

Annual Review **2018**





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Detection Technology in brief

Detection Technology is a global provider of X-ray detector solutions for medical, security and industrial applications. The company's net sales were EUR 94 million in 2018, and operating margin excluding non-recurring items totaled 20%.

The company has 240 active customers in 40 countries. Detection Technology employs over 500 people in Finland, China, France and the US. The company's shares are listed on the Nasdaq First North Finland marketplace under the ticker symbol DETEC.



FOREKNOW. FORESAVE.®

Facts and figures

93.9

Net sales, M€

5.5

Net sales change-%

19.0

EBIT excluding NRI, M€

240

Active customers in
more than 40 countries

507

Employees in Finland, China,
France and the US

20.3

EBIT-% excluding NRI

2,265

Number of shareholders
31 Dec 2018

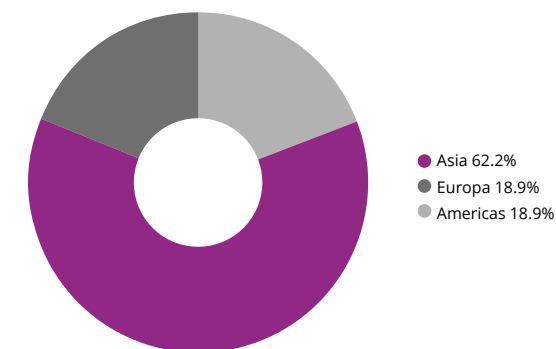
0.38

Dividend proposal,
€/share

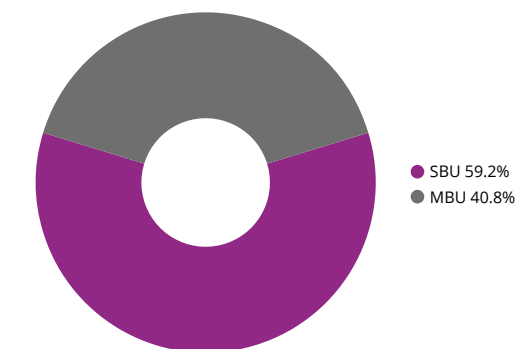
235

Market capitalization, M€
31 Dec 2018

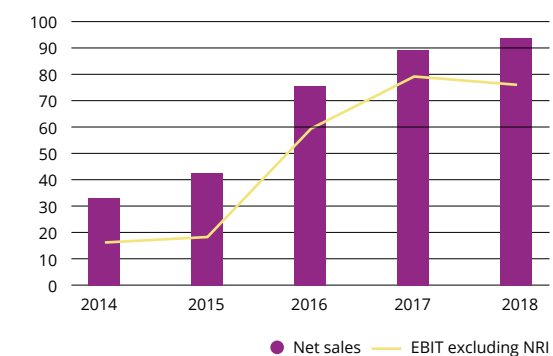
Net sales
by region 2018



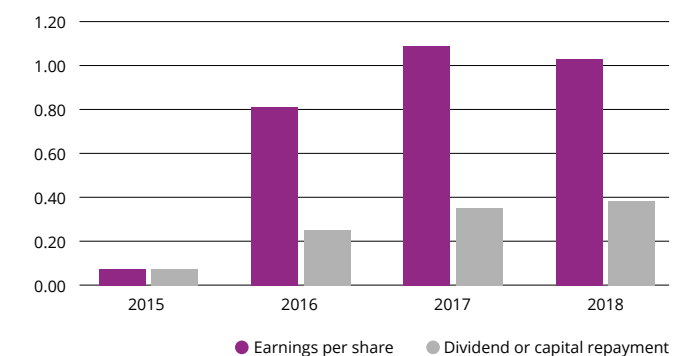
Net sales by
business unit 2018



Net sales and EBIT
excluding NRI (MEUR)



Earnings per share
and dividend (€)



Financial development 2014–2018

	2018	2017	2016	2015	2014
Net sales, MEUR	93.9	89.0	75.5	42.8	33.1
EBIT excluding NRI, MEUR	19.0	19.9	14.8	4.5	4.1
EBIT excluding NRI, %	20.3	22.4	19.6	10.6	12.5
EBIT, MEUR	18.5	19.9	14.8	3.4	3.1
EBIT, %	19.7	22.4	19.6	8.0	9.3
Return on investment (ROI), %	36.4	47.0	38.7	14.9	31.1
Gearing, %	-35.6	-52.3	-27.0	-25.8	634.8
Capital expenditure, MEUR	4.7	1.8	1.6	4.8	1.3
R&D costs, MEUR	-8.8	-7.2	-6.1	-5.7	-4.1

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



Events and releases 2018

9 FEBRUARY

DT was involved in providing security at the 2018 Winter Olympics in Pyeongchang, South Korea. The company's X-ray detectors were utilized in the scanners used to screen goods at venues and inspect shipments before and during the games.



24-26 JULY

DT showcased its latest innovations for digital X-ray imaging at the Digital Imaging 2018 conference in Mashantucket, Connecticut.

2018



23 MAY

DT entered the CMOS X-ray detector market with the X-Panel product family. The company introduced the X-Panel 1511 X-ray flat panel detector as the first solution to enhance patient experience and safety.

X-PANEL

9-12 JUNE

DT introduced the benefits of speedy yet sharp X-Panel detector family at the Sino-Dental 2018 show in Beijing.

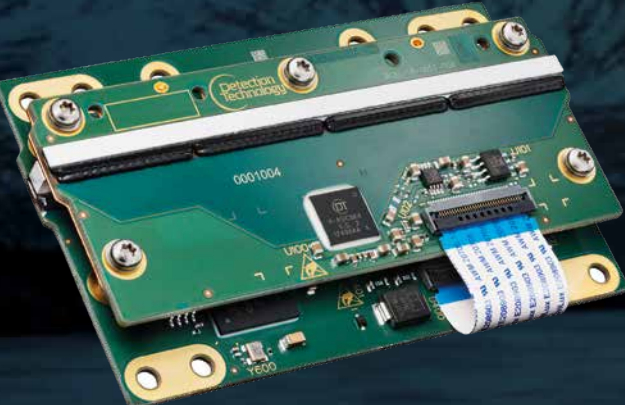


X AURORA

19 SEPTEMBER

DT unveiled Aurora to deliver value in simplicity for digital X-ray imaging. The digital Aurora product family consists of a wide range of stand-alone detectors, and all the necessary building blocks, such as ready-made detector boards, modules and readout electronics, for

end-to-end imaging systems. Aurora comes with an application-specific integrated circuit (ASIC) and significantly simplified product structure. This enables faster go to market for performance-enhancing and mechanically more robust imaging solutions.



23-26 OCTOBER

DT showcased how Aurora delivers value in simplicity for digital X-ray imaging at the Security China 2018 exhibition in Beijing.

30 NOVEMBER

DT hearted Heartray for future innovations in cardiac imaging. The collaborative consortium, which DT participates, is developing a novel X-ray imaging technology to detect coronary artery disease before a fatal heart attack occurs.

MULTIX[®] Xray Spectrometric Imaging

19 DECEMBER

DT acquired the business of the French technology company MultiX S.A. The deal significantly expanded DT's technology base and patent portfolio, thereby strengthening its position in the security, industrial and medical X-ray imaging market.

1 NOVEMBER

DT rolled out the X-Panel 2301 flat panel detector for cephalometric imaging. Together with X-Panel 1511 it boosts all mainstream extraoral dental X-ray imaging modalities.



5 NOVEMBER

DT deployed a new enterprise resource planning (ERP) system at all company's sites.

25-29 NOVEMBER

DT demonstrated detector tailoring capabilities and its standard solutions like X-Tile and the X-Panel product family at the RSNA 2018 show in Chicago.



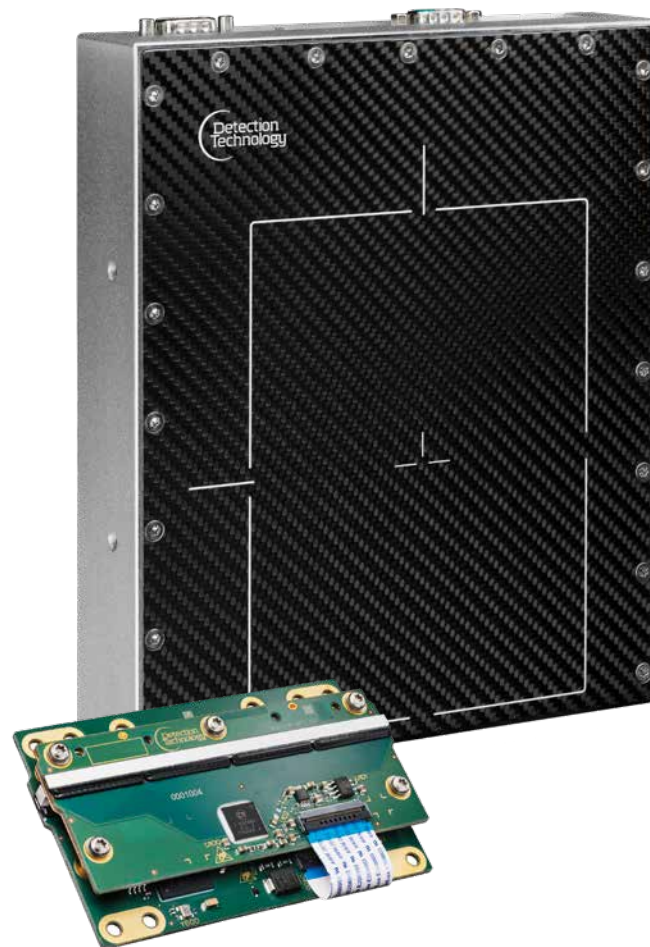
Solutions for unique customer experience

We offer off-the-shelf and customized X-ray imaging solutions for original equipment manufacturers and system integrators. Our solutions range from photodiodes to optimized detector subsystems with ASICs, electronics, mechanics and software.

Our solutions meet the performance and reliability requirements of the most stringent applications, such as high-end CT systems. Furthermore, our products are built on modular, scalable and easily customizable architectures.

We know that tiny details done right make a big difference, and that's why we are always pushing the edge of design for a better quality. When it comes to people's health and safety, only reliable and robust solutions are acceptable.

Over two billion inspections are done daily with our technology, and the number is growing rapidly. We are known as a company providing the best-in-class X-ray imaging solutions, service and flexibility for a unique customer experience, always.



MEDICAL APPLICATIONS

- Computed Tomography (CT)
- Dental X-ray imaging
- Surgical X-ray imaging
- Mammography
- Bone densitometry
- Digital radiography

SECURITY APPLICATIONS

- Carry-on and checked-in baggage screening
- Parcel and mail screening
- Cargo, container and vehicle screening
- Person screening

INDUSTRIAL APPLICATIONS

- Food, pharmaceutical and tire inspection
- Material sorting in the agriculture, forest, mining and recycling industries
- High-energy NDT and CT solutions for the aerospace, automotive, defense, renewable energy, oil and gas industries
- Production process control and quality inspection



Global trends driving growth



INSECURITY CONCERNS

have made governments and organizations focus on increasing spending on security.



AGING POPULATIONS

are increasing healthcare investments, as a growing number of people suffer from diseases and disabilities.



DIGITALIZATION AND AI

raises X-ray imaging to a new level and accelerates device renewal.



EFFICIENCY, QUALITY AND COST

Scanning of critical components, separating and sorting of substances in industry.



EMERGING MARKETS

are investing more and more in healthcare and security, as purchase power increases with GDP growth.



ACCESSIBILITY of imaging technology



X-rays used to image an
INCREASING
number of objects



SECURITY MARKET

Annual growth rate

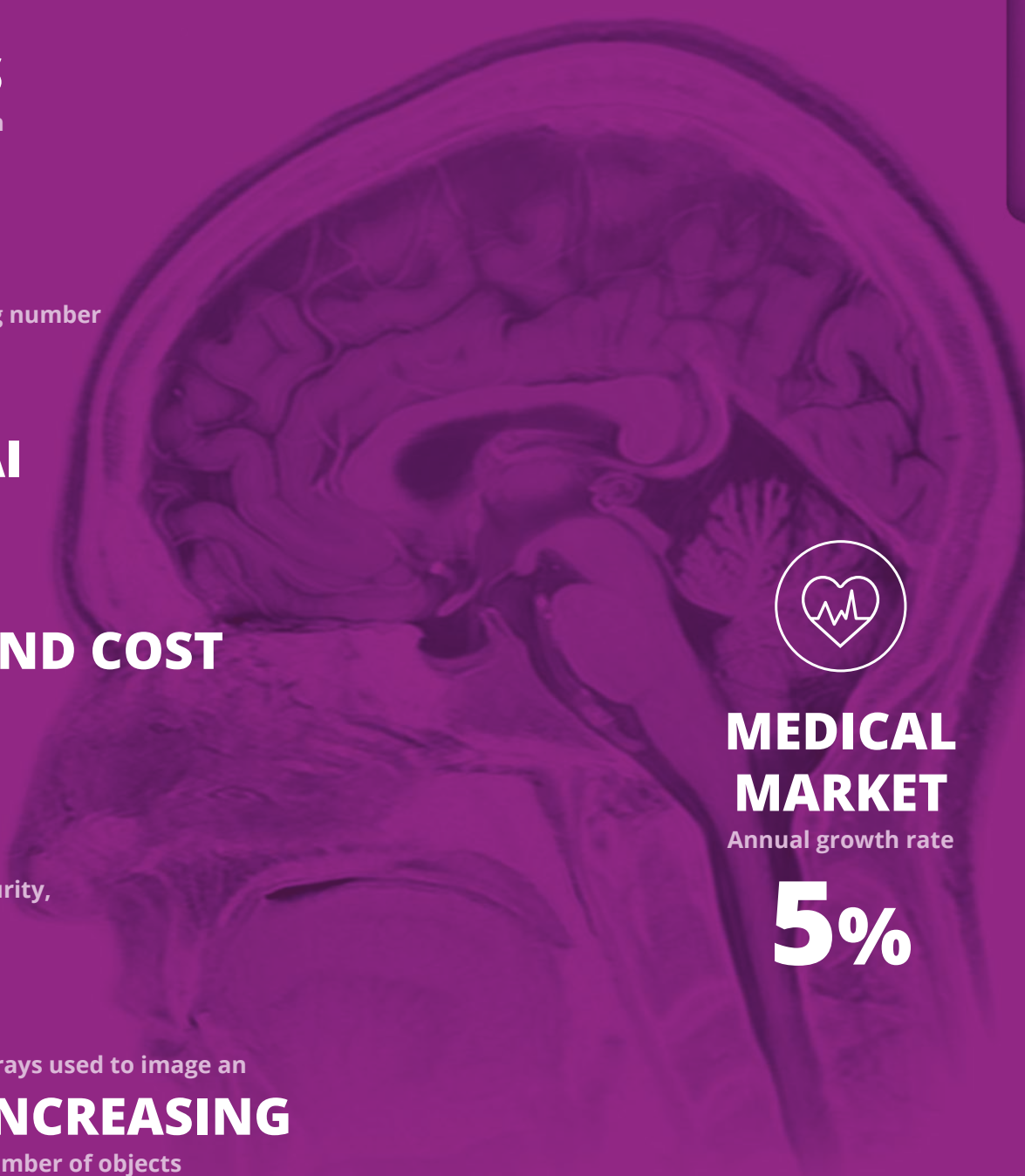
7%



INDUSTRIAL MARKET

Annual growth rate

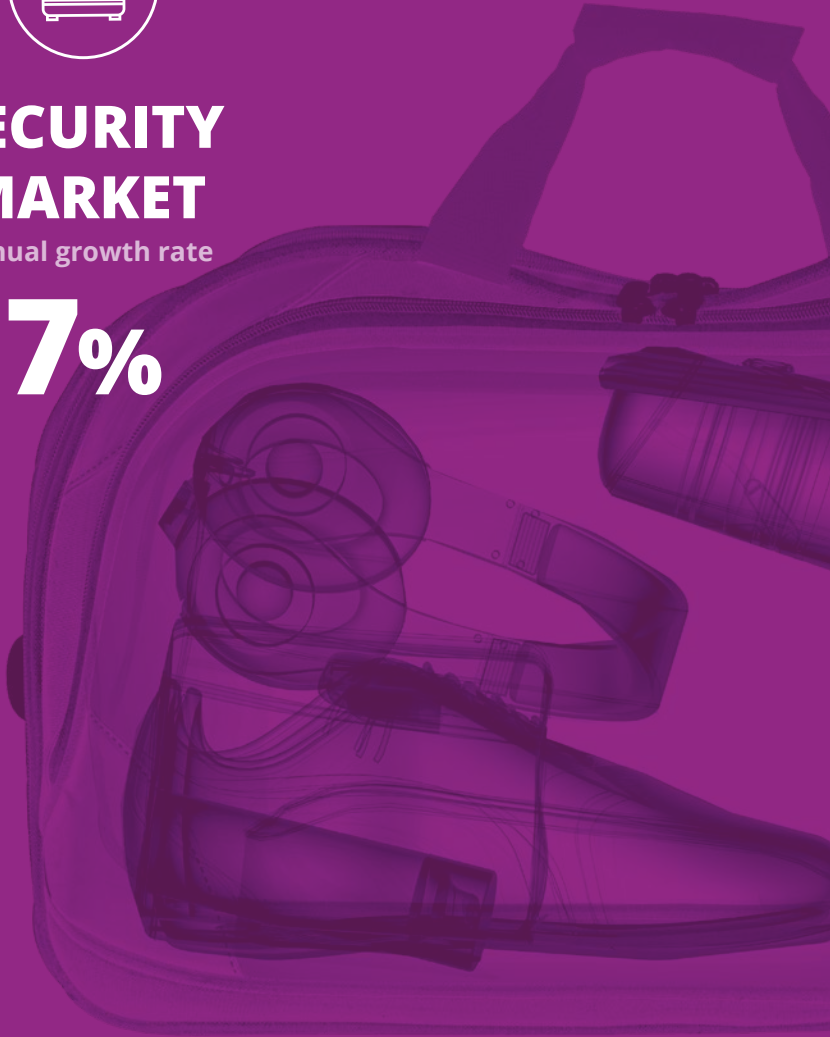
5%



MEDICAL MARKET

Annual growth rate

5%



MISSION

Create foresight capabilities quicker to discover and prevent threats

VISION

Being the most trusted partner imaging the unknown

Strategy

Our goal is to be the leader in computed tomography and line-scan X-ray detectors and solutions, and a significant player in other technologies where we see good business opportunities.

The cornerstones of our strategy are a focus on X-ray technology, customer and equipment specific tailoring, investments in research and product development and geographical reach.

Our business model enables growth as we focus on our core competences: technology development, design, critical processes, final assembly and testing. This business model is asset-light and allows flexibility in the production and delivery of the products.

Financial targets

MEDIUM-TERM TARGET
Annual sales growth

>15%

MEDIUM-TERM TARGET
Operating margin

≥15%

ANNUAL
Dividend or returned capital

30–60%

Direct conversion technology to boost growth potential

In December, Detection Technology made a notable long-term strategic investment when it acquired the business operations of the French technology company MultiX S.A. The deal significantly expanded Detection Technology's technology base and patent portfolio, thereby strengthening its position in the security, industrial and medical markets. At the same time, it significantly increases future growth potential in both business units.

MultiX specializes in direct conversion technology based on photon counting and the related algorithm development. Detection Technology had been developing direct conversion technology before the transaction, and the asset purchase deal has added to this expertise – especially in the fields of material knowledge, algorithms and software. The synergies are significant.

Enhanced material discrimination capability

Today, the majority of detectors sold to security, industrial and medical markets are based on so-called indirect conversion technology. In these solutions, scintillators are used to convert X-ray photons into light photons and photodiodes to convert light into electric current. This technology is currently the most mature and reliable for powering a number of stringent X-ray imaging applications.

In direct conversion detectors, the sensor material converts X-rays directly into electrical signals. This

avoids the intermediate step of converting X-rays into light and later into electrical signals, as is the case with indirect conversion detectors.

A major benefit of direct conversion detector materials, such as CdTe and CdZnTe (CZT), is the possibility to operate in energy resolving mode, which is also referred to as photon counting mode. The signal of direct conversion detectors is directly related to the energy of the converted photon. Based on this, direct conversion detectors with multiple energy levels allow precise determination of the photons and the material that they have interacted with. A greater number of energy levels increases the resolution. Direct conversion materials are also more sensitive to X-rays, which make them more efficient detectors.

Detection Technology's direct conversion detectors provide up to 256 energy levels, while conventional solutions typically provide only 2 levels. This enables extremely precise material discrimination of both solids and liquids, even those with very similar atomic compositions.

These direct conversion detectors make it possible to identify for example the presence of skillfully concealed explosives in tablets or laptops, and determine the type of liquids packed in the luggage – it can even determine if a soft drink contains sugar or not. This would, for example, allow passengers to proceed through security check points in airports without unpacking electronics devices and liquids from their luggage.

Market maturing

Detection Technology estimates that the direct conversion detector market has just started to develop and is currently worth some tens of millions of euros. The company believes in the market's growth potential as material discrimination requirements become more stringent in different application areas, such as luggage screening, and material sorting and quality control related to industrial applications. The company is also conducting research on direct conversion technology in order to utilize its benefits also in medical X-ray imaging.

Detection Technology is completing the integration process with its new team in France. During the next step, the company will start commercializing the direct conversion technology with the aim of launching new volume products in 2020. Detection Technology expects positive results from this new business within three years.

BENEFITS OF DIRECT CONVERSION TECHNOLOGY

For security and industrial imaging

- Extremely precise material discrimination capability even for materials with similar atomic compositions
- Improves identification of all solid and liquid materials
- Reduces false alarm rate
- Speeds up passenger throughput in security checks and material flow in production lines

For medical imaging

- Improves spatial resolution, signal-to-noise ratio and contrast X-ray images
- Provides simultaneous multiagent imaging
- Enables to utilize nanoparticle contrast agents in molecular CT systems

DETECTION TECHNOLOGY FRANCE (DTX)

- **Company name** Detection Technology S.A.S., former known as MultiX
- **Specialized in** direct conversion technology based on photon counting
- **Spent around EUR 20 million in** technology development
- **Designs** multi-energy X-ray detector solutions for high-end applications
- **Employs 17 people, one third of whom have a Ph.D. degree in** engineering or physics
- **Located in** Moirans, in the Grenoble area
- **MultiX S.A. was established as a spin-off company from the** Thales Group in 2010

Committed to grow sustainably

We believe that sustainability is fundamental to the success of our business. Our business is driven by performance as well as integrity, and we expect the same commitment from our employees and partners.

For us, being responsible means openness, honesty and reliability towards all our stakeholders. We care about our customers, employees, investors, partners and society, and aim to reduce our impact on the environment.

Our everyday work is guided by the principles stated in our Code of Conduct. The DT code supports us in making the right decisions and conducting global business with integrity.

Each of us has an obligation to our stakeholders and ourselves to act in accordance with the DT Code. As a company and as individuals, sustainable growth is the only option in terms of long-term success.

Hannu Martola
President and CEO

“As a company and as individuals, sustainable growth is the only option in terms of long-term success.”



Managing sustainability

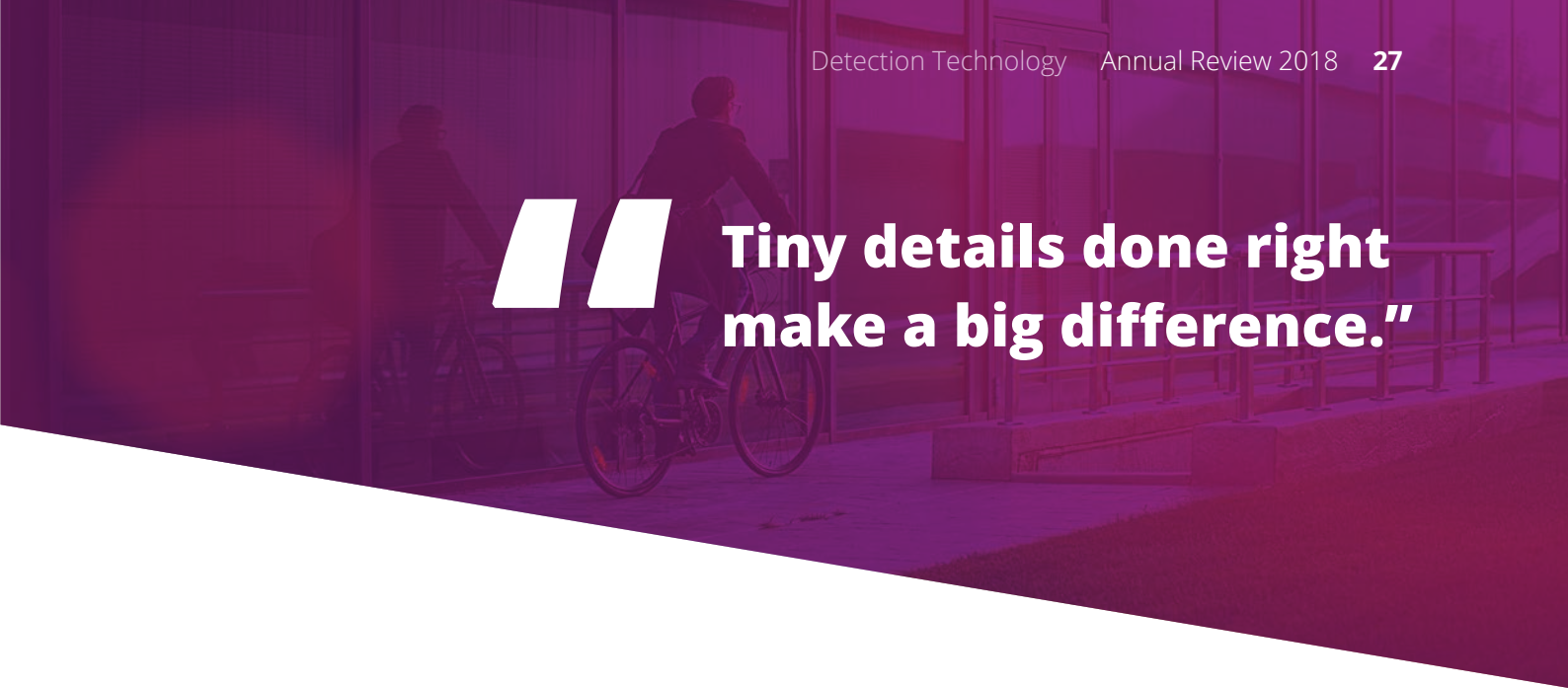
Sustainability has played a significant role in Detection Technology's business for years. The newly published Detection Technology's Code of Conduct reinforces the company's commitment to grow sustainably and sums up the company practices conveniently.

The DT way to conduct responsible business evolves from the company's vision, mission and values – simplicity, integrity, driven and result. The DT way is business-driven and closely linked to the company culture, providing a unique customer experience and excellence in quality. It is all about how to treat people and the environment, and how to foster financial performance now and in the future.

Detection Technology manages sustainability via its ISO 9001:2015 and ISO 14001:2015 certified management systems, and the company

acknowledges and continuously implements the Code of Conduct of the Responsible Business Alliance (RBA). The RBA Code of Conduct is a set of social, environmental and ethical industry standards, that comply with international laws and practices, such as the Universal Declaration of Human Rights, ILO International Labor Standards, OECD Guidelines for Multinational Enterprises, and ISO and SA standards.

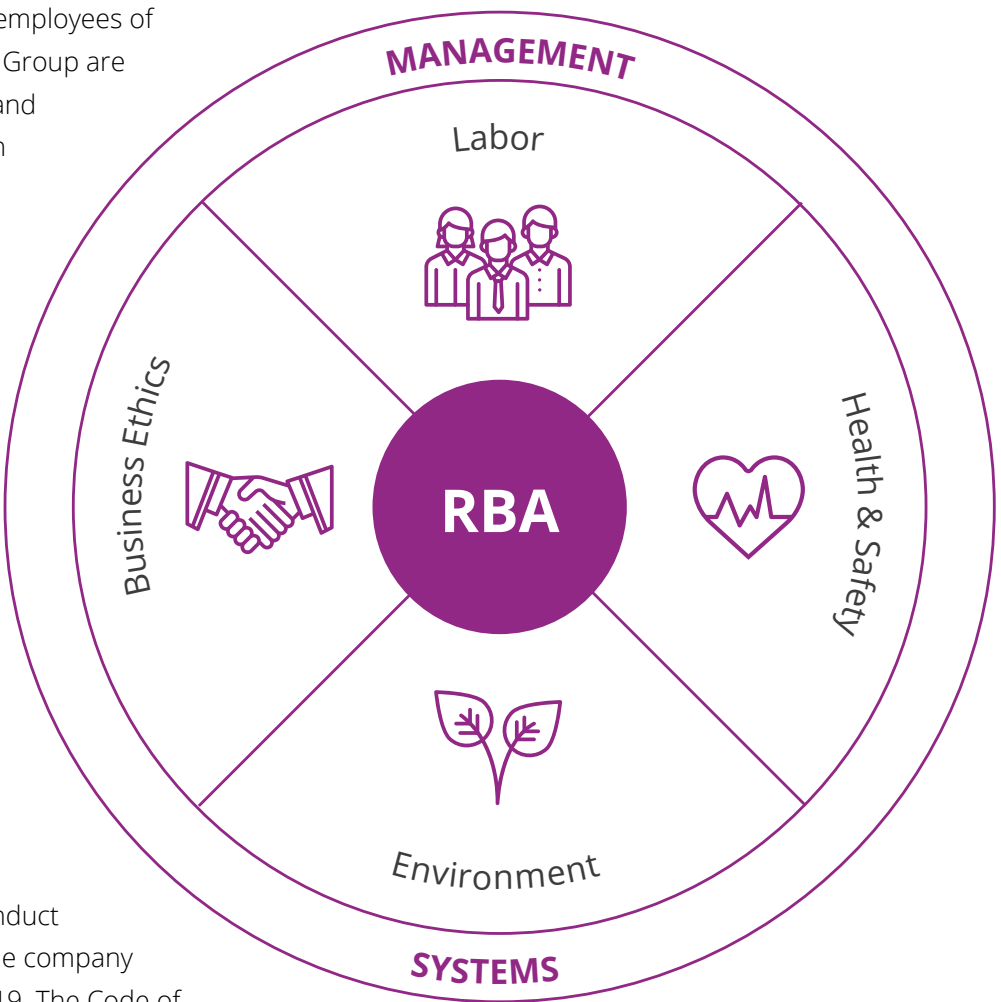
The everyday work of DT employees is guided by the principles stated in the Code of Conduct and many other company policies. The company's quality, environmental, business ethics, labor, and health and safety policies form the DT code. The policies ensure that working conditions are safe, workers are treated with respect and dignity, and business operations are environmentally responsible and conducted ethically.



“Tiny details done right make a big difference.”

The management and all employees of the Detection Technology Group are responsible for following and promoting the code within the company's business ecosystem. With regard to suppliers and other partners, Detection Technology expects third parties to conduct their business in compliance with the same high-level standards and does its best to ensure that they utilize similar policies.

The Board of Directors of Detection Technology approved the Code of Conduct in December 2018, and the company published it in January 2019. The Code of Conduct is available on **the company's website**.



RBA
The Responsible Business Alliance (RBA) is a nonprofit coalition of companies dedicated to improve social, environmental and ethical conditions in their global supply chains. The RBA was founded in 2004, and it was formerly known as the Electronic Industry Citizenship Coalition (EICC).

www.responsiblebusiness.org

2 000 000 000+

Inspections done daily with our technology.

10+ 3 000 000+

Percent (%) of the world's population travel safer and live healthier every day thanks to our solutions.

Cumulative number of solutions shipped.

600 000+

Cumulative number of solutions shipped to CT systems.

10+

Number of Forbes Global 2000 companies as customers.

30+

CAGR of net sales 2014-2018.

17+

Estimated global market share in percentages (%).

25+

Years serving the main players in the industry.

500+

World-class brands protected by utilizing DT competences.

Financial reporting schedule in 2019

Detection Technology Plc will disclose the following financial releases in 2019:

Business review January-March 2019: 26 April 2019

Half-yearly report January-June 2019: 2 August 2019

Business review January-September 2019: 25 October 2019

The Annual General Meeting is scheduled for 28 March 2019 at 15:00 (EEST).

Detection Technology

Financial statements and Board of Directors' report

2018

Board of Director's report

Financial year 2018 in brief

2018 was time for developing competitiveness and business. Detection Technology completed several projects to develop and expand its business. The company launched important new products, acquired the business operations of MultiX technology company, and implemented a new enterprise resource planning (ERP) system at the end of the year.

The global X-ray imaging market grew steadily with the exception of a brief stagnation in the Chinese security market. The company's net sales grew moderately and overall profitability remained good in a competitive market.

Net sales grew by 6% to EUR 94 million. 2018 was a year of growth in the Medical Business Unit (MBU), where sales increased by 23% and totaled EUR 38 million. This growth was due to 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. In contrast, there were growth challenges in the Security and Industrial Business Unit (SBU). Due to slower growth in the Chinese security market and tougher competition, SBU's net sales fell by -4% to EUR 56 million. As a result of the indirect consequences of protectionist trade policy, infrastructure projects in the security market were suspended in China at the end of the year. The company estimates that its market share was 17% at the end of the year.

Detection Technology's business was very scalable and profitability was at the target level. Operating profit without non-recurring items was EUR 19 million, which is 20% of net sales. Improved productivity and moderate development of fixed costs kept profitability at a good level despite price competition and higher R&D costs.

In September, the company launched the fully digital Aurora product family for the security and industrial markets. Aurora enables faster go-to-market for performance-enhancing and more mechanically robust imaging solutions. The product family was well received in the security segment, and it will replace the company's analog and first-generation digital product families. The second big piece of product news was the launch of the X-Panel product family in the CMOS market. In addition to dental applications, the product family provides growth opportunities in other areas of medical and industrial imaging.

In December, Detection Technology made a long-term strategic investment when it acquired the business operations of the French technology company MultiX. The deal significantly expanded Detection Technology's technology base and patent portfolio, which will strengthen the company's position in all its main market areas. The company's goal is to commercialize solutions based on direct conversion technology during this year and bring new volume products to market in 2020.

At the end of last year, Detection Technology began planning a new production and service unit and the expansion of its production network. According to the plan, production should begin in a new unit 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, the company will relocate the manufacturing of some products from China to Europe during this year. Another significant development event was the deployment of a new enterprise resource planning (ERP) system.

Net sales and financial result development

The company's net sales for January-December 2018 grew by 5.5% to EUR 93.9 million (89.0). Net sales for MBU grew faster than the market, by 23.1%, and totaled EUR 38.3 million (31.1). Net sales for SBU decreased by -4.0% to EUR 55.6 million (57.9). MBU's share of total net sales was 40.8 % (35.0 %) and SBU's was 59.2 % (65.0 %).

In January-December, Asia's share of net sales was 62.2% (63.4%), Americas' 18.9% (24.5%) and Europe's 18.9% (12.1%). The share of net sales accounted for by the top five customers decreased and was 53.6% (59.5%) in January-December 2018.

The operating profit for the review period January-December 2018 was EUR 18.5 million (19.9), or 19.7% (22.4%) of net sales. Non-recurring items (NRI) were EUR 0.5 million (0.0) related to business development projects. EBIT excluding NRI was EUR 19.0 million (19.9), or 20.3% (22.4%) of net sales.

Financial items totaled EUR -0.1 million (-0.5), and income taxes were EUR -3.6 million (-4.2). The result for the year 2018 was EUR 14.9 million (15.2). Earnings per share were EUR 1.03 (1.09).

Key figures of financial performance

	Group 2018	Group 2017	Group 2016	Parent Company 2018	Parent Company 2017	Parent Company 2016
Net sales, EUR 1,000	93,916	89,003	75,509	24,873	22,453	19,499
Operating profit, EUR 1,000	18,522	19,893	14,808	5,844	4,889	4,166
Operating profit, %	19.7%	22.4%	19.6	23.5%	21.8%	21.4%
Return on investment (ROI), %	36.4%	47.0%	38.7%	17.0%	14.2%	12.2%
Earnings per share, EUR	1.03	1.09	0.81	-	-	-
Earnings per share diluted, EUR *	1.07	1.13	0.84	-	-	-
Equity ratio, %	72.3%	66.8%	57.0%	90.1%	92.5%	86.7%
Equity per share, EUR	3.57	3.00	2.30	2.41	2.45	2.51
Equity per share (diluted), EUR *	3.70	3.10	2.39	2.49	2.53	2.61

* In the calculation of the diluted earnings per share for 2018, a share number of 13,900,595 has been used, which was the number of shares before the 474,835 shares subscribed to in the share incentive scheme. The number of shares at the end of the accounting period was 14,375,430.

Research and development

During the fiscal year 2018, R&D expenses were EUR 8.8 million (7.2), corresponding to 9.4% of net sales (8.0%). In 2019, the company expects its R&D expenses to increase by approximately 30%. All R&D costs are written off as expenses.

Personnel

At the end of December 2018 Detection Technology employed 507 people (405) of whom 414 were in China, 70 in Finland, in 17 France and 6 in the US. In January-December 2018, personnel expenses totaled EUR 15.0 million (13.4).

Headcount, salaries and rewards

	Group 2018	Group 2017	Group 2016	Parent Company 2018	Parent Company 2017	Parent Company 2016
Average headcount	447	417	389	65	56	48
Salaries and rewards (EUR 1,000)	11,740	10,522	7,890	4,798	4,146	3,848

Personnel by geography

	31.12.2018	31.12.2017	Change, %
Asia	414	341	21.4%
Americas	6	6	0.0%
Europe	87	58	50.0%
TOTAL	507	405	25.2%

Board of Directors and management

Hannu Syrjälä, Heikki Allonen, Petri Niemi, Henrik Roos, Pasi Koota and Vera Backström were elected by the Annual General Meeting (AGM) to the Board of Directors at the meeting held on 27 March 2018. The Board elected Hannu Syrjälä to chair the Board.

The Board of Directors has appointed Remuneration and Auditing Committees from amongst its number. The Remuneration Committee comprised Hannu Syrjälä, Henrik Roos, Vera Backström and Petri Niemi. The Remuneration Committee appointed Hannu Syrjälä to chair the committee. Heikki Allonen and Pasi Koota belonged to the Auditing Committee. Heikki Allonen was elected to chair the Auditing Committee.

Hannu Martola has served as President and CEO. The company's auditor has been Ernst & Young Ltd with Juha Hilmola APA (Authorised Public Accountant) as the auditor in charge.

Report on the Corporate Governance

A report on the company's Corporate Governance (CG) has been given for the financial year 2018. The report can be found on the company's website.

Annual General Meeting

Detection Technology Plc's Annual General Meeting 2018 was held on 27 March 2018. The meeting handled and decided upon the following matters in addition to those referred to in the Articles of Association:

1) The decision was made to authorize the company's Board of Directors to acquire the company's own shares. This authority covers 695,000 shares, and is valid until the conclusion of the following Annual General Meeting, but no later than 30 June 2019. At the end of the review period, the authority to acquire the shares was completely unused.

2) The Board of Directors was authorized to decide on the issue of 1,390,000 new shares in the company. This authority is valid until the conclusion of the following Annual General Meeting, but no later than 30 June 2019. During the financial period, this authority to issue shares was used to issue shares for the share-based incentive program of company management. A total of 474,835 shares were issued within the framework of this program. In addition, the Board of Directors launched stock option programs 2018A and 2018B during the financial year, under which 760,000 stock options were granted, entitling to subscribe for a total of 760,000 shares under the terms of the stock option terms and conditions. At the end of the review period, 155,165 shares had not yet been issued under the authorization.

Shares and shareholders

Based on the authorization granted by the Annual General Meeting of shareholders held on 27 March 2018, Detection Technology's Board of Directors decided on 27 September 2018 to issue stock options free of charge to the Group's key personnel. The stock options will be issued in separate series, which are marked with the symbols 2018A1, 2018A2, 2018B1 and 2018B2. The combined aggregate number of stock options marked with the symbol 2018A1 or 2018A2 is 380,000 and with the symbol 2018B1 or 2018B2 is 380,000. Thus, the maximum number of shares that may be subscribed with the stock options is 760,000 shares, which is approximately five percent of the company's shares on a fully diluted basis.

At the same time, an allocation round related to the stock options 2018A and 2018B was carried out, resulting in the issuing of a total of 376,000 stock option rights to the key personnel. The share subscription period for the stock options 2018A1 and 2018A2 is from 2 May 2021 until 31 May 2022 and with the period for the stock options 2018B1 and 2018B2 is from 2 May 2022 until 31 May 2023. The strike price of stock options 2018A1 and 2018A2 is EUR 22.26. The description and terms of the stock option program and stock options can be found on the company's website.

On 3 December 2018, the Board of Detection Technology Plc decided to issue 474,835 new shares in a directed share issue without payment to the individuals entitled to the share incentives based on the authorization granted by the general meeting of shareholders held on 27 March 2018. The number of shares outstanding in Detection Technology following the share issue and at the end of the review period was 14,375,430.

The average share price of Detection Technology was EUR 19.19 in January-December 2018. The highest price for the year 2018 was EUR 24.00 and the lowest EUR 15.10. At the end of December, the closing price was EUR 16.35 and the company had a market capitalization of around EUR 235 million. The number of shares traded between 2 January and 28 December was 2.41 million, which is 16.7% of the total number of shares.

At the end of the review period, the total number of shareholders was 2,265. Approximately 62.2% of the shares were held by the ten largest shareholders. The nominee-registered foreign holding of shares in the company was 17.0% at the end of the review period.

Detection Technology has one share series and all shares have equal voting rights. The company's shares are listed on the Nasdaq First North Finland marketplace under the ticker symbol DETEC.

The largest, registered shareholders on 31 December 2018

	Shares	%
AC INVEST SEVEN B.V.	5,280,167	36.73%
NORDEA BANK ABP *	1,424,449	9.91%
SKANDINAVISKA ENSKILDA BANKEN AB (PUBL) HELSINGIN SIVUKONTTORI *	908,122	6.32%
OP-SUOMI -SIIJOITUSRAHASTO	706,065	4.91%
ILMARINEN KESKINÄINEN ELÄKEVAKUUTUSYHTIÖ	554,000	3.85%
KESKINÄINEN TYÖELÄKEVAKUUTUSYHTIÖ VARMA	515,000	3.58%
SIIJOITUSRAHASTO AKTIA CAPITAL	484,762	3.37%
MARTOLA HANNU VEIKKO	431,690	3.00%
SIIJOITUSRAHASTO EVLI SUOMI PIENYHTIÖT	327,259	2.28%
FONDITA NORDIC MICRO CAP PLACERINGSF	280,000	1.95%
SÄÄSTÖPANKKI KOTIMAA -SIIJOITUSRAHASTO	200,000	1.39%
SIIJOITUSRAHASTO SÄÄSTÖPANKKI PIENYHTIÖT	157,230	1.09%
NACAWI AB	128,000	0.89%
CHEN WU	101,875	0.71%
OP-SUOMI PIENYHTIÖT	92,527	0.64%
OP-SUOMI MIKROYHTIÖT -ERIKOISSIIJOITUSRAHASTO	90,106	0.63%
SR DANSKE INVEST SUOMEN PIENYHTIÖT	90,000	0.63%
SEB FINLAND SMALL CAP	83,500	0.58%
SIIJOITUSRAHASTO AKTIA NORDIC SMALL CAP	75,000	0.52%
STILL JYRKI MATTI KRISTIAN	65,960	0.46%
The 20 largest shareholders in total	11,995,712	83.45%
Other shareholders	2,379,718	16.55%
Shares in total	14,375,430	100.00%

* Nominee register

Breakdown of share ownership on 31 December 2018

Number of shares	Owners	%	Shares	%
1 - 100	1,034	45.6%	52,074	0.4%
101 - 500	766	33.8%	198,348	1.4%
501 - 1,000	202	8.9%	165,155	1.1%
1,001 - 5,000	165	7.3%	335,647	2.3%
5,001 - 10,000	34	1.5%	241,133	1.7%
10,001 - 50,000	41	1.8%	1,165,272	8.1%
50,001 - 100,000	10	0.4%	719,182	5.0%
100,001 -	14	0.6%	11,498,619	80.0%
	2,266	100.0%	14,375,430	100.0%

Shareholding of the management on 31 December 2018

	Shares	%
Members of the Board	26,098	0.2%
CEO	431,690	3.0%
Other members of the management team	300,694	2.1%

In addition to the above-mentioned shareholdings, at the end of the review period a corporation controlled by President and CEO Hannu Martola, Expedir Oy, owned 35,000 of the company's shares.

Share-based incentive programs

The company established share-based incentive programs for the President and CEO in 2008 and for key personnel in 2010. In these programs, shares can be offered for subscription to beneficiaries in three steps. The first step was accomplished in December 2016, the second in December 2017 and the third in December 2018. During the financial year, within the directed share issue without payment a total of 474,835 new shares were issued. The shares began being traded on 10 December 2018.

Stock options 2018

Based on the authorization granted by the Annual General Meeting of shareholders held on 27 March 2018, the company's Board decided on 27 September 2018 to issue stock options. The stock options are offered free of charge to the company's and its affiliated companies' key personnel, and stock options entitle to subscribe the company's shares according the terms of stock option program. During the financial year, a total of 376,000 stock option were issued and the strike price is EUR 22.26. The detailed terms of the stock option programs can be found on the company's website.

Risks and uncertainties

According to the management view, the company's main short-term risks in 2019 are associated with development of international security, factors related to political and trade policy uncertainty, and operating in the emerging markets.

Other risks are related to price competition, a significant share of net sales being generated from the top five customers, APAC countries' large share of sales, product quality, SOP (startup of production) of new products, renewal of information systems, customer liquidity, exchange rate fluctuations, an overall rise in costs especially in China, the adequacy and competence of personnel and organizational efficiency.

The company aims to mitigate these risks with normal control and precautionary measures. The Group has not hedged foreign exchange risks. Group loans are not covered by interest rate hedging instruments, and consequently possible interest rate changes can impact the company results. The Group has taken measures to protect against material and immaterial damage by insuring its operations sufficiently.

Products that Group companies manufacture are sensitive X-ray detectors and related quality standards are rigorous. It is possible that, from time to time and despite on-going quality and assurance mechanisms, the quality of the products does not fully meet customer requirements thereby causing additional quality costs. There are several quality assurance and testing methodologies used in production, which are regarded as adequate by corporate management to make sure that, under normal conditions, products meet the requirements. Group companies in China and Finland have obtained ISO 9001:2015 and 14001:2015 certification for their key processes.

Through normal control and precautionary measures, the Company management aims to reduce the impact of risks affecting the company's operational continuity.

Sustainability

The Board of Directors approved Detection Technology Group's Code of Conduct in December. Detection Technology's corporate responsibility complies with the ISO 9001:2015 and ISO 14001:2015 standards, and the company recognizes the Code of Conduct of the Responsible Business Alliance's (RBA) and implements this in the company's business.

The company's quality, environmental, business ethics, labor, and occupational health and safety policies form the DT Code of Conduct. These practices ensure that working conditions are safe, workers are treated with respect and dignity, and business operations are environmentally responsible and conducted ethically. The principles of the Code of Conduct guide the everyday work of the company's management and employees, and the company requires its suppliers and other partners to commit to the same standards. The Code of Conduct is available on the company website.

At Detection Technology, environmental responsibility means offering customers environmentally friendly product and production solutions and reducing the environmental impacts of the company's own operations. The company constantly assesses the environmental impacts of its functions and products, improves production processes and product structures with consideration to environmental aspects, minimizes the amount of waste, and develops environmental awareness within the organization. No significant environmental damage came to the company's notice in 2018.

The launch of the Aurora product family contributed to supporting the company's responsibility targets. A high level of integration means that the products contain much fewer components than the company's earlier generations or corresponding product solutions offered by competitors. The high integration level also provides solutions that are mechanically more robust and streamlines global supply chains. Furthermore, the recyclability of packaging materials and optimization of package sizes was emphasized during the package design process.

Events after financial year ended

During the 2019 financial year, business has continued without abnormal events.

Outlook for 2019

According to industry estimates, the average growth rate is around 5% per year in the global medical X-ray imaging market, 7% in the security X-ray equipment market and around 5% in industrial X-ray imaging. Detection Technology estimates that the annual growth rate will remain at this level in all market segments in 2019.

The company estimates that sales will increase in both business units during the first half of 2019, and revenue growth will slow down in the second half of the year. There is uncertainty regarding demand, and the intensification of competition might be reflected in product prices.

Detection Technology's medium-term business outlook is unchanged. Detection Technology aims to increase sales by at least 15% per annum and to achieve an operating margin at or above 15% in the medium term.

Dividend distribution policy

In accordance with a decision by the Board of Directors, the company aims regularly to distribute funds to shareholders every year, by paying dividends or refunding capital. The amount of funds for distribution and the time of payment are affected by, among other things, the company and Group result, its financial position, the need for capital and other possible factors. The aim is to distribute to shareholders 30–60% of the Group's annual earnings (earnings per share) before non-recurring items.

Board of Directors' profit distribution proposal

The invested unrestricted equity fund of the parent company Detection Technology Plc contains distributable funds totalling EUR 29,369,421, of which EUR 5,451,973 represents the net profit for the financial year. The company's funds eligible for dividend distribution total EUR 6,916,546. After the end of the financial year, there have not been significant changes in the company's financial situation, nor does the solvency test referred to in Chapter 13, Section 2 of the Companies Act affect the amount of distributable funds.

The Board of Directors proposes to the Annual General Meeting to be held on 28 March 2019 that, based on the balance sheet adopted for 2018, a dividend of EUR 0.38 per share be paid. The number of shares entitling to dividend is 14,375,430, which means that the total amount of the dividend would be EUR 5,462,663.40.

Group income statement

1.1.2018–31.12.2018

	2018	2017
NET SALES	93,916,146.37	89,003,049.16
Change in inventories of finished goods and work in progress	1,722,957.86	-1,083,105.22
Other operating income	719,015.88	142,532.56
Materials and services		
Materials, supplies and goods		
Purchases during financial year	-51,450,865.59	-40,962,943.38
Change in inventories	2,998,048.72	-944,972.20
External services	-382,590.19	-495,679.10
Total	-48,835,407.06	-42,403,594.68
Personnel expenses		
Salaries and wages	-11,739,970.38	-10,522,006.63
Indirect personnel expenses		
Pension expenses	-1,797,753.86	-1,535,777.75
Other indirect personnel expenses	-1,430,181.64	-1,354,058.67
Total	-14,967,905.88	-13,411,842.87
Depreciations and amortisations		
Depreciations according to plan	-2,350,767.58	-2,217,514.65
Amortisations	0.00	-8,484.56
Total	-2,350,767.58	-2,225,999.21
Other operating expenses	-11,682,217.32	-10,128,249.02
OPERATING PROFIT (LOSS)	18,521,822.27	19,892,790.72
Financial income and expenses		
Interest and financial income	508,807.65	1,914,121.08
Interest and financial expenses	-585,703.36	-2,438,309.43
Total	-76,895.71	-524,188.35
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	18,444,926.56	19,368,602.37
Income taxes	-3,578,729.40	-4,216,534.09
PROFIT (LOSS) FOR THE FINANCIAL YEAR	14,866,197.16	15,152,068.28

Group balance sheet

31.12.2018

ASSETS	2018	2017
NON-CURRENT ASSETS		
Intangible assets		
Intangible rights	404,155.62	305,282.17
Other capitalized expenses	834,054.34	903,479.78
Prepayments for intangible assets	2,231,184.84	313,906.83
Total	3,469,394.80	1,522,668.78
Tangible assets		
Machinery and equipment	5,191,596.23	4,260,110.48
Prepayments for tangible assets	75,135.06	62,696.41
Total	5,266,731.29	4,322,806.89
Investments		
Other shares	10,500.00	10,500.00
Total	10,500.00	10,500.00
TOTAL NON-CURRENT ASSETS	8,746,626.09	5,855,975.67
CURRENT ASSETS		
Inventories		
Materials and supplies	8,626,437.04	5,628,388.32
Work in progress	1,802,104.01	115,774.00
Finished goods	2,860,246.40	2,823,618.55
Total	13,288,787.45	8,567,780.87
Receivables		
Current receivables		
Trade receivables	25,003,280.96	20,556,649.21
Other receivables	1,358,238.77	364,765.66
Prepaid expenses and accrued income	297,820.25	527,110.41
Total	26,659,339.98	21,448,525.28
Cash and cash equivalents	22,345,632.87	26,500,016.84
TOTAL CURRENT ASSETS	62,293,760.30	56,516,322.99
TOTAL ASSETS	71,040,386.39	62,372,298.65

Group balance sheet

31.12.2018

EQUITY AND LIABILITIES	2018	2017
EQUITY		
Share capital	80,000.00	80,000.00
Share premium account	5,130,024.55	5,130,024.55
Invested non-restricted equity fund	22,452,875.22	22,452,875.22
Retained earnings (loss)	8,854,475.28	-1,176,033.10
Profit for financial year (loss)	14,866,197.16	15,152,068.28
TOTAL EQUITY	51,383,572.21	41,638,934.94
LIABILITIES		
Current liabilities		
Loans from financial institutions	4,055,589.57	4,725,668.86
Advances received	65,983.44	223,156.65
Trade payables	9,320,080.95	8,709,739.32
Other liabilities	174,915.72	1,077,081.30
Accrued liabilities	6,040,244.50	5,997,717.58
Total	19,656,814.18	20,733,363.71
TOTAL LIABILITIES	19,656,814.18	20,733,363.71
TOTAL EQUITY AND LIABILITIES	71,040,386.39	62,372,298.65

Group cash flow statement

	2018	2017
CASH FLOW FROM OPERATIONS		
Operating profit (loss)	18,521,822.27	19,892,790.72
Depreciations	2,350,767.58	2,225,999.21
Change in working capital	-9,435,704.35	1,101,148.15
Change in advances received	-157,173.21	-474,201.82
Financial income and expenses	-440,803.97	-799,300.65
Paid income taxes	-4,717,178.56	-3,321,858.87
CASH FLOW FROM OPERATIONS	6,121,729.76	18,624,576.74
CASH FLOW FROM INVESTMENTS		
Investments in intangible and tangible assets	-4,740,826.19	-1,832,647.79
CASH FLOW FROM INVESTMENTS	-4,740,826.19	-1,832,647.79
CASH FLOW FROM FINANCING		
Change in non-current loans	0.00	-683,445.25
Change in current loans	-670,079.29	-1,914,383.56
Dividend payment	-4,865,208.25	0.00
Capital repayment	0.00	-3,356,443.75
CASH FLOW FROM FINANCING	-5,535,287.54	-5,954,272.56
CHANGE IN CASH AND CASH EQUIVALENTS	-4,154,383.97	10,837,656.39
Cash and cash equivalents at the beginning of the year	26,500,016.84	15,662,360.45
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	22,345,632.87	26,500,016.84
CHANGE IN WORKING CAPITAL		
Change in current receivables*	-4,390,468.01	-402,844.33
Change in inventories	-4,721,006.58	2,028,077.42
Change in current liabilities	-324,229.76	-524,084.95
CHANGE IN WORKING CAPITAL	-9,435,704.35	1,101,148.15

* Deferred conversion differences are included into change in working capital, as an increase of current receivables.

Detection Technology Plc income statement

1.1.2018–31.12.2018

	2018	2017
NET SALES	24,872,724.90	22,452,945.14
Change in inventories of finished goods and work in progress	691,058.45	139,250.06
Other operating income	7,405,526.38	4,967,468.95
Materials and services		
Materials, supplies and goods		
Purchases during financial year	-12,848,107.44	-11,619,548.92
Change in inventories	-513,127.45	107,986.66
External services	-173,157.15	-210,945.02
Total	-13,534,392.04	-11,722,507.28
Personnel expenses		
Salaries and wages	-4,797,721.85	-4,145,667.44
Indirect personnel expenses		
Pension expenses	-941,007.34	-783,652.21
Other indirect personnel expenses	-181,062.22	-149,532.20
Total	-5,919,791.41	-5,078,851.85
Depreciations and amortisations		
Depreciations according to plan	-681,697.66	-522,250.54
Total	-681,697.66	-522,250.54
Other operating expenses	-6,989,197.97	-5,346,670.29
OPERATING PROFIT (LOSS)	5,844,230.65	4,889,384.19
Financial income and expenses		
Interest and financial income	678,487.61	706,680.11
Interest and financial expenses	-153,384.47	-1,243,179.69
Total	525,103.14	-536,499.58
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	6,369,333.79	4,352,884.61
Income taxes	-917,360.40	-741,572.79
PROFIT (LOSS) FOR THE FINANCIAL YEAR	5,451,973.39	3,611,311.82

Detection Technology Plc balance sheet

31.12.2018

ASSETS	2018	2017
NON-CURRENT ASSETS		
Intangible assets		
Intangible rights	277,268.42	234,153.32
Other capitalized expenses	481,313.73	457,983.18
Prepayments for intangible assets	2,231,184.84	313,906.83
Total	2,989,766.99	1,006,043.33
Tangible assets		
Machinery and equipment	864,399.94	967,092.06
Prepayments for tangible assets	75,135.06	62,696.41
Total	939,535.00	1,029,788.47
Investments		
Shares in group companies	2,979,045.23	2,979,045.23
Other shares	10,500.00	10,500.00
Total	2,989,545.23	2,989,545.23
TOTAL NON-CURRENT ASSETS	6,918,847.22	5,025,377.03
CURRENT ASSETS		
Inventories		
Materials and supplies	266,297.35	779,424.80
Work in progress	43,761.30	115,773.99
Finished goods	1,042,842.46	279,771.32
Total	1,352,901.11	1,174,970.11
Receivables		
Non-current receivables		
Receivables from group companies	1,965,065.50	5,664,335.42
Total	1,965,065.50	5,664,335.42
Current receivables		
Trade receivables	4,123,466.32	1,635,358.41
Receivables from group companies	5,911,700.06	6,539,720.61
Other receivables	1,191,000.43	360,996.38
Prepaid expenses and accrued income	104,454.81	217,333.86
Total	11,330,621.62	8,753,409.26
Cash and cash equivalents	16,830,359.36	16,114,495.79
TOTAL CURRENT ASSETS	31,478,947.59	31,707,210.58
TOTAL ASSETS	38,397,794.81	36,732,587.61

Detection Technology Plc balance sheet

31.12.2018

EQUITY AND LIABILITIES	2018	2017
EQUITY		
Share capital	80,000.00	80,000.00
Share premium account	5,130,024.55	5,130,024.55
Invested non-restricted equity fund	22,452,875.22	22,452,875.22
Retained earnings (loss)	1,464,572.19	2,718,468.62
Profit for financial year (loss)	5,451,973.39	3,611,311.82
TOTAL EQUITY	34,579,445.35	33,992,680.21
LIABILITIES		
Current liabilities		
Advances received	1,350.00	40,505.02
Trade payables	614,605.69	831,669.33
Trade payables from group companies	932,762.80	201,594.26
Other liabilities	128,670.58	102,439.51
Accrued liabilities	2,140,960.39	1,563,699.28
Total	3,818,349.46	2,739,907.40
TOTAL LIABILITIES	3,818,349.46	2,739,907.40
TOTAL EQUITY AND LIABILITIES	38,397,794.81	36,732,587.61

Detection Technology Plc cash flow statement

	2018	2017
CASH FLOW FROM OPERATIONS		
Operating profit (loss)	5,844,230.65	6,124,833.57
Depreciations	681,697.66	522,250.54
Change in working capital	-1,864,729.22	3,309,268.12
Change in advances received	-39,155.02	-577,132.81
Financial income and expenses	139,877.14	464,366.25
Paid income taxes	-1,061,048.40	-1,296,546.63
CASH FLOW FROM OPERATIONS	3,700,872.81	8,547,039.04
CASH FLOW FROM INVESTMENTS		
Investments in intangible and tangible assets	-2,114,178.99	-1,065,838.02
CASH FLOW FROM INVESTMENTS	-2,114,178.99	-1,065,838.02
CASH FLOW FROM FINANCING		
Change in non-current loans	0.00	-683,445.25
Change in non-current loans to group companies	3,202,574.00	2,743,458.78
Change in current loans to group companies	791,804.00	0.00
Change in current loans	0.00	-261,524.00
Dividend payment	-4,865,208.25	0.00
Capital repayment	0.00	-3,356,443.75
CASH FLOW FROM FINANCING	-870,830.25	-1,557,954.22
CHANGE IN CASH AND CASH EQUIVALENTS	715,863.57	5,923,246.80
Cash and cash equivalents at the beginning of the year	16,114,495.79	10,191,248.99
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	16,830,359.36	16,114,495.79
CHANGE IN WORKING CAPITAL		
Change in current receivables	-2,343,406.30	4,681,281.89
Change in inventories	-177,931.00	-316,857.41
Change in current liabilities	656,608.08	-1,055,156.36
CHANGE IN WORKING CAPITAL	-1,864,729.22	3,309,268.12

Accounting principles for consolidated financial statements

Copies of Detection Technology Plc consolidated financial statement can be obtained from company's offices in Oulu and Espoo.

Principles for consolidated financial statements

Consolidated financial statements of Detection Technology Group have been drawn up by using past equity method.

Intercompany transactions, account receivables and account payables as well as group internal shareholdings have been eliminated from consolidated financial statements. The income statements of subsidiaries have been converted to euro by using monthly average exchange rate for the financial period, and balance sheets have been converted by using the official rates at the end of the financial period. Differences arising from the currency conversion as well as the translation of foreign subsidiaries’ share capitals are included in retained earnings.

Cash flow statements for DT Group and Detection Technology Plc have been prepared in compliance with the cash flow reporting model recommended by Finnish Accounting Board (KILA).

Company shares

Share´s basic information

Trading code	DETEC
ISIN -code	FI4000115464
Votes/share	1 pcs
Share capital, EUR	80,000.00 €
Share amount	14,375,430 pcs

Shares os subsidiaries

	Ownership	Country
DTF (H.K.) Ltd.	100 %	Hong Kong
Detection Technology, Inc.	100 %	United States
Beijing DT Electronic Technology Co., Ltd.	100 %	China
DT Electronic Manufacturing (Beijing) Co., Ltd.	100 %	China

Associated companies

Company does not have any associated companies.

Goodwill

Company does not have any goodwill in its balance sheet as the company has established all subsidiaries.

Deferred taxes

Company does not accrue receivables or liabilities from deferred income taxes in its consolidated financial statements.

Valuation methods and principles

Inventories have been valued at variable acquisition cost on the basis of Chapter 5 Section 6 of the Finnish Accounting Act that defines the rules for valuation.

The company's fixed assets have been valued at variable acquisition cost.

Planned depreciation periods for different asset types are as follows

Intangible rights	straight-line depreciation 3 - 5 years
Other capitalized expenses	straight-line depreciation 3 - 5 years
Machines and equipment	straight-line depreciation 3 - 10 years

Company has harmonized depreciation periods within the group. Depreciations periods are 3 or 5 years. The 10 years depreciations time is only in use in China.

Net sales recognition principles

Net sales for the products and services produced by the company is recognized based on delivery.

Conversion of foreign currency items

Receivables and payables recorded in foreign currencies are converted to euros based on the average rates of the end date of the financial period.

Notes to group's financial statement

NOTES TO INCOME STATEMENT

NET SALES	2018	2017
Finland	2,868,206.80	2,105,479.60
Other geographical areas	91,047,939.57	86,897,569.56
Total	93,916,146.37	89,003,049.16
Medical Business Unit (MBU)	38,319,777.44	31,119,088.50
Security and Industrial Business Unit (SBU)	55,596,368.93	57,883,960.66
Total	93,916,146.37	89,003,049.16

Top five customers accounted for 54% of net sales in the review period.

PERSONNEL	2018	2017
Members of the Board of Directors' rewards		
Chairman's rewards	47,951.62	42,000.00
Board members' rewards	138,830.65	90,000.01
Total	186,782.27	132,000.01
CEO's rewards		
Fixed salaries and rewards	393,080.84	358,179.91
Benefits	10,515.00	11,220.00
Total	403,595.84	369,399.91

Board members and CEO have a voluntary pension scheme provided by the company.

Management's share-based incentive scheme

The company's management has a share-based incentive scheme that has not been booked to company or consolidated accounts.

Average number of personnel during the financial year

Officers	176	160
Workers	271	258
Total	447	417

DEPRECIATIONS	2018	2017
Intangible rights	190,665.21	132,819.61
Other capitalized expenses	557,000.02	665,344.35
Machinery and equipment	1,603,102.35	1,419,350.69
Total	2,350,767.58	2,217,514.65

AUDITING SERVICES	2018	2017
Annual audits	88,000.00	133,703.00
Other services	41,588.00	7,315.00
Total	129,588.00	141,018.00

SPECIFICATION FOR FINANCIAL ITEMS	2018	2017
Financial income from others	27,120.29	10,093.56
Interest expenses	-130,047.71	-466,286.69
Other financial expenses	-4,432.07	-23,071.19
Conversion items	30,463.78	-44,924.03
Total	-76,895.71	-524,188.35

NOTES TO BALANCE SHEET

INTANGIBLE ASSETS	2018	2017
Immaterial rights		
Carrying amount at 1.1.	305,282.17	375,771.28
Increases	191,322.42	68,172.05
Reclassification	98,233.42	0.00
Decreases	0.00	0.00
Conversion items	-17.18	-5,841.55
Depreciations	-190,665.21	-132,819.61
Carrying amount at 31.12.	404,155.62	305,282.17
Other capitalized expenses		
Carrying amount at 1.1.	903,479.78	1,250,128.35
Increases	396,062.27	354,600.83
Reclassification	89,960.44	0.00
Decreases	0.00	0.00
Conversion items	1,551.87	-35,905.05
Depreciations	-557,000.02	-665,344.35
Carrying amount at 31.12.	834,054.34	903,479.78
Prepayments for intangible assets		
Carrying amount at 1.1.	313,906.83	0.00
Increases	2,105,471.87	313,906.83
Decreases	-188,193.86	0.00
Carrying amount at 31.12.	2,231,184.84	313,906.83
INTANGIBLE ASSETS TOTAL	3,469,394.80	1,522,668.77

TANGIBLE ASSETS	2018	2017
Machinery and equipment		
Carrying amount at 1.1.	4,260,110.48	4,663,810.79
Increases	2,552,977.97	1,193,618.00
Reclassification	0.00	0.00
Decreases	0.00	-8,484.56
Conversion items	-18,389.87	-169,483.05
Depreciations	-1,603,102.35	-1,419,350.69
Carrying amount at 31.12.	5,191,596.23	4,260,110.48
Prepayments for tangible assets		
Carrying amount at 1.1.	62,696.41	45,296.45
Increases	75,135.06	62,696.41
Decreases	-62,696.41	-45,296.45
Carrying amount at 31.12.	75,135.06	62,696.41
TANGIBLE ASSETS TOTAL	5,266,731.29	4,322,806.89

INVESTMENTS	2018	2017
Other shares		
Carrying amount at 1.1.	10,500.00	10,500.00
Increases	0.00	0.00
Decreases	0.00	0.00
Carrying amount at 31.12.	10,500.00	10,500.00

RECEIVABLES	2018	2017
Current receivables		
Trade receivables	25,003,280.96	20,556,649.21
VAT receivables	285,607.53	351,103.25
Other receivables	1,072,631.24	13,662.41
Accrued income	297,820.25	527,110.41
Total	26,659,339.98	21,448,525.28

NOTES TO EQUITY AND LIABILITIES

EQUITY	2018	2017
Share capital 1.1.	80,000.00	80,000.00
Additions	0.00	0.00
Share capital 31.12.	80,000.00	80,000.00

Share premium account 1.1.	5,130,024.55	5,130,024.55
Changes	0.00	0.00
Share premium account 31.12.	5,130,024.55	5,130,024.55
Invested non-restricted equity fund 1.1.	22,452,875.22	25,809,318.97
Additions	0.00	0.00
Capital repayment	0.00	-3,356,443.75
Invested non-restricted equity fund 31.12.	22,452,875.22	22,452,875.22
Retained earnings 1.1.	13,976,035.17	-109,018.45
Conversion items	-256,351.64	-1,067,014.65
Dividend payment	-4,865,208.25	0.00
Profit for financial year	14,866,197.16	15,152,068.28
Retained earnings 31.12.	23,720,672.44	13,976,035.17
EQUITY TOTAL	51,383,572.21	41,638,934.94

LIABILITIES	2018	2017
Current liabilities		
Loans from financial institutions	4,055,589.57	4,725,668.86
Advances received	65,983.44	223,156.65
Trade payables	9,320,080.95	8,709,739.32
Other liabilities	174,915.72	1,077,081.30
Accrued interest payables	4,502.29	5,066.37
Accrued income tax payables	793,379.14	475,421.52
Warranty provision	1,896,784.25	1,589,366.55
Other accrued liabilities	3,345,578.82	3,927,863.14
Total	19,656,814.18	20,733,363.71

Accrued liabilities include warranty provisions estimated by the management. The provision equals to approximately 1,5% of group net sales.

PLEDGES AND COMMITMENTS	2018	2017
Pledged and collateral	10,734,912.84	10,734,912.84
Unused credit overdraft facility	5,293,536.15	4,680,973.55
Other undertakings	0.00	47,629.50
Total	16,028,448.99	15,463,515.89
Amounts payable under leasing agreements vat 0 %		
Payable in the following financial year	1,190,306.24	881,365.40
Payable in later years	665,974.91	829,328.57
Total	1,856,281.15	1,710,693.97

Notes to parent company's financial statement

NOTES TO INCOME STATEMENT

NET SALES	2018	2017
Finland	2,868,206.80	2,105,479.60
Other geographical areas	22,004,518.10	20,347,465.54
Total	24,872,724.90	22,452,945.14

PERSONNEL	2018	2017
Members of the Board of Directors' rewards		
Chairman's rewards	47,951.62	42,000.00
Board members' rewards	138,830.65	90,000.01
Total	186,782.27	132,000.01
CEO's rewards		
Fixed salaries and rewards	393,080.84	358,179.91
Benefits	10,515.00	11,220.00
Total	403,595.84	369,399.91

Board members and CEO have a voluntary pension scheme provided by the company.

Management's share-based incentive scheme

The company's management has a share-based incentive scheme that has not been booked to company or consolidated accounts.

Average number of personnel during the financial year

Officers	62	52
Workers	3	4
Total	65	56

DEPRECIATIONS	2018	2017
Intangible rights	112,343.94	86,581.63
Other capitalized expenses	208,809.52	179,606.89
Machinery and equipment	360,544.20	256,062.02
Total	681,697.66	522,250.54

AUDITING SERVICES	2018	2017
Annual audits	55,000.00	68,448.00
Other services	41,588.00	7,315.00
Total	96,588.00	75,763.00

SPECIFICATION FOR FINANCIAL ITEMS	2018	2017
Financial income from group companies	274,818.03	478,661.00
Financial income from others	14,524.29	218.10
Interest expenses	-27,550.00	-55,701.93
Other financial expenses	-4,960.17	-1,475.67
Conversion items	268,270.99	-958,201.08
Total	525,103.14	-536,499.58

NOTES TO BALANCE SHEET

INTANGIBLE ASSETS	2018	2017
Intangible rights		
Carrying amount at 1.1.	234,153.32	266,536.91
Increases	155,459.04	54,198.04
Reclassification	0.00	0.00
Decreases	0.00	0.00
Depreciations	-112,343.94	-86,581.63
Carrying amount at 31.12.	277,268.42	234,153.32
Other capitalized expenses		
Carrying amount at 1.1.	457,983.18	512,438.13
Increases	232,140.07	125,151.94
Reclassification	0.00	0.00
Decreases	0.00	0.00
Depreciations	-208,809.52	-179,606.89
Carrying amount at 31.12.	481,313.73	457,983.18
Prepayments for intangible assets		
Carrying amount at 1.1.	313,906.83	0.00
Increases	2,231,184.84	313,906.83
Decreases	-313,906.83	0.00
Carrying amount at 31.12.	2,231,184.84	313,906.83
INTANGIBLE ASSETS TOTAL	2,989,766.99	1,006,043.33

TANGIBLE ASSETS	2018	2017
Machinery and equipment		
Carrying amount at 1.1.	967,092.06	507,626.51
Increases	257,852.08	715,527.57
Reclassification	0.00	0.00
Decreases	0.00	0.00
Depreciations	-360,544.20	-256,062.02
Carrying amount at 31.12.	864,399.94	967,092.06

Prepayments for tangible assets		
Carrying amount at 1.1.	62,696.41	45,296.45
Increases	75,135.06	62,696.41
Decreases	-62,696.41	-45,296.45
Carrying amount at 31.12.	75,135.06	62,696.41
TANGIBLE ASSETS TOTAL	939,535.00	1,029,788.47

INVESTMENTS

	2018	2017
Shares in Group companies		
Carrying amount at 1.1.	2,979,045.23	2,979,045.23
Increases	0.00	0.00
Decreases	0.00	0.00
Carrying amount at 31.12.	2,979,045.23	2,979,045.23
Other shares		
Carrying amount at 1.1.	10,500.00	10,500.00
Increases	0.00	0.00
Decreases	0.00	0.00
Carrying amount at 31.12.	10,500.00	10,500.00
Shares in subsidiaries and other companies		
Detection Technology, Inc.	861.59	861.59
Virpiniemen Golf Oy	10,500.00	10,500.00
DTF (H.K.) Ltd.	163,462.65	163,462.65
DT Electronic Manufacturing (Beijing) Co., Ltd.	2,814,720.99	2,814,720.99
Total	2,989,545.23	2,989,545.23

RECEIVABLES FROM GROUP COMPANIES

	2018	2017
Non-current receivables		
Beijing DT Electronic Technology Co., Ltd.	0.00	496,695.96
DTF (H.K.) Ltd.	0.00	3,500,000.00
Detection Technology, Inc.	1,965,065.50	1,667,639.46
Total	1,965,065.50	5,664,335.42
Current receivables		
Trade receivables		
Detection Technology, Inc.	9,351.97	0.00
DT Electronic Manufacturing (Beijing) Co., Ltd.	290,500.00	5,019.59
Total	299,851.97	5,019.59

Other receivables		
Beijing DT Electronic Technology Co., Ltd.	603,122.99	1,463,389.79
DTF (H.K.) Ltd.	863,956.79	1,607,355.94
Detection Technology, Inc.	1,026,676.86	417,401.97
DT Electronic Manufacturing (Beijing) Co., Ltd.	3,118,091.45	3,046,553.32
Total	5,611,848.09	6,534,701.02
Total	7,876,765.56	12,204,056.03

RECEIVABLES FROM OTHERS

	2018	2017
Current receivables		
Trade receivables	4,123,466.32	1,635,358.41
VAT receivables	285,607.53	351,103.25
Other receivables	408,992.16	9,893.13
Accrued income	600,855.55	217,333.86
Total	5,418,921.56	2,213,688.65

NOTES TO EQUITY AND LIABILITIES**EQUITY**

	2018	2017
Share capital 1.1.	80,000.00	80,000.00
Additions	0.00	0.00
Share capital 31.12.	80,000.00	80,000.00
Share premium account 1.1.	5,130,024.55	5,130,024.55
Changes	0.00	0.00
Share premium account 31.12.	5,130,024.55	5,130,024.55
Invested non-restricted equity fund 1.1.	22,452,875.22	25,809,318.97
Additions	0.00	0.00
Capital repayment	0.00	-3,356,443.75
Invested non-restricted equity fund 31.12.	22,452,875.22	22,452,875.22
Retained earnings 1.1.	6,329,780.44	2,718,468.62
Items belonging to previous financial years	0.00	0.00
Dividend payment	-4,865,208.25	0.00
Profit for financial year	5,451,973.39	3,611,311.82
Retained earnings 31.12.	6,916,545.58	6,329,780.44
EQUITY TOTAL	34,579,445.35	33,992,680.21
DISTRIBUTABLE EQUITY AT THE END OF PERIOD	29,369,420.80	28,782,655.66

LIABILITIES TO GROUP COMPANIES	2018	2017
Current liabilities		
Trade payables		
DT Electronic Manufacturing (Beijing) Co., Ltd.	932,762.80	201,594.26
Total	932,762.80	201,594.26
LIABILITIES TO OTHERS	2018	2017
Current liabilities		
Advances received	1,350.00	40,505.02
Trade payables	614,605.69	831,669.33
Other liabilities	128,670.58	102,439.51
Accrued salary payables	1,356,285.58	1,265,564.85
Other accrued liabilities	784,674.81	298,134.43
Total	2,885,586.66	2,538,313.14
The parent company's warranty provision is included to accrued liabilities and to other operating costs according to the group policy.		
PLEDGES AND COMMITMENTS	2018	2017
Pledged and collateral	10,734,912.84	10,734,912.84
Unused credit overdraft facility	3,000,000.00	3,000,000.00
Commitments for behalf of subsidiaries	6,349,125.73	6,406,642.41
Other undertakings	0.00	47,629.50
Total	20,084,038.57	20,189,184.75
Amounts payable under leasing agreements vat 0 %		
Payable in the following financial year	433,222.01	469,949.47
Payable in later years	278,058.13	194,134.53
Total	711,280.14	664,084.00

List of accounting books

ACCOUNTING BOOKS	Archiving method
Balance sheet book	Bound on paper
Specification of balance sheet	Bound on paper
Journal	Electronic filing
General ledger	Electronic filing
Income statement	Electronic filing
Balance sheet	Electronic filing

ACCOUNTING RECORDS		
Item	NR	Archiving method
Purchase and travel invoices	CIF180001	Electronic filing and paper copy
Sales invoices	20180001	Electronic filing and paper copy
Vouchers	MU180101	Paper copy
Payroll vouchers		Electronic filing
Bank journals	NOR18001	Paper copy
Notes		Paper copy

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Domicile Espoo
Business registration number 0878389-8

Signatures for the financial statements and Board of Directors' report

Espoo 5 March 2019

Hannu Syrjälä
Chairman of the Board

Pasi Koota
The Board Member

Heikki Allonen
The Board Member

Petri Niemi
The Board Member

Vera Backström
The Board Member

Henrik Roos
The Board Member

Hannu Martola
President and CEO

The Auditor's note to the financial statements
Auditor's report has been given on the date of signature

Espoo 5 March 2019

Juha Hilmola, Authorised Public Accountant
Ernst & Young Oy
Authorized Public Accountant Firm

Auditor's report

(Translation of the Finnish original)

To the Annual General Meeting of Detection Technology Plc.

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Detection Technology Plc. (business identity code 0878389-8) for the year ended 31 December, 2018. The financial statements comprise the balance sheets, the income statements, cash flow statements and notes for the group as well as for the parent company.

In our opinion, the financial statements give a true and fair view of the group's and the company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other reporting requirements

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki 5.3.2019

Ernst & Young Oy
Authorized Public Accountant Firm

Juha Hilmola

Authorized Public Accountant





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