SOLTEQ

Annual Report 2018

Contents

2018 in brief

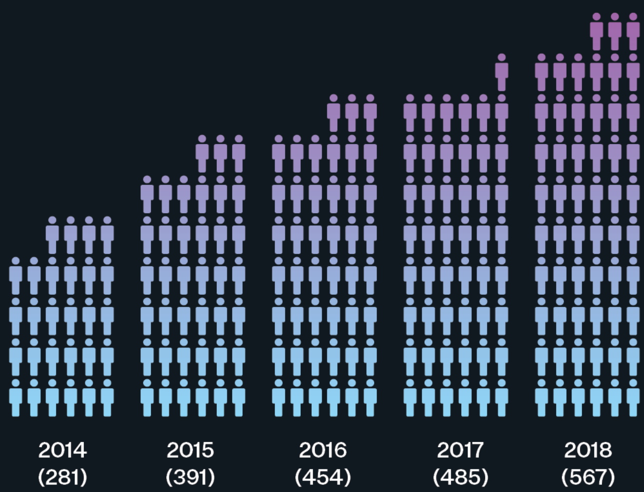
Solteq in brief

Solteq is a Nordic IT service provider and software house that specializes in digital business solutions and vertical software markets. The company has a long-term experience in the industries for which the company develops solutions. These key industries are retail, manufacturing industry, energy, and services. Solteq operates in Finland, Sweden, Denmark, Poland, and the UK. The company employes nearly 600 IT professionals.

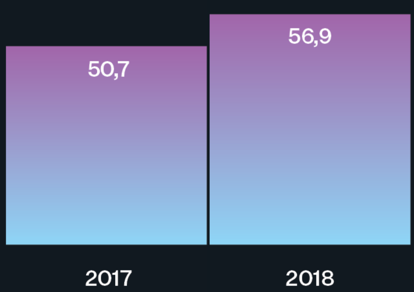
6
Countries

14
Offices

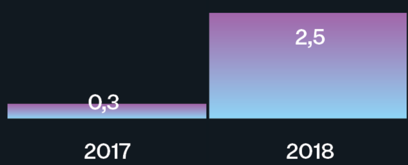
567
Average number of personnel



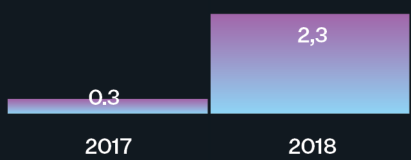
56,9 MEUR
Revenue



2,5 MEUR
Operating profit



2,3 MEUR
Investements in product development



Highlights in 2018

Solteq continued to move forward on a clear path of growth

- Solteq's business saw steady growth and profitability improved significantly. In response to its growth, the Group also invested in recruitment. By the end of the year, Solteq's personnel had grown to comprise 586 IT professionals.
- Business growth was particularly lively in digital services.
- There was strong demand for industry-specific solutions, such as the customer service systems for Lappeenrannan Energia and Porvoon Energia, based on Solteq's in-house product development.
- Solteq also opened a customer service center in Poland to provide round-the-clock service five days a week to online stores operating in different time zones.

Solutions that enhance digitalization

- Solteq launched Deep Vision, a service developed for identifying issues in online services and analyzing service use. Deep Vision is particularly well suited to analyzing the functionality of online stores.
- Solteq introduced Solteq Smart Retail, a cloud-based suite that enables end-to-end retail digitalization strategy execution by integrating various business-critical systems into a manageable solution.
- The company also announced it will launch two new robots, both developed by Solteq's artificial intelligence and robotics team. The Solteq Retail Robot is designed for retail environments, while the Solteq Indoor Logistics Robot offers solutions to indoor logistics needs.

A year of expansion and internationalization

Solteq continued the expansion and internationalization of its operations in 2018.

New business locations were opened and acquisitions were integrated into the Group.

- Solteq expanded to the United Kingdom during the year by opening an office in London. Following acquisitions made by Solteq, the Group now has offices in Copenhagen, Aarhus and Odense in Denmark. In Finland, the Group opened a new office in Turku.
- Solteq acquired the entire share capital of TM United A/S. TM United A/S provides solutions focused on digital transactions and the optimization of the online customer experience. The acquisition saw the Group expand its business to Denmark and Norway.
- Growth in Denmark and other Nordic countries was boosted by a business transaction with the Danish company ProInfo A/S. The transaction saw Solteq acquire competencies and clientele particularly in relation to IT systems used in the retail and hospitality industries.
- Solteq Plc acquired 49% of Analyteq Oy from Tuko Logistics Cooperative. Following the transaction, Solteq owns the entire share capital of Analyteq Oy.

Investments in the future

- During the year, Solteq made significant investments in the development of its own cloud-based solutions as well as products that combine automation, artificial intelligence and robotics. The Group's total investments in product development amounted to 2.3 million euros during the year. At the same time, Solteq continued the systematic development of its existing products.
- The past year was also a period of strong development with respect to Solteq's operating methods, particularly in the area of project management. The efficiency of business operations was also improved by the company wrapping up a number of old and challenging projects.

”During 2018, we focused particularly on strengthening our business foundation and the improvement of the prerequisites of our future operations.”

Olli Väätäinen, CEO

The company grew, profitability improved

In 2018, Solteq Group’s revenue was 56.9 million euros and the adjusted operating profit was 3.1 million euros. Revenue grew by 12% year-on-year and the adjusted operating profit grew by 48%. The growth was primarily driven by the acquisitions executed in 2017 and the high demand for digital services. One fifth of the Solteq Group’s revenue originated from outside Finland and continuous services accounted for approximately one third of the revenue.

During 2018, we focused particularly on strengthening our business foundation and the improvement of the prerequisites of our future operations. We continued to increase the efficiency of our business and the standardization of our operating practices. We also completed a number of challenging projects. In addition, special emphasis was placed on project management and its improvement. I am confident that these development actions will have a positive impact on our result for the current financial year.

The performance of our operations in Sweden and Denmark did not meet our expectations. Consequently, we placed a significant focus on these units in the second half of 2018 and renewed the structure and management. We expect a substantial improvement in the result of Sweden and Denmark in 2019.

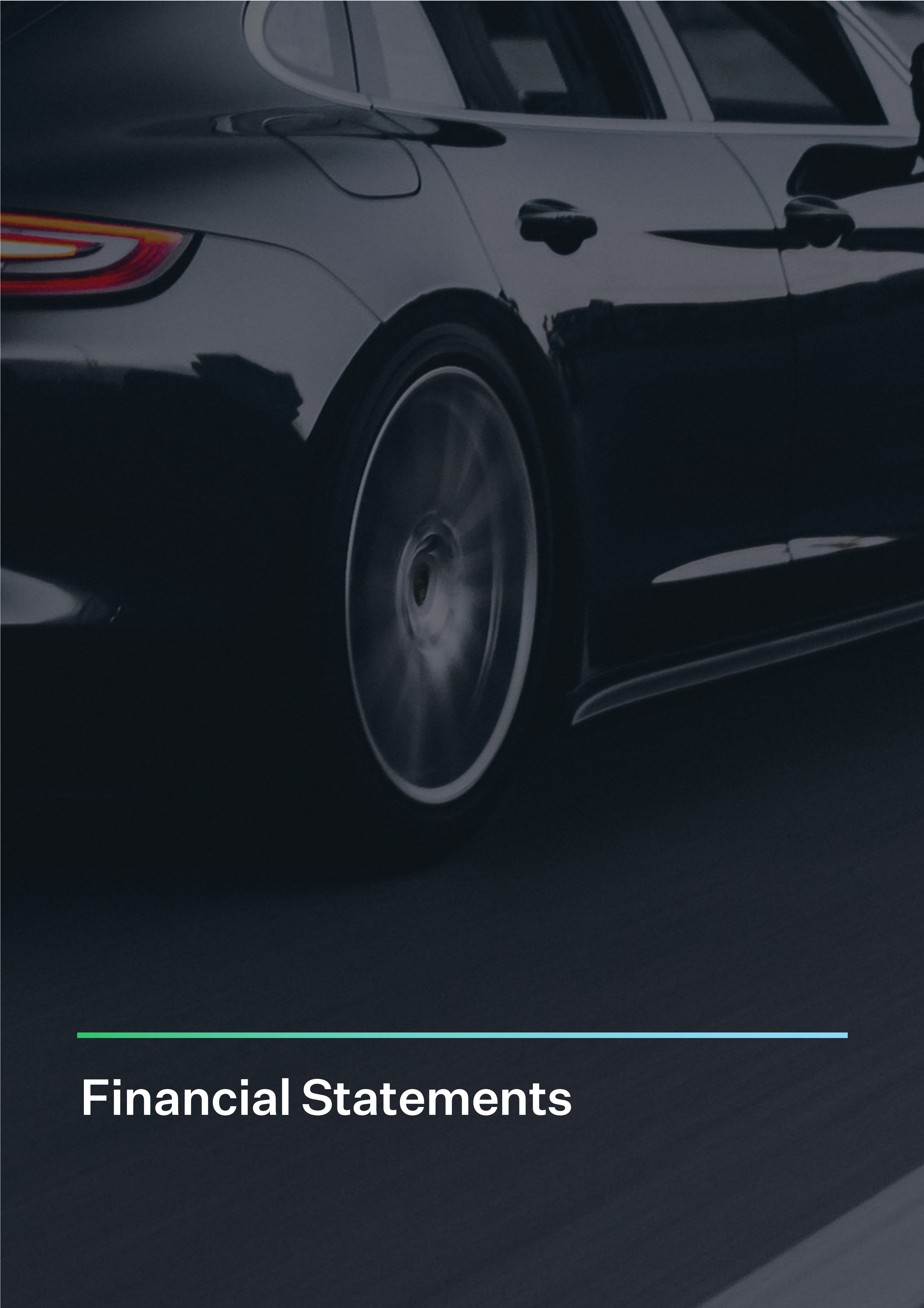
Internationalization is an essential aspect of our growth strategy. In 2018, we integrated the acquisitions made in the previous financial year into the Solteq Group. Also, Solteq opened a new office in London at the end of 2018. The first local UK customer is Marks & Spencer.

We continued to invest significantly into our cloud-based software products and services. The aim of these investments is to accelerate the service-based (ARR, Annual Recurring Revenue) business based on our own software products and solutions through the selected spearhead solutions, as well as to continue our geographical expansion internationally with these products. We have focused particularly on products and services that combine artificial intelligence, machine vision, and autonomous robotics. Our product development investments amounted to 2.3 million euros during the review period.

The foundation of our operations is the strong and continuous development of the compentence of our personnel. In 2018, we focused particularly on project management skills, utilizing the internationally recognized PMP Certification training programme. In addition, more than one third of our personnel participated in trainings on agile methods. We succeeded well in recruitment activities during the year, and hired 121 new professionals.

I believe that our profitability will increase clearly during the financial year 2019. Our business outlook remains the same and we expect that the investments we have made in business development and the efficiency of our operations will bear fruit. Moreover, the investments we have made in our product development have started to materialize as successful customer deliveries. We expect that our industry-specific products will continue to progress on their positive commercial development path during the current year.

Olli Väätäinen
CEO



Financial Statements

Table of contents

Report of the board of directors

The company grew, profitability improved

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Operating environment and business development

We are specialized in digitalization of businesses. Our strengths lie in our long-term experience of the industries for which we develop solutions. Retail, industry, energy, and services are the key industries we are focused in.

Our operations include project-specific and continuous professional services as well as industry-specific software products. The common denominator between these services is the in-depth industry expertise we have developed during Solteq's 37 years of operations. Our technology choices are based on growing market trends, such as cloud services, SaaS, artificial intelligence, analytics and robotics.

Digitalization is emerging as a key aspect in organizations. Digital solutions are expected to generate concrete and quantifiable business benefits. Such solutions include for example digital self-service channels, market roll-outs of new electronic services, e-commerce, the productive use of a continuously growing amount of data and the automation of manual operations. Translating technical innovations into practical customer value is the foundation of future success.

Enterprises are moving to cloud services at an accelerating pace. Gartner estimates that the global cloud services market will grow by 17.3 % and reach 180 billion euros in 2019. Microsoft and Amazon are the market leaders in this sector.

SaaS (Software as a Service) has become an integral aspect of today's business. According to a report published by Business Wire, the global SaaS market is expected to grow by 21.2 % by 2023.

SaaS Smart Robotics plays a significant role in our product development. The industry is seeing significant growth and various studies estimate it will grow at an annual rate of approximately 30 % (CAGR) to approach a milestone of 10 billion euros by 2023.

Robotics and artificial intelligence are changing the society. A good example of this is the national ROSE project in Finland, which explores how the advancement in service robotics will enable product and service innovation as well as the renewal of wellbeing services, particularly in response to the needs of the ageing population. Robotics will also create new jobs and it is predicted that the number of new jobs it creates will exceed the number of jobs it makes redundant.

Acquisitions

In January, Solteq completed the purchase of the entire share capital of TM United A/S, as announced earlier. TM United A/S's solutions are focused on digital transactions and the optimization of the online customer experience. With the acquisition, the company expanded its business operations to Denmark and Norway. TM United A/S was consolidated into Solteq Group on 1 January 2018.

In order to simplify the Group structure 2018, TM United A/S, TM Care and Solteq Denmark Asp merged with Theilgaard Mortensen A/S. Theilgaard Mortensen A/S changed its name to Solteq Denmark A/S. In addition, Theilgaard Mortensen Norge AS was renamed to Solteq Norway AS and Theilgaard Mortensen UK Limited was renamed to Solteq Digital UK Limited.

Growth in Denmark and other Nordic countries was boosted by a business transaction with the Danish company ProInfo A/S on 15 June 2018. Through the transaction, Solteq acquired certain competencies and customers related to retail and HoReCa IT systems. 12 IT professionals joined Solteq as part of the acquisition.

In December 2018, Solteq Plc acquired 49 % of Analyteq Oy from Tuko Logistics Co-operative, after which Solteq owns the entire portfolio of Analyteq Oy. In addition, 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 estimated date for implementation of the merger is 1 April 2019.

After the end of the financial year, Solteq Plc has initiated a merger process to merge Analyteq Oy into Solteq Plc. The estimated date for implementation of the merger is 1 July 2019. In addition, it has been arranged that Solteq Digital UK Limited is in direct ownership by Solteq Plc from 1 January 2019 onwards. Previously, Solteq Digital UK Limited was a subsidiary owned by Solteq Denmark A/S.

Profit guidance 2019

Solteq Group's operating profit is expected to grow clearly compared to the financial year 2018.

Key figures

	1-12/18	1-12/17	Change-%
Revenue, TEUR	56 867	50 720	12,1
EBITDA, TEUR	4 766	2 384	99,9
Adjusted EBITDA, TEUR	5 417	4 177	29,7
Operating profit, TEUR	2 466	308	701,4
Adjusted operating profit, TEUR	3 117	2 101	48,4
Profit for the financial period, TEUR	356	-1 514	123,5
Earnings/share, EUR	0,02	-0,08	123,0
Operating profit -%	4,3	0,6	
Adjusted operating profit -%	5,5	4,1	
Equity ratio, %	32,4	33,7	

Revenue and profit

Revenue increased by 12.1 percent compared to the previous year and totaled 56,867 thousand euros (previous review period 50,720 thousand euros).

Revenue consists of several individual customers. At the most, one client corresponds to less than ten percentages of the revenue.

The operating profit for the review period was 2,466 thousand euros (308 thousand euros). The adjusted operating profit was 3,117 thousand euros (2,101 thousand euros).

Result before taxes was 642 thousand euros (-1,456 thousand euros) and review period result was 356 thousand euros (-1,514 thousand euros).

Balance sheet and finance

The total assets amounted to 67,874 thousand euros (61,501 thousand euros). Liquid assets totaled 5,347 thousand euros (1,552 thousand euros). In addition to liquid assets, the company has unused bank account limits amounting to a total of 2,000 thousand euros in the end of the financial year and in addition the company has an unused standby credit limit amounting to a total of 4,000 thousand euros.

The measures taken to improve the working capital circulation during the second quarter have progressed as expected and will continue.

The Group's interest-bearing liabilities were 28,260 thousand euros (25,860 thousand euros). Solteq Group's equity ratio was 32.4 percent (33.7 percent).

On 1 July 2015 Solteq Plc (Solteq) issued an unsecured bond of 27 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 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 the third quarter, 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.

Investment, research and development

The net investments during the review period were 8,283 thousand euros (6,051 thousand euros). During the review period 4,493 thousand euros (4,335 thousand euros) of the net investments were company acquisitions, 2,252 thousand euros (333 thousand euros) were capitalized development costs relating to continued further development of the existing software products and the development of new software products, and 1,538 thousand euros (1,383 thousand euros) were replacement investments.

During the review period the capitalized development costs include 1,610 thousand euros of employee benefit costs.

Personnel

The number of permanent employees at the end of the review period was 586 (480). Personnel of the subsidiaries acquired during the financial year was 47 (79).
Key figures for Group's personnel:

	2018	2017	2016
Average number of the personnel during the financial year	567	485	454
Employee benefit expenses (TEUR)	29 465	26 610	24 756

Related party transactions

Solteq's related parties include the board of directors, managing director and the management team. Related party actions and the euro amounts are presented in attachment 29.

Shares, shareholders and treasury shares

Solteq Plc's equity on 31 December 2018 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 in the end of the review period.

In the review period Solteq Plc directed a share issue, totaling to 628,930 shares, to the shareholders of TM United A/S as a part of the company acquisition on 15 January 2018. The new shares were registered into trade register on the 21 March 2018 and were publicly traded as of 22 March 2018. After the changes, the total number of shares is 19,306,527. The issued shares represent 3.3 percent of the company´s shares and votes. The subscription price was recorded in its entirety into the invested non-restricted fund of the company.

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 15 July 2016.

The theoretical market value of the incentive scheme at the time of the implementation was 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.

Exchange and rate

During the review period, the exchange of Solteq's shares in the Helsinki Stock Exchange was 0.8 million shares (1.7 million shares) and 1.2 million euros (2.7 million euros). The highest rate during the review period was 1.64 euros and lowest rate 1.26 euros. The weighted average rate of the share was 1.49 euros and end rate 1.3 euros. The market value of the company's shares in the end of the financial year totaled 25.1 million euros (28.4 million euros).

Ownership

At the end of the review period, Solteq had a total of 2,152 shareholders (2,281 shareholders). Solteq's 10 largest shareholders owned 13,257 thousand shares i.e. they owned 68.7 percent of the company's shares and votes. Solteq Plc's members of the Board of Directors and CEO owned directly or through controlled companies 592,028 shares on 31 December 2018 (592,028 shares on 31 December 2017).

General meetings

Annual General Meeting

Solteq's Annual General Meeting was held on 27 March 2018. The Annual General Meeting approved the financial statement for period 1 January – 31 December 2017 and discharged the CEO and the Board of Directors from liability.

The Annual General Meeting concluded that no dividend will be paid from the financial year ended on 31 December 2017.

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 is 3,500,000. 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 30 April 2019.

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 30 April 2019.

In line with the Board's proposal, the Annual General Meeting decided to register the company names Solteq Abp and Solteq Plc.

Extraordinary general meeting

Solteq's Extraordinary General Meeting was held 25 October 2018. The general meeting discussed the choice of a new board member (see Board and Auditor below for details).

Board of directors and auditors

The Annual General Meeting on 27 March 2018 decided that The Board of Directors includes five members. Aarne Aktan, Eeva Grannenfelt, Kirsi Harra-Vauhkonen, Markku Pietilä and Mika Uotila were re-elected as Board 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, Markku Pietilä and Mika Uotila were appointed to the members of the Audit Committee. Mika Uotila acts as the Chairman of the Audit Committee.

A member of the Board of Solteq Plc, Kirsi Harra-Vauhkonen, resigned from the Solteq Board in 2 October 2018.

At the Extraordinary General Meeting on 25 October 2018 Lotta Kopra was elected as a new Board member. Aarne Aktan, Eeva Grannenfelt, Markku Pietilä ja Mika Uotila continued as members of the board.

KPMG Oy Ab, Authorized Public Accountants, was re-elected as Solteq's auditors. Lotta Nurminen, APA, acted as the chief auditor.

Events after the reporting period

The company's management is not aware of any events of material importance after the review 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 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 2018, the distributable equity of the Group’s parent company is 19,666,636.01 euros. Solteq Plc’s Board of Directors proposes to the Annual General Meeting that for the financial year 2018, no dividend will be paid out.

The Board of Directors is of the opinion that there are no financial prerequisites for dividend pay-outs, or other kind of distribution of funds. According to the terms and conditions of the company debenture stock distribution of funds would lead to expiration of the credit.

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

Solteq Plc will publish a separate report on non-financial information by 28 June 2019.

Five-year figures

Key figures outlining the group's financial development (meur)	Financial Year 1 Jan - 31 Dec 2018	2017 **	2016	2015	2014
Revenue	56,9	50,7	63,1	54,2	40,9
Increase in revenue %	12,1	-0,2	16,3	32,5	7,4
Operating profit	2,5	0,3	6,4	1,3	2,5
% of revenue	4,3	0,6	10,2	2,4	6,1
Profit/loss before taxes	0,6	-1,5	4,7	0,3	2,3
% of revenue	1,1	-2,9	7,5	0,6	5,7
Return on equity, %	1,7	-7,3	25,8	0,8	16,8
Return on investment, %	5,2	0,8	14,6	4,5	15,5
Equity ratio, %	32,4	33,7	33,5	24,4	48,0
Net investments in non-current assets	8,3	6,1	-0,2	23,3	1,0
% of revenue	14,6	11,9	0,3	42,9	2,3
Research and development costs	2,3	1,8	0,8	0,9	1,1
% of revenue	4,0	3,6	1,3	1,7	2,7
Net Gearing %	101,9	118,5	85,0	167,4	16,3
Average number of employees over the financial period	567	485	454	391	281

Group's key figures per share	Financial Year 1 Jan - 31 Dec 2018	2017 **	2016	2015	2014
Earnings per share, EUR	0,02	-0,08	0,26	0,01	0,13
Equity attributable to the equity holders of the parent, EUR	1,13	1,10	1,20	0,91	0,79
Dividends per share, EUR*	0,00*	0,00	0,05	0,00	0,03
Dividend from result, %	0,0*	0,0	19,2	0,0	23,7
Effective dividend yield, %	0,0*	0,0	3,1	0,0	2,3
Price/earnings (P/E)	70,1	-19,0	6,2	178,0	10,2
Highest share price, EUR	1,64	1,76	1,96	1,97	1,59
Lowest share price, EUR	1,26	1,44	1,50	1,32	1,33
Average share price, EUR	1,49	1,64	1,70	1,71	1,45
Market value of the shares, TEUR	25 098	28 390	28 477	31 681	19 947
Shares trade volume, 1,000 pcs	827	1 672	1 717	5 023	795
Shares trade volume, %	4,3	9,2	9,7	29,7	5,3
Weighted average of the share issue corrected number of shares during the financial period, 1,000 pcs	19 202	18 197	17 639	15 719	14 933
Number of shares corrected by share issue at the end of the financial period, 1,000 pcs	19 202	18 197	17 639	16 937	14 882

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.

* Solteq Plc's Board of Directors proposes to the Annual General Meeting that for the financial year no dividend will be paid out.
** 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 financial ratios

Return on Equity (ROE) in percentage:	result for the financial period (rolling 12 mos.) / equity (average for the period)	x 100
Profit from invested equity in percentage:	result before taxes + finance expenses (rolling 12 mos.) / equity - interest free debt (average for the period)	x 100
Solvency ratio, in percentage:	equity / balance sheet total – advances received	x 100
Gearing:	interest bearing liabilities – cash, bank balances and securities / equity	x 100
Earnings per share:	result before taxes +/- minority interest / adjusted average basic number of shares	
Equity per share:	equity / number of shares	
Dividend per share:	dividend for the period / number of shares at the time of the payment	
Dividend from result, in percentage:	dividend per share / earnings per share	
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 reporting 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 of equity, profit from invested equity and net debt. The calculation principles of these financial key figures are presented as part of this Financial Statements Bulletin.

Adjusted items:

Transactions that are not related 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	1-12/18	1-12/17
Adjusted operating profit (EBIT)	**3 117**	**2 101**
Adjusted items:		
Incentive scheme and option scheme (IFRS 2)	-14	38
Acquisition of subsidiaries	12	409
Change in fair value of conditional consideration	-460	
Cost of integrating the acquired business	72	
Transfer of AX business		25
Non-recurring severance packages	241	1 021
Damages from completed customer projects	800	300
Adjusted items total	**651**	**1 793**
Operating profit (EBIT)	**2 466**	**308**

Distribution of ownership and shareholder information

DISTRIBUTION OF OWNERSHIP BY SECTOR ON 31 DEC 2018

	Number of owners	%	Share and votes PCS
Private companies	64	3,0	2 510 348
Financial and insurance institutions	12	0,6	6 107 828
Public sector organizations	2	0,1	3 245 597
Households	2 063	95,9	7 417 064
Non-profit organizations	2	0,1	231
Foreign owners	9	0,4	25 459
Total	**2 152**	**100,0**	**19 306 527**
Total of nominee registered	7	0,3	1 022 594

DISTRIBUTION OF OWNERSHIP BY SIZE ON 31 DEC 2018

Number of shares	Number of owners	%	Share and votes PCS
1 - 100	462	21,5	28 452
101 - 1 000	1 157	53,8	551 844
1 001 - 10 000	435	20,2	1 402 167
10 001 - 100 000	81	3,8	2 383 040
100 001 - 1 000 000	12	0,6	3 628 377
1 000 000 -	5	0,2	11 312 647
Total	**2 152**	**100,0**	**19 306 527**
of which nominee registered	7	0,3	1 022 594

SHAREHOLDERS WITH MOST SHARES AND VOTES 31 DEC 2018

		Shares and votes PCS	%
1.	Sentica Buyout III Ky	4 621 244	23,9
2.	Profiz Business Solution Oy	2 042 641	10,6
3.	Keskinäinen Työeläkevakuutusyhtiö Elo	2 000 000	10,4
4.	Saadetdin Ali	1 403 165	7,3
5.	Keskinäinen Työeläkevakuutusyhtiö Varma	1 245 597	6,5
6.	Aalto Seppo	695 000	3,6
7.	Roininen Matti	444 700	2,3
8.	Väätäinen Olli	400 000	2,1
9.	Lamy Oy	225 000	1,2
10.	Sentica Buyout III Co-Investment	180 049	0,9
Total of 10 largest		13 257 396	68,7
Total of nominee registered		1 022 594	5,3
Others		5 026 537	26,0
Total		**19 306 527**	**100,0**

Financial statements

Consolidated statement of comprehensive income

		Group		Parent Company	
TEUR	**Notes**	**1 Jan 2018 - 31 Dec 2018**	**1 Jan 2017 - 31 Dec 2017**	**1 Jan 2018 - 31 Dec 2018**	**1 Jan 2017 - 31 Dec 2017**
Revenue	3	56 867	50 720	48 753	45 952
Other income	4	487	52	2	34
Materials and services		-6 089	-6 276	-5 994	-6 477
Employee benefit expenses	7	-35 602	-32 880	-28 998	-28 687
Depreciations and impairments	6	-2 300	-2 076	-1 848	-1 516
Other expenses	5, 8	-10 897	-9 231	-8 633	-8 095
Operating result		**2 466**	**308**	**3 281**	**1 211**
Financial income	9	231	40	71	85
Financial expenses	10	-2 054	-1 804	-1 778	-1 743
Result before taxes		**642**	**-1 456**	**1 573**	**-447**
Income taxes	11	-286	-58	-324	28
Result for the financial year		**356**	**-1 514**	**1 249**	**-419**
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Currency translation differences		-14	14		
Other comprehensive income, net of tax		-14	14		
Total comprehensive income		**342**	**-1 500**	**1 249**	**-419**
Earnings per share attributable to equity holders of the parent company					
Earnings per share undiluted (EUR)		0,02	-0,08	0,07	-0,02

Diluted result does not differ from the undiluted result for the financial year or the previous year.

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

Consolidated statement of financial position

		Group		Parent Company	
TEUR	**Notes**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
ASSETS					
Non-current assets					
Property, plant and equipment	13	2 355	2 220	2 300	2 188
Goodwill	14	40 427	36 912	1 416	1 416
Other intangible assets	14	6 952	5 227	40 425	35 285
Available-for-sale financial assets	15	481	556	496	571
Shares in subsidiaries	29			8 136	5 496
Trade and other receivables	18	233	184	129	184
		50 448	**45 099**	**52 902**	**45 140**
Current assets					
Inventories	17	94	149	54	132
Trade and other receivables	18	11 985	14 701	10 518	14 607
Cash and cash equivalents	19	5 347	1 552	3 502	438
		17 426	**16 402**	**14 073**	**15 177**
Total assets		**67 874**	**61 501**	**66 975**	**60 317**
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
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	11 960	14 024	13 074
Retained earnings	20	7 803	7 476	8 030	6 797
Total equity		**21 797**	**20 520**	**23 139**	**20 955**
Non-current liabilities					
Deferred tax liabilities	16	815	988	708	640
Financial liabilities	23	25 551	25 170	25 551	25 170
		26 366	**26 158**	**26 259**	**25 810**
Current liabilities					
Trade and other payables	24	16 588	13 716	14 595	12 439
Financial liabilities	23	2 710	690	2 598	690
Provisions	22	414	417	385	423
		19 712	**14 823**	**17 577**	**13 552**
Total liabilities		**46 077**	**40 981**	**43 836**	**39 362**
Total equity and liabilities		**67 874**	**61 501**	**66 975**	**60 317**

Consolidated statement of cash flows

TEUR	Notes	Group 1 Jan 2018 - 31 Dec 2018	Group 1 Jan 2017 - 31 Dec 2017	Parent Company 1 Jan 2018 - 31 Dec 2018	Parent Company 1 Jan 2017 - 31 Dec 2017
Cash flow from operating activities					
Result for the financial period		356	-1 514	1 249	-419
Adjustments for operating profit	26	3 797	2 423	404	1 581
Changes in working capital		5 675	-1 216	6 507	-1 785
Interests paid		-2 054	-1 804	-1 778	-1 744
Interests received		228	40	69	85
Net cash from operating activities		**8 002**	**-2 071**	**6 451**	**-2 282**
Cash flows from investing activities					
Acquisition of subsidiaries		-2 291	-2 395	-2 291	-3 304
Cash flow from subsidiary mergers					10
Investments in tangible and intangible assets		-3 304	-1 074	-2 524	-1 113
Net cash used in investing activities		**-5 595**	**-3 469**	**-4 814**	**-4 407**
Cash flow in financing activities					
Long-term loans, decrease	23		-554		251
Short-term loans, increase		2 000		2 000	
Short-term loans, decrease		-40			
Payment of finance lease liabilities	23	-573	-618	-573	-618
Share issue to personnel			17		17
Directed issue to CEO			652		652
Dividend payment			-882		-882
Net cash used in financing activities		**1 387**	**-1 385**	**1 427**	**-580**
Changes in cash and cash equivalents		**3 795**	**-6 925**	**3 064**	**-7 269**
Cash and cash equivalents 1 Jan		1 552	8 477	438	7 707
Cash and cash equivalents 31 Dec	19	**5 347**	**1 552**	**3 502**	**438**

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

TEUR	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Cash and bank accounts	5 347	1 552	3 502	438
Total	**5 347**	**1 552**	**3 502**	**438**

Consolidated statement of changes in equity

Group	Equity to belonging to shareholders							
TEUR	Share capital	Share issue	Own shares	Share premium account	Currency translation difference	Invested unrestricted equity reserve	Earnings	Total
Equity 1 Jan 2017	**1 009**	**164**	**-1 109**	**75**	**-56**	**10 449**	**9 781**	**20 313**
Impact of the implementation of IFRS 15							38	38
Adjusted equity 1 Jan 2017	**1 009**	**164**	**-1 109**	**75**	**-56**	**10 449**	**9 819**	**20 351**
Total comprehensive income					14		-1 501	-1 487
Transactions with owners								
Incentive scheme and option scheme							82	82
Company acquisitions with own shares						779		779
Share issue directed to the personnel		-164				164		0
Directed issue to CEO						652		652
Directed issue to the owners of inPulse Works Ltd						1 025		1 025
Conveyance/cancellation of own share			1 109			-1 109		0
Dividend distribution							-882	-882
Transactions with owners		**-164**	**1 109**			**1 511**	**-800**	**1 656**
Equity 31 Dec 2017	**1 009**	**0**	**0**	**75**	**-42**	**11 960**	**7 518**	**20 520**
Equity 1 Jan 2018	**1 009**	**0**	**0**	**75**	**-42**	**11 960**	**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**	**0**	**0**	**75**	**-42**	**11 960**	**7 517**	**20 519**
Comprehensive income							356	356
Other items on comprehensive income					-14			-14
Total income					**-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	**0**	**0**	**0**	**0**	**0**	**950**	**-14**	**936**
Equity 31 Dec 2018	**1 009**	**0**	**0**	**75**	**-56**	**12 910**	**7 859**	**21 797**

Parent Company	Equity to belonging to shareholders					
	Share capital	Share issue	Share premium account	Invested unrestricted equity reserve	Earnings	Total
TEUR						
Equity 1 Jan 2017	**1 009**	**164**	**75**	**10 449**	**7 978**	**19 675**
Impact of the implementation of IFRS 15					38	38
Adjusted equity 1 Jan 2017	**1 009**	**164**	**75**	**10 449**	**8 016**	**19 713**
Total comprehensive income					-419	-419
Transactions with owners						
Incentive scheme and option scheme					82	82
Company acquisitions with own shares				779		779
Share issue directed to the personnel		-164		164		0
Directed issue to CEO				652		652
Directed issue to the owners of inPulse Works Ltd				1 031		1 031
Dividend distribution					-882	-882
Transactions with owners		**-164**		**2 625**	**-800**	**1 661**
Equity 31 Dec 2017	**1 009**	**0**	**75**	**13 074**	**6 797**	**20 955**
Equity 1 Jan 2018	**1 009**	**0**	**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**	**0**	**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		**0**		**950**	**-14**	**936**
Equity 31 Dec 2018	**1 009**	**0**	**75**	**14 024**	**8 032**	**23 139**

Notes to consolidated financial statements

Group information

In its meeting 27 February 2019, the Board of Directors of Solteq Plc has approved these financial statements to be published. According to the Finnish Companies act, the shareholders may adopt or reject the financial statements in the annual general meeting held after the publication. The annual general meeting also has an option to make changes in the financial statements.

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".

New and amended standards applied in financial year

Group has applied as from 1 January 2018 the following new and amended standards that have come into effect:

Amendments to IFRS 2 – *Clarification and Measurement of Share-based Payment Transactions (effective for financial years beginning on or after 1 January 2018)**

The amendments clarify the accounting for certain types of arrangements. Three accounting areas are covered: measurement of cash-settled share-based payments; classification of share-based payments settled net of tax withholdings; and accounting for a modification of a share-based payment from cash-settled to equity-settled.

Due to the change of standards, the Group's share reward arrangements are handled in full as share based payments, whereas they used to be handled as both share based and monetary based. When the change of standards was applied from 1 January 2018, the part which earlier was handled as debt is now booked to equity. The impact of this change of standards to the Group's equity at 1 January 2018 was 15 thousand euros.

IFRS 9 – *Financial instruments* (effective from 1 January 2018). IFRS 9 replaces the earlier guidance in IAS 39.

The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The standard requires an evaluation of the risk for bad debts for all receivables. Solteq applies the simplified method (allowed by the standard) for the evaluation of the risk for bad debts related to its account receivables. The expected amount of bad debts from the whole contract period is based on materialized bad debts and applied to the outstanding receivables of the review period. The impact to the provision for bad debts as required by the change of standards to the Group's equity as per 1 January 2018 was 16 thousand euros.

IFRS 15 Revenue from contracts with customers (effective for financial years beginning on or after 1 January 2018).

The new standard has replaced earlier IAS 18 and IAS 11 -standards and related interpretations. In IFRS 15 a five-step model is applied to determine when to recognize revenue, and at what amount. Revenue is recognized when (or as) a company transfers control of goods or services to a customer either over time or at a point in time.

The amendment to standard has a material impact to reported revenue and materials and services in the financial statements. The biggest impact to revenue is deriving from the 3rd party licenses and their maintenance, and media sales. This is because of the new principal vs agent guidance. For these, an evaluation has been made regarding what role Solteq has towards its end customer. A net principle for presenting the revenue has been applied and revenue will be presented as agent fee (earlier revenue was presented as gross). No material impact was seen from applying the new standard. The standard has been applied completely retroactively. The numbers for the financial year 2017 adjusted with the new standard are presented in notes 1 IFRS 15 implementation. The standard has also introduced extensive new disclosure requirements.

Annual improvements to IFRSs (2014–2016 cycle)

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 relate to IFRS 1 and IAS 28.

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 in the event that 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 are translated to the presentation currency at the monthly average rate close to the date of the transaction. 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 2018 no Government grants were received (52 thousand euros was received 2017).

Leases

Group as lessee

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 or not 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 or not 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 in connection with invoicing.

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 in connection with invoicing.

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 includes, 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. Furthermore, the Group recognizes impairment on receivables if there is objective evidence of the customer’s financial difficulties.

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.

Impairment of financial assets

The Group assesses at the end of the financial period whether there is any objective evidence that a financial asset or Group of financial assets is impaired. If any such evidence exists, the loss is recognized in the income statement.

Doubtful sales receivables are written down through profit or loss based on risk assessment.

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 2018.

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

The new standard replaces the current IAS 17 –standard and related interpretations. IFRS 16 requires the lessees to recognize the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to current 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 current IAS 17 accounting. An asset is recognized under non-current assets and a lease liability in liabilities on the consolidated balance sheet and the parent company's balance sheet primarily for fixed-term leases on business premises. The simplified approach is applied, according to which the accumulated effect of the adoption of the standard are entered as an adjustment to retained earnings on January 1, 2019 and the comparison figures are not adjusted. The impact of the change in accounting policy is an estimated increase of 6.3 million euros in assets and liabilities on the opening balance sheet of 2019.

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 relate to IFRS 3, IFRS 11, IAS 12 and IAS 23. However, the amendment does not have a material impact on the consolidated financial statements.

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

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 is whether the tax authority will accept the company’s chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. However, the interpretation does not have a material impact on the consolidated financial statements.

Other standards or interpretations published by the balance sheet date are not expected to have an impact on the financial statements.

1. IFRS 15 implementation

Consolidated statement of comprehensive income

TEUR	Reported 1 Jan - 31 Dec 2017	IFRS15	Adjusted 1 Jan - 31 Dec 2017
Revenue	61 536	-10 816	50 720
Other income	52		52
Materials and services	-17 079	10 803	-6 276
Employee benefit expenses	-32 880		-32 880
Depreciations and impairments	-2 076		-2 076
Other expenses	-9 231		-9 231
Operating result	321	-13	308
Financial income and expenses	-1 764		-1 764
Result before taxes	-1 443	-13	-1 456
Income taxes	-58		-58
Result for the financial year	**-1 501**	**-13**	**-1 514**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Currency translation differences	14		14
Other comprehensive income, net of tax	14		14
Total comprehensive income	**-1 487**	**-13**	**-1 500**
Total profit for the period attributable to owners of the parent company	-1 501	-13	-1 514
Total comprehensive income attributable to owners of the parent company	-1 487	-13	-1 500
Earnings per share undiluted (EUR)	-0,08		-0,08
Earnings per share diluted (EUR)	-0,08		-0,08

Consolidated statement of financial position

TEUR	Reported 31 Dec 2017	IFRS15	Adjusted 31 Dec 2017
ASSETS			
Non-current assets			
Property, plant and equipment	2 220		2 220
Intangible assets			
Goodwill	36 912		36 912
Other intangible assets	5 227		5 227
Available-for-sales financial assets	556		556
Trade and other receivables	184		184
Total non-current assets	**45 099**		**45 099**
Current assets			
Inventories	149		149
Trade and other receivables	14 663	38	14 701
Cash and cash equivalents	1 552		1 552
Total current assets	**16 364**	**38**	**16 402**
Total assets	**61 463**	**38**	**61 501**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	1 009		1 009
Share premium reserve	75		75
Distributable equity reserve	11 960		11 960
Retained earnings	7 439	38	7 476
Total equity	**20 482**	**38**	**20 520**
Non-current liabilities			
Deferred tax liabilities	988		988
Financial liabilities	25 170		25 170
Total non-current liabilities	**26 158**		**26 158**
Current liabilities	**14 823**		**14 823**
Total liabilities	**40 981**		**40 981**
Total equity and liabilities	**61 463**	**38**	**61 501**

2. Business combinations

Financial year 2018

During the review period 1 Jan - 31 December 2018, two company acquisitions were made.

TM United A/S

Solteq Plc purchased the entire share capital of TM United A/S on 15 January 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 1 January 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 15 June 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 1 June 2018.

Impact of the acquired companies to Solteq Group	**Acquisition**
Aggregate figures for the acquisition	15 Jan /15 Jun 2018
TEUR	
Consideration	
Paid in cash	3 513
Directed issue	950
Total	4 463
Provisional 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 from 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	**1-12/2018**
Revenue*	5 476
Operating profit*	15

* The amount of the revenue and the operating profit from acquisition date to the end of the reporting period. TM United is consolidated into to Solteq Group as of 1 January 2018 and NAV-business acquisition as of 1 June 2018. The revenue and operating profit of the acquired companies is not presented 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.

Financial year 2017

During the financial year 1 Jan – 31 Dec 2017, two company acquisitions were made.

Analyteq Oy

Solteq acquired 51 percent of the shares of Analyteq Oy from Tuko Logistics Osk on 4 April 2017. The acquisition of Analyteq Oy deepens Solteq's knowledge on the core processes in commerce and analytics. Analyteq Oy has been consolidated to Solteq Group from the moment of acquisition onwards.

InPulse Works Oy

Solteq acquired 100 percent of the shares of inPulse Works Oy on 12 June 2017. With the acquisition, Solteq strengthens the knowledge of BI and analytics independently of the line of business. InPulse Works Oy has been consolidated to Solteq Group since 1 June 2017.

Impact of the acquired companies to Solteq Group	
Aggregate figures for the acquisition	
TEUR	
Consideration	
Paid in cash	3 794
Directed issue	1 031
Total	4 825
Provisional values of the assets and liabilities arising from the acquisition	
Tangible fixed assets	12
Intangible assets, software products **	1 329
Intangible assets	92
Trade and other receivables	1 016
Cash and cash equivalents	909
Total assets	3 358

Trade payables and other liabilities	-1 558
Loan	-372
Total liabilities	-1 930
Goodwill value from the acquisition	3 397
Cash flow from the acquisition	
Consideration paid in cash in 2017	3 304
Cash and cash equivalents of the acquired company in the acquisition date	909
Total cash flow from the acquisition	2 395

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 103 thousand euros (software products).

Expenses related to the acquisition	
Other expenses	92
Total expenses related to the acquisition	92
Impact on the Solteq Group's number of personnel	79

Impact on the Solteq Group's comprehensive income statement	**4-12/2017**
Revenue*	3 153
Operating profit*	269

* The amount of the revenue and the operating profit from acquisition date to the end of the reporting period. Analyteq Oy is consolidated into the Solteq Group as of 4 April 2017. InPulse Works Oy is consolidated into the Solteq Group as of 1 June 2017. The revenue and operating profit of the acquired companies is not presented 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 in financial year 2017.

3. Revenue from contracts with customers

TEUR	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Services	48 462	40 863	41 182	36 982
Revenue from long-term projects	2 124	3 833	2 124	3 833
Revenue from software licenses	5 921	5 706	5 131	4 822
Hardware sales	360	318	316	315
Total	**56 867**	**50 720**	**48 753**	**45 952**

Contract balances

TEUR	Group 2018	Group 2017	Group 1 Jan 2017
Trade and other receivables	9 936	11 800	8 981
Contract assets	191	460	428
Contract liabilities	-1 163	-1 415	-1 271

TEUR	Parent Company 2018	Parent Company 2017	Parent Company 1 Jan 2017
Trade and other receivables	7 030	9 473	7 466
Contract assets	191	460	428
Contract liabilities	-968	-1 415	-1 271

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

4. Other income

TEUR	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Change in fair value of conditional consideration	460			
Other income	27	52	2	34
Total	**487**	**52**	**2**	**34**

5. Other expenses

TEUR	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Telephone and telecommunication costs	611	611	507	491
Rental expenses	2 943	2 287	2 378	1 988
Car and travel expenses	1 457	1 197	1 119	998
External services	3 105	2 854	2 321	2 429
Loss-making projects		-87		-87
Bad Debts	6	103	70	103
Warranty provisions	154	-159	154	-159
Damages from completed customer projects	800	300	800	300
Other expenses	1 821	2 125	1 284	2 032
Total	**10 897**	**9 231**	**8 633**	**8 095**

Auditor's fees

TEUR	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Auditing	141	67	75	49
Certificates and statements	6	6	6	5
Tax consulting	0	40	0	30
Other services	20	23	18	24
Total	**167**	**136**	**100**	**108**

6. Depreciation, amortization and impairment

TEUR	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Depreciations by asset group				
Intangible assets				
Development costs	59		55	
Intangible rights	1 155	1 073	825	572
Total	**1 214**	**1 073**	**880**	**572**
Tangible assets				
Machinery and equipment	1 086	1 003	968	944
Total	**1 086**	**1 003**	**968**	**944**
Total depreciations and impairments	**2 300**	**2 076**	**1 848**	**1 516**

7. Employee benefit expenses

TEUR	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Salaries and wages	29 451	26 572	23 834	23 490
Pension expenses				
- defined contribution plan	4 790	4 608	4 379	3 994
Other personnel expenses	1 348	1 662	771	1 165
Shared based payments	14	38	14	38
Total	**35 602**	**32 880**	**28 998**	**28 687**
Average number of employees over the financial period	**567**	**485**	**453**	**420**

The number of employees in the companies acquired in the financial year was 47 people on the acquisition dates.

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

8. Research and development costs

The income statement includes 333 thousand euros of research and development costs recognized as expense in 2018 (927 thousand euros in 2017).

9. Financial income

	Group		Parent Company	
TEUR	**2018**	**2017**	**2018**	**2017**
Interest income from loan and receivables	228	38	68	83
Dividend income from held-for-sale financial assets	2	2	2	2
Total	**231**	**40**	**71**	**85**

10. Financial expenses

	Group		Parent Company	
TEUR	**2018**	**2017**	**2018**	**2017**
Interest expenses from financial expenses in amortized costs	1 669	1 693	1 669	1 691
Other financial expenses	386	112	110	52
Total	**2 054**	**1 804**	**1 778**	**1 743**

Financial expenses include 115 thousand euros of variable rents relating to financial leasing contracts in the Group and in the parent company (125 thousand euros in 2017).

11. Income taxes

	Group		Parent Company	
TEUR	**2018**	**2017**	**2018**	**2017**
Tax based on the taxable income for the period	561	61	504	15
Taxes from previous periods		7	-2	7
Deferred taxes	-274	-10	-179	-50
Total	**286**	**58**	**324**	**-28**

	Group		Parent Company	
TEUR	**2018**	**2017**	**2018**	**2017**
Result before taxes	642	-1 456	1 573	-447
Taxes based on domestic tax rate	128	-289	316	-89
Difference in local tax rates	2			
Non-deductible expenses	22	10	12	10
Exempt from taxes	-125			

Unrecognized deferred tax assets for unrealized losses	269	284		
Expenses recognized to the share value of the company acquisition		60		60
Carry-forward of unused tax losses	-9		-1	
Management incentives		8		8
Other differences	0	-23	0	-24
Taxes from previous periods		7	-2	7
Taxes on the income statement	**286**	**58**	**324**	**-28**

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 has a stock option program for the key persons (announced 15 July 2016). At the balance sheet date, however, these do not have a dilutive impact. This is because the share price, 3.00 euros, at which the stock option is set, is clearly higher than the share price at balance sheet date, 1.30 euros.

	Group		**Parent Company**	
	2018	**2017**	**2018**	**2017**
Profit for the financial period attributable to equity holders of the parent company (TEUR)	356	-1 514	1 249	-419
Weighted average of the number of shares during the financial period (1 000)	19 202	18 197	19 202	18 197
Undiluted EPS (EUR/share)	0,02	-0,08	0,07	-0,02

13. Tangible assets

Group

TEUR	**Machinery and equipment**	**Other tangible assets**	**Total**
Acquisition cost 1 Jan 2018	10 004	26	10 030
Acquisition of subsidiary	12		12
Additions	1 499	48	1 546
Reductions	-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
Acquisition cost 1 Jan 2017	9 122	27	9 149
Acquisition of subsidiary	12		12

Additions	1 076		1 076
Reductions	-206	-1	-207
Acquisition cost 31 Dec 2017	**10 004**	**26**	**10 030**
Accumulated depreciations and impairment 1 Jan 2017	6 807		6 807
Depreciations	1 003		1 003
Accumulated depreciations and impairment 31 Dec 2017	**7 810**	**0**	**7 810**
Book value 1 Jan 2017	2 315	27	2 342
Book value 31 Dec 2017	2 194	26	2 220

Parent Company

TEUR	Machinery and equipment	Other tangible assets	Total
Acquisition cost 1 Jan 2018	6 943	21	6 964
Additions	1 444		1 444
Reductions	-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**	**0**	**5 744**
Book value 1 Jan 2018	2 166	21	2 187
Book value 31 Dec 2018	2 278	21	2 299
Acquisition cost 1 Jan 2017	6 095	21	6 116
Merger of the subsidiary	10		10
Additions	1 044		1 044
Reductions	-206		-206
Acquisition cost 31 Dec 2017	**6 943**	**21**	**6 964**
Accumulated depreciations and impairment 1 Jan 2017	3 833		3 833
Depreciations	944		944
Accumulated depreciations and impairment 31 Dec 2017	**4 777**	**0**	**4 777**
Book value 1 Jan 2017	2 262	21	2 283
Book value 31 Dec 2017	2 166	21	2 187

As of December 31, 2018, the unallocated portion of the Group's and parent company's tangible fixed assets' acquisition cost of machinery and equipment was EUR 1,874 thousand.(1,804 thousand euros 31 December 2017).

Financial leases

Property, plant and equipment include computers, other devices and automobiles acquired by financial leases as follows:

TEUR	Group Machinery and equipment	Parent Company Machinery and equipment
31 Dec 2018		
Acquisition cost	8 022	8 022
Accumulated depreciations	-6 232	-6 232
Book value	1 790	1 790
31 Dec 2017		
Acquisition cost	7 175	7 175
Accumulated depreciations	-5 687	-5 687
Book value	1 488	1 488

Tangible assets include additions of 898 thousand euros in financial leases in the Group and 787 thousand euros in the parent company in 2018 (840 thousand euros in the Group and in the parent company 2017).

14. Intangible assets

Group

TEUR	Payments in advance and uncompleted actions	Goodwill	Development costs	Intangible rights	Other intangible assets	Total
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
Reductions	-65			-4 123		-4 188
Transfers between items	-321		321			
Acquisition cost 31 Dec 2018	**2 252**	**42 626**	**2 494**	**11 352**	**846**	**59 570**
Accumulated depreciations and impairment 1 Jan 2018		2 197	2 173	5 977	846	11 193
Depreciations		2	55	941		998
Accumulated depreciations and impairment 31 Dec 2018	**0**	**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
Acquisition cost 1 Jan 2017	208	35 717	2 173	8 686	846	47 630
Acquisition of subsidiary	753	3 389		92		4 234
FX rate differences		3				3
Additions	-628			2 093		1 465

Acquisition cost 31 Dec 2017	**333**	**39 109**	**2 173**	**10 871**	**846**	**53 332**
Accumulated depreciations and impairment 1 Jan 2017		2 197	2 173	4 904	846	10 120
Depreciations				1 073		1 073
Accumulated depreciations and impairment 31 Dec 2017	**0**	**2 197**	**2 173**	**5 977**	**846**	**11 193**
Book value 1 Jan 2017	208	33 520		3 782		37 510
Book value 31 Dec 2017	333	36 912		4 894		42 139

Parent Company

TEUR	Payments in advance and uncompleted actions	Goodwill	Development costs	Intangible rights	Other intangible assets	Total
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
Reductions	-61					-61
Transfers between items	-321		321			
Acquisition cost 31 Dec 2018	**2 123**	**3 781**	**2 358**	**43 528**	**401**	**52 190**
Accumulated depreciations and impairment 1 Jan 2018		2 365	2 038	4 667	401	9 471
Depreciations			55	825		880
Accumulated depreciations and impairment 31 Dec 2018	**0**	**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
Acquisition cost 1 Jan 2017	208	3 781	2 037	38 522	401	44 949
Merger of the subsidiary				344		344
Additions	753			754		1 507
Reductions	-628			0		-628
Acquisition cost 31 Dec 2017	**333**	**3 781**	**2 037**	**39 620**	**401**	**46 172**
Accumulated depreciations and impairment 1 Jan 2017		2 365	2 038	4 095	401	8 899
Depreciations				572		572
Accumulated depreciations and impairment 31 Dec 2017	**0**	**2 365**	**2 038**	**4 667**	**401**	**9 471**
Book value 1 Jan 2017	208	1 416		34 427		36 051
Book value 31 Dec 2017	333	1 416		34 953		36 702

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 31 December 2018 was 40,427 thousand euros in the parent company (36,912 thousand euros 31 December 2017) and 36,564 euros in the parent company as goodwill and merger loss (33,014 thousand euros 31 December 2017). At the end of the financial period, in the Group there were investments in progress of a value of 2,252 thousand euros in development projects and in the parent company 2,123 thousand euros (Group and parent company 333 thousand euros 31 December 2017).

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 2019 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 2018, no need was found for recognizing impairment losses: a clear margin was left for each tested unit. No impairment losses were recognized in 2018.

TEUR	**Group**		**Parent Company***	
	2018	**2017**	**2018**	**2017**
Digital Solutions	28 883	25 368	26 590	23 040
Customer Solutions	11 544	11 544	9 974	9 974
Total	**40 427**	**36 912**	**36 564**	**33 014**

*losses from mergers are included in the Parent Company

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 Solutions Unit, there will be need for write-downs, if the operating profit decreases by 2.3 percentage units or the discount rate increases by 2.1 percentage units.

- In Core Business Solutions Unit, there will be need for write-downs, if the operating profit decreases by 5.5 percentage units or the discount rate increases by 9.8 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. In the Digital Services Unit, the margin in the parent company is slightly lower than in the Group. However, margin remains clear also in the parent company.

15. Available-for-sale financial assets

TEUR	2018	Group Change	2017	2018	Parent Company Change	2017
Beginning of financial period	481	-75	556	496	-75	571
End of financial period	**481**	**-75**	**556**	**496**	**-75**	**571**

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 2017	Recognized on the income statement	Acquired companies	31 Dec 2017	Recognized on the income statement	Acquired companies	31 Dec 2018
Deferred tax assets							
Provisions	194	-188	89	95	-18		77
Postponed depreciations	64	18		82	50		132
Other items					-24	127	103
Netted with deferred tax liabilities							-209
Total	**258**	**-170**	**89**	**177**	**8**	**127**	**103**
Deferred tax liabilities							
Tax-deductible goodwill	226			226			226
Allocated intangible liabilities	696	-179	265	782	-188	122	716
Other items	157			157	-56	-19	82
Netted with deferred tax assets							-209
Total	**1 079**	**-179**	**265**	**1 165**	**-245**	**103**	**815**

Parent Company

TEUR	1 Jan 2017	Recognized in the income statement	31 Dec 2017	Merges and acquisitions	Recognized in the income statement	31 Dec 2018
Deferred tax assets						
Provisions	154	-69	85		-8	77
Postponed depreciations	64	18	82		50	132
Netting from deferred tax liabilities						-209
Total	**218**	**-51**	**167**	**0**	**42**	**0**
Deferred tax liabilities						
Tax-deductible goodwill	225		225			225

Allocated intangible liabilities	573	-88		485	247	-122	610
Other items	110	-13		97		-15	82
Netting from deferred tax assets							-209
Total	**907**	**-101**		**806**	**247**	**-137**	**708**

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

17. Inventories

	Group		Parent Company	
TEUR	**2018**	**2017**	**2018**	**2017**
Finished goods	54	149	54	132
Work in progress	40			
Total	**94**	**149**	**54**	**132**

18. Trade and other receivables

	Group		Parent Company	
TEUR	**2018**	**2017**	**2018**	**2017**
Trade receivables	9 936	11 800	7 030	9 473
Contract assets	191	460	191	460
Accrued income	1 682	2 488	1 233	1 954
Receivables from Group companies			2 125	2 819
Other receivables	410	137	67	85
Total	**12 218**	**14 885**	**10 647**	**14 791**

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	**2018**	**Impairment losses**	**Net 2018**	**Probability of losses**	**Presumed losses**	**2017**	**Impairment losses**	**Net 2017**
Not due	8 570		8 570			7 149		7 149
Due	1 558	-20	1 538		14	5 018	-130	4 888
Under 30 days	1 352		1 352			2 018		2 018
31-60 days	111		111			554		554
61-90 days	10		10			758		758
More than 90 days	84	-20	64	0,22	14	1 688	-130	1 558
Total	**10 128**	**-20**	**10 108**		**14**	**12 167**	**-130**	**12 037**

Parent Company

TEUR	2018	Impairment losses	Net 2018	Probability of losses	Presumed losses	2017	Impairment losses	Net 2017
Not due	6 763		6 763			4 932		4 932
Due	2 584	-20	2 564		14	4 970	-130	4 840
Under 30 days	852		852			2 043		2 043
31-60 days	345		345			540		540
61-90 days	265		265			699		699
More than 90 days	1 123	-20	1 103	0,01	14	1 688	-130	1 558
Total	**9 347**	**-20**	**9 327**		**14**	**9 902**	**-130**	**9 772**

All current receivables are denominated in euros. There are no significant concentrations of risk related to receivables. 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	**2018**	**2017**	**2018**	**2017**
Cash and cash equivalents	5 347	1 552	3 502	438
Total	**5 347**	**1 552**	**3 502**	**438**

20. Notes to equity

Below is the reconciliation of the number of shares:

TEUR	Number of shares (1 000)	Share capital	Reserve for own shares	Share premium reserve	Invested unrestricted equity reserve	Total
1 Jan 2018	18 678	1 009		75	11 960	13 044
Direct issue in company acquisitions	629				950	950
31 Dec 2018	**19 307**	**1 009**	**0**	**75**	**12 910**	**13 994**

The maximum number of shares is 28,000,000 (28,000,000 in 2017). 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 million euros in 2017).

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 (2017: 0 shares).

Dividends

Solteq Plc's Board of Directors proposes to the Annual General Meeting that for the financial year 2018, no dividend will be paid out.

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. As the reward structure does not include annual bonuses tied to short-term targets, the total earnings of the key personnel are closely tied to the development of the shareholder value during the three-year period.

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	2016-2018
Vesting condition	Employment condition		
Number of options	333 000	333 000	334 000
Subscription price (EUR)	3.00		
Price at the granting date	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

	2018	**2017**	**2016**
At the beginning of the period	450 000	750 000	
Granted during the period			750 000
Forfeited	-100 000	-300 000	
Exercised			
Expired			
At the end of the period	**350 000**	**450 000**	**750 000**
Exercisable	**350 000**	**200 000**	**0**

The subscription price of the options is presented further above.

Amounts of share-based expenses included in employee benefits.

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

At the closing date, the amount recognized as liability in 2018 was nil euro (2017 closing date, 15 thousand euros).

Directed share issue to personnel 2016

Based on the authorization of the Annual General Meeting of 16 March 2016, Solteq Plc's Board of Directors made a decision on 21 November 2016 and 5 December 2016 on a share issue in which, in deviation from the shareholders' pre-emptive subscription rights, a maximum of 500,000 new shares of the company in total were offered to the personnel for subscription. The subscription period started on 7 December 2016 and ended on 30 December 2016.The subscription prices of the shares were based on the volume-weighted average price of the company's share in the period 1 to 30 November 2016 and on two reductions of different sizes calculated from it. The subscriber will not have the right to sell or otherwise transfer or pledge the subscribed shares before 1 January 2018. As from their registration, the new shares have the same rights as the other shares of the company. The subscription price is recognized in the company's reserve for invested unrestricted equity. Owing to the terms and time of the directed issue to personnel, no expense arising from share-based payments was recognized for the financial year 2016. Expense arising from share-based payment transactions was allocated to the financial year 2017.

22. Provisions

Group

TEUR	Warranty provisions	Other provisions	Total
31 Dec 2017	**332**	**85**	**417**
Additional provisions	36	547	583
Deducted provisions		-191	-191
Reversals of unused provisions	-346	-50	-396
31 Dec 2018	**22**	**392**	**414**

Parent Company

TEUR	Warranty provisions	Other provisions	Total
31 Dec 2017	**373**	**50**	**423**
Additional provisions	30	518	548
Deducted provisions		-191	-191
Reversals of unused provisions	-346	-50	-396
31 Dec 2018	**57**	**327**	**385**

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	**2018 Book value**	**2018 Fair value**	**2017 Book value**	**2017 Fair value**
Financial liabilities at amortized cost				
Non-current				
Bond	24 380	24 380	24 306	24 306
Financial lease obligations	1 171	1 171	864	864
Total	**25 551**	**25 551**	**25 170**	**25 170**
Current				
Loans from financial institutions	2 001	2 001		
Financial lease obligations	708	708	690	690
Total	**2 710**	**2 710**	**690**	**690**

Parent Company

TEUR	**2018 Book value**	**2018 Fair value**	**2017 Book value**	**2017 Fair value**
Financial liabilities at amortized cost				
Non-current				
Bond	24 380	24 380	24 306	24 306
Financial lease obligations	1 171	1 171	864	864
Total	**25 551**	**25 551**	**25 170**	**25 170**
Current				
Loans from financial institutions	2 000	2 000		
Financial lease obligations	598	598	690	690
Total	**2 598**	**2 598**	**690**	**690**

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			Non-cash flow related changes		
	31 Dec 2017	Cash flows	New financial lease contracts	*)Other changes	31 Dec 2018
TEUR					
Non-current liabilities	24 306			74	24 380
Current liabilities	1				1
Financial lease obligations	1 554	-573	898		1 879
Total financing liabilities	**25 861**	**-573**	**898**	**74**	**26 260**

Parent Company			Non-cash flow related changes		
	31 Dec 2017	Cash flows	New financial lease contracts	*)Other changes	31 Dec 2018
TEUR					
Non-current liabilities	24 306			74	24 380
Current liabilities	1				1
Financial lease obligations	1 554	-573	787		1 768
Total financing liabilities	**25 861**	**-573**	**787**	**74**	**26 149**

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

Maturity of financial leases:

Group

2018	**2019**	**2020**	**2021**	**2022-2024**
TEUR				
Bond		24 500		
Financial lease obligations	866	607	410	217
Long-term debt total	**866**	**25 107**	**410**	**217**

2017	**2018**	**2019**	**2020**	**2021-2023**
TEUR				
Bond			24 500	
Financial lease obligations	690	415	347	102
Long-term debt total	**690**	**415**	**24 847**	**102**

Parent Company

2018	**2019**	**2020**	**2021**	**2022-2024**
TEUR				
Bond		24 500		
Financial lease obligations	755	607	410	217
Long-term debt total	**755**	**25 107**	**410**	**217**

2017	**2018**	**2019**	**2020**	**2021-2023**

TEUR				
Bond			24 500	
Financial lease obligations	690	415	347	102
Long-term debt total	**690**	**415**	**24 847**	**102**

In 2018, the average interest rate of the loans was 6.0 percent (6.0 percent in 2017). All financial liabilities are denominated in euros.

Maturity of financial lease obligations:

	Group		Parent Company	
TEUR	**2018**	**2017**	**2018**	**2017**
Financial lease obligations present value of future minimum lease payments				
Within 12 months	708	690	598	690
Between 1 and 5 years	1 171	864	1 171	864
Total	**1 879**	**1 554**	**1 768**	**1 554**
Finance lease obligations total amount of minimum lease payments				
Within 12 months	866	804	755	804
Between 1 and 5 years	1 234	975	1 234	975
Total	**2 099**	**1 779**	**1 989**	**1 779**
Future financing expenses	-220	-225	-220	-225
Total financial lease obligations	**1 879**	**1 554**	**1 768**	**1 554**

24. Trade and other payables

	Group		Parent Company	
TEUR	**2018**	**2017**	**2018**	**2017**
Current				
Trade payables	5 327	2 759	4 559	2 273
Advances received from customers, long-term projects	537	607	342	607
Accruals and deferred income	6 484	7 371	6 283	6 835
Other liabilities	4 241	2 979	2 918	2 060
Internal liabilities			492	664
Total	**16 588**	**13 716**	**14 595**	**12 439**

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 31 December 2018.

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.

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 31 December 2018) and the account limits and liquidity limits (6,000 thousand euros 31 December 2018) are tied to the terms of the bond, which are monitored regularly.

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, 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, 2,300 thousand euros in the Group and 1,848 thousand euros in the parent company.

The significant adjustments to the cashflow of the business for previous financial period were related to depreciations, 2,075 thousand euros in the Group and 1,516 thousand euros in the parent company.

27. Other lease agreements

Company as a lessee

Non-cancellable other lease agreements carry the following minimum lease amounts to be paid:

	Group		**Parent Company**	
TEUR	**2018**	**2017**	**2018**	**2017**
Within a year	1 785	1 682	1 374	1 510
One to five years	4 953	5 856	4 232	5 310
More than five years		513		513
Total	**6 739**	**8 051**	**5 606**	**7 333**

The Company has leased most of the cars and copy machines in its use. The lease agreements include the possibility to continue the agreement after the expiration of the original. The agreements differ in terms of index, renewal and other conditions. Lease liability for all premises has been presented for the set lease period.

The income statement for 2018 includes lease expenses based on other lease agreement 2,046 thousand euros (2,287 thousand euros in 2017).

28. Conditional debts and liabilities

TEUR	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
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 31 December 2018 are as follows:

Company	Domicile	Share of ownership (%)	Share of votes (%)
Solteq Oyj			
Analyteq Oy	Finland	100 %	100 %
Aponsa AB	Sweden	100 %	100 %
Sia Aponsa	Latvia	100 %	100 %
Solteq Sweden AB	Sweden	100 %	100 %
Solorus Holding Oy	Finland	100 %	100 %
Solteq Finance Oy	Finland	100 %	100 %
Solteq Poland Sp. z.o.o.	Poland	100 %	100 %
Qetlos Oy	Finland	100 %	100 %
Solteq Denmark A/S	Denmark	100 %	100 %
Solteq Digital UK Ltd	Great Britain	100 %	100 %
Solteq Norway AS	Norway	100 %	100 %
Theilgaard Mortensen Sverige AB	Sweden	100 %	100 %

In January, Solteq completed the purchase of the entire share capital of TM United A/S, as announced earlier. TM United A/S's solutions are focused on digital transactions and the optimization of the online customer experience. With the acquisition, the company expanded its business operations to Denmark and Norway. TM United A/S was consolidated into Solteq Group on 1 January 2018.

In order to simplify the Group structure 2018, TM United A/S, TM Care and Solteq Denmark Asp merged with Theilgaard Mortensen A/S. Theilgaard Mortensen A/S changed its name to Solteq Denmark A/S. In addition, Theilgaard Mortensen Norge AS was renamed to Solteq Norway AS and Theilgaard Mortensen UK Limited was renamed to Solteq Digital UK Limited.

Growth in Denmark and other Nordic countries was boosted by a business transaction with the Danish company ProInfo A/S on 15 June 2018. Through the transaction, Solteq acquired certain competencies and customers related to retail and HoReCa IT systems. 12 IT professionals joined Solteq as part of the acquisition.

In December 2018, Solteq Plc acquired 49 % of Analyteq Oy from Tuko Logistics Co-operative, after which Solteq owns the entire portfolio of Analyteq Oy. In addition, 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 estimated date for implementation of the merger is 1 April 2019.

After the end of the financial year, Solteq Plc has initiated a merger process to merge Analyteq Oy into Solteq Plc. The estimated date for implementation of the merger is 1 July 2019. In addition, it has been arranged that Solteq Digital UK Limited is in direct ownership by Solteq Plc from 1 January 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 15 July 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 16 March 2016. In accordance with the option scheme, the previous CEO and the previous CFO of the Company have 350,000 option rights in total.

The maximum total number of stock options issued will be 1,000,000. The share subscription price is 3.00 euros per share.

The following related party transactions took place:

	Group		Parent Company	
TEUR	**2018**	**2017**	**2018**	**2017**
Service sales	23	54	23	54
Renting arrangements		2		2
Purchases	105	48	105	48
Liabilities		2		2
Total	**128**	**106**	**128**	**106**

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.

	Group		Parent Company	
TEUR	**2018**	**2017**	**2018**	**2017**
Salaries and other short-term employment benefits	1 177	1 282	1 177	1 282
Total	**1 177**	**1 282**	**1 177**	**1 282**

Wages and salaries of the members of the board and CEO

	Group		Parent Company	
TEUR	**2018**	**2017**	**2018**	**2017**
CEO Repe Harmanen until 17 Feb 2017		258		258
CEO Olli Väätäinen from 1 Apr 2017	287	207	287	207
Board members				
Pietilä Markku, Chairman of the Board	42	38	42	38
Aktan Aarne	23	25	23	25
Grannenfelt Eeva	23	27	23	27
Harra-Vauhkonen Kirsi until 2 Oct 2018	18	24	18	24
Kopra Lotta from 25 Oct 2018				
Uotila Mika	24	24	24	24
Väätäinen Olli until 17 Mar 2017		3		3

The CEO's accrual-based pension costs amount to 52 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 2018 (592,028 shares at the end of 2017).

30. Events after the balance sheet date

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

Proposal for distribution of profits and signatures

The distributable equity of the parent company Solteq Plc as at 31 December 2018 is:

Invested unrestricted equity reserve	14,024,182.47 euros
Result for previous financial periods	6,781,867.18 euros
Result for the financial year	1,249,435.22 euros
Total non-restricted equity	22,055,484.87 euros
Capitalized development costs	-2,388,848.86 euros
Total distributable funds	19,666,636.01 euros

Solteq Plc's Board of Directors proposes to the Annual General Meeting that for the financial year 2018, no dividend will be paid out.

The board is of the opinion that there are no financial prerequisites for a dividend payment or any other distribution of funds. According to the terms and conditions of the debenture stock, the distribution of funds would lead to a motivation for the expiration of these credits. No essential changes have taken place in the company's financial situation after the end of the financial period.

Signatures of financial statements and the report of the board of directors

Vantaa, 27 February 2019

Markku Pietilä
Chairman of the Board

Aarne Aktan
Board Member

Eeva Grannenfelt
Board Member

Lotta Kopra
Board Member

Mika Uotila
Board Member

Olli Väätäinen
CEO

The auditor's note

Our auditors' report has been issued today.

Tampere, 27 February 2019

KPMG Oy Ab

Lotta Nurminen
Authorized Public Accountant

Auditor’s report

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, 2018. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company’s balance sheet, income statement, statement of cash flows and notes.

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 4 to the consolidated financial statements.

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

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 13)	
• In recent years the Group has expanded its activities through acquisition of companies. As a result, the consolidated balance sheet 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 balance sheet 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.

Revenue recognition (Refer to Accounting policies and note 2)

- The Group has adopted the new accounting standard IFRS 15 Revenue from Contracts with Customers on 1 January 2018. Also the comparison information has been changed correspondingly.

- The consolidated revenue comprise different revenue flows based on different agreement types, such as services, own and third party software license sales and maintenance, hardware sales, media 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.

- Preparation of revenue recognition entries for long-term projects includes manual phases, which causes a risk of human error.

- Due to the adoption of the new accounting standard IFRS 15, 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, including the impact of adopting IFRS 15.

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 27 February 2019
KPMG OY AB

Lotta nurminen
Authorised Public Accountant, KHT

Governance

Investor Information

Annual General Meeting

Annual General Meeting of Shareholders will be held on March 27, 2019 at 10:00 a.m., at Clarion Hotel Helsinki Airport, Karhumäentie 5, Vantaa. Each shareholder who is entered in the company's shareholders' register maintained by Euroclear Finland Oy on March 15, 2019 at the latest shall have the right to participate in the General Meeting.

A shareholder who wishes to participate in the General Meeting shall register for the meeting by giving prior notice of participation no later than 10:00 a.m. on Friday, March 22, 2019. Such notice can be given by telephone on +358 41 5297 745 or by email to maria.viiru@solteq.com.

Holders of nominee-registered shares shall be temporarily entered in the shareholders' register maintained by Euroclear Finland Oy by 10:00 a.m. on March 22, 2019 at the latest. For nominee-registered shares, this shall constitute registration of participation in the General Meeting.

Solteq's Financial Reporting In 2019

- Interim Report 1–3/2019 on Tuesday, April 30, 2019 at 8:00 a.m.
- Half Year Financial Report 1–6/2019 on Tuesday, August 13, 2019 at 8:00 a.m.
- Interim Report 1–9/2019 on Tuesday, October 29, 2019 at 8:00 a.m.

Stock Exchange Bulletins 2018

Date	Bulletin
Nov. 7, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Nov. 1, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Nov. 1, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Oct. 25, 2018	Solteq Plc: Decisions of the Extraordinary General Meeting
Oct. 25, 2018	Solteq Plc: Solteq Plc Interim Report January 1–September 30, 2018 (IFRS)
Oct. 3, 2018	Solteq Plc: Solteq Plc – Invitation to the Extraordinary General Meeting
Oct. 2, 2018	Solteq Plc: Solteq Plc – Change in the Board of Directors
Sep. 18, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Sep. 5, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Aug. 23, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Aug. 10, 2018	Solteq Plc: Correction: Solteq Plc Half Year Report January 1–June 30, 2018
Aug. 10, 2018	Solteq Plc: Solteq Plc Half Year Report January 1–June 30, 2018
Jul. 4, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Jun. 15, 2018	Solteq Plc: Solteq becomes the leading LS Retail supplier in the Nordics – acquires LS Retail and Dynamics NAV competencies in Denmark
Jun. 5, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Apr. 26, 2018	Solteq Plc: Solteq Plc Interim Report January 1–March 31, 2018
Mar. 27, 2018	Solteq Plc: Solteq Plc: Decisions of the Annual General Meeting
Mar. 27, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Mar. 26, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Mar. 22, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Mar. 21, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Mar. 21, 2018	Solteq Plc: Solteq Plc: Notice pursuant to the Finnish Securities Markets Act, Chapter 9, Section 5
Mar. 21, 2018	Solteq Plc: New shares in Solteq Plc registered into the trade register
Mar. 20, 2018	Solteq Plc: Solteq Plc – Managers' transactions

Mar. 20, 2018	Solteq Plc: Martti Nurminen to be appointed as CFO of Solteq Plc
Mar. 16, 2018	Solteq Plc: Solteq Plc: Solteq Plc's shareholders' and Board of Directors' proposal to the General Meeting
Mar. 14, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Mar. 9, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Mar. 8, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Mar. 6, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Mar. 1, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Feb. 28, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Feb. 20, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Feb. 19, 2018	Solteq Plc: Solteq Plc – Managers' transactions
Feb. 16, 2018	Solteq Plc: Solteq Plc: Correction to the notice of the Annual General Meeting to be held on March 27, 2018
Feb. 16, 2018	Solteq Plc: Solteq Plc: Notice of the Annual General Meeting to be held on March 27, 2018
Feb. 16, 2018	Solteq Plc: Solteq Plc: Solteq Plc Financial Statements Bulletin January 1–December 31, 2017 (IFRS)
Feb. 16, 2018	Solteq Plc: Solteq Plc: Solteq Plc publishes its 2017 annual report and financial statements
Feb. 6, 2018	Solteq Plc: Solteq Plc: Changes in Solteq Plc's Executive Team
Jan. 15, 2018	Solteq Plc: Solteq Plc – Directed share issue to Theilgaard Mortensen Holding ApS

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. Solteq Group consists of the parent company Solteq Plc and its four Finnish and three foreign subsidiaries, which have five 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 stakeholders 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 2018 elected five (5) members to Solteq's Board of Directors: Markku Pietilä (Chairman), Aarne Aktan, Eeva Grannenfelt, Kirsi Harra-Vauhkonen and Mika Uotila. Board member Kirsi Harra-Vauhkonen resigned from Solteq's Board of Directors on October 2, 2018. An Extraordinary General Meeting held on October 25, 2018 elected Lotta Kopra as a new Board member.

The Board of Directors met 12 times during the year and had an attendance rate of 100%.

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 three men and two women. However, from October 2 until October 25, 2018 the Board had only four members, consisting of three men and one woman.

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 Mika Uotila. The Chairman of the Committee is Markku Pietilä. All members of the Audit Committee are independent of the company and Aarne Aktan is independent of significant shareholders.

Remuneration

During the financial year 2018, 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, 2018.

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–April 18, 2018 the members of the Executive Team were Olli Väätäinen (Chairman), Ilkka Brander (Core Business Solutions), Matti Djateu (Marketing and PR), Kirsi Jalasaho (People and IR), Antti Kärkkäinen (Finance) and Juha Rokkanen (Digital Services and Sales).

During the period April 18–December 31, 2018 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 Juha Rokkanen (Digital Services, Sales & Clients).

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 2018, 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, 2018 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, 2018.

Chairman of the Board

The total remuneration of Chairman of the Board Markku Pietilä amounted to 41,500 euros in 2018. 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, 2018.

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 287,000 euros for the period January 1–December 31, 2018.

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, 2018.

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, 2018.

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 will be 1,000,000, and they entitle 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 are 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 will be 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 is 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 are the calendar years 2016–2018. Each key person included in the scheme is 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 corresponds 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 will end on April 1, 2019 for all shares. The company has the right to terminate the restriction period before its due date.

On the balance sheet date, 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.

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 2018, 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, 2018

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 Solution Oy; Management duties, Componenta Oyj
Member of the Board of Directors since: 2008
Independent of the company.

Eeva Grannenfelt

Year of birth: 1958
Education: M.Sc. (Econ.), CEFA
Primary occupation: Managing Partner, Grannenfelt Finance Oy
Key work experience: more than 30 years of experience in the financial sector, including banks and insurance companies
Member of the Board of Directors since: 2015
Independent of the company.

Mika Uotila

Year of birth: 1971
Education: M.Sc. (Econ.)
Primary occupation: Managing Partner, Sentica Partners Oy
Key work experience: Chief Investment Officer and Partner, Sentica Partners Oy; Executive positions at Sonera Oy; Chairman of the Board, Func Food Group Oy
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; Management duties, BearingPoint Ltd
Member of the Board of Directors since: 2018
Independent of the company and its significant shareholders.

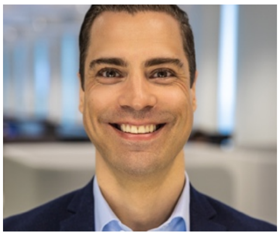
Solteq's Executive Team on December 31, 2018

Olli Väätäinen

Year of birth: 1966
Education: M.Sc. (Econ.)
Primary occupation: CEO, Solteq Plc
Key work experience: Kotipizza Group Oyj
Member of the Executive Team since: April 1, 2017
Key concurrent positions of trust: -

Matti Djateu

Year of birth: 1975
Education:
Primary occupation: CDO
Key work experience: Scotch & Soda, Dentsu Aegis Network, Wrangler Europe
Member of the Executive Team since: June 16, 2017
Key concurrent positions of trust: –



Martti Nurminen

Year of birth: 1979
Education: M.Sc. (Econ.)
Primary occupation: CFO
Key work experience: CFO, Affecto (2016–2017); Finance Director, Johnson Controls (2013–2015); Group Controller, IBM Global Technology Services, Europe, (2011–2012)
Member of the Executive Team since: April 18, 2018
Key concurrent positions of trust: –

Ilkka Brander

Year of birth: 1976
Education: B.Soc.Sc., MBA
Primary occupation: EVP – Core Business Solutions
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; CFO, Descom 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 – Digital Services
Key work experience: CEO, inPulse Works (2016–2017); Managing Director, Innofactor Finland (2006–2013); Sales Director, WM-Data Novo Oyj (2003–2006)
Member of the Executive Team since: June 12, 2017
Key concurrent positions of trust: –

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Solteq Plc

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