

Q4 | 2016

FINANCIAL STATEMENTS REVIEW

DETECTION TECHNOLOGY PLC FINANCIAL STATEMENTS REVIEW JANUARY-DECEMBER 2016

Detection Technology Q4 2016: The best quarter of a strong year**October-December 2016 highlights**

- Net sales increased by 54.7% to EUR 23.5 million (15.2)
- Net sales of Security and Industrial Business Unit (SBU) grew 47.4% to EUR 14.8 million (10.1)
- Net sales of Medical Business Unit (MBU) increased 68.8% to EUR 8.7 million (5.2)
- Operating profit (EBIT) excluding non-recurring items (NRI) was EUR 5.2 million (2.4)
- Operating margin (EBIT-%) excluding NRI was 22.3% of net sales (16.0 %)
- Earnings per share were EUR 0.31 (0.10)

Full-year 2016 highlights

- Net sales increased by 76.5% to EUR 75.5 million (42.8)
- Net sales of SBU grew 109.2% to EUR 55.8 million (26.7)
- Net sales of MBU increased 22.5% to EUR 19.8 million (16.1)
- Operating profit (EBIT) excluding NRI was EUR 14.8 million (4.5)
- Operating margin (EBIT-%) excluding NRI was 19.6% of net sales (10.6%)
- Earnings per share were EUR 0.81 (0.07)
- Capital repayment EUR 0.25 per share* (0.07)

(Figures in brackets refer to the corresponding period of the previous year.) (*The Board of Directors' proposal to AGM.)

President and CEO, Hannu Martola:

"The year 2016 was extraordinary for us in terms of growth and profit improvement, and we finished the fourth quarter and the year with excellent sales and profitability. For the full year 2016 net sales grew 77% over the previous year.

The net sales increase has for some time been driven by strong growth in demand of X-ray imaging equipment in the security segment, but we have also managed to grow sales in all other markets. Growth has been exceptionally strong but by quickly increasing our production capacity we have been able to meet the significantly increased demand. We were also successful with our new customer projects and transferring these new products into production.

Particularly positive in the fourth quarter was the growth of our medical business unit. Our research and development projects proceeded as planned, and this can now be seen in net sales growth of the MBU. The split in net sales between our business units is now better balanced, as MBU represented more than one third of our net sales in the fourth quarter. Furthermore, the relative share of net sales in Asia has decreased whereas the share of Americas has increased.

The results in the fourth quarter were excellent and the profitability is at our target level. Our financial position is strong, which enables us to develop the business further in line with our strategy.

Year 2016 was exceptional in terms of growth and profitability. We see more moderate growth in the beginning of 2017. At the moment, there is uncertainty in the markets, and for 2017 we expect increased competition and a slowdown in sales growth. We will, however, continue our

efforts in line with our strategy and keep our medium term financial targets unchanged.”

Key figures

| (EUR 1,000) | 10-12/2016 | 10-12/2015 | 1-12/2016 | 1-12/2015 |
|--|------------|------------|------------|------------|
| Net sales | 23,527 | 15,212 | 75,509 | 42,782 |
| Net sales growth, % | 54.7% | 56.4% | 76.5% | 29.2% |
| Operating result (EBIT) excl. NRI | 5,237 | 2,433 | 14,808 | 4,534 |
| Operating result (EBIT) excl. NRI, % | 22.3% | 16.0% | 19.6% | 10.6% |
| Non-recurring items (NRI) | 0 | 688 | 0 | 1,098 |
| Operating profit | 5,237 | 1,741 | 14,808 | 3,437 |
| Operating margin, % | 22.3% | 11.4% | 19.6% | 8.0% |
| R&D costs | 2,259 | 1,357 | 6,071 | 5,696 |
| R&D costs, % of net sales | 9.6% | 8.9% | 8.0% | 13.3% |
| Cash flow from operating activities | 4,988 | 5,355 | 5,412 | 2,622 |
| Net interest bearing debt at end of period | -8,337 | -5,444 | -8,337 | -5,444 |
| Capital expenditure | 372 | 3,450 | 1,612 | 4,770 |
| Gearing, % | -27.0% | -25.8% | -27.0% | -25.8% |
| Earnings per share, EUR | 0.31* | 0.10 | 0.81* | 0.07 |
| Earnings per share diluted, EUR | 0.33** | 0.10 | 0.84** | 0.07 |
| Number of shares at the end of the period | 13,425,775 | 12,950,975 | 13,425,775 | 12,950,975 |

(* Used for the entire review period increased number of shares (13,425,775) due to the share incentive programs. ** Used for the entire review period number of shares (12,950,975) before the effect of the share incentive programs.)

Net sales

Detection Technology's net sales for the fourth quarter was EUR 23.5 million (15.2). Net sales grew 54.7%.

The demand grew strongly in the X-ray imaging equipment market in the security segment, and SBU's net sales grew 47.4% being EUR 14.8 million (10.1). Demand growth was the result of an increase in the purchase and use of X-ray imaging equipment in China, the Middle-East and Europe. Excellent customer relations coupled with DT's ability to customize products, optimize supply chain and deliver products with tight schedules enabled DT to grow faster than the market. SBU's share of total net sales was 63.0%.

Net sales of MBU totaled EUR 8.7 million, which is 68.8% more than in the corresponding period October-December 2015 (5.2). Strong growth of net sales was due to successful customer projects and consequent transfer of products into production during the second half of 2016. MBU's share of total net sales was 37.0%.

The company's net sales for 2016 grew 76.5% being EUR 75.5 million (42.8). Net sales of SBU grew 109.2% to EUR 55.8 million (26.7). Net sales of MBU was EUR 19.8 million, which is 22.5% more than in the corresponding period (16.1). SBU's share of total net sales was 73.8% and MBU's 26.2%.

Geographically Asia was the biggest market with 67.2% (77.6%) share of net sales during the last quarter. Europe's share of net sales was 12.6% (15.4%) and America's 20.2% (7.0%). Top five customers accounted for 69.0% (60.0%) of net sales in 2016.

NET SALES BY BUSINESS UNITS

| (EUR 1,000) | 10-12/2016 | 10-12/2015 | Change, % | 1-12/2016 | 1-12/2015 | Change, % |
|--------------|---------------|---------------|--------------|---------------|---------------|--------------|
| MBU | 8,705 | 5,156 | 68.8% | 19,755 | 16,130 | 22.5% |
| SBU | 14,822 | 10,056 | 47.4% | 55,754 | 26,651 | 109.2% |
| TOTAL | 23,527 | 15,212 | 54.7% | 75,509 | 42,782 | 76.5% |

NET SALES BY GEOGRAPHY

| (EUR 1,000) | 10-12/2016 | 10-12/2015 | Change, % | 1-12/2016 | 1-12/2015 | Change, % |
|--------------|---------------|---------------|--------------|---------------|---------------|--------------|
| Asia | 15,815 | 11,800 | 34.0% | 54,201 | 26,639 | 103.5% |
| Americas | 4,757 | 1,065 | 346.7% | 11,143 | 7,168 | 55.5% |
| Europe | 2,954 | 2,347 | 25.9% | 10,164 | 8,975 | 13.3% |
| TOTAL | 23,527 | 15,212 | 54.7% | 75,509 | 42,782 | 76.5% |

Operating result and profitability

The company's operating profit for the fourth quarter amounted to EUR 5.2 million (1.7), 22.3% of net sales (11.4 %). In particular, the higher production volumes and relatively lower research and development costs improved the profitability. The company had no non-recurring items (NRI) to be reported for the review period. During the corresponding period of October-December 2015, non-recurring costs amounted to EUR 0.7 million, and operating result excluding NRI was 16.0%.

The fourth-quarter other operating expenses totaled EUR 1.7 million (1.6). Financial items amounted to EUR 0.2 million (-0.4), and income taxes were EUR -1.2 million (-0.06).

The result for the fourth quarter was EUR 4.2 million (1.3). Earnings per share were EUR 0.31 (0.10).

The operating profit for the full-year 2016 was EUR 14.8 million (3.4), 19.6% of net sales (8.0%). During the review period, the company had no NRI to be reported. In the corresponding period, January-December 2015, non-recurring costs amounted to EUR 1.1 million, and operating result excluding NRI was 10.6%.

January-December 2016 other operating expenses amounted to EUR 8.2 million (6.2). The increase in other operating expenses was due to the increased volume of operations. Financial items totaled EUR -0.7 million (-2.4), income taxes were EUR -3.2 million (-0.1).

The result for the year 2016 was EUR 10.9 million (0.9). Earnings per share were EUR 0.81 (0.07).

Cash flow and financing

Cash flow from financing activities for the fourth quarter was EUR 1.3 million (-1.8). Cash flow from financing activities for the year 2016 was EUR 4.4 million (6.1).

The rapid growth of supply, as well as preparing for future deliveries have increased the amount of the company's working capital. Net interest bearing debt totaled EUR -8.3 million (-5.4) at the end of the year. Gearing was -27.0% (-25.8).

Cash flow from operations for the fourth quarter was EUR 5.0 million (5.4). Operating cash flow for the year 2016 was EUR 5.4 million (2.6).

Cash and cash equivalents amounted to EUR 15.7 million (7.4) at the end of the year 2016.

Capital expenditure

Capital expenditure for the fourth quarter totaled EUR 0.4 million (3.5). For the full-year 2016, capital expenditure amounted EUR 1.6 million (4.8). The company invested in the new factory in Beijing to increase production capacity during the first half of the year.

Research and development

The fourth quarter research and development (R&D) costs totaled EUR 2.3 million (1.4), 9.6% of net sales (8.9%). During the review period January-December 2016, R&D expenses were EUR 6.1 million (5.7), corresponding to 8.0% of net sales (13.3%). In euro terms, R&D costs were at a lower level than planned due to transfer of significant number of new products into production. All R&D costs are written off as expenses, and not capitalized.

Personnel

At the end of December 2016, the company employed 416 people (341) out of which 358 in China, 51 in Finland and 7 in the US. Personnel expenses for the fourth quarter amounted to EUR 3.2 million (3.3). For the year 2016 personnel expenses totaled EUR 12.0 million (10.2). The growth in personnel expenses is mainly due to the increase on headcount.

PERSONNEL BY GEOGRAPHY

| | 31.12.2016 | 31.12.2015 | Change, % |
|--------------|------------|------------|--------------|
| Asia | 358 | 293 | 22.2% |
| Americas | 7 | 4 | 75.0% |
| Europe | 51 | 44 | 15.9% |
| TOTAL | 416 | 341 | 22.0% |

Strategy implementation

Detection Technology continued to execute its strategy in sales and marketing of its new products both in SBU and MBU. The company strengthened its foothold in North America especially in the Industrial segment. The company also continued its efforts in developing new products. R&D expenses decreased compared to the previous year due to timing of projects.

Shares and shareholders

On 9th of December 2016, the Board of Directors of Detection Technology Plc resolved to issue 474,800 new shares in a directed share issue for the individuals entitled to the share incentives based on the authorization granted by the annual general meeting held on 10th of March in 2016. The number of shares outstanding following the share issue, and at the end of the review period was 13,425,775.

The average share price during the fourth quarter was EUR 13.13, and EUR 9.68 in the year 2016. The highest price during the fourth quarter was EUR 14.65 and the lowest EUR 12.32. The highest price for the year 2016 was EUR 14.65 and the lowest EUR 4.25.

At the end of December, the closing price was EUR 13.98 and DT had a market capitalization of EUR 188 million. The number of shares traded between January 4th and December 30th was 1.82 million, which is 13.6% of the total number of shares at the end of the year.

The total number of shareholders was 1,563 on December 30, 2016. Approximately 70% of the shares were held by the ten biggest shareholders. Oy G.W. Sohlberg Ab was the company's biggest shareholder with its around 39% share. Nominee-registered foreign holding of shares of the company was around 8%.

During the review period, the company did not receive any flagging notifications pursuant to the Securities Markets Act's chapter 9 and section 10 on changes in share ownership. Detection Technology has one share series and all shares have equal voting rights.

Risks and uncertainties

The management has not identified significant changes to Detection Technology's risks and uncertainties. The company's main short term risks are associated with uncertainties in the global economy and operating environment in the emerging markets.

Other risks are related to price competition, a significant share of net sales accounted by top five customers, APAC countries' large share of sales, SOP (startup of production) of new products, customers' liquidity, exchange rate fluctuations, adequacy and competences of personnel and organizational efficiency. The company continuously implements measures to reduce the impact of the above risk factors. The company's and its businesses' risks will be described in more detail in the 2016 financial statements.

Board of Directors' profit distribution proposal

The distributable funds of the parent company Detection Technology Plc are EUR 28,527,787.59, of which EUR 3,930,921.44 represents the net profit for the financial year. The company's dividend eligible funds are EUR 2,718,468.62. After the end of the financial year, there have not been significant changes in the company's financial situation, nor the Companies Act 13: 2§ referred to in the solvency test, affect the amount of distributable funds.

The Board of Directors proposes to the Annual General Meeting to be held on 23 March 2017 that, based on the balance sheet adopted for 2016, a capital repayment of EUR 0.25 per share be paid. The number of shares entitling to an equity repayment is 13 425 775, which means that a total amount of the equity repayment would be EUR 3,356,443.75.

Business outlook

Medical imaging equipment market

According to industry estimates, the global medical X-ray imaging market growth is around 5% per annum. In the fourth quarter Detection Technology estimates that the CT market grew 3-5%. The company estimates that the market will grow more in 2017 being at least 5%. Demand is expected to strengthen especially in China due to expansion of the medical infrastructure and services. The demand in North America is also picking up.

Security and industrial X-ray equipment markets

The latest market studies estimate the security X-ray equipment market to grow 8% in 2016 and about 7% in 2017-2018. The growth is due to increased security risks globally and especially the increasing aviation volumes in developing markets.

Detection Technology estimates that the market growth was 8% in the fourth quarter. Supply is in balance with the demand but the competitive environment is tight. The company expects that the demand for the security X-ray equipment market to remain strong in China in 2017, but there is uncertainty in the execution of investments. In industrial applications the average growth rate has been around 5%.

Outlook for 2017

Detection Technology continues to develop and commercialize new products in line with its strategy. In 2017, the company expects its R&D expenses to increase somewhat. The company expects more moderate growth in the beginning of 2017, but there is uncertainty in the markets. After a strong period of growth, the company expects tightening competition and slowing net sales growth in 2017.

Detection Technology's medium term outlook remains unchanged. Detection Technology aims to increase sales by at least 15 per cent per annum and to achieve an operating margin at or above 15 per cent during the medium term.

Financial reporting schedule in 2017

- Annual General Meeting 2017: March 23, 2017 at 15:00 (EET)
- Business review January-March 2017: April 26, 2017
- Half-yearly report January-June 2017: July 26, 2017
- Business review January-September 2017: October 25, 2017

The financial statements and annual review for 2016 will be published latest on March 2, 2017 on the company's website.

UNAUDITED FINANCIAL STATEMENTS REVIEW 1.1.-31.12.2016**ACCOUNTING PRINCIPLES**

This unaudited financial statements review for the period 1.1.-31.12.2016 has been prepared according to the Finnish Accounting Standards (FAS).

CONSOLIDATED INCOME STATEMENT (FAS)

| EUR 1,000 | 10-12/2016 | 10-12/2015 | 01-12/2016 | 01-12/2015 |
|--|------------|------------|------------|------------|
| Net sales | 23,527 | 15,212 | 75,509 | 42,782 |
| Other operating income | 26 | 20 | 75 | 83 |
| Materials and services | -12,398 | -8,137 | -38,025 | -21,860 |
| Personnel expenses | -3,196 | -3,302 | -12,036 | -10,175 |
| Depreciation and amortization | -1,061 | -443 | -2,521 | -1,211 |
| Other operating expenses | -1,661 | -1,609 | -8,194 | -6,182 |
| Operating profit (-loss) | 5,237 | 1,741 | 14,808 | 3,437 |
| Financial income and expenses | 227 | -365 | -686 | -2,383 |
| Profit (-loss) before taxes | 5,464 | 1,376 | 14,122 | 1,054 |
| Income taxes | -1,242 | -63 | -3,232 | -124 |
| Profit (-loss) for the reporting period | 4,223 | 1,313 | 10,890 | 930 |

CONSOLIDATED BALANCE SHEET (FAS)

| (EUR 1,000) | 31.12.2016 | 31.12.2015 |
|--|-------------------|---------------|
| ASSETS | | |
| NON-CURRENT ASSETS | | |
| Intangible assets | 1,626 | 797 |
| Tangible assets | 4,709 | 6,448 |
| Investments | 11 | 11 |
| TOTAL NON-CURRENT ASSETS | 6,346 | 7,256 |
| CURRENT ASSETS | | |
| Inventories | 10,596 | 6,768 |
| Receivables | 20,351 | 12,857 |
| Current receivables | 1,265 | 1,058 |
| Cash and cash equivalents | 15,662 | 7,442 |
| TOTAL CURRENT ASSETS | 47,874 | 28,125 |
| TOTAL ASSETS | 54,220 | 35,381 |
| EQUITY AND LIABILITIES | | |
| EQUITY | | |
| Share capital | 80 | 80 |
| Share premium account | 5,130 | 5,130 |
| Other funds | 25,809 | 26,716 |
| Retained earnings (loss) | -11,000 | -11,757 |
| Profit for the reporting period (loss) | 10,890 | 930 |
| TOTAL EQUITY | 30,909 | 21,099 |
| LIABILITIES | | |
| Non-current liabilities | | |
| Subordinated loans | 0 | 0 |
| Loans from financial institutions | 0 | 0 |
| Other liabilities | 683 | 785 |
| Total | 683 | 785 |
| Current liabilities | | |
| Loans from financial institutions | 6,641 | 1,213 |
| Advances received | 697 | 613 |
| Trade payables | 10,251 | 8,554 |
| Other liabilities | 1,888 | 929 |
| Accrued liabilities | 3,149 | 2,188 |
| Total | 22,627 | 13,497 |
| TOTAL LIABILITIES | 23,311 | 14,282 |
| TOTAL EQUITY AND LIABILITIES | 54,220 | 35,381 |

CONSOLIDATED CASH FLOW STATEMENT (FAS)

| (EUR 1,000) | 10-12/2016 | 10-12/2015 | 01-12/2016 | 01-12/2015 |
|--|--------------|------------|---------------|------------|
| Cash flow from operations | | | | |
| Operating profit/loss | 5,237 | 1,741 | 14,808 | 3,437 |
| Depreciation | 1,061 | 443 | 2,521 | 1,211 |
| Change in working capital | -1,500 | 1,959 | -10,692 | -1,708 |
| Financial income and expenses | 260 | 1,275 | -2 | -162 |
| Taxes | -70 | -63 | -1,223 | -156 |
| Cash flow from operations | 4,988 | 5,355 | 5,412 | 2,622 |
| Cash flow from investments | | | | |
| Investments in tangible and intangible assets | -372 | -3,450 | -1,612 | -4,770 |
| Cash flow from investments | -372 | -3,450 | -1,612 | -4,770 |
| Free cash flow | 4,616 | 1,905 | 3,800 | -2,148 |
| Cash flow from financing | | | | |
| Repayment of non-current loans | -510 | -208 | -1,052 | -10,128 |
| Withdrawal of current loans | 1,777 | 0 | 6,379 | 0 |
| Investment in invested non-restricted equity funds | 0 | -1,604 | 0 | 16,268 |
| Capital repayment | 0 | 0 | -907 | 0 |
| Cash flow from financing | 1,267 | -1,848 | 4,420 | 6,140 |
| Change in cash and cash equivalents | 5,883 | 57 | 8,220 | 3,992 |
| Cash and cash equivalents at beginning of the reporting period | 9,779 | 7,385 | 7,442 | 3,449 |
| Cash and cash equivalents at end of the reporting period | 15,662 | 7,442 | 15,662 | 7,442 |

STATEMENT OF EQUITY CHANGES

| EUR 1,000 | Share capital | Share premium | Invested unrestricted equity fund | Retained earnings | Profit (loss) for the period | Total |
|---|---------------|---------------|-----------------------------------|-------------------|------------------------------|---------------|
| Balance at 1.1.2016 | 80 | 5,130 | 26,716 | -10,827 | 0 | 21,099 |
| Capital repayment | | | -907 | | | -907 |
| Share issue | | | | | | 0 |
| Translation differences | | | | -448 | | -448 |
| Items belonging to previous financial years | | | | 275 | | 275 |
| Profit (loss) for the period | | | | | 10,890 | 10,890 |
| Balance at 31.12.2016 | 80 | 5,130 | 25,810 | -11,000 | 10,890 | 30,909 |
| Balance at 1.1.2015 | 69 | 5,130 | 8,818 | -12,650 | 0 | 1,367 |
| Dividends | | | | | | 0 |
| Share issue | 11 | | 17,898 | | | 17,910 |
| Translation differences | | | | 892 | | 892 |
| Profit (loss) for the period | | | | | 930 | 930 |
| Balance at 31.12.2015 | 80 | 5,130 | 26,716 | -11,758 | 930 | 21,099 |

Espoo 2 February 2017

Board of Directors
Detection Technology Plc

CALCULATION OF KEY FINANCIAL RATIOS

Change in net sales, % = $\frac{\text{Net sales} - \text{previous financial year's net sales}}{\text{previous financial year's net sales}} \times 100$

Net interest bearing liabilities = Interest-bearing liabilities - cash and cash equivalents

Gearing, % = $\frac{\text{Interest-bearing liabilities} - \text{cash and cash equivalents}}{\text{equity}} \times 100$



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