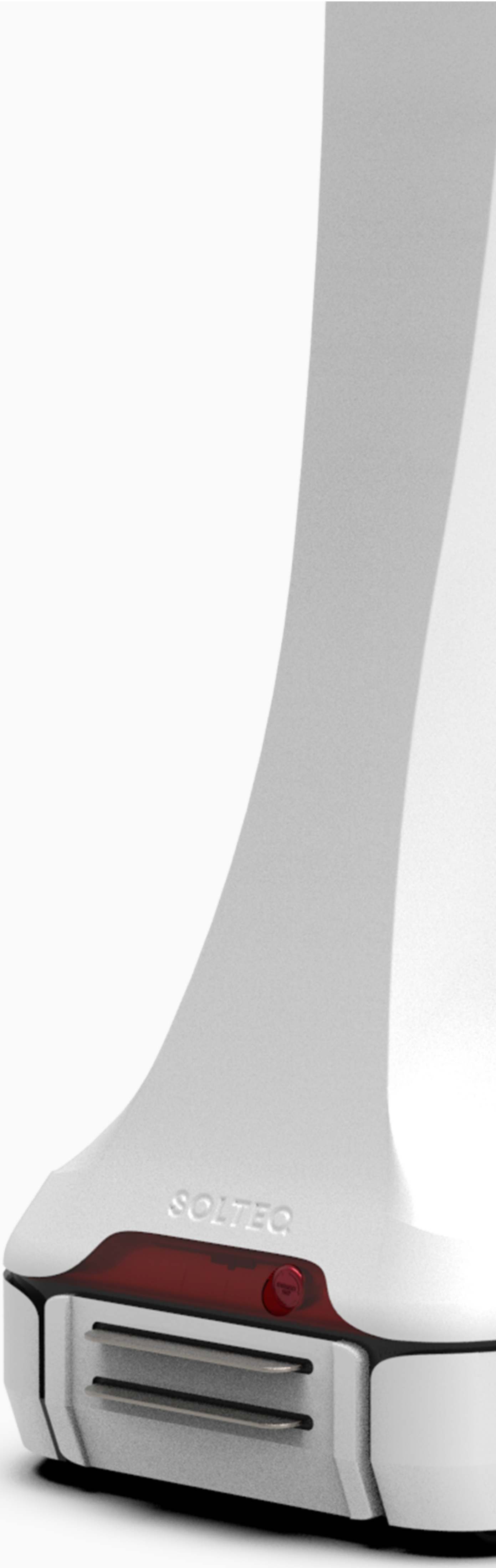
SOLTEQ



Annual Report 2019

Annual Review 2019

Table of Contents

Solteq in brief

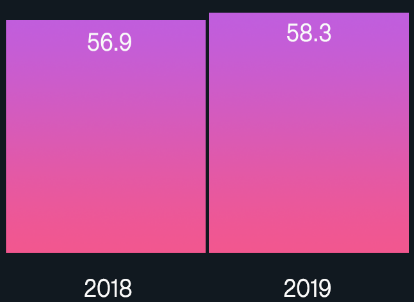
Solteq is a Nordic provider of IT services and software solutions specializing in the digitalization of business and industry-specific software. The key sectors in which the company has long-term experience include retail, industry, energy and services. In addition to Finland, the company operates in Sweden, Norway, Denmark, Poland and the UK. The company employs 600 IT professionals.

6
Countries

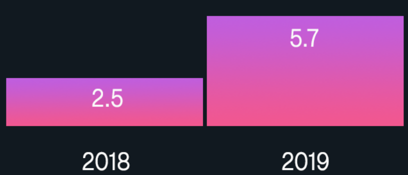
14
Offices

597
Average number of personnel

58.3 MEUR
Revenue



5.7 MEUR
Operating profit



3.9 MEUR
Investments in product development

> ” International business and profitable innovation form a significant part of our growth strategy and were among our priorities for 2019.”

CEO Olli Väätäinen

2019 – a year of international business growth and innovation

The Group's business grew moderately, thanks to our foreign subsidiaries, and profitability increased: Solteq Group's revenue was 58.3 million euros, operating profit 5.7 million euros and adjusted operating profit 3.5 million euros. Revenue grew by 2.5%, operating profit by 131.6% and adjusted operating profit by 13.7%.

3.9 million euros was invested in developing our own software products and services. Product development focused on Utilities solutions; Point-of-Sale software; and autonomous robotics. During 2019, the Utilities business grew by 25%; we launched the first customer deliveries of the new Point-of-Sale solution; and within autonomous robotics, we tested Solteq Retail Robot in a real store environment with S Group. In December 2019, Solteq Retail Robot was chosen as the best potential innovation in the Quality Innovation Award competition.

The company's own software products and related services contributed around a third and digital services around two thirds of the Group's revenue. In October 2019, we announced a change in the Group's segment structure, dividing the business operations into Solteq Software, which is based on the company's own products, and Solteq Digital, which comprises IT expert services based on client products. The new segment structure, effective from the beginning of 2020, creates a better match with the Group's business structure and revenue model and promotes business management.

The company's revenue in Finland did not grow compared to the year before. The main reason for this was the delay in launching a few major customer projects towards the end of the year. The company has also been in the middle of a particularly challenging customer project that has been ongoing for several years; delivery for this project was interrupted by six months and restarted again during 2019. Due to the postponements in these customer projects, the Finnish revenue and operating profit did not develop as well as expected during the second half of the year.

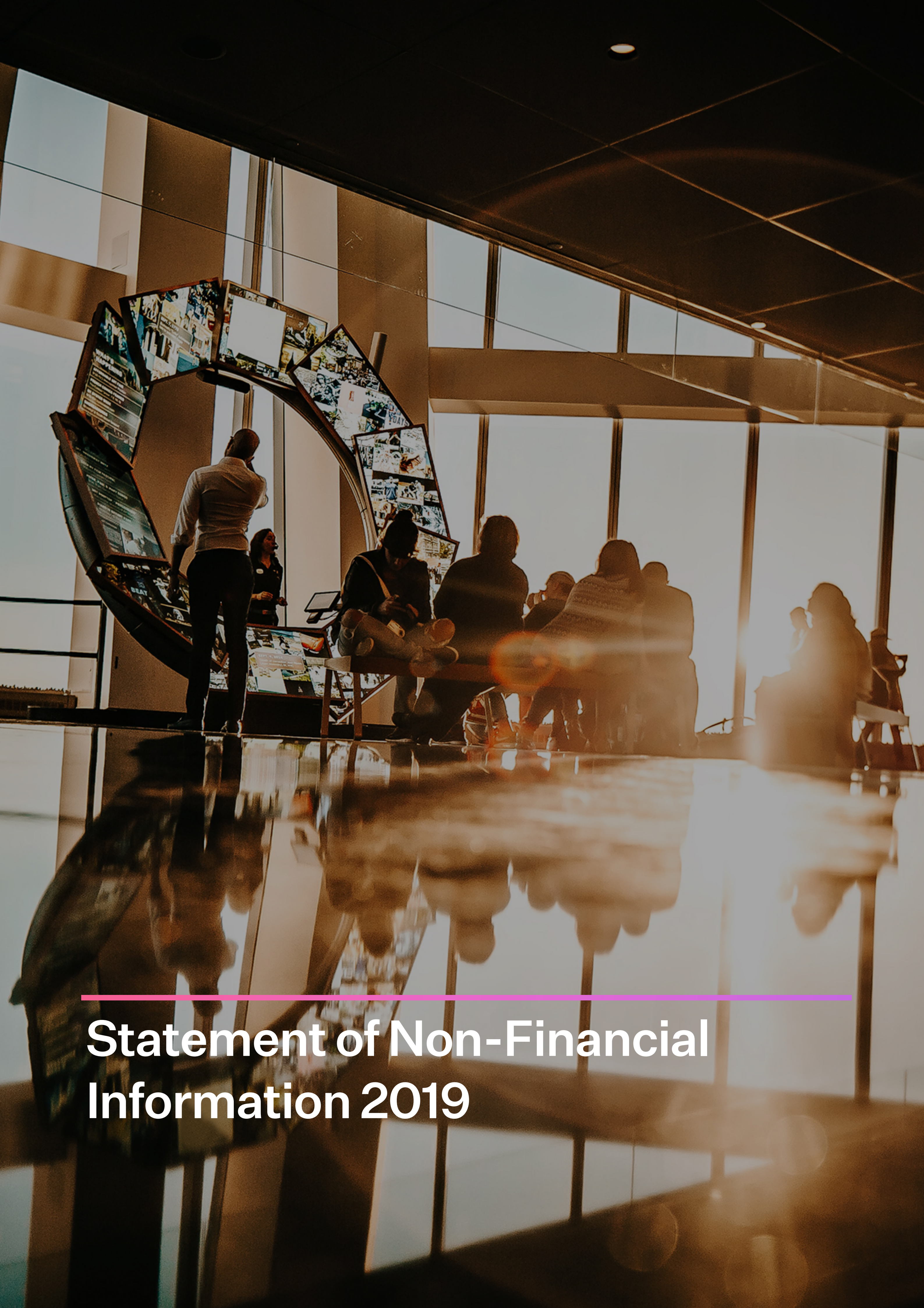
International business and profitable innovation form a significant part of our growth strategy and were among our priorities for 2019. Our foreign subsidiaries developed well in 2019, driven by digital services. The revenue of our foreign subsidiaries grew organically by 26% compared to the previous year, accounting for 21% of consolidated revenue.

The company's digital services consisted mainly of eCommerce and information management solutions and operational systems delivered to large and medium-sized customers. Demand for our eCommerce solutions remained stable. There was clear growth in demand for information management solutions, with particularly good growth within Microsoft-based operational systems.

In 2020, the company will continue to develop its international business and its own cloud-based software products and services, and to invest in selected client products. As part of this strategy, a business transfer agreement was completed at the end of 2019, resulting in the transfer of Solteq's SAP ERP business to Enfo Oyj as of January 1, 2020. Via this agreement, Solteq Digital's operational system deliveries have become increasingly focused on Microsoft-based solutions.

Our business outlook remains unchanged. The company was reorganized according to the new segment structure as of January 1, 2020. This will enable more efficient operations, and we expect these measures will improve our performance in 2020. Investments in our own product development have begun to be realized in the form of successful customer deliveries, and we forecast that our industry-specific products will continue on a positive commercial path.

Olli Väätäinen
CEO



Statement of Non-Financial Information 2019

Corporate responsibility at Solteq

Solteq is a Nordic provider of IT services and software solutions specializing in the digitalization of business and industry-specific software. The key sectors in which the company has long term experience include retail, industry, energy and services.

Solteq's goal is to promote digitalization responsibly. The company operates in Finland, Sweden, Norway, Denmark, Poland and the UK and employs 600 professionals. Responsibly produced solutions and operating with a high degree of ethics as a service provider, employer, partner and corporate citizen are a precondition for successful business and strong stakeholder relations.

Solteq's Code of Conduct is based on the company's operating principles concerning anti-bribery and corruption, human resource management, sustainable development, environmental responsibility, information security and data protection. In addition to the company's internal guidelines, the operations are guided by local legislation, regulations, instructions, standards issued by authorities and international principles governing ethical business, human rights and social responsibility.

Material aspects of responsibility

Solteq has defined the key aspects of its corporate responsibility based on the economic, social and environmental impacts of its business. The company also evaluates corporate responsibility from the perspective of industry-specific trends and phenomena.

Solteq's corporate responsibility is focused on four aspects:

- social responsibility and respecting human rights,
- data protection and information security,
- anti-corruption and bribery, and
- environmental responsibility.

Areas especially relevant to Solteq's operations are matters related to the wellbeing of personnel and ensuring the confidentiality of information, and the integrity of information systems. The company has a zero-tolerance policy for bribery and corruption and its objective is to ensure the implementation of sustainable development and environmental responsibility while taking into account the extent and nature of the company's operations.

Stakeholders

Solteq's key stakeholders are the Group's personnel, customers, partners, shareholders and the authorities. The impacts of Solteq's operations on these stakeholders has been comprehensively assessed when preparing the corporate responsibility principles. Solteq engages in active dialogue with its various stakeholders regarding the realization and development of responsible operating methods.

Responsibility in customer relationships

Solteq helps customers find solutions that suit their needs, are technologically up to date and offer a high level of information security. Customer satisfaction is actively monitored. In 2019, the company developed a method for gathering customer satisfaction data systematically and reliably. In accordance with the European Foundation for Quality (EFQM) model, the purpose with this is to support knowledge-based leadership and the realisation of responsibility aspects in customer relationships. The first customer satisfaction surveys using the new method will be launched in early 2020.

The principles governing quality management in customer projects are defined in Solteq's quality plan. The goal of instructions and guidelines related to quality planning, assurance, control and improvement is to ensure the high-quality execution of customer projects and the achievement of the agreed objectives.

Corporate citizenship

Solteq is a responsible corporate citizen. Community orientation and social engagement are realised through various projects in the company’s day-to-day operations. Cooperation with universities ensures a smooth transition to working life for students. By participating in the My Tech program of the Technology Industries of Finland, Solteq seeks to inspire schoolchildren and young people to pursue careers in ICT.

Solteq also participates in charity campaigns that resonate with the company’s personnel, such as a large blood donation event organised in Tampere in cooperation with the Finnish Red Cross for the second year in a row.

Risk management system

The Group’s risk management is guided by legal requirements, regulations and instructions given by authorities, other rules and standards binding the company, business requirements set by the company’s shareholders and the expectations of other stakeholders. The goal of risk management is to identify and acknowledge the risks involved in the company’s operations as well as to make sure that the risks are appropriately managed when making business decisions. The company’s risk management supports the achievement of strategic goals and ensures the continuity of business operations.

Risk management is aimed at ensuring that the risks affecting the company’s business are identified, influenced and monitored. To ensure that responsible practices are implemented, the company has recognised and is systematically monitoring certain areas, such as:

- risks pertaining to employees and working, such as those related to discrimination, working conditions and equal pay;
- risks related to information security and privacy, particularly phishing, data breaches or other leaks of personal data;
- risks related to corruption and bribery, particularly with respect to the supply chain and customer relationships;
- Risk factors related to the company’s reputation and stakeholders’ trust in the company, such as changes in the operation of the company or its partners, and any accidents, crises affecting the environment and the personnel, and negative publicity. The company is prepared to communicate in a timely and clear manner in case of any crisis, emergency and disruption to maintain the stakeholders’ trust in the company. The company has an up-to-date crisis communication plan, and crisis communication has been invested in by organising crisis communication training to the personnel.

Management of corporate responsibility

Corporate responsibility issues are regularly discussed by Solteq’s Executive Team and Board of Directors. The CEO is responsible for reporting on corporate responsibility.

Solteq is committed, in accordance with the European Foundation for Quality Management (EFQM) model, to regular self-assessment and continuous development as part of its management. In 2019, management began a monthly process the follows the EFQM model with the objective of promoting various leadership and quality issues. Issues related to responsibility and sustainable development are also promoted as part of EFQM.

Social Responsibility

Social Responsibility

Personnel and human rights

Highly competent, motivated and healthy employees are the foundation for Solteq's success. For this reason, the company's operations are largely built on the employees' terms, with the aim of ensuring a good employee experience that enables a positive customer experience.

Solteq started a project in 2019, involving the entire staff, to identify and clarify the company's values. The values will be published in 2020.

ICT is a rapidly developing industry and the experts employed by Solteq want to continuously develop their skills. To this end, the company offers regular training opportunities for its personnel. In 2019, the company launched a new online training portal to train staff efficiently in Finland and abroad on matters such as data protection and security, and crisis communication. In addition, Solteq arranged trainings for LEAN methods and provided training for team leaders and hundreds of technology trainings, both in the form of purchased services and by means of internal information sharing.

Wellbeing at work is managed as part of the company's business operations. Wellbeing at work is supported by, among other things, flexible working hours as well as sports and culture initiatives both during and outside office hours. The pilot for wellbeing coaching was completed in 2019. The pilot project measured employees' workload and recovery and offered tailored plans for promoting their wellbeing. The results show that the wellbeing coaching had a positive impact on coping at work and recovering from work.

Successful recruitment plays a strategically important role in a growing and developing company. In 2019, the company recruited 93 new employees (121). Staff turnover is reducing for the third year in a row, at 12% (15). High employee mobility is typical of the job market in Solteq's industry. The primary risk related to staff concerns the availability of competent and culturally compatible employees.

Personnel satisfaction is measured by a survey conducted three times per year. The survey results are used in assigning priorities to company-specific development projects as well as to support managerial work at the team level. In 2019, the employer recommendation survey was conducted using the new eNPS score system. The results show that Solteq employees' satisfaction with their employer has remained at the same good level (27) as the year before – taking into account any inaccuracy caused by the change in metrics. In 2018, the score reflecting the employees' average willingness to recommend Solteq as an employer was 4.14 on a scale of 1–5.

Solteq strives to be a flexible employer that values equality and diversity. Employees are treated equally and without discrimination regardless of their gender, ethnicity, religious beliefs, age and other such factors. Unlike many software firms, Solteq has a wide range of ages among its personnel. The company's satisfied employees include fresh graduates as well as experienced professionals approaching retirement age. The average age of the personnel was 40.4 years (40.2). Women accounted for 22% of Solteq's personnel (23).

We respect internationally recognised human rights and workers' rights. We maintain a safe and healthy work environment for all of our employees. The fundamental principles of Solteq's personnel management have been defined in the Personnel and Training Plan and the Occupational Health and Safety Plans. In our view, there are no significant risks of human rights infringements associated with our operations. Possible risks of human rights infringements are related to the supply chain of Solteq. These risks are managed by choosing the associates carefully and by obligating the associates to commit to the responsibility principles drawn by Solteq or other equivalent principles of responsible practice.

Data Protection and Information Security

Data Protection and Information Security

The confidentiality of data and the integrity of information systems are at the heart of Solteq's efforts related to information security. It is crucial for Solteq to protect the privacy of our stakeholders and the appropriate handling of their confidential data.

The development of the company's data security practices, monitoring systems, risk management, regulatory compliance level and maturity was developed in 2019. Solteq's corporate-level IT function was granted the ISO/IEC 27001 information security certificate. The certification was performed by KPMG IT Certification Ltd. ISO/IEC 27001 certification requires that the company continually develop its' information security and data protection.

As part of the ISO/IEC 27001 certification project, Solteq developed its own information security management system. With the new information security management system, the company aims to manage a range of risk factors, including collaboration partners, operating practices, immaterial property rights and personal data protection.

In terms of personal data, Solteq operates in the market in the roles of both controller and data processor. The company's data protection practices are publicly available. Solteq processes personal data in compliance with legislation and only collects personal data that is necessary for the current purpose.

Solteq also gives guidance to its customers relating to appropriate technical and organizational measures, which contributes to protection of privacy in the society. In 2019, Solteq has continued to invest resources in the development of data protection in the systems and IT projects administered by the company and provided training to personnel regarding GDPR requirements. The prevention and communication of information security threats is managed by a Security Incident Reporting (SIR) process, established in 2019, which ensures that the relevant parties are informed of potential or actual security incidents. This practice is aimed at ensuring a timely and effective response to potential threats.

Solteq's employees undergo orientation on information security during their induction training. Expanded data protection and information security training for all of the company's personnel were introduced in spring 2019. During the calendar year, they were incorporated into the employees' training portfolio as a mandatory training component. Approximately 60% of the personnel completed the Information Security and Data Protection training. The training will be updated in 2020.

Solteq's information security and data protection are managed by a designated IT Manager and data protection officer and the company's information security team.

Anti-corruption and Bribery

Anti-corruption and Bribery

Solteq does not condone bribery or corruption in any form. In all of its operations, the company requires compliance with anti-bribery principles as well as the principles of business transparency.

Solteq chooses its partners carefully and all payments are subject to appropriate approval using a pre-defined approval process involving several stages. All payments must also be recorded in the company's accounts. The company does not pay or approve of any questionable benefits. All benefits provided and received must be such that they can be openly reported to everyone. We are committed to transparency in all of our business operations.

Solteq's Board of Directors has approved the company's anti-bribery and corruption policy and the principles it includes in 2016. The policy complements Solteq's Code of Conduct and includes comprehensive guidelines concerning anti-bribery and corruption activities. Solteq also requires its suppliers to observe the company's Supplier Code of Conduct or corresponding principles pertaining to corporate responsibility.

Solteq's stakeholders are primarily international and Nordic entities. The company's business takes place in regions where the risk of corruption and bribery is low as a rule. Solteq assesses partnership risks on a case-by-case basis and requests additional accounts and clarifications when necessary based on the partnership risk assessment.

Solteq has established an internal whistleblowing channel to enable the anonymous reporting of suspected misconduct. The company is committed to processing all reports confidentially in accordance with a standard process. Ensuring the safety of whistle-blowers is essential for Solteq. No suspected incidents of misconduct were reported in 2019.

Environmental Responsibility

Environmental Responsibility

Solteq takes environmental aspects into consideration in all of its operations and promotes sustainable choices. Solteq's policy of sustainable development and environmental responsibility guides the operations to take into account the environmental aspects. The company's environmental impacts mainly arise from the energy consumption of office premises and data centres. The environmental impact of travel, work equipment and office furniture is also taken into consideration in day-to-day choices and purchases.

No significant environmental risks have been identified in Solteq's business. For this reason, the company does not engage in active risk management pertaining to environmental responsibility.

Green choices as part of daily life at work

Solteq strives to reduce the environmental impact of business premises and equipment as well as increase the recycling of materials. The company favors modern, energy-efficient and healthy environments in its choices of business premises. The head office in Vantaa's Aviapolis district was built in accordance with the LEED environmental certification system and Green Building standards. The office is furnished with ISO 14001 certified furniture intended to withstand extensive long-term use. The equivalent certification level was followed in the Solteq Showroom in the Aviabulevardi II opened in 2019. The showroom also incorporates the production facilities of the Solteq Robotics business unit.

Solteq staff is recommended to favour sustainable travel alternatives: The staff is encouraged to take daily exercise and to use public, environmentally friendly means of transport, such as trains. Centrally located offices, the use of modern communication technology and the provision of remote work opportunities are aimed at reducing the need for travel.

According to Statistics Finland, the ICT industry generates relatively low greenhouse gas emissions. A significant proportion of the industry's environmental impacts arises from hardware manufacturing. Solteq takes this into account in its purchasing by assigning significant weight in its decision-making to the energy efficiency, life cycle and reliability of hardware. Network and information system hardware and phones are mostly purchased from well-known and certified suppliers. Equipment that has reached the end of its life cycle is collected in WEEE collection containers at Solteq's offices to be recycled and used as raw material for electronics. Solteq conducts dialogue with different equipment suppliers in order to support sustainable principles.

Aspect	Principles and processes	Objective	Performance indicators	2019	2018	(2017)	Most significant risks
Anti-corruption and Bribery	Anti-corruption and bribery policy, engaging the commitment of employees and partners, whistleblowing channel	Commitment of employees and other stakeholders	Number of reported infringements	0	0	0	Criminal and other legal sanctions Impacts on customer relationships and public procurement Reputation risk
Management of identified risks	Training is organised using the new online training portal, making training more efficient	Staff training and effective prevention of risks Effective and timely communication during crisis, disruption and emergency situations.	Annual training attended by the staff 1. Data protection training 2. Information security training 3. Employees' Information security training 4. Training on register controller's responsibilities	 383 362 361 370	New		Risks related to data protection and information security Risk factors related to the company's reputation
Personnel	A culture of sharing knowledge, working together and experimenting Development of leadership and managerial work Performance reviews and competence management Competitive benefits Rising trend in employee satisfaction	Solteq is a sought-after workplace with healthy and satisfied employees. The company supports competence development, provides an equal and non-discriminatory workplace community and supports individual wellbeing. Positive employee experience	Employer recommendation score	eNPS 27	4.14/5	3.93/5	Risks related to the availability of employees

Environmental Responsibility	Life Cycle Management	Re-use of workstations	Percentage of re-used workstations	100%	100%	100%	Reputation risk

Financial Review 2019

Corporate Governance

Investor Information

Annual General Meeting

The Board of Directors of Solteq Plc has not convened Annual General Meeting due to the Coronavirus (COVID-19) epidemic. The previously announced notice to Annual General Meeting scheduled for April 1, 2020 was canceled on March 23, 2020. A notice to Annual General Meeting shall be issued at a later date. Annual General Meeting shall be held when the Coronavirus situation allows it. Solteq Plc takes the Coronavirus situation seriously and does not want to jeopardize the health of employees, shareholders and other stakeholders attending the Annual General Meeting.

Solteq's Financial Reporting In 2020

- Interim Report 1–3/2020 on April 30, 2020 at 8:00 a.m.
- Half Year Financial Report 1–6/2020 on August 13, 2020 at 8:00 a.m.
- Interim Report 1–9/2020 on October 29, 2020 at 8:00 a.m.

Stock Exchange Bulletins 2019

Dec 30, 2019	Solteq Plc: Solteq Plc selling its SAP ERP business to Enfo Oyj
Nov 26, 2019	Solteq Plc: Solteq Plc's Financial Reporting and Annual General Meeting in 2020
Oct 29, 2019	Solteq Plc: Solteq Group: change in structure of segments subject to reporting
Oct 29, 2019	Solteq Plc: Solteq Plc Interim Report 1 January – 30 September 2019
Aug 21, 2019	Solteq Plc: Kari Lehtosalo appointed as CFO of Solteq Plc
Aug 13, 2019	Solteq Plc: Solteq Plc Half Year Financial Report 1 January - 30 June 2019
Jun 28, 2019	Solteq Plc: Changes in Solteq Plc's Executive Team
Jun 13, 2019	Solteq Plc: Solteq Plc – Managers' transactions
Jun 3, 2019	Solteq Plc: Solteq Plc – Managers' transactions
Jun 3, 2019	Solteq Plc: Solteq Plc – Managers' transactions
May 25, 2019	Solteq Plc: Solteq Plc – Managers' transactions
May 25, 2019	Solteq Plc: Solteq Plc – Managers' transactions
May 25, 2019	Solteq Plc: Solteq Plc – Managers' transactions
May 25, 2019	Solteq Plc: Solteq Plc – Managers' transactions
May 25, 2019	Solteq Plc: Solteq Plc – Managers' transactions
May 25, 2019	Solteq Plc: Solteq Plc – Managers' transactions
Apr 30, 2019	Solteq Plc Interim Report 1 January – 31 March 2019
Mar 27, 2019	Solteq Plc: Correction to the Decisions of the Annual General Meeting and Board of Directors 27.3.2019
Mar 27, 2019	Solteq Plc: Decisions of the Annual General Meeting and Board of Directors 27.3.2019
Mar 20, 2019	Solteq Plc: Solteq Plc's annual report and financial statements 2018 have been published
Mar 18, 2019	Solteq Plc: Solteq Plc's shareholders' proposal for the Annual General Meeting 2019
Mar 3, 2019	Solteq Plc: Notice to the Annual General Meeting 2019
Feb 28, 2019	Solteq Plc: Solteq Plc Financial Statements Bulletin 1 Jan – 31 Dec 2018 (IFRS)
Jan 11, 2019	Solteq Plc – Managers' transactions
Jan 7, 2019	Solteq Plc: Solteq Plc's Financial Reporting and Annual General Meeting in 2019

Corporate governance statement

This Corporate Governance Statement was drafted in compliance with the Finnish Companies Act and the Finnish Securities Markets Act valid on the date of publication. This statement is issued as a separate report and a reference to this statement is made in the Report of the Board of Directors.

General principles

Solteq Plc is a public limited company registered in Finland and its head office is located in Vantaa. By the end of the fiscal year, Solteq Group consists of the parent company Solteq Plc and its four foreign subsidiaries, which have three additional subsidiaries between them.

Decision-making and governance at Solteq comply with the company's Articles of Association the Finnish Companies Act and other applicable legislation. In addition, the company complies with the Securities Market Association's Corporate Governance Code as well as the Nasdaq Helsinki Ltd Guidelines for Insiders. The foreign subsidiaries comply with local legislation.

Duties of the governing bodies

The General Meeting of Shareholders, the Board of Directors and the CEO are in charge of the management of Solteq Group and their tasks are determined in accordance with the Finnish Companies Act. The CEO is in charge of Group-level operative activity, assisted by the Group Executive Team.

General Meeting

The General Meeting is the highest governing body of the company. The Annual General Meeting is held once a year on a date determined by the Board of Directors, within six months of the end of the financial year. Extraordinary General Meetings may be held during the year as necessary. In accordance with the Articles of Association, the General Meeting is held in Vantaa, Finland, which is where the company's registered head office is located. A notice to a General Meeting of Shareholders and the agenda of the meeting are published in at least one Finnish-language national daily newspaper and as a stock exchange bulletin as well as on the company's website.

The Annual General Meeting decides on the following matters:

- adoption of the income statement and balance sheet
- measures to be taken with regard to the profit or loss shown on the adopted balance sheet
- discharging the members of the Board of Directors and the CEO from liability
- number of Board members and their appointment
- election of auditors
- remuneration of the Board of Directors and auditors
- other matters specified in the notice to the General Meeting

Board of Directors

The Board of Directors of Solteq Corporation is responsible for the company's management and the appropriate organization of its operations. The Board of Directors is responsible for the duties specified in the Articles of Association and the Finnish Companies Act. The main duties of the Board of Directors include confirming the company's strategy and budget, making decisions on financing agreements and decisions on the purchase and sale of significant assets. The Board of Directors monitors the company's financial performance by means of monthly reports and other information provided to the Board by the company's management.

The duties and responsibilities of the Board are defined primarily by the Articles of Association and the Finnish Companies Act. The Board annually ratifies a written charter that specifies the meeting procedure of the Board of Directors and its duties.

In accordance with the charter, the duties of the Board of Directors are to:

- steer the company's operations in such a way as to maximize long-term added value to the assets invested in the company, while taking the company's various stakeholder groups into consideration,
- approve the incentive systems of the CEO and other management personnel,
- appoint and dismiss the CEO and decide on the terms of the CEO's service contract,
- confirm the strategy, business objectives and annual budget and supervise their implementation,
- approve significant financing agreements and the purchases and sales of significant assets,
- review and approve interim reports and financial statements,
- review and approve mergers, acquisitions and corporate restructuring arrangements whose total value exceeds 500,000 euros and exceptional balance sheet items of more than 100,000 euros that are not part of the company's regular business operations,
- review all contracts, agreements and business transactions with the owners of the company and the Executive Team with their related parties, and with companies in which Solteq Plc holds a controlling interest,
- approve the company's structural changes and confirm the organization of the company based on the CEO's proposal,
- appoint the members of the company's senior management who report to the CEO, based on the CEO's proposal, and decide on the remuneration principles of the members of the Executive Team,
- regularly assess its own operations and collaboration with the management, and
- deal with other matters that the Chairman of the Board and the CEO have agreed to be dealt with by the Board of Directors or matters that are otherwise within the decision-making power of the Board of Directors based on the Companies Act, other legislation, the company's Articles of Association and other applicable rules and regulations.

The special duties of the Chairman of the Board of Directors are to:

- steer the work of the Board of Directors in a manner that ensures that the Board attends to its duties as efficiently and appropriately as possible,
- maintain regular contact with the CEO between Board meetings to monitor the operations of the company,
- if necessary, maintain regular contact with other Board members between Board meetings,
- if necessary, maintain regular contact with the company's shareholders and other stakeholders, and
- bear responsibility for the planning and assessment of the activities of the Board of Directors and the assessment of the CEO.

In accordance with the Articles of Association, Solteq's Board of Directors has a minimum of five and a maximum of seven regular members. The Board members are elected by the Annual General Meeting for one term of office at a time. The term of office begins at the end of the General Meeting that elects the Board and expires at the end of the first Annual General Meeting following the election. The Articles of Association place no restrictions on the power of the General Meeting to elect members of the Board of Directors. The Board of Directors elects a Chairman from among its members and the Board is deemed to have quorum when more than half of its members are in attendance. In addition to matters to be resolved, the Board of Directors is provided with up-to-date information on the Group's operations, financial standing and risks in its meetings. The Board of Directors meets 12–14 times per year according to an agreed schedule, in addition to which the Board of Directors is convened when necessary. Minutes are kept for all meetings.

The Annual General Meeting 2019 elected six (6) members to Solteq's Board of Directors: Markku Pietilä (Chairman), Aarne Aktan, Lotta Kopra, Katariina Segerståhl, Panu Porkka and Mika Uotila.

The Board of Directors met 12 times during the year and had an attendance rate of over 90%.

The Board's diversity principles

The purpose of the Board's diversity policy is to define the objectives and methods for achieving appropriate diversity for the Board of Directors and promoting the collective effectiveness of the Board's activities.

Diversity of the Board of Directors supports the company's business operations and development. Diversity of the knowhow, experience and opinions of the Board members promotes the ability to have an open-minded approach to innovative ideas and the ability to support and challenge the company's operative management. Adequate diversity promotes open discussion and independent decision-making. Diversity also promotes good corporate governance, efficient supervision of the company's directors and executives, as well as succession planning.

The objective is that the Board of Directors as a whole has broad knowhow, experience, perspectives and knowledge of Solteq and its stakeholders, which enables the Board of Directors to perform its tasks effectively, particularly with respect to strategy and risk management. A further objective is for the gender that is the minority to represent at least 1/3 of the Board of Directors.

The company's current Board of Directors satisfies the diversity objectives. The Board members represent diverse industry and market knowhow as well as a variety of professional and academic backgrounds. During the financial year, the Board of Directors was composed of four men and two women.

The Audit Committee of the Board of Directors

The Audit Committee monitors the Group's profit performance, budget preparation principles, budgeting, financing situation and risk management. The Audit Committee's duties are to:

- monitor the company's financial and financing situation,
- monitor the company's financial statements reporting process,
- supervise the company's financial reporting and merger and acquisition processes,
- monitor the efficiency of the company's internal control as well as any internal auditing and risk management systems,
- review the company's corporate governance statement, including the description of the main features of the control and risk management systems related to the financial reporting process,
- monitor the financial statements and statutory audits of the consolidated financial statements,
- assess the independence of the statutory auditor or audit firm,
- assess the audit firm's provision of related services,
- prepare a proposal for the election of the auditor,
- maintain contact with the auditor and review the reports prepared by the auditor for the Audit Committee, and
- assess compliance with laws and regulations.

The Audit Committee consists of three members. The Board of Directors elects the members and the Chairman of the Audit Committee from among its members.

The members of the Committee shall have the qualifications required for performing the tasks of the Committee, and at least one member shall have expertise in accounting, bookkeeping or auditing.
The company's CEO and CFO present the matters to the Audit Committee. The Audit Committee may use external experts and advisors if necessary.

The Chairman of the Audit Committee prepares the agendas for the Committee's meetings and decides on the items to be included in the agenda based on discussions with the management of the company. The CFO or another person appointed by the Audit Committee acts as secretary of the Committee.

The minutes of the Committee meetings are made available to the Board of Directors. The Chairman of the Committee also reports to the Board of Directors on significant observations.

The members of the Committee are paid a fee determined by the General Meeting.
The members of the Audit Committee must be independent of the company and at least one of the members must be independent of the company's significant shareholders.

Solteq Plc's Board of Directors has an Audit Committee whose members are Aarne Aktan, Markku Pietilä and Lotta Kopra. The Chairman of the Committee is Markku Pietilä. All members of the Audit Committee are independent of the company. Aarne Aktan and Lotta Kopra are independent of significant shareholders.

During the financial year 2019, the members of the Audit Committee were paid a fee for attending Committee meetings. The fee was determined by the General Meeting.

CEO

The Board of Directors appoints the CEO. The CEO is in charge of the management of the company's business operations and governance in accordance with the Articles of Association, the Finnish Companies Act and the instructions issued by the Board of Directors. The CEO is assisted in the management of the Group by the Executive Team. Olli Väätäinen served as the company's CEO during the period January 1–December 31, 2019.

Executive Team

The Executive Team assists the CEO in the operative management of the company, prepares matters dealt with by the Board of Directors and the CEO and plans and monitors the operations of the business units. The Executive Team convenes regularly each month. The CEO is the Chairman of the Executive Team.

During the period January 1–September 22, 2019 the members of the Executive Team were Olli Väätäinen (Chairman), Ilkka Brander (Core Business Solutions), Matti Djateu (Marketing and PR), Kirsi Jalasaho (People and Culture), Martti Nurminen (Finance and IR) and Juha Rokkanen (Digital Services).

During the period September 23–December 31, 2019 the members of the Executive Team were Olli Väätäinen (Chairman), Ilkka Brander (Core Business Solutions), Matti Djateu (Marketing and PR), Kirsi Jalasaho (People and Culture), Kari Lehtosalo (Finance and IR) and Juha Rokkanen (Digital Services).

Internal audit

The Group does not have a separate internal audit organization. The practical implementation of internal auditing is the responsibility of the financial department and it is monitored by the Audit Committee appointed by the Board of Directors. The objective is to ensure the consistency of administrative practices and accounting principles.

External audit

Solteq Plc has one auditor. If the auditor is not accredited as Authorized Public Accountant, the company shall additionally have one deputy auditor. The auditors are elected until further notice. The primary function of external auditing is to verify that the financial statements provide accurate and adequate information about Solteq Group's result and financial position for the financial period. The Auditors also report to the Audit Committee and, if needed, to the Board of Directors on the ongoing auditing of administration and operations.

In 2019, Solteq's auditor was KPMG Oy Ab, Authorized Public Accountants, with Lotta Nurminen, APA, as the auditor in charge.

Management of remuneration

The General Meeting decides on the remuneration paid to the Board of Directors and auditors. The Board decides on the terms and conditions of the CEO's written service contract. The Board decides on the remuneration principles of senior management. The Board annually approves potential incentive schemes for the company's personnel.

Board of Directors

The Annual General Meeting of March 27, 2019 resolved that the Chairman of the Board of Directors shall be paid 3,000 euros per month and the members of the Board 1,500 euros per month. Additionally, it was decided that a meeting fee of 500 euros per meeting be paid to the Chairman and the members of the Board.

According to the shareholding register maintained by Euroclear Finland Oy, the members of the Board held 15,000 Solteq Plc shares on December 31, 2019.

Chairman of the Board

The total remuneration of Chairman of the Board Markku Pietilä amounted to 46,000 euros in 2019. The Chairman of Board is not included in the company's performance-based bonus scheme.

According to the shareholding register maintained by Euroclear Finland Oy, Chairman of the Board Markku Pietilä owned 15,000 Solteq Plc shares on December 31, 2019.

CEO

The Board decides on the terms and conditions of the CEO's written service contract.

The key terms and conditions of the current CEO's service contract are as follows:

- The CEO's period of notice is 4 months.
- No severance pay is stipulated by the CEO's contract.

The remuneration of the CEO and deputy CEO consists of a monetary salary, fringe benefits and an incentive scheme based on shares and stock options.

The total remuneration of CEO Olli Väätäinen amounted to 289,800 euros for the period January 1–December 31, 2019.

According to the shareholding register maintained by Euroclear Finland Oy, the total number of Solteq Plc shares held by CEO Olli Väätäinen directly and through companies he controls amounted to 577,028 shares on December 31, 2019.

Executive Team

The remuneration of the other members of the Executive Team consists of a monetary salary, fringe benefits and a potential annual bonus based on the company's result or the price of the company's share. The Board of Directors decides on the Executive Team's remuneration principles.

The members of the Executive Team, excluding the CEO, held a total of 115,857 Solteq Plc shares on December 31, 2019.

The management's share-based incentive scheme

On July 15, 2016 the Board of Directors of Solteq Plc decided to adopt a new stock option scheme and a share-based incentive scheme to encourage the company's key personnel to make a long-term contribution to increasing shareholder value and commit key personnel to the company.

The maximum total number of stock options issued was 1,000,000, and they entitled the holders to subscribe for a maximum of 1,000,000 of new shares in the company or existing shares held by the company. The stock options were divided into three series: 333,000 under stock option series 2016A, 333,000 under stock option series 2016B, and 334,000 under stock option series 2016C. The subscription period for shares under stock option series 2016A was January 1, 2017–December 31, 2019, under stock option series 2016B January 1, 2018–December 31, 2019, and under stock option series 2016C January 1, 2019–December 31, 2019. The share subscription price was 3.00 euros. If the company distributes dividends or equity, the subscription price of the shares subscribed through the exercise of stock options will be reduced by the amount of the dividends or equity to be distributed. The Board of Directors decided on the stock option scheme by virtue of the authorization granted by the Annual General Meeting on March 16, 2016. The terms and conditions of the stock options are available on the company's website.

The earning periods of the share-based incentive scheme were the calendar years 2016–2018. Each key person included in the scheme was entitled to an incentive corresponding to the total value of a maximum of 70,000 shares (including the portion to be paid in cash), which means that the total scope of the scheme corresponded to a total value of a maximum of 210,000 shares in the company. The incentive is paid as a combination of shares and cash, half each. The incentive to be paid in cash is mainly used to cover the taxes and other tax-like charges arising from the incentive. The shares may be either new shares or existing shares held by the company.

The company's Board of Directors decided at the commencement of the scheme that the CEO and CFO are included in the scheme. The Board of Directors may decide later on the inclusion of new key persons in the scheme. The share-based incentive is paid by the end of March following the end of each calendar year. If a key person's employment relationship terminates before the payment date, no incentive is paid. The shares received as rewards may not be transferred to third parties during the restriction period that begins when the shares are transferred to the recipient and ended on April 1, 2019 for all shares. The company would have had the right to terminate the restriction period before its due date.

On May 22, 2019, based on the Board of Directors decision, the following stock options were subscribed:

- Olli Väätäinen, CEO, subscribed and owned stock option series 2016A 83,000, 2016B 233,000 and 2016C 184,000 stock options, total of 500,000 stock options;
- Martti Nurminen, former CFO, subscribed and owned stock option series 2016C 100,000 stock options;
- Ilkka Brander, EVP, subscribed and owned stock option series 2016C 25,000 stock options; and
- Matti Djateu, CDO, subscribed and owned stock option series 2016C 25,000 stock options.

In addition to the above, former CFO Antti Kärkkäinen held 100,000 options in series 2016A and 2016B each, for a total of 200,000 stock options. On the balance sheet date, former CEO Repe Harmanen held 150,000 options in series 2016A.

After May 22, 2019 subscriptions, the company's current and former management owned total of 1,000,000 stock options.

The subscription period for shares under stock option series 2016A, 2016B and 2016C ended on December 31, 2019. No shares were subscribed based on the stock options issued under series 2016A, 2016B and 2016C.

Internal control and risk management systems associated with financial reporting

The ultimate responsibility for accounting and financial administration lies with Solteq Plc's Board of Directors. The Board is responsible for internal control, and the CEO is responsible for the practical organization and monitoring of the control system. The steering and monitoring of business operations is based on a reporting and business planning system that covers the entire Group. The CEO and CFO deliver presentations in Board meetings and Executive Team meetings regarding the Group's situation and development based on monthly reports.

Risk management system

The Group's risk management is guided by legal requirements, business requirements set by the company's shareholders as well as the expectations of other stakeholders. The goal of risk management is to identify and acknowledge the risks involved in the company's operations as well as to make sure that the risks are appropriately managed when making business decisions. The company's risk management supports the achievement of strategic goals and ensures the continuity of business operations.

Solteq takes risks that are a natural part of its strategy and objectives. The company is not prepared to take risks that might compromise the continuity of operations or are uncontrollable or that could have a significant negative impact on the company's operations. Risks are divided into operational, personnel, financing, legal and financial risks. In the process of risk management, the goal is to identify and assess the risks, after which a risk-specific plan is drawn up and concrete action is taken. Such actions may include, for example, avoiding the risk, mitigating the risk by various means or transferring the risk by means of insurance or agreements. When necessary, the Board of Directors will be provided reports on any material changes and new significant risks identified in the process of risk management.

In 2019, the material risks reported to the Board of Directors were related to the company's profit performance in the prevailing uncertain economic situation, project risks, credit and finance risks as well as the valuation of intangible balance sheet items.

Control environment

The goal of Solteq's internal control is to support the implementation of the Group's strategy and ensure compliance with regulations. The system is based on Group-level policies, guidelines and processes and controls of business operations and support processes. The operating culture is built by the steering and control of the company's operations by the Board of Directors, the management methods of the company's management, the company's organizational structure and management system, the effective utilization of a global information system as well as the employees' competence.

The financial department operating under the CFO is responsible for the general control function in financial reporting. The operations are steered by the Board of Directors' Audit Committee. The Group applies the International Financial Reporting Standards (IFRS).

Risk assessment in financial reporting

The aim of financial reporting is to ensure that assets and liabilities belong to the company; all rights and liabilities of the company are presented in the financial statements; items in the financial statements have been classified, disclosed and described correctly; assets, liabilities, income and expenditure are entered in the financial statements at the correct amounts; all the transactions during the reporting period are included in the accounts; transactions entered in the accounts are factual transactions; and that the assets have been secured. The risk management process includes the annual identification and analysis of risks related to financial reporting. In addition, the aim is to analyze and report all new risks immediately after they have been identified. Taking into account the nature and extent of the Group's business operations, the most significant risks associated with the reliability of financial reporting are associated with revenue recognition, the identification of credit loss risks, the capitalization of product development expenses, impairment testing of assets (including goodwill, capitalized product development expenses and unfinished projects) and deferred taxes.

Control functions

The correctness and reliability of financial reporting are ensured through compliance with the Group's guidelines. Controls that ensure the correctness of financial reporting include controls related to accounting transactions, controls related to the selection of—and compliance with—the accounting principles, information system controls and fraud controls.

Revenue recognition is based on the existence of obligatory sales documentation. Goodwill is tested for impairment during the last quarter of the year. Indications of impairment are also monitored on a continuous basis. Information systems support compliance with the Group's approval authorizations. Personnel expenses account for a majority of Solteq's expenditure. Actual and forecasted personnel expenses are monitored, and the forecasts are regularly updated at a very detailed level. The results of business operations and achievement of annual targets are assessed on a monthly basis in Executive Team and Board meetings. Monthly reporting at the management and Board level includes both actual and forecast data compared to the targets and the actual results of previous periods.

In line with its strategy, Solteq has complemented its organic growth by making targeted acquisitions In making acquisitions, the company aims to observe due diligence and utilize its internal and external competence in the planning phase (e.g. due diligence) and in the takeover phase.

Communication

The purpose of management reporting is to produce timely and essential information to support decision-making. The financial department provides the guidelines on monthly reporting for the entire organization and is in charge of special reporting instructions associated with budgeting and forecasting. The financial department internally distributes information on processes and procedures related to financial reporting on a regular basis and the personnel perform their internal control tasks according to the information provided to them. The financial department also arranges targeted training as necessary for the rest of the organization on the procedures associated with financial reporting and changes therein. The investor relations function maintains the guidelines governing the disclosure of financial information in cooperation with financial department.

Monitoring

Monitoring refers to the process of assessing Solteq's internal control system and its performance in the long term. Solteq also continuously monitors its operations through various assessments, such as internal audits and external audits. Solteq's management monitors internal control as part of routine management work. The business management is responsible for ensuring that all operations comply with applicable laws and regulations. The financial department monitors compliance with the financial reporting process and control. The financial department also monitors the correctness of external and internal financial reporting. The Board of Directors assesses and ensures the appropriateness and effectiveness of Solteq's internal control and risk management. Solteq's internal control is also assessed by the company's auditor. The external auditor verifies the correctness of external annual financial reporting. Performed as part of continuous auditing process, auditing is focused on typical controls that ensure the correctness of financial reporting. The most significant observations and recommendations of the audit process according to the auditing plan are reported to the Board of Directors.

Insider administration

Solteq Plc complies with the Guidelines for Insiders issued by Nasdaq Helsinki Ltd, which took effect on July 3, 2016. Pursuant to the Market Abuse Regulation (MAR), the persons discharging managerial responsibilities within the company comprise the members of the Board of Directors and the Executive Team as well as certain other persons whose duties satisfy the criteria for being a person discharging managerial responsibilities. Persons discharging managerial responsibilities are prohibited from all trading in Solteq Plc’s securities for a period of 30 days before the date of publication of interim reports or financial statements bulletins. Persons discharging managerial responsibilities and their closely associated persons must report all of their business transactions related to the company’s securities to the company and the Financial Supervisory Authority. The company is required to publish the information as a stock exchange bulletin. Parties with access to specific insider information are entered in project-specific insider lists. Project-specific insiders are prohibited from all trading in the company’s securities during the time they are entered in the list of insiders.

Solteq's Board of Directors on December 31, 2019

Markku Pietilä,
Chairman of the Board

Year of birth: 1957
Education: M.Sc. (Tech.), MBA
Primary occupation: CEO, Kymiring Oy
Key work experience: Chairman of the Board, Profiz Business Solutions Oy; Management duties, Componenta Oyj
Member of the Board of Directors since: 2008
Independent of the company.

Katarina Segerståhl

Year of birth: 1981
Education: Phd, Information Systems
Main Occupation: Chief Strategy Officer (CSO), Aava Medical / Aho Group
Career history: Chief Strategy Officer (CSO), Aava Medical / Aho Group; Head of Strategic Design, Tieto Finland Oy.
Member of the Board of Directors since: 2019
The Board Member is independent from the Company.

Mika Uotila

Year of birth: 1971
Education: M.Sc. (Econ.)
Primary occupation: Managing Partner, Sentica Partners Oy
Key work experience: Investment Director and Partner, Sentica Partners Oy; Executive positions, Sonera Oy; Chairman of the Board, Verkanappulat Group; Member of the Board of Directors, Eezy Oyj.
Member of the Board of Directors since: 2015
Independent of the company.

Aarne Aktan

Year of birth: 1973
Education: B.Sc. (Econ.)
Primary occupation: CEO, Synlab Oy
Key work experience: CEO of Pihlajalinna Plc, CEO of Talentum Oyj; Executive positions, Quartal Oy
Member of the Board of Directors since: 2015
Independent of the company and its significant shareholders.

Lotta Kopra

Year of birth: 1980
Education: M.Sc. (Econ.)
Primary occupation: Entrepreneur, Investor
Key work experience: Founder and Chairman of the Board, Magenta Advisory Oy; Member of the Board of Directors, eQ Oyj, Chief Commercial Officer (CCO), Spinnova Oy; Management duties, BearingPoint Ltd
Member of the Board of Directors since: 2018
Independent of the company and its significant shareholders.

Panu Porkka

Year of birth: 1977
Education: The Finnish Matriculation Examination
Main Occupation: CEO, Verkkokauppa.com Oyj
Career history: CEO, Suomalainen Kirjakauppa Oy; Sales Director, Tokmanni Oy
Member of the Board of Directors since: 2019
The Board Member is independent from the Company.

Solteq's Executive Team on December 31, 2019

Olli Väätäinen

Year of birth: 1966
Education: M.Sc. (Econ.)
Primary occupation: CEO, Solteq Plc
Key work experience: Chairman of the Board of Directors, Kotipizza Group Oyj, Senior Advisor, Sentica Partners Oy
Member of the Executive Team since: April 1, 2017
Key concurrent positions of trust: Member of the Board of Directors, Citec Oy

Kari Lehtosalo

Year of birth: 1972
Education: MBA
Main occupation: CFO
Essential work experience: CFO, IBM (2013-2019); Finance and Business Development leadership positions, IBM (2001-2012)
Member of the Executive team since: 23.9.2019
Key concurrent positions of trust: -

Matti Djateu

Year of birth: 1975
Education: –
Primary occupation: CDO, Solteq Plc
Key work experience: Head of Digital & PR, Scotch & Soda; Creative Director, Dentsu Aegis Network
Member of the Executive Team since: June 16, 2017
Key concurrent positions of trust: –

Ilkka Brander

Year of birth: 1976
Education: B.Soc.Sc., MBA
Primary occupation: EVP, Solteq Software
Key work experience: S-Verkkopalvelut Oy (2011–2016); SOK Consumer Goods (2009–2011); Sokos retail chain (2005–2009)
Member of the Executive Team since: November 22, 2016
Key concurrent positions of trust: Board member, SGN Group; Board member, Saarioinen Oy

Kirsi Jalasaho

Year of birth: 1974
Education: M.Sc. (Econ.)
Primary occupation: Vice President, People, Culture
Key work experience: Vice President, Marketing and IR, Solteq Plc; Chief Financial Officer (CFO), Descom Group Oy
Member of the Executive Team since: April 3, 2017
Key concurrent positions of trust: Board member, Jyväs-Parkki Oy; member of the Central Finland regional board,Technology Industries of Finland

Juha Rokkanen

Year of birth: 1969
Education: BBA
Primary occupation: EVP, Solteq Digital
Key work experience: CEO, inPulse Works (2016–2017); Managing Director, Innofactor Finland (2013–2015); Managing Director, atBusiness Oy, (2006 – 2013); Sales Director, WM-Data Novo Oyj (2003–2006)
Member of the Executive Team since: June 12, 2017
Key concurrent positions of trust: Member of the Board of Directors, The Finnish Software and E-business Association

Report of the Board of Directors

Table of Contents

Report of the board of directors

2019 – a year of international business growth and innovation

The Group's business grew moderately, thanks to our foreign subsidiaries, and profitability increased: Solteq Group's revenue was 58.3 million euros, operating profit 5.7 million euros and adjusted operating profit 3.5 million euros. Revenue grew by 2.5%, operating profit by 131.6% and adjusted operating profit by 13.7%.

3.9 million euros was invested in developing our own software products and services. Product development focused on Utilities solutions; Point-of-Sale software; and autonomous robotics. During 2019, the Utilities business grew by 25%; we launched the first customer deliveries of the new Point-of-Sale solution; and within autonomous robotics, we tested Solteq Retail Robot in a real store environment with S Group. In December 2019, Solteq Retail Robot was chosen as the best potential innovation in the Quality Innovation Award competition.

The company's own software products and related services contributed around a third and digital services around two thirds of the Group's revenue. In October 2019, we announced a change in the Group's segment structure, dividing the business operations into Solteq Software, which is based on the company's own products, and Solteq Digital, which comprises IT expert services based on client products. The new segment structure, effective from the beginning of 2020, creates a better match with the Group's business structure and revenue model and promotes business management.

The company's revenue in Finland did not grow compared to the year before. The main reason for this was the delay in launching a few major customer projects towards the end of the year. The company has also been in the middle of a particularly challenging customer project that has been ongoing for several years; delivery for this project was interrupted by six months and restarted again during 2019. Due to the postponements in these customer projects, the Finnish revenue and operating profit did not develop as well as expected during the second half of the year.

International business and profitable innovation form a significant part of our growth strategy and were among our priorities for 2019. Our foreign subsidiaries developed well in 2019, driven by digital services. The revenue of our foreign subsidiaries grew organically by 26% compared to the previous year, accounting for 21% of consolidated revenue.

The company's digital services consisted mainly of eCommerce and information management solutions and operational systems delivered to large and medium-sized customers. Demand for our eCommerce solutions remained stable. There was clear growth in demand for information management solutions, with particularly good growth within Microsoft-based operational systems.

In 2020, the company will continue to develop its international business and its own cloud-based software products and services, and to invest in selected client products. As part of this strategy, a business transfer agreement was completed at the end of 2019, resulting in the transfer of Solteq's SAP ERP business to Enfo Oyj as of January 1, 2020. Via this agreement, Solteq Digital's operational system deliveries have become increasingly focused on Microsoft-based solutions.

Our business outlook remains unchanged. The company was reorganized according to the new segment structure as of January 1, 2020. This will enable more efficient operations, and we expect these measures will improve our performance in 2020. Investments in our own product development have begun to be realized in the form of successful customer deliveries, and we forecast that our industry-specific products will continue on a positive commercial path.

Markets and operating environment

Demand for digital expert services and continuously developing software products is increasing alongside the digital disruption and as businesses' operating environments change. Solteq primarily operates with selected solutions in chosen sectors of the Nordic IT services and software market. Solteq estimates that this market will develop positively and offer a clear avenue for growth both domestically and internationally.

Solteq offers industry-specific solutions for trade, manufacturing industry, car retail, the energy industry, the hotel and restaurant business and the public sector. Demand continues to grow in these sectors for solutions that digitalize core operations and make use of artificial intelligence, data, automation and seamless multichannel systems. Demand is being further increased by statutory obligations to renew data systems, for example in the energy sector and water resources management. The company has a significant competitive advantage based on long-term experience of sector-specific needs.

Demand for autonomous robotics and cloud services is expected to continue growing rapidly around the world. Solteq is a trailblazer in autonomous robotics and cloud-based POS solutions in Europe. The company is expecting to achieve international success over the next few years with Solteq Retail Robot and the modern, cloud-based Solteq Cloud POS solution, both launched in 2019.

Solteq has been consistently building its market position as a provider of comprehensive solutions and services. This resonates well with the market. On the other hand, continuous development of customer needs requires investments in Solteq's own product development and new technologies, especially within cloud services and analytics. In addition, IT sector players are expected to provide more agile and scalable delivery models. Solteq meets the expectations with its organization utilizing agile methods and by focusing on providing services according to the as-a-Service (aaS) model.

The digital expert services and software products provided by the company comprehensively cover developments that are expected to emerge in the future. These include intelligent use of data in business processes, the mainstreaming of cloud technologies, and digital services based on user and customer experiences. The digital reality is affecting everyone. Keeping up with the latest developments is therefore on the current and future agenda of companies of different sizes and in various sectors.

Profit guidance 2020

Solteq Group's adjusted operating profit is expected to remain at the same level as in 2019.

Key figures

	1-12/2019	1-12/2018	Change-% 2019–2018	1–12/2017
Revenue, TEUR	58,291	56,867	2.5	50,720
EBITDA, TEUR	9,714	4,766	103.8	2,384
Adjusted EBITDA, TEUR	7,546	5,417	39.3	4,177
Operating profit, TEUR	5,711	2,466	131.6	308
Adjusted operating profit, TEUR	3,543	3,117	13.7	2,101
Profit for the financial period, TEUR	2,803	356	687.8	-1,514
Earnings per share, EUR	0.15	0.02	683.5	-0.08
Operating profit, %	9.8	4.3		0.6
Adjusted operating profit, %	6.1	5.5		4.1
Equity ratio, %	32.0	32.4		33.7

Revenue and profit

Revenue increased by 2.5 percent compared to the previous year and totaled 58,291 thousand euros (56,867).

Operating profit for the review period was 5,711 thousand euros (2,466). Adjusted operating profit was 3,543 thousand euros (3,117). The implementation of IFRS 16 standard improved operating profit by 185 thousand euros compared to the previous year.

Financial expenses increased by 257 thousand euros due to the implementation of the IFRS 16 standard. Profit before taxes was 3,679 thousand euros (642) and the profit for the financial period was 2,803 thousand euros (356).

Balance sheet and finance

Total assets amounted to 76,980 thousand euros (67,874). Liquid assets totaled 3,648 thousand euros (5,347). The company has a standby credit limit of 4,000 thousand euros. A total of 2,000 thousand euros of the standby credit limit was in use at the end of both the review and the comparison periods. The company also has a bank account credit limit of 2,000 thousand euros. At the end of both the review and the comparison periods, the bank account credit limit was unused. The company was granted a Business Finland product development loan of 1,201 thousand euros during the review period.

The Group's interest-bearing liabilities were 35,167 thousand euros (28,260).

Solteq Group's equity ratio was 32.0 percent (32.4). The Group's equity ratio without the impact of the implementation of the IFRS 16 standard would have been 34.6 percent.

On July 1, 2015 Solteq Plc (Solteq) issued an unsecured bond of 27.0 million euros. The bond carries a fixed annual interest of 6.0 percent and its maturity is five years. To reduce the company's interest costs Solteq Plc repurchased and cancelled the share of 2.5 million euros of the above-mentioned bond during the financial year 2016. The bond will mature on July 1, 2020, and the company began measures to ensure refinancing during the 2019 financial year. These consist of renewal of the bond and overdraft and liquidity facilities. The financial negotiations and related measures have proceeded as planned, and the management foresees a positive result for the negotiations. The management therefore expects operations to continue, with only a low risk of inadequate funding.

The financial covenants concerning the distribution of funds and incurring financial indebtedness other than permitted in the terms of the Bond (Incurrence Covenant) require that at any agreed review date, the Equity Ratio exceeds 27.5 percent, the Interest Coverage Ratio (EBITDA / net interest cost) exceeds 3.00:1 and that the Group's Net Interest Bearing Debt to EBITDA ratio does not exceed 3.50:1.

Investment, research and development

The net investments during the review period were 4,632 thousand euros (8,283). During the review period, 3,882 thousand euros (2,252) of the net investments were capitalized development costs relating to continued further development of the existing software products and the development of new software products. Other investments were 2,216 thousand euros (1,538). The effect of the SAP EPR business transfer agreement on net investments at the end of 2019 totaled -1,466 thousand euros. In the comparison period 4,493 thousand euros of the net investments related to the acquired acquisition.

Capitalized development costs include 2,874 thousand euros (1,610) of staff costs.

Personnel

The number of permanent employees at the end of the review period was 598 (586).

	2019	2018	2017
Average number of personnel during the financial period	597	567	485
Employee benefit expenses, TEUR	30,951	29,779	26,610

Related party transactions

Solteq's related parties include the Board of Directors, CEO and Executive team. The related party actions and euro amounts are presented in attachment 29.

Shares, shareholders and treasury shares

Solteq Plc's share capital on December 31, 2019 was 1,009,154.17 euros which was represented by 19,306,527 shares. The shares have no nominal value. All shares have an equal entitlement to dividends and company assets. Shares are governed by a redemption clause.

Solteq Plc did not hold any treasury shares at the end of the review period.

Stock option scheme and share-based incentive scheme of the management

During the financial year 2016 Solteq's Board of Directors decided to adopt a new stock option scheme and share-based incentive scheme for the key employees of the company. The purpose of both schemes is to encourage the key employees to work for the growth of the shareholder value and to commit the key employees to the employer. Terms and conditions of the stock option scheme and share-based incentive scheme are presented in more detail in the Stock Exchange Bulletin published on July 15, 2016.

The theoretical market value of the incentive scheme was at the time of the implementation about 0.6 million euros which was recognized as an expense in accordance with IFRS 2 in the years 2016–2018. The expense is not recognized on a cash flow basis except for the share of the share based. The company's current and former management owned one million shares under the option scheme. The subscription period ended on December 31, 2019. No shares were subscribed during the subscription period, and the options expired.

Exchange and rate

During the review period, the exchange of Solteq's shares in the Nasdaq Helsinki Ltd was 0.8 million shares (0.8) and 1.2 million euros (1.2). The highest rate during the review period was 1.65 euros and lowest rate 1.27 euros. The weighted average rate of the share was 1.44 euros and end rate 1.49 euros. The market value of the company's shares at the end of the review period totaled 28.8 million euros (25.1).

Ownership

At the end of the review period, Solteq had a total of 2,209 shareholders (2,152). Solteq's 10 largest shareholders owned 13,277 thousand shares i.e. they owned 68.8 percent of the company's shares and votes. Solteq Plc's members of the Board of Directors and CEO owned 592 thousand shares on December 31, 2019 (592).

Distribution of holdings and shareholder information

Distribution of holdings by sector December 31, 2019

	Number of owners		Shares and votes	
	PCS	**%**	**PCS**	**%**
Private companies	65	2.9	2,551,603	13.2
Financial and insurance institutions	12	0.5	6,134,896	31.8
Public-sector organisations	2	0.1	3,245,597	16.8
Households	2,118	95.9	7,336,930	38.0
Non-profit organisations	2	0.1	231	0.0
Foreign owners	10	0.5	37,270	0.2
Total	**2,209**	**100.0**	**19,306,527**	**100.0**
Total of nominee registered	8	0.4	1,040,315	5.4

Distribution of holdings by number of shares December 31, 2019

	Number of owners		Shares and votes	
Number of shares	**PCS**	**%**	**PCS**	**%**
1 - 100	543	24.6	31,359	0.2
101 - 1 000	1,137	51.5	536,520	2.8
1 001 - 10 000	434	19.6	1,384,351	7.2
10 001 - 100 000	78	3.5	2,416,295	12.5
100 001 - 1 000 000	12	0.5	3,615,999	18.7
1 000 000 -	5	0.2	11,322,003	58.6
Total	**2,209**	**100.0**	**19,306,527**	**100.0**
of which nominee registered	8	0.0	1,040,315	5.4

Major shareholders December 31, 2019

		Shares and votes	
		number	**%**
1.	Sentica Buyout III Ky	4,621,244	23.94
2.	Profiz Business Solution Oy	2,051,997	10.63
3.	Keskinäinen Työeläkevakuutusyhtiö Elo	2,000,000	10.36
4.	Saadetdin Ali Urhan	1,403,165	7.27
5.	Keskinäinen Työeläkevakuutusyhtiö Varma	1,245,597	6.45
6.	Aalto Seppo Tapio	700,000	3.63
7.	Roininen Matti Juhani	450,000	2.33
8.	Väätäinen Olli Pekka	400,000	2.07
9.	Lamy Oy	225,000	1.17
10.	Sentica Buyout III Co-Investment Ky	180,049	0.93
10 largest shareholders total		13,277,052	68.77
Total of nominee-registered		1,040,315	5.39
Others		4,989,160	25.84
Total		**19,306,527**	**100.00**

Annual General meeting

Solteq's Annual General Meeting on March 27, 2019 approved the financial statement for period January 1–December 31, 2018 and discharged the CEO and the Board of Directors from liability.

The Board of Directors' proposal of to the General Meeting that no dividend will be paid from the financial year ended on December 31, 2018 was accepted.

The Annual General Meeting authorized the Board of Directors to decide on share issue, carried out with or without payment and on issuing share options, and other special rights referred to in Chapter 10, Section1 of the Finnish Companies Act as follows:

The maximum total amount of shares or other rights to be issued under the authorization is 3,000,000. The authorization includes the right to give new shares and rights or convey company's own shares. The authorization includes a right to deviate from the shareholders' pre-emptive right of subscription if there is a significant financial reason in company's opinion. These reasons include, but are not limited to, improving the capital structure, financing and executing business acquisitions and other business improvement arrangements or being used as a part of remuneration of personnel. The authorization includes that the Board of Directors may decide all the other terms and other matters concerning the share issue and rights. The authorization is effective until the next Annual General Meeting, however, no longer than until April 30, 2020.

In addition, the Board of Directors proposes that the Board of Directors is authorized to decide on accepting the company's own shares as pledge as follows:

The Board of Directors is authorized to decide on accepting the company's own shares as pledge (direct) regarding business acquisitions or when executing other business arrangements. Accepting pledge may occur at once or in multiple transactions. The number of own shares to be accepted as pledge shall not exceed 2,000,000 shares. The authorization includes that the Board of Directors may decide on other terms concerning the pledge. The authorization is effective until the next Annual General Meeting, however, no longer than until April 30, 2020.

The Annual General Meeting decided to amend 2 § Line of Business of Articles of Association according to the Board of Directors' proposal as follows:

2 § Line of business

The company's line of business is to develop, sell, consult, import, produce and rent information technology services, software, and related equipment as well as other business related to the aforesaid. The company can own and manage real estate, shares and securities.

Board of directors and auditors

The Annual General Meeting on March 27, 2019 decided that The Board of Directors includes six members. Aarne Aktan, Lotta Kopra, Markku Pietilä, and Mika Uotila will continue on the Board and Panu Porkka and Katarina Segerståhl were elected as new members.

In the Board meeting, held after the Annual General Meeting, Markku Pietilä was elected as the Chairman of the Board.

In addition, Aarne Aktan, Lotta Kopra and Markku Pietilä were appointed to the members of the Audit Committee. Aarne Aktan acts as the Chairman of the Audit Committee.

KPMG Oy Ab, Authorized Public Accountants, was re-elected as auditors, with Lotta Nurminen, APA, acting as the chief auditor.

Other events during the review period

On June 28, Solteq reported the resignation of the company's CFO and member of the Executive Team, Martti Nurminen. Kari Lehtosalo was appointed as the new CFO on August 21, starting in his position on September 23.

On December 30, 2019, Solteq announced that it had signed a business transfer agreement, whereby the company's SAP ERP business, including its current employees and customers, were transferred to Enfo Oyj, effective on January 1, 2020.

Events after the reporting period

The company's management is not aware of any events of material importance after the reporting period that might have affected the preparation of the Financial Statements.

Risks and uncertainties

The key uncertainties and risks in short term are related to the management of changes in financing and balance sheet structures, the timing and pricing of business deals that are the basis for revenue, changes in the level of costs, developing company's own products and their commercialization, and the company's ability to manage extensive contract agreements and deliveries.

The key business risks and uncertainties of the company are monitored constantly as a part of the Board of Directors' and Executive team's duties. In addition, the Company has the Audit Committee appointed by the Board of Directors.

Proposal of the Board of Directors on the disposal of profit for the financial year

At the end of the financial year 2019, the distributable equity of the Group's parent company is 18,976,482.38 euros.

The Board of Directors proposes that the General Meeting would authorize the Board of Directors to decide, at its discretion, on the distribution of dividend. The maximum total amount of dividend to be distributed shall not exceed 965,326.35 euros.

Unless the Board of Directors decide otherwise, a dividend of a maximum amount of 0.05 euros per share will be paid on a date decided by the Board of Directors, to shareholders that are registered in the Company's shareholders' register maintained by Euroclear Finland Ltd on the dividend record date, decided by the Board of Directors. The Company shall make a separate announcement if a resolution to distribute dividend is made.

The authorization is proposed to be valid until August 31, 2020 (August 31, 2020 included).

Before the Board of Directors resolves on the distribution of dividend, it must assess whether the requirements for the distribution of dividends under the Finnish Companies Act are fulfilled in terms of the Company's solvency and / or financial position.

Provided that the requirements for the distribution of dividends under the Finnish Companies Act are fulfilled, the Board of Directors may decide on the distribution of dividend mentioned above.

No essential changes have taken place in the company's financial situation after the end of the financial year.

Corporate governance statement

Documentation on administration and governance structure is given as a separate report attached to the annual report.

Statement of non-financial information

Statement of non-financial information is given as a separate report attached to the annual report.

Key Figures

Key figures

Key figures outlining the group's financial development	2019	2018	2017 **	2016	2015
Revenue, MEUR	58.3	56.9	50.7	63.1	54.2
Change in revenue, %	2.5	12.1	-0.2	16.3	32.5
Operating profit, MEUR	5.7	2.5	0.3	6.4	1.3
% of revenue	9.8	4.3	0.6	10.2	2.4
Result before taxes, MEUR	3.7	0.6	-1.5	4.7	0.3
% of revenue	6.3	1.1	-2.9	7.5	0.6
Return on equity, %	12.1	1.7	-7.3	25.8	0.8
Return on investment, %	10.4	5.2	0.8	14.6	4.5
Equity ratio, %	32.0	32.4	33.7	33.5	24.4
Net investments in non-current assets, MEUR	4.6	8.3	6.1	-0.2	23.3
% of revenue	7.9	14.6	11.9	0.3	42.9
Research and development costs, MEUR	3.9	2.3	1.8	0.8	0.9
% of revenue	6.7	4.0	3.6	1.3	1.7
Net debt, MEUR	31.5	22.9	24.3	17.3	25.8
Net Gearing, %	128.5	105.1	118.5	85.0	167.4
Average number of employees over the financial period	597	567	485	454	391

Group's key figures per share	2019	2018	2017 **	2016	2015
Earnings per share, EUR	0.15	0.02	-0.08	0.26	0.01
Equity per share, EUR	1.27	1.13	1.10	1.2	0.91
Dividends per share, EUR*	0.05	0.00	0.00	0.05	0.00
Dividend from result, % *	34.4	0.0	0.0	19.2	0.0
Effective dividend yield, % *	3.4	0.0	0.0	3.1	0.0
Price/earnings (P/E)	10.3	70.1	-19.0	6.2	178.0
Highest share price, EUR	1.65	1.64	1.76	1.96	1.97
Lowest share price, EUR	1.27	1.26	1.44	1.50	1.32
Average share price, EUR	1.44	1.49	1.64	1.70	1.71
Market value of the shares, TEUR	29,346	25,098	28,390	28,477	31,681
Shares trade volume, 1,000 pcs	808	827	1,672	1,717	5,023
Shares trade volume, %	4.2	4.3	9.2	9.7	29.7
Weighted average of the share issue corrected number of shares during the financial period, 1,000 pcs	19,307	19,202	18,197	17,639	15,719
Number of shares corrected by share issue at the end of the financial period, 1,000 pcs	19,307	19,202	18,197	17,639	16,937

When calculating the number of shares, the number of own shares retained by the company has been deducted from the number of shares, except the own shares related to the ongoing directed share issues as presented in the financial statements 2016.

* 2019 proposal by the Board of Directors

** The company has taken the IFRS 15 standard into use on 1 January 2018 retroactively and the comparison figures for 2017 have been adjusted.

Calculation of the key figures

Return on Equity (ROE), %: profit for the financial period (rolling 12 months) / equity (average for the period) x 100

Return on investment (ROI), %: (profit before taxes + finance expenses (rolling 12 months)) / (balance sheet total - interest free debt (average for the period)) x 100

Solvency ratio, %: equity / (balance sheet total - advances received) x 100

Net debt: interest bearing liabilities - cash and cash equivalents

Gearing, %: (interest bearing liabilities - cash, bank balances and securities) / equity x 100

Earnings per share: (profit before taxes -/+ minority interest) / adjusted average basic number of shares

Diluted earnings per share: (profit before taxes -/+ minority interest) / adjusted average diluted number of shares

Equity per share: equity / number of shares

Dividend per share: dividend for the period / number of shares at the year-end

Dividend from result, %: dividend per share / earnings per share x 100

Effective dividend yield: dividend per share / share price at the year-end x 100

Price/earnings: share price at the year-end / earnings per share x 100

The market value of company's shares: the number of shares at the year-end x share price at the year-end

EBITDA: operating profit + depreciation and impairments

Alternative performance measures to be used by Solteq Group in financial reporting

Solteq uses alternative performance measures to describe the company's underlying financial performance and to improve the comparability between review periods. The alternative performance measures should not be regarded as indicators that replace the financial key figures as defined in IFRS standards.

Performance measures used by Solteq Group are EBITDA, equity ratio, gearing, return on equity, return on investment and net debt. The calculation principles of these financial key figures are presented above, Calculation of the key figures.

Adjusted items and alternative performance measures

Adjusted items:

Transactions that are unrelated to the regular business operations, or valuation items that do not affect the cash flow, but have an important impact on the income statement, are adjusted as items that affect comparability. These non-recurring items may include the following:

- Significant restructuring arrangements and related financial items
- Impairments
- Items related to the sale or discontinuation of significant business operations
- Costs incurred by the re-organization of operations
- Costs incurred by the integration of acquired business operations
- Non-recurring severance packages
- Fee items that are not based on cash flow
- Costs incurred by changes in legislation
- Fines and similar indemnities, damages and legal costs

Adjusted operating profit (EBIT)

The reconciliation of the adjusted operating profit to operating profit is presented in the table below. The same adjusting items apply when reconciling the adjusted EBITDA to EBITDA.

TEUR	1-12/2019	1-12/2018
Operating profit (EBIT)	**5,711**	**2,466**
Adjustments		
SAP ERP business transfer agreement	-2,515	
Incentive and option scheme (IFRS 2)		-14
Acquisition of subsidiaries		12
Change in fair value of conditional consideration		-460
Cost of integrating the acquired business	72	72
Non-recurring severance packages	39	241
Damages from completed customer projects	98	800
Costs incurred by the re-organization of operations	138	
Total adjustments	**-2,169**	**651**
Adjusted operating profit (EBIT)	**3,543**	**3,117**

Financial Statements

Financial statements

Consolidated statement of comprehensive income

TEUR	Notes	Group		Parent Company	
		1 Jan 2019 - 31 Dec 2019	1 Jan 2018 - 31 Dec 2018	1 Jan 2019 - 31 Dec 2019	1 Jan 2018 - 31 Dec 2018
Revenue	3	58,291	56,867	49,756	48,753
Other income	4	2,594	487	2,921	2
Materials and services		-5,440	-6,089	-5,993	-5,994
Employee benefit expenses	7	-36,757	-35,602	-30,082	-28,998
Depreciations and impairments	6	-4,003	-2,300	-3,380	-1,848
Other expenses	5, 8	-8,974	-10,897	-7,846	-8,633
Operating profit		**5,711**	**2,466**	**5,377**	**3,281**
Financial income	9	197	231	21	71
Financial expenses	10	-2,229	-2,054	-1,949	-1,778
Profit before taxes		**3,679**	**642**	**3,448**	**1,573**
Income taxes	11	-876	-286	-799	-324
Profit for the financial period		**2,803**	**356**	**2,650**	**1,249**
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Currency translation differences		-44	-14		
Other comprehensive income		-29	0		
Other comprehensive income, net of tax		-73	-14		
Total comprehensive income		**2,731**	**342**	**2,650**	**1,249**
Earnings per share attributable to equity holders of the parent					
Earnings per share, EUR (undiluted)		0.15	0.02	0.14	0.07
Earnings per share, EUR (diluted)		0.15	0.02	0.14	0.07

Result for the financial year and total comprehensive income belong exclusively to the owners of the parent company.

Consolidated statement of financial position

TEUR	Notes	Group		Parent Company	
		31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Assets					
Non-current assets					
Tangible assets	13	654	2,355	602	2,300
Right-of-use assets	13	7,298		6,614	
Intangible assets					
Goodwill	14	38,840	40,427		1,416
Other intangible assets	14	10,151	6,952	43,536	40,425
Other investments	15	481	481	496	496
Shares in subsidiaries	29			7,596	8,136
Trade and other receivables	18	108	233	189	129
Non-current assets total		**57,531**	**50,448**	**59,034**	**52,902**
Current assets					
Inventories	17	164	94	43	54
Trade and other receivables	18	15,638	11,985	14,287	10,518
Cash and cash equivalents	19	3,648	5,347	2,007	3,502
Current assets total		**19,449**	**17,426**	**16,338**	**14,073**
Total assets		**76,980**	**67,874**	**75,371**	**66,975**
Equity and liabilities					
Equity attributable to equity holders of the parent company					
Share capital	20	1,009	1,009	1,009	1,009
Share premium reserve	20	75	75	75	75
Distributable equity reserve	20	12,910	12,910	14,024	14,024
Retained earnings	20	10,533	7,803	10,680	8,030
Total equity		**24,528**	**21,797**	**25,789**	**23,139**
Non-current liabilities					
Deferred tax liabilities	16	588	815	478	708
Financial liabilities	23	1,201	25,551	1,201	25,551
Lease liabilities	23	5,156		4,782	
Non-current liabilities total		**6,945**	**26,366**	**6,461**	**26,259**
Current liabilities					
Financial liabilities	23	26,461	2,710	26,459	2,598
Trade and other payables	24	16,657	16,588	14,650	14,595
Provisions	22	41	414	41	385
Lease liabilities	23	2,349		1,972	
Current liabilities total		**45,508**	**19,712**	**43,121**	**17,577**
Total liabilities		**52,453**	**46,077**	**49,583**	**43,836**
Total equity and liabilities		**76,980**	**67,874**	**75,371**	**66,975**

Consolidated statement of cash flows

TEUR	Notes	Group 1 Jan 2019 - 31 Dec 2019	1 Jan 2018 - 31 Dec 2018	Parent Company 1 Jan 2019 - 31 Dec 2019	1 Jan 2018 - 31 Dec 2018
Cash flow from operating activities					
Profit for the financial period		2,803	356	2,650	1,249
Adjustments for operating profit	26	3,732	3,797	2,976	404
Changes in working capital		-595	5,675	-362	6,507
Interests paid		-1,829	-2,054	-1,778	-1,778
Interests received		16	228	16	69
Net cash from operating activities		**4,128**	**8,002**	**3,502**	**6,451**
Cash flow from investing activities					
Acquisition of subsidiaries			-2,291		-2,291
Investments in tangible and intangible assets		-4,668	-3,304	-4,286	-2,524
Net cash used in investing activities		**-4,668**	**-5,595**	**-4,286**	**-4,814**
Cash flow from financing activities					
Long-term loans, increase		1,201		1,201	
Short-term loans, increase		3,595	2,000	3,595	2,000
Short-term loans, decrease		-3,595	-40	-3,595	
Payment of lease liabilities/Payment of finance lease liabilities *	23	-2,361	-573	-1,912	-573
Net cash used in financing activities		**-1,160**	**1,387**	**-712**	**1,427**
Changes in cash and cash equivalents		-1,700	3,795	-1,495	3,064
Cash and cash equivalents at the beginning of period		5,347	1,552	3,502	438
Cash and cash equivalents at the end of period	19	**3,648**	**5,347**	**2,007**	**3,502**

Cash and cash equivalents presented in the cash flow statement consist of the following items:

TEUR	Group 2019	2018	Parent Company 2019	2018
Cash and bank accounts	3,648	5,347	2,007	3,502
Total	**3,648**	**5,347**	**2,007**	**3,502**

* According to IFRS 16 Payment of lease liabilities and according to IAS 17 Payment of finance lease liabilities

Consolidated statement of changes in equity

Group

TEUR	Share capital	Share premium account	Invested unrestricted equity reserve	Currency translation difference	Retained earnings	Total
Equity 1 Jan 2018	**1,009**	**75**	**11,960**	**-42**	**7,518**	**20,520**
Impact of the implementation of IFRS 9					-16	-16
Change of IFRS 2 standard					15	15
Adjusted equity 1 Jan 2018	**1,009**	**75**	**11,960**	**-42**	**7,517**	**20,519**
Comprehensive income					**356**	**356**
Other items on comprehensive income				-14		-14
Total income	**0**	**0**	**0**	**-14**	**356**	**342**
Transactions with owners						
Incentive scheme and option scheme					-14	-14
Directed issue to the owners of TM United A/S			950			950
Transactions with owners			**950**		**-14**	**936**
Equity 31 Dec 2018	**1,009**	**75**	**12,910**	**-56**	**7,859**	**21,797**
Equity 1 Jan 2019	**1,009**	**75**	**12,910**	**-56**	**7,859**	**21,797**
Comprehensive income					2,803	2,803
Other items on comprehensive income				-44	-29	-73
Total income	**0**	**0**	**0**	**-44**	**2,775**	**2,731**
Equity 31 Dec 2019	**1,009**	**75**	**12,910**	**-100**	**10,633**	**24,528**

Parent Company

TEUR	Share capital	Share premium account	Invested unrestricted equity reserve	Retained earnings	Total
Equity 1 Jan 2018	**1,009**	**75**	**13,074**	**6,797**	**20,955**
Impact of the implementation of IFRS 9				-16	-16
Change of IFRS 2 standard				15	15
Adjusted equity 1 Jan 2018	**1,009**	**75**	**13,074**	**6,796**	**20,954**
Total comprehensive income				**1,249**	**1,249**
Transactions with owners					
Incentive scheme and option scheme				-14	-14
Directed issue to the owners of TM United A/S			950		950
Transactions with owners total	**0**	**0**	**950**	**-14**	**936**
Equity 31 Dec 2018	**1,009**	**75**	**14,024**	**8,032**	**23,139**
Equity 1 Jan 2019	**1,009**	**75**	**14,024**	**8,032**	**23,139**
Total comprehensive income				**2,650**	**2,650**
Equity 31 Dec 2019	**1,009**	**75**	**14,024**	**10,680**	**25,789**

Notes to consolidated financial statements

Group information

Solteq is a Nordic provider of IT services and software solutions specializing in the digitalization of business and industry-specific software. The key sectors in which the company has long term experience include retail, industry, energy and services. The company operates in Finland, Sweden, Norway, Denmark, Poland and the UK.

The Group's parent company is Solteq Plc, whose business ID is 0490484-0. Solteq Oyj is a Finnish public limited company whose shares are quoted on Nasdaq Helsinki Ltd. The company is domiciled in Vantaa, with headquarters at: Karhumäentie 3, 01530. A copy of Solteq Plc's consolidated financial statements are available at www.solteq.com or from the headquarters in Vantaa.

Solteq Plc's Board approved these financial statements for publication at its meeting on 26 February 2020. Pursuant to the Finnish Limited Liability Companies Act, shareholders have the right to either accept or reject the financial statements at the General Meeting held after publication. The General Meeting also has the option of deciding that the financial statements be amended.

Solteq Plc is reporting on one segment, Software Services, consisting of Digital Services and Core Business Solutions.

Accounting policies

Basis of preparation

Solteq's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) complying with the IAS and IFRS standards as well as the SIC and IFRIC interpretations valid as at 31 December 2018. International Financial Reporting Standards mean the standards and their interpretations that have been approved for adoption in the EU in accordance with the procedure No. 1606/2002 enacted in the Finnish Accounting Act and EU (EC) regulations laid down by the Act. The notes to the consolidated financial statements are also in accordance with the requirements of the Finnish Accounting and Companies legislation.

The Group accounting policies described here are applied to both the Group financial statement as well as to the parent company financial statement, unless otherwise mentioned. In addition to this, the term "company" refers to both the Group as well as the parent company.

The consolidated financial statements have been prepared on the historical cost basis of accounting, except for available-for-sale financial assets measured at fair value. The values are presented in thousand euros. As the values have been rounded, the total of the individual values may deviate from the presented totals.

The preparation of the financial statement in accordance with the IFRS standards requires the Group management to make certain estimates and assumptions that affect the application of accounting policies. Information of these considerations that the management has used in applying accounting policies and which have the most effect in the figures shown in the financial statement, have been presented in the section. Accounting policies requiring management judgement and significant uncertainties relating to accounting estimates".

Going concern principle

The 2019 financial statements have been prepared in accordance with a going concern principle. In assessing the company on this basis, the management has taken account of refinancing risks.

The key elements of Solteq Group's leveraging include a fixed interest rate bond and overdraft and liquidity facilities. The amount of the fixed interest rate bond was 24.5 million euros on the balance sheet date. The interest payable on the loan is 6%, with a maturity of five years, ending in the summer of 2020. The overdraft and liquidity facilities totaled 6.0 million euros. The covenants related to them are tied to the bond's terms and conditions.

The company began measures to ensure refinancing during the 2019 financial year. These consist of renewal of the bond and overdraft and liquidity facilities. The financial negotiations and related measures have proceeded as planned, and the management foresees a positive result for the negotiations. In assessing the going concern, the company management has taken into account the financial forecasts and the risks of the ongoing financial negotiations. The management therefore expects operations to continue, with only a low risk of inadequate funding. The financial statements have therefore been drawn up on a going concern basis.

New and amended standards applied in financial year

Group has applied as from 1 January 2019 the following new and amended standards that have come into effect:

IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019)

The new standard replaces the former IAS 17 standard and related interpretations. IFRS 16 requires the lessees to recognize the lease agreements on the balance sheet as right-of-use assets and lease liabilities. The accounting model is similar to former finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short-term contacts in which the lease term is 12 months or less, or to low-value items i.e. assets of value about USD 5,000 or less. The lessor accounting remains mostly similar to former IAS 17 accounting.

The standard was implemented using the modified retrospective approach, in which the comparative figures for prior financial periods have not been restated. The impact of the standard to the Group's opening balance was 6.4 million euros. The present value of the remaining unpaid lease liabilities of contracts which were in effect on January 1, 2019, that were previously classified as operating leases, was recognized as a liability. At the time of implementation of the standard, the amount of the lease liability was recognized as a right-of-use asset, and the implementation had no impact on the Group's equity. For more details on the effects of implementing the standard, see Note 1 concerning the transition to IFRS 16.

IFRIC 23 Uncertainty over Income Tax Treatments (effective for financial years beginning on or after 1 January 2019)

The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test for accounting is the assessment of whether the tax authority will accept the entity's chosen tax treatment or not. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a tax treatment proposed by the entity. However, the amendment does not have a material impact on the consolidated financial statements.

Amendments to IFRS 9 — Prepayment Features with Negative Compensation (effective for financial years beginning on or after 1 January 2019)

The amendments enable entities to measure at amortized cost some pre-payable financial assets with so-called negative compensation. However, the amendment does not have a material impact on the consolidated financial statements.

Amendments to IAS 28 — Long-term Interests in Associates and Joint Ventures (effective for financial years beginning on or after 1 January 2019)

The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that forms part of the net investment in the associate or joint venture. However, the amendment does not have a material impact on the consolidated financial statements.

Plan amendment, Curtailment or Settlement (Amendments to IAS 19) (effective for financial years beginning on or after 1 January 2019)

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). However, the amendment does not have a material impact on the consolidated financial statements.

Annual Improvements to IFRSs (2015-2017 cycle) (effective for financial years beginning on or after 1 January 2019).

The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments clarify the following standards:

IFRS 3: when an entity obtains control of a business that is a joint operation, it remeasures a previously held interest in that business at fair value (a business combination achieved in stages).

IFRS 11: when an entity subsequently obtains joint control of a business that is a joint operation, it does not remeasure a previously held interest in that business.

IAS 12: an entity accounts for all income tax consequences of dividends in the same way, regardless of how the tax arises (in profit or loss, other comprehensive income or equity).

IAS 23: when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made to obtain the said asset as part of general borrowings.

However, the amendment does not have a material impact on the consolidated financial statements.

Subsidiaries

Consolidated financial statements include Solteq Plc and its subsidiaries.

Subsidiaries are companies in which the Group exercises control. Control is defined as the Group having exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns.

The Group's mutual shareholdings have been eliminated using the acquisition method. Companies acquired are included in the consolidated financial statements from the date when the Group has acquired right of control and subsidiaries sold until the date when the right of control seizes. All intra-group business transactions, receivables, debts and unrealized profits as well as internal distribution of profit are eliminated in the preparation of the consolidated financial statements. Unrealized losses are not eliminated if they are caused by impairment.

Foreign currency items

Figures on the result and the financial position of the Group's entities are measured in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in euros, which is the parent company's functional and presentation currency.

Transactions in foreign currencies have been recorded in the functional currency, using the event date's rate of exchange or one that is approximately the same. At the time of closing the annual accounts, receivables and debts in foreign currencies have been converted to functional currency at the exchange rate of that date. Any exchange rate gain or loss from transactions in foreign currencies has been recognized in the financial statements under financial income and expense.

Tangible assets

Property, plant and equipment consist mainly of machines and equipment. They are measured at historical cost less accumulated depreciation and possible impairment losses.

Depreciation is calculated on a straight-line basis over their estimated useful life. The estimated useful lives are as follows:

- Machinery and equipment 2 - 5 years
- Other tangible assets consist of works of art which are not depreciated

The residual values and useful lives are reviewed at each reporting date and, when necessary, are corrected to reflect any possible changes in expected future economic benefit.

Gains and losses from disposal and divestment of tangible assets are recognized under other income or expenses.

Intangible assets

An intangible asset is recognized in the balance sheet only if the asset's acquisition cost can be reliably measured and if it is probable that future economic benefits will flow to the entity. Intangible assets with a finite useful life are recognized in the balance sheet at historical cost and are amortized on a straight-line basis during their useful life. Estimated amortization periods are as follows:

- Development costs 3 - 5 years
- Intangible rights 3 - 10 years
- Other intangible assets 3 - 10 years

In the balance sheet of the mother company, under the immaterial rights section, there are merger losses, which are not depreciated evenly. These are instead tested as goodwill by performing impairment tests.

Goodwill

The goodwill deriving from merging businesses is booked to the amount with which the remuneration is exceeding the Group's part of the acquired net equity's value. The remuneration includes also the portion held by the owners without mastery rights, as well as the portion which has already previously been held by the company.

Goodwill is not amortized but is tested annually for impairment. For this purpose, the goodwill is allocated to cash-generating units. The goodwill is valued at the original acquisition cost less impairment losses.

In the parent company, the transaction is handled at book value as for companies under mutual control.

Research and development costs

Research costs are recorded as expenses in the income statement. Development cost for new or substantially improved product or service processes are capitalized in the balance sheet as intangible assets from the date when the product is technically and commercially feasible and it is expected to bring financial benefit. Development costs previously expensed will not be capitalized at a later date. Assets are amortized from the date when they are ready for use. Assets that are not yet ready for use are tested annually for impairment. Development expenses that have been capitalized have a useful life of 3 to 5 years, during which capitalized assets are expensed on a straight-line basis.

Government grants

Government grants, such as grants from public institutions for acquisition of intangible assets, are deducted from the carrying amount of the asset when it is reasonably certain that they will be received, and the Group fulfils the requirements to receive such grants. Grants are recognized in the form of lower depreciation expense during the useful life of the asset. Grants that compensate for expenses incurred are recognized in the income statement when the expenses are recognized. These grants are presented in other income. During the financial year 2019 Government grants were received 40 thousand euros (0).

Lease agreements

IFRS 16 standard requires lessees to recognize the lease agreements in the balance sheet as right-of-use assets and lease liabilities. The accounting model is similar to finance lease accounting in accordance with IAS 17. There are two practical exemptions available: short-term leases with a maximum lease term of 12 months, and leases for a maximum value of approximately USD 5,000 of the underlying asset. The lessor accounting treatment remains mostly in line with the previous IAS 17 accounting.

Solteq is a lessee and mainly leases business premises. The implementation of the new standard changed the accounting treatment of these leases. In addition, the Group has leased assets under finance leases. These assets have been recognized in the balance sheet already in the previous financial periods and the implementation of the standard has no material impact to the financial leases. Solteq applies the exemption for short-term leases allowed under the IFRS 16 standard as well as the exemption for low value assets on a contractual basis. Solteq is not a lessor at the moment.

According to IFRS 16 standard, the lessee's lease period is the period during which the lease cannot be terminated. Also, a potential extension or termination option should be considered, if the use of such option is judged to be reasonably certain. The lease agreements for premises are mainly fixed term. The lease term for ongoing contracts will be regularly assessed by Solteq’s management, and the length of the lease term is based on management's estimate.

The lessee should value the lease agreement by discounting the future minimum lease payments to the present value at the inception of the contract. The internal interest rate implicit in the lease is not readily available, the future minimum lease payments are discounted using Solteq’s incremental borrowing rate. According to the standard, the incremental borrowing rate is defined as the interest that the lessee would have to pay when borrowing for the similar term and with s similar security to obtain an asset of an equivalent value to the right-of-use asset in a similar economic environment. Solteq determines the incremental borrowing rate for leases based on the lease term and the financial environment of the lease.

Processing of lease agreements conforming to IAS 17 in the comparison period

Lease contracts for tangible assets for which the Group have a significant part of the risks and rewards incidental to ownership, are classed as financial leases. At the inception of the lease term, a finance lease is recognized on the balance sheet at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payment. Assets acquired by a finance lease are depreciated during the asset’s useful life or, if shorter, the lease term. Lease payments are apportioned between financial expenses and loan repayments during the rental period so that the remaining debt at the end of a financial period has a constant periodic interest rate. Lease liabilities are included in the financial liabilities.

Lease agreements where the risks and rewards incidental to ownership remain with the lessor, are classified as other lease agreements. Lease payments under other lease agreements are recognized as expense in the income statement in equal amounts throughout the lease term.

Impairment of tangible and intangible assets

The Company estimates at the end of each financial period whether there is any indication of impairment on any asset. In the event of any such indication, the recoverable amount of the asset is estimated. Recoverable amounts are also estimated annually on the goodwill and intangible assets not yet available for use regardless of whether there is any indication of impairment. Need for impairment is monitored at the cash-generating unit level, that is, at the level of units that are independent from other units and whose cash flows can be separated from other cash flows.

Recoverable amount is the greater of the asset's fair value less selling costs or its value in use. Value in use is defined as the present value of the future cash flows expected to be derived from an asset or a cash generating unit. In the calculation of present value, discounting percentage is pretax rate which reflects the market's view of time value of money and asset-specific risks.

Impairment loss is recognized when the asset's carrying amount is higher than its recoverable amount. Impairment loss is immediately recognized in the income statement. If the impairment loss is allocated to a cash-generating unit, it is first allocated to decrease the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Impairment loss is reversed, if circumstances change and the asset's recoverable value has changed from the time of the recognition of the impairment loss. Reversal amount cannot, however, be higher than the asset's book value would be without the recognition of the impairment loss. Impairment loss on goodwill is not reversed under any circumstances.

Employee benefits

Pension liabilities

Pension arrangements are classed as defined benefit plans and defined contribution plans. The Group has only defined contribution plans. Payments under the Finnish pension system and other contribution-based pension schemes are recognized as expenses as incurred.

Share-based payments

The Group has share and option-based incentive schemes in which payments are made in equity instruments or in cash. The benefits granted in the arrangements are measured at fair value at the granting date and recognized as expenses in profit or loss over the vesting period. In arrangements payable in cash, the liability to be recognized and the change in its fair value are correspondingly allocated as expenses. The impact of the arrangements on the financial result is presented under employee benefit expenses.

The expense determined at the time the options are granted is based on the Group's estimate of the number of options that are assumed to be exercised at the end of the vesting period. The Group updates the expected final number of options at the closing date of each reporting period. Changes in the estimates are recognized in profit or loss. The fair value of the option arrangements is determined by using the Black-Scholes option pricing model, and the value of the share-based incentive arrangements is based on market data. The assets acquired through share prescriptions, adjusted with transaction expenses, are recognized in the reserve for unrestricted equity or share capital in accordance with the terms and conditions of the arrangement.

Provisions and contingent liabilities

Provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, realization of the payment obligation is probable, and the amount of the obligation can be reliably estimated. Provisions are valued at the present value required to cover the obligation. Present values are determined by discounting the expected future cash flows at a pre-tax rate that reflects the market's view of that moment's time value and risks associated with the obligation. If part of the obligation is possible to be covered by a third party, the obligation is recognized as a separate asset, but only once this coverage is virtually certain.

The warranty provision is accumulated for the project business expenses while the project proceeds. The amount of the warranty provision is an estimate of anticipated warranty work based on previous experiences. The Group recognizes a provision for onerous contracts when the expected benefits from a contract are less than the unavoidable costs of meeting the obligations.

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Also, present obligation that is not probable to cause liability to pay or the amount of obligation cannot be measured with sufficient reliability are considered contingent liabilities. Contingent liabilities are disclosed as notes to the financial statements.

Income taxes

Tax expenses for the financial period comprise current tax based on the taxable income of the financial period and deferred taxes. Tax calculated from the taxable income of the financial period is based on the tax rate prevailing in each country. Taxes are adjusted with possible taxes relating to previous financial periods.

Deferred taxes are calculated from temporary differences between book value and taxable value. Deferred taxes are not recognized on temporary differences arising from goodwill impairment losses that are not tax deductible. Deferred taxes are neither recognized on undistributed profit from subsidiaries when the differences are unlikely to reverse in the foreseeable future.

Deferred taxes are calculated using the tax rates enacted at the end of the financial period. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available, against which the temporary differences can be utilized.

The calculated tax receivables and liabilities are deducted from each other, only in the case that the company has a legally enforceable right to even the tax receivables and liabilities of the period, and these are related to the income taxes of the same tax holder.

Revenue recognition principles

Revenue from contracts with customers

Solteq recognizes revenue based on the five-step model required by IFRS 15, which entered into effect on January 1, 2018. The process involves defining the subject of the contract with the customer, the performance obligation based on it, the transaction price to be allocated and the allocation of the transaction price to the time of delivery, arising from the partial and/or complete satisfaction of the performance obligation.

The company recognizes the majority of its service revenue over time. Service revenue mainly consists of general consulting based on time and materials as well as support and development services provided for the company, for which the customer receives benefits as the service is produced (e.g. helpdesk and media services). The company recognizes sales revenue evenly over time.

The company is increasingly shifting towards Software as a Service (SaaS) solutions, which give customers access to software as a service in exchange for a pre-agreed monthly fee. For these services, the customer receives the benefits as the service is produced, and revenue is recognized evenly over time.

Solteq's revenue recognition principles for long-term contracts are based on the contract's measure of progress and the management's judgement. The company defines the performance obligation of each delivery agreement and the transaction price allocated to it. The current policy is to subsequently assess the satisfaction of the performance obligation mainly by using the input method. In other words, the measure of progress towards complete satisfaction of the performance obligation is defined by assessing the ratio between the cumulative rate of utilization and costs of the project resources to the total resource and cost forecast for the performance obligation.
Guidelines concerning principal/agent considerations require the company to recognize only the proportion of revenue for which the company is responsible for the delivered product and service, for which the company bears the inventory/credit risk and/or is able to freely set the market price of the product. In the event that the company acts as a dealer and is not subject to the aforementioned obligations, the company only recognizes revenue corresponding to the margin received from resale services. Revenue is always recognized based on the transfer of control, either over time or at a point in time. The third-party

license and maintenance business include, for example, the SAP, Microsoft NAV, IBM, Oracle and Informatica solutions provided by Solteq.

The primary services and products for which revenue is recognized at a point in time are related to the right to use software, products directly related to the right to use software and equipment separately provided for customers. In these cases, the right to use software, the functions and rights enabled by products directly related to that right and the ownership of the separately provided equipment are transferred to the customer at the time of delivery.

Contract assets on the balance sheet

Contract assets on the balance sheet primarily consist of trade receivables. When an item is presented on the balance sheet under trade receivables, Solteq has an unconditional right to consideration for goods or services delivered to the customer. For long-term contracts, the company presents a contract asset in its financial statements. The contract asset represents the right to consideration for goods and services already delivered to the customer. An assessment in accordance with IFRS 9 standard is carried out regarding the impairment of contract assets and trade receivables.

A contract liability is an obligation to transfer goods or services to the customer for which the company has received consideration from the customer. If the customer pays consideration before a good or service is transferred to the customer, the company presents a contract liability in its financial statements when the customer has made the payment. Contract liabilities are primarily related to long-term contracts.

Estimating variable consideration

Solteq's contracts with customers may include variable consideration components, such as penalties for late project delivery. The management's judgement is that, as a rule, the level of uncertainty concerning the amount of consideration to be received is low. The company estimates variable consideration components particularly at the end of each reporting period.

Contract costs

Solteq does not have significant incremental costs of obtaining contracts.

Other operating income

In other operating income, the company presents gains on the sale of fixed assets and revenue that is not related to the sale of actual service performance, such as lease income and government grants. Government grants are recognized in the income statement at the same time as the expenses the grants are intended to cover.

Interest income and dividends

Interest income is recognized using the effective interest rate method and dividend income at the time when the right to the dividend arises.

Operating profit

The concept of operating profit is not defined in IAS 1 Presentation of Financial Statements. The company has defined it as follows: operating profit is the net amount of revenue plus other operating income, less the consumption of materials and services, staff costs, depreciation and impairment and other expenses. All other income statement items are presented below operating profit.

Financial assets and liabilities

Financial assets

Financial assets are classified into the following categories based on the Group's business model for the management of financial assets and their contractual cash flow characteristics: measured at amortized cost and measured at fair value through profit or loss. The classification is based on the objective of the business model and the contractual cash flows of the investments, or by applying the fair value alternative at the time of initial acquisition.

The purchases and sales of financial assets are recognized on the transaction date, which is the date on which the Group commits to buying or selling the financial instrument. At initial recognition, the Group measures a financial asset at fair value and, if the item in question is an item that is not classified as measured at fair value through profit or loss, the transaction costs that are directly attributable to the item are added to, or deducted from, the item. Transaction costs are included in the original carrying amount of financial assets for items that are not measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognized at fair value on the balance sheet at initial recognition and the transaction costs are recognized through profit or loss.

Financial assets measured at amortized cost consist of trade receivables and other receivables. They are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

For trade receivables, expected credit losses are estimated using the simplified approach described in IFRS 9. The simplified approach involves assessing credit losses using a provision matrix and recognizing credit losses at an amount corresponding to lifetime expected credit losses. Expected credit losses are estimated based on historical data on previous actual credit losses, and the model also takes into consideration the information available at the time of assessment regarding future economic conditions. Expected credit losses are recognized in the income statement under other expenses.

Financial assets recognized at fair value through profit or loss consist of shares and they are included in non-current assets, except where the intention is to hold them for a period of less than 12 months from the financial statements date, in which case they are included in current assets. On the financial statements date, the Group's other investments consisted of unlisted shares.

Cash and cash equivalents

Cash and cash equivalents consist of cash and bank deposits that can be withdrawn on demand. Account with overdraft facility is included in current financial liabilities. Unused overdraft facility has not been recognized in the balance sheet.

Financial liabilities

Financial liabilities are initially recognized at fair value. Transaction costs are included in the financial liability value at the initial measurement. Later all financial liabilities are valued at amortized cost using the effective interest method. Financial liabilities are classified under non-current and current liabilities which can be either interest-bearing or interest-free.

Determination of fair value

When the Group measures an asset item or a liability at fair value, the measurement is based on as highly observable input in the market as possible. The fair values are categorized at various hierarchy levels, depending on the input data used as follows:

- Level 1: The fair values are based on the quoted prices (unadjusted) of identical asset items or liabilities in a well-functioning market.
- Level 2: The fair values of the instruments are mostly based on other inputs than the quoted prices included at Level 1, however, on inputs that are observable for the asset item or the liability concerned either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: The fair values of the instruments are based on such inputs for the asset item or liability that are not based on observable market inputs (other than observable inputs) but are mainly

based on the estimates of the management and on their use in generally accepted measurement models.

Borrowing costs

Borrowing costs are recognized as an expense in the period in which they incur. If there are certain known criteria concerning qualifying asset, the borrowing costs are capitalized. Transaction costs directly attributable to acquisition of loans which clearly relate to a certain loan are included in the original amortized cost of the loan and are expensed using effective interest method.

Equity

Costs relating to the acquisition of own shares are deducted from the equity. If Solteq Plc acquires its own shares, the acquisition costs are deducted from the equity.

Accounting policies requiring management judgement and significant uncertainties relating to accounting

In preparation of the consolidated financial statements, estimates and assumptions regarding the future must be made. The end results may deviate from these assumptions and estimates. In addition, some judgement must be exercised in the application of the policies of the financial statements.

Management judgement regarding selection and application of accounting policies

The Group management uses judgement regarding selection and application of accounting policies. This applies especially to those cases where the IFRS standards and interpretations in effect have recognition, measurement and presentation alternatives.

Uncertainties relating to accounting estimates

Accounting estimates in preparation of the financial statements are based on management's best estimate at the end of the financial period. These estimates and assumptions are based on experience and other reasonable assumptions, which are believed to be appropriate in the circumstances that form the basis on which the consolidated financial statements are prepared. Uncertainties are related to, inter alia, existing uncertainty in the assessment of project outcomes, valuation of accounts receivable, the measuring and recognition of deferred tax assets and the development of the overall financial environment. Possible changes in estimates and assumptions are recognized in accounting during the financial year when the estimate or assumption is revised, and all the periods after that.

Impairment test

The Group carries out annual tests for the possible impairment of goodwill and intangible assets not yet available for use, and indications of impairment are evaluated in accordance with the principles described earlier in these financial statements. Recoverable amount of cash-generating units is defined with calculations based on value in use. These calculations require the use of estimates. Additional information about sensitivity analyses regarding changes in assumptions relating to recoverable amount are disclosed under note 14 Intangible assets.

Adoption of new and amended standards in future financial years

Solteq Plc has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

* = not yet endorsed for use by the European Union as of 31 December 2019.

Amendments to References to Conceptual Framework in IFRS Standards (effective for financial years beginning on or after 1 January 2020)

The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs.

Definition of a Business (Amendments to IFRS 3) * (effective for financial years beginning on or after 1 January 2020)

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set is a group of assets rather than a business.

Definition of Material (Amendments to IAS 1 and IAS 8) (effective for financial years beginning on or after 1 January 2020)

The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved.

Interest Rate Benchmark Reform * (Amendments to IFRS 9, IAS 39 and IFRS 7) (effective for financial years beginning on or after 1 January 2020)

Amendments have been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.

IFRS 17 Insurance Contracts* (IASB's proposal effective for financial years beginning on or after 1 January 2022)

The new standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. This standard replaces IFRS 4 standard.

1. IFRS 16 implementation

Adjusted consolidated statement of financial position 1 Jan 2019

TEUR	Reported 31 Dec 2018	IFRS 16 adjustment	Adjusted 1 Jan 2019
Assets			
Non-current assets			
Tangible assets	2,355	6,398	8,754
Non-current assets total	**50,448**	**6,398**	**56,846**
Total assets	**67,874**	**6,398**	**74,272**
Equity and liabilities			
Non-current liabilities			
Financial liabilities	25,551	4,706	30,256
Non-current liabilities total	**26,366**	**4,706**	**31,071**
Current liabilities			
Current liabilities	19,712	1,693	21,404
Current liabilities total	**19,712**	**1,693**	**21,404**
Total equity and liabilities	**67,874**	**6,398**	**74,272**

Bridge calculation of the adoption of the IFRS 16 standard

TEUR	Group	Parent Company
Operating lease liabilities 31 December 2018	**6,739**	**5,606**
Short-term leases and low-value assets	-34	-34
Service components	-248	-248
New contracts	528	528
Discount rate effect	-741	-644
Definition of lease term	236	18
Other	-82	-32
Increase of lease liability	**6,398**	**5,195**
Finance lease liability IAS 17 31 December 2018	1,879	1,768
Lease liability 1 January 2019	**8,277**	**6,964**

2. Business combinations

Financial year 2019

There were no acquisitions during the financial year 2019.

Financial year 2018

During the financial year 2018, two company acquisitions were made.

TM United A/S

Solteq Plc purchased the entire share capital of TM United A/S on January 15, 2018. TM´s solutions are focused on digital transactions and the optimization of the online customer experience. TM United A/S has been consolidated to Solteq Group since January 1, 2018.

ProInfo A/S / NAV-business acquisition

Growth in Denmark and the Nordic countries was boosted with a business acquisition with ProInfo A/S on June 15, 2018. Solteq Group acquired expertise and customer relationships related to IT and HoReCa IT systems. In the acquisition 12 IT professionals were transferred to Solteq. ProInfo A/S has been consolidated to Solteq Group since June 1, 2018.

Impact of the acquired companies to Solteq Group

Aggregate figures for the acquisition	Acquisition date
TEUR	**Jan 15 /Jun 15 2018**
Consideration	
Paid in cash	3,513
Directed issue	950
Total	**4,463**
Values of the assets and liabilities arising from the acquisition	
Tangible assets	17
Intangible assets **	586
Inventories	6
Trade and other receivables	1,300
Cash and cash equivalents	1,243
Total assets	**3,152**
Trade payables and other liabilities	-2,177
Financial liabilities	-40
Total liabilities	**-2,217**
The goodwill value of the acquisition	**3,527**
Cash flow from the acquisition	
Consideration paid in cash in 2018	3,479
Cash and cash equivalents of the acquired companies	1,241
Total cash flow from the acquisition	**2,238**

Goodwill consists of assets that cannot be separated like synergy benefits, competent personnel, market share and entrance to new market.

** Depreciations of the intangible rights during the reporting period are 70 thousand euros.

Expenses related to the acquisition	
Other expenses	245
Total expenses related to the acquisition	**245**
Impact on the Solteq Group's number of personnel	**47**
Impact on the Solteq Group's comprehensive income statement	**Dec 1, 2018**
Revenue *	5,476
Operating profit *	15

* The amount of the revenue and the operating profit from the acquisition date to the end of the review period. TM United is consolidated to Solteq Group as of January 1, 2018 and NAV-business acquisition as of June 1, 2018. The revenue and operating profit of the acquired companies is not presented as the consolidation as the consolidation would have happened in the beginning of the financial year because it has not a significant effect on Solteq Group's figures.

3. Revenue from contracts with customers

TEUR	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Services	45,415	48,462	38,345	41,182
Revenue from long-term projects	5,922	2,124	5,637	2,124
Revenue from software licenses	6,386	5,921	5,433	5,131
Hardware sales	568	360	341	316
Total	**58,291**	**56,867**	**49,756**	**48,753**

Contract balances

Group

TEUR	2019	2018
Trade and other receivables	8,988	9,936
Contract assets	800	191
Contract liabilities	-616	-1,163

Parent company

TEUR	2019	2018
Trade and other receivables	6,896	7,030
Contract assets	800	191
Contract liabilities	-352	-968

The Group expects to meet a significant part of outstanding performance obligations during the reporting period 2019.

Revenue by country

TEUR	2019	2018
Finland	46,080	47,184
Other countries	12,211	9,683
Total	**58,291**	**56,867**

4. Other income

TEUR	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Change in fair value of conditional consideration		460		
One-time profit from business transfer	2,515		2,589	
Other income	79	27	87	2
From Group companies, compensation for administration costs			245	
Total	**2,594**	**487**	**2,921**	**2**

5. Other expenses

TEUR	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Telephone and telecommunication costs	681	611	554	507
Voluntary personnel expenses	1,132	1,117	971	972
Rental and other office related expenses	941	2,943	743	2,378
Car and travel expenses	1,297	1,457	930	1,119
External services	3,056	3,105	3,025	2,321
Bad debts	5	6	3	70
Warranty provisions	17	154	17	154
Damages from completed customer projects		800		800
Other expenses	1,845	704	1,603	312
Total	**8,974**	**10,897**	**7,846**	**8,633**

Lease expenses

TEUR	2019 Group	2019 Parent Company
Depreciation of right-of-use assets	2,437	1,971
Interest expense from lease contracts	297	245
Costs from short-term lease contracts	63	63
Costs from low-value asset lease contracts	198	131
Total	**2,995**	**2,411**

Auditor's fees

TEUR	Group 2019	2018	Parent Company 2019	2018
Auditing	116	141	80	75
Certificates and statements	2	6	2	6
Tax consulting	22	0	22	0
Other services	46	20	45	18
Total	**185**	**167**	**148**	**100**

6. Depreciation, amortization and impairment

TEUR	Group 2019	2018	Parent Company 2019	2018
Depreciations by asset group				
Intangible assets				
Development costs	336	59	281	55
Intangible rights	981	1,155	916	825
Total	**1,317**	**1,214**	**1,197**	**880**
Tangible assets				
Machinery and equipment	247	1,086	211	968
Right of use asset depreciation	2,439		1,971	
Total	**2,686**	**1,086**	**2,182**	**968**
Total depreciations and impairments	**4,003**	**2,300**	**3,380**	**1,848**

7. Employee benefit expenses

TEUR	Group 2019	2018	Parent Company 2019	2018
Salaries and wages	30,951	29,779	25,121	24,163
Pension expenses - defined contribution plan	4,804	4,506	4,311	4,095
Other personnel expenses	1,002	1,303	650	726
Shared based payments		14		14
Total	**36,757**	**35,602**	**30,082**	**28,998**
Average number of employees over the financial period	**597**	**567**	**481**	**453**

Information on management's employee benefits is presented in note 29 Related party transactions.

8. Research and development costs

The income statement includes 307 thousand euros of research and development costs recognized as expense in 2019 (333).

9. Financial income

TEUR	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Interest income	16	228	17	68
Foreign currency exchange income	177			
Other financial income	0			
Dividend income	4	2	4	2
Total	**197**	**231**	**21**	**71**

10. Financial expenses

TEUR	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Interest expenses from financial expenses in amortized costs	1,619	1,669	1,608	1,669
Interest expense on lease liabilities	297		245	
Foreign currency exchange expenses	230		14	
Other financial expenses	83	386	83	110
Total	**2,229**	**2,054**	**1,949**	**1,778**

11. Income taxes

TEUR	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Tax based on the taxable income for the period	1,143	561	1,055	504
Taxes from previous periods	2		-27	-2
Deferred taxes	-269	-274	-230	-179
Total	**876**	**286**	**799**	**324**

TEUR	Group 2019	2018	Parent Company 2019	2018
Result before taxes	3,679	642	3,448	1,573
Taxes based on domestic tax rate	736	128	690	316
Difference in local tax rates	22	2		
Non-deductible expenses	14	22	6	12
Exempt from taxes		-125		-1
Unrecognized deferred tax assets for unrealized losses	2	269		
Carry-forward of unused tax losses	-8	-9		
Revaluation of deferred taxes	127		127	
Other items	-19		2	
Taxes from previous periods	2		-27	-2
Taxes on the income statement	**876**	**286**	**799**	**324**

12. Earnings per share

Undiluted EPS is calculated by dividing the profit attributable to equity holders of the parent company by the weighted average number of shares outstanding.

When calculating the result per share, the weighted average will also have to consider the dilutive impact of the shares owned by the company. The company had a stock option program for the key persons (announced July 15, 2016). The subscription period ended on December 31, 2019. No shares were subscribed during the subscription period, and the options expired.

	Group 2019	2018	Parent Company 2019	2018
Profit for the financial period attributable to equity holders of the parent company (TEUR)	2,803	356	2,650	1,249
Weighted average of the number of shares during the financial period (1,000)	19,307	19,202	19,307	19,202
Undiluted EPS (EUR/share)	0.15	0.02	0.14	0.07

13. Tangible assets and right-of-use assets

Tangible assets

Group

TEUR	Machinery and equipment*	Other tangible assets	Prepayments	Total
Acquisition cost 1 Jan 2019	2,304	74		2,378
Additions	279	1	56	336
Disposals	-8	-26		-34
Acquisition cost 31 Dec 2019	**2,575**	**49**	**56**	**2,680**
Accumulated depreciations and impairment 1 Jan 2019	1,772	19		1,791
Depreciations	242	4		247
Accumulated depreciation on disposals	-11			-11
Accumulated depreciations and impairment 31 Dec 2019	**2,003**	**24**	**0**	**2,027**
Book value 1 Jan 2019	532	54		586
Book value 31 Dec 2019	572	25	56	654
Acquisition cost 1 Jan 2018	10,004	26		10,030
Acquisition of subsidiary	12			12
Additions	1,499	48		1,546
Disposals	-392			-392
Acquisition cost 31 Dec 2018	**11,123**	**74**		**11,197**
Accumulated depreciations and impairment 1 Jan 2018	7,810			7,810
Depreciations	1,012	19		1,031
Accumulated depreciations and impairment 31 Dec 2018	**8,822**	**19**		**8,841**
Book value 1 Jan 2018	2,194	26		2,220
Book value 31 Dec 2018	2,301	54		2,355

Parent company

TEUR	Machinery and equipment*	Other tangible assets	Prepayments	Total
Acquisition cost 1 Jan 2019	2,230	21		2,251
Additions	248		56	304
Acquisition cost 31 Dec 2019	**2,478**	**21**	**56**	**2,555**
Accumulated depreciations and impairment 1 Jan 2019	1,742			1,742
Depreciations	211			211
Accumulated depreciations and impairment 31 Dec 2019	**1,953**			**1,953**
Book value 1 Jan 2019	488	21		509
Book value 31 Dec 2019	525	21	56	602
Acquisition cost 1 Jan 2018	6,943	21		6,964
Additions	1,444			1,444
Disposals	-365			-365
Acquisition cost 31 Dec 2018	**8,022**	**21**		**8,043**
Accumulated depreciations and impairment 1 Jan 2018	4,777			4,777
Depreciations	967			967
Accumulated depreciations and impairment 31 Dec 2018	**5,744**			**5,744**
Book value 1 Jan 2018	2,166	21		2,187
Book value 31 Dec 2018	2,278	21		2,300

* The carrying amount of machinery and equipment during the comparison period includes leased commodities worth EUR 1,790 thousand under financial leasing agreements (IAS 17).

Right-of-use assets

Group

TEUR	Premises	Machinery and equipment	Right-of-Use assets total
Acquisition cost 1 Jan 2019		5,793	5,793
IFRS 16 implementation	6,209	188	6,397
Additions *	1,050	720	1,770
Disposals	-145	-88	-233
Acquisition cost 31 Dec 2019	**7,114**	**6,613**	**13,727**
Accumulated depreciation and impairment 1 Jan 2019		4,003	4,003
Depreciation	1,671	765	2,437
Accumulated depreciation on disposals	-10		-10
Accumulated depreciation and impairment 31 Dec 2019	**1,661**	**4,768**	**6,429**
Book value 1 Jan 2019		1,790	1,790
Book value 31 Dec 2019	5,453	1,845	7,298

Parent company

TEUR	Premises	Machinery and equipment	Right-of-Use assets total
Acquisition cost 1 Jan 2019		5,793	5,793
IFRS 16 implementation	5,123	72	5,195
Additions *	964	724	1,688
Disposals		-88	-88
Acquisition cost 31 Dec 2019	**6,087**	**6,501**	**12,588**
Accumulated depreciation and impairment 1 Jan 2019		4,003	4,003
Depreciation	1,249	722	1,971
Accumulated depreciation on disposals			
Accumulated depreciation and impairment 31 Dec 2019	**1,249**	**4,725**	**5,974**
Book value 1 Jan 2019		1,790	1,790
Book value 31 Dec 2019	4,838	1,776	6,614

* Includes changes to lease contracts

14. Intangible assets

Group

TEUR	Payments in advance and uncompleted actions	Goodwill	Development costs	Intangible rights	Other intangible assets	Total
Acquisition cost 1 Jan 2019	2,252	42,626	2,494	11,352	846	59,570
FX rate differences		-37				-37
Additions	3,899			690		4,589
Disposals	-28	-1,550	-131			-1,710
Transfers between items	-2,315		2,315			0
Acquisition cost 31 Dec 2019	**3,808**	**41,039**	**4,677**	**12,042**	**846**	**62,412**
Accumulated amortizations and impairment 1 Jan 2018		2,199	2,228	6,918	846	12,191
Amortizations			336	981		1,317
Accumulated amortizations on disposals			-88			-88
Accumulated amortizations and impairment 31 Dec 2019		**2,199**	**2,476**	**7,899**	**846**	**13,420**
Book value 1 Jan 2019	2,252	40,427	266	4,435		47,379
Book value 31 Dec 2019	3,808	38,840	2,200	4,143		48,991
Acquisition cost 1 Jan 2018	333	39,109	2,173	10,871	846	53,332
Acquisition of subsidiary		3,546		4,416		7,962
FX rate differences		-29				-29
Additions	2,304			188		2,492
Disposals	-65			-4,123		-4,188
Transfers between items	-321		321			0
Acquisition cost 31 Dec 2018	**2,252**	**42,626**	**2,494**	**11,352**	**846**	**59,570**
Accumulated amortizations and impairment 1 Jan 2018		2,197	2,173	5,977	846	11,193
Amortizations		2	55	941		998
Accumulated amortizations and impairment 31 Dec 2018		**2,199**	**2,228**	**6,918**	**846**	**12,191**
Book value 1 Jan 2018	333	36,912		4,894		42,139
Book value 31 Dec 2018	2,252	40,427	266	4,435		47,379

Parent company

TEUR	Payments in advance and uncompleted actions	Goodwill	Development costs	Intangible rights	Other intangible assets	Total
Acquisition cost 1 Jan 2019	2,123	3,781	2,358	43,528	401	52,190
Merger of the subsidiary				53		53
Additions	3,699		1	637		4,337
Disposals	-28	-1,416	-137			-1,582
Transfers between items	-2,026		2,026			0
Acquisition cost 31 Dec 2019	**3,767**	**2,365**	**4,247**	**44,218**	**401**	**54,998**
Accumulated amortizations and impairment 1 Jan 2018		2,365	2,093	5,492	401	10,351
Amortizations			281	916		1,198
Accumulated amortizations on disposals			-88			-88
Accumulated amortizations and impairment 31 Dec 2019		**2,365**	**2,287**	**6,408**	**401**	**11,461**
Book value 1 Jan 2019	2,123	1,416	265	38,036		41,839
Book value 31 Dec 2019	3,767		1,961	37,809		43,537
Acquisition cost 1 Jan 2018	333	3,781	2,037	39,620	401	46,172
Merger of the subsidiary				3,720		3,720
Additions	2,171			188		2,359
Disposals	-61					-61
Transfers between items	-321		321			0
Acquisition cost 31 Dec 2018	**2,123**	**3,781**	**2,358**	**43,528**	**401**	**52,190**
Accumulated amortizations and impairment 1 Jan 2018		2,365	2,038	4,667	401	9,471
Amortizations			55	825		880
Accumulated amortizations and impairment 31 Dec 2018		**2,365**	**2,093**	**5,492**	**401**	**10,351**
Book value 1 Jan 2018	333	1,416		34,953		36,702
Book value 31 Dec 2018	2,123	1,416	265	38,036		41,839

Impairment

The goodwill values related to business combinations are allocated to the cash-generating units which are based on the Group's budgeting and reporting structure and which are smallest independent entities with separate cash flows. The content of the cash-generating units is the same as the Company's segmentation.

The book value of the goodwill in the Group on December 31, 2019 was 38,840 thousand euros (40,427) and in the parent company as goodwill and merger loss 34,163 thousand euros (35,500). At the end of the financial period, in the Group there were investments in progress of a value of 3,808 thousand euros in development projects and in the parent company 3,767 thousand euros (Group 2,252 and Parent company 2,123).

Impairment tests have been carried out at the cash-generating unit level. The recoverable amount has been determined by means of the value in use. The determined anticipated cash flows are based on the operating result budget for 2020 and operating result forecasts for the subsequent four years.
The discount rate of 9.5 % used in the calculations is the weighted average cost of capital after taxes (equals 11.8 % before taxes).

Based on testing performed in 2019, no need was found for recognizing impairment losses: a clear margin was left for each tested unit. No impairment losses were recognized in 2019.

Goodwill of tested units that generate cash flow

TEUR	Group		Parent Company*	
	2019	**2018**	**2019**	**2018 ****
Digital Services	28,845	28,883	25,526	25,526
Core Business Solutions	9,996	11,544	8,611	9,974
Total	**38,840**	**40,427**	**34,136**	**35,500**

*losses from mergers are included in the Parent Company
**the comparison period value of the Parent Company has been restated

Development costs in progress have been tested with use value calculations. The expected return has been discounted to present value. The interest rate used in the calculations is 9.5 % after tax. Based on the calculations, there is no need for write-down in the financial year.

Sensitivity analysis

A summary of unit-specific sensitivities is below:

- In Digital Services Unit, there will be need for write-downs, if the operating profit decreases by 3.2 percentage units or the discount rate increases by 2.7 percentage units.
- In Core Business Solutions Unit, there will be need for write-downs, if the operating profit decreases by 8.7 percentage units or the discount rate increases by 11.9 percentage units.

There are no significant differences in the Group and the parent company in the impairment testing and sensitivity analysis results within the Core Business Solutions Unit or the Digital Services Unit.

15. Other investments

TEUR	Group	Parent Company
Beginning of financial period	**481**	**496**
End of financial period	**481**	**496**

The item includes unquoted shares. Fair value is estimated to correspond to book value (fair value hierarchy level 3).

16. Deferred tax assets and liabilities

Changes in deferred taxes:

Group

TEUR	1 Jan 2018	Recognized on the income statement	Mergers and acquisitions	31 Dec 2018	Recognized on the income statement	31 Dec 2019
Deferred tax assets:						
Provisions	95	-18		77	-69	8
Postponed depreciations	82	50		132	-127	4
Other items		-24	127	103	-64	39
Netted with deferred tax liabilities				-209		-23
Total	**177**	**8**	**127**	**103**	**-260**	**29**
Deferred tax liabilities:						
Tax-deductible goodwill	226			226	-226	
Allocated intangible liabilities	782	-188	122	716	-138	577
Other items	157	-56	-19	82	-48	34
Netted with deferred tax assets				-209		-23
Total	**1,165**	**-245**	**103**	**815**	**-413**	**588**

Parent company

TEUR	1 Jan 2018	Recognized on the income statement	Mergers and acquisitions	31 Dec 2018	Recognized on the income statement	31 Dec 2019
Deferred tax assets:						
Provisions	85	-8		77	-69	8
Postponed depreciations	82	50		132	-127	4
Other items					11	11
Netted with deferred tax liabilities				-209		-23
Total	**167**	**42**	**0**	**0**	**-186**	**0**
Deferred tax liabilities:						
Tax-deductible goodwill	225			225	-225	
Allocated intangible liabilities	485	-122	247	610	-123	487
Other items	97	-15		82	-67	15
Netted with deferred tax assets				-209		-23
Total	**806**	**-137**	**247**	**708**	**-415**	**478**

The deferred taxes have been booked in full with the exception of the deferred tax receivables from the loss-bringing subsidiaries.

17. Inventories

TEUR	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Finished goods	44	54	43	54
Work in progress	120	40		
Total	**164**	**94**	**43**	**54**

18. Trade and other receivables

TEUR	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Trade receivables	8,988	9,936	6,896	7,030
Contract assets	800	191	800	191
Accrued income	5,799	1,682	5,088	1,233
Receivables from group companies			1,641	2,125
Other receivables	158	410	51	67
Total	**15,745**	**12,218**	**14,476**	**10,647**

Contract assets are related to ongoing long-term projects which are recognized based on rate of completion. Significant items included in prepayments and accrued income relate to normal business accruals.

The aging of accounts receivable and items recorded as impairment losses:

Group

TEUR	2019	Impairment losses	Net 2019	Probability of losses, %	Presumed losses	2018	Impairment losses	Net 2018
Not due	7,984		7,984			8,570		8,570
Due	1,804		1,804		10	1,558	-20	1,538
Under 30 days	1,169		1,169			1,352		1,352
31-60 days	186		186			111		111
61-90 days	18		18			10		10
More than 90 days	430		430	2.3	10	84	-20	64
Total	**9,788**	**0**	**9,788**		**10**	**10,128**	**-20**	**10,108**

Parent company

TEUR	2019	Impairment losses	Net 2019	Probability of losses, %	Presumed losses	2018	Impairment losses	Net 2018
Not due	6,715		6,715			6,763		6,763
Due	2,230		2,230		9	2,584	-20	2,564
Under 30 days	1,088		1,088			852		852
31-60 days	429		429			345		345
61-90 days	283		283			265		265
More than 90 days	430		430	2.0	9	1,123	-20	1,103
Total	**8,945**	**0**	**8,945**		**9**	**9,347**	**-20**	**9,327**

All current receivables are denominated in euros. There are no significant concentrations of risk related to receivables. Historically there has not been significant impairment losses. The balance sheet values correspond to the maximum amount of credit risk. Because the receivables are current their fair value is equivalent to carrying value.

19. Cash and cash equivalents

	Group		Parent Company	
TEUR	2019	2018	2019	2018
Cash and cash equivalents	3,648	5,347	2,007	3,502
Total	**3,648**	**5,347**	**2,007**	**3,502**

20. Notes to equity

Below is the reconciliation of the number of shares:

TEUR	Number of shares (1 000)	Share capital	Share premium reserve	Invested unrestricted equity reserve	Total
Beginning of financial period	**19,307**	**1,009**	**75**	**12,910**	**13,994**
End of financial period	**19,307**	**1,009**	**75**	**12,910**	**13,994**

The maximum number of shares is 28,000,000 (28,000,000). The shares have no nominal value. The Group's maximum share capital according to the articles of association is 2.4 million euros (2.4).
The reserves included in equity are as follows:

Share premium reserve

A reserve to be used in accordance with the old Companies Act § 12:3a.

Invested unrestricted equity reserve

In accordance with the Companies Act 8:2 §, the proportion of payments received from shares that is not recognized as share capital is recognized in this reserve.

Reserve for own shares

Reserve for own shares consists of acquisition cost of own shares acquired by the Group. At the end of the financial year Solteq Plc had 0 own shares in its possession (0).

Dividends

The Board of Directors proposes that the General Meeting would authorize the Board of Directors to decide, at its discretion, on the distribution of dividend. The maximum total amount of dividend to be distributed shall not exceed 965,326.35 euros.

Unless the Board of Directors decide otherwise, a dividend of a maximum amount of 0.05 euros per share will be paid on a date decided by the Board of Directors, to shareholders that are registered in the Company's shareholders' register maintained by Euroclear Finland Ltd on the dividend record date, decided by the Board of Directors. The Company shall make a separate announcement if a resolution to distribute dividend is made.

The authorization is proposed to be valid until August 31, 2020 (August 31, 2020 included).
Before the Board of Directors resolves on the distribution of dividend, it must assess whether the requirements for the distribution of dividends under the Finnish Companies Act are fulfilled in terms of the Company's solvency and / or financial position.

Provided that the requirements for the distribution of dividends under the Finnish Companies Act are fulfilled, the Board of Directors may decide on the distribution of dividend mentioned above.

21. Share-based payments

General information on the share-based incentive

The Group has share and option-based incentive arrangements directed to the Group's key personnel.
Based on the decision of the Board of Directors, Solteq Plc adopted a new share option scheme and a share-based incentive scheme directed to the key personnel in the financial year 2016. The aim of both the schemes is to encourage the key personnel to undertake a long-term commitment to increasing the shareholder value and to commit the key personnel to the employer.

The CEO and the CFO have committed to a reward structure in which a significant share of their total earnings for the financial years 2016 - 2018 is paid either in company shares or share options.

The subscription period ended on December 31, 2019. No shares were subscribed during the subscription period, and the options expired.

Main terms and conditions of the share-based incentive:

Option-based incentive scheme 2016*

Arrangement	2016 A	2016 B	2016 C
Granting date	15 July 2016		
Vesting period	2016	2016-2017	2016-208
Vesting condition	Employment condition		
Number of options	333,000	333,000	334,000
Subscription price (EUR)	3.00		
Price at the granting date (EUR)	1.80		
To be exercised	In shares		

Share-based incentive scheme 2016

Granting date	15 July 2016
Vesting period	2016-2018
Vesting condition	Employment condition
Number of shares	210,000
To be exercised	In shares and cash
Price at the granting date (EUR)	1.80
Value at the granting date (EUR)	378,000

* Main assumptions used in the Black-Scholes option pricing model

Granting date	15 July 2016
Volatility, %	39
Contractual life (years)	3.6
Price at the granting date (EUR)	1.80
Value of the option	0,2071
Number of options	1,000,000
Value, total (EUR)	207,100

Changes in the number of outstanding

	2019	**2018**	**2017**	**2016**
At the beginning of the period	350,000	450,000	750,000	
Granted during the period	650,000			750,000
Forfeited		-100,000	-300,000	
Exercised				
Expired	-1,000,000			
At the end of the period		350,000	450,000	750,000
Exercisable		350,000	200,000	

The subscription price of the options is presented further above.

Amounts of share-based expenses included in employee benefits

TEUR	**2019**	**2018**	**2017**	**2016**
To be settled in shares		14	40	-186
To be settled in cash				-60
Total	**0**	**14**	**40**	**-246**

At the closing date, the amount recognized as liability in 2019 was 0 thousand euros (0).

22. Provisions

Group

TEUR	Warranty provisions	Other provisions	Total
31 Dec 2018	**22**	**392**	**414**
Additional provisions	111		111
Deducted provisions	-20	-392	-412
Reversals of unused provisions	-73		-73
31 Dec 2019	**41**	**0**	**41**

Parent company

TEUR	Warranty provisions	Other provisions	Total
31 Dec 2018	**57**	**327**	**385**
Additional provisions	76		76
Deducted provisions	-20	-327	-347
Reversals of unused provisions	-73		-73
31 Dec 2019	**41**	**0**	**41**

Warranty provisions

Warranty provision is recorded for long term projects based on anticipated warranty work. The general warranty period is 6 – 12 months. The warranty provisions are based on the historical information on the amount of warranty obligations. The warranty provisions are expected to be used during the next financial period.

Other provisions

Other provisions connected with long-term projects in which the total expenses of completing the project are expected to exceed the total income from the project.

23. Financial liabilities

Group

TEUR

	2019 Book value	2019 Fair value	2018 Book value	2018 Fair value
Financial liabilities at amortized cost				
Non-current				
Bond			24,380	24,380
Loans from financial institutions	1,201	1,201		
Lease/Finance lease liabilities *	5,156	5,156	1,171	1,171
Total	**6,357**	**6,357**	**25,551**	**25,551**
Current				
Bond	24,459	24,459		
Loans from financial institutions	2,001	2,001	2,001	2,001
Lease/Finance lease liabilities *	2,349	2,349	708	708
Total	**28,810**	**28,810**	**2,710**	**2,710**

Parent company

TEUR

	2019 Book value	2019 Fair value	2018 Book value	2018 Fair value
Financial liabilities at amortized cost				
Non-current				
Bond			24,380	24,380
Loans from financial institutions	1,201	1,201		
Lease/Finance lease liabilities	4,782	4,782	1,171	1,171
Total	**5,983**	**5,983**	**25,551**	**25,551**
Current				
Bond	24,459	24,459		
Loans from financial institutions	2,000	2,000	2,000	2,000
Lease/Finance lease liabilities	1,972	1,972	598	598
Total	**28,430**	**28,430**	**2,598**	**2,598**

*According to IFRS 16 lease liabilities, IAS 17 finance lease liabilities

As interests are tied to short-term reference rates, the fair value of the financial liabilities is mainly the same as the book value.

Financial liabilities, including finance lease liabilities and the interest rate swap are categorized at fair value level 2.

Cash flow notes: Non-cash flow related changes

Group

TEUR	31 Dec 2018	Cash flows	Transfer from non-current to current	New financial lease contracts	*)Other changes	31 Dec 2019
Non-current liabilities	24,380	1,201	-24,459		79	1,201
Current liabilities	1	2,000	24,459		1	26,461
Lease/Finance lease liabilities	1,879	-2,361		8,117	-129	7,505
Total financing liabilities	**26,260**	**839**	**0**	**8,117**	**-49**	**35,167**

Parent company

TEUR	31 Dec 2018	Cash flows	Transfer from non-current to current	New financial lease contracts	*)Other changes	31 Dec 2019
Non-current liabilities	24,380	1,201	-24,459		79	1,201
Current liabilities	1	2,000	24,459		-1	26,459
Lease/Finance lease liabilities	1,768	-1,913		6,898		6,754
Total financing liabilities	**26,149**	**1,288**	**0**	**6,898**	**78**	**34,413**

*) The cumulative effective interests during the financial period, which are valuated to the acquisition costs.

Maturity of financial leases:

Group

2019 TEUR	2020	2021	2022	2023 ->
Bond	24,500			
Lease liabilities	2,557	2,132	1,343	1,616
Long-term debt total	**27,057**	**2,132**	**1,343**	**1,616**

2018 TEUR	2019	2020	2021	2022 ->
Bond		24,500		
Finance lease liabilities	866	607	410	217
Long-term debt total	**866**	**25,107**	**410**	**217**

Parent company

2019 TEUR	2020	2021	2022	2023 ->
Bond	24,500			
Lease liabilities	2,187	1,879	1,221	1,616
Long-term debt total	**26,687**	**1,879**	**1,221**	**1,616**

2018 TEUR	2019	2020	2021	2022 ->
Bond		24,500		
Finance lease liabilities	755	607	410	217
Long-term debt total	**755**	**25,107**	**410**	**217**

In 2019, the average interest rate of the loans was 6.0 percent (6.0). All financial liabilities are denominated in euros. The company's EUR 24,500 thousand bond will mature on July 1, 2020, and the company began measures to refinance this during the 2019 financial period. These consist of renewal of the bond and overdraft and liquidity facilities. The financial negotiations and related measures have proceeded as planned.

24. Trade and other payables

TEUR	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Trade payables	3,895	5,327	3,367	4,559
Advances received from customers, long-term projects	332	537	68	342
Accruals and deferred income	7,274	6,484	7,182	6,283
Other liabilities	5,155	4,241	3,555	2,918
Internal liabilities			477	492
Total	**16,657**	**16,588**	**14,650**	**14,595**

Current liabilities are denominated in euros and their fair values equal their book values. Significant items included in accruals and deferred income relate to usual accruals for business operations. Withheld taxes for paid wages and salaries, social security payments and other social security related items to be accounted for in connection with tax withholding, as well as VAT liability are disclosed in other payables.

25. Financial risk management and capital management

The Company is subject to a number of financial risks in its business operations. The Company's risk management aims to minimize the adverse effects of the finance markets to the Company's result. The general principles of the Company's risk management are approved by the board and their implementation is the responsibility of the accounting department together with the operating segment units. The Audit Committee is responsible for monitoring the risk management.

Credit risk

The Company's operating style defines the customers' and investment transactions' credit-worthiness demands and investment principles. The Company does not have any significant credit risk concentrations in its receivables, because it has a wide customer base and it gives credit only to companies who have an unblemished credit rating. During the financial period, the effect of credit losses has not been significant. The Company's credit risk's maximum amount is the carrying value of financial assets as at December 31, 2019.

Liquidity risk

The Company monitors and estimates continuously the amount of funds needed to run the business operations, so that the Group will, at all times, retain enough liquid assets to fund the operation and repay debts that fall due. The availability of funding and its flexibility is ensured by unused credit limits and by using a number of different banks and financing methods in the procurement of funding. The company has used 2,000 thousand euros of the standby credit limit amounting to a total of 4,000 thousand euros. In addition, the company has a credit limit of 2,000 thousand euros, which was unused at the end of the review period.

The company's EUR 24,500 thousand bond will mature on 1 July 2020, and the company began measures to refinance this during the 2019 financial period. These consist of renewal of the bond and overdraft and liquidity facilities. The financial negotiations and related measures have proceeded as planned.

Interest rate risk

The Company's income and operative cash flows are mainly free from market rate fluctuation effects. Company is able to take out either fixed-rate or fluctuating rate loans and to use interest rate swaps to achieve its objective relating to the financial principles.

With the current financial structure, the company is not exposed to significant interest rate risk related to the market rate fluctuation, because only the credit limits used to control the liquidity risk are tied to market rates. The most of the company's interest-bearing liabilities consists of fixed-rate bond totaling to 24,500 thousand euros and lease agreements with fixed interest rates.

In the end of the reporting period the Company did not have open interest rate swaps or other instruments used to manage interest rate risks or other risks.

Currency rate risk

Because the most of the Company's cash flows are in euros, the Company is exposed only to low currency rate risk. The currency rate risks related to the business operations are mainly arising from the business practiced in Sweden and Poland (the part that is not in euros) and in small amounts from the Group's purchases. The most essential currencies are Swedish crown (SEK), Polish zloty (PLN), Danish crown (DKK) and the US Dollar (USD). Other currencies have only minor significance. The currency rate hedges were not used in the financial year. The Group's financial liabilities do not include currency rate risk.

Capital management

The objective for the Group's capital management is to secure the continuance of activities (going concern) and increase in shareholder value. The capital structure can be managed among other things through decisions regarding dividend distribution and return of equity, purchase of own shares as well as share issues.

The financial covenants concerning the company's bond (24,500 thousand euros December 31, 2019) and the account limits and liquidity limits (6,000 thousand euros December 31, 2019) are tied to the terms of the bond, which are monitored regularly. The bond will mature on July 1, 2020, and the company began measures to ensure refinancing during the 2019 financial year. The financial negotiations and related measures have proceeded as planned, and the management foresees a positive result for the negotiations.

The terms and conditions of the Bond contain financial and other covenants as well as the prerequisites for early maturity and repurchase. The financial covenants concerning the distribution of funds and incurring financial indebtedness other than permitted in the terms of the Bond (Incurrence Covenant) require that at any agreed review date, the Equity Ratio exceeds 27.5 percent, the Interest Coverage Ratio (EBITDA / net interest cost) exceeds 3.00:1 and that the Group's Net Interest Bearing Debt to EBITDA ratio does not exceed 3.50:1.

In addition, the Bond Issue includes other covenants related to divestment of assets, negative pledge, changes in the nature of business, related party dealings, use of credit limits, listing of the Bond, and to preserving and maintaining intellectual property rights. In addition, it includes an obligation of early repayment associated with a change in the control of the Company as well as maturity conditions related to a merger, de-merger, discontinuation of business, failures to pay and insolvency. The terms of the bond are available as a whole at company's website.

In the third quarter of 2018, the terms of the Bond were changed regarding the definition of the Permitted Debt. After the change, the terms will allow the company to obtain development loans provided by Business Finland, or equivalent, up to three million euros.

26. Adjustments to cash flow from business operations

Significant events are listed in the cash flow statement. Significant adjustments to cash flow from business operations are due to depreciation made during the financial period, 4,003 thousand euros in the Group and 3,380 thousand euros in the parent company.

The significant adjustments to the cashflow of the business for previous financial period were related to depreciations, 2,300 thousand euros in the Group and 1,848 thousand euros in the parent company.

27. Other lease agreements

Solteq applies the reliefs allowed by IFRS 16 for short-term agreements and low-value commodities per agreement. See the table below for the minimum leases payable on the basis of these lease agreements:

	Group		Parent Company	
TEUR	**2019**	**2018**	**2019**	**2018**
Within a year	393	1,785	330	1,374
More than one year	634	4,953	585	4,232
Total	**1,027**	**6,739**	**916**	**5,606**

28. Conditional debts and liabilities

	Group		Parent Company	
TEUR	**2019**	**2018**	**2019**	**2018**
Collateral given on our own behalf				
Business mortgages	10,000	10,000	10,000	10,000
Total	**10,000**	**10,000**	**10,000**	**10,000**

Until the issuance of the bond the business mortgages as well as the pledged shares are given as collateral by the parent company for credit limits and long-term loans.

29. Related party transactions

Group's related parties consist of the parent company and its subsidiaries. The related parties also include the key persons, i.e. members of the Board of Directors and Executive Team, including the CEO and his family members.

Group's parent company and subsidiary relations December 31, 2019 are as follows:

Company	Domicile	Share of ownership (%)	Share of votes (%)
Solteq Plc			
Analyteq Oy (merged July 1, 2019)	Finland	100 %	100 %
Aponsa AB	Sweden	100 %	100 %
Sia Aponsa (liquated November 27, 2019)	Latvia	100 %	100 %
Solteq Sweden AB	Sweden	100 %	100 %
Solorus Holding Oy (merged April 1, 2019)	Finland	100 %	100 %
Solteq Finance Oy (merged April 1, 2019)	Finland	100 %	100 %
Solteq Poland Sp. z. o. o	Poland	100 %	100 %
Qetlos Oy (merged April 1, 2019)	Finland	100 %	100 %
Solteq Digital UK Ltd	Great Britain	100 %	100 %
Solteq Denmark A/S	Denmark	100 %	100 %
Solteq Norway AS	Norway	100 %	100 %
Theilgaard Mortensen Sverige AB	Sweden	100 %	100 %

In December 2018, Solteq Finance Oy, Solorus Holding Oy and Qetlos Oy launched the merger process at Solteq Plc to simplify the Group structure. The merger was implemented in April 1, 2019.

In the beginning of the financial year, Solteq Plc initiated a merger process to merge Analyteq Oy into Solteq Plc. The merger was implemented as planned in July 1, 2019. In addition, it was arranged that Solteq Digital UK Limited is in direct ownership by Solteq Plc from January 1, 2019 onwards. Previously, Solteq Digital UK Limited was a subsidiary owned by Solteq Denmark A/S.

The option scheme and the share-based incentive scheme for the key persons of the Company

On July 15, 2016 Solteq Plc announced that the Board of Directors of Solteq Plc decided to adopt a new stock option scheme and a share-based incentive scheme according to the authorization granted by the Annual General Meeting on March 16, 2016. The company's current and former management owned one million shares under the option scheme.

The maximum total number of stock options issued will be 1,000,000. The share subscription price is 3.00 euros per share. The subscription period ended on December 31, 2019. No shares were subscribed during the subscription period, and the options expired.

The following related party transactions took place:

TEUR	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Service sales	6	23	6	23
Renting arrangements		0		0
Purchases	8	105	8	105
Total	**14**	**128**	**14**	**128**

Transactions with the insiders have been done at market price and are part of the company's normal software service business. At the closure of accounts, there are no significant receivables from or payables to related parties.

Management employee benefits

The compensations of managing director, board of directors and management group are included in the management employee benefits.

TEUR	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Salaries and other short-term employment benefits	1,246	1,177	1,246	1,177
	1,246	**1,177**	**1,246**	**1,177**

Wages and salaries of the members of the board and CEO

TEUR	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
CEO Olli Väätäinen	290	287	290	287
Board members				
Pietilä Markku, Chairman of the Board	46	42	46	42
Aktan Aarne	28	23	28	23
Grannenfelt Eeva until 27 Mar 2019	9	23	9	23
Harra-Vauhkonen Kirsi until 2 Oct 2018	1	18	1	18
Kopra Lotta from 25 Oct 2018	28		28	
Porkka Panu from 27 Mar 2019	15		15	
Segerståhl Katarina from 27 Mar 2019	16		16	
Uotila Mika	27	24	27	24

The CEO's accrual-based pension costs amount to 61 thousand euros. The CEO's pension plan complies with the employment pension legislation. The Managing Director's notice period is four months. In the managing director agreement is not included any separate severance payments.

Solteq Plc's members of the Board of Directors and CEO owned directly or through controlled companies 592,028 shares at the end of 2019 (592,028).

The company's current and former management owned one million shares under the option scheme. The subscription period ended on December 31, 2019. No shares were subscribed during the subscription period, and the options expired.

30. Events after the balance sheet date

The company's management is not aware of any events of material importance after the financial period that might have affected the preparation of the financial statements.

Proposal for distribution of profits and signatures

The distributable equity of the parent company Solteq Plc as at 31 December 2019 is:

The distributable equity

	31 Dec 2019	31 Dec 2018
Invested unrestricted equity reserve	14,024,182.47	14,024,182.47
Profit for previous financial periods	8,030,802.40	6,781,867.18
Profit for the financial year	2,649,589.35	1,249,435.22
Total non-restricted equity	**24,704,574.22**	**22,055,484.87**
Capitalized development costs	-5,728,091.84	-2,388,848.86
Total distributable funds	**18,976,482.38**	**19,666,636.01**

The Board of Directors proposes that the General Meeting would authorize the Board of Directors to decide, at its discretion, on the distribution of dividend. The maximum total amount of dividend to be distributed shall not exceed 965,326.35 euros.

Unless the Board of Directors decide otherwise, a dividend of a maximum amount of 0.05 euros per share will be paid on a date decided by the Board of Directors, to shareholders that are registered in the Company's shareholders' register maintained by Euroclear Finland Ltd on the dividend record date, decided by the Board of Directors. The Company shall make a separate announcement if a resolution to distribute dividend is made.

The authorization is proposed to be valid until August 31, 2020 (August 31, 2020 included).

Before the Board of Directors resolves on the distribution of dividend, it must assess whether the requirements for the distribution of dividends under the Finnish Companies Act are fulfilled in terms of the Company's solvency and / or financial position.

Provided that the requirements for the distribution of dividends under the Finnish Companies Act are fulfilled, the Board of Directors may decide on the distribution of dividend mentioned above.
No essential changes have taken place in the company's financial situation after the end of the financial year.

Signatures of financial statements and the report of the board of directors
Vantaa, February 26, 2020

Markku Pietilä
Chairman of the Board

Aarne Aktan
Board Member

Lotta Kopra
Board Member

Panu Porkka
Board Member

Katarina Segerståhl
Board Member

Mika Uotila
Board Member

Olli Väätäinen
CEO

Auditor's note
Our auditors' report has been issued today.
Tampere, February 26, 2019
KPMG Oy Ab

Lotta Nurminen
Authorized Public Accountant

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's Report

To the Annual General Meeting of Solteq Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Solteq Plc (business identity code 0490484-0) for the year ended 31 December 2019. The financial statements comprise both the consolidated and the parent company's statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the group's and parent company's financial performance, financial position and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 5 to the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern basis

We would like to draw attention to the Accounting policies and section Going concern principle. Solteq Group's bond totaling EUR 24.5 million with fixed interest rate will mature in summer 2020. The company initiated measures to ensure refinancing during the financial year 2019 and the refinancing is still under negotiation. The arrangement consists of the renewal of the bond and overdraft and liquidity facilities. The management expects operations to continue with only a low risk of inadequate funding.

The aforementioned conditions show such material uncertainty, which may cast significant doubt upon the company's ability to continue as a going concern.

Furthermore, we would like to draw attention to the fact that the consolidated statement of financial position includes goodwill, carried at EUR 38.8 million, and parent company's statement of financial position includes merger losses, carried at EUR 34.1 million. As described in the previous chapter there is uncertainty related to the Group's ability to continue as a going concern and thus the carrying value of goodwill and merger losses may not be supported.

Our opinion has not been qualified by this matter.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Goodwill and merger loss impairment assessment (Refer to Accounting policies and note 14)	
In recent years the Group has expanded its activities through acquisition of companies. As a result, the consolidated statement of financial position includes a significant amount of goodwill. Due to merging the acquired companies to the parent company, there is a significant amount of merger losses in the parent company's other intangible assets. Goodwill and merger loss in parent company's statement of financial position are not amortized but are tested at least annually for impairment. Determining the cash flow forecasts underlying the impairment tests requires management make judgments over certain key inputs, for example revenue growth rate, discount rate, long-term growth rate and inflation rates. Due to the high level of judgement related to the forecasts used, and the significant carrying amounts involved, impairment assessment of goodwill and merger loss is considered a key audit matter.	Our audit procedures included, among others, assessing key inputs in the calculations such as revenue growth, profitability and discount rate, by reference to the parent company's Board approved budgets, data external to the Group and our own views. We assessed the historical accuracy of forecasts prepared by management by comparing actual results for the year with the original forecasts. We involved KPMG valuation specialists that assessed the technical accuracy of the calculations and compared the assumptions used to market and industry information. Furthermore, we considered the appropriateness of the Group's disclosures in respect of goodwill and parent company's merger loss and impairment testing. As mentioned above, there is uncertainty related to the valuation of goodwill in the consolidated statement of financial position and merger losses in the parent company's statement of financial position due to the refinancing being still under negotiation and the bond maturing in summer 2020.

Revenue recognition (Refer to Accounting policies and note 3)

The consolidated revenue comprise different revenue flows based on different contract types, such as services, own and third party software license sales and maintenance, hardware sales and long-term contracts. The most significant risks relate to long-term projects accounted for measuring the progress towards complete satisfaction of a performance obligation. These involve management judgment on among others total revenue, total costs, progress towards complete satisfaction of the performance obligation and possible loss-making projects. The contracts may also contain variable consideration components. Preparation of revenue recognition entries for long-term projects includes manual phases, which causes a risk of human error. Due to the analyses of different contract terms and conditions associated with the choice of a revenue recognition method and high level of management judgement involved, revenue recognition is considered a key audit matter.	Our audit procedures included evaluation of the revenue recognition principles applied by the Group and assessment of their appropriateness by reference to IFRS standards. We assessed the control environment in respect of the main sales software and the related user rights management. We identified and assessed internal controls over revenue recognition as well as tested their effectiveness. In addition we performed substantive testing and analytical procedures based on data analytics in order to assess the appropriateness of revenue recognition and the accounting treatment of recording revenue and the related expenses in the correct period. We discussed with the management the revenue recognition practices applied and decisions involving management judgement which had an impact on revenue recognition. Furthermore, we considered the appropriateness of the Group's disclosures in respect of revenue recognition principles and net sales.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

Solteq Plc became a public interest entity on 6 September 1999. We have been the company's auditors since it became a public interest entity

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Tampere 26 February 2020
KPMG OY AB

LOTTA NURMINEN
Authorised Public Accountant, KHT

Solteq Plc

Karhumäentie 3 (5th floor)
01530 Vantaa