 10.5 million. The new AFP scheme applicable from 19 February 2010 is recognised as a contribution scheme in the quarterly report.

#### Revenue

Kitron's revenue in the first quarter was 25.4 per cent lower than in the same period in 2009 and amounted to NOK 411.1 million (NOK 550.7 million). Data/Telecoms was up 2.7 per cent, Defence was down 25.5 per cent, Industry decreased by 8.0 per cent, Medical equipment was up by 21.9 per cent and Offshore/Marine was down 81.5 per cent compared to the first quarter of 2009.

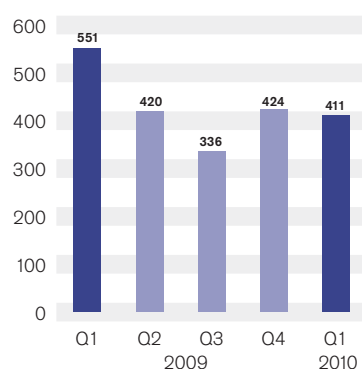
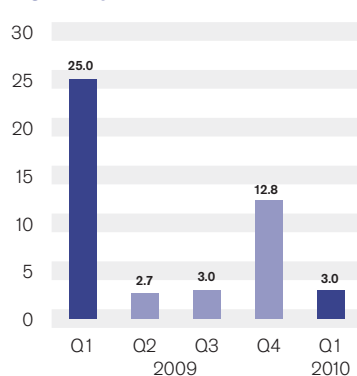
Revenue in the Norwegian operation represented 60.1 per cent of Kitron's gross revenue during the first quarter (59.2 per cent). The Swedish operation represented 22.9 per cent of the group (16.1 per cent) and Kitron's operation in Lithuania provided for 17.0 per cent (24.7 per cent).

Kitron's revenue in the first quarter of 2010 was distributed as follows:

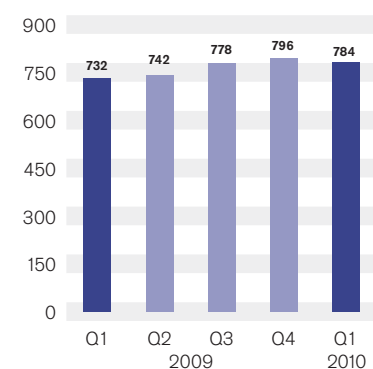
Data/Telecoms	28% (20%)
Defence	20% (20%)
Industry	16% (13%)
Medical equipment	29% (18%)
Offshore/Marine	7% (29%)

Revenue from customers in the Swedish market represented a 34.4 per cent share of the total revenue during the first quarter



**REVENUE Group**  
 NOK million

**PROFIT BEFORE TAX Group**  
 NOK million


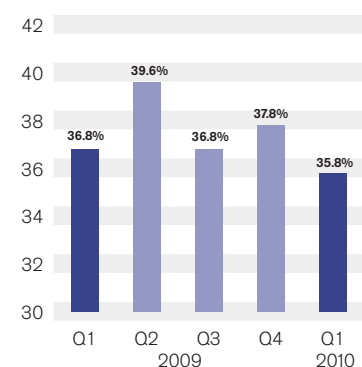
■ ■ Kitron has taken strategic steps to expand the market coverage.

**ORDER BACKLOG Group**  
 NOK million

**REVENUE BUSINESS AREAS**

NOK million	Q1 2010	Q1 2009	31.12.2009
Norway	267.0	344.8	1 143.9
Sweden	101.5	93.8	362.4
Lithuania	75.5	143.9	336.1
Others and eliminations	(33.0)	(31.7)	(111.7)
<b>Total group</b>	<b>411.1</b>	<b>550.7</b>	<b>1 730.7</b>

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

NOK million	Q1 2010	Q1 2009	31.12.2009
Norway	14.2	27.4	48.3
Sweden	(13.8)	(1.2)	(0.5)
Lithuania	6.9	11.2	21.0
Others and eliminations	(1.4)	(3.1)	(4.8)
<b>Total group</b>	<b>5.9</b>	<b>34.3</b>	<b>64.0</b>

**GROSS MARGIN Group**  
 Per cent

**ORDER BACKLOG BUSINESS AREAS**

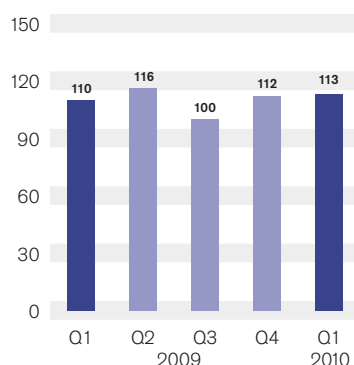
NOK million	Data/Telecoms	Defence	Industry	Medical equipment	Offshore/Marine	Total
Norway	92.0	206.8	67.3	145.6	29.6	541.2
Sweden	39.9	43.8	22.5	71.3	-	177.5
Lithuania*	13.2	-	28.4	7.5	15.0	64.1
Germany	-	-	0.8	-	-	0.8
<b>Total group</b>	<b>145.1</b>	<b>250.6</b>	<b>118.9</b>	<b>224.4</b>	<b>44.6</b>	<b>783.5</b>

\* Only third party order backlog

NOK million	Q1 2010	Q1 2009	31.12.2009
Norway	246.6	350.3	1 038.3
Sweden	141.4	170.5	595.3
Rest of Europe	11.4	13.2	48.2
USA	11.2	16.0	47.0
Others	0.5	0.6	1.9
<b>Total group</b>	<b>411.1</b>	<b>550.7</b>	<b>1 730.7</b>

**REVENUE** Data/Telecoms

NOK million



(31.0 per cent). The Norwegian market represented 60.0 per cent of Kitron's total revenue in the first quarter (63.6 per cent).

**Gross and net margin**

The gross margin decreased in first quarter 2010 compared to first quarter 2009, and amounted to 35.8 per cent (36.8 per cent). This is mainly due to margin slippages on projects in the Swedish operation in Karlskoga. Furthermore the reclassification of the Norwegian development department to discontinued operations reduces the gross margin (nearly 100 per cent gross margin on engineering and development sales). The net margin decreased from 22.7 per cent to 21.9 per cent.

**Profit**

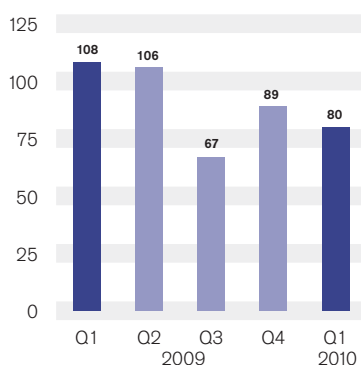
Kitron's operating profit (EBIT) in the first quarter was NOK 5.9 million, which is a significant decrease, compared to the same period in 2009 (34.3 million). During the first quarter there have been major challenges for the Karlskoga operation, both related to structural- and operational issues. The operation shows a negative EBIT of NOK 14.0 million for the first quarter, whereof NOK 6.0 million is provision for restructuring costs.

Profit before tax and discontinued operations in the first quarter of 2010 was NOK 3.0 million, which is a decrease of NOK 21.9 million compared to the same period last year.

The company's total payroll expenses in the first quarter were NOK 26.6 million lower than the corresponding period in 2009. Of this NOK 10.5 million is the positive effect related to the reversal of pension liability. The remaining reduction is due to lower activity and decreased number of employees compared to the same quarter last year. However, the restructuring provision in Karlskoga effects the payroll costs negatively by NOK 1.8 million. The relative payroll costs went from 23.2 per cent of revenue in first quarter 2009 to 24.7 per cent of revenue in the first quarter 2010. Other operating costs increased to 7.9 per cent

**REVENUE** Defence

NOK million



of revenue in the first quarter of 2010 (5.7 per cent). Of this 1.1 percentage points are related to restructuring provisions.

During the quarter net financial items amounted to a cost of NOK 2.8 million. This was a decrease of NOK 6.5 million compared to the same period the last year. The principal reasons are lower financial debt during first quarter of 2010 and currency losses on intra-group long-term financial loans in first quarter 2009.

**Balance sheet**

Kitron's gross balance as at 31 March 2010 amounted to NOK 971.1 million, against NOK 1 173.7 million at the same time in 2009. Equity was NOK 443.5 million (NOK 478.9 million), corresponding to an equity ratio of 45.6 per cent (40.8 per cent).

Inventory was NOK 277.5 million at 31 March 2010 (NOK 338.1 million). Considerable resources have been applied to improve inventory management, but due to lower revenue inventory turns has gone from 5.0 in the first quarter of 2009 to 4.7 in the first quarter of 2010.

Trade debtors and other receivables amounted to NOK 339.6 million at the end of the first quarter of 2010. The corresponding amount at the same time in 2009 was NOK 383.8 million. Credit losses have been insignificant.

The group's reported interest-bearing debt totalled NOK 215.3 million as of 31 March 2010. Interest-bearing debt at the end of the first quarter of 2009 was NOK 274.9 million.

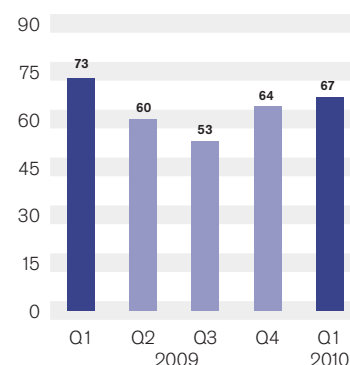
Cash flow from operational activities for the first quarter of 2010 was NOK (31.7) million (NOK 35.0 million). Kitron's cash and bank credit at 31 March 2010 comprised the following:

NOK million

Cash and cash equivalents	73.3
Drawings on the overdraft facility	(4.4)
Restricted bank deposits	(18.5)
<b>Total</b>	<b>50.4</b>

**REVENUE** Industry

NOK million



Available liquidity (unrestricted bank deposits and unused credit lines) amounted to NOK 124.2 million at the end of the first quarter, versus NOK 162.5 million at the same time in 2009. The overall credit line at 31 March 2010 were NOK 73.8 million versus NOK 103.8 million at the same time in 2009.

**Organisation**

The Kitron workforce corresponded to 1 106 FTE at 31 March 2010. This represents a decrease of 306 FTEs since the first quarter of 2009.

Full time equivalents	31.03.2010	31.03.2009
Norway	531	705
Sweden	218	251
Lithuania	335	451
Other	22	5
<b>Total</b>	<b>1 106</b>	<b>1 412</b>

**Market**

Kitron's services are most competitive within complex products. Kitron has chosen to focus its sales and marketing activities within the Data/Telecoms, Defence, Industry, Medical equipment and Offshore/Marine market segments.

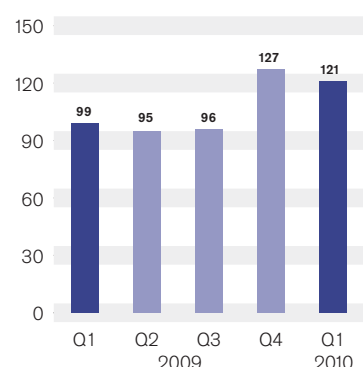
The market conditions are improving and the order intake shows a positive trend. Order intake in the quarter was NOK 407 million, which is 12.9 per cent higher than the first quarter 2009. The order backlog was relatively flat in the quarter (down by NOK 12 million) and ended at NOK 784 million, which is 7.1 per cent higher than the same time last year. Four quarter moving average order intake was up from NOK 402 million at the beginning of the first quarter to NOK 414 million at the end of the quarter.

The tender activity has increased in the first quarter and several important prospects will be concluded in the second quarter. A positive signal is that Kitron is starting to secure business with new customers.

The renewable energy market is showing a strong growth trend. Kitron has decided to focus on this market and is pursuing sev-

**REVENUE Medical equipment**

NOK million



eral opportunities.

Generally there has been a strong interest in Kitron's capability within NPI (new product introduction) and testing. 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 is moved to lower cost countries.

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), electrical metering and data/video projection equipment.

The order backlog decreased by 6.4 per cent and revenue increased by 2.7 per cent compared to the first quarter in 2009. The decrease in backlog is due to the phase out of a business area for one specific customer. Adjusting for this, the trend in this segment has been positive.

We are optimistic about the outlook for Data/Telecoms products. The demand for video projection equipment is expected to continue to be strong and the electrical metering business looks very promising. Kitron has during the last year secured contracts with several metering companies and the revenue volume is expected to be more than NOK 50 million in 2010.

**Defence**

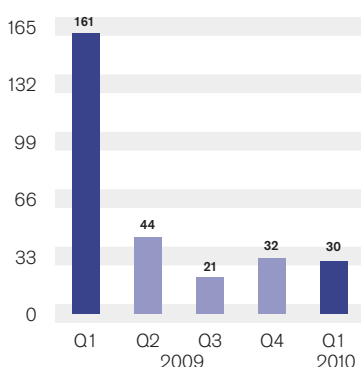
The Defence segment consists of three main product divisions: military avionics, military communication and weapon control systems.

The revenue decreased by 26 per cent compared to the first quarter in 2009.

The outlook for the Defence segment remains positive. Kitron is currently involved in defence programs with among others the Kongsberg Group and Lockheed Martin that could yield more than 1 billion NOK

**REVENUE Offshore/Marine**

NOK million



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 positive trend in the Swedish defence industry is further supporting our optimistic outlook. Defence is also a prioritised area for our new operation in Germany. Furthermore Kitron sees the opportunity for offset business in this segment.

**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 increased by 26 per cent while revenue decreased by 8 per cent compared to the first quarter in 2009. The trend in Industry has been positive with three quarters in a row with increasing volumes.

The market situation within the Industry segment has stabilised and the signs of a recovery are increasing. The order intake is gradually picking up again and we see an increasing number of RFI/RFQs 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 increased by 36.1 per cent and revenue increased by 21.9 per cent compared to the first quarter in 2009. The strong trend in Medical 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. Even though start-up companies are having difficulties in finding financing due to the recession Kitron is working on several interesting new prospects within this segment. The medical equipment segment is also a prioritised area for Kitron in Germany.

**Offshore/Marine**

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

The revenue decreased by 82 per cent compared to the first quarter in 2009.

The trend in the Offshore/Marine 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 the outlook is positive. Kitron expects a stable trend within this segment for the first half of 2010 but are increasingly optimistic about the longer-term outlook.

**Outlook**

Kitron's markets are mainly Norway and Sweden, but most customers of Kitron sell their products on international markets. During 2009 Kitron has experienced a significant drop in demand in line with the general development in the market. The signs of a slow but steady recovery were visible in the first quarter of 2010 and it is expected that this trend will continue during the rest of the year.

Kitron is working on several operational improvement programs that should yield a positive contribution in 2010. The focus on manufacturing efficiency is continuing and global sourcing initiatives remains a priority area. The strong focus on balance sheet management and cash flow will continue in 2010. Particular attention is given to inventory management and payment terms.

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 highly prioritised.

The significant loss in Kitron AB and the operational challenges are being addressed and it is expected that the company will be profitable during the rest of 2010.

Given the positive market outlook and the operational improvement initiatives being undertaken it is expected that the profitability will improve from the second quarter and onwards.

## Condensed profit and loss statement

NOK 1 000	Q1 2010	Q1 2009	31.12.2009
Revenue	411 103	550 708	1 730 690
Cost of materials	264 002	347 791	1 077 375
Payroll expenses	101 349	127 973	445 754
Other operational expenses	32 330	31 410	110 568
<b>Operating profit before depreciation and impairments (EBITDA)</b>	<b>13 421</b>	<b>43 534</b>	<b>96 993</b>
Depreciation and impairments	7 565	9 210	33 031
<b>Operating profit (EBIT)</b>	<b>5 856</b>	<b>34 325</b>	<b>63 962</b>
Net financial items	(2 823)	(9 345)	(20 547)
<b>Profit before tax</b>	<b>3 033</b>	<b>24 980</b>	<b>43 415</b>
Tax	618	4 559	1 543
<b>Net profit (loss) from continuing operations</b>	<b>2 414</b>	<b>20 421</b>	<b>41 872</b>
Profit (loss) from discontinued operations	(2 223)	(5 304)	(33 704)
<b>Profit (loss) for the period</b>	<b>191</b>	<b>15 117</b>	<b>8 167</b>
Earnings per share (basic and diluted)	0.00	0.09	0.05

## Condensed balance sheet

NOK 1 000	Q1 2010	Q1 2009	31.12.2009
<b>ASSETS</b>			
Goodwill	26 826	25 537	24 332
Intangible and tangible fixed assets	145 712	149 313	146 256
Investment in shares	9	9	9
Deferred tax assets	94 247	99 191	98 981
Other receivables	3 205	-	4 884
<b>Total fixed assets</b>	<b>269 999</b>	<b>274 050</b>	<b>274 462</b>
Inventory	277 459	338 060	256 288
Accounts receivable and other receivables	339 556	383 839	337 858
Cash and cash equivalents	73 273	116 346	105 238
<b>Total current assets</b>	<b>690 288</b>	<b>838 245</b>	<b>699 384</b>
Assets classified as held for sale	10 822	61 440	8 316
<b>Total assets</b>	<b>971 109</b>	<b>1 173 735</b>	<b>982 162</b>
<b>LIABILITIES AND EQUITY</b>			
Equity	443 542	478 946	450 406
<b>Total equity</b>	<b>443 542</b>	<b>478 946</b>	<b>450 406</b>
Loans	12 618	19 564	12 802
Pension commitments	10 929	21 299	21 326
<b>Total long-term liabilities</b>	<b>23 547</b>	<b>40 863</b>	<b>34 128</b>
Accounts payable and other current liabilities	296 077	351 959	271 633
Loans	202 659	255 347	220 159
<b>Total current liabilities</b>	<b>498 736</b>	<b>607 306</b>	<b>491 792</b>
Liabilities classified as held for sale	5 284	46 620	5 836
<b>Total liabilities and equity</b>	<b>971 109</b>	<b>1 173 735</b>	<b>982 162</b>

## Condensed cash flow statement

NOK 1 000	Q1 2010	Q1 2009	31.12.2009
Net cash flow from operational activities	(31 713)	34 951	93 779
Net cash flow from investment activities	(4 068)	(4 524)	(24 041)
Net cash flow from financing activities	(543)	(3 573)	(14 792)
Change in cash and bank credit	(36 324)	26 854	54 946
Cash and bank credit opening balance	86 754	31 808	31 808
Cash and bank credit closing balance	50 431	58 662	86 754

## Statement of comprehensive income

NOK 1 000	Q1 2010	Q1 2009	31.12.2009
Net profit	191	15 117	8 167
Currency translation differences and other changes	(6 915)	(16 570)	(38 160)
Total comprehensive income for the period	(6 724)	(1 453)	(29 993)
Profit attributable to shareholders	191	15 117	8 167

## Changes in equity

NOK 1 000	Q1 2010	Q1 2009	31.12.2009
Equity opening balance	450 266	480 398	480 398
Comprehensive income for the period	(6 724)	(1 453)	(29 993)
Equity closing balance	443 542	478 946	450 406

## Notes to the financial statements

### Note 1 – General information and principles

The condensed consolidated financial statements for the first quarter of 2010 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 2009.

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 2009, which were prepared in accordance with the Norwegian Accounting Act and IFRS, as adopted by the EU. The consolidated financial statements for 2009 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 2009.

### 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 2010.

### 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.

To further consolidate its operation Kitron has decided to divest its development department and to enter into a strategic alliance with a dedicated development company. At the same time Kitron is increasing its focus on industrialisation, test and new product introduction. The objective is to improve the complete offering to the customers by combining the strengths of Kitron with a larger development environment. In the financial accounts the development department will be recognised as discontinued operations until a sales transaction has been completed.



## 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 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.