

FIRST HALF YEAR AND  
SECOND QUARTER

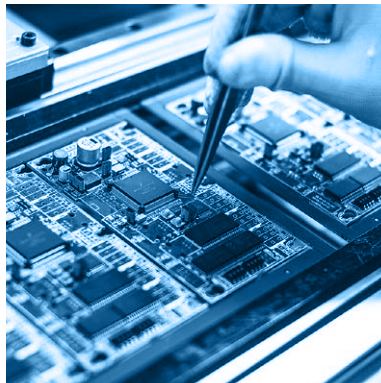
REPORT 2019

Q2



Defence/Aerospace  
Energy/Telecoms  
Industry  
Medical devices  
Offshore/Marine

Norway  
Sweden  
Lithuania  
Germany  
USA  
China



Your ambition. Our passion.



Report first half year and second quarter 2019

## Defence/Aerospace and Offshore/Marine driving strong growth

- Revenue increased 29 per cent
- EBIT increased 25 per cent
- Order backlog increased 44 per cent
- Working capital increase expected to ease in 2019

### Strong revenue growth

Kitron's revenue for the second quarter was NOK 860 million (NOK 667 million), an increase of 29 per cent compared to last year, and an all-time high. Organic growth, excluding the acquisition of the EMS division of API Technologies Corp. (see note 6), was 19 per cent.

All market sectors grew. In absolute numbers, second quarter revenue growth compared to the same quarter last year was particularly strong in the Defence/Aerospace and Offshore/Marine market sectors.

### Strong order backlog

The order backlog ended at NOK 1 453 million, an increase of 44 per cent compared to last year, and the order backlog increase was particularly strong in the Defence/Aerospace and Offshore/Marine market sectors.

Organic order backlog growth, excluding the acquisition of the EMS division of API Technologies Corp., was 28 per cent.

Orders received in the quarter were NOK 847 million (NOK 648 million), an increase of 31 per cent.

### Improved profits

Second quarter EBITDA\* was NOK 75.1 million (NOK 58.6 million), an increase of 28 per cent compared to last year. Operating profit (EBIT)\* for the second quarter ended at NOK 56.4 million (NOK 45.0 million), an increase of 25 per cent. Both figures are all-time highs.

Profitability expressed as EBIT margin\* was 6.6 per cent (6.8 per cent).

Profit after tax was NOK 36.3 million (NOK 34.5 million), an increase of 5 per cent and corresponding to NOK 0.20 earnings per share (NOK 0.20).

First half year EBITDA\* was NOK 143.6 million (NOK 111.7 million), an increase of 29 per cent from last year. Operating profit (EBIT)\* for the first half year ended at NOK 107.7 million (NOK 83.8 million), an increase of 28 per cent.

Profitability expressed as EBIT margin\* was 6.4 per cent (6.4 per cent).

Profit after tax was NOK 73.8 million (NOK 60.7 million), an increase of 22 per cent and corresponding to NOK 0.41 earnings per share (NOK 0.35).

### Inventory build-up to secure deliveries and future growth

Net working capital\* was NOK 933 million (NOK 603 million) an increase of 55 per cent compared to the same quarter last year. Net working capital R3 as a percentage of revenue was 27.4 per cent, compared to 21.6 per cent last year.

The increase is primarily related to the deliberate and temporary inventory build-up to avoid supply disruptions in the face of previously reported electronic components shortages. The number of components on allocation are now reduced by half compared to the peak in Q3 2018 and supplier leadtimes have a similar development but are still above the levels before the allocation situation.

Kitron expects that a continued gradual improvement over the year will lead to a reduction of working capital, both in absolute numbers and as a percentage of revenue.

Cash conversion cycle (CCC) R3\* was 101 days for the quarter. This is up from 75 days last year.

Return on operating capital (ROOC) R3\* was 16.7 per cent compared to 21.3 per cent in the same quarter last year. ROOC is affected by implementation of the IFRS 16 accounting standard, see notes 1 and 5, with capitalization of leases in fixed assets of NOK 90 million. ROOC adjusted for this was 17.9 per cent.

The acquisition of the EMS division of API Technologies Corp. increased net working capital by NOK 82 million. In general the acquisition does not affect performance measures and ratios significantly.

Operating cash flow was NOK 53.5 million (NOK 42.7 million) for the quarter.

### Important orders and contracts in the quarter

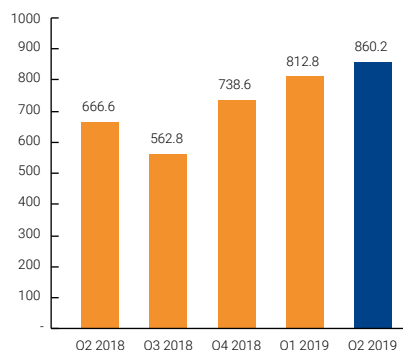
Kitron secured several important orders and contracts in the second quarter, not least within the Defence/Aerospace market sector. In April, Kitron received orders with a value of more than NOK 50 million under a long-term manufacturing agreement with Kongsberg Defence & Aerospace for production of electronic modules that are part of Kongsberg's weapon control system, Remote Weapon Station. In May, Kitron received a contract from Harris for production of Integrated Backplane Assembly for the F-35. The potential value of the contract is USD 18 million.

## Key figures

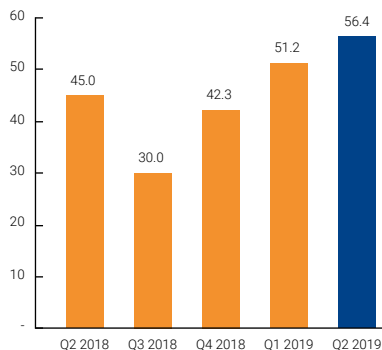
NOK million	Q2 2019	Q2 2018	Change	30.06.2019	30.06.2018	Change	31.12.2018
Revenue	860.2	666.6	193.6	1 673.0	1 317.9	355.1	2 619.3
EBIT	56.4	45.0	11.4	107.7	83.8	23.9	156.1
Order backlog	1 453.3	1 008.9	444.4	1 453.3	1 008.9	444.4	1 334.8
Operating cash flow	53.5	42.8	10.7	78.8	23.3	55.8	(44.5)
Net working capital	932.8	602.7	330.1	932.8	602.7	330.1	779.2

\* For definition – See Appendix «Definition of Alternative Performance Measures»

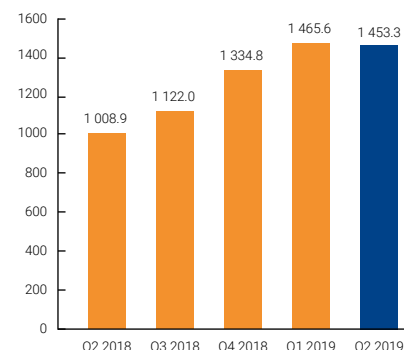
### REVENUE Group NOK million



### EBIT Group NOK million



### ORDER BACKLOG Group NOK million



#### Acquisition in the United States

In the first quarter, Kitron completed the acquisition of the EMS division of API Technologies Corp., substantially strengthening its position in the US market (hereafter operational unit named Kitron Technologies Inc). Kitron consolidated the acquired business effective 15 February, see note 6 to the financial statements.

#### Implementation of new accounting standard IFRS 16 "Leases"

Kitron implemented the new accounting standard IFRS 16 "Leases" from 1 January 2019. In the second quarter, this had a minor effect on profits. It affected certain balance sheet items. For more information, see notes 1 and 5 to the financial statements.

#### Key figures

Revenue from customers in the Swedish market represented a 41.9 per cent share of the total revenue during the second quarter (46.3 per cent). The Norwegian market represented 18.3 per cent of Kitron's total revenue in the second quarter (16.9 per cent).

#### Variable contribution

The variable contribution\*, defined as revenue minus cost of materials and direct payroll expenses, increased from the same period last year.

#### Profit

Kitron's operating profit (EBIT) in the second quarter was NOK 56.4 million, which was an increase of NOK 11.4 million compared with the same period last year.

Profit before tax in the second quarter of 2019 was NOK 46.8 million, which was an increase of NOK 4.0 million compared to the same period last year.

The company's total payroll expenses in the second quarter were NOK 32.5 million higher than in the corresponding period in 2018. The relative payroll costs ended at 18.5 per cent, down from 19.0 per cent of revenue in the second quarter last year. Other operating costs were 5.0 per cent of revenue in the second quarter of 2019 (5.2 per cent).

During the quarter, net financial items amounted to a net cost of NOK 9.6 million. The corresponding figure for second quarter last year was a net cost of NOK 2.2 million. The main reason for the change was higher net interest bearing debt and currency effects on intra-group financial loans. Intra-group financial loans to subsidiaries in foreign currencies as of 30 June 2019 that are

affecting net financial income total USD 3.6 million and EUR 1.9 million.

#### Balance sheet

Kitron's gross balance sheet as of 30 June 2019 amounted to NOK 2 187.0 million, compared to NOK 1 574.5 million at the same time in 2018. The increase is due to temporary inventory build-up to avoid supply disruptions, revenue growth, the acquisition of the EMS division of API Technologies Corp. and the implementation of IFRS 16.

Equity was NOK 668.4 million (NOK 621.4 million), corresponding to an equity ratio of 30.6 per cent (39.5 per cent).

Inventory was NOK 505.0 million as of 30 June 2019 (NOK 326.3 million). Inventory turns\* was 3.5 in the second quarter 2019, which is a decrease compared to second quarter last year (4.2).

Accounts receivables amounted to NOK 724.6 million at the end of the second quarter of 2019. The corresponding amount at the same time in 2018 was NOK 630.4 million.

Contract assets was NOK 274.6 million as of 30 June 2019, compared to NOK 148.9 million at the same time in 2018.

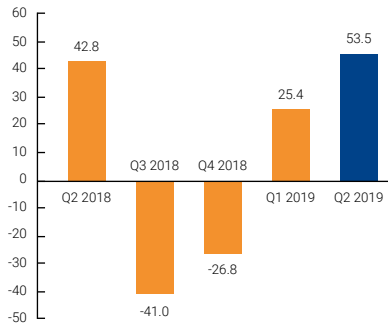
The group's reported net interest-bearing debt\* amounted to NOK 699.4 million as of 30 June 2019 (NOK 278.3 million). Net gearing\* of the company was 1.05 (0.45). Net interest-bearing debt/EBITDA is 2.9 for the second quarter compared to 1.3 at the same time last year. The net gearing and net interest-bearing debt/EBITDA exclusive IFRS 16 effects are 0.91 and 2.6 respectively.

Cash flow from operating activities for the second quarter of 2019 was NOK 53.5 million (NOK 42.7 million).

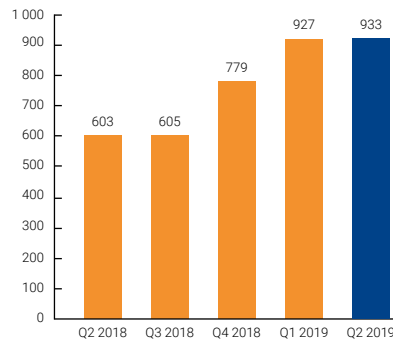
#### Organisation

The Kitron workforce corresponded to 1 682 full-time employees (FTE) on 30 June 2019. This is an increase of 152 FTE since the second quarter of 2018. There is an increase of 32 FTE related to the operations in Norway, an increase of 19 FTE in Sweden, and an increase of the workforce in China of 21 FTE. There is a reduction in Lithuania of 15 FTE compared to last year. The acquisition of API added 87 FTEs to the workforce per 30 June. The number of FTE in lower-cost regions now accounts for 71 per cent of the total.

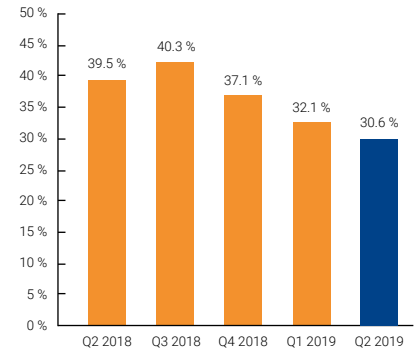
### OPERATING CASH FLOW Group NOK million



### NET WORKING CAPITAL Group NOK million



### EQUITY RATIO Group Per cent



## Revenue business entities

NOK million	Q2 2019	Q2 2018	Change	30.06.2019	30.06.2018	Change	31.12.2018
Norway	219.4	178.2	41.2	429.8	337.5	92.3	666.0
Sweden	181.2	174.5	6.7	355.4	330.8	24.6	662.7
Lithuania	301.2	250.5	50.7	600.0	516.9	83.1	1 008.5
USA	80.5	13.4	67.2	129.3	22.5	106.8	35.6
Others	116.3	105.6	10.7	226.0	191.8	34.2	401.4
Group and eliminations	(38.4)	(55.5)	17.2	(67.4)	(81.6)	14.2	(155.0)
<b>Total group</b>	<b>860.2</b>	<b>666.6</b>	<b>193.6</b>	<b>1 673.0</b>	<b>1 317.9</b>	<b>355.1</b>	<b>2 619.3</b>

## EBIT business entities

NOK million	Q2 2019	Q2 2018	Change	30.06.2019	30.06.2018	Change	31.12.2018
Norway	13.2	9.3	3.9	22.7	15.7	6.9	27.7
Sweden	11.9	9.7	2.2	23.1	14.9	8.2	36.7
Lithuania	21.2	21.6	(0.4)	48.2	49.0	(0.7)	84.6
USA	0.4	(0.4)	0.7	0.3	(1.5)	1.8	8.4
Others	14.6	10.5	4.0	25.4	15.7	9.7	45.2
Group and eliminations	(4.8)	(5.7)	0.9	(12.0)	(10.0)	(2.0)	(29.7)
<b>Total group</b>	<b>56.4</b>	<b>45.0</b>	<b>11.4</b>	<b>107.7</b>	<b>83.8</b>	<b>23.9</b>	<b>156.1</b>

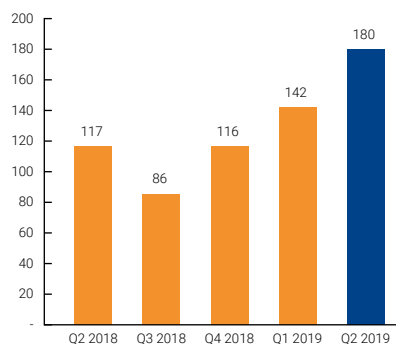
## Revenue geographic markets

NOK million	Q2 2019	Q2 2018	Change	30.06.2019	30.06.2018	Change	31.12.2018
Norway	157.8	112.4	45.5	300.7	226.4	74.3	459.5
Sweden	360.0	308.4	51.7	690.2	576.0	114.2	1 201.2
Rest of Europe	171.6	154.8	16.8	366.4	343.4	22.9	642.2
USA/Canada	155.8	68.6	87.2	263.0	131.3	131.7	230.1
Others	14.9	22.5	(7.5)	52.8	40.7	12.1	86.3
<b>Total group</b>	<b>860.2</b>	<b>666.6</b>	<b>193.6</b>	<b>1 673.0</b>	<b>1 317.9</b>	<b>355.1</b>	<b>2 619.3</b>

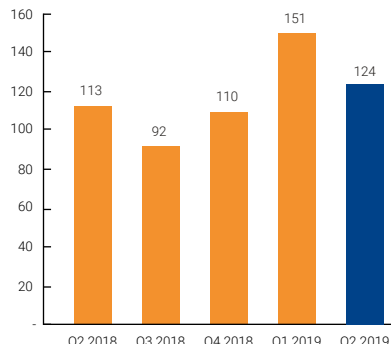
## Full time employees

	31.06.2019	31.06.2018	Change	31.12.2018
Norway	288	256	32	279
Sweden	202	183	19	194
Lithuania	843	858	(15)	889
USA	112	17	95	24
Other	238	217	21	221
<b>Total group</b>	<b>1 682</b>	<b>1 530</b>	<b>152</b>	<b>1 606</b>

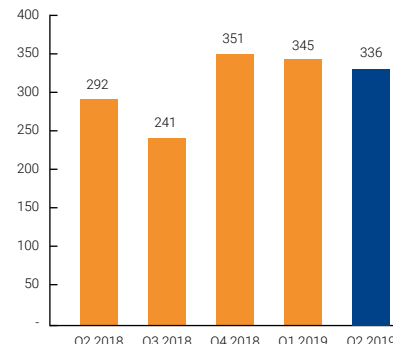
### REVENUE Defence/Aerospace NOK million



### REVENUE Energy/Telecoms NOK million



### REVENUE Industry NOK million



#### Market

Order intake in the quarter was NOK 847.0 million, which is 30.6 per cent higher than for the second quarter 2018. The order backlog ended at NOK 1 453.3 million, which is 44.0 per cent higher than the same period last year.

Four-quarter moving average order intake was up from NOK 755.8 million at the beginning of the second quarter to NOK 805.4 million at the end of the quarter. Kitron's order backlog includes four months customer forecast plus all firm orders for later delivery.

#### Defence/Aerospace

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

The Defence/Aerospace sector revenue increased by 53.6 per cent compared to last year. The order backlog at NOK 674.6 million increased by NOK 85.3 million during the quarter. Compared to last year, the order backlog increased by NOK 315.3 million (87.8 per cent). Of this NOK 136.3 million is from the acquisition.

The high level of activity in the defence sector continues, driven by roll-out of military communications equipment in Norway and

supported by increased defence project deliveries in Sweden. Kitron's expansion of its footprint in the F35 program secures the company's future position as a strong partner within the defence sector.

The Defence/Aerospace sector is in general characterized by project deliveries. Military aviation programs constitute an increasing share of Defence/Aerospace revenue, and as a consequence there will be larger fluctuations in order backlog, as these customers tend to place longer orders than normal in the defence sector.

#### Energy/Telecoms

Within the Energy/Telecoms sector Kitron offers clients particular expertise in manufacturing products such as transmission systems, high frequency microwave modules, radio frequency (RF) and remote measurement of electrical metering.

The Energy/Telecoms sector revenue increased by 9.8 per cent compared to last year. The order backlog is NOK 132.4 million, a decrease of NOK 24.5 million compared to the first quarter in 2019, and NOK 22.2 million lower than a year ago.

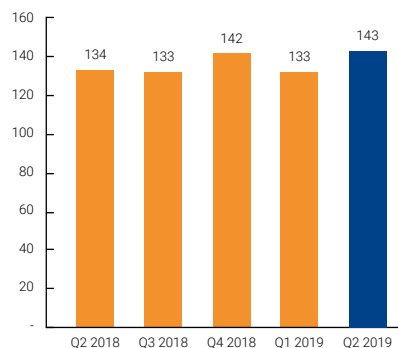
## Revenue market sectors

NOK million	Q2 2019	Q2 2018	Change	30.06.2019	30.06.2018	Change	31.12.2018
Defence/Aerospace	180.3	117.4	62.8	322.2	247.2	75.0	449.7
Energy/Telecoms	123.7	112.7	11.0	275.1	212.3	62.8	414.1
Industry	336.4	291.6	44.8	680.9	595.1	85.9	1 187.7
Medical devices	143.1	134.4	8.6	275.9	244.3	31.6	519.2
Offshore/Marine	76.7	10.4	66.3	118.9	19.0	99.9	48.6
<b>Total group</b>	<b>860.2</b>	<b>666.6</b>	<b>193.6</b>	<b>1 673.0</b>	<b>1 317.9</b>	<b>355.1</b>	<b>2 619.3</b>

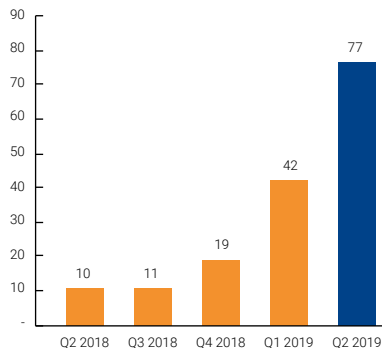
## Order Backlog market sectors

NOK million	30.06.2019	30.06.2018	Change	31.12.2018
Defence/Aerospace	674.6	359.3	315.3	433.3
Energy/Telecoms	132.4	154.6	(22.2)	160.1
Industry	361.1	327.7	33.4	454.4
Medical devices	174.4	140.5	33.9	186.6
Offshore/Marine	110.7	26.8	83.9	100.4
<b>Total group</b>	<b>1 453.3</b>	<b>1 008.9</b>	<b>444.4</b>	<b>1 334.8</b>

#### REVENUE Medical devices NOK million



#### REVENUE Offshore/Marine NOK million



#### Industry

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

The industry sector showed a revenue increase of 15.4 per cent compared to the second quarter last year, and a decrease of 2.4 per cent from the first quarter of 2019. The order backlog increased by NOK 33.4 million (10.2 per cent) compared to the same period last year and decreased by NOK 102.3 million from the preceding quarter (22.1 per cent).

#### Medical devices

The Medical device sector consists of three main product areas: ultrasound and cardiology systems, respiratory medical devices and Lab/IVD (In-Vitro Diagnostics).

Revenue in the Medical device sector increased by 6.5 per cent compared to the same period last year. The order backlog is NOK 174.4 million, an increase of NOK 33.9 million from the same period last year, and up NOK 25.6 million (17.2 per cent) compared to the preceding quarter.

#### Offshore/Marine

Kitron divides the Offshore/Marine sector into three main areas; subsea production systems, oil and gas exploration equipment, as

well as navigation, positioning, automation and control systems for the marine sector.

The Offshore/Marine sector revenue was NOK 76.7 million in second quarter, compared to NOK 10.4 million in the same period last year. The order backlog is NOK 110.7 million, an increase of NOK 3.6 million compared to the preceding quarter and NOK 83.9 million higher than the same quarter last year.

#### Outlook

For 2019, Kitron expects revenue to grow between NOK 3 200 and NOK 3 400 million.

Earnings in value are above previous outlook, however EBIT margin is expected to be between 5.9 and 6.3 per cent. Stronger growth than expected due to ramp-up of customers temporarily drive inefficiency in existing facilities. Start-up of Polish facility is also expected to affect margins. We expect the margin challenges to be resolved as we move into 2020.

Growth is primarily driven by the acquisition of the EMS division of API Technologies Corp. and growth for customers in the Defence/Aerospace, Industry and Offshore/ Marine sectors.

The board emphasizes that every assessment of future conditions necessarily involves an element of uncertainty.

Oslo, 11 July 2019, Board of directors, Kitron ASA

## Condensed profit and loss statement

NOK 1 000	Q2 2019	Q2 2018	30.06.2019	30.06.2018	31.12.2018
Revenue	860 203	666 611	1 673 042	1 317 897	2 619 257
Cost of materials	581 650	446 074	1 138 421	885 138	1 756 246
Payroll expenses	159 199	126 710	305 890	250 821	496 911
Other operational expenses	42 868	34 455	81 463	67 632	153 490
Other gains / (losses)	(1 428)	(723)	(3 657)	(2 608)	(3 687)
<b>Operating profit before depreciation and impairments (EBITDA)</b>	<b>75 058</b>	<b>58 649</b>	<b>143 612</b>	<b>111 698</b>	<b>208 924</b>
Depreciation	18 620	13 605	35 926	27 892	52 824
<b>Operating profit (EBIT)</b>	<b>56 438</b>	<b>45 044</b>	<b>107 686</b>	<b>83 806</b>	<b>156 100</b>
Net financial items	(9 632)	(2 202)	(15 635)	(9 611)	(14 882)
<b>Profit (loss) before tax</b>	<b>46 806</b>	<b>42 842</b>	<b>92 051</b>	<b>74 195</b>	<b>141 218</b>
Tax	10 483	8 319	18 214	13 461	30 950
<b>Profit (loss) for the period</b>	<b>36 323</b>	<b>34 524</b>	<b>73 838</b>	<b>60 734</b>	<b>110 267</b>
Earnings per share-basic	0.20	0.20	0.41	0.35	0.63
Earnings per share-diluted	0.20	0.19	0.41	0.34	0.61

## Condensed balance sheet

NOK 1 000	30.06.2019	30.06.2018	31.12.2018
<b>ASSETS</b>			
Goodwill	32 428	26 786	26 786
Other intangible assets	15 839	11 631	12 601
Tangible fixed assets	390 752	257 238	293 193
Deferred tax assets	76 906	54 378	45 987
Other receivables	2 352	-	-
<b>Total non-current assets</b>	<b>518 277</b>	<b>350 034</b>	<b>378 567</b>
Inventory	504 959	326 319	448 203
Accounts receivable	724 608	630 379	690 598
Contract assets	274 560	148 879	235 201
Other receivables	74 883	49 003	67 864
Cash and cash equivalents	89 700	69 900	45 654
<b>Total current assets</b>	<b>1 668 710</b>	<b>1 224 480</b>	<b>1 487 520</b>
<b>Total assets</b>	<b>2 186 986</b>	<b>1 574 514</b>	<b>1 866 088</b>
<b>LIABILITIES AND EQUITY</b>			
Equity	668 374	621 417	691 459
<b>Total equity</b>	<b>668 374</b>	<b>621 417</b>	<b>691 459</b>
Deferred tax liabilities	5 056	4 205	1 196
Loans	233 408	70 850	40 830
Pension commitments	5 966	6 205	5 966
<b>Total non-current liabilities</b>	<b>244 430</b>	<b>81 260</b>	<b>47 992</b>
Accounts payable	571 323	485 795	594 808
Other payables	136 988	98 927	122 896
Tax payable	10 221	9 787	7 962
Loans	555 651	277 327	400 970
<b>Total current liabilities</b>	<b>1 274 183</b>	<b>871 836</b>	<b>1 126 636</b>
<b>Total liabilities and equity</b>	<b>2 186 986</b>	<b>1 574 514</b>	<b>1 866 088</b>

## Condensed cash flow statement

NOK 1 000	Q2 2019	Q2 2018	30.06.2019	30.06.2018	31.12.2018
Profit before tax	46 806	42 842	92 051	74 195	141 218
Depreciations	18 620	13 605	35 926	27 892	52 824
Change in inventory, accounts receivable, contract assets and accounts payable	(5 880)	(45 697)	(53 854)	(85 114)	(261 569)
Change in net other current assets and other operating related items	11 334	(8 983)	(22 362)	(7 584)	13 088
Change in factoring debt	(17 412)	41 013	27 076	13 912	9 982
<b>Net cash flow from operating activities</b>	<b>53 466</b>	<b>42 782</b>	<b>78 837</b>	<b>23 301</b>	<b>(44 458)</b>
<b>Net cash flow from investing activities</b>	<b>(18 923)</b>	<b>(8 760)</b>	<b>(167 379)</b>	<b>(15 918)</b>	<b>(55 859)</b>
<b>Net cash flow from financing activities</b>	<b>(82 931)</b>	<b>(105 006)</b>	<b>41 476</b>	<b>(113 176)</b>	<b>(126 387)</b>
Change in cash and bank credit	(48 387)	(70 985)	(47 066)	(105 794)	(226 704)
Cash and bank credit opening balance	(105 357)	83 384	(107 548)	118 765	118 765
Currency conversion of cash and bank credit	400	921	1 270	349	391
<b>Cash and bank credit closing balance</b>	<b>(153 344)</b>	<b>13 320</b>	<b>(153 344)</b>	<b>13 320</b>	<b>(107 548)</b>

## Consolidated statement of comprehensive income

NOK 1 000	Q2 2019	Q2 2018	30.06.2019	30.06.2018	31.12.2018
Profit (loss) for the period	36 323	34 524	73 838	60 734	110 267
Actuarial gain / losses pensions	-	-	-	-	(113)
Exchange differences on translation of foreign operations	(646)	1 617	(1 666)	(370)	2 218
Currency translation differences	(1 822)	(10 557)	(13 122)	(14 760)	(583)
<b>Total comprehensive income for the period</b>	<b>33 855</b>	<b>25 584</b>	<b>59 050</b>	<b>45 604</b>	<b>111 789</b>
<b>Allocated to shareholders</b>	<b>33 855</b>	<b>25 584</b>	<b>59 050</b>	<b>45 604</b>	<b>11 789</b>

## Changes in equity

NOK 1 000	30.06.2019	30.06.2018	31.12.2018
Equity opening balance	691 459	663 565	663 565
Profit (loss) for the period	73 838	60 734	110 267
Paid dividends	(70 477)	(96 906)	(96 906)
Issue of ordinary shares	291	-	-
Employee share schemes	(11 949)	3 794	7 650
Implementation IFRS15	-	5 361	5 361
Other comprehensive income for the period	(14 788)	(15 130)	1 522
<b>Equity closing balance</b>	<b>668 374</b>	<b>621 417</b>	<b>691 459</b>

## Notes to the financial statements

### Note 1 – General information and principles

The condensed consolidated financial statements for the second quarter of 2019 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 2018, except for principles for lease accounting. Information about accounting principles, implementation effects and method for implementation for lease accounting is stated in note 27 to the consolidated financial statements for 2018. 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 2018, which were prepared in accordance with the Norwegian Accounting Act and IFRS, as adopted by the EU.

The consolidated financial statements for 2018 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 2018.

### 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 2019.

### Note 4 – Other gains and losses

Other gains and losses consist of net currency gains and losses

### Note 5 – Implementation of IFRS 16 "Leases"

The Kitron group implemented new IFRS 16 "Leases" from 1 January 2019. Information about accounting principles, implementation effects and method for implementation for lease accounting is stated in note 27 to the consolidated financial statements for 2018.

The tables below show impact from IFRS 16 on condensed profit and loss statement and on condensed cash flow statement for second quarter and first half year 2019, and on condensed balance sheet per 30 June 2019.



## Note 5 – Implementation of IFRS 16 “Leases” (Cont.)

### Condensed profit and loss statement

	Old principles Q2 2019	Effects from IFRS 16	New principles Q2 2019	Old principles 30.06.2019	Effects from IFRS 16	New principles 30.06.2019
NOK 1 000						
Revenue	860 203	-	860 203	1 673 042	-	1 673 042
Cost of materials	581 650	-	581 650	1 138 421	-	1 138 421
Payroll expenses	159 199	-	159 199	305 890	-	305 890
Other operational expenses	47 259	(4 391)	42 868	89 703	(8 240)	81 463
Other gains / (losses)	(1 428)	-	(1 428)	(3 657)	-	(3 657)
<b>Operating profit before depreciation and impairments (EBITDA)</b>	<b>70 667</b>	<b>4 391</b>	<b>75 058</b>	<b>135 372</b>	<b>8 240</b>	<b>143 612</b>
Depreciation	14 726	3 893	18 620	29 151	6 775	35 926
<b>Operating profit (EBIT)</b>	<b>55 941</b>	<b>497</b>	<b>56 438</b>	<b>106 221</b>	<b>1 465</b>	<b>107 686</b>
Net financial items	(8 113)	(1 520)	(9 632)	(12 820)	(2 815)	(15 635)
<b>Profit (loss) before tax</b>	<b>47 828</b>	<b>(1 023)</b>	<b>46 806</b>	<b>93 401</b>	<b>(1 349)</b>	<b>92 051</b>
Tax	10 687	(205)	10 483	18 484	(270)	18 214
<b>Profit (loss) for the period</b>	<b>37 141</b>	<b>(818)</b>	<b>36 323</b>	<b>74 917</b>	<b>(1 080)</b>	<b>73 838</b>
Earnings per share-basic	0.20		0.20	0.41		0.41
Earnings per share-diluted	0.20		0.20	0.41		0.41

### Condensed balance sheet

	Old principles 30.06.2019	Effects from IFRS 16	New principles 30.06.2019
NOK 1 000			
<b>ASSETS</b>			
Goodwill	32 428	-	32 428
Other intangible assets	15 839	-	15 839
Tangible fixed assets	300 810	89 942	390 752
Deferred tax assets	76 636	270	76 906
Other receivables	2 352	-	2 352
<b>Total non-current assets</b>	<b>428 065</b>	<b>90 212</b>	<b>518 277</b>
Inventory	504 959	-	504 959
Accounts receivable	724 608	-	724 608
Contract assets	274 560	-	274 560
Other receivables	74 883	-	74 883
Cash and cash equivalents	89 700	-	89 700
<b>Total current assets</b>	<b>1 668 710</b>	<b>-</b>	<b>1 668 710</b>
<b>Total assets</b>	<b>2 096 774</b>	<b>90 212</b>	<b>2 186 986</b>
<b>LIABILITIES AND EQUITY</b>			
Equity	669 453	(1 080)	668 374
<b>Total equity</b>	<b>669 453</b>	<b>(1 080)</b>	<b>668 374</b>
Deferred tax liabilities	5 056	-	5 056
Loans	158 073	75 335	233 408
Pension commitments	5 966	-	5 966
<b>Total non-current liabilities</b>	<b>169 095</b>	<b>75 335</b>	<b>244 430</b>
Accounts payable	571 323	-	571 323
Other payables	136 988	-	136 988
Tax payable	10 221	-	10 221
Loans	539 694	15 957	555 651
<b>Total current liabilities</b>	<b>1 258 225</b>	<b>15 957</b>	<b>1 274 183</b>
<b>Total liabilities and equity</b>	<b>2 096 774</b>	<b>90 212</b>	<b>2 186 986</b>

## Note 5 – Implementation of IFRS 16 “Leases” (Cont.)

### Condensed cash flow statement

	Old principles Q2 2019	Effects from IFRS 16	New principles Q2 2019	Old principles 30.06.2019	Effects from IFRS 16	New principles 30.06.2019
NOK 1 000						
<b>Net cash flow from operating activities</b>	<b>49 076</b>	<b>4 391</b>	<b>53 466</b>	<b>70 597</b>	<b>8 240</b>	<b>78 837</b>
<b>Net cash flow from investing activities</b>	<b>(18 923)</b>	<b>-</b>	<b>(18 923)</b>	<b>(167 379)</b>	<b>-</b>	<b>(167 379)</b>
<b>Net cash flow from financing activities</b>	<b>(78 540)</b>	<b>(4 391)</b>	<b>(82 931)</b>	<b>49 717</b>	<b>(8 240)</b>	<b>41 476</b>
Change in cash and bank credit	(48 387)	-	(48 387)	(47 066)	-	(47 066)
Cash and bank credit opening balance	(60 037)	-	(60 037)	(107 548)	-	(107 548)
Currency conversion of cash and bank credit	400	-	400	1 270	-	1 270
<b>Cash and bank credit closing balance</b>	<b>(108 024)</b>	<b>-</b>	<b>(108 024)</b>	<b>(153 344)</b>	<b>-</b>	<b>(153 344)</b>

## Note 6 – Business combinations

On 15 February 2019 the US subsidiary Kitron Inc completed the acquisition of the EMS division of API Technologies Corp. The acquisition marks a substantial strengthening of Kitron's position in the US market.

The operations of the EMS division are highly complementary to Kitron's existing operations and are expected to provide added value to current operations, in particular in the United States. The division's main focus is on defence, aerospace, medical/industrial, and communications/consumer, and it is well aligned with Kitron's overall strategy. The business is located in Windber, Pennsylvania, close to Kitron's current US facility in Johnstown, Pennsylvania, with approximately 100 employees operating a total of six production lines and a facility of approximately 10 000 square meters. Total revenues in 2018 amounted to approximately USD 23.5 million.

The purchase price to be paid, after certain post-signing adjustments, is NOK 135.6 million (USD 15.6 million), subject to post-closing adjustments, if any.

The preliminary fair value assessment of the assets and liabilities recognized as a result of the acquisition is as follows:

### Fair value

	15.02.2019
NOK 1000	
Tangible fixed assets	49 678
Other intangible assets: customer contracts	3 149
Deferred tax assets	28 365
Inventory	70 985
Accounts receivable	24 327
Contract assets	30 122
Other receivables	4 156
Cash and cash equivalents	(1 449)
Loans	(36 872)
Accounts payable	(25 680)
Other payables	(16 770)
<b>Net identifiable assets acquired</b>	<b>130 011</b>
Add: goodwill	5 635
<b>Net assets acquired</b>	<b>135 646</b>

The goodwill is attributable to workforce and synergies. It will not be deductible for tax purposes.

### Revenue and profit contribution

The acquired business contributed revenues of NOK 66.5 million and net profit of NOK 1.8 million to the group for the second quarter 2019. The corresponding figures for the period 15 February to 30 June were NOK 100.9 million and NOK 2.9 million respectively. If the acquisition had occurred on 1 January 2019, consolidated pro-forma revenue and profit for first half year 2019 would have been NOK 1 693.4 million and NOK 75.1 million respectively.

## Responsibility statement

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period 1 January to 30 June 2019 has been prepared in accordance with IAS 34 - Interim Financial Reporting, and gives a true and fair view of the group's assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the interim management

report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related parties transactions.

Oslo, 11 July 2019



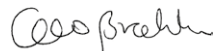
Tuomo Lähdesmäki  
Chairman




Espen Gundersen



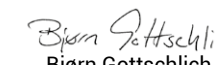
Maalfrid Brath



Gro Brækken  
Deputy chairman



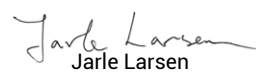
Tanja Rørheim  
Employee elected board member



Bjørn Gottschlich  
Employee elected board member



Christian Jebsen



Jarle Larsen  
Employee elected board member



Cathrin Nylander  
Acting CEO of Kitron ASA

## Appendix

### Definition of Alternative Performance Measures

Kitron uses terms in the consolidated financial statements that are not anchored in the IFRS accounting standards. As being an Electronics Manufacturing Services company, Kitron uses Alternative Performance Measures which are relevant for understanding and evaluation of performance within manufacturing.

Our definitions and explanations of these terms follow below.

#### Order backlog

All firm orders and 4 months of committed customers forecast at revenue value as at balance sheet date.

#### Foreign exchange effects

Group consolidation restated with exchange rates as comparable period the previous year. Change in volume or balance calculated with the same exchange rates for the both periods are defined as underlying growth. Change based on the change in exchange rates are defined as foreign exchange effects. The sum of underlying growth and foreign exchange effects represent the total change between the periods.

#### EBITDA

Operating profit (EBIT) + Depreciation and Impairments

#### EBIT

Operating profit

#### EBIT margin (%)

Operating profit (EBIT) / Revenue

#### Net working capital

Inventory + Contract assets + Accounts Receivables – Accounts Payable

#### Operating capital

Other intangible assets + Tangible fixed assets + Net working capital

#### Return on operating capital (ROOC) %

Annualised Operating profit (EBIT) / Operating Capital

**Return on operating capital (ROOC) R3 %**  
 $(\text{Last 3 months Operating profit (EBIT)} \times 4) / (\text{Last 3 months Operating Capital} / 3)$

#### Direct Cost

Cost of material + Direct wages (subset of personnel expenses only to include personnel directly involved in production)

#### Days of Inventory Outstanding

$360 / (\text{Annualised Direct Costs} / (\text{Inventory} + \text{Contract assets}))$

#### Days of Inventory Outstanding R3

$360 / ((\text{Last 3 months Direct Costs} \times 4) / (\text{Last 3 months Inventory and Contract assets} / 3))$

#### Days of Receivables Outstanding

$360 / (\text{Annualised Revenue} / \text{Trade Receivables})$

#### Days of Receivables Outstanding R3

$360 / ((\text{Last 3 months Revenue} \times 4) / (\text{Last 3 months Trade Receivables} / 3))$

#### Days of Payables outstanding

$360 / ((\text{Annualised Cost of Material} + \text{Annualised other operational expenses}) / \text{Trade Payables})$

#### Days of Payables Outstanding (R3)

$360 / (((\text{Last 3 months (Cost of Material} + \text{other operational expenses)} \times 4) / (\text{Last 3 months Trade Payables} / 3))$

#### Cash conversion cycle (CCC)

Days of inventory outstanding + Days of receivables outstanding – Days of payables outstanding

#### Cash conversion cycle (CCC) R3

Days of inventory outstanding (R3) + Days of receivables outstanding (R3) – Days of payables outstanding (R3)

#### Net Interest-bearing debt

- Cash and cash equivalents + Loans (Non-current liabilities) + Loans (Current liabilities)

#### Interest-bearing debt

Loans (non-current liabilities) + Loans (current liabilities)

#### Inventory turns

$\text{Annualised direct costs} / (\text{Inventory} + \text{Contract assets})$

#### Variable contribution

Revenue - Direct cost

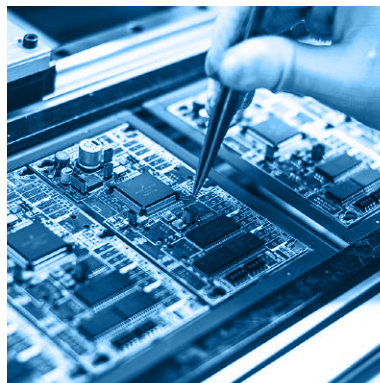
#### Net gearing

Net interest - bearing

#### Equity Ratio

The ratio of Equity to Total Assets

Defence/Aerospace  
Energy/Telecoms  
Industry  
Medical devices  
Offshore/Marine



Kitron is an international Electronics Manufacturing Services company. The company has manufacturing facilities in Norway, Sweden, Lithuania, China and the US and has about 1 700 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.