Global Interior Solutions

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Depa Limited
Results for the year ended 31 December 2016

Depa Limited ("Depa"), the leading global interior solutions Group, announces its results for the twelve months ended 31 December 2016.

SUMMARY FINANCIAL RESULTS

(AEDmn)	**2016**	**2015**	**change**
Revenue	1,730.3	1,640.6	+ 5%
Gross profit	324.1	152.7	+ 112%
Gross margin	19%	9%	+ 101%
Net profit	52.0	(272.7)	+ AED 324.7mn
Earnings / (loss) per share (AED)	0.07	(0.44)	+ AED 0.51
Net cash	278.1	124.8	+ 123%
Backlog	1,927	2,103	- 8%

HIGHLIGHTS

- **Robust revenue growth: revenue of AED 1,730.3mn**
  - Up from AED 1,640.6mn, 5% year-on-year growth
- **Strong gross profit generation: gross profit of AED 324.1mn**
  - Up AED 171.4mn from AED 152.7mn in 2015, 112% year-on-year growth
  - Gross margin of 19% compared with 9% in 2015
- **Full year audited net profit of AED 52.0mn**
  - Up AED 324.7mn on 2015
  - Four quarters of profit, generating earnings per share AED 0.07
- **Continued cash generation and robust balance sheet: net cash at year end of AED 278.1mn**
  - Up AED 153.3mn from AED 124.8mn in 2015, 123% year-on-year growth
- **Strong performance across all four Key Business Units**
  - Design Studio, Vedder, Deco Group and Depa Interiors Group all performed well in 2016
- **Backlog of AED 1,927mn**
  - More than 110% of 2016 revenue
- **Proposed balance sheet reorganisation, enabling dividend payments**
  - Potential to pay dividend following 2017 audited results
  - Introduction of dividend policy: to pay-out 25%-50% of earnings

Hamish Tyrwhitt, Group Chief Executive Officer, commented: *"Depa's 2016 audited results reflect a successful and sustainable year where we materially de-risked the business. The Group as a whole continues to improve operationally and the enhancements implemented throughout 2016 provide a strong platform for the Group to build on in 2017. Pleasingly, we have made significant progress on legacy issues, the resolution of which will enable the management teams to maintain their focus on executing existing work and winning new profitable projects. The new four-gate work winning process, which is now up and running, will also improve the Group's approach to new contracts; enabling us to better service our clients and capture a greater share of our addressable market. We have also built a performance-driven culture, critically incentivising and rewarding our employees for exceptional performance and aligning everyone's interests with those of our shareholders. This progress has supported the strong performance exhibited in each of our four Key Business Units.*

"The Board recognises the importance of dividends as a form of shareholder value creation. Accordingly, to enable the payment of dividends in the future, Depa is proposing to reorganise its balance sheet by offsetting a portion of its share premium account with its accumulated losses, subject to shareholder approval at its upcoming general meeting. Additionally, Depa has introduced a dividend policy to pay-out 25% to 50% of yearly earnings. This improvement to the Group's balance sheet, together with the Group's focus on generating sustainable growth and cash-backed profit, should enable the Group to commence paying dividends to its shareholders following its 2017 full year results.

"Depa's successful and transformative year has built a strong platform for its Key Business Units to generate long-term sustainable growth and create real shareholder value."

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For more information, please refer to the corporate website: www.depa.com

Notes to editors:

Depa is a strategic management company specialising in global interior solutions. Depa's four Key Business Units hold leading positions in their respective markets: Design Studio, Vedder, Depa Interiors Group and Deco Group. Employing thousands of people worldwide, the Group's operations are centred on three regional hubs: Asia, Europe and the Middle East.

Depa's mission, shared by each of its Key Business Units, is to deliver sustainability, profitability and performance for our clients, shareholders and employees. The Group's five core values are integral to everything Depa does: transparency, integrity, accountability, professionalism and exceptional service.

Depa Limited is listed on the Nasdaq Dubai (DEPA:DU) and is headquartered in Dubai, United Arab Emirates.

Cautionary statement:

This document contains certain 'forward looking statements' with respect to Depa's financial condition; results of operations and business; and certain of Depa's plans and objectives with respect to these items. By their very nature, forward looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements. All written or verbal forward looking statements, made in this document or made subsequently, which are attributable to Depa or any other member of the Group or persons acting on their behalf are expressly qualified on this basis. Depa does not intend to update these forward looking statements.

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CHIEF EXECUTIVE OFFFICER'S OPERATIONAL REVIEW

Depa has made tremendous progress in 2016.

We have established Depa as a strategic management company and reorganised the Group, constituting our four Key Business Units and separating our investments and other holdings. Our four Key Business Units (Design Studio, Vedder, Depa Interiors Group and Deco Group) are the Group's central drivers of value for our shareholders.

We have built a strong senior leadership team during the year, both at the strategic management company as well as at each of the Key Business Units. The Group now has a wealth of experience and know-how to drive the business forward in each of its market leading positions.

The year also saw the adoption of our five core values: transparency, integrity, accountability, professionalism and exceptional service. Our values are central to everything we do at Depa and will ensure that the Group delivers for all of our stakeholders: most importantly our clients, our employees and our shareholders.

At a Group level we commenced a number of important initiatives in 2016 to develop improved management systems. These include an enhanced approach to risk management, in particular a new four-gate work winning process that we have begun to roll out. This new gate system will have multiple benefits: a) increased win-rates given more effort can be focused on the projects where the respective Key Business Units have the best chance of success; b) enhanced profitability as the Key Business Units pursue the most financially-rewarding projects; c) additional cost-savings from more efficient use of resources; and d) a more targeted approach to project wins reducing the overall risk profile of the Group.

We began to establish a performance-driven culture across the Group. Central to this was the introduction of a new short-term incentive plan during the year. The plan incentivises and rewards our employees for exceptional performance and, critically, aligns our employees' interests with those of Depa's shareholders. A long-term incentive plan has also been developed in 2016 for roll-out in 2017 which will further align interests of key employees with those of the shareholders. These plans have already driven value-creating behaviour and are key elements of building a performance-driven culture.

The Group has also made strong progress resolving a number of legacy receivables. The resolution of the remainder continues to be a key area of focus. With the momentum that has been built to date, the resolution of many of these items is expected over the course of 2017.

We have commenced a strategic review of all of the Group's businesses and assets with a view to maximising shareholder value creation and returns on equity. As part of this strategic review, the Group will assess its holdings in each of its assets and determine the most appropriate course of action. With a view to maximising returns, the Group will continue to invest primarily in organic growth, while continuously assessing inorganic or acquisitive opportunities against its strategic and financial objectives.

Pleasingly, each of the Group's Key Business Units performed well during the year.

Design Studio

The Group's Asian business, Design Studio had an outstanding year generating revenue of AED 482.3mn and profit of AED 57.3mn, representing a revenue increase of AED 47.2mn or 11% on 2015 (AED 435.1mn) and increase in profit by AED 12.8mn or 29% on 2015 (AED 44.5mn).

The strong result was primarily due to an increased contribution from the Hospitality and Commercial sector, which offset a decline in the Residential sector. These strong results ensured Design Studio maintained its gross margin at 23%, slightly up on 2015 (21%).

In Singapore, Design Studio secured the landmark JW Marriott Singapore South Beach, the Yotel Hotel at Changi International Airport, and the Botanique at Bartley and Visionaire residential project. In Malaysia, key project wins included a luxury resort in Langkawi, the Ritz Carlton Residences in Kuala Lumpur, and an integrated commercial centre in Nusajaya.

Design Studio also secured projects in China, (including Shanghai Bao Shan and Hanking Peak Boulevard residential projects), the United Arab Emirates, and Thailand during the year, as it continues to seek opportunities outside its key markets of Singapore and Malaysia.

Following the year end, Design Studio announced the appointment of a new Chief Executive Officer, Edgar Ramani. Edgar has a wealth of experience and will be focused on growing the business across Asia.

Vedder

The Group's European business, Vedder, which is focused on the superyacht and private jet fit-out market, had another solid year. Vedder generated revenue of AED 298.9mn and profit of AED 16.8mn, representing stable revenue on 2015 (AED 299.3mn) and reduction in profit by AED 2.3mn or 12% on 2015 (AED 19.1mn). The reduction in profit is primarily due to a number of non-recurring general and administrative expenses. Pleasingly, gross margins increased in 2016 to 23% from 21% in 2015.

During 2016, Vedder also completed the merger of its operations, combining a number of functions between its two factories in Ludinghausen and Haidfling, which will help drive efficiencies in 2017.

Vedder celebrated its 125th anniversary during the year, a truly remarkable achievement marked with a commemorative event in Mainz, Germany. Vedder has established itself as the world's leading interior fitout provider for superyachts, and its longevity is testament to the quality of its work.

Vedder secured a number of major projects from leading European shipyards in 2016. With a healthy backlog of work and a number of significant prospects, Vedder is well poised to deliver this year.

Depa Interiors Group

Depa Interiors Group completed a robust year generating revenue of AED 655.4mn, representing an increase of AED 33.8mn or 5% increase on 2015 (AED 621.6mn). Reported profit in 2016 amounted to AED 3.5mn compared with a loss of AED 169.2mn in 2015, which was primarily caused by a number of claim and unapproved variation order reversals. The 2016 profit was adversely affected by a number of loss making, non-operating entities; adjusting for these: Depa Interiors Group's underlying profit amounted to AED 36.5mn.

Depa Interiors generated gross margin of 11%, a significant improvement on 2015 which was adversely impacted by the abovementioned causes. During 2016, Depa Interiors Group also made significant progress on a number of legacy issues in the United Arab Emirates, Qatar and Azerbaijan which continue to be a priority for the business in 2017.

We expect Expo 2020 to continue to deliver a strong addressable market for the business.

Deco Group

Deco Group comprises Deco, which is focused on high-end retail fit-out; Carrara, which supplies and installs premium marble; and Eldiar, which manufactures quality carpentry and joinery works. Deco Group recorded another strong year generating revenue of AED 275.1mn and profit of AED 21.8mn, representing a revenue increase of an AED 15.4mn or 6% on 2015 (AED 259.7mn) and increase in profit by AED 27.1mn on 2015 (loss: AED 5.3mn).

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Highlights for the year included securing and substantially completing Deco's largest contract to date, the new Robinsons department store at Festival City, Dubai, United Arab Emirates. Deco's success on this project may potentially lead to further work for the same client in the future. Deco also secured an additional retail fit-out project in the Dubai Mall, United Arab Emirates for a leading US-based global electronics brand, following their success on a similar project for the same client in 2015.

Deco's focus on the luxury retail fit-out sector has seen it become the interior fit-out provider of choice for this market in the Middle East. Deco's success in the sector has led to a significant portion of their backlog coming from repeat clients.

Eldiar and Carrara continue to make good progress, with Eldiar expanding its customer base and Carrara finalising its plans to consolidate its manufacturing facilities from three to two.

Backlog

During the fourth quarter of 2016, the Group secured a number of new projects, including Robinson Towers in Singapore, Republic of Singapore; the Ritz Carlton in Langkawi, Malaysia; a major infrastructure project in Riyadh, Kingdom of Saudi Arabia; and a hotel in Dubai, United Arab Emirates.

Depa ended the year with a backlog of AED 1,927mn. The backlog remains healthy, representing more than one times 2016 revenue.

Additionally, the Group's new four-gate work winning process is now in place and will enable the Group to better manage its risk profile and increase its focus on the most financially-rewarding projects within its risk parameters.

Following year end, the Group has also received a number of significant awards, including a major project for a government ministry in Riyadh, Kingdom of Saudi Arabia; a luxury hotel in Dubai, United Arab Emirates; and the fit-out of the Dubai Mall Dolce & Gabbana store in Dubai, United Arab Emirates

Outlook

Whilst a number of the Group's key markets remain challenging, the quality and strength of Depa's existing backlog, a solid pipeline of prospective new work and a strong net cash position ensure the Group is well placed to compete in its core markets and navigate risk.

The operational enhancements implemented in 2016 provide the Group with a strong footing to exploit the opportunities available to it in each of its key markets.

The positive outlook is reflected in the Board of Director's recommendation to reorganise the balance sheet and to introduce its dividend policy to pay-out 25% to 50% of yearly earnings.

FINANCIAL REVIEW

Financial performance

For the twelve months to 31 December 2016, Depa generated revenue of AED 1,730.3mn, an increase of AED 89.7mn or 5% on 2015 (AED 1,640.6mn). Strong project progression and project close outs at each of the Hospitality and Commercial sector of Design Studio, Depa Interiors Group and Deco Group underpinned this increase in the revenue.

The restructuring programme which was initiated at the beginning of 2016, along with a number of other initiatives to improve operational performance, have contributed to strong gross profit generation of AED 324.1mn, an increase of AED 171.4mn or 112% on 2015 (AED 152.7mn). The gross profit in 2015 was adversely affected by a number of variation order and claim reversals compared with 2016, which benefited from strong gross profit generation across all of the Group's Key Business Units. Consequently, the gross margin increased markedly to 19% from 9% in 2015.

Cost control continues to be a key focus of the Group, resulting in general and administrative costs being kept to AED 258.9mn, a reduction of AED 73.6mn or 22% on 2015 (AED 332.5mn), whilst increasing the revenue.

As a result, operating profit amounted to AED 65.2mn, an increase of AED 245.0mn on 2015 (loss: AED 179.8mn).

Share of profits in associates amounted to AED 5.3mn, an increase of AED 6.8mn on 2015 (loss: AED 1.5mn). This increase was primarily driven by a strong result in Decolight.

Net finance expense amounted to AED 4.3mn, broadly in line with 2015 (AED 2.8mn).

Net other income amounted to AED 5.5mn, an increase of AED 81.1mn on 2015 (net other expenses: AED 75.6mn). In 2015 and based on the prevailing conditions at that time, the Group recognised a goodwill impairment charge of AED 85.8mn. No such impairment charge was recorded in 2016 following the Group's detailed annual impairment review. Further details of the impairment tests performed and relevant sensitivities are detailed in the notes to the Group's accounts. 2015 net other expenses also included a reversal in a provision for doubtful debts of AED 31.9mn; an impairment loss on property, plant and equipment of AED 12.5mn; and an impairment loss on investment in associates of AED 14.9mn, with the corresponding amounts in 2016 being minor by comparison.

As a result of the above, the Group generated profit before tax of AED 71.7mn, an increase of AED 331.4mn on 2015 (loss: AED 259.7mn).

The Group recognised an income tax expense of AED 19.7mn in 2016, an increase of AED 6.7mn or 52% on 2015 (AED 13.0mn); the Group's improved profitability driving the increased tax charge in 2016. Within the Group, Design Studio and Vedder are the two Key Business Units most exposed to corporation tax. The Group's 2016 effective tax rate, on profits subject to tax, stands at 18% (2015: 15%).

Consequently, the Group generated net profit for the year of AED 52.0mn, an increase of AED 324.7mn on 2015 (net loss: AED 272.7mn).

Non-controlling interests (“NCI”) amounted to AED 6.5mn, AED 13.7mn up on 2015 (negative: AED 7.2mn). Non-controlling interests primarily relate to Design Studio and The Parker Company.

As a result of the strong gross profit creation, disciplined cost control measures and the non-recurrence of the goodwill impairment charges recognised in 2015, the Group generated net profit after NCI of AED 45.5mn, an increase of AED 311.0mn on 2015 (net loss: AED 265.5mn).

The Group’s return to profit in 2016 and emerging track record of four quarters of profit, in a transformative year, is testament to the operational improvements that have been implemented over the course of 2016 and the Group’s focus on delivering sustainability. For the year, Depa generated basic and diluted earnings per share of AED 0.07, compared with a net loss of AED 0.44 per share in 2015.

Cash flow

Cash generation throughout the year was strong, ending the year with a net cash position of AED 278.1mn, an increase of AED 153.3mn or 123% on 2015 (AED 124.8mn).

Net cash inflows from operating activities amounted to AED 82.3mn, an increase of AED 39.5mn or 92% on 2015 (AED 42.8mn). Whilst the Group experienced an increase in its working capital balance, working capital remains in line with the Group’s long-term average; the Group managed its payable days up markedly whilst receivable days have remained stable year on year. Additionally, the majority of the increase exhibited in trade receivables year on year relates to amounts not yet due.

Net cash inflows from investing activities amounted to AED 28.7mn, an increase of AED 56.4mn on 2015 (net outflows: AED 27.7mn). The difference year on year primarily relates to long-term deposit positions at year end. In 2016, the Group also generated AED 4.6mn from net capital expenditure, compared with a net capital expenditure spend of AED 7.0mn in 2015.

During 2016 the Group reduced its funded borrowings from long-term loans and trust receipts by AED 72.1mn; this compares to AED 21.5mn in 2015 in which a long-term loan of AED 50.0mn was obtained. Consequently, net cash outflows from financing activities amounted to AED 86.4mn, an increase of AED 54.9mn or 174% on 2015 (AED 31.5mn).

Foreign exchange differences resulted in a positive movement in the reported cash and cash equivalents amounting to AED 10.4mn.

Financial position

The Group ensures that it maintains adequate liquidity to meet its requirements and maintains appropriate working capital facilities for all of its needs via its strong bank relationships. Cash and cash equivalents at year end stood at AED 297.5mn, an increase of AED 35.0mn or 13% on 2015 (AED 262.5mn).

At year end, total equity stood at AED 1,221.1mn, an increase of AED 48.3mn on 2015 (AED 1,172.8mn).

The Group's ordinary shares outstanding during the year amounted to 607,860,365, (outstanding ordinary shares amount to 614,726,448 net of 6,866,083 treasury shares).

It is proposed that a portion of Depa's share premium account be utilised to offset its accumulated losses in full, improving the Group's financial position. This transfer will also enable the Group to commence generating distributable reserves in 2017, from which dividends may be paid following the Group publishing its audited results for the year ended 31 December 2017.

The Board of Directors is recommending that the shareholders approve the use of the share premium account to offset the accumulated losses as well as its share issuance cost reserve at Depa's upcoming general meeting in May 2017.

Dividend policy

Depa has introduced a dividend policy to pay-out between 25% and 50% of earnings each year, equating to a dividend cover of 2 to 4 times.

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