SOLTEQ

Half-Year Report

JANUARY 1–JUNE 30, 2020

Solteq Plc Half-Year Report January 1–June 30, 2020

April–June

- Revenue totaled EUR 15,080 thousand (14,660).
- EBITDA was EUR 2,710 thousand (1,572).
- Operating profit was EUR 1,481 thousand (571) and comparable operating profit EUR 1,507 thousand (521).
- Earnings per share was EUR 0.04 (0.01).
- The revenue was 2.9 percent higher than in the comparison period, while the comparable revenue grew by 7.8 percent.

January–June

- Revenue totaled EUR 30,754 thousand (29,590).
- EBITDA was EUR 4,584 thousand (4,027).
- Operating profit was EUR 2,197 thousand (2,101) and comparable operating profit EUR 2,387 thousand (1,726).
- Earnings per share was EUR 0.04 (0.05).
- Solteq Group’s equity ratio was 33.1 percent (30.3).
- Net cash flow from operating activities was EUR 5,345 thousand (1,939).
- The revenue was 3.9 percent higher than in the comparison period, while the comparable revenue grew by 9.7 percent.
- The company invested strongly in future growth by focusing on the development of our own cloud-based software products and services. During the review period the product development investments amounted to EUR 1.8 million (2.1). Product development during the entire financial year is expected to be less than EUR 3.0 million.
- Profit guidance for 2020: Solteq Group’s comparable operating profit is expected to grow significantly.

Key figures

	4-6/2020	4-6/2019	Change-%	1-6/2020	1-6/2019	Change %	1-12/2019	Rolling 12mos
Revenue, TEUR	15,080	14,660	2.9	30,754	29,590	3.9	58,291	59,455
Comparable revenue, TEUR	15,080	13,992	7.8	30,754	28,041	9.7	55,293	58,006
EBITDA, TEUR	2,710	1,572	72.3	4,584	4,027	13.8	9,714	10,271
Comparable EBITDA, TEUR	2,736	1,522	79.8	4,774	3,653	30.7	6,582	7,704
Operating profit, TEUR	1,481	571	159.3	2,197	2,101	4.6	5,711	5,808
Comparable operating profit, TEUR	1,507	521	189.5	2,387	1,726	38.3	2,579	3,240
Profit for the financial period, TEUR	779	131	494.5	819	941	-13.0	2,803	2,681
Earnings per share, EUR	0.04	0.01	491.3	0.04	0.05	-13.5	0.15	0.14
Operating profit, %	9.8	3.9		7.1	7.1		9.8	9.8
Comparable operating profit, %	10.0	3.7		7.8	6.2		4.7	5.6
Equity ratio, %				33.1	30.3		32.0	34.7

Profit guidance 2020

Solteq Group’s comparable operating profit is expected to grow significantly.

CEO Olli Väätäinen:

The company’s profitability improved clearly in the second quarter

Solteq Group’s second-quarter revenue was EUR 15.1 million, up by 2.9 percent. The increase in comparable revenue – when the absence of the SAP ERP business is taken into account – is 7.8 percent. Around a fifth of this revenue was derived from outside Finland. The company's own software products and related services contributed around a third and digital services around two thirds of revenue.

The company’s profitability improved clearly in the second quarter: operating profit improved, year-on-year, by 159.3 percent, standing at EUR 1.5 million. The company’s EBITDA was EUR 2.7 million – growing by 72.3 percent year-on-year.

The company has been closely following and assessing the impact of the COVID-19 pandemic on its business. So far, the pandemic has had no negative effects on the company on the whole. The good performance in the review period was based on orders secured during the year before and the capability to deliver in key business areas. Growth was also driven by successful sales efforts in the first half of 2020. Significant new customer projects, especially in the energy sector, balanced lower sales in the travel, restaurant and leisure sectors that were affected by the pandemic. Good performance in the second quarter was also improved by the streamlining measures taken earlier this year and the resulting cost savings.

To ensure a going concern and sufficient funding, the company initiated a written procedure on April 21, 2020, concerning an amendment to the terms and conditions of its fixed-rate bond, with a nominal value of EUR 27.0 million. By permission of the bondholders on May 18, 2020, the maturity date was extended by 12 months, the new date being July 1, 2021 – six years from the date it was issued. On the half-year reporting date, the company's bond liability is EUR 24.5 million.

The company has performed well in a challenging and unpredictable market situation. The organization's operational capacity and the safety of its stakeholders were ensured by measures adopted in the early stages of the pandemic. The business outlook and profitability are expected to remain favorable.

Operating environment

Solteq primarily operates with selected solutions in chosen sectors of the Nordic IT services and software market. The market offers an opportunity for positive business development although it is overshadowed by uncertainty caused by the COVID-19 pandemic and a prediction by IDC, a market intelligence company, of a 5.1 percent drop in international IT markets. The pandemic is expected to have an impact on the market throughout the year. Negative effects will be felt particularly owing to delayed projects and falling contract volumes within the travel, restaurant, and leisure industries. At the same time, the pandemic is accelerating the digital transition and the change in companies' operating environments. This will speed up demand for, among other things, digital expert services and solutions, such as eCommerce solutions and software products. Customers' investments are focused on new digital services, securing business continuity, and optimizing costs.

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

The company continues to invest in its own product development, in which the main investments have been made into autonomous robotics such as Solteq Retail Robot. Research and advisory company Gartner forecasts that autonomous robotics will become more common in the retail sector within the coming years. Gartner's 2020 report, titled Autonomous Things Ecosystems Open Opportunities for IT Services Providers in Retail, estimates that autonomous robotics is currently utilized by only one percent of retailers in the USA, but the figure will jump to 60 percent by 2025. Demand for autonomous robotics solutions will be accelerated by clear and verifiable benefits, such as more efficient shop operations and a better cost structure.

Solutions employing autonomous robotics are also expected to become more common in the construction industry. According to the Building Automation System Market report (MarketsandMarkets, 2019), robotics solutions in the global construction industry are expected to increase by 10 percent annually, reaching USD 121.5 billion by 2024. Solteq has joined forces with KONE Corporation and Lassila & Tikanoja Plc to form the Intelligent Sustainable Urban Flows consortium, which is developing more intelligent and automated logistics for large real estate. The project creates synergy benefits for the companies' product development and supports the companies' efforts to reach international markets with their innovations. Business Finland granted Solteq support totaling EUR 0.8 million in July 2020 for the two-year project.

The digitalizing energy sector is creating growth opportunities in the Finnish market, as electricity businesses prepare to join the national Datahub. Solteq is specialized in energy-sector specific software and IT services, which has quickly turned the company into the market leader for energy sector customer information and online service systems in Finland.

Solteq has been consistently building its market position in selected industries as a provider of comprehensive solutions and services. Continuous development of customer needs requires investments in Solteq's own product development and new technologies, especially within cloud services and analytics. In addition, IT sector players are expected to provide more agile and scalable delivery models. Solteq meets the expectations with an organization that makes use of agile methods, and by focusing on the as-a-Service (aaS) model and its own software products.

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

Revenue and profit

April–June

Solteq's revenue for second quarter increased by 2.9 percent compared to the previous year and totaled EUR 15,080 thousand (14,660). The increase in comparable revenue – factoring in the absence of the SAP ERP business – was 7.8 percent.

Operating profit totaled EUR 1,481 thousand (571). Comparable operating profit was EUR 1,507 thousand (521).

Profit before taxes was EUR 995 thousand (64) and the profit for the financial period was EUR 779 thousand (131).

January–June

Revenue in January–June increased by 3.9 percent compared to the previous year and totaled EUR 30,754 thousand (29,590). The increase in comparable revenue – factoring in the absence of the SAP ERP business – is 9.7 percent.

Operating profit for the review period was EUR 2,197 thousand (2,101). Comparable operating profit was EUR 2,387 thousand (1,726).

Profit before taxes was EUR 1,104 thousand (1,126) and the profit for the financial period was EUR 819 thousand (941).

Solteq Digital

April-June

Solteq Digital's second-quarter revenue was EUR 10,510 thousand (10,355), up by 1.5 percent. The increase in comparable revenue – when the absence of the SAP ERP business is taken into account – is 8.5 percent. The comparable EBITDA was EUR 1,774 thousand (1,189) and comparable operating profit EUR 1,106 thousand (501).

The segment's business consists of three solution areas: digital business and trading; data management and analytics; and business systems. During the second quarter, the digital business and trading and business systems performed as expected, accounting for some 80 percent of the segment's revenue. Data management and analytics continued to increase considerably during the second quarter.

Sales in the Solteq Digital segment were reasonable, considering expectations, during the second quarter. The negative effects of the COVID-19 pandemic have hit the travel and restaurant and leisure projects hardest as project volumes shrink or projects are postponed. Demand remained healthy in the company's key business areas, such as eCommerce solutions and the retail and pharmacy business.

January-June

Solteq Digital segment's comparable growth and profitability realized well in the review period. Solteq Digital's revenue was EUR 21,846 thousand (21,052), up by 3.8 percent. The increase in comparable revenue – factoring in the absence of the SAP ERP business – is 12.0 percent. The segment's comparable EBITDA was EUR 3,086 thousand (2,399), accounting for 14.1 percent of revenue. The comparable operating profit of EUR 1,759 thousand (1,057) for the review period accounts for 8.1 percent of the company's revenue. The business outlook for the rest of the year is expected to remain at the current level.

Solteq Digital	4-6/2020	4-6/2019	Change %	1-6/2020	1-6/2019	Change %	1-12/2019
Revenue, TEUR	10,510	10,355	1.5	21,846	21,052	3.8	41,195
Comparable revenue, TEUR	10,510	9,686	8.5	21,846	19,502	12.0	38,197
Comparable EBITDA, TEUR	1,774	1,189	49.1	3,086	2,399	28.7	3,871
Comparable EBITDA, %	16.9	12.3		14.1	12.3		10.1
EBITDA, TEUR	1,748	1,240	40.9	2,946	2,773	6.2	7,072
EBITDA, %	16.6	12.0		13.5	13.2		17.2
Comparable operating profit, TEUR	1,106	501	120.6	1,759	1,057	66.4	1,199
Comparable operating profit, %	10.5	5.2		8.1	5.4		3.1
Operating profit, TEUR	1,080	552	95.5	1,619	1,432	13.1	4,401
Operating profit, %	10.3	5.3		7.4	6.8		10.7

Solteq Software

April-June

Solteq Software's second-quarter revenue was EUR 4,570 thousand (4,306), up by 6.1 percent. The comparable EBITDA was EUR 962 thousand (332) and comparable operating profit EUR 401 thousand (19). Comparable EBITDA and operating profit were eroded by the revenue recognition of long-term projects in the Utilities business area, and product development depreciations that were higher than previously. Depreciations were about EUR 100 thousand higher year-on-year.

The segment's product development investments and depreciations are having a negative effect on profitability in the short term. Profitability is expected to improve gradually as product development reaches the commercial phase and revenue increases.

The segment's business operations consist of the Utilities business, focusing mainly on the energy sector; and the Point-of-Sale-Platforms business, focusing on multichannel trading in the service industry. Both increased considerably and performed as expected, forming 65 percent of the segment's revenue. In addition to this, Solteq Robotics, which focuses on autonomous robotics and is included in the segment, has significant synergy potential for business, although it is not yet generating revenue.

In the autonomous robotics business area, the company formed the Intelligent Sustainable Urban Flows consortium together with KONE Corporation and Lassila & Tikanoja Plc. The purpose of the consortium is to develop increasingly intelligent and automated solutions for the internal logistics of large real estate. Business Finland granted Solteq EUR 800 thousand to carry out the two-year project.

The company was successful in obtaining new customers, especially in the Utilities business area. Thanks to the new customer delivery contracts, the company became the Finnish market leader as a provider of customer information and service systems for the energy sector.

A total of EUR 718 thousand (1,063) was invested in product development in the second quarter. Product development during the entire financial year is expected to be less than EUR 3,000 thousand. Going forward, product development is expected to be between 10–15 percent of the segment's revenue.

January-June

The Solteq Software segment performed as expected in the review period. The segment's January–June revenue was EUR 8,908 thousand (8,539), up by 4.3 percent. The comparable EBITDA of EUR 1,688 thousand (1,254) for the review period accounts for 19.0 percent of the company's revenue. The review period's comparable operating profit was EUR 628 thousand (669), accounting for 7.1 percent of revenue.

The share of recurring revenue during the review period accounted for around 30 percent of the segment's revenue. Recurring revenue consists of software licensing, maintenance and support fees. The company's target is to increase recurring revenue to account for more than 50 percent of the revenue in three years.

During the review period – particularly in the Utilities business area – Solteq was successful in gaining new customers, and the value of new customer delivery contracts in the energy sector already exceeded EUR 10 million. The new delivery and service agreements consist of delivery projects for the customer information system the company has developed, and related options and license fees for 4–5 years. On the whole, the Solteq Software segment business is expected to develop positively in the second half of the year.

Solteq Software	4-6/2020	4-6/2019	Change %	1-6/2020	1-6/2019	Change %	1-12/2019
Revenue, TEUR	4,570	4,306	6.1	8,908	8,539	4.3	17,095
Comparable EBITDA, TEUR	962	332	189.6	1,688	1,254	34.6	2,711
Comparable EBITDA, %	21.1	7.7		19.0	14.7		15.9
EBITDA, TEUR	962	332	189.6	1,638	1,254	30.7	2,642
EBITDA, %	21.1	7.7		18.4	14.7		15.5
Comparable operating profit, TEUR	401	19	2,009.6	628	669	-6.1	1,379
Comparable operating profit, %	8.8	0.4		7.1	7.8		8.1
Operating profit, TEUR	401	19	2,009.6	578	669	-13.6	1,311
Operating profit, %	8.8	0.4		6.5	7.8		7.7

Balance sheet and finance

Total assets amounted to EUR 77,261 thousand (75,570). Liquid assets totaled EUR 7,755 thousand (4,362). The company has a standby credit limit of EUR 4,000 thousand. At the end of both the review and the comparison periods, the standby credit limit was unused. The company also has a bank account credit limit of EUR 2,000 thousand which was unused at the end of the review period. A total of EUR 1,595 thousand of the bank account credit limit was in use at the end of the comparison period. At the end of the review period, the company had a EUR 1,207 thousand Business Finland loan for product development (857).

The Group’s interest-bearing liabilities were EUR 33,468 thousand (34,464).

Solteq Group’s equity ratio was 33.1 percent (30.3).

On July 1, 2015 Solteq Plc (Solteq) issued an unsecured bond of EUR 27.0 million. 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 the above-mentioned bond with a nominal value of EUR 2.5 million during the financial year 2016. The company’s bond liability is EUR 24.5 million.

On April 21, 2020, the company initiated a written procedure concerning a change in the terms of the above bond with a nominal value of EUR 27.0 million (with maturity date of July 1, 2020), requesting that the loan period be extended by 12 months. Amendment of the terms was accepted by means of a written procedure on May 18, 2020. The new maturity date is July 1, 2021.

Owing to the COVID-19 pandemic and the prevailing financial market situation, the company considered it judicious to request a 12-month extension to the maturity date. The company is prepared to carry out any refinancing arrangements required and is therefore actively following developments in the financial markets. The management expects operations to continue, with only a low risk of inadequate funding. Uncertainty caused by the COVID-19 pandemic will increase the financing risk that is beyond the company’s control; the management estimates that the pandemic will have an impact on the financial market until at least the end of 2020. The maturity distribution of financial liabilities is presented in the tables section of this Half-Year Report.

Investment, research and development

The net investments during the review period were EUR 3,755 thousand (2,687). During the review period, EUR 1,767 thousand (2,089) of the net investments were capitalized development costs relating to continued further development of the existing software products and the development of new software products. Other investments were EUR 1,988 thousand (598). Other investments include the net change in rented premises and equipment, totaling EUR 1,699 thousand.

Capitalized development costs include EUR 1,177 thousand (1,529) of staff costs.

Personnel

The number of permanent employees at the end of the review period was 595 (607).

Key figures for group's personnel

	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Average number of personnel during period			592	591	597
Employee benefit expenses, TEUR	8,060	7,956	16,251	15,822	30,951

Related party transactions

Solteq's related parties include the Board of Directors, CEO and Executive team.

The related party actions and euro amounts are presented in the tables at the end of this Half-Year Report.

Shares, shareholders and treasury shares

Solteq Plc's equity on June 30, 2020 was EUR 1,009,154.17 which was represented by 19,306,527 shares. The shares have no nominal value. All shares have an equal entitlement to dividends and company assets. Shares are governed by a redemption clause.

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

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

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

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

Exchange and rate

During the review period, the exchange of Solteq's shares in the Nasdaq Helsinki Ltd was 1.5 million shares (0.4) and EUR 1.7 million (0.5). The highest rate during the review period was EUR 1.50 and lowest rate EUR 0.96. The weighted average rate of the share was EUR 1.16 and end rate EUR 1.18. The market value of the company's shares at the end of the review period totaled EUR 22.8 million (28.0).

Ownership

At the end of the review period, Solteq had a total of 2,350 shareholders (2,193). Solteq's 10 largest shareholders owned 13,316 thousand shares i.e. they owned 69.0 percent of the company's shares and votes. Solteq Plc's members of the Board of Directors and CEO owned 592 thousand shares on June 30, 2020 (592).

Annual General meeting

Solteq's Annual General Meeting on June 10, 2020 approved the financial statement for period January 1–December 31, 2019 and discharged the CEO and the Board of Directors from liability.

The Board of Directors' proposal of to the General Meeting that no dividend will be paid from the financial year ended on December 31, 2019 was accepted.

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

The maximum total amount of shares or other rights is 3,000,000. The authorization includes the right to give new shares 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, e.g. to improve the capital structure, to finance and execute business acquisitions and other business improvement arrangements or to implement the Company's incentive schemes. The authorization is proposed to include that the Board of Directors may decide the terms and other matters concerning the share issue and the granting of special rights, including the subscription price and the payment of the subscription price in cash or in whole or in part by other means (subscription in kind) or by using a claim on the subscriber to offset the subscription price and to record it in the company's balance sheet.

The authorization is effective until the next Annual General Meeting, however, no longer than until April 30, 2021 (April 30, 2021 included).

In addition, the Annual General Meeting authorized the Board of Directors 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 (directed) regarding business acquisitions or when executing other business arrangements. Accepting pledge may occur at once or in multiple transactions. The number of own shares to be accepted as pledge shall not exceed 2,000,000 shares. The authorization includes that the Board of Directors may decide on other terms concerning the pledge. The authorization is effective until the next Annual General Meeting, however, no longer than until April 30, 2021 (April 30, 2021 included).

Board of directors and auditors

The Annual General Meeting on June 10, 2020 decided that The Board of Directors includes six members. Aarne Aktan, Lotta Kopra, Markku Pietilä, Panu Porkka, Katarina Segerståhl and Mika Uotila will continue on the Board.

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

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

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

Other events during the review period

On March 23, Solteq Plc announced that the Annual General Meeting scheduled for April 1, 2020 will be cancelled and moved to another date to be announced later.

On April 3, Solteq Plc announced that, for the time being, the company cancels its guidance for the 2020 financial year due to the uncertainty on the markets caused by the COVID-19 pandemic.

On April 6, Solteq Plc announced that it considers requesting an amendment to the terms and conditions of its EUR 27.0 million notes in a written procedure.

On April 20, Solteq Plc released comparable data for the financial year 2019 based on its new reporting structure.

On April 21, Solteq Plc announced a written procedure to amend the terms and conditions of its EUR 27.0 million senior unsecured fixed rate notes due 2020.

On April 28, Solteq Plc announced that it has signed delivery and service agreements worth around EUR 8.0 million (including options) with the energy industry.

On April 29, Solteq Plc announced that the Board of Directors has decided to change the proposal for the distribution of dividend.

On May 18, Solteq Plc announced that it has successfully completed a written procedure in order to amend the terms and conditions of its EUR 27.0 million senior unsecured fixed rate notes.

Events after the review 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 Half-Year Report.

Risks and uncertainties

Material uncertainties and near-term risks consist of the direct and indirect impacts of the COVID-19 pandemic on the company's business and financial position.

On April 21, 2020, the company initiated a written procedure concerning a change in the terms of a bond worth EUR 27.0 million (with maturity date July 1, 2020), requesting that the loan period be extended by 12 months. The company's bond liability is EUR 24.5 million. Amendment of the terms was accepted by means of a written procedure on May 18, 2020. The bond will mature on July 1, 2021.

Other key uncertainties and risks are related to the management of changes in financing and balance sheet structures, the timing and pricing of business deals that are the basis for revenue, changes in the level of costs, developing company's own products and their commercialization, and the company's capability to manage extensive customer contracts 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.

Impact of the COVID-19 pandemic on financial reporting

The company is continuously monitoring the COVID-19 pandemic situation, assessing its impact on the company's operations, strategy and realization of targets, performance, financial position, and cash flows.

Based on information currently available, the COVID-19 pandemic is not expected to have any long-term impact on the company's financial performance. The company management has assessed the goodwill impartment test included in the 2019 financial statements to the company's performance in the 2020 financial year, and in terms of long-term expectations. The management has not identified any need to further test its goodwill during the reporting period, and the pandemic has not had an effect on asset item valuations.

The company has not historically incurred material credit losses, so the probability of such losses is low, and provisions for them have been small. Considering the situation, the company prepared for any increased credit losses due to the COVID-19 pandemic in the first quarter by increasing the credit loss provisions in the balance sheet. No significant changes have yet been observed in customers' payment behavior. The company is following the situation closely.

The company has also assessed the valuation of its other asset items and discovered that the pandemic has had no effect on their valuation so far.

The company's EUR 24.5 million bond will mature on July 1, 2021. The company is prepared to carry out any refinancing arrangements required and is therefore actively following developments in the financial markets. Uncertainty caused by the COVID-19 pandemic will nevertheless increase the financing risk that is beyond the company's control; the management estimates that the pandemic will have an impact on the financial market until at least the end of 2020.

Going concern principle

On April 21, 2020, the company initiated a written procedure concerning a change in the terms of an unsecured, senior bond with fixed interest and a nominal value of EUR 27.0 million (with maturity date July 1, 2020), requesting that the loan period be extended by 12 months. Amendment of the terms was accepted by means of a written procedure on May 18, 2020. The company's bond liability is EUR 24.5 million.

The prerequisite of going concern was to rearrange financing before the original maturity date of the current bond. The procedure ended successfully. Owing to the prevailing financial market situation, the company considered it prudent to request a 12-month extension to the maturity date. The company's EUR 24.5 million bond will mature on July 1, 2021. The company is prepared to carry out any refinancing arrangements required and is therefore actively following developments in the financial markets. Uncertainty caused by the COVID-19 pandemic will nevertheless increase the financing risk that is beyond the company's control, and the management estimates that the pandemic will have an impact on the financial market at least throughout 2020.

The company's operations are on a solid foundation and it is the management's view that the company has the capacity to overcome the COVID-19 pandemic's negative impacts on its business operations. On this basis, the management expects operations to continue, with only a low risk of inadequate funding.

This Half-Year Report was drawn up under the going concern principle, taking account of the financial restructuring either already carried out or pending.

Financial reporting

This Half-Year Report has been prepared in accordance with the recognition and valuation principles of IFRS standards and using IAS 34 and the same accounting policies as the Financial Statements 2019. The new IFRS standards, taken into use on January 1, 2020, do not have a significant impact in the Group's Half-Year Report. The information presented in the Half-Year Report has not been audited.

Changes in segment reporting

On October 29, 2019, Solteq Plc announced that the company is changing its segment structure to create a better match with the Group's business structure and revenue sources and to promote business growth, particularly in international markets. Going forward, in 2020 Solteq Group will have two business segments: Solteq Software (software business) and Solteq Digital (consulting).

In the previous reporting structure, the Group's business was presented as a single segment. The new structure divides Solteq's business areas into distinct reportable segments, in accordance with their revenue models.

Solteq Software includes businesses based on the company's own products. The segment's revenue is mainly derived from license and maintenance fees for Solteq's own products, and the related services such as integrations and implementation projects.

The revenue of the Solteq Digital segment mainly comprises IT expert services. These services include consulting, the implementation of customer systems as projects, continuous development services and maintenance.

The comparable data for the financial year 2019 was released on April 20, 2020 in a separate Stock Exchange Bulletin.

Financial information

Consolidated statement of comprehensive income

TEUR	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Revenue	**15,080**	**14,660**	**30,754**	**29,590**	**58,291**
Other income	112	46	134	12	2,594
Materials and services	-1,405	-1,380	-3,076	-2,303	-5,440
Employee benefit expenses	-9,521	-9,443	-19,041	-18,744	-36,757
Depreciations and impairments	-1,228	-1,001	-2,387	-1,926	-4,003
Other expenses	-1,556	-2,312	-4,187	-4,528	-8,974
Operating profit	**1,481**	**571**	**2,197**	**2,101**	**5,711**
Financial income and expenses	-486	-507	-1,094	-975	-2,032
Profit before taxes	**995**	**64**	**1,104**	**1,126**	**3,679**
Income taxes	-217	67	-285	-185	-876
Profit for the financial period	**779**	**131**	**819**	**941**	**2,803**
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Currency translation differences	55	0	-24	-45	-44
Other comprehensive income					-29
Other comprehensive income, net of tax	55	0	-24	-45	-73
Total comprehensive income	**834**	**131**	**794**	**896**	**2,731**
Total profit for the period attributable to owners of the parent	779	131	819	941	2,803
Total comprehensive income attributable to owners of the parent	834	131	794	896	2,731
Earnings per share, EUR (undiluted)	0.04	0.01	0.04	0.05	0.15
Earnings per share, EUR (diluted)	0.04	0.01	0.04	0.05	0.15

Taxes corresponding to the profit have been presented as taxes for the period.

Consolidated statement of financial position

TEUR	30 Jun 2020	30 Jun 2019	31 Dec 2019
Assets			
Non-current assets			
Tangible assets	545	604	654
Right-of-use assets	7,706	7,468	7,298
Intangible assets			
Goodwill	38,845	40,374	38,840
Other intangible assets	11,250	8,616	10,151
Other investments	481	481	481
Other long-term receivables	158	211	108
Non-current assets total	**58,983**	**57,754**	**57,531**
Current assets			
Inventories	125	119	164
Trade and other receivables	10,398	13,334	15,638
Cash and cash equivalents	7,755	4,362	3,648
Current assets total	**18,278**	**17,816**	**19,449**
Total assets	**77,261**	**75,570**	**76,980**
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	1,009	1,009	1,009
Share premium reserve	75	75	75
Distributable equity reserve	12,910	12,910	12,910
Retained earnings	11,328	8,699	10,533
Total equity	**25,322**	**22,693**	**24,528**
Non-current liabilities			
Deferred tax liabilities	502	845	588
Financial liabilities	25,492	25,276	1,201
Lease liabilities	5,498	5,055	5,156
Non-current liabilities total	**31,492**	**31,176**	**6,945**
Current liabilities			
Financial liabilities		1,600	26,461
Trade and other payables	17,920	17,463	16,657
Provisions	50	105	41
Lease liabilities	2,478	2,534	2,349
Current liabilities total	**20,447**	**21,701**	**45,508**
Total equity and liabilities	**77,261**	**75,570**	**76,980**

Cash flow statement

TEUR	1-6/2020	1-6/2019	1-12/2019
Cash flow from operating activities			
Profit for the financial period	819	941	2,803
Adjustments for operating profit	3,700	2,413	3,732
Changes in working capital	1,264	-1,227	-595
Interests paid	-458	-199	-1,829
Interests received	19	10	16
Net cash from operating activities	**5,345**	**1,939**	**4,128**
Cash flow from investing activities			
Divested businesses	4,071		
Investments in tangible and intangible assets	-2,090	-2,224	-4,668
Net cash used in investing activities	**1,981**	**-2,224**	**-4,668**
Cash flow from financing activities			
Long-term loans, increase	7	857	1,201
Short-term loans, increase		1,595	3,595
Short-term loans, decrease	-2,000	-2,000	-3,595
Payment of finance lease liabilities	-1,225	-1,151	-2,361
Net cash used in financing activities	**-3,218**	**-699**	**-1,160**
Changes in cash and cash equivalents	**4,107**	**-985**	**-1,700**
Cash and cash equivalents at the beginning of period	3,648	5,347	5,347
Cash and cash equivalents at the end of period	**7,755**	**4,362**	**3,648**

Statement of changes in group equity

TEUR	Share capital	Share premium account	Invested unrestricted equity reserve	Currency translation difference	Retained earnings	Total
Equity 1 Jan 2019	1,009	75	12,910	-56	7,859	21,797
Profit for the financial period					941	941
Other items on comprehensive income				-45		-45
Total comprehensive income	**0**	**0**	**0**	**-45**	**941**	**896**
Equity 30 Jun 2019	**1,009**	**75**	**12,910**	**-101**	**8,800**	**22,693**
Equity 1 Jan 2020	**1,009**	**75**	**12,910**	**-100**	**10,633**	**24,528**
Profit for the financial period					819	819
Other items on comprehensive income				-24	0	-24
Total comprehensive income	**0**	**0**	**0**	**-24**	**819**	**794**
Transactions with owners						
Returned dividends					0	0
Transactions with owners	**0**	**0**	**0**	**0**	**0**	**0**
Equity 30 Jun 2020	**1,009**	**75**	**12,910**	**-124**	**11,452**	**25,322**

Revenue from contracts with customers

Group

TEUR	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Services	11,987	11,060	25,054	22,640	45,415
Revenue from long-term projects	1,629	1,206	2,599	2,992	5,922
Revenue from software licenses	1,409	2,191	2,943	3,724	6,386
Hardware sales	55	204	158	235	568
Total	**15,080**	**14,660**	**30,754**	**29,590**	**58,291**

Solteq Digital

TEUR	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Services	8,751	8,193	18,855	16,838	33,508
Revenue from long-term projects	1,081	1,000	1,560	2,281	4,188
Revenue from software licenses	644	1,004	1,334	1,754	3,176
Hardware sales	34	157	97	179	323
Total	**10,510**	**10,355**	**21,846**	**21,052**	**41,195**

Solteq Software

TEUR	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Services	3,236	2,867	6,200	5,803	11,907
Revenue from long-term projects	548	205	1,039	711	1,734
Revenue from software licenses	765	1,187	1,609	1,970	3,210
Hardware sales	21	47	61	55	244
Total	**4,570**	**4,306**	**8,908**	**8,539**	**17,095**

Total investments

TEUR	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Group total	1,630	1,442	3,755	2,687	4,632

Maturity of financial liabilities

TEUR	Book value	Contractual cash flows	1-12 months	13-24 months	25-36 months	Later
Financial lease liabilities, 30 Jun 2020						
Bond	24,285	27,440	1,470	25,970		
Loans from financial institutions	1,207	1,255	12	92	410	740
Lease liabilities	7,976	8,261	2,752	2,065	1,518	1,925
Trade payables	3,295	3,295	3,295			
Financial liabilities total	**36,763**	**40,251**	**7,530**	**28,128**	**1,929**	**2,665**
Financial assets, 30 Jun 2020						
Trade receivables	8,842					
Cash and cash equivalents	7,755					
Financial assets total	**16,597**					

The company has a standby credit limit of EUR 4,000 thousand and a bank account credit limit of EUR 2,000 thousand. At the end of the review period, June 30, 2020 both were unused.

The company's business fundaments are strong, and the operating profit and cash flow from operating activities are positive, which provides funding for the working capital requirements of the business. In addition, the company's management is actively monitoring the development of capital markets and has started preparations for executing a financial restructuring of the bond maturing July 1, 2021 (EUR 24,5 million) as well as to secure the company's financial position and growth strategy of the review period.

Liabilities

TEUR	30 Jun 2020	30 Jun 2019	31 Dec 2019
Business mortgages	10,000	10,000	10,000
Off-balance sheet lease liabilities	1,160	530	1,027

Related party transactions

TEUR	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Service sales					6
Purchases	1	2	3	4	8
Total	**1**	**2**	**3**	**4**	**14**

Transactions with the related parties have been done at the market price and are part of the company's normal business.

Fair value of financial assets and liabilities

The fair values of the financial assets and liabilities are mainly the same as the book values. Hence, they are not presented in table form in the Half-Year Report.

Major shareholders June 30, 2020

		Shares and votes	
		number	**%**
1.	Sentica Buyout III Ky	4,621,244	23.94
2.	Profiz Business Solution Oy	2,060,769	10.67
3.	Keskinäinen Työeläkevakuutusyhtiö Elo	2,000,000	10.36
4.	Saadetdin Ali	1,403,165	7.27
5.	Keskinäinen Työeläkevakuutusyhtiö Varma	1,245,597	6.45
6.	Aalto Seppo Tapio	730,000	3.78
7.	Roininen Matti Juhani	450,000	2.33
8.	Väätäinen Olli Pekka	400,000	2.07
9.	Lamy Oy	225,000	1.17
10.	Sentica Buyout III Co-Investment Ky	180,049	0.93
10 largest shareholders total		13,315,824	68.97
Total of nominee-registered		985,523	5.10
Others		5,005,180	25.92
Total		**19,306,527**	**100.00**

Financial performance indicators

	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Revenue, MEUR	15.1	14.7	30.8	29.6	58.3
Change in revenue, %	2.9	3.0	3.9	1.7	2.5
Operating profit, MEUR	1.5	0.6	2.2	2.1	5.7
% of revenue	9.8	3.9	7.1	7.1	9.8
Profit before taxes, MEUR	1.0	0.1	1.1	1.1	3.7
% of revenue	6.6	0.4	3.6	3.8	6.3
Net investments in non-current assets, MEUR	1.6	1.4	3.8	2.7	4.6
Equity ratio, %			33.1	30.3	32.0
Net debt, MEUR			25.7	30.1	31.5
Gearing, %			101.5	132.6	128.5
Return on equity, rolling 12 months, %			11.2	4.3	12.1
Return on investment, rolling 12 months, %			10.0	6.0	10.4
Personnel at end of period			595	607	598
Personnel average for period			592	591	597

Key indicators per share

Earnings per share, EUR (undiluted)	0.04	0.01	0.04	0.05	0.15
Earnings per share, EUR (diluted)	0.04	0.01	0.04	0.05	0.15
Equity per share, EUR			1.31	1.18	1.27

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

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

Performance measures used by Solteq Group are EBITDA, equity ratio, gearing, return on equity, return on investment and net debt. The calculation principles of these financial key figures are presented as part of this Half-Year Report. The performance measures presented as rolling 12 months include the total figures of the past four quarters.

Items affecting comparability and alternative performance measures

Items affecting comparability:

Transactions that are unrelated to the regular business operations, or valuation items that do not affect the cash flow, but have an important impact on the income statement, are adjusted as items affecting 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

Comparable revenue

The reconciliation of the comparable revenue to revenue is presented in the table below.

TEUR	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Revenue	**15,080**	**14,660**	**30,754**	**29,590**	**58,291**
Items affecting comparability					
SAP ERP business transfer agreement		-668		-1,549	-2,998
Items affecting comparability total	**0**	**-668**	**0**	**-1,549**	**-2,998**
Comparable revenue	**15,080**	**13,992**	**30,754**	**28,041**	**55,293**

Comparable operating profit (EBIT)

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

TEUR	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Operating profit (EBIT)	**1,481**	**571**	**2,197**	**2,101**	**5,711**
Items affecting comparability					
SAP ERP business transfer agreement		-112		-446	-3,479
Cost of integrating the acquired business		61		72	72
Non-recurring severance packages	26		190		39
Damages from completed customer projects					98
Costs incurred by the re-organization of operations					138
Items affecting comparability total	**26**	**-51**	**190**	**-375**	**-3,132**
Comparable operating profit (EBIT)	**1,507**	**521**	**2,387**	**1,726**	**2,579**

Calculation of financial ratios

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

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

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

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

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

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

EBITDA: operating profit + depreciation and impairments

Net debt: interest bearing liabilities - cash and cash equivalents

Business combinations

There were no acquisitions during the review or comparison period.

Financial reporting in 2020

Solteq Plc's financial information bulletins in 2020 have been scheduled as follows:

- Interim Report 1-9/2020 Thursday October 29, 2020 at 8.00 am (EET)

More investor information is available on Solteq's website at www.solteq.com.

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