Q2

Detection Technology Plc

HALF-YEARLY REPORT

January-June **2016**

Detection Technology
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DETECTION TECHNOLOGY PLC HALF-YEARLY REPORT JANUARY-JUNE 2016

Detection Technology: Strong growth continued in net sales and result

April-June 2016 highlights

- Net sales increased by 87.8% to EUR 17.5 million (9.3)
- Net sales of Security and Industrial Business Unit (SBU) grew 193.1% to EUR 15.0 million (5.1)
- Net sales of Medical Business Unit (MBU) decreased 40.7% to EUR 2.5 million (4.2)
- Operating profit (EBIT) was EUR 3.2 million (0.6)
- Operating margin (EBIT-%) was 18.3% of net sales (6.0%)
- Strong demand of security X-ray imaging detectors continued in Asia
- Net sales and profitability targets are unchanged in the medium term

January-June 2016 highlights

- Net sales increased by 79.7% to EUR 32.8 million (18.3)
- Net sales of SBU grew 153.3% to EUR 26.9 million (10.6)
- Net sales of MBU decreased 22.1% to EUR 6.0 million (7.7)
- Operating profit (EBIT) was EUR 5.5 million (1.3)
- Operating margin (EBIT-%) was 16.7% of net sales (7.1%)

(Figures in brackets refer to the corresponding period the previous year.)

President and CEO, Hannu Martola:

”The first half of the year has been very strong. Our net sales continued to grow strongly in the second quarter, and were 88% higher than a year ago. From the beginning of the year the growth was 80% compared to the last year.

The growth in demand of X-ray imaging equipment continued to be intense in China, where the security regulation has been tightened. In the second quarter we were able to meet a stronger than previously anticipated demand due to our modular product solutions. Sales of SBU remained strong throughout the review period, with net sales growth of 193% in the second quarter.

On the other hand, MBU's net sales decreased, even though the global medical imaging equipment market has continued to grow. Timing of customer projects and shipments is the reason for the decline in turnover, and the large quarterly variation is typical for the business.

Our operating profit was in line with the target level. Our operating margin for Q2 was 18.3%, and from beginning of the year 16.7%.

We believe that growth will remain good for the rest of the year. Demand for SBU’s products seems to remain good in the second half of the year, even though its sales are expected to be lower than in the first half of the year. We have put major efforts in the development of new products together with our customers in MBU business, and these new products are moving into production. Our medium-term financial targets remain unchanged.”

Key figures

(EUR 1 000)	**4-6/2016**	4-6/2015	**1-6/2016**	1-6/2015	1-12/2015
Net sales	17 451	9 292	32 823	18 265	42 782
Net sales growth, %	87.8%	20.0%	79.7%	24.4%	29.2%
Operating result (EBIT) excl. NRI	3 189	561	5 475	1 302	4 534
Operating result (EBIT) excl. NRI, %	18.3%	6.0%	16.7%	7.1%	10.6%
Non-recurring items (NRI)	0	0	0	0	-1 098
Operating profit	3 189	561	5 475	1 302	3 437
Operating margin, %	18.3%	6.0%	16.7%	7.1%	8.0%
R&D costs	1 155	1 480	2 778	2 660	5 696
R&D costs, % of net sales	6.6%	15.9%	8.5%	14.6%	13.3%
Cash flow from operating activities	-1 525	-2 629	-1 200	-2 059	2 622
Net interest bearing debt at end of period	-2 329	-7 166	-2 329	-7 166	-5 444
Capital expenditure	133	310	1 008	857	4 770
Gearing, %	-9.9%	-42.0%	-9.9%	-37.0%	-25.8%
Earnings per share, EUR	0.19	0.02	0.30	-0.01	0.07
Number of shares at the end of the period	12 950 975	12 950 975	12 950 975	12 950 975	12 950 975

Net sales

Detection Technology's net sales for the second quarter totaled EUR 17.5 million (9.3), a growth of 87.8%.

Demand increased significantly in SBU business where net sales grew 193.1% to EUR 15.0 million (5.1). The growth of net sales was due to strong demand for security products in China, where, among other things, the regulation of scanning parcels have been tightened. DT's wide product portfolio, capability to quickly customize products from standard modules, and presence in Asia enabled SBU business to grow faster than the security X-ray imaging market. SBU's share of total net sales was 85.8%.

Net sales of MBU totaled EUR 2.5 million (4.2), which are 40.7% less than in the corresponding period of April-June 2015. The decrease in net sales was due to timing of customer projects. Wide quarterly variation of net sales is typical to the company's business, because of timing in bigger customer projects and deliveries. MBU's share of total net sales was 14.2%.

The company's net sales for January-June 2016 grew 79.7% to EUR 32.8 million (18.3). Net sales of SBU grew 153.3% to EUR 26.9 million (10.6). Net sales of MBU was EUR 6.0 million (7.7), 22.1% less than in the corresponding period. SBU's share of total net sales was 81.8% and MBU's 18.2%.

Geographically Asia was the biggest market with 76.9% (50.1%) share of net sales during the first half of the year. Net sales totaled from Europe 13.3% (27.2%) and from Americas 9.8% (22.8%). Top five customers accounted for 66.7% (51.8%) of net sales in the review period.

NET SALES BY BUSINESS UNITS

(EUR 1 000)	**4-6/2016**	4-6/2015	Change, %	**1-6/2016**	1-6/2015	Change, %	1-12/2015
MBU	2 484	4 186	-40.7%	5 966	7 661	-22.1%	16 130
SBU	14 967	5 106	193.1%	26 858	10 604	153.3%	26 651
TOTAL	**17 451**	**9 292**	**87.8%**	**32 823**	**18 265**	**79.7%**	**42 782**

NET SALES BY GEOGRAPHY

(EUR 1 000)	**4-6/2016**	4-6/2015	Change, %	**1-6/2016**	1-6/2015	Change, %	1-12/2015
Asia	13 556	4 355	211.3%	25 241	9 142	176.1%	26 639
Americas	1 478	2 101	-29.7%	3 228	4 164	-22.5%	7 168
Europe	2 417	2 835	-14.7%	4 354	4 959	-12.2%	8 975
TOTAL	**17 451**	**9 292**	**87.8%**	**32 823**	**18 265**	**79.7%**	**42 782**

Operating result and profitability

The company’s operating profit for the second quarter amounted to EUR 3.2 million (0.6), 18.3% of net sales (6.0%). Higher production volumes improved the profitability. The company had no non-recurring items (NRI) to be reported.

During the review period January-June 2016 operating profit was EUR 5.5 million (1.3), 16.7% of net sales (7.1%). The company had no NRI to be reported.

January-June 2016 other operating expenses totaled EUR 4.8 million (2.8). The other operating expenses have increased mainly for reasons attributable to the increase in production volume.

Financial items amounted to EUR -0.6 million (-1.4). Income taxes in January–June were EUR -1.0 million (-0.8).

The result for the review period was EUR 3.8 million (-0.2). Earnings per share were EUR 0.30 (-0.01).

Cash flow and financing

Cash flow from operations for the second quarter 2016 totaled EUR -1.5 million (-2.6). Operating cash flow for January-June 2016 amounted to EUR -1.2 million (-2.1).

Cash flow from financing activities for the second quarter totaled EUR 0.7 million (-6.5). Cash flow from financing activities for January-June 2016 was EUR -0.2 million (8.0).

The rapid growth of supply, as well as preparing for future deliveries have increased the amount of the company's working capital during the first half of the year. The company's Chinese subsidiary has entered into an agreement of revolving credit limit worth CNY 35 million (approximately EUR 4.8 million). Around EUR 0.9 million has been withdrawn from the limit during the second quarter.

Cash and cash equivalents amounted to EUR 5.0 million (8.5) at the end of the review period.

Net interest bearing debt totaled EUR -2.3 million (-7.2) at the end of the review period. Gearing was –9.9% (-37.0%).

Capital expenditure

The company continued to invest in its new Beijing factory for increasing the capacity and efficiency of production. Investments during the review period January-June 2016 totaled EUR 1.0 million (0.9).

Research and development

The second quarter R&D costs totaled EUR 1.2 million (1.5), 6.6% of net sales (15.9%). During the review period January-June 2016, DT expensed EUR 2.8 million (2.7) in product development projects, corresponding to 8.5% of net sales (14.6%). In euro terms, R&D costs are on the planned level. R&D costs are not capitalized.

Personnel

At the end of June 2016, DT employed 391 people (321) out of which 339 in China, 47 in Finland and 5 in the US. Personnel expenses amounted to EUR 6.2 million (4.3). The growth in personnel expenses is mainly due to the addition on headcount, rise in overtime and shift work, and provision for incentives.

PERSONNEL BY GEOGRAPHY

	30.6.2016	30.6.2015	Change, %	31.12.2015
Asia	**339**	275	23.3%	293
Americas	**5**	4	25.0%	4
Europe	**47**	42	11.9%	44
TOTAL	**391**	**321**	**21.8%**	**341**

Strategy implementation

Detection Technology's strategy implementation has proceeded as planned and support in DT to add value for its customers , as well as company's growth, efficiency, and quality targets in the medium term. In the review period the company focused on winning new customers and product projects, developing new technology, meeting the strong demand and securing high enough capacity. The company has reserved more floor space for its Beijing factory from the beginning of year 2017, which enables it to increase the capacity by quarter during the next few years.

Shares and shareholders

The average share price during the second quarter was EUR 7.53 and EUR 6.60 in the first half of year 2016. The highest price during the second quarter was EUR 8.03 and the lowest EUR 6.55. The highest price during the first half of the year was EUR 8.03 and the lowest EUR 4.25.

At the end of June, the closing price was EUR 7.80 per share and DT had a market capitalization of EUR 101 million. The number of shares traded between January 4th and June 30th was 0.95 million, which is 7.3% of the total number of shares.

The total number of shareholders was 874 on June 30, 2016. Approximately 75% of the shares are held by the ten biggest shareholders. Oy G.W. Sohlberg Ab was the company's biggest shareholder with its around 40% share. DT was not informed of any significant changes among its largest shareholders during the review period.

The number of shares at the end of the period was 12,950,975. DT has one share series and all shares have equal voting rights.

Risks and uncertainties

The management has not identified significant changes to DT's risks and uncertainties during the first half of year 2016. Detection Technology's main short term risks are associated with uncertainties in the global economies and operating in emerging markets.

Other risks are related to exchange rate fluctuations, 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, adequacy and competences of personnel and organizational efficiency. Detection Technology has taken measures to mitigate these risks.

The company and the business risks are described in more detail in the financial statements 2015.

Business outlook

Detection Technology's business outlook is unchanged.

According to industry estimates, an average annual growth rate of global medical X-ray imaging market will be around 5%, security X-ray imaging equipment market 7% and industrial X-ray imaging about 5%. The company regards the security X-ray imaging market's growth prospects conservative, and estimates that the growth will accelerate.

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.

Business review January-September 2016

Detection Technology will publish business review January-September 2016 on 26 October 2016.

UNAUDITED HALF-YEARLY REPORT 1.1.-30.6.2016

ACCOUNTING PRINCIPLES

This unaudited financial statements review for the period 1.1.-30.6.2016 has been prepared according to the Finnish Accounting Standards (FAS).

CONSOLIDATED INCOME STATEMENT (FAS)

EUR 1 000	**04-06/2016**	04-06/2015	**01-06/2016**	01-06/2015	1-12/2015
Net sales	**17 451**	9 292	**32 823**	18 265	42 782
Other operating income	0	0	0	0	83
Materials and services	-7 639	-4 893	-15 494	-9 392	-21 860
Personnel expenses	-3 312	-2 227	-6 151	-4 311	-10 175
Depreciation and amortization	-529	-245	-889	-485	-1 211
Other operating expenses	-2 782	-1 366	-4 814	-2 775	-6 182
Operating profit (-loss)	**3 189**	561	**5 475**	1 302	3 437
Financial income and expenses	-161	-230	-630	-1 383	-2 383
Profit (-loss) before taxes	**3 027**	331	**4 845**	-81	1 054
Income taxes	-591	-39	-1 020	-78	-124
Profit (-loss) for the reporting period	**2 436**	292	**3 825**	-159	930

CONSOLIDATED BALANCE SHEET (FAS)

(EUR 1 000)	**30.6.2016**	30.6.2015	31.12.2015
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	2 026	500	797
Tangible assets	5 238	3 742	6 448
Investments	11	11	11
TOTAL NON-CURRENT ASSETS	**7 275**	4 253	7 256
CURRENT ASSETS			
Inventories	11 190	6 846	6 768
Receivables	17 359	7 203	12 857
Current receivables	1 177	1 530	1 058
Cash and cash equivalents	5 042	8 511	7 442
TOTAL CURRENT ASSETS	**34 768**	24 091	28 125
TOTAL ASSETS	**42 043**	28 344	35 381
EQUITY AND LIABILITIES			
EQUITY			
Share capital	80	80	80
Share premium account	5 130	5 130	5 130
Other funds	25 809	26 716	26 716
Retained earnings (loss)	-11 250	-12 181	-11 757
Profit for the reporting period (loss)	3 825	-159	930
TOTAL EQUITY	**23 594**	19 586	21 099
LIABILITIES			
Non-current liabilities			
Subordinated loans	0	852	0
Loans from financial institutions	0	0	0
Other liabilities	785	1 145	785
Total	785	1 997	785
Current liabilities			
Loans from financial institutions	1 928	200	1 213
Advances received	739	511	613
Trade payables	10 655	4 910	8 554
Other liabilities	652	667	929
Accrued liabilities	3 690	473	2 188
Total	17 664	6 761	13 497
TOTAL LIABILITIES	**18 449**	8 758	14 282
TOTAL EQUITY AND LIABILITIES	**42 043**	28 344	35 381

CONSOLIDATED CASH FLOW STATEMENT (FAS)

(EUR 1 000)	**04-06/2016**	04-06/2015	**01-06/2016**	01-06/2015	1-12/2015
Cash flow from operations					
Operating profit/loss	3 188	561	5 475	1 302	3 437
Depreciation	529	245	889	485	1 211
Change in working capital	-5 002	-3 505	-7 135	-2 385	-1 701
Financial income and expenses	32	97	-85	-1 383	-162
Taxes	-273	-39	-334	-78	-156
Cash flow from operations	**-1 525**	-2 640	**-1 200**	-2 059	2 629
Cash flow from investments					
Investments in tangible and intangible assets	-133	-310	-1 008	-857	-4 770
Cash flow from investments	**-133**	-310	**-1 008**	-857	-4 770
Free cash flow	**-1 658**	-2 950	**-2 208**	-2 916	-2 141
Cash flow from financing					
Withdrawal of non-current loans	987	0	987	0	0
Repayment of non-current loans	-272	-6 515	-272	-9 920	-10 128
Investment in invested non-restricted equity funds	0	0	0	17 898	16 262
Capital repayment	0	0	-907	0	0
Cash flow from financing	**715**	-6 515	**-192**	7 978	6 134
Change in cash and cash equivalents	**-943**	-9 465	**-2 400**	5 062	3 993
Cash and cash equivalents at beginning of the reporting period	5 985	17 976	7 442	3 449	3 449
Cash and cash equivalents at end of the reporting period	5 042	8 511	5 042	8 511	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		0			0
Translation differences				-423		-423
Profit (loss) for the period					3 825	3 825
Balance at 30.6.2016	**80**	**5 130**	**25 809**	**-11 250**	**3 825**	**23 594**
Balance at 1.1.2015	**69**	**5 130**	**8 818**	**-12 650**	**0**	**1 367**
Capital repayment						0
Share issue	11		17 898			17 909
Translation differences				469		469
Profit (loss) for the period					-159	-159
Balance at 30.6.2015	**80**	**5 130**	**26 716**	**-12 181**	**-159**	**19 586**
Balance at 1.1.2015	**69**	**5 130**	**8 818**	**-12 650**	**0**	**1 367**
Capital repayment						0
Share issue	11		17 898			17 909
Translation differences				892		892
Profit (loss) for the period					930	930
Balance at 31.12.2015	**80**	**5 130**	**26 716**	**-11 758**	**930**	**21 098**

Espoo 27 July 2016

Board of Directors
Detection Technology Plc

CALCULATION OF KEY FINANCIAL RATIOS

Change in net sales, %	=	Net sales - previous financial year's net sales / previous financial year's net sales x 100
Net interest bearing liabilities	=	Interest-bearing liabilities - cash and cash equivalents
Gearing, %	=	Interest-bearing liabilities - cash and cash equivalents /equity x 100

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