

CEO's review

A year of developing competitiveness

In 2018, we took some important steps to enable growth in the future. Our net sales increased moderately and our profitability remained good despite growing R&D investments and greater competition. This puts us in a good position to look ahead.

Our net sales grew by 6% to EUR 94 million. The past year was one of strong growth in the Medical Business Unit (MBU), which achieved a double-digit increase in net sales in every quarter. On the annual level, MBU sales grew by 23% and totaled EUR 38 million. This growth was the result of good demand among key customers, especially in China, where investments in healthcare continued and some CT device manufacturers transferred their production due to US-China customs tariffs. We estimate that our share of the global medical CT market increased and is now around 20%.

In contrast, we faced growth challenges in the Security and Industrial Business Unit (SBU). Due to slower growth and tougher competition in the Chinese security market, SBU's net sales fell by 4% to EUR 56 million. The year began slowly in China, but demand improved in the second half of the year and SBU sales increased at a good pace.

The indirect consequences of protectionist trade policy played havoc with market dynamics again in the second half of the year, and infrastructure projects in the security market were temporarily suspended. However, the security market picked up at the very end of the last quarter and December sales were outstanding. The sales outlook for the beginning of this year is strong in all our main markets.

The distribution of sales by business leveled out as a result of growth slowdown in the security market. MBU accounted for 41% of net sales and SBU for 59%. In geographic terms, Asia's share of our net sales decreased slightly but was still our largest market area with a 62% share. The Americas and Europe both had a 19% share. It is very encouraging to see that Europe's share of sales increased by 65% over the previous year.



All in all, our profitability remained good and was at the target level. Operating profit excluding non-recurring items was EUR 19 million, or 20% of net sales. Excellent business scalability, improved productivity and moderate development in fixed costs kept profitability good despite price competition and increased R&D costs. Our solid financial situation allows further development of our business.

Focus on growth

We promoted our growth possibilities on many fronts in 2018. We made the most significant product launch in our company history, we expanded our product portfolio to the CMOS market, we acquired the business operations of the MultiX technology company, and we deployed a new ERP system.

In September, we made the largest product launch in our history when we introduced the new generation, fully digital Aurora product family to the security and industrial markets. Our team has designed and industrialized an application-specific integrated circuit (ASIC) and significantly simplified the product structure, which has improved our price competitiveness. The new product family enables faster go-to-market for performance-enhancing and more mechanically robust imaging solutions. The product family has been well received in the security segment, and it will replace our analog and first-generation digital product families.

In May, we announced the expansion of our product portfolio to include flat panel detectors based on CMOS technology, and introduced X-Panel 1511, which is optimized for dental cone beam computed tomography (CBCT) and panoramic X-ray imaging applications. In November, we rolled out the product family's latest newcomer X-Panel 2301 for cephalometric imaging. A combination of X-Panel 1511 and 2301 boosts all mainstream extraoral dental X-ray imaging modalities. In addition to dental applications, the

product family is an ideal solution for a variety of other medical and industrial imaging needs.

We made a notable long-term decision in December, when we acquired the business of the French company MultiX. The deal significantly expanded our technology base and patent portfolio, which will strengthen our position in all our market segments and create significant growth potential in both our business units. We will be a pioneer in industrialization of direct conversion technology. Our goal is to commercialize technology capable of highly accurate material discrimination during this year and bring new volume products to market in 2020. We believe in the technology's market potential as requirements for X-ray imaging quality become more stringent in all application areas.

At the end of the year, we began planning the expansion of our production network. We plan to ramp up production at a new site in the Greater Shanghai area by the end of 2019. As a result of protectionist trade policy and to allow further development in production flexibility, we will also relocate the manufacturing of some products from China to Europe. Another significant development event supporting our growth strategy was the deployment of a new ERP system.

To the next level with AI

The megatrends driving market development were much the same as in previous years. However, digitalization of equipment and services has accelerated and is progressing well in our sector. I am proud to say that we are at the forefront in this respect. In our new product families, we have paid special attention also on the customer benefits made possible by Industry 4.0.

One of the new opportunities is utilization of artificial intelligence (AI) in X-ray imaging. We believe that AI will change X-ray imaging devices and the related service entities in the future. AI will be one

of the next megatrends to accelerate renewal of the equipment base. We intend to be a frontrunner in this area as well.

The growth drivers in today's medical imaging market are population aging and healthcare improvement needs in emerging markets. The security market has grown due to increased political instability and climate change is causing greater challenges for society. Our solutions are increasingly used to prevent security threats in all critical infrastructure where a lot of people and goods are moving. For example, we were involved in providing security for last year's Winter Olympic Games in South Korea. The X-ray detectors that we delivered were used in scanning devices that inspected the flow of goods at event sites and freight deliveries before and during the games. In the industrial segment, use of X-ray technology for quality assurance related to components and processes and material discrimination is increasing annually.

According to industry estimates, the average annual growth rate has been 5% in the global medical X-ray market, 7% in the security X-ray equipment market, and about 5% in industrial X-ray imaging. We believe that global market growth in 2019 will continue at the same level as last year.

Our estimates indicate that we had a 17% share of the global market at the end of the year. We have had the pleasure of serving 240 customers in more than 40 countries. Customer satisfaction also remained good last year. Close and long-term customer relationships are our biggest competitive edge, and we will continue to focus on this area in the future.

Sustainability at all times

We are committed to sustainable growth. We believe that successful business cannot exist without sustainability. Our business has always been based on performance and integrity. At the end of the year, we compiled the principles that guide our daily work into a Code of Conduct, and we require our employees and partners to commit to this Code. The Code of Conduct describes how people and the environment must be treated and the principles according to which we improve financial performance now and in the future.

We have a great team of some 500 people and we invest in the well-being and development of our personnel. We launched long-term leadership and sales training programs at the Group level, and we have also improved our competence in many different ways at the local level. I believe that this competence, the desire to always learn more, and a culture of hard work will ensure that we continue to be adaptable in the future.

I would like to warmly thank our customers – it is a privilege to serve you. I would also like to thank our owners for your trust. Thank you to our partners for your support. Special thanks also goes to the DT team for your incredible commitment and results. You will continue to be the foundation for our development and growth this year as well!

Hannu Martola
President and CEO

