

Q4 2017

January–December

Financial statements review



DETECTION TECHNOLOGY PLC FINANCIAL STATEMENTS REVIEW JANUARY-DECEMBER 2017

Detection Technology Q4 2017: Strong growth and excellent result**October-December 2017 highlights**

- Net sales increased by 17.0% to EUR 27.5 million (23.5)
- Net sales of Security and Industrial Business Unit (SBU) increased by 30.8% to EUR 19.4 million (14.8)
- Net sales of Medical Business Unit (MBU) decreased by 6.4% to EUR 8.2 million (8.7)
- Operating profit (EBIT) was EUR 7.0 million (5.2)
- Operating margin (EBIT-%) was 25.4% of net sales (22.3%)
- Earnings per share were EUR 0.38 (0.31)

January-December 2017 highlights

- Net sales increased by 17.9% to EUR 89.0 million (75.5)
- Net sales of SBU increased by 3.8% to EUR 57.9 million (55.8)
- Net sales of MBU grew by 57.5% to EUR 31.1 million (19.8)
- Operating profit (EBIT) was EUR 19.9 million (14.8)
- Operating margin (EBIT-%) was 22.3% of net sales (19.6%)
- Earnings per share were EUR 1.09 (0.81)
- Dividend EUR 0.35 per share* (capital repayment 0.25)

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

President and CEO, Hannu Martola:

"The year 2017 culminated with a record result and net sales in the last quarter. We were very successful in a highly competitive market, achieving a result that exceeded our expectations and good growth despite the tough comparison figures. The good performance was the result of exceptional success in nearly every one of our company's key areas.

During the last quarter, operating profit improved by 33% from the previous year and totaled 7.0 million euros. The operating margin was 25%. Our net sales increased by 17% from the corresponding period and exceeded 27 million euros. SBU's net sales increased significantly by around 31%. Our net sales grew particularly in the area of critical infrastructure and industrial X-ray imaging applications in Asia. MBU's sales fell by approximately 6% in the last quarter, which is normal seasonal variation in our business. The growth in SBU's sales and, on the other hand, the sales decline in MBU reflect the geographic split of our sales. The Asian share of total net sales increased after a short pause.

We succeeded well in the customer interface and earned the trust of 30 new customers during the year. We now have 240 active customers. We believe that this success in acquiring new customers will balance the sales split somewhat in the future. In terms of sales for the whole year, our five largest customers accounted for approximately 60% of our turnover, which represents a decrease of 9%.

The operating profit of EUR 19.9 million for the full year and operating margin of 22% resulted not only from sales growth but also from effective operations management. As a whole, our fixed costs were lower than expected. Exceptionally, R&D costs were only 8% of net sales due to higher sales, and successful projects, as well as the timing of projects. We estimate that R&D costs will increase to nearly 10% in 2018.

So far, we have been more successful than expected on the market and in developing our business. However, 2018 will be a challenging year in terms of company growth. We estimate that sales will increase slightly in security and industrial applications, but sales of medical applications will probably decrease. During the first half of the year, it appears that sales for medical applications will grow slightly in comparison to the same period in the previous year. In the latter half of the year, MBU's sales will decrease as an MBU key customer stops manufacturing a device that uses one of DT's products. Price competition will be tougher in all our target markets.

We will continue to develop the business in accordance with our strategy to gain new projects and customers. We believe in the long-term growth potential of both our business units, and we will keep the company's growth and profitability targets unchanged."

Key figures

(EUR 1,000)	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Net sales	27,530	23,527	89,003	75,509
Change in net sales, %	17.0%	54.7%	17.9%	76.5%
Operating profit	6,987	5,237	19,892	14,808
Operating margin, %	25.4%	22.3%	22.3%	19.6%
R&D costs	1,795	2,259	7,157	6,071
R&D costs, % of net sales	6.5%	9.6%	8.0%	8.0%
Cash flow from operating activities	7,755	4,988	18,625	5,412
Net interest-bearing debt at end of period	-21,774	-8,337	-21,774	-8,337
Capital expenditure	688	372	1,833	1,612
Return on investment (ROI), %			47.0%	38.7%
Gearing, %	-52.3%	-27.0%	-52.3%	-27.0%
Earnings per share, EUR	0.38	0.31	1.09	0.81
Number of shares at end of period	13,900,595	13,425,775	13,900,595	13,425,775

Net sales

Detection Technology's net sales for the fourth quarter were EUR 27.5 million (23.5). Net sales grew by 17.0% (54.7%).

In the fourth quarter, demand grew significantly in the SBU business. SBU's net sales grew faster than the market with an annual growth rate of 30.8% and was EUR 19.4 million (14.8). Demand was intensified especially in critical infrastructure such as airports, railway stations, metro stations, vehicles and industrial X-ray imaging applications. SBU's sales breakdown was more balanced than in the corresponding period between different security and industrial application areas. SBU's share of total net sales was 70.4% (63.0%).

In the MBU business, demand fell slightly in the last quarter from the comparative period. Net sales of MBU decreased by 6.4% and totaled EUR 8.2 million (8.7). Variation in quarterly turnover due to the timing of major customer projects and deliveries is typical for the company's business. MBU's share of total net sales was 29.6% (37.0%).

Geographically, Asia's share of the company's net sales grew during the fourth quarter, and it was the company's biggest market. Asia's share of net sales was 74.8% (67.2%), Americas' 17.3% (20.2%) and Europe's 7.9% (12.6%). The top five customers accounted for 69.8% (71.3%) of net sales in the review period.

The company's net sales for January-December 2017 grew by 17.9% to EUR 89.0 million (75.5). Net sales of MBU grew significantly faster than the market, by 57.5%, and totaled EUR 31.1 million (19.8). Net sales of SBU increased by 3.8% to EUR 57.9 million (55.8). MBU's share of total net sales was 35.0% (26.2%) and SBU's 65.0% (73.8%).

In January-December, Asia's share of net sales was 63.4% (71.7%), Americas' 24.5% (14.8%) and Europe's 12.1% (13.5%). The share of net sales accounted for by the top five customers decreased over nine percentage points in the review period, and their share was 59.5% (69.0%).

NET SALES BY BUSINESS UNITS

(EUR 1,000)	10-12/2017	10-12/2016	Change, %	1-12/2017	1-12/2016	Change, %
MBU	8,150	8,705	-6.4%	31,119	19,755	57.5%
SBU	19,380	14,822	30.8%	57,884	55,754	3.8%
TOTAL	27,530	23,527	17.0%	89,003	75,509	17.9%

NET SALES BY GEOGRAPHY

(EUR 1,000)	10-12/2017	10-12/2016	Change, %	1-12/2017	1-12/2016	Change, %
Asia	20,583	15,815	30.1%	56,403	54,201	4.1%
Americas	4,775	4,757	0.4%	21,817	11,143	95.8%
Europe	2,173	2,954	-26.4%	10,783	10,164	6.1%
TOTAL	27,530	23,527	17.0%	89,003	75,509	17.9%

Operating result and profitability

The company's operating profit for the fourth quarter amounted to EUR 7.0 million (5.2), 25.4% (22.3%) of net sales. High production volumes, moderate growth in fixed costs and lower R&D costs improved profitability. The company had no non-recurring items (NRI) to be reported for the review period.

Fixed costs for the fourth quarter were EUR 6.9 million (5.9), out of which personnel expenses totaled EUR 3.2 (3.2), depreciation EUR 0.6 (1.1) and other operating expenses EUR 3.1 (1.7) million. Financial items amounted to EUR -0.2 million (0.2), and income taxes were EUR -1.5 million (-1.2).

The result for the fourth quarter totaled EUR 5.3 million (4.2). Earnings per share were EUR 0.38 (0.31).

The operating profit for the review period January-December 2017 was EUR 19.9 million (14.8), 22.3% (19.6%) of net sales. During the review period, the company had no NRI to be reported.

In January-December 2017, fixed costs totaled EUR 25.2 (22.8) million, out of which personnel expenses totaled EUR 13.4 (12.0), depreciation EUR 2.2 (2.5) and other operating expenses EUR 9.6 (8.2) million. Financial items totaled EUR -0.5 million (-0.7), and income taxes were EUR -4.2 million (-3.2).

The result for the year 2017 was EUR 15.2 million (10.9). Earnings per share were EUR 1.09 (0.81).

Cash flow and financing

Cash flow from financing activities for the fourth quarter of 2017 totaled EUR -2.8 million (1.3). Cash flow from financing activities for January-December 2017 was EUR -6.0 million (4.4).

Cash flow from operations for the fourth quarter was EUR 7.8 million (5.0). Cash flow from operations for January-December 2017 amounted to EUR 18.6 million (5.4).

Net interest-bearing debt totaled EUR -21.8 million at the end of the year (-8.3). Gearing was -52.3% (-27.0%).

Cash and cash equivalents amounted to EUR 26.5 million (15.7) at the end of the year 2017.

Capital expenditure

Capital expenditure during the fourth quarter amounted to EUR 0.7 million (0.4). Capital expenditure was mainly directed at production equipment and machines, as well as testing and information systems. Capital expenditure during January-December 2017 totaled EUR 1.8 million (1.6).

Research and development

Fourth-quarter research and development (R&D) costs totaled EUR 1.8 million (2.3), 6.5% of net sales (9.6%). The share of R&D costs of net sales was lower than usual mainly due to higher sales and the timing of projects. During the review period January-December 2017, R&D expenses were EUR 7.2 million (6.1), corresponding to 8.0% of net sales (8.0%). In 2018, the company expects its R&D expenses to increase. All R&D costs are written off as expenses.

Personnel

At the end of the year 2017, Detection Technology employed 405 people (416) of whom 341 were in China, 58 in Finland and 6 in the US. Personnel expenses for the fourth quarter amounted to EUR 3.2 million (3.2). In the review period January-December 2017, personnel expenses totaled EUR 13.4 million (12.0). The increase in personnel expenses is mainly due to the growth of personnel expenses in production. The increase in production volumes has raised wage costs and performance bonuses for production.

PERSONNEL BY GEOGRAPHY

	31.12.2017	31.12.2016	Change, %
Asia	341	358	-4.7%
Americas	6	7	-14.3%
Europe	58	51	13.7%
TOTAL	405	416	-2.6%

Strategy implementation

In the fourth quarter, Detection Technology progressed according to plan in terms of strategy implementation. R&D projects and investments in developing new technologies are proceeding as planned. In November, the company released the world's first, standard X-ray detector module that is tileable on all four sides, meant for

the most stringent medical computed tomography (CT) applications. The X-Tile module is easily scalable to meet the performance requirements of volumetric multislice imaging systems.

In 2017, Detection Technology also renewed its standard product portfolio in the industrial segment. During the first half of the year, the company released new versions of the X-Scan P, X-Scan H and X-Scan F series for product safety and quality inspection, material sorting and process control applications. The X-Scan F series, which is designed for the needs of the recycling, forest and food processing industries, was particularly well received on the market and demand for the series increased in the second half of the year.

In November-December, the company's sites in Finland and China were certified according to the ISO 9001:2015 and ISO 14001:2015 standards. The environmental certification of the new factory in China demonstrates the company's continuing goal of building a business responsibly, respecting the environment.

Other significant events in 2017 included the expansion of the Beijing factory and the start of enterprise resource planning (ERP), product information (PDM) and production data (PDC) system development projects. By ensuring sufficient capacity, improving productivity, developing production flexibility for volume and product mix changes, and improving the efficiency of core and support processes, Detection Technology strives to support its business growth targets in the medium term. During the review period, the company also focused on gaining new customers and product projects.

Shares and shareholders

On 7 December 2017, the Board of Detection Technology Plc resolved to issue 474,820 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 23 March 2017. The number of shares outstanding in Detection Technology following the share issue and at the end of the review period was 13,900,595.

At the end of the review period, the total number of shareholders was 2,241. Approximately 65% of the shares were held by the ten largest shareholders. On 21 June 2017, Ahlström Capital Oy's wholly owned subsidiary AC Invest Seven BV acquired around 39% of Detection Technology Plc's shares from Oy GW Sohlberg Ab (GWS). As a result of the deal, Ahlström Capital became the company's largest shareholder. At the end of the review period, the nominee-registered foreign holding of shares in the company was about 13.1%.

The average share price during the fourth quarter was EUR 19.64 and EUR 17.21 in January-December 2017. The highest price during the fourth quarter was EUR 22.50 and the lowest EUR 17.01. The highest price for the year 2017 was EUR 22.50 and the lowest EUR 13.20.

At the end of December, the closing price was EUR 17.98 and the company had a market capitalization of around EUR 250 million. The number of shares traded between 2 January and 29 December was 7.44 million, which is 53.5% of the total number of shares. This amount includes the share transaction between GWS and Ahlström Capital.

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.

Risks and uncertainties

The company's management has not identified substantial changes to Detection Technology's risks and uncertainties during the year 2017. The company's main short-term risks are associated with uncertainties in the global economies 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 company's and its businesses' risks will be described in more detail in the 2017 financial statements.

Board of Directors' profit distribution proposal

The distributable funds of the parent company Detection Technology Plc are EUR 28,782,655.70, of which EUR 3,611,311.82 represents the net profit for the financial year. The company's funds eligible for dividend distribution total EUR 6,329,780.44. 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 27 March 2018 that, based on the balance sheet adopted for 2017, a dividend of EUR 0.35 per share be paid. The number of shares entitling to dividend is 13,900,595, which means that the total amount of the dividend would be EUR 4,865,208.25.

Business outlook

According to Detection Technology's estimate, the global market for security X-ray equipment grew by approximately 7% during the review period, which corresponds to the forecasts made by market research institutes. Homeland Security Research Corporation (HSRC) estimates that the annual growth rate will be 6.7% (CAGR) in 2017-2021. According to HSRC, this growth is the result of a global increase in security risks. In addition to increased growth in the X-ray device base, HSRC expects an acceleration in the pace of renewal for the old device base. HSRC has not identified viable competing technologies for screening needs in the security market, and it considers the price-quality ratio of X-ray imaging equipment to be overwhelming. (Source: HSRC May 2017 edition, X-ray baggage, cargo, people, container & vehicle screening market 2017-2021).

Detection Technology estimates that the annual growth rate in the industrial X-ray imaging device market is approximately 5%. The company expects growth in the security and industrial markets to remain at a good level and, in particular, it expects growth in the critical infrastructure, vehicle and industrial market segments. The European Civil Aviation Conference Standard 3 (ECAC3) that takes effect in 2020 will increase demand for computed tomography (CT) equipment at European airports.

According to industry estimates, the global medical X-ray imaging market growth is around 5% per year. Detection Technology estimates that the market for medical computed tomography (CT) grew at an annual pace of about 3-5% in the fourth quarter of 2017. Market growth was strongest in Asia, and demand has also developed positively in North America. The company expects the global medical X-ray imaging market to develop favourably.

Detection Technology expects sales for security and industrial applications to increase slightly in 2018. In terms of medical applications, the company estimates that sales will increase in the first half of 2018 and decrease in the second half of the year when a key customer stops manufacturing a device that uses one of DT's products. Price competition will be tougher in all of the company's markets in 2018. The company will continue to develop its business in order to gain new customers and projects, and it considers the growth outlook in both business units to be good in the longer term.

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.

Financial reporting schedule in 2018

Detection Technology Plc will disclose the following financial releases in 2018:

- Business review January-March 2018: 25 April 2018
- Half-yearly report January-June 2018: 20 July 2018
- Business review January-September 2018: 24 October 2018

The financial statements and annual review for 2017 will be published at the latest on 6 March 2018 on the company's website. The Annual General Meeting is scheduled for 27 March 2018 at 15:00 (EEST). The Board of Directors of the company will convene the meeting. Detection Technology Plc's financial calendar can be found on the company's website.

SUMMARY OF FINANCIAL STATEMENTS AND APPENDICES

ACCOUNTING PRINCIPLES

This unaudited financial statements review for the period 1.1.-31.12.2017 has been prepared according to the Finnish Accounting Standards (FAS).

CONSOLIDATED INCOME STATEMENT (FAS)

(EUR 1,000)	10-12/2017	10-12/2016	01-12/2017	1-12/2016
Net sales	27,530	23,527	89,003	75,509
Other operating income	86	26	143	75
Materials and services	-13,744	-12,398	-44,026	-38,025
Personnel expenses	-3,223	-3,196	-13,412	-12,036
Depreciation and amortization	-567	-1,061	-2,226	-2,521
Other operating expenses	-3,095	-1,661	-9,589	-8,194
Operating profit (-loss)	6,987	5,237	19,892	14,808
Financial income and expenses	-201	227	-524	-686
Profit (-loss) before taxes	6,785	5,464	19,368	14,122
Income taxes	-1,521	-1,242	-4,216	-3,232
Profit (-loss) for the reporting period	5,265	4,223	15,152	10,890

CONSOLIDATED BALANCE SHEET (FAS)

(EUR 1,000)	31.12.2017	31.12.2016
ASSETS		
NON-CURRENT ASSETS		
Intangible assets	1,209	1,626
Tangible assets	4,637	4,709
Investments	11	11
TOTAL NON-CURRENT ASSETS	5,856	6,346
CURRENT ASSETS		
Inventories	8,568	10,596
Receivables	20,557	20,351
Current receivables	892	1,265
Cash and cash equivalents	26,500	15,662
TOTAL CURRENT ASSETS	56,516	47,874
TOTAL ASSETS	62,372	54,220
EQUITY AND LIABILITIES		
EQUITY		
Share capital	80	80
Share premium account	5,130	5,130
Other funds	22,453	25,809
Retained earnings (loss)	-1,176	-11,000
Profit for the financial period (loss)	15,152	10,890
TOTAL EQUITY	41,639	30,909
LIABILITIES		
Non-current liabilities		
Loans from financial institutions	0	0
Other liabilities	0	683
Total	0	683
Current liabilities		
Loans from financial institutions	4,726	6,641
Advances received	223	697
Trade payables	8,710	10,251
Other liabilities	1,077	1,888
Accrued liabilities	5,998	3,149
Total	20,733	22,627
TOTAL LIABILITIES	20,733	23,311
TOTAL EQUITY AND LIABILITIES	62,372	54,220

CONSOLIDATED CASH FLOW STATEMENT (FAS)

(EUR 1,000)	10-12/2017	10-12/2016	01-12/2017	1-12/2016
Cash flow from operations				
Operating profit/-loss	6,987	5,237	19,892	14,808
Depreciation	567	1,061	2,226	2,521
Change in working capital	2,884	-1,500	628	-10,692
Financial income and expenses	-269	260	-799	-2
Taxes	-2,413	-70	-3,322	-1,223
Cash flow from operations	7,755	4,988	18,625	5,412
Cash flow from investments				
Investments in tangible and intangible assets	-688	-372	-1,833	-1,612
Cash flow from investments	-688	-372	-1,833	-1,612
Free cash flow	7,068	4,616	16,792	3,800
Cash flow from financing				
Repayment of non-current loans	-421	-510	-683	-1,052
Withdrawal of current loans	0	1,777	417	6,379
Repayment of current loans	-2,331	0	-2,331	0
Capital repayment	0	0	-3,356	-907
Cash flow from financing	-2,753	1,267	-5,954	4,420
Change in cash and cash equivalents	4,315	5,883	10,838	8,220
Cash and cash equivalents at beginning of reporting period	22,185	9,779	15,662	7,442
Cash and cash equivalents at end of reporting period	26,500	15,662	26,500	15,662

STATEMENT OF EQUITY CHANGES

(EUR 1,000)	Share capital	Share premium	Invested unrestricted equity fund	Retained earnings	Profit (-loss) for the period	Total
Balance on 1.1.2017	80	5,130	25,809	-109	0	30,909
Capital repayment			-3,356			-3,356
Translation differences				-1,067		-1,067
Items belonging to previous financial years						0
Profit (-loss) for the period					15,152	15,152
Balance on 31.12.2017	80	5,130	22,453	-1,176	15,152	41,639
Balance on 1.1.2016	80	5,130	26,717	-10,827	0	21,100
Capital repayment			-907			-907
Translation differences				-448		-448
Items belonging to previous financial years				275		275
Profit (-loss) for the period					10,890	10,890
Balance on 31.12.2016	80	5,130	25,809	-11,000	10,890	30,909

Espoo 1 February 2018

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

Operating margin, % = Operating profit / net sales x 100

Net interest- bearing debt = Interest-bearing loans - cash and cash equivalents

Return on investment
(ROI), % = ((Profit (-loss) before tax + interest and other financial expenses) / (total equity and liabilities
+ non-interest bearing liabilities average of the financial year) x 100

Gearing, % = (Interest-bearing liabilities - cash and cash equivalents) / equity x 100



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