




DEIF A/S

2018 ANNUAL REPORT ABSTRACT
(CVR NO. 15798416)



Group overview

Parent company

	DEIF A/S Skive, Denmark
---	-----------------------------------

Consolidated subsidiaries

	DEIF do Brasil (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 SARL (100%) Sophia-Antipolis, France
	DEIF GmbH (100%) Bensheim, Germany
	DEIF India Pvt. Ltd. (100%) Mumbai, India
	DEIF Korea Co. Ltd (100%) Busan, Republic of Korea
	DEIF Mexico 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
	DEIF WPT Austria GmbH (100%) Klagenfurt, Austria
	DEIF Turkey (100%) Ankara, Turkey (closed in 2018)

Consolidated financial highlights & KPIs in DKK

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

Highlights	2018 (DKK 1,000)	2017 (DKK 1,000)	2016 (DKK 1,000)	2015 (DKK 1,000)	2014 (DKK 1,000)
Profit/Loss					
Net turnover	544,726	620,942	609,817	617,443	618,142
Gross profit/loss	292,209	323,114	328,426	362,523	366,162
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	22,369	52,248	55,149	71,827	94,068
Earnings before interest, taxes (EBIT)	-17,426	21,312	24,558	41,882	56,714
Profit/loss before tax	-30,343	9,478	12,176	24,519	52,106
Annual profit/loss	-24,745	7,081	6,772	13,667	38,574
Balance sheet					
Balance sheet total	563,905	541,382	497,949	467,818	410,503
Equity	174,250	201,291	188,434	174,853	129,161
Cash flows					
Operating activities	31,347	22,363	56,456	2,334	42,903
Investment activities	-80,142	-74,938	-68,509	-34,959	-19,958
Of this, tangible and intangible fixed assets	-80,077	-74,238	-67,837	-34,868	-20,399
Financing activities	-7,346	6,035	19,202	31,844	-11,033
Annual change in cash	-56,141	-46,540	7,149	-781	11,912
Number of employees					
Denmark	396	399	397	409	371
Foreign subsidiaries	228	237	241	211	182
Total	624	636	638	620	553
KPIs					
Growth	-12.3%	1.8%	-1.2%	-0.1%	24.2%
Gross margin	53.6%	52.0%	53.9%	58.7%	59.2%
EBITDA – margin	4.1%	8.4%	9.0%	11.6%	15.2%
Profit margin (EBIT)	-3.2%	3.4%	4.0%	6.8%	9.2%
Return on capital employed	-3.1%	3.9%	4.9%	9.0%	13.8%
Solvency ratio	30.9%	37.2%	37.8%	37.4%	31.5%
Return on equity	13.2%	3.6%	3.7%	9.0%	35.2%

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	2018 (EUR 1,000)	2017 (EUR 1,000)	2016 (EUR 1,000)	2015 (EUR 1,000)	2014 (EUR 1,000)
Profit/Loss					
Net turnover	72,948	83,405	82,026	82,739	83,043
Gross profit/loss	39,132	43,401	44,176	48,579	49,192
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	2,996	7,018	7,418	9,625	12,637
Earnings before interest, taxes (EBIT)	-2,334	2,863	3,303	5,612	7,619
Profit/loss before tax	-4,063	1,273	1,638	3,286	7,000
Annual profit/loss	-3,314	951	911	1,831	5,182
Balance sheet					
Balance sheet total	75,517	72,719	66,979	62,689	55,148
Equity	23,335	27,037	25,346	23,431	17,352
Cash flows					
Operating activities	4,198	3,004	7,594	313	5,764
Investment activities	-10,732	-10,066	-9,215	-4,685	-2,681
Of this, tangible and intangible fixed assets	-10,724	-9,972	-9,125	-4,672	-2,740
Financing activities	-984	811	2,583	4,267	-1,482
Annual change in cash	-7,518	-6,251	962	-105	1,600
Number of employees					
Denmark	399	399	397	409	371
Foreign subsidiaries	237	237	241	211	182
Total	636	636	638	620	553
KPIs					
Growth	-12.3%	1.8%	-1.2%	-0.1%	24.2%
Gross margin	53.6%	52.0%	53.9%	58.7%	59.2%
EBITDA – margin	4.1%	8.4%	9.0%	11.6%	15.2%
Profit margin (EBIT)	-3.2%	3.4%	4.0%	6.8%	9.2%
Return on capital employed	-3.1%	3.9%	4.9%	9.0%	13.8%
Solvency ratio	30.9%	37.2%	37.8%	37.4%	31.5%
Return on equity	-13.2%	3.6%	3.7%	9.0%	35.2%

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 2018 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 digital solutions and electronic products for the global energy and marine markets – with a focus on production, distribution and consumption of electrical energy (electricity).

Development and production takes place in the parent company in Denmark. Sales, development, delivery and servicing of customer solutions takes place in both the parent company and subsidiaries.

DEIF's main objective is to provide technology that helps to improve the environment and supports green growth. This objective is driven by a number of global megatrends:

- Higher energy consumption, increasingly based on electricity.
- A political desire to limit global warming and reduce air pollution.
- Renewable energy has become economically competitive relative to oil and gas.
- Green energy technology is a significant growth engine in the global economy.

In recent years, DEIF has invested heavily in developing solutions in renewable energy with a particular focus on wind turbines and hybrid energy technologies that combine various sources of energy, including solar panels and batteries.

Through its products and solutions, DEIF contributes to the optimisation of fuel consumption in decentralised power production and ships, and the company supports the cleanest technologies, such as conversion to bio-based fuels.

Increased electrification creates a high demand for supply security and cybersecurity. DEIF contributes to this with technology for complex emergency power systems that protect e.g. data centres, hospitals and vital infrastructure from power failures.

Business areas & strategic objectives

DEIF has divided the market into three business areas:

Marine & Offshore

DEIF is by far the largest global supplier of power management solutions for ships and offshore entities, as well as special instruments for ship bridges. DEIF supplies components and complete solutions for securing and optimising the often 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 power supply, while always taking into account the ships' safety and power needs.

Land Power

DEIF is among the leading global suppliers of control systems for decentralised power production. DEIF provides solutions for generator systems and power plants based on e.g. diesel, gas, steam and hydropower, as well as hybrid solar/diesel/battery systems. DEIF is also the leader in control systems for complex emergency power systems ("critical power").

Land Power focuses on green and economic solutions that optimise the power production relative to the demand, to minimise the consumption of fuel. DEIF's technology promotes the use of more environmentally friendly power sources such as solar panels and biogas.

Wind Power

DEIF is a leading global supplier of control system technology for wind turbines of all sizes. The solutions are based on a very deep knowhow, including all knowledge about the control systems of wind turbines.

The solutions include hardware, software and IT for complete control and monitoring of individual wind turbines, and also entire wind parks. They are used for both new wind turbines and to retro-fit existing turbines. DEIF's strategy is to work closely with wind turbine owners to minimise Total Cost of Ownership.

Wind Power helps promote the expansion and optimisation of wind turbines. Using DEIF's technology can optimise the performance of wind turbines and minimise service costs for owners.

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 2018.

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, 28 May 2019

MANAGEMENT

Tom Foss
CEO

BOARD OF DIRECTORS

Mogens Filtenborg
Chair

Kim R. Rasmussen

Birgitte Brinch Madsen

Peter H. Røpke

Hans Henrik Pontoppidan

Frederik A. Foss

Ole Ravnborg
Staff-elected

Tonja W. Rasmussen
Staff-elected

The past year & expectations for the coming year

The Group

DEIF's turnover decreased to DKK 544.7 million, from DKK 620.9 million in 2017. This reduction is due to delays and cancellations of projects for Wind Power in China. Overall, the turnover from the other business areas was at the same level as the previous year. The Marine & Off-shore sector continued to show a slight decline, while turnover increased within Land Power.

Operating income (EBITDA) was DKK 22.4 million, which is a significant decline compared to the previous year (DKK 52.2 million). Profit after tax shows a loss of DKK 24.7 million, compared to a profit of DKK 7.1 million the previous year. This result is very unsatisfactory. This is the first time for many years that DEIF has had a loss.

The reason for the loss can be isolated to problems in DEIF WPT Shanghai – a Joint Venture with the Danish Climate Investment Fund – which provides components and system solutions for the local wind turbine market. A number of major system deliveries to key customers were de-layed or cancelled very late in the year, which strongly impacted the turnover and contribution margin. This led to the realisation of a very significant loss on bad debt.

Overall, the other business areas have lived up to the budgeted expectations.

In 2018, DEIF underwent a comprehensive organisation restructuring. The two former divisions (Power & Marine, and Wind Power Technology) were abolished. All activities were consolidated under corporate management, and only one overall operating profit is calculated. As part of the restructuring – and through the released synergies – the cost level will be significantly reduced in the future.

The coming years

There are clear indications that developments are positive in all markets. This includes the business area Marine & Offshore, for the first time since 2014.

The market for Land Power and Wind Power retrofit is expected to continue the positive trend from 2018.

The situation in WPT China (Wind Power in China) has normalised and progress in turnover and earnings is expected.

DEIF thus expects to get returns from the very significant investments that have been made in product and market development in past years. This is supported by a positive trend in the first months of the year.

With the cost reductions from last year going through, this means that DEIF expects a profit in 2019.

Operational & financial risks and basis of earnings

Capital resources

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

Operations & markets

DEIF's business typically consists of permanent and long-term customer relationships, and the company generally has an advantage in a relatively wide geographical area and customer distribution. However, an increasing share of sales is project-oriented for specific markets, which reduces the spread and thus increases the risks relating to specific customers and countries

Currency exchange risks

Activities abroad mean that revenue, cash flows and equity are affected by price movements in a number of currencies. For each currency, ongoing evaluations are made on whether to hedge the exchange rate risk - taking into account the related costs, relative to DEIF's total risk.

The main currency risk for DEIF is related to movements in USD and CNY.

Interest rate risks

Moderate changes in interest rates will have no significant direct effect on earnings. The interest rate risk on secured debt was partially hedged by an interest rate SWAP.

Credit risks

A systematic credit assessment was made of all significant customers and credit is only offered within the internally adopted credit limits. Credit insurance is sought for trade with major customers in relevant markets.

The group does not have any risk relating to individual customers that would be cause for concern with regard to the overall financial situation.

Basis of earnings: Research & development

DEIF uses a high proportion of the turnover for product development. In 2018, DKK 63.0 million was expensed (11.6% of the turnover), compared to DKK 51.5 million (8.3% of the turnover) for the previous year. DKK 73.3 million was invested in new applications (DKK 60.3 million in 2017).

This is a very significant continued investment in the future. A number of entirely new ground-breaking product platforms are being introduced and have been particularly well-received in the market. These are expected to be a key contribution to growth in the coming years.



CSR & code of conduct

Following the principles of UN Global Compact

DEIF has been a member of the UN Global Compact initiative since 2016, which sets 10 general principles for socially responsible corporate work with regard to human rights, working environment, safety and environment, as well as anti-corruption.

We have developed policies and guidelines within each of the four areas that have been communicated and implemented throughout the company. They are formalised in the 'DEIF Code of Conduct', DEIF's internal code of practice, which follows the principles of the Global Compact.



Ambitions, activities and aims

At the end of 2017, we set a number of goals and activities for 2018 within CSR management and the four areas.

During 2018, we worked systematically to implement the planned activities and achieve the objectives. New goals and activities were also set for 2019.



CSR & code of conduct highlights from 2018

Some of the most important initiatives and results from 2018 were:

- In April 2018, we issued our second CSR report (Communication on Progress) in accordance with the guidelines of the UN Global Compact.
- We made CSR evaluations of our companies in Denmark, China and Singapore, Brazil and India according to the UN criteria (The Global Compact Self Assessment Tool) to find out how well our Code of Conduct and CSR initiatives were being implemented in the companies. Overall, the results show that the guidelines have largely been complied with and the CSR mindset is well-established among the management and employees.
- As part of our global customer satisfaction survey in 2018, we included questions about the customers' perception of our CSR activities and profile. The combined score from the 540 responses was 6 on a scale of 1-7.
- Our Code of Conduct is communicated to all active suppliers, who have accepted compliance with the guidelines. We conducted four supplier audits outside Europe in 2018, which did not uncover any major deviations.
- In 2018, there was still a strong focus on maintaining a very high degree of security for all employees around the globe. A global HSE structure (Health, Safety and Environment) has been made and safety instructions and training have been implemented in all companies. Our goal is 0 accidents at work. In 2018, we had 1 minor accident that resulted in time off work.
- Health and satisfaction are also high priorities at DEIF. In 2018, we implemented a number of initiatives to promote employee health and satisfaction, both in Denmark and in our foreign companies. As an example, in Denmark we held "workplace exercise day" with extensive participation and many subsidiaries have held sports and team-building events.
- DEIF was environmentally certified in accordance with ISO 14001:2015 in 2018.
- We have implemented processes that ensure ongoing assessment of CSR-related risks, opportunities and impact on our business activities. The assessments are based on specific data, and are a significant part of the relevant departments' annual work.
- A tool is being implemented for annual evaluation of distributors, including a risk assessment with regard to CSR (particularly anti-corruption).

See the full CSR Report 2018 at: www.deif.com/about/corporate-social-responsibility





DEIF A/S

Frisenborgvej 33, 7800 Skive, Denmark

Tel. +45 9614 9614

LEARN MORE AT DEIF.COM

