

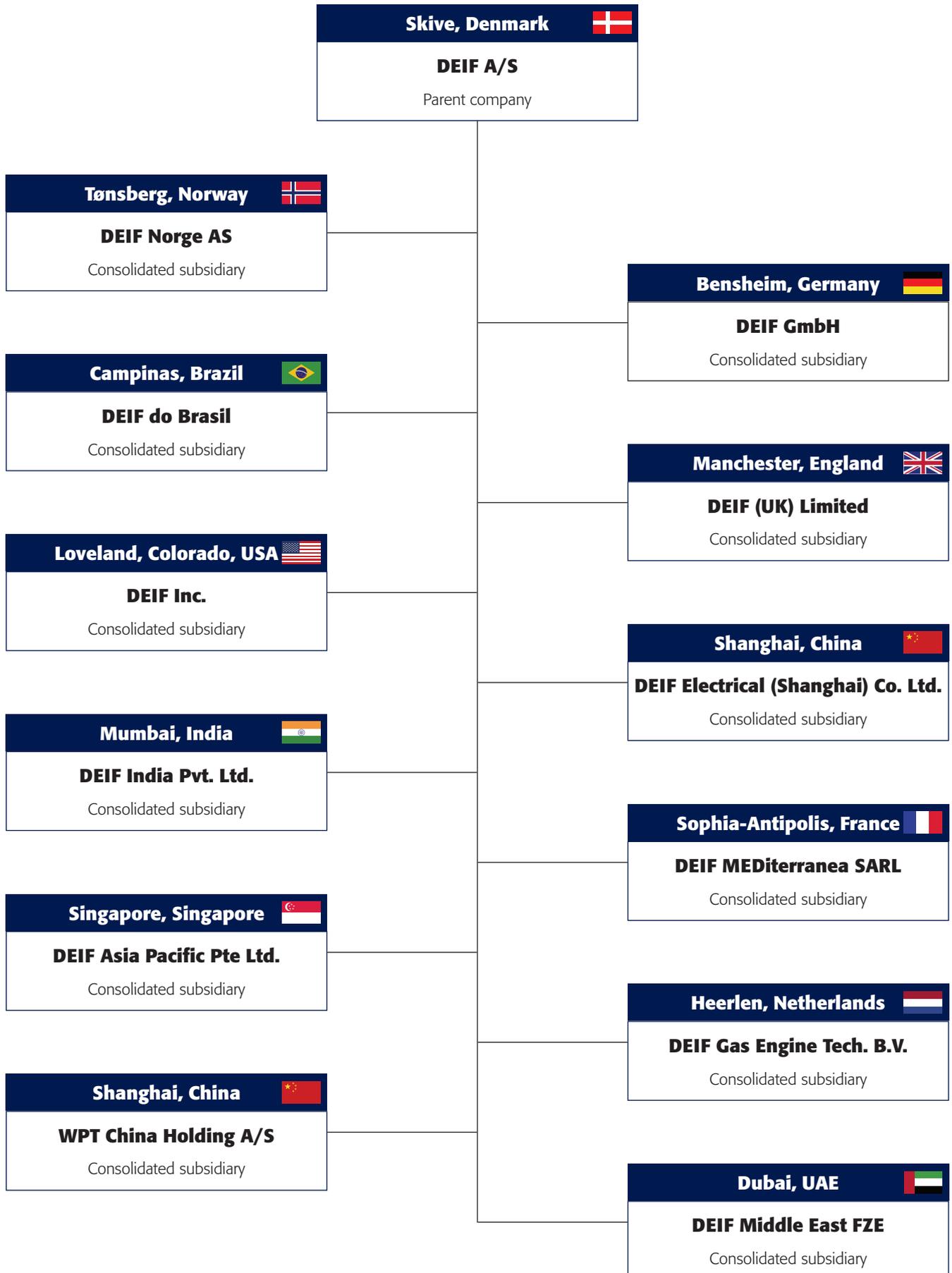


*-power in control*



**DEIF A/S:** ANNUAL REPORT FOR 2014 (CVR NO. 15798416)

# Group Overview



# Consolidated Financial Highlights & KPIs

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

<b>Highlights</b>	<b>2014</b> DKK 1,000	<b>2013</b> DKK 1,000	<b>2012</b> DKK 1,000	<b>2011</b> DKK 1,000	<b>2010</b> DKK 1,000
<b>Profit/Loss</b>					
Net revenue	618,142	497,842	490,941	450,814	387,258
Gross profit/loss	366,162	291,561	275,842	257,770	219,691
Earnings before interest, taxes, depreciation and amortization (EBITDA)	94,068	51,021	45,343	63,805	51,147
Earnings before interest, taxes (EBIT)	56,714	12,665	9,021	35,589	30,126
Profit/loss before tax	52,106	3,781	-3,437	30,186	21,940
Annual profit/loss	38,574	1,942	-2,347	21,796	15,461
Development costs	88,309	83,896	77,175	56,677	50,355
<b>Balance Sheet</b>					
Balance sheet total	410,503	364,228	390,781	372,677	326,472
Equity	129,161	90,221	86,871	85,991	66,417
<b>Cash Flows</b>					
Cash flows from:					
Operating activities	42,903	51,833	20,126	28,161	11,698
Investment activities	-19,958	-17,846	-45,912	-40,195	-41,648
Of this, tangible and intangible fixed assets	-20,399	-17,881	-45,527	-40,355	-41,287
Financing activities	-11,033	-7,955	-4,267	-2,697	-7,078
Annual change in cash	11,912	26,032	-30,053	-14,732	-37,028
<b>No, of Employees</b>					
Denmark	371	371	359	322	294
Foreign subsidiaries	182	169	140	118	91
Total	553	540	499	440	385
<b>KPIs as%</b>					
Growth	24.2%	1.4%	8.9%	16.4%	15.6%
Gross margin	59.2%	58.6%	56.2%	57.2%	56.7%
EBITDA – margin	15.2%	10.2%	9.2%	14.2%	13.2%
Profit ratio (EBIT)	9.2%	2.5%	1.8%	7.9%	7.8%
Return on capital employed	13.8%	3.5%	2.3%	9.5%	9.2%
Solvency ratio	31.5%	24.8%	22.2%	23.1%	20.3%
Return on equity	35.2%	2.2%	-2.7%	28.6%	26.4%
Development costs as a % of net revenue	14.3%	16.9%	15.7%	12.6%	13.0%

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

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

<b>Highlights</b>	<b>2014</b> EUR 1,000	<b>2013</b> EUR 1,000	<b>2012</b> EUR 1,000	<b>2011</b> EUR 1,000	<b>2010</b> EUR 1,000
<b>Profit/Loss</b>					
Net revenue	83,043	66,732	65,806	60,641	52,091
Gross profit/loss	49,192	39,082	36,974	34,674	29,551
Earnings before interest, taxes, depreciation and amortization (EBITDA)	12,637	6,839	6,078	8,583	6,880
Earnings before interest, taxes (EBIT)	7,619	1,698	1,209	4,787	4,052
Profit/loss before tax	7,000	507	-461	4,060	2,951
Annual profit/loss	5,182	260	-315	2,932	2,080
<b>Balance Sheet</b>					
Balance sheet total	55,148	48,822	52,381	50,130	43,915
Equity	17,352	12,093	11,644	11,567	8,934
<b>Cash Flows</b>					
Cash flows from:					
Operating activities	5,764	6,948	2,698	3,788	1,574
Investment activities	-2,681	-2,392	-6,154	-5,407	-5,602
Of this, tangible and intangible fixed assets	-2,740	-2,397	-6,102	-5,428	-5,554
Financing activities	-1,482	-1,066	-572	-363	-952
Annual change in cash	1,600	3,489	-4,028	-1,982	-4,981
<b>No, of Employees</b>					
Denmark	371	371	359	322	294
Foreign subsidiaries	182	169	140	118	91
Total	553	540	499	440	385
<b>KPIs as%</b>					
Growth	24.2%	1.4%	8.9%	16.4%	15.6%
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EBITDA – margin	15.2%	10.2%	9.2%	14.2%	13.2%
Profit ratio (EBIT)	9.2%	2.5%	1.8%	7.9%	7.8%
Return on capital employed	13.8%	3.5%	2.3%	9.5%	9.2%
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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.

DEIF A/S's annual report for 2014 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 CO<sub>2</sub> emissions
- A broad desire to reduce dependence on oil and gas imports
- Widespread consensus that green technologies are a significant growth driver in the economy
- Declining prices for – and an increasing maturity within – renewable energy technologies

In recent years, DEIF has invested heavily in developing renewable energy control systems, with special emphasis on control systems for wind turbines and other renewable energy sources. Recently, DEIF has successfully introduced control solutions for hybrid solar cell (PV)/diesel plants.

Within the well-established business areas, which deal with control systems for decentralised generating 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.



# Report: 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. Power & Control Technology

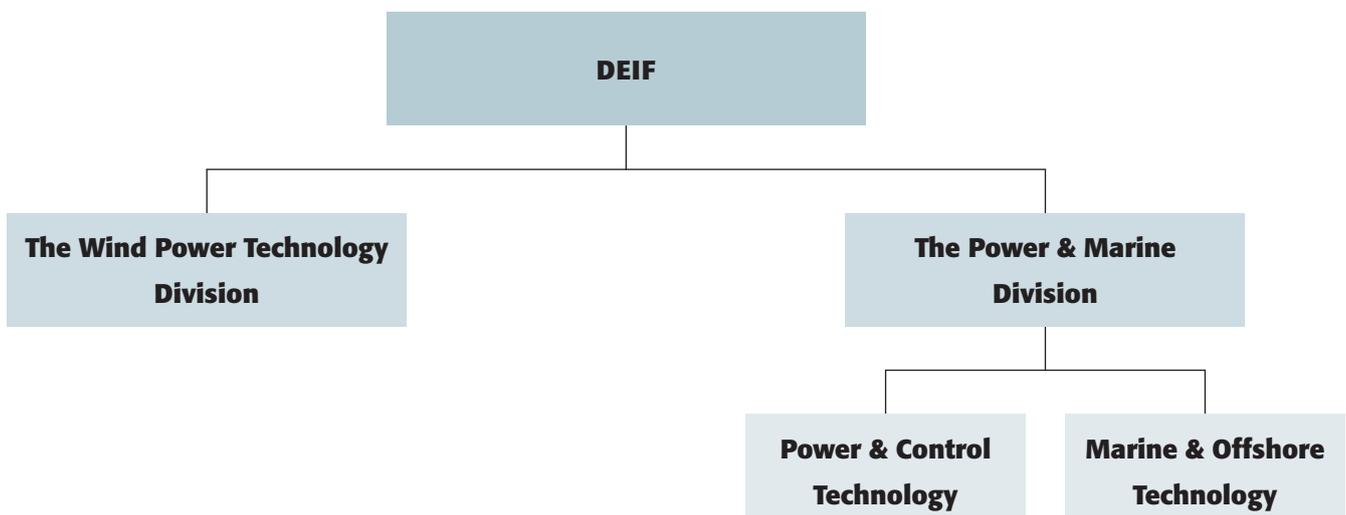
DEIF is among the leading global suppliers of control systems for decentralised power and heat production. DEIF provides solutions for decentralised power/co-generation plants based on diesel, gas, steam, hydro power, and hybrid PV/diesel plants. Moreover, DEIF is a leading supplier of control solutions for complex emergency power plants (critical power). Power & Control Technology 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 Technology

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 Technology 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 including 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. Wind Power Technology 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. For a further description of the company's products, see the company website: [www.deif.com](http://www.deif.com).



# Report: 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 2014.

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, 24 March 2015

## Management

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Toke Foss  
Managing Director

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Mogens Garder  
Director  
Power & Marine Division

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Christian Nielsen  
Director,  
Wind Power Technology Division

## Board of Directors

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Mogens Filtenborg  
Chairman

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Kim R. Rasmussen

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Nils Christian Foss

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Birgitte Brinch Madsen

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Ole Ravnborg  
Staff-elected

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Tonja W. Rasmussen  
Staff-elected

# Report: The Past Year & Expectations for the Coming Year

## The Group

In 2014, DEIF achieved a turnover growth of 24.2%. Operating profit (EBITDA) improved to 94.1 MDKK from 51.0 MDKK the year before, and profit before tax equalled 52.1 MDKK compared to DKK 3.8 MDKK the year before. The result – the best in DEIF's 81 year history – is very satisfying.

It is also satisfying that the interest-bearing debt continues to be reduced through a positive cash flow of 11.9 MDKK despite the increased funds tied up in working capital resulting from the strong revenue growth.

Through the continued high investments in product and market development in both divisions DEIF strengthened its position, and expects further growth in turnover and profit in 2015.

## The Power & Marine Division

In 2014, the biggest division of DEIF reached an operating profit (EBITDA) of 103 MDKK based on a significant turnover increase. The result is extremely satisfactory being close to double that of the previous year (55 MDKK). Incurred costs for new developments continued at an undiminished level, and a number of products are being introduced.

In 2015, Power & Marine is expected to increase turnover and maintain a high operating profit based on a strengthened market position – achieved through targeted product development and establishment in new markets. The division continues to win market shares in all segments, and the outlook for 2015 is generally positive. However, the severe decline in oil prices is expected to affect the offshore area negatively, thus reducing growth compared to the previous year, when viewed in isolation.

## The Wind Power Technology Division

As expected, the smaller Wind Power Technology division generated a significant turnover increase. In line with plans, considerable expense was incurred on market development and the development and introduction of new products. This resulted in an operating deficit (EBITDA) equal to -9 MDKK compared to -4 MDKK the year before. The market position was significantly strengthened during the year.

As of 1 January 2015, DEIF has partnered with IFU (the Investment Fund for Developing Countries), resulting in a significant investment in the division's activities in China, which is expected to contribute significantly to turnover and earnings in this key market.

The Wind Power Technology division expects a significant increase in turnover and an operating profit (EBITDA) in 2015.

## Capital Resources

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

## Operations & Market

DEIF's business typically consists of solid and lasting customer relationships, which, due to the products and the industry's nature, are very stable. DEIF benefits from having a wide geographical spread and significant customer diversification.

An increasing part of the turnover is, however, delivered to big international power projects, thus resulting in bigger turnover fluctuations – both in the course of individual years and from one year to the next.

## 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, which covers a substantial portion of the expected net inflow in 2015.

## Interest Rate Risks

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

In 2015, 79% of the interest rate risk on secured debt was 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.



## Research & Development

DEIF allocates a high share of the turnover to product development. In 2014, spending equalled 88.3 MDKK (14.3% of the turnover) against 83.9 MDKK (16.9% of the turnover) the previous year. The majority is spent on development of new product platforms and expanding application areas for the products, whereas a smaller part is used for general product maintenance. In other words, investments with a future perspective are significant. A number of new and ground-breaking product platforms are being introduced. They are expected to contribute significantly to the growth in the coming years.

## Social Responsibility & the Surrounding Environment

Since 1992, DEIF has had the following, formally recorded, executive objectives for the company:

“To maximise the long-term value of DEIF, while always acting ethically responsible in relation to our employees, business partners and society.”

Over the years, DEIF has worked consistently to implement these executive objectives, not least through a very systematic approach to strategic plans, derivative action plans and policies. This means that the whole organisation is working towards achieving the executive objective of acting ethically.

Management has complied with all generally accepted principles of social responsibility and good business ethics – in line with the executive objective. Legislation must of course be respected at all times.

Aiming to further systematise and highlight our CSR efforts, DEIF joined the UN Global Compact in 2014.



DEIF places a special emphasis on the working environment, and in this regard, the company has reached a very satisfactory level, through, among other things, extensive investment in modern, environmentally friendly facilities.

In recent years, DEIF has worked very hard to implement a green executive strategy. Good results have been achieved in energy optimisation of buildings and fuel savings for our customers through a strong emphasis on this issue in the solutions offered and participation in collaborations with other companies and authorities.

It is thus DEIF's policy to invest in green solutions for the benefit of the external environment – even though these may have a longer payback period than the less environmentally friendly solutions – in the belief that this will benefit the company and society in the long term.

In 2013, DEIF implemented a system to document environmental management (ISO 14 001). We plan to use the certification actively in our efforts to implement, maintain and improve the ambitious initiatives of our green main strategy.

## **Knowledge Base**

In recent years, there has been a significant increase, and diffusion, of knowledge in the company, which means that DEIF has built a very large and broad knowledge base, providing a good foundation for future development.

## **Share of the Under-represented Gender**

In line with the company's values, DEIF in general wishes to promote diversity, also when it comes to gender. DEIF's values ensure all employees equal rights, conditions and opportunities regardless of age, nationality or gender.

DEIF's aim is that at least 25% of the members of the Board of Directors are women. At the beginning of 2015, there was a change in the composition of the Board promoting gender diversity, so it now includes one woman and three men. Thus, the composition of the Board meets our aim.

DEIF has also set targets for the proportion of the underrepresented gender in other management layers. We aim to reach a balanced composition between male and female managers. In 2014, the company's management team was expanded, in part through the employment of two female managers.

DEIF has not yet achieved a balanced composition between male and female managers. This is expected to take several years and will be part of the decision basis when recruiting new managers. However, as a consequence of the lines of business in which DEIF operates, we do not consider it possible to reach an equal gender balance at other management levels.

DEIF is a market leader with a proven record of more than 80 years of technological achievement and innovation in engine & genset controls, marine bridge instrumentation, switchboard instrumentation and renewable energy controls.

Our goal is to always bring a competitive edge to our customers' businesses by providing green, safe and reliable product lines with flexible features and first class service and support.

The DEIF Group is committed to maintaining and expanding its position as a trusted global supplier of quality solutions.



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