Kitron

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First three quarters and Q3 results 2018

Peter Nilsson, CEO
Cathrin Nylander, CFO

19 October, 2018

Strong order growth, including oil and gas

- Orders Received 25% growth
  - MNOK 669 (535)
- EBIT margin 5.3% (5.5%)
  - Program postponements
- EPS 0.12 (0.09) NOK
- Inventory build-up to secure deliveries and future growth
- Order backlog
  - Comparable 26.8% growth

NOK mill.	Q3 2018 vs Q3 2017
Revenue 562,8	**5,1 %**
EBIT 30,0	**2,7 %**
Order backlog 1122,0	**11,3 %**
Operating cash flow -41,0	**-283,2 %**
Net working capital 605,0	**34,9 %**

Financial highlights **First three quarter:**

Strong order growth, including oil and gas

- Revenue growth 6.3%
- 21% growth excluding Defence/Aerospace
- EBIT margin 6.1% (6.0%)
- EPS 0.47 (0.40) NOK
- Order backlog
  - Comparable 26.8% growth

NOK mill.		2018 vs 2017
Revenue 1880,7	↑	**6,3 %**
EBIT 113,8	↑	**7,8 %**
Order backlog 1122,0	↑	**11,3 %**
Operating cash flow -17,8	↓	**-125,5 %**
Net working capital 605,0	↑	**34,9 %**

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Major new orders:

Important agreements in the third quarter

Kitron receives NOK 150 million order

- In August, Kitron was chosen as electronics manufacturing services (EMS) partner for a global leader in queue management and customer journey solutions.
- Kitron will build electronic boards and supply high-level assembly services,
- Contract scope of NOK 150 million over three years
- Production takes place at Kitron's plant in Kaunas, Lithuania.

Expansion in Poland

- In July, Kitron announced plans to expand its Eastern European presence through a facility in northern Poland.

- Production at the 8,000 square meter facility is now scheduled to begin in the fourth quarter 2019.

- Kitron intends to hire a staff of approximately one hundred for the first year of operation, and this is expected to increase significantly over the coming years, potentially reaching about 500 employees.

Financial statements First three quarter and Q3 2018

IFRS 15:

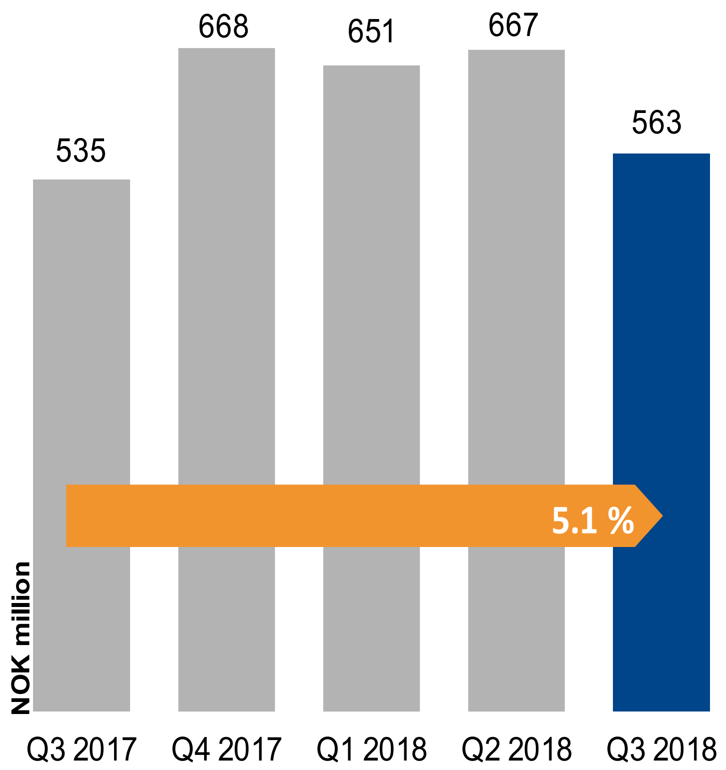
New accounting standard implemented

- IFRS 15 implemented 1.1.2018
- Over time revenue recognition (point in time)
  - Marginal effects on P&L
  - Re-classification within NWC in balance sheet
  - Order backlog adjustment
- See note 5 for complete overview

NOK 1 000	Old principles Q3 2018	Effects from IFRS 15 Q3 2018	New principles Q3 2018	Old principles 30.09.2018	Effects from IFRS 15 30.09.2018	New principles 30.09.2018
Revenue	537 887	24 909	562 796	1 843 888	36 805	1 880 693
Cost of materials	361 573	17 996	379 569	1 238 401	26 306	1 264 707
Payroll expenses	105 182	1 736	106 918	354 630	3 109	357 739
Other operational expenses	31 361	3 432	34 793	97 575	4 850	102 425
Other gains / (losses)	1 133	-	1 133	(1 475)	-	(1 475)
Operating profit before depreciation and impairments (EBITDA)	**40 904**	**1 745**	**42 650**	**151 807**	**2 540**	**154 347**
Depreciation	12 642	-	12 642	40 534	-	40 534
Operating profit (EBIT)	**28 262**	**1 745**	**30 007**	**111 273**	**2 540**	**113 813**
Net financial items	(2 545)	-	(2 545)	(12 156)	-	(12 156)
Profit (loss) before tax	**25 717**	**1 745**	**27 463**	**99 117**	**2 540**	**101 657**
Tax	5 330	311	5 642	18 626	477	19 103
Profit (loss) for the period	**20 387**	**1 434**	**21 821**	**80 492**	**2 063**	**82 555**

Revenue Q3:

18% revenue growth excl. Defence/Aerospace sector



	Q3 2018 vs Q3 2017	Share of total revenue
Industry	26,0 %	42,9 %
Defence/Aerospace	-34,1 %	15,3 %
Medical devices	22,8 %	23,6 %
Energy/Telecoms	-8,9 %	16,3 %
Offshore/Marine	149,6 %	1,9 %

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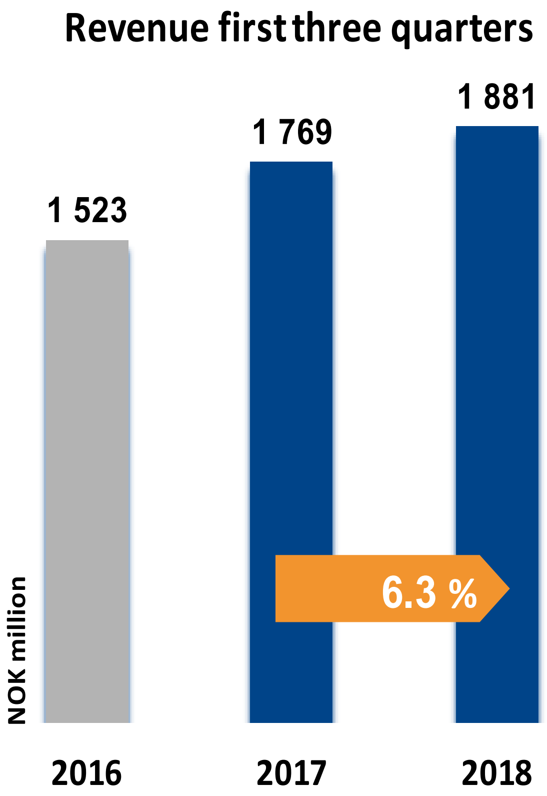
Revenue First three quarter:

21% revenue growth excl. Defence/Aerospace sector

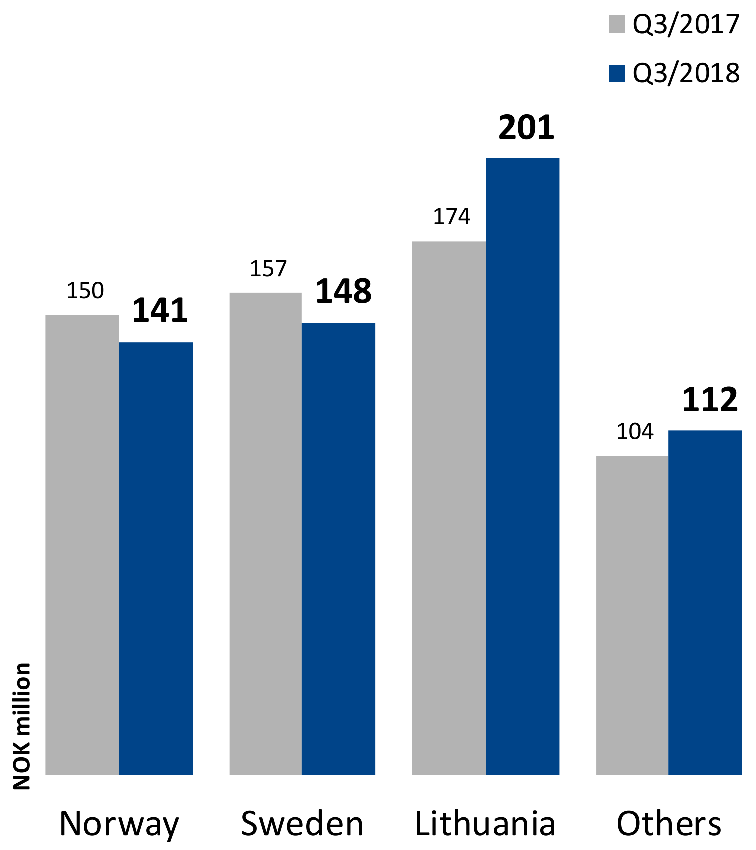


	2018 vs 2017	Share of total revenue
Industry	31,2 %	44,5 %
Defence/Aerospace	-31,5 %	17,7 %
Medical devices	18,9 %	20,1 %
Energy/Telecoms	-1,0 %	16,2 %
Offshore/Marine	41,2 %	1,6 %

Revenue by country Q3*:

Continued strong growth in Lithuania and China

	Q3 2018 vs Q3 2017	Share of total revenue
Norway	-5,8 %	23,5 %
Sweden	-6,1 %	24,5 %
Lithuania	15,4 %	33,4 %
Others	7,9 %	18,6 %



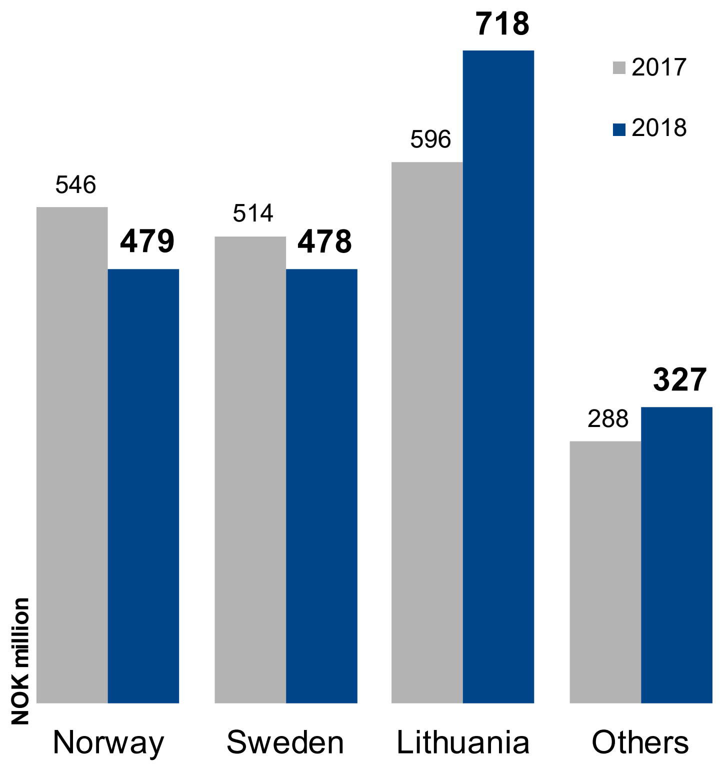
Norway, Sweden and US affected by temporary lower defence revenue.

* Before group entities and eliminations

Revenue by country First three quarter*:

Continued strong growth in Lithuania and China

	2018 vs 2017	Share of total revenue
Norway	-12,3 %	23,9 %
Sweden	-7,0 %	23,9 %
Lithuania	20,5 %	35,9 %
Others	13,2 %	16,3 %



Norway, Sweden and US affected by temporary lower defence revenue.

* Before group entities and eliminations

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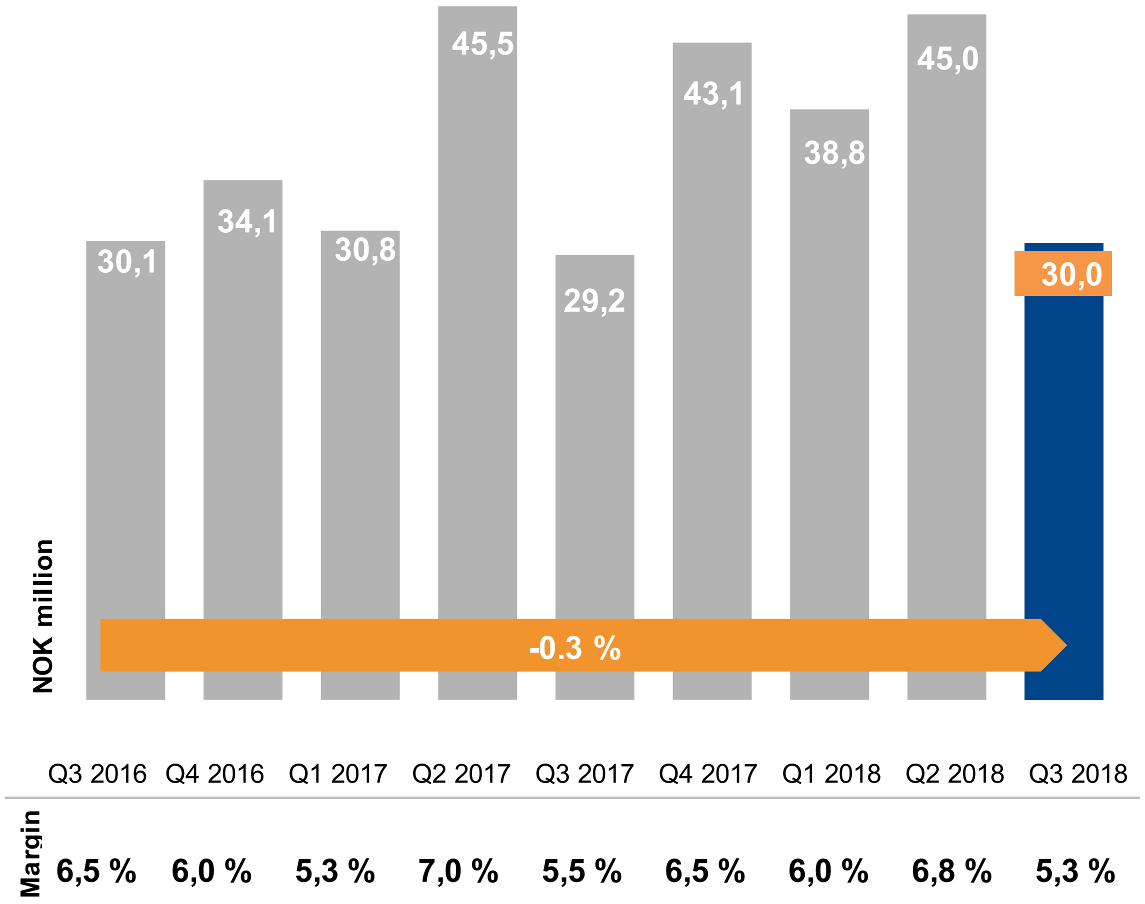
Quarterly EBIT:

Seasonal variations in profitability

- Postponed programs have negatively affected profitability in Q3

- In general, lower volumes due to vacation period causes higher mix sensitivity

- Component allocations creates less flexibility for short term changes in demand



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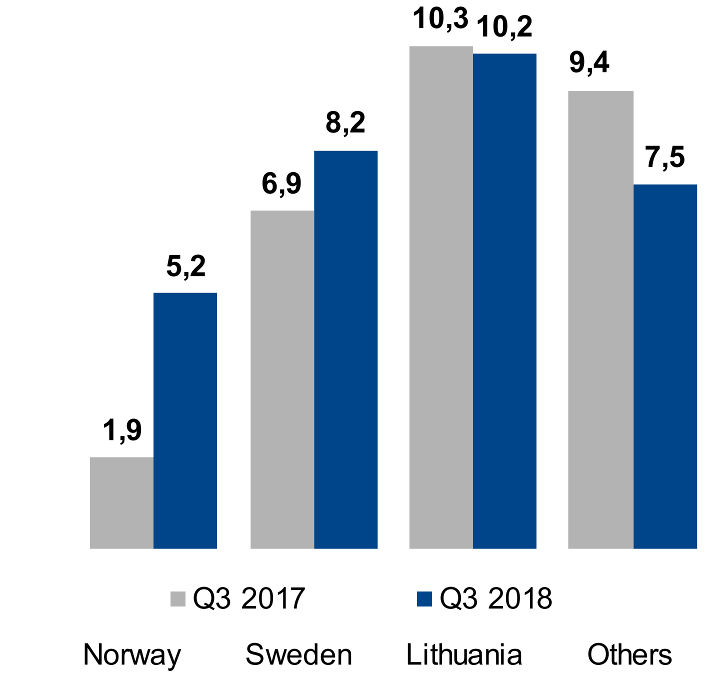
EBIT by country Q3:

Improvements in Norway and Sweden

- Lithuania had late demand push out affecting profitability in the quarter
- Profitability improvements in Sweden and Norway in spite of lower volumes from defence projects (total volume reductions of approx. 6% vs last year)
- US affected by defence projects timing and show a substantial reduction in profits in Q3

EBIT*



Margin	3,7 %	5,5 %	5,0 %	6,7 %
	1,3 %	4,4 %	5,9 %	9,0 %

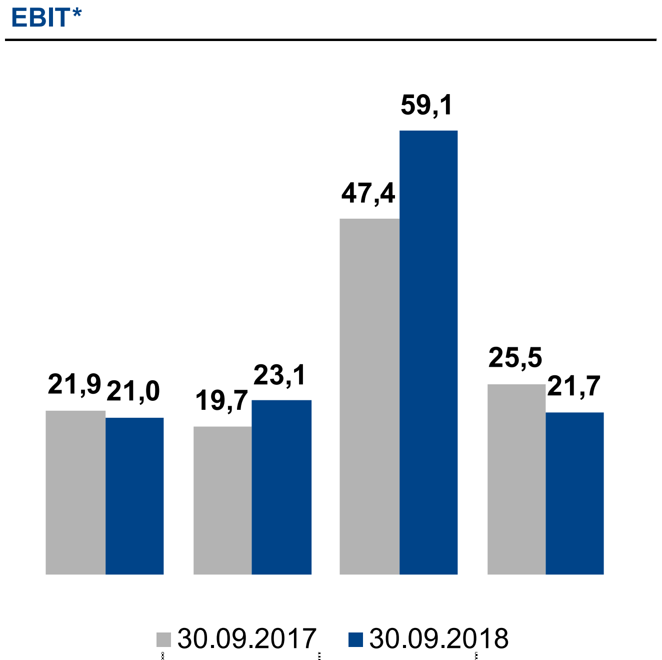
* Before group entities and eliminations

Lithuania continues to drive profits

- Lithuania and China show EBIT improvement, both in value and margin

- Profitability improvements in Sweden and Norway in spite of lower volumes from defence projects (total volume reductions of 7% and approx. 12% vs last year)

- Sweden, Norway and US affected by defence projects timing on revenue, for US also affecting profits.

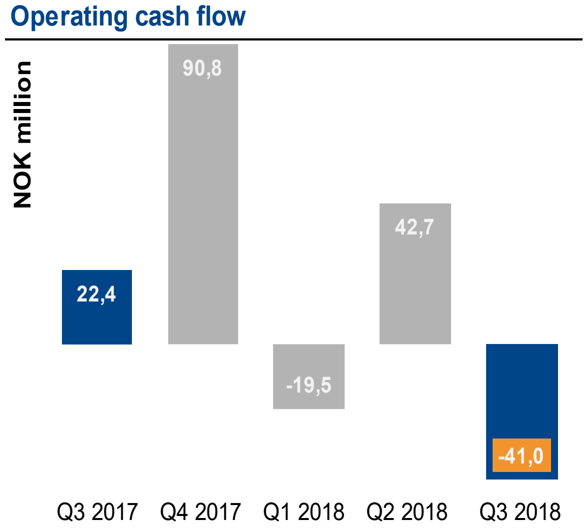


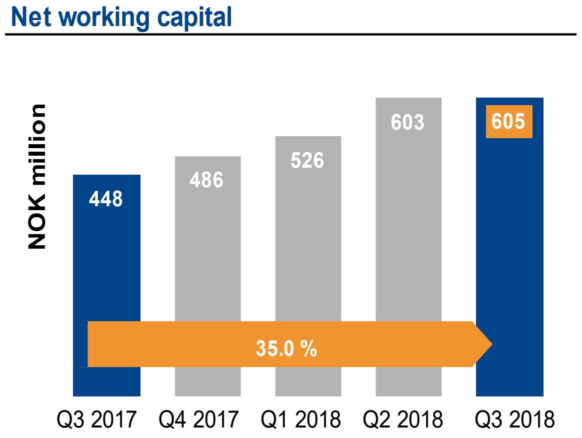
Norway	Sweden	Lithuania	Others
4,4 %	4,8 %	8,2 %	6,6 %
4,0 %	3,8 %	7,9 %	8,8 %

* Before group entities and eliminations

Inventory build-up to secure deliveries and future growth

- **Cash flow**
  - Q3 Cash flow MNOK -41.0 (22.4)
  - **Inventory build-up**
    - Allocated material /postponements
    - Growth
    - Production for later deliveries
- **Financial gearing**
  - NIBD / EBITDA 1.5 (0.9)
- **Working capital**
  - NOWC* 25.1% (21.9%)
  - Cash conversion cycle* 94 (80)
  - ROOC* 14.4% (16.3%)





* R3 - Three months rolling average

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Market development

Market development:

Growing order backlog

Comparable:

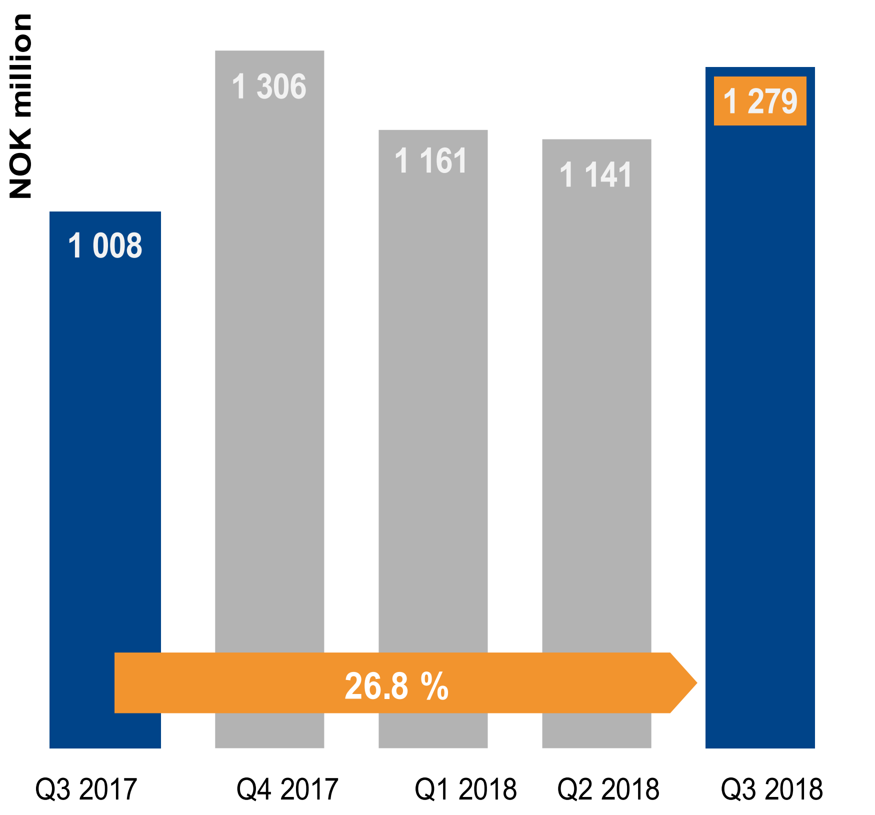
- MNOK 1 279 (1 008) +26.8%
  - Defence: 422 +22%
  - Medical: 180 -1%
  - Industry: 459 +35%
  - Energy/Telecom: 175 +44%
  - Offshore: 42 +160%

IFRS adjusted:

- MNOK 1 122

- Fluctuations to be expected within defence going forward

Order backlog



Definition of order backlog includes firm orders and four month customer forecast

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Peter Nilsson, Kitron's CEO, comments:

- Strong order intake of NOK 669 million in the quarter resulted in close to 27 per cent growth of order backlog.
- Although margins are slightly weaker in the quarter compared to 2017, earnings per share improved 33 per cent to NOK 0.12.
- New quote pipeline grew 15 per cent in the third quarter compared to last year, indicating future prospects. In total NOK 329 million of annual revenue was booked as new wins.
- Component availability continues to be an issue. Several mitigating actions have been implemented to alleviate the stress in the supply chain. The resulting actions have increased inventory levels during the quarter. This will improve delivery capabilities over the next few quarters.
- The oil and gas market continues to recover. After the end of the quarter, Kitron signed a major contract spanning three years with Magseis. Significant improvement is expected from 2019.
- Tariffs and trade sanctions are starting to affect supply chains with increasing movements of production to and from China, U.S. and Europe. Kitron is well positioned to serve these customer requests.
- The outlook for 2019 and 2020, including increases in defence and oil & gas related sales, increase our confidence in our strategic ambitions of revenue of NOK 3 billion and an EBIT margin of 7 per cent in 2020.

Outlook

Outlook

- For 2018, Kitron expects revenue to grow to between NOK 2 500 and 2 700 million. EBIT margin is expected to be between 6.1 and 6.5 per cent.
- The growth is primarily driven by customers in the Industry sector and the Energy / Telecom sector.
- The profitability is driven by cost reduction activities and improved efficiency.

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Thank you!