



DEIF A/S

2016 ANNUAL REPORT ABSTRACT
(CVR NO. 15798416)



Group overview

Parent company

 **DEIF A/S**
Skive, Denmark

Consolidated subsidiaries

 **DEIF do Brasil Comercio de Controles e Equipamentos Ltda. (100%)**
Campinas, Brazil

 **DEIF Electrical (Shanghai) Co., Ltd. (100%)**
Shanghai, China

 **WPT China Holding A/S (55.22%)**
Skive, Denmark

 **DEIF WPT Shanghai Co. Ltd (100%)**
Shanghai, China

 **DEIF MEDiterranea (100%)**
Sophia-Antipolis, France

 **DEIF GmbH (100%)**
Bensheim, Germany

 **DEIF India Pvt. Ltd. (100%)**
Mumbai, India

 **DEIF Korea co., Ltd (100%)**
Busan, Korea

 **Danish Power & Marine, S.A. de C.V. (100%)**
Mexico City, México

 **DEIF Norge AS (100%)**
Tønsberg, Norway

 **DEIF Asia Pacific Pte Ltd (100%)**
Singapore, Singapore

 **DEIF Middle East FZE (100%)**
Dubai, UAE

 **DEIF (UK) Limited (100%)**
Manchester, England

 **DEIF, Inc. (100%)**
Wood Dale, Illinois, USA

Consolidated financial highlights & KPIs in DKK

Viewed over a 5 year period, the Group's development can be described with the following KPIs:

Highlights	2016 (DKK 1,000)	2015 (DKK 1,000)	2014 (DKK 1,000)	2013 (DKK 1,000)	2012 (DKK 1,000)
Profit/Loss					
Net turnover	609,817	617,443	618,142	497,842	490,941
Gross profit/loss	328,426	362,523	366,162	291,561	275,842
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	55,149	71,827	94,068	51,021	45,343
Earnings before interest, taxes (EBIT)	24,558	41,882	56,714	12,665	9,021
Profit/loss before tax	12,176	24,519	52,106	3,781	-3,437
Annual profit/loss	6,772	13,667	38,574	1,942	-2,347
Balance sheet					
Balance sheet total	497,949	467,818	410,503	364,228	390,781
Equity	188,434	174,853	129,161	90,221	86,871
Cash flows					
Operating activities	56,456	2,334	42,903	51,833	20,126
Investment activities	-68,509	-34,959	-19,958	-17,846	-45,912
Of this, tangible and intangible fixed assets	-67,837	-34,868	-20,399	-17,881	-45,527
Financing activities	19,202	31,844	-11,033	-7,955	-4,267
Annual change in cash	7,149	-781	11,912	26,032	-30,053
Number of employees					
Denmark	397	409	371	371	359
Foreign subsidiaries	241	211	182	169	140
Total	638	620	553	540	499
KPIs					
Growth	-1.2%	-0.1%	24.2%	1.4%	8.9%
Gross margin	53.9%	58.7%	59.2%	58.6%	56.2%
EBITDA – margin	9.0%	11.6%	15.2%	10.2%	9.2%
Profit margin (EBIT)	4.0%	6.8%	9.2%	2.5%	1.8%
Return on capital employed	4.9%	9.0%	13.8%	3.5%	2.3%
Solvency ratio	37.8%	37.4%	31.5%	24.8%	22.2%
Return on equity	3.7%	9.0%	35.2%	2.2%	-2.7%

The KPIs have been prepared in accordance with the recommendations and guidelines of The Danish Society of Financial Analysts. We refer to the definitions in the section on accounting policy.

Consolidated financial highlights & KPIs in EUR

Viewed over a 5 year period, the Group's development can be described with the following KPIs:

Highlights	2016 (EUR 1,000)	2015 (EUR 1,000)	2014 (EUR 1,000)	2013 (EUR 1,000)	2012 (EUR 1,000)
Profit/Loss					
Net turnover	82,026	82,739	83,043	66,732	65,806
Gross profit/loss	44,176	48,579	49,192	39,082	36,974
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	7,418	9,625	12,637	6,839	6,078
Earnings before interest, taxes (EBIT)	3,303	5,612	7,619	1,698	1,209
Profit/loss before tax	1,638	3,286	7,000	507	-461
Annual profit/loss	911	1,831	5,182	260	-315
Balance sheet					
Balance sheet total	66,979	62,689	55,148	48,822	52,381
Equity	25,346	23,431	17,352	12,093	11,644
Cash flows					
Operating activities	7,594	313	5,764	6,948	2,698
Investment activities	-9,215	-4,685	-2,681	-2,392	-6,154
Of this, tangible and intangible fixed assets	-9,125	-4,672	-2,740	-2,397	-6,102
Financing activities	2,583	4,267	-1,482	-1,066	-572
Annual change in cash	962	-105	1,600	3,489	-4,028
Number of employees					
Denmark	397	409	371	371	359
Foreign subsidiaries	241	211	182	169	140
Total	638	620	553	540	499
KPIs					
Growth	-1.2%	-0.1%	24.2%	1.4%	8.9%
Gross margin	53.9%	58.7%	59.2%	58.6%	56.2%
EBITDA – margin	9.0%	11.6%	15.2%	10.2%	9.2%
Profit margin (EBIT)	4.0%	6.8%	9.2%	2.5%	1.8%
Return on capital employed	4.9%	9.0%	13.8%	3.5%	2.3%
Solvency ratio	37.8%	37.4%	31.5%	24.8%	22.2%
Return on equity	3.7%	9.0%	35.2%	2.2%	-2.7%

The KPIs have been prepared in accordance with the recommendations and guidelines of The Danish Society of Financial Analysts. We refer to the definitions in the section on accounting policy.

Introduction

DEIF A/S's annual report for 2016 has been prepared in accordance with the provisions of the Presentation of Accounts Act regarding large enterprises in reporting class C.

The Group's primary activities & strategy

DEIF develops, manufactures and markets electronic products for the energy and marine sectors. The development and manufacturing takes place in the parent company, while sales, customisation and advice regarding the Group's products are provided by both the parent company and subsidiaries. The subsidiaries are crucial to the company's global expansion as they ensure local expertise and a presence in the major markets.

DEIF's main objective is to provide technology that helps to improve the environment and which supports global, green growth. This is a rapidly developing area basically driven by a number of strong factors:

- ▶ Increasing global electricity and energy consumption
- ▶ A commitment to reducing pollution and CO₂ emissions
- ▶ A broad desire to reduce dependence on fossil fuels
- ▶ Sustainable energy has become financially competitive compared oil, gas and nuclear power
- ▶ Green energy technology is a significant growth factor in the global economy

In recent years, DEIF has invested heavily in developing renewable energy control systems, with special emphasis on control systems for wind turbines. In addition, DEIF has increased activities related to hybrid energy technologies combining different sources of energy in 'microgrids'.

Within the well-established business areas, which deal with control systems for decentralised generator plants and power stations, as well as ships/offshore systems, DEIF helps, through its products and services, to optimise fuel efficiency and supports the cleanest technologies; e.g. bioenergy and the conversion from diesel to gas.

Business areas & strategic objectives

DEIF divides the business into 2 divisions:

The Power & Marine Division

This division is divided into two very well established business areas:

1. Land Power

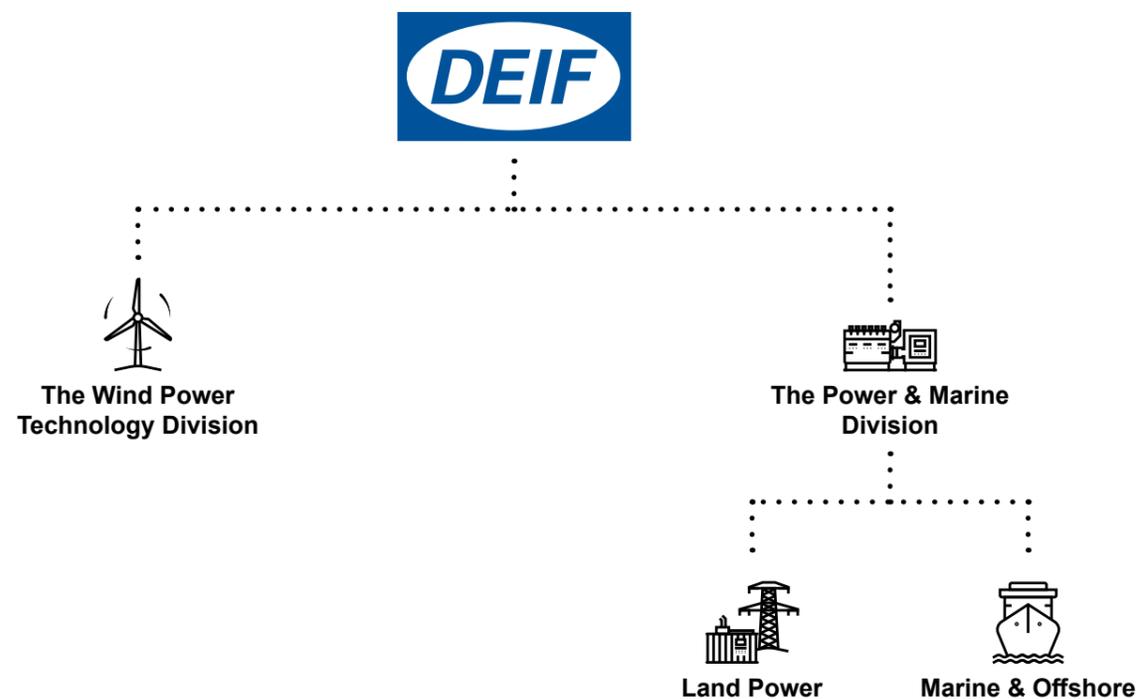
DEIF is among the leading global suppliers of control systems for decentralised power and heat production. DEIF provides solutions for decentralised power/co-generation plants based on diesel, gas, steam, hydro power, and hybrid PV/diesel plants. Moreover, DEIF is a leading supplier of control solutions for complex emergency power plants (critical power). Land Power focuses on green and sustainable solutions through the optimisation of energy production, taking into account the current consumption in order to use the least possible fuel. Through the use of DEIF's technology, the use of more environmentally friendly power sources such as natural and biogas, biomass and hydropower is promoted.

2. Marine & Offshore

DEIF is currently the leading global supplier of power management solutions for ships and offshore entities, as well special instruments for ship bridges. DEIF supplies components and complete control systems for securing and optimising the very complex power generation and distribution on ships. DEIF also helps ensure maximum safety on the ships' bridges through the delivery of custom-designed and extremely reliable instrumentation. Marine & Offshore helps to reduce pollution from shipping through a "green marine" programme that focuses on minimising fuel consumption by optimising the production of electricity and regulating consumption while still considering the ships' safety and the actual power needs.

The Wind Power Technology Division

This is the newest business area in DEIF, and the area is still considered in development. DEIF is a technologically leading supplier of control systems for wind turbines; from 250 KW to 6 MW. DEIF supplies complete systems containing all know-how on managing the wind turbines, including the pitch control of blades. The scope of supply covers both new wind turbines and retrofitting of older wind turbines. The Wind Power Technology Division helps to promote the dissemination and optimisation of wind turbines; especially in modern wind power countries such as China, India and Korea. By using DEIF's Park Power Management technology, the performance of wind farms can be optimised and tailored to the local electricity needs from wind turbines.



Management's statement on the annual report

The Board of Directors and the Management have today considered and adopted the annual report of DEIF A/S for the financial year 1 January to 31 December 2016.

The annual report has been prepared in accordance with the Danish Financial Statements Act. We consider the accounting policies applied appropriate and the used financial estimates sound. Thus, the complete annual report provides a true and fair view of the Group's and parent company's assets and liabilities, financial position and the results of the Group's and parent company's activities and cash flows.

In our opinion, the management report gives a true and fair view of the financial standings and conditions it deals with, and it describes the Group's most significant risks and uncertainties.

We recommend that the annual report be approved at the annual general meeting.

Skive, 4 April 2017

Management

 Toke Foss
 Managing Director

 Mogens Garder
 Director
 Power & Marine Division

 Christian Nielsen
 Director,
 Wind Power Technology Division

Board of Directors

 Mogens Filtenborg
 Chairman

 Kim R. Rasmussen

 Birgitte Brinch Madsen

 Peter H. Røpke

 Hans Henrik Pontoppidan

 Frederik A. Foss

 Ole Ravnberg
 Staff-elected

 Tonja W. Rasmussen
 Staff-elected

The past year & expectations for the coming year

The Group

The main markets within Power & Marine were characterised by a severe recession in 2016, while the Wind Power market continued to be positive. The turnover reached 609.8 MDKK, slightly less than the year before (617.4 MDKK).

This was expected and is regarded acceptable considering the market conditions. The operating profit (EBITDA) equalled 55.1 MDKK (71.8 MDKK in 2015), and the profit before tax reached 12.2 MDKK (24.5 MDKK the year before).

The solvency ratio has been continuously improved in recent years, and equalling 37.8% it has reached a satisfactory level.

Based on increased market shares and expectations that market conditions will not deteriorate, the group expects an increased turnover and improved result in 2017.

The Power & Marine Division

In 2016, the biggest DEIF division reached an operating result of 44.6 MDKK (60.9 MDKK in 2015) generated on the basis of a turnover equal to 457.4 MDKK (507.4 MDKK in 2015). The result is satisfactory due to the unfavourable market conditions and the resulting turnover decline – as well as the long-term strategy: DEIF utilises its strong position to increase market shares in a time of severe recession.

Thus, DEIF has chosen to maintain and strengthen efforts within product and market development. The resulting costs and investments lead to a lower profit in the short term, but the future prospects are very attractive, involving increased turnover and profit as soon as the markets recover.

On the overall, the development in 2016 is considered positive for Power & Marine given the fact that the division has won market shares and further strengthened the position on all markets.

Macro-economic tendencies indicate better market conditions in 2017. But it is difficult to determine how much that will affect DEIF's turnover and profit for the year. The strategy, however, continues to be to make significant investments in new products and markets.

The Wind Power Technology Division

As expected, this division generated a turnover increase, reaching 152.4 MDKK (110 MDKK in 2015). The operating result of 10.5 MDKK is at the same level as last year despite significant investments in product and market development as well as unfavourable currency conditions compared to 2015.

In general, the wind power market in 2016 was good, and the market position was strengthened throughout the year, for instance within the retrofit market where cooperation with a number of leading wind turbine owners was created.

The Wind Power Technology Division expects a good turnover growth in 2017 due to positive market forecasts and new customers. The profit is expected to improve even though further investments will be made in product and market development.

Capital resources

The company has the necessary credit facilities to finance next year's operations.

Operational & financial risks and basis of earnings

Operations & markets

DEIF's business typically consists of solid and lasting customer relationships. DEIF benefits from having a wide geographical spread and significant customer diversification. However, an increasing part of the turnover derives from markets and projects which are cyclical by nature, thus resulting in increased fluctuations and an increasingly difficult to predict turnover.

Currency exchange risks

Activities abroad mean that revenue, cash flows and equity are affected by exchange rate movements in a number of currencies. Estimates are continuously made for each currency to determine whether an exchange rate risk should be hedged – taking into account the related costs relative to DEIF's total risk.

The main currency risks for DEIF relate to trends in USD and CNY. Hedging has been implemented for USD and CNY, which covers a substantial portion of the expected net inflow in 2017.

Interest rate risks

Moderate changes in interest rates will have no significant direct effect on earnings.

The interest rate risk on secured debt has been partially hedged by an interest rate SWAP.

Credit risks

All major customers are systematically credit rated and credit is only granted within internally agreed credit limits. On relevant markets, transactions with major customers are credit insured.

The Group has no risks related to individual customers which give cause for concern in relation to the overall financial situation.

Basis of earnings: Research & development

DEIF allocates a high share of the turnover to product development. In 2016, spending equalled 64.6 MDKK (10.6% of the turnover) against 81.8 MDKK (13.2% of the turnover) the previous year.

In addition, investments in new applications equalling 38.5 MDKK (19.1 MDKK in 2015) have been made. In other words, investments with a future perspective are significant. A number of new and ground-breaking product platforms are being introduced and they have been very well received on the markets. They are expected to contribute decisively to the growth in the coming years.



CSR & code of conduct

In the summer of 2016, DEIF A/S officially signed up for the UN Global Compact programme.

We have defined the major stakeholders, which should guide the direction of our CSR activities – where we want to make a difference within the natural context of our business: Employees, business partners and the local & global community.

We implement our initiatives in two stages. In the first stage we have focused primarily on implementing the initiatives within the DEIF organisation to ensure that all employees understand the basic principles of UN Global Compact and ensure the implementation of sustainable solutions throughout the global organisation. In addition, we have focused on supplier compliance.

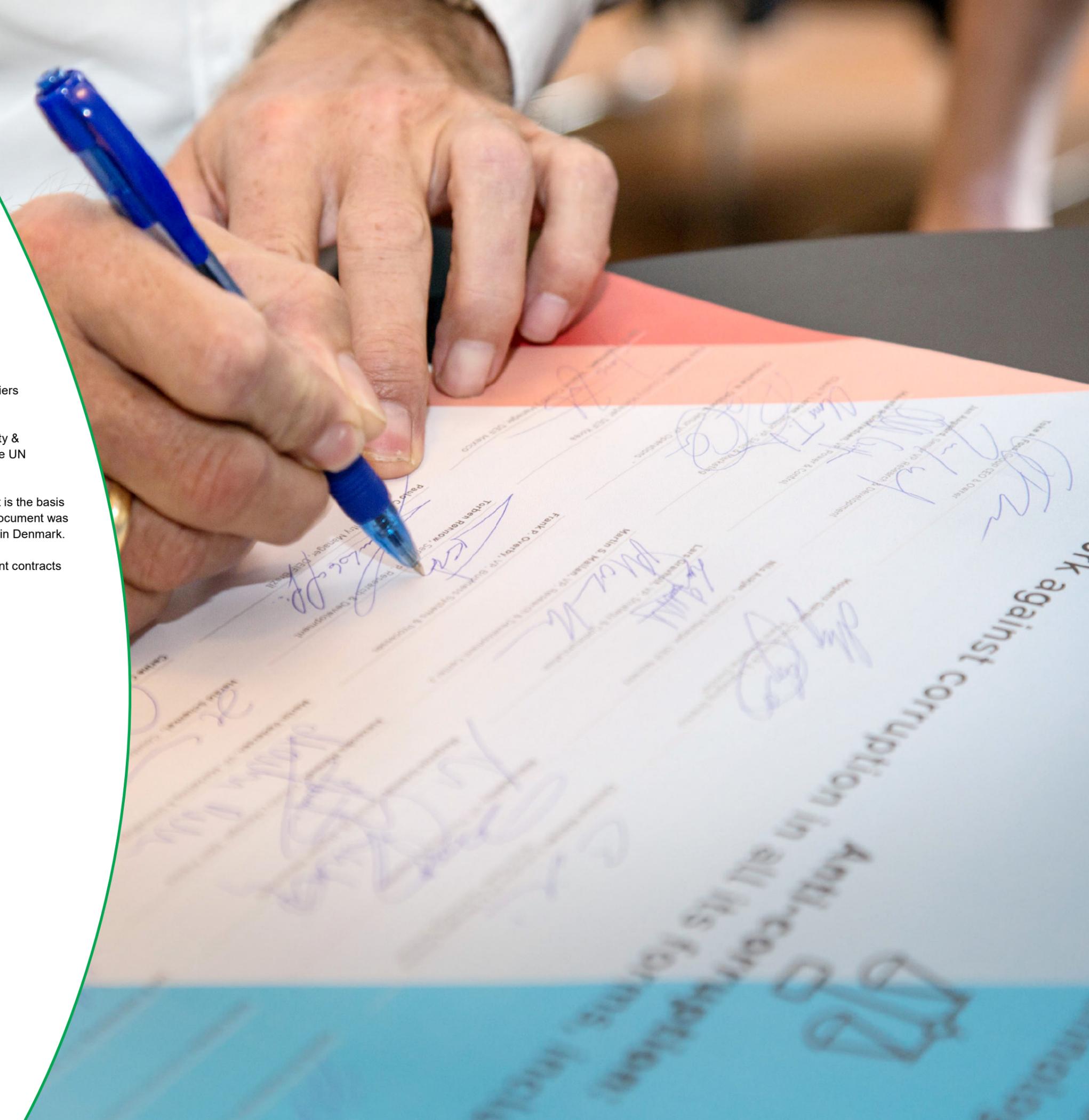
The second stage involves more initiatives towards our business partners (suppliers and customers) and subsequently toward the global community.

The DEIF Code of Conduct covers the areas of human rights, labour rights, safety & environment, and anti-corruption; according to the ten principles expressed in the UN Global Compact.

DEIF Code of Conduct is the fundamental document for our CSR activities and it is the basis for our guidance in advancing our CSR approach (ambitions and actions). The document was signed by DEIF's international management group during a common CSR event in Denmark.

Subsequently, the Code of Conduct has been implemented in all new employment contracts and in all local employee handbooks in our subsidiaries.

Please refer to our CSR brochure available at www.deif.com/csr for a full read.



CSR Report

COMMUNICATION ON PROGRESS 2016



