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Q2 results 2014

July 22 2014

Dag Songedal, Interim CEO

Cathrin Nylander, CFO

Strong order intake, profitability still challenging






- **Strong order intake**

- Defence sector is strengthened

- **Revenue growth**

- Continued growth from last year and last quarter

- **Margin pressure**

NOK mill.		Q2 2014 vs Q2 2013
Revenue 457,1		6,2 %
EBIT 6,9		-26,1 %
Order backlog 858,8		15,1 %
Operating cash flow 9,5		-68,7 %
Net working capital 504,9		4,0 %

Major new orders:

Defence sector order

- **Order from Kongsberg Defence & Aerospace**
 - The order has a value for Kitron of NOK 80.7 million, and will be fulfilled in 2014 and 2015.
 - Military communications equipment for the order KONGSBERG has signed with Raytheon for NASAMS Air-defence system to Oman
 - Production in Arendal

Operational information:

Arendal downsizing

- **Going according to plan**

- The current plans implies a reduction of 85 in the number of employees during 2014. At the end of June, 40 of these have already left the company. Only parts of the initiated actions had a cost effect in the second quarter
- During the second quarter, the profitability at Arendal has given further cause for concern, partly caused by the development of the Norwegian krone but also some projects that have had lower profitability than expected. In addition, the downsizing has some temporary negative effects on productivity
- The main focus in the third quarter will be to ensure that the effects of the initiated actions are fully realized and to initiate further actions to improve profitability.

Additional information:

New CEO

- **Peter Nilsson appointed permanent CEO**

- He will take up his position in November 2014 at the latest.
- Peter Nilsson has held several senior and executive leadership positions for Swedish and US companies:
 - PartnerTech, Rimaster, Sanmina, and Ericsson, latest as President, Electronics Technology Division, at PartnerTech AB.
- Nilsson is trained in industrial business management and production engineering and has a degree in Industrial Management from Gävle University College (Gävle, Sweden).



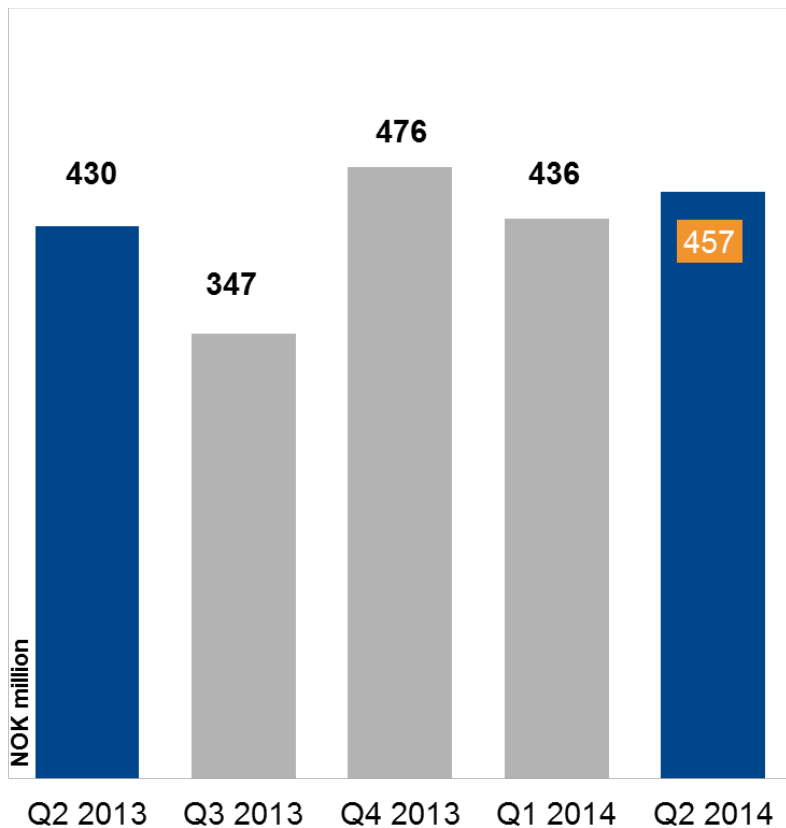
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Financial statements Q2 2014

Revenue:

Strong development in Energy/Telecoms, Offshore/Marine reductions











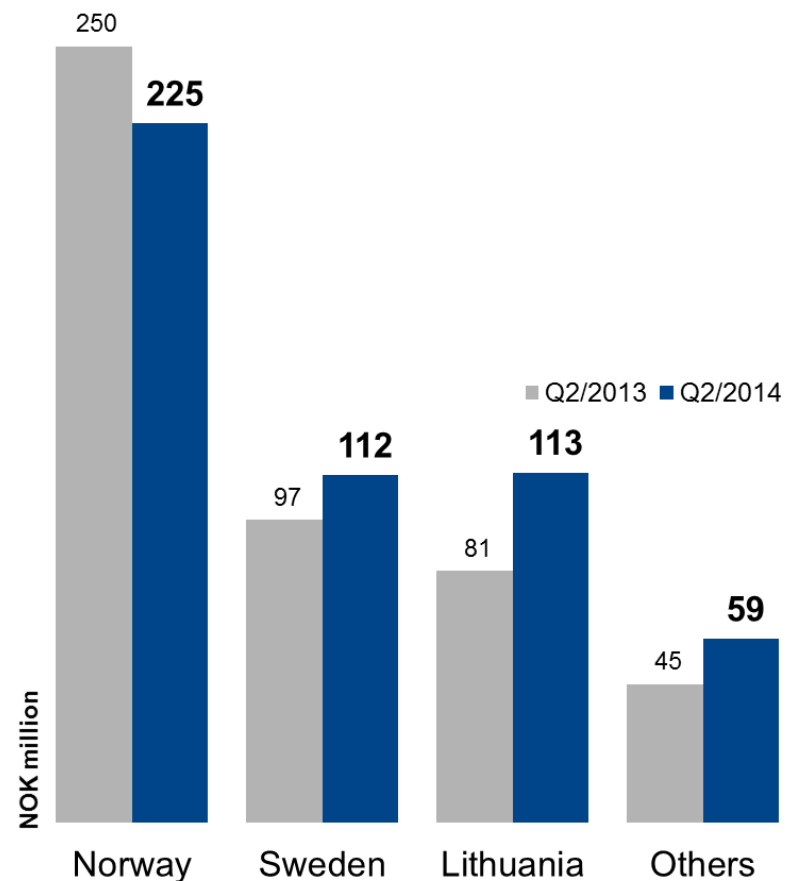
	Q2 2014 vs Q2 2013	Share of total revenue
Offshore/Marine	-10,8 % 	15,0 % 
Medical equipment	7,1 % 	24,1 % 
Defence/Aerospace	-4,1 % 	20,0 % 
Energy/Telecoms	36,7 % 	15,2 % 
Industry	12,5 % 	25,8 % 



Revenue by country*:

Strong growth in Lithuania and China

	Q2 2014 vs Q2 2013	Share of total revenue
Norway	-9,9 % 	44,2 % 
Sweden	14,9 % 	22,0 % 
Lithuania	39,2 % 	22,2 % 
Others	32,8 % 	11,6 % 



* Before group entities and eliminations

EBIT:

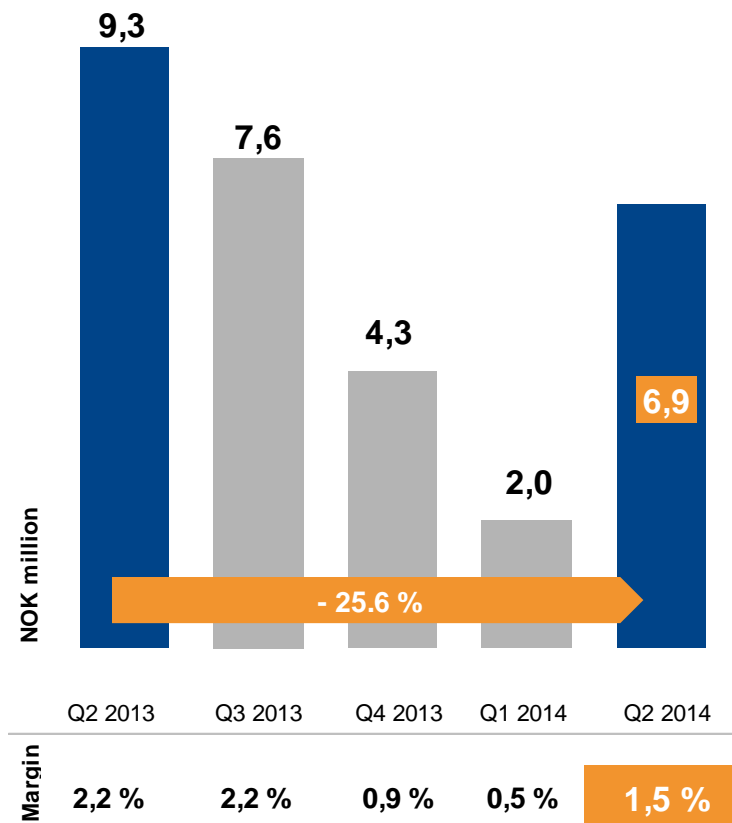
Reduction in EBIT

- **Profitability reduction**

- Arendal profitability disappointing partially compensated by a positive development in especially Lithuania and China.
- Margin pressure, both on existing and new customers, continues

- **Cost reduction measures initiated**

- Downsizing of Arendal continues according to plan



EBIT by country:

Norway disappointing, others positive

• Norway

- Revenue reduced
- Adverse effects on profitability due to development of the Norwegian krone
- Projects with negative effects and temporary production inefficiency

• Sweden

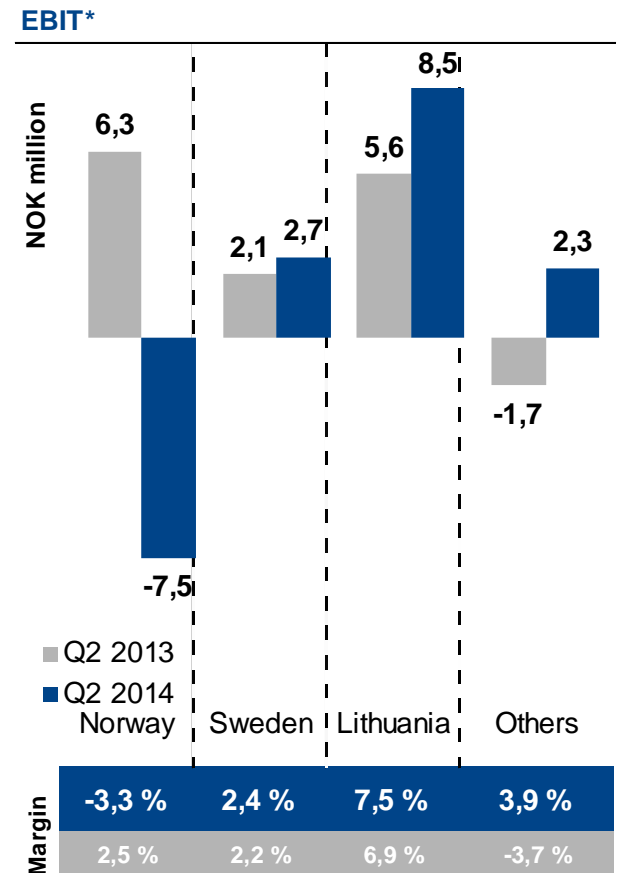
- Revenue growth from existing customers

• Lithuania

- Revenue growth from existing customers

• Other

- China: Revenue growth - EBIT margin at 8.4% (0%)
- US: At break even



* Before group entities and eliminations

Balance sheet:

Weak cash flow

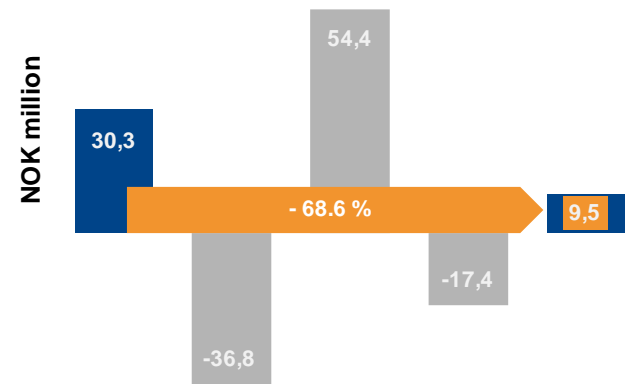
- **Cash flow**

- Working capital increase due to increased sales
- Lower profitability

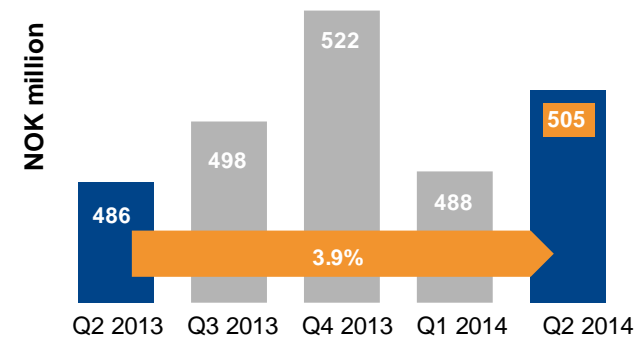
- **Working capital increase**

- Accounts receivable increase of MNOK 58
- Inventory decrease in the quarter of MNOK 26, and inventory turns are improving

Operating cash flow



Net working capital





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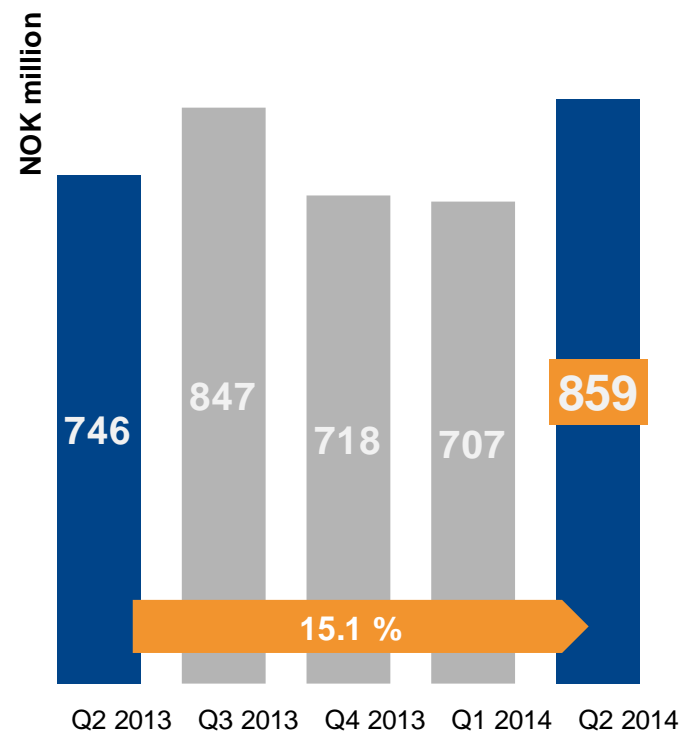
Market development

Order backlog:

Strong development in Defence

- **Defence increase**
 - MNOK 99 compared to last year
 - MNOK 148 in the quarter
 - Norway and US
- **Energy/Telecom and Medical, Industry show growth**
- **Offshore Marine reductions**
- **All sites have higher order backlog compared to last year**

Order backlog



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

Market development

- **Offshore/Marine**

- Decline in the Norwegian market

- **Medical equipment**

- Positive development in the Swedish market with growth from existing customers
- Stable development in Norway

Market development

- **Defence/Aerospace**

- Strong growth in order backlog compared to last year in all our markets
- Growth in second quarter

- **Energy/Telecoms**

- Strong second quarter due to project deliveries
- Demand slightly above previous levels

- **Industry**

- Industry growth is levelling out, similar development across all markets



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Outlook

Outlook

- Kitron expects a positive development in the Swedish and German markets, with growth for the factories in Sweden and Lithuania.
- Growth is also expected in China and the US, whereas a lower volume is expected in the Norwegian operation.
- Kitron expects growth in revenue in 2014, partly explained by development in foreign exchange
- The growth has been significant in the first half of the year, while the expectations for the second half of 2014 are closer to the level in 2013.
- In spite of revenue growth, profitability is not satisfactory for the first half year and actions are initiated to rectify the situation and target improved profitability.

Thank you!