digia

A builder of digital ecosystems

Annual Report 2018

Contents

Working together for a smoother digital world

Digia is a software and service company that helps its customers harness digitalisation opportunities. We believe that value is created in digital ecosystems, making intelligent use of data. We implement platform solutions, help our customers to harness data, and provide the best possible digital customer experience. We are building a smoother digital world – together with our customers and partners.

Technological advancements are changing the world. Operating methods are changing and industry boundaries are breaking down. However, this revolution does not mean uncontrolled chaos. We help our customers to navigate these changes and harness digitalisation opportunities.

In a digitalising world, corporate and community activity is increasingly being built around platforms that enable interactive networks and even entire ecosystems. Digital services are ever present in everyone's daily lives.

In this world, you have to be able to build and integrate platforms that utilise data and create a customer experience that combines a good user vibe with technical functionality. Therefore, both companies and individuals must be able to engage in a new kind of collaboration.

At Digia, we are pioneers. We understand extensive systems and have mastered their implementation – flexibly, one piece at a time. Our offering encompasses digital services, business systems, and integration and API solutions. We also ensure that business critical solutions function 24/7. We are working together to build a smoother digital world.

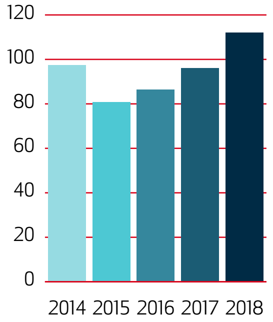
There are more than a thousand of us working at Digia. We operate in eight locations in Finland – Helsinki, Tampere, Jyväskylä, Turku, Oulu, Rauma, Vaasa and Lahti – and in Stockholm, Sweden.

Digia's net sales totalled EUR 112.1 million in 2018. The company is listed on Nasdaq Helsinki (DIGIA).

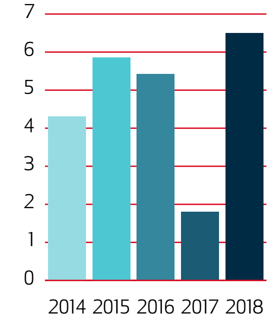
Key indicators

EUR 1,000	2018	2017	Change, %
Net sales	112,122	96,221	18.6%
Operating result	6,494	1,846	250.6%
–as a % of net sales	5.8%	1.9%	
Result for the period	4,704	968	382.9%
–as a % of net sales	4.4%	1.0%	
Return on equity, %	10.2%	2.5%	
Return on investment, %	10.6%	3.7%	
Interest-bearing liabilities	12,707	16,630	166.3%
Net gearing, %	26.6%	10.8%	
Equity ratio, %	54.9%	51.0%	
Number of personnel, at period end	1,091	1,005	8.6%
Average number of personnel	1,069	954	12.1%
Shareholders' equity	47,782	44,130	8.3%
Balance sheet total	88,104	86,610	1.7%
Earnings per share	0.18	0.04	330.4%

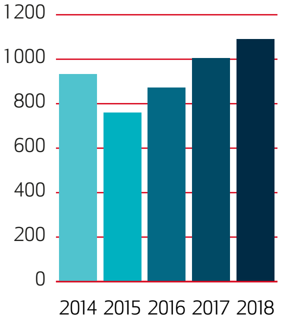
Net sales, EUR million



Operating result, EUR million



Number of emplyees, 31 Dec



The figures of 2014 include the Qt business and therefore the figures from 2015 onwards include only Digia Plc's figures.

A year of strong growth

In 2018, we posted strong growth and bolstered our service offering. We grew by almost 19 per cent, clearly outperforming the growth rate in the IT service market. At the same time, we improved our profitability. In line with our strategy, we rounded out our total offering by means of both acquisitions and organic development.

In 2018, Digia continued its journey of renewal. The main focuses of development were personnel expertise, the product and service offering and our operating model. The renewal of our operating model aims to improve both customer satisfaction and profitability.

The cornerstone of Digia's growth is our skilled and motivated personnel. We invested in both personnel training and learning on the job. We offered opportunities to work in meaningful projects, and to learn through activities such as training and workplace tribes. For example, the Digia Academy provided almost 200 different training events to our employees in 2018.

In accordance with our strategy, we continued to reinforce our overall offering with complementary corporate acquisitions. In March 2018, we acquired Avarea Oy, which specialises in advanced analytics solutions. Thanks to this acquisition, Digia can provide its customers with a unique and comprehensive offering for data analytics, artificial intelligence and necessary background integrations. In the course of the year, we also augmented our ERP systems offering by acquiring Mavisystems Oy, which specialises in Microsoft Dynamics ERP systems and CRM solutions.

"At Digia, we believe that smart data management is the way to create value in digital ecosystems."

The focuses of the organic development of our total offering were integrations and continuous 24/7 services. In integrations, we set our sights on state-of-the-art delivery models and cloud technologies. We wish to secure our position as a leading supplier of integrations and APIs. The importance of comprehensive and reliable 24/7 services for customers is increasing as digitalisation progresses. In 2018, we created a successful operating model in this area; going forward, we will make further investments in continuous service development.

At the beginning of 2018, we introduced a new customer account management model. The model yields the greatest value for customers when we can serve them with a wide range of services. The model seeks to ensure that our organisation and processes comprise a coordinated and cohesive interface for cooperation with our customers.

In the latter half of 2018, we also overhauled our organisation. The new organisation took effect at the beginning of 2019. Our overhauled organisation can operate more effectively in a market where the platform economy and ecosystems are increasingly important.

In 2019, the market will in our view keep trending in a direction in which digital solutions are an increasingly important element of our customers' core business. This trend will support Digia's growth opportunities in the future. Our customers' development focus is shifting from the implementation of separate, isolated projects towards the controlled renewal of business operations as a whole, involving the modernisation of the entire IT service offering of the company, from its core systems to state-of-the-art e-services and their integration. Digital platforms will become even more important in the future and we see a world in which business is increasingly networked.

At Digia, we believe that smart data management is the way to create value in digital ecosystems. In this world, we are a trusted partner to our customers.

I would like to thank our customers, employees, partners and other stakeholders for a productive 2018. A successful year such as this provides a good springboard for 2019.

Timo Levoranta
President and CEO

Growth
18.6%

Net sales
112.1
EUR million

Operating result
6.5
EUR million

Earnings per share
0.18
EUR

Employees
1,091

Digia's service areas

Digia reports on one business segment that comprises five service areas. As of 1 January 2019, Digia restructured its organisation to enable a greater focus on helping our customers with platform economy solutions, data management, and creating a deep customer experience.

Digia's service areas are Digia Business Connect, Digia Digital, Digia Business Platforms, Digia Financial Platforms and Digia Customer Operations. The business segment is supported by our Common Services support function.

Digia Business Connect

This business area combines customer-centric, tailor-made platform solutions with Digia's solid expertise in integration. Digia is recognised as one of Finland's leading operators in integration and API solutions, and the platform economy trend will further strengthen the importance of smooth and reliable integrations. This service area's key themes are interoperability, reliability, and data security.

Digia Digital

We help our customers to create an excellent digital customer experience through productive services that have been designed with a customer-centric approach. We provide business and service design, e-commerce solutions, agile software development, and solutions for data management and analytics.

Digia Business Platforms and Digia Financial Platforms

In these service areas, we provide business systems that help our customers to boost the efficiency of their core processes. These systems also act as a flexible platform for digital business development.

Digia Business Platfoms offers ERPs and extended CRM solutions for companies of all sizes. Our offering is centred around Microsoft D365 solutions and our own Digia Enterprise ERP product (which has been awarded the Key Flag symbol).

Digia Financial Platforms is based around our DiFS (Digia Financial Solutions) product family, which is a market-leading solution for fund management companies, asset management companies, and brokers.

Digia Customer Operations

This service area includes Digia's continual services, support and maintenance. Digia's own Service Center ensures that our customers' business-critical systems work 24/7 without interruption.

Digia Common Services

The Common Services function supports Digia's business segment by providing technology, consulting and process services. It also enhances Digia's working methods.

Together we build a world where digitality runs and feels

We help our customers to construct their business systems so that they provide a flexible yet stable platform on which to build a variety of digital services and indeed an entire digital business. A controlled and comprehensive approach is essential for successful platform integrations. We are able to provide our customers with round-the-clock system support and monitoring to ensure uninterrupted business-critical processes.

CASE

Digital acceleration facilitates responding to the market transformation.

Business environment

Markets and Digia's market position

The platform economy trend is also becoming increasingly obvious in digital development at Finnish companies. During the next phase, we believe that the networked approach will expand from individual platforms to cover entire digital ecosystems. In the world of ecosystems, the fundamental success factors are the ability to utilise data and a winning customer experience.

Development from individual projects to digitalization of the whole business

Instead of making individual digital projects, companies are increasingly considering the bigger picture: how can the opportunities afforded by digitalisation be harnessed throughout our business in the best possible way? IT services are not isolated elements – they increasingly have a direct connection to core business. IT infrastructure must then be planned as an ensemble so that a company's core systems, such as ERPs or CRMs, constitute a platform on which digital services can be developed. The ensemble will be realized in phases.

From individual separate projects towards digital ecosystems

Digitality, highly compatible platforms and data sharing will enable new ways of creating value. It may be worthwhile for a company to provide its services via a third-party platform, or to attract more users to its own platform services by making them available to other service providers. This networked approach is quickly becoming common,and will change the world forever.

We believe that, in the future, business value will be created in these kinds of digital ecosystems. This trend can already be seen today, and will only strengthen over the coming years. One new aspect of the platform trend is that it no longer affects only Über, Facebook, Airbnb and the like, that is, brand-new platform services that disrupt an industry. Now, it will undoubtedly affect companies with well-established businesses, both in Finland and abroad.

Emphasis on ability to connect to ecosystems and build them

As networked way of operating becomes more common, companies must consider which ecosystems they want to operate in, and how they will go about it. In practice, this requires the ability to either build or join a platform. At the same time, the business-critical nature of platform solutions puts pressure on the security and reliability of implementations. As a result of this trend, companies need to partner with IT operators that both understand and can deliver these kinds of extensive systems – and also guarantee their functionality under all circumstances.

Digia's offering is well suited to all these market requirements. We help our customers to construct and develop their business systems, so that they provide a flexible yet stable platform on which to build a variety of digital services and indeed an entire digital business. A controlled and comprehensive approach is essential for successful platform integrations. Digia is a solid and recognised market provider of integrations and APIs. We are able to provide our customers with round-the-clock system support and monitoring to ensure uninterrupted business-critical processes.

Data utilisation paramount in ecosystems

Data utilisation is becoming an increasingly critical success factor in the world of ecosystems. Many companies are now genuinely switching to an operating model in which data is harnessed to steer and renew business operations. The idea of platform economy solutions is the sharing and pooling of data among networked operators so that brand-new kinds of services are created for users.

People have been talking about data utilisation for a long time, and data volumes are increasing all the time as processes and services are digitalised. The threshold questions are how to structure big data into a usable format and how to identify the areas in which it can be best used.

Digia responds to these customer needs by providing both consulting services and technological solutions to collect, manage and analyse data. When it comes to secure data sharing, the creation and administration of open interfaces (APIs) now play an important role. In 2018, we added to our expertise in analytics and data utilisation with the acquisition of Avarea.

Thanks to the Avarea deal, Digia has solid expertise in the Data Lake and Data Platform solutions required to build analytics solutions. Digia provides data analysis solutions for customer and profitability analytics in particular: we help companies to accumulate a deeper understanding of their customers and both forecast and improve profitability. We also help customer companies to take full advantage of data utilisation: With the aid of analytics and AI, data can be used to develop brand-new operating methods and services, and even completely new kinds of businesses.

Profound customer understanding is the key to success

With networks, platform economy services and digital ecosystems, customers can acquire services more easily and through a greater variety of channels than ever before. When trying to succeed in the face of this competition, customer experience is the decisive factor.

We believe that, in the future, a winning customer experience will have to be deep. A deep customer experience arises when a service combines a good vibe with good functionality, that is, high-quality user interface design, nice visuals and technical functionality. A service must operate as a seamless whole – even with the back-end systems.

In the field of digital services, demand is also shifting away from isolated system solutions to comprehensive system design. This trend is an opportunity for a company such as Digia – a company that knows how to create a deep customer experience in everything from digital services to integrations and business systems. This package is tied together with a customer-centric approach to design that is well served by our service design expertise.

Strategy 2016–2019

Our growth strategy, which was published on 29 April 2016, seeks to strengthen the company's position, particularly in the growing market for digital services, process digitalisation and the service business. We want to grow at a significantly faster pace than the IT market and are seeking average annual growth of 15 per cent. Growth is sought both organically and inorganically.

The implementation of the strategy is supported by the market trends of platforms and digital ecosystems.

The key themes of Digia's strategy for 2016–2019 are: digitalisation of services and processes, bolstering the service business, adapting our offering for selected industries, deep partnership with our customers expert and enthusiastic employees.

Customer cases

Helkama-Auto

Helkama-Auto, an importer of Škoda cars, spare parts and accessories, has used the Digia Enterprise ERP system since 2007. Helkama-Auto serves dealers and customers all over Finland. Due to its nationwide operations, it is business critical that the ERP system works effectively.

In addition to its domestic ERP system, Digia has implemented two webshops and business-critical integrations for Helkama-Auto. Both webshops are built on top of Digia Enterprise.

READ MORE

YIT

Better customer understanding opens the door to new services and the development of the customer experience. YIT felt that it did not have sufficient in-house understanding of analytics, analytics processes and the opportunities they provide.

Digia helped YIT to enhance its understanding and expertise in analytics and the opportunities it provides with a modelled analytics concept. The model enhanced YIT's understanding of dependencies and enables it to make decisions regarding its operations.

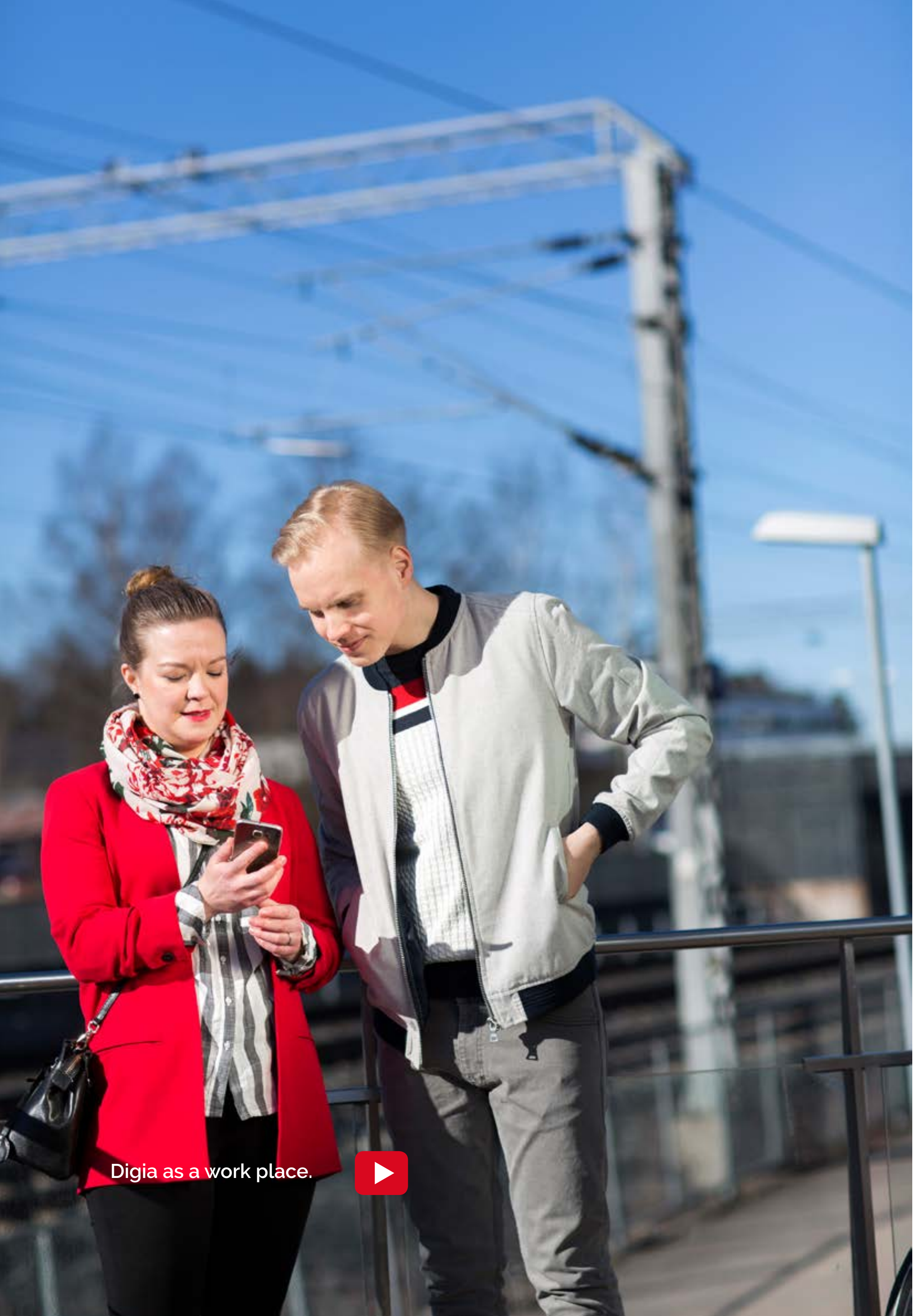
READ MORE

The Finnish Transport Agency

The Finnish Transport Agency needed a tool to facilitate the monitoring of its multi-supplier environment and the detection of anomalies. The Digia Iiris operational view service fit its requirements. Digia Iiris helps the Finnish Transport Agency keep itself up to date, and also enables other suppliers to have an additional view of the systems.

Thanks to Digia Iiris, the Finnish Transport Agency has a better understanding of incident management, for instance.

READ MORE



digia

Responsible Digia

Responsible Digia

We are a responsible company, and this responsibility arises from our everyday choices. Responsibility is an element in our business success. We take account of the needs of both our most significant stakeholders and society as a whole. Digia's material areas of corporate responsibility are anti-bribery and corruption, data security and protection, customers, taking care of employees, technological solutions, and taking environmental responsibility into consideration.

During 2018, we further developed our non-financial data reporting by using a materiality matrix to help us define the most significant themes for our corporate and social responsibility. We examined responsibility from financial, social and environmental perspectives, and also with regard to responsibility themes within our sector. We have also assessed the corporate liability risks associated with our own operations and business relations, and have adequate and appropriate processes in place to predict and take precautions against these risks.

We want to create value for our stakeholders by engaging in responsible and profitable business. Profitable operations enable us to invest in business growth and provide our financial stakeholders with income.

The foundations of responsible operations

We regard corporate responsibility as a fixed aspect of our business, and seek to operate responsibly in all of our financial and social activities. Digia's responsibility is based on our own Code of Conduct, the UN's Universal Declaration of Human Rights, and the International Labour Organisation's (ILO) standards. However, in our changing business environment, responsibility is based above all else on the continual monitoring and improvement of our operations.

Digia's Code of Conduct

1. Compliance

We shall comply with legislation in our business operations. We shall not condone or participate in illegal activities of any kind.

2. Third-party rights

We shall honour the proprietary rights of others as expressed in patents, copyrights, trademarks and industrial designs.

3. Anti-bribery and anti-corruption policy

We shall not condone bribery or corruption in any form.

4. Data security

We shall protect all of the data, materials and devices that belong to us, our customers or our partners.

5. Data protection

We shall protect the personal data of our personnel, customers and partners.

6. Working conditions

We shall respect internationally recognised human and labour rights. We shall care for our personnel's wellbeing. We shall maintain a safe and healthy working environment for all employees.

7. Environmental responsibility

We shall take care of the environment. We shall encourage environmentally friendly choices in our business and working environments.

Every Digia employee, regardless of their position, is required to comply with these principles and report any irregularities.

Ethical and transparent business

Awareness of, and compliance with, shared standards is an important element of Digia's responsibility. In 2018, we overhauled our data protection organisation and trained our employees on the EU General Data Protection Regulation.

Digia does not condone bribery or corruption in any form. The anti-bribery and anti-corruption policy covers all of Digia's operations. Digia's internal anti-bribery and anti-corruption policy underlines that Digia takes bribery and corruption seriously, and sets out rules and guidelines to promote ethical and lawful behaviour. We foster our reputation as an ethical company by creating awareness of the risks of bribery and corruption, such as their legal consequences, reputational risk, and the risk of exclusion from public-sector tenders.

Digia primarily operates in Finland and our operations mainly extend only to other low-risk countries (as classified by Transparency International). However, Digia has foreign partners in countries where the risk of bribery and corruption has increased. We pay attention to bribery and corruption in our dealings with partners, and exercise extreme caution in the selection of our partners. We also require our partners to commit to compliance with anti-bribery and corruption legislation.

Digia has organised training for personnel to help combat bribery and corruption. We will monitor the attendance rate for this training, and report further on it annually.

Digia has a channel through which personnel can report any suspected violations related to bribery and corruption. These reports can also be made anonymously. All of the reports are forwarded to Digia's legal department for confidential handling.

Digia complies with legislation in its operations and neither condones nor participates in any kind of illegal activity. The company respects internationally recognised human and labour rights as well as cares for the wellbeing of its personnel, maintaining a safe and healthy working environment for all its employees. Digia has not performed a human rights assessment, but in the company's opinion there are no significant risks of human rights violations inherent in our own operations. Digia's supply chain does not, in the main, extend outside Finland.

Data protection

Digia seeks a high level of data protection, data privacy and information security in all of its activities. Digia is committed to protecting the data, materials and devices in our possession regardless of who they belong to – Digia, our customers or our partners. We respect the privacy of our personnel, customers and partners in all our operations. Protecting customers' privacy is an important element of our customer relationships.

Digia has identified the following risks in its own operations with regard to privacy and data protection: reputational risk, contractual risk, and the risk of sanctions. We maintain a high level of data protection and information security by training our personnel, administrative and technical controls, audits, and continually developing processes related to privacy and information security.

Digia's overhauled data protection organisation came into force at the beginning of 2018. In the new setup, data protection and information security procedures and processes will be in the Senior Security Advisor's area of responsibility. The Senior Security Advisor reports to Digia's Director of Technology, who is on the Management Team. Every function also has a separately appointed person responsible for data protection and security. Digia's data protection policy and practices, including those employed with customers and subcontractors, meet the additional obligations brought by the EU General Data Protection Regulation (GDPR) that came into force in 2018.

In 2018, information security processes were overhauled as part of Digia's extensive process reform. The information security process overhaul is part of a larger effort to develop security management for closer alignment with the ISO 27001 model. In connection with this, the secure system development process was also updated, taking data protection and information security into consideration in agile software development projects as well.

We continually supervise our data protection and information security practices, and update our operating models as required to counter threats and risks. Data protection is included in Digia's certified quality assurance system.

Financial responsibility

Economic growth is achieved responsibly, fairly, and by taking environmental and social perspectives into consideration in our decision-making. For Digia, financial success is the basis of responsible action, as it creates the conditions necessary for social and environmental responsibility.

Sustainable and responsible financial management also enables us to safeguard and generate financial wellbeing for our stakeholders and Finnish society in the form of salaries, taxes and other payments. We foster long-term partnerships and supplier relationships. Digia is a significant employer in the Finnish ICT sector, employing 1,090 people on 31 December 2018. We also use about 50 subcontractors, the majority of whom operate in Finland.

Anti-bribery and corruption efforts also lie at the heart of financial responsibility, and likewise respecting human rights. Digia's Code of Conduct defines the shared operating principles by which every Digia employee is bound. You can read Digia's Code of Conduct on page 12. We always comply with the legislation and regulations of the country in question. If our operating guidelines contain stricter requirements than those contained in a particular country's legislation, we will follow Digia's guidelines.

Breakdown of economic benefits

The key direct cash flows in our business arise from salaries and social expenses, taxes, the procurement of goods and services, and payments to financiers and shareholders.

Digia's tax footprint

A 'tax footprint' refers to the tax revenue and other tax-like payments accrued for society by a company's business. In addition to direct and indirect taxes, Digia's tax footprint also includes the withholding tax and social security payments paid on employee salaries.

We comply with local legislation on the payment, collection, recognition and reporting of taxes. Filing accurate tax returns on time and handling our other statutory obligations both play a key role in this. Our tax footprint summary covers all tax and tax-like payments which Digia has a statutory obligation to either pay or collect.

Human resources

Skilled and motivated personnel are the cornerstone of Digia's success. Digia seeks to be a desired and recognised employer in the technology sector. We want our workplace culture to provide our specialists with the best possible opportunities for personal development and success. A good employee experience is also the foundation for a good customer experience.

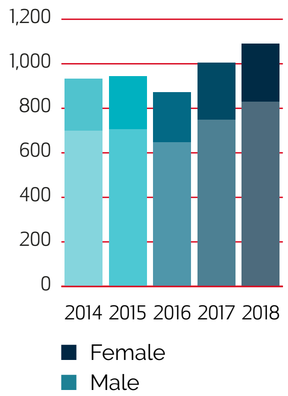
The technological advancement and digitalisation of society has fuelled competition for professionals.

Digia's key strength lies in its broad-ranging and profound technological expertise combined with an encouraging workplace culture. This is why we are able to provide our customers with an extensive range of solutions and our employees with varied and motivating tasks. We are still making continual investments in the creation of a good employee experience, so as to develop a motivating workplace culture and a culture of lifelong learning. In 2018, we launched the #DigiaCulture project, which seeks to strengthen and enhance everyday workplace culture in collaboration with Digia employees.

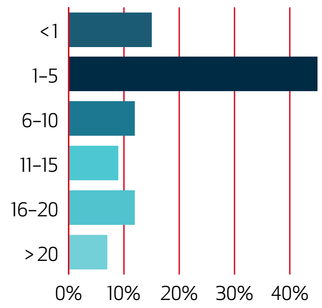
Competence in technology and other specialist areas is being developed through a variety of methods, such as training, e-learning, and learning on the job. We seek to provide our employees with opportunities for job rotation and personal development, thereby ensuring that both the company and its employees maintain their competitiveness. Digia has active workplace tribes that develop members' competence in self-directed expert networks. The tribes also suggest technological policies in their own areas of expertise. At Digia, the Competitiveness Pact has also been linked to competence development.

An average of 46 hours of training per person were spent on competence development in 2018. The Digia Academy organised about 200 different training events during the year. This training primarily focused on organising coaching to support the technical and professional skills of our experts.

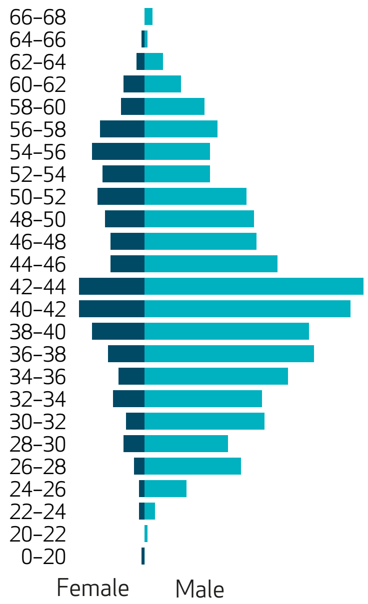
Number of employees and distibution by gender 31 December

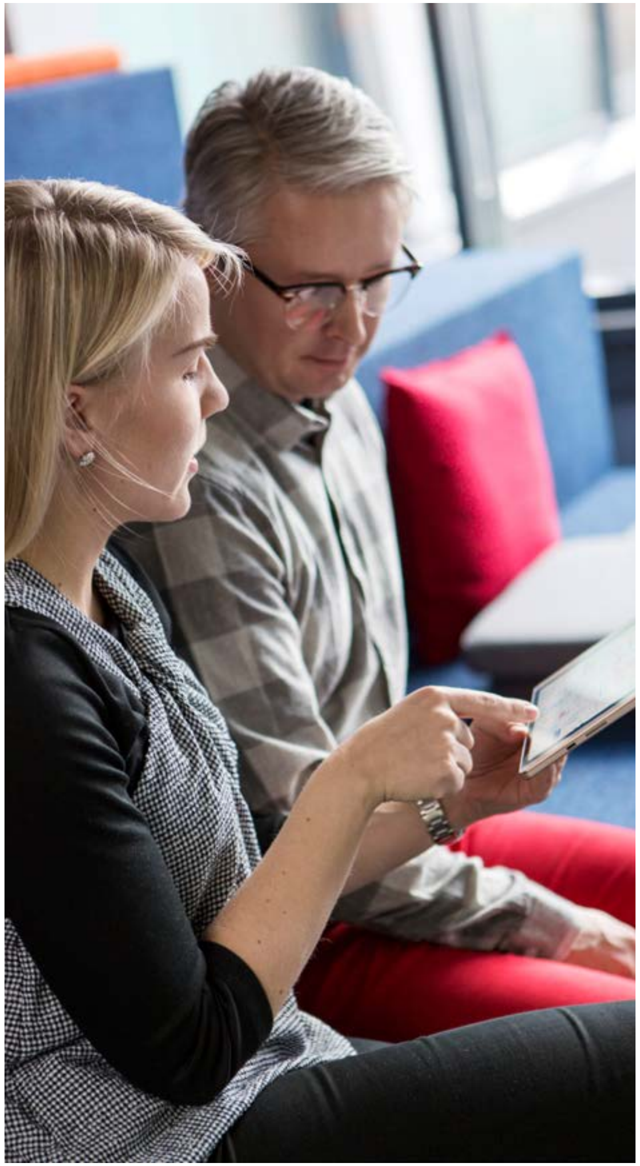


Personnel distribution by years of service 31 December



Personnel distribution by age 31 December





Successful recruitment that supports Digia's workplace culture is essential for competence development and business success. Induction for new employees is part of a successful recruiting process, and we have therefore invested in this. Successful induction is the basis for a positive employee experience and success at work. In 2018, Digia was involved in several recruiting and networking events in the sector, such as TalentIT and GraphQL. We also organised a number of networking events, such as Integration Academy and API Hackademies and Career Compass breakfast meetings.

Digia acquired the expertise required by its growth strategy not only through recruitment and subcontracting, but also by means of corporate acquisitions. In 2018, 86 new professionals joined Digia via corporate acquisitions. Digia's employee turnover in 2018 was 12.0% (2017: 10.8%).

Continually monitoring and supporting personnel wellbeing play a key role. We support wellbeing in a number of ways, such as the even distribution of workloads and support for competence development. In 2018, Digia invested in improving the transparency and effectiveness of resourcing by, for example, introducing a new resourcing system and operating model. Digia uses an early intervention model that supports success at work. Wellbeing is also supported with extensive benefits and flexible working arrangements.

Digia measures personnel commitment and the prerequisites for cooperation at regular intervals. In 2018, we focused our efforts on monitoring the prerequisites for cooperation, that is, by measuring the 'working together index'. We also conducted an extensive survey of Digia's workplace culture and its development. Digia's strengths include meaningful work, a safe and evolving working environment, and well-functioning teams with profound expertise.

In our estimation, the biggest employee-related risks are workforce retention and the availability of new professionals. We will continue to focus on these areas in 2019.

Digia wants to be a pioneer in good leadership and workplace culture. We seek to provide a professional, evolving diverse, flexible and equal working community whose workplace culture respects expertise and is founded on providing the best possible support to employees to guarantee their success.

Customers

We understand the challenges of rapidly changing operating environments and the opportunities afforded by various technologies. We can combine our customers' business requirements with our technological expertise. We want to provide a deep customer experience, that is, to harness our ability to build digital services with the aid of service design and combine them with various back-end systems.

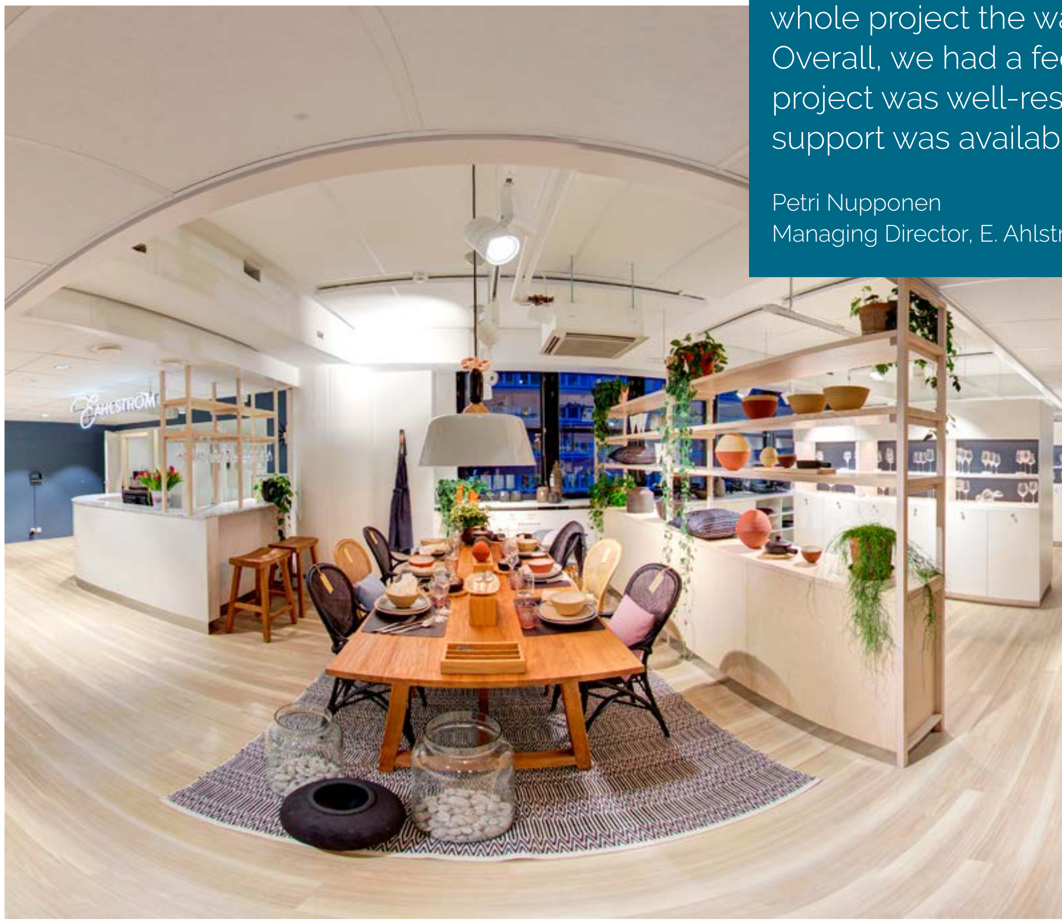
We enable a variety of ecosystems to be built on digital platforms, which can then in turn be used as a foundation on which to develop services. We are also able to provide end-to-end solutions that support our customers' core business.

We are a partner to our customers in the following industries: energy, labour unions and unemployment funds, retail, the service business, the manufacturing industry, the public sector, social and health services, wholesale, banking and investment services, food, insurance, telecommunications and logistics. Our skilled and experienced specialists work with our customers to create new services and working methods in long-term partnerships. We want to continually develop our customer experience and satisfaction. Developing our customer experience is one of our most important strategic projects.

Developing and revising our account management model

At the beginning of 2018, we introduced a new account management model that describes the key operating principles and practices that we apply when working with our customers. This update seeks improved customer satisfaction, higher quality, and greater efficiency.

Our new customer classification system and account management model clarify and unify responsibilities, and ensure that Digia's organisation, steering, decision-making and processes form a single uniform interface from our customers' perspective. This model will enable us to work together with our customers, with passion and as promised – that is, to further improve customer satisfaction.



Case E. Ahlström

"The project was carried out in an excellent way. Digia's project manager was a true professional who was able to solve problems and design the whole project the way we needed. Overall, we had a feeling that the project was well-resourced and support was available all the time".

Petri Nupponen
Managing Director, E. Ahlström

Stockmann

Stockmann, which has previously relied heavily on its brick-and-mortar stores, is making strong outlays on the comprehensive development of digital solutions, including e-commerce and background processes influencing the customer experience.

Digital acceleration and a new marketplace are Stockmann's responses to the market transformation. Digia is Stockmann's key e-commerce partner. Together with Stockmann's team, Digia is responsible for the maintenance and development of the stockmann.com and Crazy Days online stores.

Gasum

The Nordic energy company Gasum required an ERP system suitable for the needs of its growing and developing business at all of its business locations in Finland, Sweden and Norway.

Digia provided Gasum with the Microsoft D365 system. As a cost-effective and scalable solution, it will serve the company in the future as well. Gasum also adopted the Microsoft Data Lake solution to rationalise the work of its analysts. A cloud-based ERP delivers the desired flexibility and cost-effectiveness.

Eckerö Line

Eckerö Line has worked systematically and patiently to improve its customer experience. Digia brought a service design oriented perspective to this work, which has helped make Eckerö Line's online service more user-oriented, among other things.

Functionality in the world of mobile devices and the budding breakthrough of mobile payments formed the baseline for the design of Eckerö Line's online services. The company wanted to be ahead of the game.

Corporate Governance

Digia Plc's corporate governance statement 2018

General

This Statement has been issued separately from the Report of the Board of Directors.

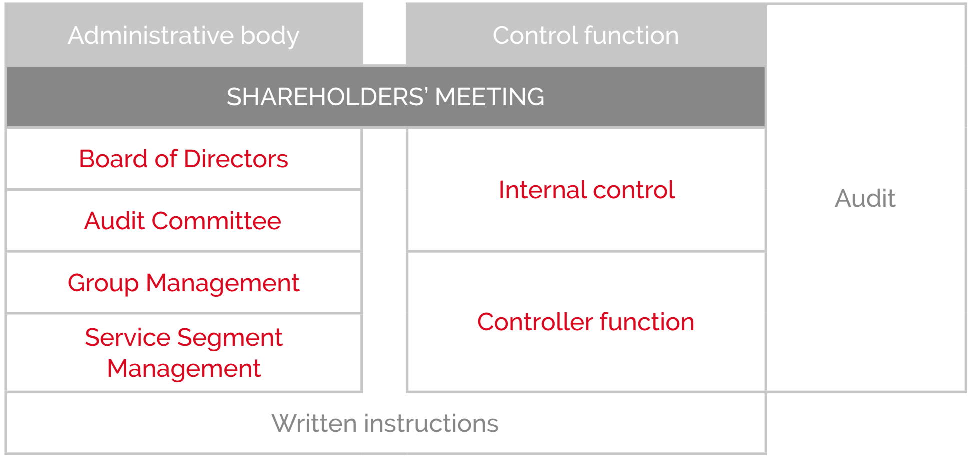
Digia Plc's (hereinafter "Digia") corporate governance system is based on the Companies Act, the Securities Markets Act, general corporate governance recommendations, the company's Articles of Association and its in-house rules and regulations on corporate governance. The company (and this Statement) adheres to the Governance Code for Listed Finnish Companies issued by the Finnish Securities Market Association, which entered into force on 1 January 2016. The Corporate Governance Code can be read on the Finnish Securities Market Association's website www.cgfinland.fi.

Digia's corporate governance principles are integrity, accountability, fairness, and transparency. This means that:

- The company complies with applicable legislation and regulations.
- When organising, planning, managing and running its business operations, the company abides by the applicable professional requirements that have been generally approved by its Board members, who demonstrate due care and responsibility in performing their duties.
- The company is prudent in the management of its capital and assets.
- The company's policy is to keep all parties in the market actively, openly and equitably informed of its businesses and operations.
- The company's management, administration and personnel are subject to the appropriate internal and external audits and supervision

General Overview Of Governance

Responsibility for Digia's operations is held by the Shareholders' Meeting, Board of Directors, and the President & CEO assisted by the Group Management Team.



Shareholders' Meeting

Digia's highest decision-making body is the Shareholders' Meeting at which shareholders exercise their voting rights on company matters. The Annual General Meeting (AGM) is held once a year before the end of June on a date set by the Board of Directors. Each company share entitles the holder to one vote at a Shareholders' Meeting.

The Annual General Meeting should convene annually within three months of the date on which the financial year ends. An Extraordinary General Meeting must be held if the Board of Directors deems it necessary or if requested in writing by a company auditor or shareholders holding a minimum of 10 per cent of the company's shares, for the purpose of discussing a specific issue.

The Finnish Companies Act and Digia's Articles of Association define the responsibilities and duties of the Shareholders' Meeting. Extraordinary General Meetings decide on the matters for which they have been specifically convened.

In order to participate in a Shareholder's Meeting, a shareholder must be entered in the Digia shareholder register maintained by Euroclear Finland Oy on the record date for the Shareholders' Meeting, and must also have registered for the meeting at the latest by the date given in the invitation.

The Chair of the Board, Members of the Board, auditor, anyone nominated for the Board, and the President & CEO are present at Shareholders' Meetings.

The minutes of Shareholders' Meetings are available to shareholders on the company's website, www.digia.com/en/investors/governance/annual-general-meeting within two weeks after the meeting. The decisions made at Shareholders' Meetings will also be published in a stock exchange release immediately after the meeting.

Shareholders have the right to add a relevant item (as specified in the Companies Act) to the agenda for the Shareholders' Meeting, as long as the request is made in writing to the Board of Directors in time for the item to be added to the notice of meeting. Digia will announce the date by which shareholders must present a requested AGM agenda item to the company's Board of Directors. This deadline will be published on Digia's website. The date will be announced at the latest by the end of the financial year preceding the Annual General Meeting.

The 2018 Annual General Meeting was held on 15 March 2018. More information about the decisions made at this meeting are available at www.digia.com/en/investors/governance/annual-general-meeting. No Extraordinary General Meetings were held in 2018.

Board Of Directors

Activities and tasks

The Board of Directors is elected by the Shareholders' Meeting, and is in charge of Digia's administration and the appropriate organisation of the company's operations. Under the Articles of Association, the Board of Directors must consist of a minimum of four and a maximum of eight members. The Nomination Committee will present the Shareholders' Meeting with its proposal for the composition of the new Board of Directors to be appointed.

The majority of Board members must be independent of the company and a minimum of two of those members must also be independent of the company's major shareholders. Neither the CEO nor other company employees working under the CEO's direction may be elected members of the Board.

The term of all Board members expires at the end of the Annual General Meeting following their election. A Board member can be re-elected without limitations on the number of successive terms. The Board of Directors elects its Chair and Vice Chair from amongst its members.

Board Diversity Policy

The Board of Directors has defined a Board diversity policy. It states that the requirements of the company's size, market position and industry should be duly reflected in the Board's composition. The Board should include members of both genders. It should be ensured that the Board as a whole will always have sufficient expertise in the following areas in particular:

- the company's field of business;
- managing a company of similar size;
- the nature of a listed company's business operations;
- management accounting;
- risk management;
- mergers and acquisitions; and
- board work.

The composition of the 2018 Board of Directors was successfully in line with Digia's diversity policy.

The Board of Directors' rules of procedure

The Board has prepared and approved written rules of procedure for its work. In addition to the Board duties prescribed by the Companies Act and other rules and regulations, Digia's Board of Directors is responsible for the items in its rules of procedure, observing the following general guidelines:

- Good governance requires that, instead of needlessly interfering in routine operations, the Board of Directors should concentrate on furthering the company's short- and long-term strategies;
- The Board's general task is to steer the company's business with a view to maximising shareholder value over the long term, while taking account of the expectations of various stakeholder groups; and
- Board members are required to act on the basis of sufficient, relevant and up-to-date information in a manner that serves the company's interests.

The Board of Directors' rules of procedure cover the following tasks:

- Defines the Board's annual action plan and provides a preliminary meeting schedule and framework agenda for each meeting;
- Provides guidelines for the Board's annual self-assessment;
- Provides guidelines for distributing notices of meetings and advance information to the Board, and procedures for keeping and approving minutes;
- Defines job descriptions for the Board's Chairperson, members and Secretary (the latter position is held by the General Counsel or, if absent, the CEO); and
- Defines frameworks within which the Board may set up special committees or working groups.

The Board evaluates its activities and working methods each year, employing an external consultant to assist when necessary.

The Board convened a total of 14 times during the 2018 financial year with an attendance rate of 95 per cent

Independence of the members of the Board of Directors

The Board of Directors assesses the independence of its members on an annual basis. Of the aforementioned current members of the Board, Martti Ala-Härkönen, Santtu Elsinen, Päivi Hokkanen, Seppo Ruotsalainen and Outi Taivainen are independent of the company and its major shareholders. Robert Ingman is independent of the company. Robert Ingman is not independent of the company's major shareholders due to his holdings in related parties.

Board Committees

During the 2018 financial year, Digia's Board of Directors had three (3) committees: the Compensation Committee, the Audit Committee, and the Nomination Committee.

These committees do not hold powers of decision or execution; their role is to assist the Board in decision-making concerning their areas of expertise. The committees report regularly on their work to the Board, which has decision-making and collegial responsibility over their actions.

Audit Committee

The purpose of the Audit Committee is to assist the Board of Directors in ensuring that the company's financial reporting, accounting methods, financial statements and any other financial information provided by the company comply with legislation and are balanced, transparent and clear. During the 2018 financial year, the Audit Committee consisted of Seppo Ruotsalainen (Chair), Santtu Elsinen and Martti Ala-Härkönen. The committee convened five times during the 2018 financial year, with full attendance.

Compensation Committee

Digia's Compensation Committee is tasked with preparing and following management remuneration schemes in order to ensure that the company's targets are met, that the objectivity of decision-making is maintained, and that the schemes are transparent and systematic. In 2018, the Compensation Committee consisted of Päivi Hokkanen (Chair), Robert Ingman and Outi Taivainen. The committee convened four times during the financial year, with full attendance.

Nomination Committee

The Nomination Committee prepares proposals for the Annual General Meeting on the number of members of the Board of Directors, the members of the Board of Directors, the remuneration for the Chair, Vice Chair and members of the Board of Directors, and the remuneration for the Chair and members of the committees of the Board of Directors. During the 2018 financial year, the Nomination Committee consisted of Seppo Ruotsalainen (Chair), Martti Ala-Härkönen and Robert Ingman. The Nomination Committee convened three times during the financial year with full attendance.

President & CEO

The company's Chief Executive Officer is appointed by the Board of Directors. The CEO is in charge of Digia's business operations and administration in accordance with the instructions and regulations issued by the Board of Directors, and as defined by the Finnish Limited Liability Companies Act. The CEO may take exceptional and far-reaching measures, in view of the nature and scope of the company's activities, only if so authorised by the Board of Directors. The CEO chairs the Group Management Team's meetings. The CEO is not a member of the Board of Directors, but attends Board meetings.

The Board of Directors approves the CEO's service contract, which contains a written definition of the key terms and conditions of the CEO's employment. Timo Levoranta has been President & CEO of Digia Plc since 1 May 2016.

Group Management Team

The Group Management Team supports the President & CEO in the operational management of the company. The Board of Directors approves the appointments of the members of the Group Management Team and decides on the terms and conditions of their service contracts based on the CEO's proposal.
Appointments of the members of the Group Management Team and other appointments in Digia are decided on a one-over-one basis.

The CEO chairs meetings of Digia's Management Team. The Management Team consisted of ten members on 31 December 2018. The Team meets once every two weeks to assist the CEO in strategic planning, strategy implementation, operative management, and preparing items for consideration by the Board of Directors. The Management Team draws up annual action and financial plans, sets their associated targets, and monitors their progress. It also prepares significant investments, mergers and acquisitions. The CEO is responsible for the Management Team's decisions. Members of the Management Team are tasked with implementing these decisions within their own areas of responsibility.

The Members of Digia Plc's Board of Directors in 2018

Member of the Board	Born in	Education	Main occupation	Holding 31 Dec 2018*	Member since
Martti Ala-Härkönen	1965	DSc (Econ.), Lic.Sc. (Tech.)	CFO, Caverion Plc	20,000	2016
Santtu Elsinen as of 15 March 2018	1972	BSc.-level studies in economics	Senior Vice President and Chief Digital Officer, Alma Media Oyj	0	2018
Päivi Hokkanen	1959	DSc (Econ.)	Development Director, SoteDigi Oy	10,833	2012
Robert Ingman, Chair	1961	MSc. (Tech.), MSc. (Econ.)	Chair of the Board, Ingman Group Oy Ab	6,026,000	2010
Pertti Kyttälä Chair until 15 March 2018	1950	MSc. (Econ.)	Managing Director, Peranit Oy	18,978	2005
Seppo Ruotsalainen Vice Chair	1954	Lic.Sc. (Tech.)	Board professional	3,000	2012
Outi Taivainen as of 15 March 2018	1968	MSc. (Econ.)	Partner, Rethink Leadership Oy	0	2018

* Includes related parties and related party holdings

The attendance of Board and Committee members at meetings in 2018

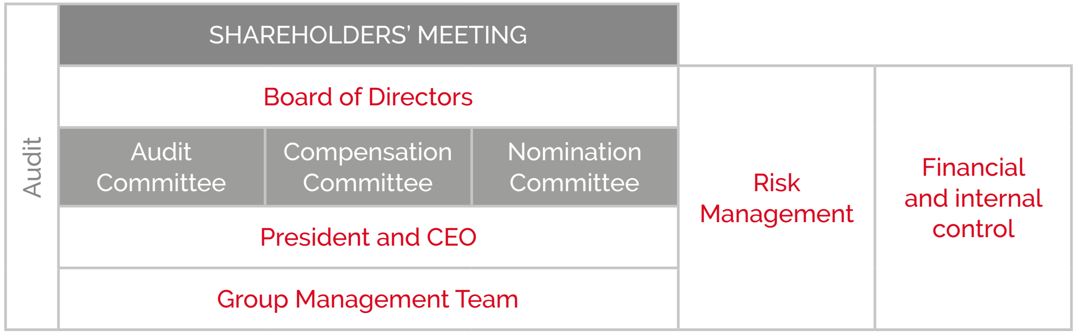
	Board meetings	Audit Committee	Compensation Committee	Nomination Committee
Martti Ala-Härkönen	14/14	5/5	1/1	2/2
Santtu Elsinen	12/13	4/4		
Päivi Hokkanen	14/14		4/4	
Robert Ingman	14/14		4/4	3/3
Pertti Kyttälä	1/1	1/1		1/1
Seppo Ruotsalainen	13/14	5/5		3/3
Outi Taivainen	12/13		3/3	

Management Team members on 31 Dec 2018

Name	Born in	Education	Area of responsibility	Holding on 31 Dec 2018*	Membe since
Timo Levoranta	1965	MSc. (Tech.), MSc. (Econ.)	President & CEO	48,607	2016
Pia Huhdanmäki	1969	LLM	Director, Human Resources	0	2018
Juhana Juppo	1971	MSc. (Computer Science)	CTO and Senior Vice President, Horizontal Services	0	2016
Mika Kervinen	1968	L.L.M with court training	General Counsel	2,255	2016
Jukka Kotro	1961	Vocational Qualification in Business Information Technology	Senior Vice President, Industrial Solutions	200	2017
Tuomo Niemi	1962	MSc. (Econ.), MSc. (Tech.)	Senior Vice President, Financial Sector	0	2017
Ari Rikkilä	1967	MSc. (Tech.)	Senior Vice President, Sales and Marketing	20	2017
Kristiina Simola	1965	MSc. (Econ.)	CFO	1,650	2017
Harri Vepsäläinen	1974	BBA	Senior Vice President, Digital Services	0	2018
Teemu Virtanen	1978	BSc.	Senior Vice President, Information Management Services	6,371	2016

* Includes related parties and related party holdings

Internal Control and Risk Management related to Financial Reporting



Control functions and control environment

The company has a controller function that reports to the CFO and is tasked with ensuring the accuracy of monthly financial reporting. The CFO reports on the financial performance of the company and its divisions to Management, the Board of Directors, and the Board's Audit Committee.

The company uses a reporting system that compiles subsidiaries' reports into consolidated financial statements. There are also written directives for completing the financial reports of subsidiaries. The company's CFO monitors compliance with these instructions. The company also has the separate reporting facilities required for monitoring business operations and asset management.

The Group's financial administration unit provides instructions for drawing up financial statements and interim financial statements, and compiles the consolidated financial statements. This financial administration unit has centralised control over the Group's funding and asset management, and is in charge of managing interest rate risks.

Internal control

Internal control helps to ensure the reliability of the Digia Group's financial reporting. Digia's financial administration unit provides guidance on financial reporting matters.

The Group's business is divided into areas of responsibility led by Senior Vice Presidents (SVPs) reporting to the CEO. Reporting and supervision are based on annual budgets that are reviewed monthly, on monthly income reporting, and on updates of the latest forecasts.

The SVPs report to the Group Management Team on development matters, strategic and annual planning, business and income monitoring, investments, potential acquisition targets and internal organisation matters related to their areas of responsibility. Each area of responsibility also has its own management team.

Digia's operational management and supervision adhere to the corporate governance system described above.

Digia has not yet established a separate function responsible for internal auditing. The need for an internal audit function is regularly assessed. With the company's current business volume, its legal and financial management functions are able to handle internal auditing tasks.

Risk management and major risks

The purpose of the company's risk management process is to identify and manage risks in a way that enables the company to attain its strategic and financial targets. Risk management is a continuous process by which the major risks are identified, listed and assessed, the key persons in charge of risk management are appointed, and risks are prioritised according to an assessment scale that compares the effects and mutual significance of risks. Part of this process involves identifying, planning and implementing risk management measures, and then monitoring their impact.

The main operational risks monitored under Digia's risk management are related to customers, personnel, deliveries, IT, data protection, data privacy and information security, immaterial rights, and goodwill.

The company manages customer risks by actively developing its customer portfolio structure and avoiding any potential risk positions.

Personnel risks are evaluated and managed using a quarterly performance review and development discussion process in which key personnel participate. To enhance personnel commitment, the company strives to systematically improve the efficiency of internal communications via regular personnel events and by increasing the management's visibility. Two major personnel-related risks are competence development and finding the correct expertise. These risks are systematically managed by developing our personnel's competence and through continual recruitment management and subcontractor management.

Internal – and as required also external – audits of major projects and continuous services are conducted with a view to enhancing project and service risk management and securing the success of customer deliveries. The Group's certified quality systems are also regularly evaluated.

During 2018, the Group further increased the efficiency of its project delivery reporting practices. During 2018 the project management operating model has been further developed and this work continues also in 2019.

Audits are carried out to manage data security and data privacy risks, and the company also continually develops working models, practices and processes that promote data security and data privacy. Security training for all personnel is organised as required.

The Management Team is tasked with systematically managing risks associated with business integration, shared operating models and best practices, as well as their integrated development. Typical risks in the software business relate to appropriate protection for the company's own immaterial property rights (IPRs) and violation of third parties' IPRs. These are managed through extensive internal policies, standard contracts, and appropriate supervision and analysis.

With respect to IFRS-compliant accounting policies, the Group actively monitors goodwill and its associated impairment tests as a part of prudent and proactive risk management practices within financial management.

Digia has assessed the corporate liability risks associated with its own operations and business relations, and has adequate and appropriate processes in place to predict and take precautions against these risks.

In addition to operational risks, the company is subject to financial risks. Digia Plc has centralised internal and external financing and the management of financial risks within the finance function of the Group's parent company. This function is responsible for the Group's liquidity, the sufficiency of financing, and the management of interest rate and currency risks. The Group is exposed to several financial risks in the normal course of business. The Group's risk management seeks to minimise the adverse effects of changes in financial markets on the Group's earnings. The primary types of financial risks are interest rate risk, credit risk, and funding risk. The general principles of Digia's risk management are approved by the Board of Directors, and the Group's finance function and business divisions are jointly responsible for their practical implementation.

Insider Administration

Digia complies with the current Guidelines for Insiders issued by NASDAQ Helsinki. Digia also adheres to its own insider guidelines, which supplement NASDAQ Helsinki's guidelines. Digia's General Counsel is responsible for insider issues.

Insiders

Digia's insiders are divided into:

1. permanent insiders, which include the CEO and members of Digia's Board of Directors and Management Team;
2. project-specific insiders, which include those who receive insider information relating to a specific project due to their position or tasks;
3. persons, who receive financial information.

Permanent insiders are not listed in project-specific insider registers.

Management's business transactions

Members of Digia's Management and those in their close circle must report all business transactions that involve Digia's financial instruments and are worth more than EUR 5,000 to both Digia and the Financial Supervisory Authority. The managerial positions covered by this obligation are: the CEO, members of the Management Team, and members of Digia's Board of Directors.

Digia will issue a stock exchange release on all personal business transactions made by members of Digia's Management and those in their close circle. These releases will be issued within three (3) days of the transaction. Digia also keeps a record of this information on the company's website.

Closed window

Anyone working in a managerial position at Digia, or who otherwise receives financial information, may not trade in the company's securities during a period of 30 days before the publication of one of the company's business reviews, half-year reports or financial statement bulletins. Project-specific insiders may not trade in the company's securities whilst the project is ongoing.

Reporting misconduct

Digia Plc has a 'whistle blowing' channel for reporting suspected market abuse. This channel seeks to promote compliance with good governance in the company's routine activities, and to prevent and detect misconduct.

It can be used to report market abuse and the violation of operating principles, regulations and instructions, either confirmed or suspected.

Anyone can make an anonymous report using the form on Digia's intranet. All reports are directed to Digia's legal unit.

All reports will be processed confidentially and professionally in accordance with the Personal Data Act, with regard to both the informant and suspect.

Auditor and Auditor's Fees

Auditor and auditor's fees

Digia has one official auditor, who must be an Authorised Public Accountant or a firm of Authorised Public Accountants approved by the Auditing Board of the Central Chamber of Commerce. The auditor is elected until further notice.

The Annual General Meeting elects the auditor and decides on their fees.

KPMG Oy Ab, a firm of Authorised Public Accountants, is the Group's auditor. Virpi Halonen, Authorised Public Accountant, has been chief auditor since 2015.

Auditor's fees in 2018

EUR 1,000	2018
Audit	70
Other statutory duties	0
Tax counselling	0
Other services	14
Total	**84**

Digia's Board of Directors, 31 Dec 2018

Robert Ingman

Chair of the Board of Directors

b. 1961, MSc. (Tech.), MSc. (Econ.)

Digia Board Member since 2010, Vice Chair of the Board 2012–2018, Chair of the Board 2018. Member of the Board's Nomination Committee and Compensation Committee.

Chair of the Board of Directors

M-Brain Ltd, 2018–
Qt Group Plc, 2016–
CRI Invest & Consulting Ltd, 2014–
Etteplan Plc, (2009), 2013–
Ingman Development Ltd, 2013–
Halti Ltd, 2012–
Ingman Group Ltd, 2009–
Oy Ingman Finance Ltd, 2009–

Member of the Board

Ingman Baltic Sea Finance Ltd, 2015–, PK Oliver Ltd, 2013–, Massby Facility & Services Ltd, 2012–, M-Brain Ltd, 2011–2018, Evli Bank Plc, 2010–

Independent of the company.

Martti Ala-Härkönen

Member of the Board

b. 1965, DSc (Econ.), Lic.Sc. (Tech.)

Digia Board member since 2016. Member of the Board's Audit Committee and Nomination Committee.

Key work experience

CFO (Finance, Strategy & IT), Caverion Plc, 2016
CFO, Cramo Plc, 2006–2016
CFO, WM-data Ltd, 2004–2006
CFO & Senior Vice President, Business Development, Novo Group Plc, 1998–2004
Finance Manager & Manager of Corporate Finance, Postipankki Plc, 1995–1998

Member of the Board

Rettig ICC Ltd, 2018–

Independent of the company and its major shareholders.

Santtu Elsinen

Member of the Board

b. 1972, B.Sc.-level studies in economics

Digia Board member since 2018. Member of the Board's Audit Committee

Key work experience

Senior Vice President, Chief Digital Officer, Alma Media Plc, 2016–
CEO, Winterfell Capital Ltd, 2014–
Director, Business Development, Talentum Plc, 2012–2015
CEO, Quartal Ltd, 2011–
Director, Business Development, Trainers' House/Satama Interactive Plc, 2005–2012
Creative Director & Business Development Director, Quartal Ltd, 1997–2005

Member of the Board

Etua Ltd, 2018–
Alma Mediapartners Ltd, 2017–
Arena Interactive Ltd, 2017–
Media Industry Research Foundation of Finland, 2016–
Fondia Tools Ltd, 2011–2012
Quartal Ltd, 1997–

Independent of the company and its major shareholders.

Päivi Hokkanen

Member of the Board

b. 1959, DSc (Econ.)

Digia Board member since 2012. Chair of the Board's Compensation Committee.

Key work experience

Development Director, SoteDigi Ltd, 2018–
CEO, ITprofs Ltd, 2017–
CIO, A-Katsastus Group, 2012–2017
CIO, Sanoma Plc, 2009–2012
CIO, Stockmann Plc, 2002–2009
Director, SysOpen Plc, 1998–2002
Several positions, Cap Gemini Ltd, 1995–1998
Several positions, Kansallisrahoitus Ltd, 1984–1995

Member of the Board

MPY Palvelut Plc, 2017–, ICT Leaders Finland, 2016–

A Member of the Directors' Institute of Finland.

Independent of the company and its major shareholders.

Seppo Ruotsalainen

Member of the Board

b. 1954, Lic.Sc. (Tech.)

Digia Board member since 2012. Chair of the Board's Audit Committee and Nomination Committee.

Seppo Ruotsalainen currently works as a Board professional, Board chair, Board member and investor, and in strategic advisor roles in various technology and software companies. He is a member of the Directors' Institute of Finland and the Finnish Business Angels Network (FiBAN).

Key work experience

President & CEO, Tekla Plc, 1998–2003
Deputy CEO, F-Secure Plc, 2008–2009
Deputy CEO, LM Ericsson Ltd, 1994–1998
Sales Director, Hewlett Packard, 1982–1993

Chair of the Board of Directors

Softera Ltd, 2015–, Osuuskunta MPY, 2013–, AniLinker Ltd, 2003–2007, Commit Ltd, 2003–2008, Finnish Information Processing Association (TIVIA), 2004–2006, Viabile Ltd, 2003–, Fountain Park Ltd, 2003–2013

Independent of the company and its major shareholders.

Outi Taivainen

Member of the Board

b. 1968, MSc. (Econ.)

Digia Board member since 2018. Member of the Board's Compensation Committee.

Key work experience

Partner, Rethink Leadership Ltd, 2019-
Executive Vice President, HR, OP Financial Group, 2015–2018
Area HR Director, Central and North Europe, KONE Plc, 2011–2015
CEO, HR House Ltd, 2008–2011
Vice President, Human Resources, Nokia Plc, 2001–2008
Managerial and Executive level positions, Nokia Plc, 1998–2001

Chair of the Board of Directors

OP Pension Fund, 2015–2018

Member of the Board

Helsinki Chamber of Commerce, 2009–2011
Henry ry, 2006–2008
Finnish Enterprise Agencies, 2006–2008

Other positions of trust

EVA Business Fellows, member, 2010–

Helsinki Chamber of Commerce, HR Committee member, 2012–

Independent of the company and its major shareholders.

Digia's Management Team on 31 Dec 2018

Timo Levoranta

President & CEO

s. 1965, DI, KTK

b. 1965, MSc. (Tech.), MSc. (Econ.)

President & CEO, and Group Management Team Member since 1 May 2016

Key work experience

Senior Vice President, Digia Plc, 2016
CEO, TDC Ltd Finland, 2011–2015
SVP, Sales & Marketing, Outokumpu Plc, 2008–2011
Managerial positions, TeliaSonera Plc, 2002–2008
Managerial positions, Sonera Plc, 1995–2002
Various positions, Consumer Mobile Communication Division, Telecom Finland Ltd, 1991–1995

Pia Huhdanmäki

Director, Human Resources

b. 1969, LLM

Digia Management Team member since 1 February 2018

Key work experience

Leading specialist (industrial policy & lobbying), RadioMedia and Finnish Media Federation, 2017–2018
HR Director/CHRO, Sanoma Media Finland Ltd, 2012–2016
Director: HR, legal and communications, Sanoma News and Sanoma Entertainment Ltd, 2010–2011
Director:HR, legal and communications, Sanoma Entertainment Ltd, 2007–2010
Legal Counsel & Management positions, Sanoma Group Plc, 1996–2006

Juhana Juppo

CTO and Senior Vice President, Horizontal Services

b. 1971, MSc. (Computer Science)

Digia Management Team member since 19 September 2016

Key work experience

Director, Business Development, Finanssi-Kontio Ltd, 2013–2016
Service Director, CGI Suomi Ltd, 2011–2013
CTO, Cap Gemini Finland Ltd, 2005–2011
Systems Architect, IT Optimo/Itella Plc, 2003–2005
Vice President, Development, Eigenvalue Ltd, 2000–2003
Project Manager, Cap Gemini Finland Ltd, 1999–2000
Project Manager, Nokia Networks Ltd, 1995–1999

Mika Kervinen

General Counsel

b.1968, LL.M., Master of Laws with court training

Digia Management Team member since 1 May 2016

Key work experience

Senior Legal Counsel, Fondia Ltd, 2015–2016
Director, Business Support, TDC Finland Ltd, 2012–2014
Senior Legal Counsel & Management and expert positions, Nokia Networks Ltd, 2004–2012
Senior Legal Counsel & Management and expert positions, TeliaSonera Plc, 1998–2004
Legal Counsel & expert positions, Kesko Plc, 1996–1998

Jukka Kotro

Senior Vice President, Industrial Solutions

b. 1961, Vocational Qualification in Business Information Technology

Digia Management Team member since 9 August 2018

Key work experience

Senior Vice President, various responsibilities, Digia Plc, 2018
Management Team member, various responsibilities, CGI Suomi Ltd, 2010–2018
Sales Director, Central Government, Logica Suomi Ltd, 2006–2010
Sales Director, Healthcare, WM-Data Ltd, 2004–2006
Account Manager, Public Sector, Novo Group Plc, 1999–2004

Tuomo Niemi

Senior Vice President, Financial Sector

b. 1962, MSc. (Econ.), MSc. (Tech.)

Digia Management Team member since 1 June 2017

Key work experience

Managing Director, Accenture Ltd, 2003–2017
Leading Consultant, Accenture Ltd, 1996–2003
Managerial positions in IT management, ICL Personal Systems Ltd, 1992–1996
Consultant, Andersen Consulting Ltd, 1989–1991
Product Manager, Nokia Data Ltd, 1988–1989

Ari Rikkilä

Senior Vice President, Sales and Marketing

b. 1967, MSc. (Tech.)

Digia Management Team member since 16 May 2017

Key work experience

Senior Sales Director, Accenture Ltd, 2017
Managerial positions, Tieto Plc, 2016–2017
Managerial positions, ALSO Group, 2014–2016
CEO, Nervogrid Ltd, 2013–2014
CEO, Efecte Plc, 2010–2013
Country Manager, CA Technologies Inc., 2006–2010
Sales Director, Cisco Systems Inc., 1999–2006
Sales Manager, Elisa Plc, 1995–1999

Kristiina Simola

CFO

b. 1965, MSc. (Econ.),

Digia Management Team member since 14 August 2017

Key work experience

CFO, Digitalist Group Oyj, 2015–2017
Deputy Managing Director & CFO, Mirasys Ltd, 2012–2015
Senior Manager, Finance Transformation, Deloitte Finland, 2010–2012
CFO, Profit Software Ltd, 2007–2010
CFO, Foster Wheeler Energia Plc, 2005–2007
CFO, SysOpen Plc, 2001–2005
Consultant, Accenture Finland Ltd, 2000–2001
Business Controller, IKEA Finland Ltd, 1998–2001

Harri Vepsäläinen

Senior Vice President, Digital Services

b. 1974, BBA

Digia Management Team member since 1 April 2018

Key work experience

Vice President, Consulting Services, CGI Finland Ltd, 2017–2018
Business Unit Director (various units), Management Team Member, Affecto Plc, 2009–2017
Business Director: Business Intelligence and Analytics in Finland, IBM Global Business Services, 2006–2009
Business Development Manager, IBM Global Business Services, 2005–2006
Business development and managerial positions, Elisa Plc, 2001–2005
Consultant/Project Manager, Affecto Ltd, 2000–2001
Consultant/Project Manager, ICL Data Ltd, 1998–2000

Teemu Virtanen

Senior Vice President, Information Management Services

b. 1978, BSc.

Digia Management Team member since 1 May 2016. Member of the Domestic segment's management team (2015–2016)

Key work experience

Director, Integration, Digia Plc, 2013–2017
Managerial positions, Digital Services, Digia Plc, 2010–2012
Managerial positions, Integration Solutions, Digia Plc, 2009–2010
Project management and supervisory duties, Industry and Trade Division, Digia Plc, 2007–2008
Team Manager, Sentera Plc, 2005–2006
Project Manager, TJ Group/Key Partners Ltd, 2005–2008
Project management and expert positions, Casedev Active Ltd, 2001–2004

Digia's salary and remuneration report 2018

This salary and remuneration report contains a summary of the financial benefits, remuneration system and associated decision-making procedures pertaining to members of Digia Plc's Board of Directors, CEO and other executives.

A) Decision-making procedures concerning remuneration

Board of Directors

Digia Plc's Nomination Committee draws up a proposal for the emoluments to be paid to Board members and the grounds for reimbursement of expenses. The Shareholders' Meeting decides on the emoluments payable to Board members and the grounds for reimbursement of expenses.

CEO and other executives

Digia Plc's Compensation Committee draws up a proposal for the CEO's salary, emoluments and other benefits. The Compensation Committee works with the CEO to draw up a proposal for the salaries, emoluments and other benefits payable to other senior executives. External experts and market analyses are employed whenever necessary. The Board of Directors decides on the salary, emoluments and other benefits payable to the CEO. The Board of Directors decides on the salaries, emoluments and other benefits payable to other senior executives on the basis of the CEO's proposal.

Digia has an agreement with Evli Awards Management Ltd for the coordination of the company's share-based incentive schemes, their associated share management, and the payment of incentives to individuals in accordance with the terms and conditions of the schemes. During the 2018 financial year, no share-based incentives were paid to the CEO or other executives.

B) Key remuneration principles

Board remunerations

The 2018 Annual General Meeting decided on the payment of monthly remunerations of EUR 2,500 to Board members, EUR 3,500 to the Vice Chair and EUR 5,500 to the Chair for their work on the Board for the duration of the term expiring at the end of the 2019 Annual General Meeting. In addition, remunerations of EUR 1,000 to the chair and EUR 500 to other members are paid per each Board and Board Committee meeting.

The company does not grant stock options or share-based remuneration for work on the Board.

Management incentives

On 3 February 2017, Digia Plc's Board of Directors decided to establish a new long-term share-based incentive scheme. In principle, the target group consists of the CEO and the company's senior executives. The scheme is designed to conjoin the goals of the company's shareholders and management, in order to increase the company's value and to commit executive management to the company and its long-term objectives. The new scheme replaced the previous share-based incentive scheme, which ran until 2017.

This long-term incentive scheme covers the calendar years 2017–2019. It offers participants the chance to earn company shares if the targets set by the Board of Directors for the three-year bonus period are achieved.

These targets are based on the company's net sales and earnings per share (EPS). There are three earnings periods for the EPS indicator, 2017, 2018 and 2019, and the Board of Directors will set the criteria for each at the beginning of each period. The earnings period for the net sales indicator is 2017–2019. The target for net sales is the net sales target set for 2019. During the bonus period, the company's CEO and other scheme participants are entitled to a bonus equivalent to a maximum of 524,900 new Digia Plc shares. If the terms are met, the bonuses based on the scheme will be paid after the end of the reward period, in 2020, for both indicators. All bonuses under this scheme will be paid as a 50/50 combination of shares and cash. The cash portion of the bonus will primarily be used to cover taxes and other comparable costs arising from the scheme.

As a rule, the bonus is not paid if a member resigns or the member's employment or post is terminated prior to the date of payment of bonuses in accordance with the incentive scheme. Under certain conditions, the Board has the option to decide on possible bonuses already received and on bonuses for the current earnings period in accordance with the pro-rata principle.

President & CEO

The remuneration package for Timo Levoranta comprises a monthly salary (in accordance with his service contract), a bonus payable on the attainment of annually set targets, and potential share bonuses payable to the CEO in accordance with approved share-based incentive schemes.

- On the basis of the 2018 bonus scheme, the CEO will be paid an annual bonus equivalent to three times his monthly base salary upon the attainment of annual targets tied to net sales and operating profit budgets set by the Board of Directors. 55 per cent of the bonus is tied to net sales targets, 35 per cent to operating profit targets, five per cent to customer satisfaction targets, and five per cent to personnel satisfaction targets. If these targets are exceeded, the bonus increases to a maximum amount equivalent to nine times his monthly base salary. The maximum bonus is payable if the net sales target is exceeded by at least five per cent, the operating profit target by at least 16.1 per cent, the NPS target index (which measures customer satisfaction) by at least 23.4 per cent, and the personnel satisfaction target index by at least 1.8 per cent. All targets are evaluated biannually, independently and irrespective of each other. However, if operating profit falls below 70.1 per cent of the set target, no bonus will be paid.

- The long-term incentive scheme is described above.

The company may terminate the CEO's service contract with six (6) months' notice. Upon such termination, the CEO will receive remuneration for the notice period and severance pay equalling six (6) months' regular monthly salary. The CEO's retirement age is as stipulated by law, and the CEO is not covered by any separate pension agreements with the company.

The share bonus paid to the CEO therefore involves no vesting periods limiting the sale of shares.

Group Management Team

As of 31 December 2018, the Group Management Team consisted of ten members: the CEO, CFO, General Counsel, HR Director, SVP Sales and Marketing, SVP Horizontal Services, and the four Senior Vice Presidents of our business segments. Further information on the senior management can be found on the company's website: www.digia.com/en/investors/governance/ceo-and-management.

The total remuneration package for these executives comprises a monthly salary and a bonus payable on the attainment of annually set targets. The earnings criteria and terms and conditions governing the bonus for members of Digia's Group Management Team in 2018 are the same as those governing the bonus for the CEO, except that the maximum annual bonus for Management Team members is equivalent to six (6) months' base salary. Senior executives are also included in the long-term incentive scheme described above.

The retirement age of all executives is as stipulated by law, and no one has a supplementary pension agreement with the company.

C) Remuneration report

Board remunerations

The following emoluments were paid to members of Digia's Board of Directors for Board and Committee work during the 2018 financial year:

EUR	2018
Martti Ala-Härkönen	43,500
Santtu Elsinen	30,300
Päivi Hokkanen	44,500
Robert Ingman	82,500
Pertti Kyttälä (until 15 March 2018)	26,500
Seppo Ruotsalainen	55,500
Outi Taivainen	30,300
Total	**313,200**

CEO's remuneration

The CEO was paid the following as salary and other benefits during the 2018 financial year:

EUR	2018
Salary (including fringe benefits)	252,200
Bonuses	44,300
Total	**296,500**

Remunerations of other executives

Other executives were paid the following as salary and other benefits during the 2018 financial year:

EUR	2018
Salary (including fringe benefits)	1,152,100
Bonuses	154,400
Total	**1,306,500**

As of 31 December 2018, this team included the following members:

- Pia Huhdanmäki, HR Director, Group Management Team Member since 1 February 2018
- Juhana Juppo, CTO & Senior Vice President, Horizontal Solutions, Group Management Team Member since 19 September 2016
- Mika Kervinen, General Counsel, Group Management Team Member since 1 May 2016
- Jukka Kotro, Senior Vice President, Industry Solutions, Group Management Team Member since 10 August 2018
- Tuomo Niemi, Senior Vice President, Financial Operations, Group Management Team Member since 1 June 2017
- Ari Rikkilä, Senior Vice President, Sales and Marketing since 16 May 2017
- Kristiina Simola, Chief Financial Officer, Group Management Team Member since 14 August 2017
- Harri Vepsäläinen, Senior Vice President, Digital Services, Group Management Team Member since 1 April 2018
- Teemu Virtanen, Senior Vice President, Integration and Information Management, Group Management Team Member since 1 May 2016

Membership in the Group Management Team ended during 2018 for the following:

- Heikki Honkala, Senior Vice President, Industry Solutions, Group Management Team Member until 9 August 2018

Auditor and auditor's fees

Digia has one official auditor, who must be an Authorised Public Accountant or a firm of Authorised Public Accountants approved by the Auditing Board of the Central Chamber of Commerce. The auditor is elected until further notice.

The Annual General Meeting elects the auditor and determines their fees.

KPMG Oy Ab, a firm of Authorised Public Accountants, is the Group's auditor. Virpi Halonen, Authorised Public Accountant, has been chief auditor since 12 March 2015.

EUR 1,000	2018
Audit	70
Other statutory duties	0
Tax counselling	0
Other services	14
Total	**84**

Maritim: Combining digitalisation with traditional sales channels serves different customer groups well

digia

Board of Directors' Report

Digia is a Finnish IT service company that helps its customers harness digitalisation opportunities. The company is growing at a faster pace than the service market. In 2018, the Board of Directors targeted its key measures at accelerating the company's growth. Demand is shifting from individual projects to broader digital packages that support core business. The company has developed its product and service portfolio to meet this demand. Support and maintenance services are a major part of Digia's competitiveness, and these services will play an increasingly important role going forward. As a reliable company, Digia can forge long-term customer relationships and partnership agreements. Digia combines customer knowledge and technological expertise to benefit its customers. The company helps its customers to create new operating methods and services as well as improve their core business functions.

Digia seeks growth both organically and inorganically. The digitalisation of customers' business operations ushers in growing needs for state-of-the-art service development, the integration of service packages and ERP system development. Two acquisitions were carried out during the report year. On 29 March 2018, the company acquired Avarea Oy, which specialises in advanced analytics solutions. In addition, on 1 August 2018, Digia acquired Mavisystems Oy, which specialises in demanding Microsoft Dynamics ERP systems, and its wholly-owned subsidiary Mirosys Oy, which focuses on CRM solutions.

The key themes of Digia's strategy for 2016–2019 are the digitalisation of services and processes, bolstering the service business, adapting the offering for selected industries, deep partnership with customers as well as expert and enthusiastic employees.

Unless otherwise stated, the comparison figures provided in parentheses always refer to the corresponding period of the previous year.

Financial indicators

EUR 1,000	2018	2017	2016	2015	2014
Net sales	112,122	94,537	86,463	80,946	97,433
Operating profit	6,494	1,852	5,419	5,854	4,310
Operating margin, %	6%	2%	6%	7%	4%
Return on equity, %	10%	3%	11%	14%	8%
Equity ratio, %	55%	51%	50%	54%	51%
Net gearing, %	27%	11%	36%	17%	30%

The figures for 2017 are restated according to IFRS 15. 2014 includes the figures for Qt Plc. Digia Plc was demerged on 1 May 2016 such that all assets, liabilities and responsibilities related to its Qt business were transferred to Qt Group Plc, a new company established in the demerger. Digia Plc's Domestic operations will remain with Digia.

More detailed information on the Group's key figures and the formulae for the key figures are provided in the notes to the financial statements (Notes 8.1 and 8.2).

Net sales

Digia's consolidated net sales for the fiscal year were EUR 112.1 (94.5) million, up 18.6 per cent on the previous year. Net sales growth was supported particularly by the Integration and Information Management service area, e-commerce solutions and digital services. The Incomes Register project that Digia is implementing with the Tax Administration also supported net sales growth. Demand for ERP and financial sector systems remained steady. Corporate acquisitions made during 2018 also contributed to year-on-year net sales growth.

The service and maintenance business accounted for 50.7 (47.8) per cent and the project business for 49.3 (52.2) per cent of net sales. The service and maintenance business grew thanks to higher demand from existing customers and new agreements. Digia's long-term goal is still to increase the service business's share of net sales through service contracts that track project phases. The product business accounted for 17.8 (24.0) per cent of the company's net sales.

Profit and profitability

Digia's operating profit for the fiscal year was EUR 6.5 (1.9) million with an operating margin (EBIT %) of 5.8 (2.0) per cent.

Profitability development measures in 2018 focused on project management and enhancing the efficiency of operating methods. The profitability of the Integration and Information Management service area and digital services saw particularly favourable development in 2018. Our profitability has improved and we will continue to bolster it.

Full-year earnings before taxes were EUR 6.0 (1.2) million, with earnings after taxes totalling EUR 4.7 (1.0) million.

Earnings per share were EUR 0.18 (0.04). Net financial expenses amounted to EUR 0.5 (0.7) million.

Financing, cash flow and expenditure

On the balance sheet date at the end of 2018, Digia's balance sheet total stood at EUR 88.1 (86.6) million and its equity ratio at 54.9 (51.0) per cent. Net gearing was 26.6 (10.8) per cent.

On the balance sheet date, Digia had EUR 14.4 (16.6) million in interest-bearing liabilities. These consisted of EUR 4.9 million in long-term and EUR 6.6 million in short-term loans from financial institutions, and EUR 2.9 million in financial leasing liabilities.

In the 2018 fiscal year, cash flow from operating activities totalled EUR 3.6 (3.1) million. Cash flow from investments came to EUR –8.6 (–7.0) million. The acquisitions of Avarea Oy, Mavisys Oy and Mirosys Oy are included in cash flow from investments. Cash flow from financing was EUR –5.1 (13.7) million.

Total investments in fixed assets amounted to EUR 0.7 (2.9) million during the 2018 fiscal year. The return on investment (ROI) was 10.6 (3.7) per cent, and return on equity (ROE) was 10.2 (2.5) per cent.

Report on the extent of research and development

Digia has invested in R&D in all of its service areas. Research and development expenses totalled EUR 6.1 million in the 2018 fiscal year (2017: 5.7; 2016: 5.8), representing 5.4 per cent of net sales (2017: 6.0%; 2016: 6.7%).

More information about Digia's services and solutions can be found on the company's website: www.digia.com/en/services.

Personnel, management and administration

At the end of the review period, the total comparable number of Group personnel was 1,091, representing an increase of 86 employees or 8.6 per cent since the end of the 2017 fiscal period (31 Dec. 2017: 1,005). The average number of employees was 1,069, an increase of 115 employees, or 12.1 per cent, on the 2017 average (2017: 954).

Employees are behind the company's growth and customer satisfaction. Digia is making a concerted effort to ensure their expertise, commitment and opportunities to succeed at work. Continuous development of the work culture and competence capital is at the heart of Digia's strategy

37 employees transferred to Digia as a result of the Avarea acquisition of 29 March 2018, and a further 34 employees joined the Group as a result of the Mavisystems Oy/Mirosys Oy transaction of 1 August 2018.

Digia employees by location:

	31 Dec. 2018	31 Dec. 2017	Change, no. of employees
Helsinki	664	627	37
Tampere	178	164	14
Jyväskylä	152	141	11
Turku	33	16	17
Rauma	30	33	–3
Vaasa	13	13	0
Lahti	10	-	10
Oulu	6	6	0
Stockholm	5	5	0
Total	1,091	1,005	86

Digia Plc's Annual General Meeting (AGM) of 15 March 2018 re-elected Martti Ala-Härkönen, Päivi Hokkanen, Robert Ingman and Seppo Ruotsalainen as members of the Board. Santtu Elsinen and Outi Taivainen started as new members of the Board. At its organisational meeting after the AGM, the Board of Directors elected Robert Ingman as Chair and Seppo Ruotsalainen as Vice Chair of the Board.

On 31 December 2018, Digia's Management Team consisted of:

- Timo Levoranta, President & CEO
- Pia Huhdanmäki, HR Director (as of 1 February 2018)
- Juhana Juppo, CTO and Senior Vice President
- Mika Kervinen, General Counsel
- Jukka Kotro, Senior Vice President (as of 9 August 2018)
- Tuomo Niemi, Senior Vice President
- Ari Rikkilä, Senior Vice President, Sales and Marketing
- Kristiina Simola, CFO
- Harri Vepsäläinen, Senior Vice President (as of 1 April 2018)
- Teemu Virtanen, Senior Vice President

You can read more about Digia's senior management on the company's website: www.digia.com/en/investors/governance/ceo-and-management. www.digia.com/en/investors/governance/ceo-and-management.

KPMG Oy Ab, a firm of Authorised Public Accountants, is Digia's auditor. Virpi Halonen, Authorised Public Accountant, has been chief auditor since the 2015 Annual General Meeting.

Strategy implementation and business development

Our growth strategy, which was published on 29 April 2016, seeks to strengthen the company's position, particularly in the growing market for digital services, process digitalisation and the service business. We want to grow at a significantly faster pace than the IT market and are seeking average annual growth of 15 per cent. Growth is sought both organically and inorganically.

The key themes of Digia's strategy for 2016–2019 are:

- digitalisation of services and processes
- bolstering the service business
- adapting our offering for selected industries
- deep partnership with our customers
- expert and enthusiastic employees

Strategy implementation in 2018

Our major outlays on strategy implementation in 2018 were: Developing the expertise of personnel, bolstering the product and service offering and updating our operating models with a view to boosting operational efficiency and working even more effectively with our customers.

Skilled and motivated personnel are the cornerstone of Digia's success. We offer our employees potential for job rotation, innovation and on-the-job learning. To ensure a high-quality employee experience, we made outlays in 2018 on developing supervisory work and orientation training for new employees. We developed expertise with workplace tribes, on-the-job learning, job rotation and training. In 2018, the Digia Academy offered just under 200 training events to our employees.

We strengthened our product and service offering in 2018 through both organic development and acquisitions. Our major focus areas were state-of-the-art integrations, analytics and artificial intelligence, ERP and continuous services, including 24/7 customer service.

We developed our integration expertise by providing further education to our personnel to ensure our position as a leading implementer of integrations and APIs. We bolstered our expertise in analytics and artificial intelligence by acquiring Avarea Oy. In autumn 2018, we acquired Mavisystems Oy and Mirosys Oy, which rounded out our Microsoft ERP and CRM systems offering.

The importance of comprehensive and reliable 24/7 services for customers is increasing as digitalisation progresses. We have created a successful operating concept in this area; we invested in continuous service development in 2018 and will continue to do so in the near future.

At the beginning of 2018, we introduced a new customer account management model. The new model describes the principles and practices of our work with customers. The model yields the greatest value when we can serve our customers with a wide range of services. The account management model helps to ensure that our organisation and processes comprise a coordinated and cohesive interface for cooperation with our customers. We aim to be a reliable long-term partner to our customers, generating added value. One example of our long-term cooperation is the partnership agreement we signed with the Finnish Defence Forces in the early months of the year. The partnership agreement will involve the development and strengthening of long-term cooperation between the Defence Forces and Digia.

Towards the end of 2018, we overhauled our organisation. The new organisation entered into force at the beginning of 2019. Our overhauled organisation can operate more effectively in a market where the platform economy and ecosystems are increasingly important.

Group structure

Digia operates in eight locations in Finland – Helsinki, Lahti, Jyväskylä, Oulu, Rauma, Tampere, Turku and Vaasa – and in Stockholm, Sweden. Our headquarters are located in Helsinki. At the end of the 2018 financial year, the Digia Group consisted of the parent company, Digia Plc, and its subsidiaries Avarea Oy, Digia Finland Oy, Digia Sweden AB, Mavisystems Oy. These subsidiaries are wholly owned by Digia.

In order to streamline our Group structure, Digia launched several subsidiary merger processes in late 2017. Oy Nord Software Ltd was first merged into Digia Nord Oy, after which both Digia Nord Oy and Commerce Oy were merged into Digia Finland Oy. The mergers came into effect on 31 March 2018. Integration House Oy merged into Digia Finland Oy on 30 June 2018.

Share capital and shares

On 31 December 2018, the number of Digia Plc shares totalled 26,823,723. The company had a total of 5,907 shareholders on 31 December 2018. Foreign shareholders accounted for 0.5 per cent of all Digia Plc shareholders and they held 3.3 per cent of all shares and votes. Nominee-registered shareholders accounted for 0.1 per cent of all Digia Plc shareholders and they held 3.1 per cent of all shares and votes.

Ten largest shareholders on 31 Dec 2018

Shareholder	Percentage of shares and votes
Ingman Development Oy Ab	22.4%
Ilmarinen Mutual Pension Insurance Company	14.6%
Tiiviste-Group Oy	4.9%
Varma Mutual Pension Insurance Company	4.6%
Etola Oy	3.9%
Jyrki Hallikainen	3.7%
Matti Savolainen	3.5%
Special Investment Fund Danske Invest Suomen Parhaat	1.7%
Nordea Bank ABP	1.6%
Rausanne Oy	1.2%

Shareholding by number of shares held on 31 December 2018

Number of shares	Percentage of shareholders	Percentage of shares and votes
1–100	22.8%	0.3%
101–500	38.1%	2.3%
501–1,000	16.6%	2.8%
1,001–5,000	18.2%	8.5%
5,001–10,000	2.0%	3.1%
10,001–50,000	1.6%	7.1%
50,001–100,000	0.3%	4.8%
100,001–500,000	0.3%	13.5%
500,001–	0.1%	57.6%

Shareholding by sector on 31 December 2018

	Percentage of holdings	Percentage of shares and votes
Companies	3.8%	36.6%
Households	95.2%	34.3%
Public-sector organisations	0.0%	19.2%
Financial and insurance institutions	0.2%	6.0%
Non-profit associations	0.2%	0.6%
Foreign holding	0.5%	3.3%

Digia Plc held a total of 57,372 treasury shares at the end of 31 December 2018. The company held about 0.2 per cent of its capital stock on 31 December 2018.

At the end of the period, a total of 134,468 company shares, previously funded by Digia for use in the incentive system for key personnel and under the management of Evli Awards Management Ltd, remained undistributed.

Up-to-date information about the company's major shareholders and the distribution of their shareholdings can be found on Digia's website: www.digia.com/en/investors/shareholders.

Share-based payments

Share incentive scheme and management ownership

On 2 February 2017, Digia Plc's Board of Directors decided to establish a new long-term share-based incentive scheme. The Board has confirmed the target group for the long-term incentive scheme. It primarily consists of the CEO and the company's management. The scheme is designed to conjoin the goals of the company's shareholders and management, in order to increase the company's value and to commit executive management to the company and its long-term objectives. The chosen scheme replaced the previous share-based incentive scheme, which ran until 2017.

The new long-term incentive scheme covers the calendar years 2017–2019. It offers participants the chance to earn company shares if the targets set by the Board of Directors for the three-year bonus period are reached.

These targets are based on the company's net sales and earnings per share (EPS). There are three earnings periods for the EPS indicator, 2017, 2018 and 2019, and the Board of Directors will set the criteria for each at the beginning of each period. The earnings period for the net sales indicator is 2017–2019. The target for net sales is the net sales target set for 2019. During the bonus period, the company's CEO and other scheme participants are entitled to a bonus equivalent to a maximum of 500,000 new Digia Plc shares.

In accordance with the terms and conditions of the scheme, the issue-adjusted number of shares is 524,900 due to the 2017 share issue. If the terms are met, the bonuses based on the new scheme will be paid at the end of the reward period in 2020 for both indicators. All bonuses under this scheme will be paid as a 50/50 combination of shares and cash. The cash portion of the bonus will primarily be used to cover taxes and other comparable costs arising from the scheme.

As a rule, the bonus will not be paid if a member resigns or if a member's employment or post is terminated prior to the bonus payment date specified in the incentive scheme. Under certain conditions, the Board has the option to decide on possible bonuses already received and on bonuses for the current earnings period in accordance with the pro-rata principle.

EUR 0.4 million in expenses were incurred by the new scheme during the 2018 fiscal year. During 2015–2017, a total of EUR 0.6 million in expenses were incurred by the old incentive scheme. The total cost impact of the share-based incentive programme for the years 2017–2019 is a maximum of EUR 1.3 million.

Digia has an agreement with Evli Awards Management Ltd for the coordination of the company's share-based incentive schemes, their associated share management, and the payment of incentives to individuals in accordance with the terms and conditions of the schemes.

According to the list of shareholders on 31 December 2018, Digia's Board of Directors and CEO owned shares in the company as follows (includes the holdings of related-parties and related-party organisations):

Board of Directors	No. of shares
Robert Ingman, Chair of the Board	6,026,000
Martti Ala-Härkönen	20,000
Santtu Elsinen	0
Päivi Hokkanen	10,833
Seppo Ruotsalainen, Vice Chair	3,000
Outi Taivainen	200
Timo Levoranta, President & CEO	48,607

At year-end, the CEO and members of the Board of Directors held a total of 6,108,640 of the company's shares, representing 22.8 per cent of all shares and votes.

Trading on the Helsinki Stock Exchange

Digia Plc's shares are listed on NASDAQ Helsinki under IT, IT Consulting & Other Services. The company's short name is DIGIA. The lowest reported share quotation in 2018 was EUR 2.10 and the highest EUR 3.13. The share officially closed at EUR 2.85 on the last trading day of the year. The share's trade weighted average price amounted to EUR 2.73. The company's market capitalisation totalled EUR 76,447,611 on 31 December 2018.

Flagging notifications

On 24 January 2018, Digia Plc received the following notification of changes in holdings: The combined holding of Tiiviste-Group Oy and Etola Oy, two companies controlled by Erkki Etola, exceeded the flagging limit of 5 per cent of Digia's shares and votes. At the time of notification, companies controlled by Erkki Etola held a total of 1,450,000 Digia Plc shares, corresponding to 5.41 per cent of all Digia shares and votes. The holdings changed on 23 January 2018.

Other major events during the 2018 financial year

Digia Plc's Annual General Meeting (AGM) was held on 15 March 2018. The AGM adopted the financial statements for 2017, released the Board members and the CEO from liability, determined Board emoluments and auditor fees, set the number of Board members at six (6), and elected the company's Board of Directors for a new term.

With regard to profit distribution for 2017, the AGM approved the Board's proposal to pay a dividend of EUR 0.04 per share to all shareholders listed in the shareholder register maintained by Euroclear Finland Ltd on the reconciliation date of 19 March 2018. The dividend payment date was 28 March 2018.

The AGM granted the following authorisations to the Board:

Authorising the Board of Directors to decide on buying back treasury shares and/or accepting them as collateral

Digia Plc's AGM of 15 March 2018 authorised the Board of Directors to decide on the buyback and/or acceptance as collateral of no more than 2,000,000 company shares using the company's unrestricted equity. The Board shall decide on how these shares are to be bought. Treasury shares may be bought back in disproportion to shareholders' holdings. This authorisation also includes the acquisition of shares through public trading on Nasdaq OMX Helsinki in accordance with the rules and instructions of Nasdaq OMX Helsinki and Euroclear Finland Ltd, or through offers made to shareholders. Shares may be acquired in order to improve the company's capital structure, to fund or complete acquisitions or other business transactions, to offer share-based incentive schemes, to sell on, or to be annulled. The shares must be acquired at the market price in public trading. This authorisation supersedes that granted by the AGM of 16 March 2017 and is valid for 18 months, that is, until 15 September 2019.

Authorising the Board of Directors to decide on a share issue and granting of special rights

The AGM of 15 March 2018 authorised the Board to decide on an ordinary or bonus issue of shares and the granting of special rights (as defined in Section 1, Chapter 10 of the Limited Liability Companies Act) in one or more instalments, as follows: The issue may total 4,000,000 shares at a maximum. The authorisation applies both to new shares and to treasury shares held by the company. By virtue of the authorisation, the Board has the right to decide on share issues and the granting of special rights, in deviation from the preemptive subscription rights of the shareholders (a directed issue); however, the issue may total 2,000,000 shares at a maximum. The authorisation may be used to fund or complete acquisitions or other business transactions, to offer share-based incentive schemes, to develop the company's capital structure, or for other purposes decided by the Board. The Board was authorised to decide on all terms relating to the share issue or special rights, including the subscription price, its payment and its recognition in the company's balance sheet. This authorisation supersedes that granted by the AGM of 16 March 2017 and is valid for 18 months, that is, until 15 September 2019. Digia's Board of Directors did not use its authorisation during 2018.

More information about the AGM's decisions is available at www.digia.com/en/investors/governance/annual-general-meeting/agm-2018.

Business combinations

On 14 March 2018, Digia Plc and Avarea Oy signed an agreement whereby Digia Plc acquired Avarea's entire share capital. The acquisition was carried out on 29 March 2018. This acquisition is the next step in Digia's strategy implementation, in which data utilisation and modern analytics are in a key position. Specialising in advanced analytics solutions, Avarea's net sales came to some EUR 3.6 million at the end of their financial year on 30 September 2017. In the transaction, 37 analytics personnel joined Digia in Helsinki.

On 5 July 2018, Digia Plc and Mavisystems Oy agreed on a transaction whereby Mavisystems Oy and its wholly-owned subsidiary Mirosys Oy were acquired by Digia Plc. The acquisition was carried out on 1 August 2018. The net sales of Mavisystems Oy, specialised in demanding Microsoft Dynamics ERP systems and CRM solutions, and Mirosys Oy totalled EUR 4.0 million in the financial period that ended in June 2018. In the acquisition, 34 persons joined Digia.

Events after the balance sheet date

On 3 January 2019, Digia Plc was notified of a change in the company's ownership, in accordance with Chapter 9, Section 10 of the Finnish Securities Market Act. Erkki Etola informed Digia that the combined holding of Tiiviste-Group Oy and Etola Oy, two companies under his control, exceeded the flagging limit of 10 per cent of Digia's shares and votes. Companies controlled by Erkki Etola now hold a total of 2,930,495 Digia Plc shares, corresponding to 10.93 per cent of all Digia shares and votes. At the same time, Etola Oy's ownership exceeds 5% of the flagging limit. Etola Oy owns 1,605,495 Digia Plc shares.

On 31 January 2019, Digia Plc and the owners of Starcut Oy signed an agreement whereby Digia Plc will acquire Starcut Oy's entire share capital. With this acquisition, Digia bolsters its Digia Digital service area, which comprises service design, analytics, e-commerce and agile application development. Demand for digital services has increasingly rapidly shifted to mobile-driven development. Starcut, which specialises in advanced mobile solutions, thus rounds out Digia's state-of-the-art offering excellently. As a result of the acquisition, Starcut's 19 employees in Helsinki will transfer into Digia's employ.

At the end of the year, Digia started negotiations with Danske Bank Plc on combining two loans such that on the basis of a binding loan decision, the loan term of the new loan agreement ends on 7 June 2021 with short-term debt in the fiscal year 2019 amounting to EUR 2.6 million.

Risks and uncertainties

There have been no substantial changes in Digia's major risks or operating environment over the past year.

The company's risks and uncertainty factors relate to increasing competition and potential significant changes in the company's operating environment and service areas. General economic trends and changes in our customers' operating environment may have an unfavourable impact on the company's business, financial position and result through slower decision-making and the postponement or cancellation of IT investments. Although our pricing models for the service business counteract such cycles, the pricing models for SaaS (Software as a Service) and other cloud-based services will alter the structure and timing of revenue streams.

Implementing our growth strategy will place new demands on both our organisation and its management. Our ability to recruit, retain and develop the correct competence – and also to correctly time our offering to meet demand – will play a vital role.

In line with our strategy, Digia is also seeking growth through acquisitions. However, we cannot be certain of locating suitable companies for acquisition or of successfully integrating them.

Digia has not performed a human rights assessment, but in the company's opinion there are no significant risks of human rights violations inherent in our own operations. Digia's supply chain does not, in the main, extend outside Finland. Digia has not performed an environmental assessment, but in the company's opinion our operations have a minor impact on the environment and do not involve any significant environmental risk factors.

Major customer projects involve both business opportunities and risks. As customer projects increase in size, the risks associated with profitability management also grow, and there is a greater need to manage extensive contract and delivery packages

Outlook for 2019

Digitalisation is still a strong underlying trend. Constantly evolving and maturing technologies enable our customers to tap into new means of renewing their business. We believe that the focus of development is shifting from separate, isolated development projects towards the more comprehensive renewal of business operations. Digital business will become an increasingly important part of our customers' core business. Further benefits are sought from cost-effectiveness, the development of the end customer experience and networked business models. We envision a world in which value is created in ecosystems, making intelligent use of data. Business is becoming networked and the platform economy is increasingly important. In this development, we serve as a reliable partner to our customers.

As digital business becomes an ever-more critical aspect of our customers' business, this strengthens the need for reliable and flexible development partners. This trend supports Digia's growth opportunities. Digia has an extensive offering and expertise. We can provide continuous service maintenance and 24/7 support as necessary. Digia's market position supports continued growth.

Profit guidance for 2019

Digia's net sales will continue to grow and operating profit will improve compared to 2018.

Board's dividend proposal

According to the balance sheet dated 31 December 2018, Digia Plc's unrestricted shareholders' equity was EUR 48,020,874, of which EUR 4,308,129 was profit for the financial year. At the Annual General Meeting, the Board of Directors will propose that a dividend of EUR 0.07 per share be paid according to the confirmed statement of financial position for the fiscal year ending 31 December 2018. Shareholders listed on the shareholder register maintained by Euroclear Finland Oy on the dividend reconciliation date, 19 March 2019, will be eligible for the payment of dividend. Dividends will be paid on 26 March 2019.

Non-financial reporting

Digia's CEO is responsible for corporate responsibility with the support of the Management Team and the Board of Directors approves a non-financial data report annually.

During 2018, Digia further developed its non-financial data reporting by using a materiality matrix to help the company define the most significant themes for its corporate and social responsibility. Digia examined responsibility from financial, social and environmental perspectives, and also with regard to responsibility themes within its sector. Digia has also assessed the corporate liability risks associated with its own operations and business relations, and has adequate and appropriate processes in place to predict and take precautions against these risks.

Digia wants to create value for its stakeholders by engaging in responsible and profitable business. Profitable operations enable Digia to invest in business growth and provide its financial stakeholders with income.

Digia's material areas of corporate responsibility are anti-bribery and corruption, data security and protection, responsibility in customer relations, customers, taking care of employees, technological solutions, and taking environmental responsibility into consideration.

Description of business model

Digia is an IT service company that helps its customers harness digitalisation opportunities and build ecosystems. Together with its customers, Digia develops and innovates solutions that support their business. The company adapts its expertise to their specific industries to help them develop digital services, manage operations and utilise information. Digia commercialises industry-specific solutions from its own and third-party products. The company makes complete and tangible solutions that generate value fast and which are adapted to the needs of the industry in question. The company employs approximately 1,100 experts in Finland and Sweden. Digia is expanding its international presence together with its customers.

The company's service model includes, for instance, consultation, service design, development partnership and continuous services. Digia has industry expertise particularly in the commercial, logistics and industrial sectors, in the public sector, and in banking and insurance. In 2018, Digia comprised four service areas: Digital Services, Integration and Information Management, Industry Solutions, and Financial Operations.

The foundations of responsible operations

Corporate responsibility is an integral part of Digia's business, and the company seeks to act responsibly in all its operations. Digia's responsibility is based on our own ethical principles, the UN's Universal Declaration of Human Rights, and the International Labour Organisation's (ILO) standards. However, in our changing business environment, responsibility is based above all else on the continual monitoring and improvement of our operations.

Preventing corruption and bribery

Digia does not condone bribery or corruption in any form. The anti-bribery and anti-corruption policy covers all of Digia's operations. Digia's internal anti-bribery and anti-corruption policy underlines that Digia takes bribery and corruption seriously, and sets out rules and guidelines to promote ethical and lawful behaviour. We foster our reputation as an ethical company by creating awareness of the risks of bribery and corruption, such as their legal consequences, reputational risk, and the risk of exclusion from public-sector tenders.

Digia primarily operates in Finland and our operations mainly extend only to other low-risk countries (as classified by Transparency International). However, Digia has foreign partners in countries where the risk of bribery and corruption has increased. We pay attention to bribery and corruption in our dealings with partners, and exercise extreme caution in the selection of our partners. We also require our partners to commit to compliance with anti-bribery and corruption legislation.

Digia has organised training for personnel to help combat bribery and corruption. We will monitor the attendance rate for this training, and report further on it annually.

Digia has a channel through which personnel can report any suspected violations related to bribery and corruption. These reports can also be made anonymously. All of the reports are forwarded to Digia's legal department for confidential handling.

Responsibility in customer relationships

Digia seeks to be a visionary partner and innovator for our customers in their operations, helping them to develop their own business in a changing, digitalising world. Digia works responsibly, helping its customers to find technologically suitable and secure solutions, and offers constant partnership to enable customers to ensure uninterrupted business and to both predict and prevent any disturbances and operational interruptions.

Digia uses an ISO 9001-certified quality management system (Core Process Model) whose processes are utilised in all operations with a view to providing an optimal customer experience.

The high quality of services and products is an essential part of Digia's business and the foundation for day-to-day operations. Digia's quality policy supports the implementation of the company's strategy and provides a common foundation for high-quality work in product and service development, delivery projects, continuous services, and support functions that increases customer satisfaction. Digia has defined company-level quality objectives and indicators for customer satisfaction, employee satisfaction, quality of projects and services, continuous process development. The system directs and provides guidelines for risk management at different levels of operations. Company-level risks are monitored and analysed on the basis of the guidelines.

At the beginning of 2018, Digia also introduced a new customer account management model. The new model describes Digia's key operating principles, responsibilities and practices that are applied when Digia works with its customers. With this overhaul, Digia seeks to further enhance customer experience, customer satisfaction, quality and efficiency, and thereby also increase net sales growth and improve profitability.

In the account management model, the customer is at the heart of Digia's operations and development. The model has streamlined and harmonised responsibilities, and it has ensured that Digia's organisation, steering, decision-making and processes constitute a uniform interface for customers. Digia's Management Team monitors the functionality of the model and reports on performance to the Board of Directors.

Data protection and information security

Digia seeks a high level of data protection, data privacy and information security in all of its activities. Digia is committed to protecting the data, materials and devices in our possession regardless of who they belong to – Digia, our customers or our partners. We respect the privacy of our personnel, customers and partners in all our operations. Protecting customers' privacy is an important element of our customer relationships.

Digia has identified the following risks in its own operations with regard to privacy and data protection: reputational risk, contractual risk, and the risk of sanctions. We maintain a high level of data protection and information security by training our personnel, administrative and technical controls, audits, and continually developing processes related to privacy and information security.

Digia's overhauled data protection organisation came into force at the beginning of 2018. In the new setup, data protection and information security procedures and processes will be in the Senior Security Advisor's area of responsibility. The Senior Security Advisor reports to Digia's Director of Technology, who is on the Management Team. Every function also has a separately appointed person responsible for data protection and security. Digia's data protection policy and practices, including those employed with customers and subcontractors, meet the additional obligations brought by the EU General Data Protection Regulation (GDPR) that came into force in 2018.

In 2018, information security processes were overhauled as part of Digia's extensive process reform. The information security process overhaul is part of a larger effort to develop security management for closer alignment with the ISO 27001 model. In connection with this, the secure system development process was also updated, taking data protection and information security into consideration in agile software development projects as well.

Data protection and information security also form part of our personnel's induction training. All employees have completed data protection training on the EU General Data Protection Regulation. Training is supplemented once a year.

We continually supervise our data protection and information security practices, and update our operating models as required to counter threats and risks. Data protection is included in Digia's certified quality assurance system.

In addition to ordinary services, Digia provides its customers with services that meet particularly high information security/protection levels both on the customer's own premises and at its three locations in its officially-audited (Facility Security Clearance) premises. These premises and operations in them are described separately as part of the processes guiding Digia's operations. In 2018, audits of these premises and functions were carried out by parties such as the Finnish Security Intelligence Service and the Finnish Defence Forces.

Human resources

Digia aims to be a desired employer in the technology sector that supports the employee experience, personnel wellbeing and development of expertise. Skilled and motivated personnel are the cornerstone of Digia's success.

The accelerating technological development and digitalisation of society fuel competition for professionals. Digia aims to provide its employees with a positive employee experience, which paves the way for a good customer experience. The company makes outlays on developing high-quality supervisory work and the orientation training of new employees. In 2018, Digia launched the #DigiaCulture project, which seeks to strengthen and enhance everyday workplace culture in collaboration with Digia employees. Digia's policy is to provide its employees with opportunities for career rotation, personal development and the maintenance of their competitiveness.

Digia is a flexible employer that gives space to diversity. The company treats all employees equally regardless of their gender, ethnicity, religion, age and other such factors. The diversity of the company increases human capital, which supports Digia employees' occupational wellbeing, productivity and ability to renew themselves. The company's employees have deep professional expertise, enabling peer learning.

Personnel development is guided by changes in the operating environment and society. An average of 46 hours of training per person were spent on competence development in 2018. The Digia Academy organised about 200 different training events during the year. The main focus of training was on organising coaching to support the technical and professional skills of experts. Digia aims to ensure that a large share of learning takes place by trying out and practicing new things in day-to-day work as well as through learning from others. Digia has active workplace tribes, whose major task is to develop the competence of the tribe members and provide recommendations about company-level technology policies in the specialist area of the tribe.

The management of occupational wellbeing is part of strategic management to ensure productive business and employee wellbeing. In 2018, the development of operating models for the management of occupational wellbeing continued and a new working capacity index is in use for management purposes to measure and monitor the correct timing of the measures taken. Digia employs a bridge-builder model that bolsters the roles of personnel representatives in promoting occupational wellbeing.

Digia acquired the expertise required by its growth strategy not only through recruitment and subcontracting, but also by means of corporate acquisitions. In 2018, 71 new professionals joined Digia via corporate acquisitions. Digia's employee turnover in 2018 was 12.0% (2017: 10.8%).

Job satisfaction surveys are conducted annually. Based on the results of the 2018 personnel survey, the operating methods of Digia and its businesses as well as the employer experience of personnel have been developed further. In 2018, overall personnel satisfaction was 3.77 on a scale of 1–5 (2017: 3.64). Digia assesses that the major personnel risks concern retaining competent employees. Digia will make further outlays on this in 2019.

The company respects internationally recognised human and labour rights as well as cares for the wellbeing of its personnel, maintaining a safe and healthy working environment for all its employees. Digia has not performed a human rights assessment, but in the company's opinion there are no significant risks of human rights violations inherent in our own operations. Digia's supply chain does not, in the main, extend outside Finland.

Technological solutions promoting society and the environment

Digia seeks to be a technological pioneer that promotes society with its products and services, providing solutions that support society and the environment. Technology is developing at an ever-faster pace. Digia keeps a close eye on megatrends and technological trends to acquire and maintain its technological capabilities.

Digia invests in new technologies that generate added value by developing them as part of its offering and by training personnel. In addition, Digia provides its employees with plenty of opportunities to innovate and develop their expertise. By doing so, Digia gives its customers access to state-of-the-art, technologically sustainable solutions and services that promote society and the environment. This is an essential aspect of Digia's competitiveness in the market.

In addition to investing in its own technology, Digia is involved in a variety of technology networks and cooperates with different technology suppliers. Digia has, for instance, organised Digia API Hackademy events since 2017. Digia API Hackademy is a training programme in which participants team up to brainstorm and plan solutions to topical business challenges using open interfaces (API) and artificial intelligence technologies. The ideas created by the teams participating in API Hackademy 2018 included an IoT-enabled measuring device for the home care of the elderly and a smart refrigerator that alerts the user about products that are about to expire, thereby reducing food wastage.

Digia wants to provide its employees with a technologically smooth, safe and sustainable workplace by continuously modernising and developing its own systems and processes.

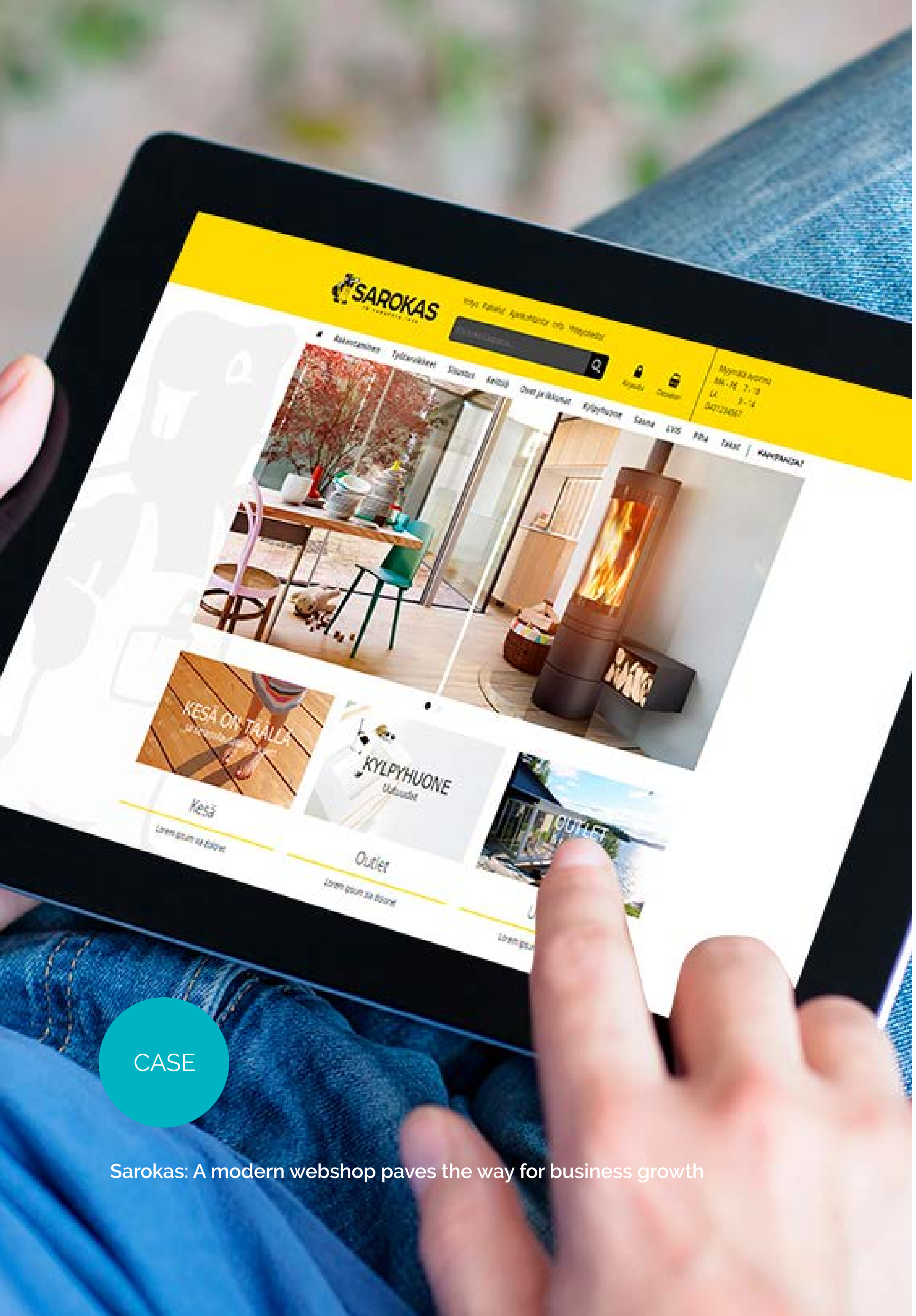
Environmental responsibility

Digia shoulders its responsibility for the environment in all its choices. The company strives to account for the environmental impact of its activities, such as in procurement processes, and to make environmentally friendly choices. We do not see any significant environmental risks associated with Digia's operations.

We also consider ourselves a producer of added value in the area of environmental responsibility. The digital services and solutions provided by Digia help our customers to reduce their environmental impacts by, for example, enabling a paperless approach.

We intend to increase our personnel's environmental awareness through a variety of campaigns. Digia examines the environmental impacts of its own operations at its headquarters in Helsinki using the WWF Green Office system. After an office audit in 2016, Digia was granted a Green Office certificate.

Area	Objective	Operating principles and processes	Indicators	2018	2017	Major risks
Customers	To act as a responsible, reliable and truly caring business partner that helps customers find sustainable, technologically suitable and information secure solutions to develop their operations and business.	Responsibility and progressive activities in all business operations and ensuring data protection and information security. Training and continuously updating processes.	Valid ISO 9001 certificate, net sales growth	18.6%	18.0%	Digia's reputation risk and weakening of competitiveness.
Preventing corruption and bribery	Personnel awareness of ethical activities	Policy, continuous education, whistleblowing channel	No reported violations	0	0	Digia's reputational risk, exclusions from public tenders.
Employee well-being and retention	To be a desired employer in the technology sector that supports the development of the expertise of its personnel. Enabler of a diverse and equal working community. Provider of a positive employee experience and occupational wellbeing.	Development of the leadership culture. Target and development discussions. Job rotation and employees' opportunities for development, innovation and utilisation of human capital. Competitive benefits. Preventative measures. Coaching leadership models and processes. Rising trend in the employee satisfaction indicator.	Employee satisfaction and turnover, % Indicators of diversity and equality.	3.77/5 12%	3.64/5 10.8%	Working capacity risks, turnover. Digia's competitiveness weakens due to lack of skilled employees.
Data protection and information security	No data protection violations.	Training, audits of cooperation partners, continuously updating processes.	Number of violations	0	0	Risk to Digia's reputation, official sanctions, contractual risks
Environmental responsibility	Increasing environmental awareness in day-to-day operations.	Accounting for environmental impacts in day-to-day business.	Number of environmental awareness campaigns for personnel throughout the Group.	3	1	No identifiable risks.



Financial Statements

1 Main statements in the consolidated financial statements (IFRS)

1.1 Consolidated Income Statement

EUR 1,000	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017 adjusted
Net sales	3.2	112,122	94,537
Other operating income	3.4	240	906
Materials and services		–12,595	–11,008
Depreciation, amortisation and impairment	7.4	–2,595	–1,669
Personnel expenses	4.1	–76,467	–67,533
Other operating expenses	3.7	–14,210	–13,380
		–105,628	–92,684
Operating profit		**6,494**	**1,852**
Financial income	6.5	114	169
Financial expenses	6.5	–640	–822
		–526	–653
Profit before taxes		**5,968**	**1,199**
Income taxes	3.8	–1,264	–225
Net profit		**4,704**	**974**
Earnings per share, EUR (undiluted and diluted)		0.18	0.04

1.2 Consolidated statement of comprehensive income

EUR 1,000	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017 adjusted
Net profit	4,704	974
Other comprehensive income items:		
Items that may later be reclassified as profit or loss:		
Exchange differences on translating foreign operations	88	72
Total comprehensive income	4,792	1,046
Distribution of total comprehensive income:		
Parent company shareholders	4,792	1,046

1.3 Consolidated balance sheet

EUR 1,000	Note	31 Dec 2018	31 Dec 2017 adjusted
ASSETS			
Non-current assets			
Goodwill	7.1	50,462	45,715
Other intangible assets	7.3	3,592	2,243
Tangible assets	7.2	3,804	3,293
Financial assets	6.2	484	484
Non-current receivables	5.2	537	113
Deferred tax assets	3.9	209	435
		59,088	52,283
Current assets			
Accounts receivable and other receivables	5.2	27,282	22,474
Cash and cash equivalents	6.2	1,733	11,858
		29,015	34,332
Total assets		**88,104**	**86,616**

EUR 1,000	Note	31 Dec 2018	31 Dec 2017 adjusted
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to parent-company shareholders			
Share capital	6.7	2,088	2,088
Other reserves		5,204	5,204
Unrestricted shareholders' equity reserve		42,081	42,081
Translation difference		–384	–296
Retained earnings		–5,910	–5,915
Net profit		4,704	974
		47,782	44,136
Total shareholders' equity		**47,782**	**44,136**
Non-current liabilities			
Deferred tax liabilities	3.9	640	345
Non-current advances received		54	0
Financial liabilities	6.3	6,479	12,977
Other non-current liabilities		726	579
		7,899	13,902
Current liabilities			
Accounts payable and other liabilities	5.3	10,964	12,945
Income tax liabilities		799	239
Provisions	3.3	214	1,663
Accruals and deferred income		12,484	10,079
Financial liabilities	6.3	7,961	3,652
		32,422	28,578
Total liabilities		**40,322**	**42,480**
Total shareholders' equity and liabilities		**88,104**	**86,616**

1.4 Consolidated cash flow statement

EUR 1,000	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017 adjusted
Cash flow from operations:			
Net profit		4,704	974
Adjustments to net profit	3.6	2,547	2,646
Change in working capital	5.1	–5,766	1,038
Change in other receivables and liabilities		3,065	–139
Interest paid		–247	–612
Interest income		3	400
Taxes paid		–704	–1,164
Net cash flow from operations		**3,602**	**3,144**
Cash flow from investments:			
Purchases of tangible and intangible assets		–647	–2,928
Acquisition of subsidiaries	3.5	–7,979	–4,042
Dividends received		10	15
Cash flow from investments		**–8,616**	**–6,955**
Cash flow from financing:			
Change in financial leasing liabilities	6.3	–1,204	842
Repayments of current loans	6.3	–2,600	–8,000
Withdrawals of current loans	6.3	–	4,000
Repayment of non-current loans	6.3	–4,285	–
Withdrawals of non-current loans	6.3	4,289	6,000
Acquisition of treasury shares		–243	–
Dividends paid and other profit distribution		–1,069	–1,658
Share issue		–	12,491
Cash flow from financing		**–5,112**	**13,675**
Change in liquid assets		**–10,125**	**9,864**
Liquid assets at beginning of period		**11,858**	**1,994**
Change in cash and cash equivalents		–10,125	9,864
Liquid assets at end of period	6.2	**1,733**	**11,858**

1.5 Changes in shareholders' equity

EUR 1,000	Share capital	Unrestricted shareholders' equity reserve	Other reserves	Translation difference	Retained earnings	Total shareholders' equity
Shareholders' equity, 1 Jan 2017	**2,088**	**30,050**	**5,204**	**–224**	**–4,303**	**32,814**
Comprehensive income						
Net profit (+) / loss (–)	–	–	–	–	968	968
IFRS 15 – adjustment					6	6
Total recognised income and expenses for the period	**–**	**–**	**–**	**–**	**974**	**974**
Share-based transactions settled in equity	–	–	–	–	47	47
Transactions with shareholders						
Dividends paid	–	–	–	–	–1,658	–1,658
Rights Issue	–	12,491	–	–	–	12,491
Costs of issuing equity	–	–460	–	–	–	–460
Other comprehensive income items	–	–	–	–72	–	–72
	–	12,031	–	–72	–1,612	10,348
Adjusted shareholders' equity, 31 Dec 2017	**2,088**	**42,081**	**5,204**	**–296**	**–4,941**	**44,136**

EUR 1,000	Share capital	Unrestricted shareholders' equity reserve	Other reserves	Translation difference	Retained earnings	Total shareholders' equity
Shareholders' equity, 1 Jan 2018	**2,088**	**42,081**	**5,204**	**–296**	**–4,941**	**44,136**
Effect of IFRS 2 changes on shareholders' equity					36	36
Adoption of IFRS 9					–89	–89
Net profit (+) / loss (–)					4,704	4,704
Total recognised income and expenses for the period	**–**	**–**	**–**	**–**	**4,651**	**4,651**
Share-based transactions settled in equity	–	–	–	–	395	395
Transactions with shareholders						
Dividends paid	–	–	–	–	–1,069	–1,069
Redemption of own shares	–	–	–	–	– 243	– 243
Other comprehensive income	–	–	–	–88	–	–88
Shareholders' equity, 31 Dec 2018	**2,088**	**42,081**	**5,204**	**–384**	**–1,206**	**47,782**

2 General information

Basic information on the Group

Digia is a profitably growing IT service company that helps its customers harness digital opportunities. As a visionary partner, Digia develops and innovates solutions that support business operations together with its customers. We adapt our expertise to their specific industries to help them develop digital services, manage operations and utilise information. Digia's service offering comprises digital services, integration and data utilisation, and business systems such as ERP. The services are rounded out with 24/7 support.

Digia employs about 1,100 experts in Finland and Sweden, and is expanding its international presence together with its customers.

The company's strengths are its good customer base, extensive product and service offering, 24/7 maintenance and support, and the credible size of its business. Based on these strengths, Digia can serve as a trusted partner to its customers in their digitalisation transformation. We forge long-term customer relationships and develop them to grow with our customers.

Digia operates in eight locations in Finland – Helsinki, Lahti, Jyväskylä, Oulu, Rauma, Tampere, Turku and Vaasa – and in Stockholm, Sweden. The company is listed on NASDAQ Helsinki (DIGIA). Digia Plc is domiciled in Helsinki and its registered office is at Atomitie 2 A, 00370 Helsinki.

Approval by the Board of Directors

The Board of Directors approved the financial statements for publication on 8 February 2019. According to the Finnish Companies Act, shareholders have the right to approve or reject the financial statements at the General Meeting held after publication. The General Meeting may also decide to revise the financial statements. Digia Plc's Annual General Meeting will be held on 15 March 2019.

Accounting policies

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS), observing the IAS and IFRS standards, as well as SIC and IFRIC interpretations valid on 31 December 2018.

The consolidated financial statements include the parent company, Digia Plc, and all its subsidiaries, which are 100% owned. Acquired subsidiaries are consolidated using the acquisition method, according to which the assets and liabilities of the acquired entity are measured at fair value at the time of acquisition, and the remaining difference between the acquisition price and the acquired shareholders' equity constitutes goodwill. Subsidiaries acquired during the fiscal period are included in the consolidated financial statements as from when control was gained, while divested subsidiaries are included until the date of divestment. No subsidiaries were divested in the 2018 and 2017 fiscal periods.

The consolidated financial statements are presented in thousands of euros and the figures have been rounded to the nearest thousand euro, which means that the sum of individual figures may differ from the totals given.

Items referring to the earnings and financial position of the Group's units are recognised in the currency that is the main currency of the unit's primary operating environment ('functional currency'). The consolidated financial statements are given in euros, which is the operating and presentation currency of the parent company. The Group has one subsidiary abroad, in Sweden.

Accounting policy	Note		IFRS standard
Segment reporting	3.1	Segment reporting	IFRS 8
Revenue recognition	3.2	Net sales	IFRS 15
Provisions	3.3	Other provisions	IAS 37
Government grants	3.4	Other operating income	IAS 20
Business combinations	3.5	Acquired business operations	IFRS 3, IFRS 10
Research and development costs	3.6	Other operating expenses	IAS 38
Income taxes	3.7	Income taxes	IAS 12
Deferred tax assets and liabilities	3.8	Deferred tax	IAS 12
Earnings per share	3.9	Earnings per share	IAS 33
Pension liabilities	4.2	Pension liabilities	IAS19
Accounts receivable and other receivables	5.2	Accounts receivable and other receivables	IFRS 9, IFRS 15
Financial assets	6.2 6.3	Financial assets and liabilities by category and Financial assets and liabilities at fair value	IAS 32, IFRS 9, IFRS 7
Interest-bearing liabilities	6.3	Financial liabilities	IFRS 9,IFRS 13
Finance lease liabilities	6.4	Finance lease liabilities	IAS 17, IFRS 9
Share-based incentives	6.8	Personnel expenses, Shareholders' equity	IFRS 2
Goodwill	7.1	Goodwill	IFRS 3, IAS 36
Other intangible assets	7.3	Intangible assets	IAS 38, IAS 36
Property, plant and equipment	7.2	Property, plant and equipment	IAS 16, IAS 17, IAS 36
Impairment	7.6	Impairment of assets	IAS 36

Receivables and liabilities denominated in foreign currencies have been converted into euro at the exchange rate in effect on the balance sheet date. Gains and losses arising from foreign currency transactions are recognised through profit or loss. Foreign exchange gains and losses from operations are included in the corresponding items above EBIT. The income statement of the Swedish group company has been converted into euro at the weighted average exchange rate for the period, and its balance sheet has been converted at the exchange rate quoted on the balance sheet date. Translation differences arising from the application of the acquisition method are treated as items adjusting consolidated shareholders' equity.

The earnings for the period are divided between the shareholders in the parent company and non-controlling interests. Non-controlling interests, if any, are also presented as a separate item within shareholders' equity. All subsidiaries are wholly owned by the Group.

Digia presents the other accounting principles employed in the financial statements in the notes. The table below lists the Group's accounting policies, information about which note they are presented in and a reference to the relevant IFRS standard.

As of 1 January 2018, the Digia Group has applied the following new and amended standards:

IFRS 2

The amendment to IFRS 2 Share-based Payment concerns incentive schemes in which a share-based payment transaction is settled net of taxes and the employer has an obligation to withhold tax from the received benefit of the share-based payment. Prior to the amendment, the total reward was divided into an equity-settled component and a cash-settled component. According to the amended standard, share-based incentive schemes are treated as wholly equity-settled arrangements and the compensation cost is recognised based on the gross amount of shares awarded even though the employee only receives the net amount of shares and the Group pays the component required to fulfil withholding obligations to the tax authorities in cash. The withholding taxes paid by the Group to the tax authorities are recognised directly in shareholders' equity.

The fair value of share-based payments is determined according to the amended standard on the day on which the scheme is agreed between the company and the recipient group. The fair value of the 2017–2019 share-based incentive scheme was determined on 3 February 2017 and is EUR 3.02 per share.

The Group's financial statements for 2017 included EUR 36 thousand in short-term liabilities related to the payment of the cash-settled component. Due to the amended standard, this component has been adjusted in the opening balance sheet from liabilities to retained earnings.

IFRS 9

IFRS 9 includes new provisions on the classification and measurement of financial assets and hedge accounting, and replaces IAS 39. It also includes a new impairment model for expected credit losses.

The interpretations are:

- The Group's credit loss provision is assessed on the basis of credit losses over the entire validity period of accounts receivable and the share of uninvoiced work in prepayments and accrued income in accordance with IFRS 9. Digia applies a simplified provision matrix for the recognition of the credit risk of accounts receivable, as the share accounted for by uninvoiced work in prepayments and accrued income does not include a financing component. A credit loss provision of EUR 0.1 million has been made in the opening balance sheet due to the adoption of the standard.

IFRS 15

The new standard has replaced the IAS 18 and IAS 11 standards and their related interpretations. IFRS 15 includes a five-step model for the recognition of revenue with respect to the timing and amount. Revenue is recognised as control is passed, either over time or at a point in time. The IFRS 15 standard that came into force on 1 January 2018 has been adopted and the figures for 2017 have been adjusted fully retrospectively.

The amended revenue recognition principle of IFRS 15 has an impact of EUR –1,685 thousand on Digia Group's net sales for 2017. The primary reason for these changes is that for third-party products, the revenue recognition method is determined on an agreement-by-agreement basis. If Digia is responsible, revenue is recognised from these products in one instalment on a gross basis once the installation environment has been completed. Maintenance revenue will also be recognised on a gross basis, but over time. If a third party holds actual responsibility, Digia only recognises the margin or commission in net sales. The amended standard does not have any material impact on the operating profit.

EUR 1,000	2017
Net sales, reported 2017	96,221
Adjustment to net sales and other receivables	–1,685
Net sales, IFRS 15 adjusted	94,537
Operating profit, reported 2017	1,846
Adjustment to operating profit and equity	+6
Operating profit, IFRS 15 adjusted	1,852

Accounting estimates and judgements applied in the preparation of the financial statements

The preparation of financial statements in accordance with IFRS requires the Group's management to make accounting estimates and apply judgements and assumptions that have an effect on the application of the accounting principles and the carrying amounts of assets, liabilities, income and expenses. These estimates and assumptions are based on historical experience and other justifiable assumptions that are believed to be reasonable under the circumstances and that serve as a foundation for evaluating the items included in the financial statements.

The estimates are reviewed regularly, but the actual results may differ from the estimates and solutions.

The assumptions underlying management's estimates are presented in the following notes:

Note

Revenue recognition: Degree of completion of a project recognised as revenue over time	3.2
Revenue recognition: Principal or agent	3.2
Fair values of net assets acquired in business combinations and additional purchase prices	3.5
Main assumptions used in impairment testing of goodwill	7.1
Economic lives of tangible assets	7.2

3 Financial development

3.1 Reportable segments

Digia reports on its business operations as one segment. In 2018, management followed four service areas: Digital Services, Integration and Information Management, Industry Solutions, and Digia Financial Solutions and Services. These service areas have similar economic characteristics and are similar in each of the respects listed in IFRS 8:12.

3.2 Net sales

Digia's net sales in the review period totalled EUR 112.1 (94.5) million. The net sales of the service and maintenance business totalled EUR 56.9 (45.2) million, or 50.7 (47.8) per cent of total net sales. The net sales of the project business totalled EUR 55.2 (49.3) million and accounted for 49.3 (52.2) per cent of total net sales. The net sales of the product business generated 17.8 (24.0) per cent of the company's net sales. The product business includes licence maintenance, and it is included in both project and service operations.

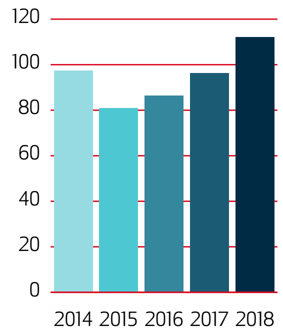
Of net sales, EUR 2.4 (3.7) million were recognised in one instalment and EUR 109.7 (90.8) thousand over time.

At the end of the reporting period, Digia reports the total transaction price of uncompleted performance obligations insofar as the agreement is for several years and not charged on an hourly basis. On 31 December 2018, Digia had an order book of EUR 4.3 million for multiyear projects with a fixed or target price. With respect to multiyear service and maintenance agreements, the order book cannot thus be unambiguously determined and is thus not reported.

On 31 December 2018, the balance sheet included EUR 1.0 (0.1) million in advance payments for projects that are recognised over time.

In 2018, no single customer accounted for a dominant share of consolidated net sales or more than 10%.

Net sales, EUR million



Accounting principle – revenue recognition

Digia's performance obligations are work performed by people, licences of own products, maintenance of own products, third-party products, maintenance of third-party products as well as services. The typical payment term in all performance obligations is 14–60 days from the invoice date. The warranty period for customer-specific materials in all performance obligations is six months from the approval of the delivery. The cancellation term in agreements is typically the right of either party to cancel the agreement if a party commits a material breach of the agreement and has not remedied said breach within 30 days. When an agreement is cancelled, the parties are to return any deliverables received.

Work performed by people

Work performed by people in specification and delivery projects is recognised as revenue over time in accordance with progress. Long-term projects with a fixed price are recognised over time on the basis of their percentage of completion once the outcome of the project can be reliably estimated. The percentage of completion is determined as the proportion of costs arising from work performed for the project up to the date of review in the total estimated project costs. If estimates of the project change, the recognised sales and profit/margin are amended in the period during which the change becomes known and can be estimated for the first time.

Digia fulfils its performance obligation with respect to work performed by people in accordance with progress. The warranty period in expert service agreements is 30 days from service delivery.

Projects that include a specification phase after which the customer has the option of withdrawing from the project are recognised as revenue over time, but the delivery project will not be recognised as revenue until the specification project has been approved

Own products

The licences of the company's own products comprise a performance obligation that is to be recognised as revenue in one instalment upon the delivery of the product, that is, when the licences have been installed in the customer's test environment. Digia has fulfilled its performance obligation once installation has been completed.

SaaS agreements for the company's own products are recognised as revenue over time during the contract period.

Maintenance fees for Digia product licences are recognised as revenue over time during the contract period.

Digia provides a six-month warranty for its own products, effective as from the date when the delivery of the completed software has been approved.

Third-party products

With respect to third-party licences, the actual responsibility for the features, further development and maintenance of the product is specified in the agreement. If Digia is responsible, revenue is recognised on a gross basis in one instalment once the product licence has been installed in the customer's test environment. If a third party holds actual responsibility for the aforementioned matters, revenue is recognised on a net basis, that is, the margin or commission is recognised in net sales upon installation. The principle of materiality is taken into consideration, that is, small agreements (under EUR 5,000) are recognised on a gross basis.

Maintenance of third-party products is recognised as revenue over time on either a gross basis (Digia has actual responsibility for maintenance) or net basis (third party is responsible for maintenance).

Third-party SaaS agreements are recognised over time on either a gross basis (Digia has actual responsibility for product features) or net basis (third party is responsible for product features).

The warranty for third-party software is determined according to the terms of the third-party software.

Services

Service agreements are recognised as revenue over time during the agreement period. If a service agreement includes a ticket- or hour-based performance obligation, revenue is recognised over time in accordance with progress.

Significant judgement:

Revenue recognition: degree of completion of a project recognised as revenue over time

A project recognised as revenue over time is recognised as income and expenses on the basis of degree of completion once the outcome of the project can be reliably estimated. Recognition is based on estimates of expected income and expenses of the project and reliable measurement and estimation of project progress. If estimates of the project's outcome change, the recognised sales and profit/margin are amended in the period during which the change becomes known and can be estimated for the first time. An onerous contract is immediately recognised as an expense.

Recognition: principal or agent

When Digia is the principal, income from third-party products and their maintenance and the expenses of these products are presented as gross sales income and operating expenses. When the company serves as an agent, income from third-party products and their maintenance and the expenses of these products are presented as net sales income. Whether the company is deemed to be acting as a principal or agent for third-party products is based on management's analysis of the legal form and factual content of the agreements made between the company and its suppliers. With respect to factual content, the decisive factor is Digia's role and responsibility towards the end customer. If Digia is responsible, revenue is recognised from these products in one instalment on a gross basis once the installation environment has been completed. Maintenance revenue will also be recognised on a gross basis, but over time. If a third party holds actual responsibility, Digia only recognises the margin or commission in net sales. The amended revenue recognition principle for 2017 had an impact of EUR –1,685 thousand on net sales. The change has not had an impact on the operating result or cash flow from operations.

3.3 Provisions

2018

EUR 1,000	Unprofitable agreements
1 Jan. 2018	1,663
Increase in provisions	70
Provisions used	–1,519
31 Dec. 2018	214

2017

EUR 1,000	Unprofitable agreements
1 Jan 2017	255
Increase in provisions	1,820
Provisions used	–411
31 Dec. 2017	1,663

Unprofitable agreements

A loss provision is created for fixed-price projects if it becomes apparent that the obligatory expenditure on the fulfilment of project obligations will exceed the benefits to be gained from the agreement. The loss is recognised in the period when it becomes known and can be estimated for the first time. Loss provisions are reversed in accordance with the extent and timing of incurred expenses.

On the balance sheet date 31 December 2018, there were four fixed-price projects for which loss provisions had been recorded on the basis of remaining work. Loss provisions have been made on the basis of the estimated total workload. If the total workload changes as a project progresses, this impacts on the size of the loss provision.

Accounting principle – provisions

A provision is recognised when the Group has a legal or factual obligation based on previous events, the realisation of a payment obligation is probable and the amount of the obligation can be reliably estimated.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. Loss provisions are reversed as expenses are incurred.

3.4 Other operating income

EUR 1,000	2018	2017
Government grants	113	305
Other income	127	601
Total	240	906

In 2018 and 2017, government grants were allocated for product development and these product development expenses are included in personnel expenses and external services.

Accounting principle – government grants

Government grants received as compensation for costs are recognised in the income statement at the same time as the expenses related to the target of the grant are recognised as expenses. Grants of this kind are presented under other operating income.

3.5 Acquired business operations

Business operations acquired during the 2018 fiscal year

29 March 2018: the company acquired the entire share capital of Avarea Oy. This acquisition is the next step in Digia's strategy implementation, in which data utilisation and modern analytics are in a key position. Specialising in advanced analytics solutions, Avarea's net sales came to some EUR 3.6 million at the end of their financial year in 30 September 2017. In the transaction, 37 top experts in analytics joined Digia in Helsinki.

1 August 2018: The company acquired the entire share capital of Mavisystems Oy and its wholly owned subsidiary Mirosys Oy. The net sales of Mavisystems Oy, specialised in demanding Microsoft Dynamics ERP systems and CRM solutions, and Mirosys Oy totalled EUR 3.2 million in the financial period that ended in June 2017. In the transaction, 34 top experts joined Digia in Helsinki, Tampere and Turku.

Total fair values of the acquired businesses on the acquisition date:

Property, plant, and equipment, and intangible assets	19
Accounts receivable and other receivables	1,023
Cash and cash equivalents	1,358
Total assets	2,400
Accounts payable and other liabilities	1,358
Total liabilities	1,358
Net assets	1,043
Goodwill	4,747
Value of customer contracts	2,276
Acquisition cost	7,611

Cash flow effect of the acquired businesses:

Acquisition cost	–7,611
Cash and cash equivalents	1,358
Additional purchase price	1,636
Share of acquisition cost payable later	0
Acquisition-related costs and taxes	–131
Net cash flow of acquisition	–4,748

The purchase prices were paid at the time of acquisition in cash, with the exception of additional contingent amounts subsequently payable in cash. The total purchase price of acquisitions in the 2018 fiscal year was EUR 7.6 million. The value of the net assets of the acquirees was estimated at EUR 1.0 million in the acquisition cost calculations. Acquisitions had an impact of EUR 4.0 million on the Digia Group's net sales in the 2018 fiscal year and EUR 0.15 million on the result for the period.

Accounts receivable consist of the ordinary current receivables of the acquired companies. Digia's goodwill grew by EUR 4.7 million as a result of the acquisitions. Goodwill consists of the value of acquired market shares, business expertise and expected synergies. For more information on goodwill, see Note 7.1.

The business operations acquired in 2018 were not of substantial relevance to the Group either individually or as a whole. If the businesses acquired during the fiscal year had been included in Digia's consolidated accounts for the entire year, they would have accounted for about EUR 7.4 million in net sales and EUR 0.3 million in operating result in 2018.

Business operations acquired during the 2017 fiscal year

On 28 April 2017, the company acquired the entire share capital of Omni Partners Oy and, at the same time, Omni Partners' wholly owned subsidiary Oy Nord Software Ltd. This strategic acquisition bolstered Digia's position in the digital services market. Omni Partners and Nord Software provide e-service solutions and customised online and mobile communications services based on open source technologies. Fifty-two top experts transferred to Digia Plc in Helsinki as a result of the acquisition.

On 4 December 2017, the company acquired the entire share capital of Integration House Oy, which specialises in modern integration solutions. Consequently, 21 top professionals joined Digia Plc in Helsinki, Tampere and Turku.

Total values of the acquired businesses on the acquisition date:

Property, plant, and equipment, and intangible assets	117
Accounts receivable and other receivables	1,051
Cash and cash equivalents	462
Total assets	1,630
Accounts payable and other liabilities	1,125
Total liabilities	1,125
Net assets	505
Goodwill	5,156
Value of customer contracts	1,062
Acquisition cost	6,749

Cash flow effect of the acquired businesses:

Acquisition cost	–6,714
Cash and cash equivalents	462
Additional purchase price	1,785
Share of acquisition cost payable later	384
Acquisition-related costs and taxes	–47
Net cash flow of acquisition	–4,130

If the businesses acquired during the fiscal year had been included in Digia's consolidated accounts for the entire year, they would have accounted for about EUR 4.3 million in net sales in 2017.

Accounting principle – business combinations

All business combinations are accounted for using the acquisition method. The purchase price consists of a share paid at the time of acquisition and an additional purchase price payable later. Such additional purchase prices are paid in cash.

Identifiable assets acquired and liabilities assumed in business combinations are measured at their fair value at the time of acquisition. The amount of the purchase price that exceeds the fair value of acquired net assets is recognised as goodwill. Changes in the value of the additional purchase price are recognised through profit or loss. The exception to this is a situation in which additional information has been received about the financial position at the time of acquisition and this has an effect on the acquisition price. In this case, the change in the acquisition price is recognised by adjusting the acquisition cost calculation. Acquisition-related costs are recognised as expenses when incurred and are presented under other operating expenses in the consolidated statement of comprehensive income.

Significant estimate

Fair values of net assets acquired in business combinations and additional purchase prices

The purchase price, additional purchase price and net assets acquired in business combinations are measured at fair value.

The fair value of acquired net assets is determined based on the fair values of similar asset items, expected cash flows or estimated payments required to fulfil the obligation. The fair value of the additional purchase price is determined based on a forecast of the parameters in accordance with the terms of the additional purchase price over the period defined in the terms.

In the view of management, the used estimates and assumptions are sufficiently reliable for determining fair value.

3.6 Adjustments to net profit

EUR 1,000	2018	2017
Depreciation, amortisation and impairment	2,595	1,669
Transactions that do not involve a payment transaction	–2,234	36
Financial income and expenses	526	654
Taxes	1,264	241
Other adjustments	395	47
Total	2,547	2,647

3.7 Other operating expenses

EUR 1,000	2018	2017
Rental costs of premises	3,156	2,758
Other costs of premises	629	457
IT costs	2,832	2,508
Voluntary personnel expenses	3,403	3,484
Travel	1,421	1,272
External services	1,343	1,493
Other expenses	1,426	1,408
Total	14,210	13,380

The company does not own its business premises. All business premises are rented. Lease agreements are either for a fixed term or valid until further notice. Fixed-term leases are made for a period of three to five years. In addition to information technology, IT costs include the cost of communication solutions. Voluntary personnel expenses primarily include expenses tied to Digia's personnel benefits.

Auditors' fees

EUR 1,000	2018	2017
Audit	70	79
Other statutory duties	–	24
Tax counselling	–	1
Other services	14	40
Total	84	143

In 2018, KPMG Oy Ab invoiced EUR 68.4 (76.6) thousand for auditing and EUR 13.9 (64.7) thousand for other services. Audit fees are included in other operating expenses.

Research and development costs

EUR 1,000	2018	2017
Research and development costs	6,077	5,712
Total	6,077	5,712

The R&D spend includes the development of the company's own products carried out largely by in-house personnel and recognised in personnel expenses. When external services are used for this purpose, the expenses are recognised in other operating expenses. In 2018 and 2017, all R&D costs were recognised as expenses in the result for the financial year, as future economic benefit or useful life cannot be estimated with sufficient reliability during the development phase.

Accounting principle – research and development costs

Research costs are recognised as expenses. Development costs are capitalised if they fulfil the IFRS capitalisation criteria for intangible assets.

3.8 Income taxes

EUR 1,000	2018	2017
Current tax	1,168	541
Taxes from previous periods	30	–27
Deferred tax	65	–289
Total	1,264	225

Reconciliation between the tax expenses in the income statement and taxes calculated at the tax rate valid in the Group's home country (20 per cent):

EUR 1,000	2018	2017
Profit before taxes	5,968	1,199
Taxes calculated at the domestic corporation tax rate	1,194	240
Income not subject to tax	–42	–126
Non-deductible expenses	90	112
Other items	–43	287
Taxes from previous periods	–30	27
Total	1,168	541
Current tax	1,168	541

Accounting principle – income taxes

Taxes recognised in the income statement include taxes based on taxable income for the financial period, adjustments to taxes for previous periods, as well as changes in deferred taxes. Tax based on taxable income for the period is calculated using the corporate income tax rate applicable in each country.

3.9 Deferred tax assets and liabilities

Changes in deferred taxes during 2018:

EUR 1,000	1 Jan 2018	Recognised in income statement	Acquired business operations	31 Dec 2018
Deferred tax assets:				
Provisions	333	–290	–	43
Other items	102	64	–	166
Total	435	–226	–	209

EUR 1,000	1 Jan 2018	Recognised in income statement	Acquired business operations	31 Dec 2018
Deferred tax liabilities:				
From business combinations	341	–158	455	639
Other items	4	–3	–	1
Total	345	–160	455	640

Changes in deferred taxes during 2017

EUR 1,000	1 Jan 2017	Recognised in income statement	Acquired business operations	31 Dec 2017
Deferred tax assets:				
Provisions	51	282	–	333
Other items	143	–41	–	102
Total	194	241	–	435

EUR 1,000	1 Jan 2017	Recognised in income statement	Acquired business operations	31 Dec 2017
Deferred tax liabilities:				
From business combinations	175	–45	212	341
Other items	7	–3	–	4
Total	181	–48	212	345

Accounting principle – deferred taxes

Deferred tax receivables and liabilities are recognised for temporary differences between the taxable values and book values of asset and liability items. The biggest temporary differences arise from the depreciation of fixed assets and revaluation at fair value in connection with acquisitions. Deferred taxes are determined on the basis of the tax rate enacted by the balance sheet date. Deferred tax receivables are recognised up to the probable amount of taxable income in the future, against which the temporary difference can be utilised.

3.10 Earnings per share

	2018	2017
Profit for the period attributable to parent company shareholders (EUR 1,000)	4,704	974
Weighted average number of shares during the period	26,699,807	23,789,462
Earnings per share, EUR (undiluted and diluted)	0.18	0.04

In 2018 and 2017, Digia did not issue dilutive instruments and thus there was no dilution effect.

Accounting principle – earnings per share

Basic earnings per share are calculated by dividing the earnings before tax for the accounting period attributable to the parent company's shareholders by the weighted average of shares outstanding during the accounting period. Own shares held by the company are not included in the calculation of the weighted average of shares outstanding.

4 Human resources

Group personnel on average during the period	2018	2017
Business units	1,031	918
Administration and management	38	36
Total	1,069	954

4.1 Personnel expenses

EUR 1,000	2018	2017
Salaries and remunerations	62,811	55,497
Pension costs, defined-contribution plans	10,977	9,803
Share-based payments	395	23
Other personnel expenses	2,284	2,210
Total	76,467	67,533

The total remuneration Digia offers to employees consists of salaries, fringe benefits and short-term incentives. Share-based payments include the annual costs of the management incentive scheme. Information on share-based payments is provided in Note 4.4 Share-based payments. Additional information is presented in Note 7.6 Related party transactions.

4.2 Pension liabilities

Employees are provided with pension coverage under the Finnish Employees' Pension Act (TyEL). Pensions are arranged through a pension insurance company.

Accounting principle – pension liabilities

The pension schemes are defined contribution plans, and payments are recognised in the income statement during the period to which the payment applies. The Finnish Employees' Pensions Act (TyEL) pension scheme has been treated as a defined contribution plan.

4.3 Personnel remuneration

Employee remuneration is based on fixed monthly or hourly pay. Part of the employees are covered by a target bonus or performance bonus scheme. The target bonus scheme covers salespeople and its key indicator is the value of agreements. The key indicators of the performance bonus scheme are consolidated net sales and operating result. Employees have access to extensive occupational healthcare services. In addition, all employees have medical expenses insurance from an insurance company as well as telephone and fitness benefits.

4.4 Share-based payments

Digia has incentive schemes where payments are made either in equity instruments or in cash. The benefits granted through these arrangements are measured at fair value on the date of their being granted and recognised as expenses in the income statement evenly during the vesting period. The impact of these arrangements on the financial results is shown in the income statement under the cost of employee benefits and the impact on the balance sheet as a change in shareholders' equity.

On 3 February 2017, Digia Plc's Board of Directors decided to establish a new long-term share-based incentive scheme. The Board will confirm the target group for the long-term incentive scheme separately. In principle, the target group consists of the CEO and the company's management. The scheme is designed to conjoin the goals of the company's shareholders and management, in order to increase the company's value and to commit executive management to the company and its long-term objectives. The new scheme replaced the previous share-based incentive scheme, which ran until 2017.

The new long-term incentive scheme covers the calendar years 2017–2019. It offers participants the chance to earn company shares if the targets set by the Board of Directors for the three-year bonus period are reached.

These targets are based on the company's net sales and earnings per share (EPS). There are three earnings periods for the EPS indicator, 2017, 2018 and 2019, and the Board of Directors will set the criteria for each at the beginning of each period. The earnings period for the net sales indicator is 2017–2019. The target for net sales is the net sales target set for 2019. During the bonus period, the company's CEO and other scheme participants are entitled to a bonus equivalent to a maximum of 500,000 new Digia Plc shares. In accordance with the terms and conditions of the scheme, the issue-adjusted number of shares is 524,900 due to the 2017 share issue. If the terms are met, the bonuses based on the new scheme will be paid at the end of the reward period in 2020 for both indicators. All bonuses under this scheme will be paid as a 50/50 combination of shares and cash. The cash portion of the bonus will primarily be used to cover taxes and other comparable costs of the scheme.

The total cost impact of the share-based incentive programme for the years 2017–2019 is a maximum of EUR 1.3 million.

The basic details of the scheme are listed in the table below.

	President and CEO's share-based incentive scheme 2017–2019	Key personnel's share-based incentive scheme 2017–2019
Granting date	3 Feb 2017	3 Feb 2017
Implementation	Shares and cash	Shares and cash
Target group	President & CEO	Key personnel
Maximum number of shares *	150,000	350,000
Beginning of the earning period	1 Jan 2017	1 Jan 2017
End of the earning period	31 Dec 2017 / 31 Dec 2018 / 31 Dec 2019	31 Dec 2017 / 31 Dec 2018 / 31 Dec 2019
Vesting condition	Earnings per share and net sales Employment requirement	Earnings per share and net sales Employment requirement
Maximum validity, years	2.9	2.9
Remaining validity, years	1.2	1.2
Number of persons (31 Dec 2018)	1	10

* The amounts include the cash portion (in shares) granted according to the terms of the incentive scheme.

The items related to share-based incentive schemes in 2018 are given in the table below. Because the cash portion of the bonus payment is also recorded as a share-based expense, the sums below are gross, i.e. the bonuses include the shares and the equivalent cash sum.

Events in 2018 fiscal year	President and CEO's share-based incentive scheme 2017–2019	Key personnel's share-based incentive scheme 2017–2019
Gross amounts, 1 Jan 2018**		
Outstanding at beginning of period	136,474	221,087
Changes during the period		
Granted during the year	–	–
Forfeited during the year	3,191	8,174
Exercised during the year	–	–
Gross amounts, 31 Dec 2018**		
Outstanding at end of period	133,283	212,914
Available for exercising at end of period	–	–

Events in 2017 fiscal year	President and CEO's share-based incentive scheme 2017–2019	Key personnel's share-based incentive scheme 2017–2019
Gross amounts, 1 Jan 2017		
Outstanding at beginning of period	0	0
Changes during the period		
Granted during the year	150,000	243,000
Share issue-adjusted number	157,470	255,101
Forfeited during the year	20,996	34,014
Exercised during the year	–	–
Gross amounts, 31 Dec 2017 **		
Outstanding at end of period	136,474	221,087
Available for exercising at end of period	–	–

** Gross amounts are adjusted for share issues.

Accounting principle – share-based incentive scheme

The targets of the share-based incentive scheme are based on the company's net sales and earnings per share (EPS). The accrual of expenses from the incentive scheme is recognised annually, assessing the total cost impact of the scheme at the level estimated by management. If estimates of the total cost impact of the scheme change, the cost is amended in the period during which the change becomes known for the first time.

Immediate costs relating to the acquisition of Digia Plc's own shares are recognised as deductions in shareholders' equity.

Expense effect of share-based incentive schemes on 2018 income statement

Effect on earnings and financial position, EUR 1,000	President and CEO's share-based incentive scheme 2017–2019	Key personnel's share-based incentive 2017–2019	Total
Share-based payment expense for the fiscal year	151	244	395
Share-based payments, shareholders' equity, 31 Dec 2018	183	295	478

Comparison data for 2017

Effect on earnings and financial position, EUR 1,000	President and CEO's share-based incentive scheme 2017–2019	Key personnel's share-based incentive scheme 2017–2019	Total
Share-based payment expense for the fiscal year	32	51	83
Share-based payments, shareholders' equity, 31 Dec 2017	18	29	47
Liabilities from share-based payments, 31 Dec 2017	14	22	36

5 Working capital

Digia ensures optimal working capital through the turnover of accounts receivable and payable.

5.1 Change in working capital

EUR 1,000	2018	2017
Change in accounts receivable	–4,170	–731
Change in accounts payable	–1,595	1,769
Total	–5,766	1,038

5.2 Accounts receivable and other receivables

EUR 1,000	2018	2017
Accounts receivable and other receivables		
Accounts receivable	19,221	15,050
Receivables arising from customer agreements	5,798	4,126
Security deposit for rental due	55	44
Tax assets from the profit for the financial year	689	829
Prepayments and accrued income	1,769	2,167
Other receivables	231	257
Accounts receivable and other receivables	27,762	22,474

EUR 1,000	2018	2017
Not due	17,347	13,435
Due 1–30 days ago	917	1,047
Due 31–60 days ago	528	279
Due 61–90 days ago	317	58
Due 91–180 days ago	100	54
Due more than 180 days ago	13	177
Total	19,221	15,050

Accounts receivable are mainly attributable to invoicing of Finnish companies and organisations. Impairment of accounts receivable has remained low. At the end of the 2018 fiscal year, credit losses totalled EUR 2 (38) thousand. The book value of accounts receivable and security deposits for rental dues is a reasonable estimate of their fair value. Their balance sheet values best correspond with the sum of money that represents the maximum amount of credit risks. Receivables from customer agreements comprise completed work that has not been invoiced. Typically, these are fixed or target price projects in which it has been agreed that invoices will be sent after sub-deliveries are accepted. After invoicing, receivables from customer agreements are transferred to accounts receivable. Essential items included in prepayments and accrued income are associated with the accrual of statutory insurance premiums and other accrued expenses.

Accounting principle – accounts receivable and other receivables

Accounts receivable and other receivables are measured at nominal value. The credit loss provision is based on management's estimate of expected credit losses in each accounts receivable category. The assessment of the credit loss provision in accordance with IFRS 9 is described in Note 6.2

Provision matrix for accounts receivable

Accounts receivable, EUR 1,000	Balance sheet values (gross)	Expected credit loss	Credit loss provision
Not yet due	17,347	0.1%	17
Due 1–30 days ago	917	0.2%	2
Due 31–90 days ago	844	1.5%	13
Due more than 90 days ago	113	2.5%	3
Total	19,221		35
Receivables from customers on long-term projects	6,147	0.1%	7

5.3 Accounts payable and other liabilities

EUR 1,000	2018	2017
Accounts payable and other liabilities	10,964	12,945

Accounts payable are non-interest-bearing and are paid mainly within 14–90 days. The carrying amounts of accounts payable and other liabilities are considered to correspond to their fair values due to the short-term nature of these items.

Other liabilities include project-related advance payments from customers.

6 Capital structure

6.1 Capital management and net liabilities

The Group's capital management aims at supporting company business by means of optimal management of the capital structure, ensuring normal operating conditions and increasing shareholder value with a view to achieving the best possible profit. At the end of the year, the Group's interest-bearing net liabilities were EUR 12.7 million (31 Dec. 2017: EUR 4.8 million). When calculating gearing, the interest-bearing net liabilities are divided by shareholders' equity. Gearing includes interest-bearing net liabilities less cash and cash equivalents. Interest-bearing liabilities have mainly been used to finance the company's business acquisitions. Net gearing at the year-end 2018 was 27% (2017: 11%).

The share of liabilities of total shareholders' equity was as follows on 31 December 2018 and 31 December 2017:

EUR 1,000	2018	2017
Interest-bearing liabilities	14,440	16,630
Financial assets	1,733	11,858
Interest-bearing net liabilities	12,707	4,772
Total shareholders' equity	47,782	44,136
Net gearing	27%	11%

Net gearing = Net liabilities/Total shareholders' equity
See Note 6.7 for more information on shareholders' equity.

6.2 Financial assets

Financial assets are classified according to IFRS 9 Financial Instruments in the following categories: amortised cost and fair value through profit or loss. Classification is based on the business model objective and contractual cash flows of investments or by applying the fair value option at the time of initial acquisition. All purchases and sales of financial assets are recognised on the transaction date.

In the fair value hierarchy, the highest level is assigned to quoted (unadjusted) prices for identical assets or liabilities in active markets (Level 1 inputs), and the lowest to unobservable inputs (Level 3 inputs). Financial assets recognised at fair value through profit or loss comprise investments in money market funds. Both realised and unrealised gains and losses due to fair value changes are recognised in the period in which they arise. Unlisted shares and participations owned by Digia are recognised at fair value through profit or loss. The amended standard did not lead to changes in Digia's entry procedures.

Financial assets measured at amortised cost comprise accounts receivable and other prepayments and accrued income. Due to their nature, the carrying amount of short-term accounts receivable and other prepayments and accrued income is their fair value minus the amount of credit losses.

Impairment of financial assets

The Group's credit loss provision is estimated based on expected credit losses on accounts receivable and receivables from customers in long-term projects over their entire period of validity (Note 5.2) in accordance with IFRS 9. Digia applies a simplified provision matrix to recognise the credit risk of accounts receivable, as the accounts receivable do not include a financing component. Thus the estimate of the credit loss provision is based on expected credit losses over the entire period of validity. The model based on expected credit losses is predictive and the expected loss share is based on historical loss amounts. The expected credit losses for the entire period are calculated by multiplying the gross carrying amount of unpaid accounts receivable by the expected loss share in each age category. Changes in expected credit losses are recognised in other operating expenses through profit or loss.

The impairment model has no effect on money market fund investments, as they are measured at fair value through profit or loss according to IFRS 9, already taking expected credit losses into account. Financial instruments measured at amortised cost are monitored actively. Impairment is recognised through profit or loss when the criteria are fulfilled.

Cash and cash equivalents and other short-term financial assets

EUR 1,000	2018	2017	Fair value hierarchy level
Short rate funds	334	335	1
Bank accounts	1,399	11,523	–
Bank credit facilities	3,000	3,000	1
Total	4,733	14,858	

6.3 Financial liabilities

The Group's financial liabilities are classified in two categories: amortised cost and fair value through profit or loss. Financial liabilities are initially recognised in the accounts at fair value on the basis of the consideration received. Transaction costs of financial liabilities are included in the original carrying amount of financial liabilities and are periodised as expenses in the income statement using the effective interest method. Financial liabilities are included in non-current and current liabilities and may be interest-bearing or non-interest-bearing. Loans falling due in less than 12 months are presented under current liabilities. Accounts payable are recognised at amortised cost in the Group.

The input data used in the valuation methods for determining the fair value of financial liabilities are classified on three levels. In the fair value hierarchy, the highest level is assigned to quoted (unadjusted) prices for identical assets or liabilities in active markets (Level 1 inputs), and the lowest to unobservable inputs (Level 3 inputs).

The Group's financial liabilities include accounts with a credit facility and bank loans from financial institutions. Bank loans have floating interest rates. Digia does not use interest rate swaps. In addition, the Group's financial liabilities include finance lease liabilities. Loans from financial institutions are subject to covenant terms that are described in more detail below

Interest-bearing liabilities

The Group's bank loans on 31 December 2018 amounted to EUR 11.5 (14.1) million. Bank loans have floating interest rates tied to 6-month Euribor plus a margin. The average interest rate of the loans in 2018 was 1.3 per cent (1.2% in 2017).

The loan covenant related to the company's solvency and liquidity comprised the following key figure: operating profit before depreciation and amortisation (EBITDA) in relation to net debt. The company fulfilled the set loan covenants in 2018. The maximum and minimum values specified in the loan covenants, and the realised figures on 31 December 2018 were:

	Covenant value	31 Dec 2018
Net debt / EBITDA, max.	3.5	1.4

Credit facility

The company also has EUR 3 million in floating rate credit facilities at its disposal. More information on these facilities is provided in Note 6.7 on liquidity risk.

Financial liabilities

EUR 1,000	2018 Fair values	2017 Fair values	2018 Balance sheet values	2017 Balance sheet values	Fair value hierarchy level
Non-current					
Bank loan	4,879	11,501	4,879	11,501	3
Finance lease liabilities	1,600	1,470	1,600	1,477	3
Total	6,479	12,971	6,479	12,978	
Current					
Bank loan	6,626	2,600	6,626	2600	3
Finance lease liabilities	1,334	1,042	1,334	1,052	3
Total	7,961	3,642	7,961	3,652	
Total	14,440	16,613	14,440	16,630	

Interest-bearing liabilities fall due as follows:

Year, EUR 1,000	2018	2017
2019	7,961	7,405
2020	1,641	1,156
2021	4,761	4,390
2022	76	25
Total	14,440	12,977

The tables below describe agreement-based maturity analysis results for 2018 and the 2017 comparison period. The figures are undiscounted and include interest payments and the repayment of loan capital:

EUR 1,000					
31 Dec. 2018	Balance sheet values	Cash flow	Less than 1 year	1–2 years	2–5 years
Bank loans	11,505	11,710	6,708	693	4,309
Finance lease liabilities	2,934	2,934	1,334	1,015	585
Accounts payable and other liabilities	5,384	5,384	5,384	0	0
Total	19,824	20,029	13,426	1,708	4,894

EUR 1,000					
Bank loans	Balance sheet values	Cash flow	Less than 1 year	1–2 years	2–5 years
Finance lease liabilities	14,101	14,350	2,731	6,682	4,936
Accounts payable and other liabilities	2,529	2,529	1,052	780	696
Total	7,259	7,259	7,259	0	0
Yhteensä	23,889	24,138	11,042	7,462	5,632

Accounts payable and other non-interest-bearing liabilities are recognised in the balance sheet at their original cost, which is equivalent to their fair value, because the effect of discounting is not material, considering the maturities of the liabilities.

6.4 Finance lease liabilities

Finance leases cover IT equipment, furnishings and vehicles. The lease periods are 2–5 years.

The effective interest rate on finance lease liabilities during the 2018 fiscal year was 2.3% (2017: 2.3%).

EUR 1,000	2018	2017
Finance lease liabilities, total of minimum lease payments		
Within one year	1,334	1,052
Within more than one but less than five years	1,600	1,476
Finance lease liabilities, present value of minimum lease payments		
Within one year	1,306	1,042
Within more than one but less than five years	1,594	1,470
Financial expenses to be accrued in the future	70	73
Total amount of finance lease liabilities	2,899	2,512

Accounting principle – finance lease liabilities

Leases on tangible assets in which the Group has a significant part of the risks and benefits characteristic of ownership are categorised as finance lease agreements. A finance lease is recognised in the balance sheet at the fair value of the leased asset at the start of the lease period or at a lower current value of minimum lease payments. Assets acquired on finance leases are depreciated over the asset's useful life or the lease period, whichever is shorter. Lease obligations are included in interest-bearing debt. Leases in which the risks and benefits characteristic of ownership remain with the lessor are treated as operating leases. Leases payable on the basis of other leases are recognised as expenses in the income statement in equal instalments over the lease period.

6.5 Financial income and expenses

Financial income

EUR 1,000	2018	2017
Interest income from cash and cash equivalents	–1	1
Interest income from accounts receivable	3	3
Dividend income	10	15
Exchange rate gains	98	75
Other financial income	3	75
Total	114	169

Financial expenses

EUR 1,000	2018	2017
Interest expenses for financing loans valued at accrued acquisition cost	371	438
Interest expenses for accounts payable	12	8
Loan administration fees	93	89
Impairment of shares and participations	0	141
Exchange rate losses	4	2
Other financial expenses	160	144
Total	640	822

6.6 Financial risks

Financial risk management consists, for instance, of the planning and monitoring of solvency of liquid assets, the management of investments, receivables and liabilities denominated in a foreign currency, and the management of interest rate risks on non-current interest-bearing liabilities.

Digia Plc's internal and external financing and the management of financing risks is concentrated in the finance and financial management unit of the Group's parent company. The unit is responsible for the Group's liquidity, sufficiency of financing, and the management of interest rate and currency risk. The Group is exposed to several financial risks in the normal course of business. The Group's risk management seeks to minimise the adverse effects of changes in financial markets on the Group's earnings. The primary types of financial risks are interest rate risk, credit risk, and liquidity risk. The general principles of risk management are approved by the Board of Directors, and the Group's finance and financial management unit together with the business segments is responsible for their practical implementation.

In accordance with the company's investment policy, cash and cash equivalents are invested only in low-risk short rate funds and bank deposits.

Interest rate risks

The Group's interest rate risk is primarily associated with a long-term bank loan that has an interest rate linked to Euribor rates. Changes in market interest rates have a direct effect on the Group's future interest payments. During the 2018 fiscal period, the interest rate on the long-term bank loan varied between 1.0% and 1.6% (in 2017, between 1.0% and 1.4%). The impact of a +/–1% change in the loan's interest rate is EUR 0.1 million per annum. The Group's money market investments are a source of interest rate risk, but the overall impact of these investments is negligible. Interest rate developments are monitored and reported on regularly in the Group. Possible interest rate hedges will be made with the appropriate instruments. At the end of the fiscal year, the company had no such hedging instruments in force.

Credit loss risk

The Group's customers are mostly well-known Finnish and foreign companies with well-established credit, and thus the Group has no significant credit loss risks. The Group continuously assesses the increase in credit risk after initial recognition on the basis of changes in the default risk.

The Group's policy defines creditworthiness requirements for customers and investment transactions with the aim of minimising credit losses. Services and products are only sold to companies with a good credit rating. The counterparties in investment transactions are companies with a good credit rating. Credit loss risks associated with commercial operations are primarily the responsibility of operational units. The parent company's finance and financial management unit provides customer financing services in a centralised manner and ensures that the guidelines are observed with regard to terms of payment and collateral required.

In the 2018 financial statements, a credit loss provision was recognised in accordance with IFRS 9, which entered into force on 1 January 2018. The provision totalled EUR 41 thousand. The maturity analysis of accounts receivable and receivables from customer agreements for 2018 and 2017 is presented in Note 5.3. Credit loss risks did not increase significantly during 2018, and the company has no known risk concentrations.

Foreign exchange risks

The Group's currency risks related to the receivables, liabilities and investments of the Swedish subsidiary as well as the Finnish companies' accounts receivable and payable denominated in foreign currency. In the 2018 financial statements, accounts receivable denominated in foreign currency amounted to EUR 0.11 million and accounts payable denominated in foreign currency to EUR 0.01 million.

Liquidity risk

The Group aims to continuously estimate and monitor the amount of financing required for business operations in order to maintain sufficient liquid funds for financing operations and repaying loans falling due. The Group maintains its immediate liquidity with the help of cash management solutions such as Group accounts and credit facilities at banks. The amount of unused standby credit facility on 31 December 2018 was EUR 3.0 million, and the company has the ability to take out EUR 12.5 million in new loans. Liquid assets on 31 December 2018 amounted to a total of EUR 1.7 million. The contractual maturity analysis is presented in Note 6.3.

6.7 Shareholders' equity

	Number of shares	Share capital (EUR 1,000)
1 Jan 2017	20,875,645	2,088
Rights issue 28 June 2017	5,948,078	2,088
31 Dec 2017	26,823,723	2,088

	Number of shares	Share capital (EUR 1,000)
1 Jan 2018	26,823,723	2,088
31 Dec 2018	26,823,723	2,088

The accounting countervalue of the shares is EUR 0.10 per share and the maximum number of shares is 48 million (48 million in 2017). All shares grant equal rights to their holders. The Group's maximum share capital is EUR 4.8 million (EUR 4.8 million in 2017). All outstanding shares are paid in full. At the end of the fiscal year, the company held 57,372 of its own shares, or 0.2 per cent of all shares. At the end of the review period, 134,468 of these shares remained undistributed and were under the management of Evli Alexander Management Ltd.

The other reserve comprises translation differences arising from the translation of financial statements of non-Finnish units. The unrestricted shareholders' equity reserve comprises investments similar to shareholders' equity and the subscription price of shares when a specific decision is made not to enter it in shareholders' equity.

Dividends

A dividend of EUR 0.07 per share is proposed for the 2018 fiscal year. A dividend of EUR 0.04/share was paid for the 2017 fiscal year, to a total of EUR 1,658,147. Dividends were paid on 29 March 2018.

Accounting principle – dividends

Dividends proposed by the Board of Directors will not be deducted from distributable shareholders' equity before the Board's decision has been received.

Calculation of the parent company Digia Plc's distributable funds, 31 Dec

EUR 1,000	2018	2017
Unrestricted shareholders' equity reserve	42,540	42,540
Retained earnings	1,172	1,910
Net profit	4,308	142
Total	48,021	44,593

6.8 Lease obligations and commitments

Other lease agreements

The Group has leased all of its business premises. The average duration of the leases is 1–5 years, and they normally include the option of extension after the original date of expiry. The Group has also leased motor vehicles on maintenance lease agreements. The normal duration of lease agreements is three years.

Minimum lease payments on the basis of other non-cancellable leases:

EUR 1,000	2018	2017
Within one year	3,163	2,700
Within more than one but less than five years	4,461	5,225
After more than five years	–	–
Total	7,624	7,925

Additional information on lease expenses is provided in Note 2.4.

Contingent liabilities

EUR 1,000	2018	2017
Bank guarantees for lease agreements	622	539

7 Other items

7.1 Goodwill

Goodwill and impairment testing

Digia's goodwill has been generated by several acquisitions. Goodwill amounted to EUR 0,462 thousand at the end of the fiscal year. The goodwill of the businesses acquired in 2018 accounted for EUR 4,747 thousand and the goodwill of those acquired in 2017 for EUR 5,156 thousand.

Accounting principle – goodwill

Goodwill corresponds to the share of acquisition cost of an acquired entity that exceeds the Group's share of the fair value of the entity's net assets on the date of acquisition.

Goodwill is defined according to IFRS 3, i.e. as the difference between points 1 and 2 below:

1. Sum of the following items:
   - the fair value of the consideration paid at the time of acquisition
   - the amount of any non-controlling interest in the object of acquisition
   - the fair value of any previously held non-controlling interest in the object of acquisition, in the case of a phased business combination

2. The net sum of the acquisition date assets acquired and liabilities assumed.

A portion of the goodwill of acquired entities is allocated to customer relationships or products originating in acquisitions and recognised in intangible assets. The portions of acquisition cost recognised in intangible assets are amortised over their useful life.

No regular amortisation is booked on goodwill but it is tested annually for impairment. For this purpose, goodwill is allocated to cash generating units. Goodwill is recognised at the original cost from which the impairment is deducted.

Goodwill impairment testing

Goodwill impairment testing is performed at Group level, with the Group as the reportable cash-generating unit. The table below shows the distribution of goodwill and values subject to testing at the end of the reporting period:

EUR 1,000	Specified intangible assets	Goodwill	Other items	Total value subject to testing
31 Dec 2017	1,742	45,715	8,605	56,062
31 Dec 2018	3,194	50,462	9,808	63,464

The current values for Digia's operations on 31 Dec. 2018 and 31 Dec. 2017 were calculated for a five-year forecast period based on the following assumptions:

Net sales and operating profit for 2019 according to budget. In the five-year forecast period, annual growth in net sales is expected to be 10.0 per cent and 2.0 per cent thereafter, operating profit of 7.0 per cent and a pre-tax discount rate of 11 per cent. Post-forecast-period cash flows were extrapolated using the same assumptions as for the forecast period.

Sensitivity analysis

Management tests the impacts of changes in the significant estimates used in forecasts with sensitivity analyses.

The most important factors in goodwill sensitivity analyses are not only the cash flow forecasts and their assumptions, but also the growth percentage of the terminal value and the discount rate used. If –13.9 per cent had been used as the growth percentage of the terminal value, instead of 2.0 per cent, the value in use would have corresponded to the value subject to testing. If 21.5 per cent had been used as the discount rate, instead of 11 per cent, the value in use would have corresponded to the value subject to testing. If the operating margin were 3.1 per cent, instead of 7 per cent, the value in use would correspond to the value subject to testing.

In addition, a sensitivity analysis of net sales growth and profitability has been carried out. According to the sensitivity analysis, goodwill requires either net sales to remain at the current level with profitability of 4.64 per cent, or a 2.0 per cent growth in net sales with profitability of 4.34 per cent.

Significant estimate – main assumptions used in impairment testing of goodwill

Management applies significant estimates and judgements in assessing the development of the Group's net sales and costs, the applicable tax rates, and the impact of changes in market conditions on the Group's earnings trend. Cash flow forecasts are based on the Group's actual result and management's best estimates of future financial performance. Cash flow forecasts include the budgeted figure for the next fiscal year and projected figures for the next five years. Growth rates are based on management's estimates of growth in future years.

7.2 Property, plant and equipment

2018

EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Total 2018
Acquisition cost, 1 January	17	164	23,822	84	24,087
Additions	–	–	2,046	–	2,046
Transferred through business combinations			19		19
Disposals	–	–2	–65	–	–67
Acquisition cost, 31 December	17	162	25,822	84	26,085
Accumulated depreciation and amortisation, 1 January	–	–113	–20,598	–83	–20,793
Depreciation	–	–7	–1,482	–	–1,489
Accumulated depreciation and amortisation, 31 December	–	–119	–22,080	–83	–22,282
Book value, 1 January	17	51	3,224	1	3,293
Book value, 31 December	17	45	3,742	1	3,804

Property, plant and equipment include machinery and equipment leased under finance lease as follows:

EUR 1,000	Machinery and equipment 2018
Acquisition cost and provisions	15,533
Accumulated depreciation	–12,633
Book value, 31 December	2,900

2017

EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Total 2017
Acquisition cost, 1 January	17	164	21,745	84	22,010
Increase	–	–	2,125	–	2,125
Transferred through business combinations			115		115
Disposals	–	–	–163	–	–163
Acquisition cost, 31 December	17	164	23,822	84	24,087
Accumulated depreciation and amortisation, 1 January	–	–106	–19,436	–83	–19,624
Depreciation	–	–7	–1,162	–	–1,169
Accumulated depreciation and amortisation, 31 December	–	–113	–20,598	–83	–20,793
Book value, 1 January	17	59	2,309	1	2,387
Book value, 31 December	17	51	3,224	1	3,293

EUR 1,000	Machinery and equipment 2017
Acquisition cost and additions	13,926
Accumulated depreciation	–11,428
Book value, 31 December	2,498

Accounting principle – property, plant and equipment

Property, plant and equipment (PPE) are carried at cost less accumulated planned depreciation and impairment. Assets are depreciated over their estimated useful lives. Depreciation is not booked for land areas. Estimated useful lives are as follows:

Machinery and equipment	3–8 years
Leasehold improvements	3–5 years

The residual value and useful life of assets is reviewed on each balance sheet date and, if necessary, adjusted to reflect any changes in expected economic value.

Capital gains and losses on elimination and the transfer of tangible assets are included either in other operating income or expenses.

7.3 Intangible assets

EUR 1,000	Goodwill	Development expenses	Other intangible assets	Asset items related to customer agreements	Total 2018	Total 2017
Acquisition cost, 1 January	97,110	2,487	27,493	2,002	129,092	122,478
Additions	4,747	–	189	2,276	7,212	6,617
Transferred through business combinations	–		–	–	–	2
Disposals	–	–	–10	–	–10	–5
Acquisition cost, 31 December	101,857	2,487	27,671	4,278	136,293	129,092
Accumulated depreciation and amortisation, 1 January	–51,394	–2,487	–26,957	–294	–81,132	–80,632
Depreciation	–	–	–317	–789	–1,107	–500
Accumulated depreciation and amortisation, 31 December	–51,394	–2,487	–27,274	–1,084	–82,239	–81,132
Book value, 1 January	45,715	0	536	1,707	47,959	41,844
Book value, 31 December	50,462	0	397	3,194	54,054	47,959

Other intangible assets include capitalised expenses resulting from improvements to business premises as well as software licences.

Accounting principle – other intangible assets

Licences and the allocation of purchase prices to customer agreements with a limited useful life in business combinations are booked in the balance sheet and recognised as expenses in the income statement by straight-line amortisation over their useful life. The depreciation period of customer agreements is their period of validity, typically one to three years.

Amortisation is not booked on intangible assets with an unlimited useful life but they are tested annually for impairment. Digia does not have any other such intangible assets that would have an unlimited useful life.

7.4 Depreciation and amortisation

EUR 1,000	2018	2017
Depreciation and amortisation by asset category		
Intangible assets	1,107	500
Property, plant and equipment		
Buildings	7	7
Machinery and equipment	1,482	1,162
Total	2,595	1,169
Total depreciation and amortisation	2,595	1,669

Employee benefit expenses are presented in Note 5.1.

7.5 Impairment

No impairment losses were recognised in the 2018 and 2017 fiscal years.

Accounting principle – impairments

On the balance sheet date, it is estimated whether there is evidence that the value of an asset may have been impaired. If there is evidence of impairment, the amount recoverable from the asset is estimated. In addition, the recoverable amount is estimated annually on goodwill regardless of whether there is an indication of impairment or not. The need for impairment is reviewed at the level of cash generating units, which refers to the lowest level of unit that is mainly independent of other units and whose cash flows can be separated from other cash flows. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised in the income statement. An impairment loss recognised for goodwill will not be reversed under any circumstances.

7.6 Related party transactions

Two parties are considered related if one party can exercise control or significant power in decision-making associated with the other party's finances and business operations. The Group's related parties include the parent company and subsidiaries, The Group's related parties also include the members of the Board of Directors and the Management Team, their family members and the companies in which they exercise control.

Remuneration paid to the CEO and Group management during the financial period, including fringe benefits, was as follows:

EUR 1,000	2018	2017
Salaries and other short-term employee benefits	1,404	1,478
Share-based bonuses	0	95
Total	1,404	1,573

The CEO and the Group's management are provided with pension coverage under the Finnish Employees' Pension Act (TyEL).

The members of the Board of Directors and the CEO have received the following salaries and fees in 2018

EUR 1,000		
Kyttälä Pertti	Chair of the Board of Directors until 15 March 2018	27
Ingman Robert	Vice Chair of the Board; Chair of the Board as from 15 March 2018	83
Ala-Härkönen Martti	Member of the Board	44
Elsilä Santtu	Member of the Board since 15 March 2018	30
Hokkanen Päivi	Member of the Board	45
Ruotsalainen Seppo	Member of the Board	56
Taivainen Outi	Member of the Board since 15 March 2018	30
Levoranta Timo	CEO	297
Total		610

The incentive schemes are described in Note 4.4 Share-based payments and in the separate report on corporate governance. There have been no significant business transactions with related parties in 2018 or 2017. Transactions involving purchases of goods and services totalled EUR 0 (2017: EUR 0). The Group has no related-party loans or voluntary pension arrangements.

7.7 The Group's shares and holdings, 31 Dec 2018

Group companies	Domicile	Domestic segment	Share of ownership	Share of votes
Digia Oyj	Helsinki	Finland	Parent Company	
Digia Finland Oy	Helsinki	Finland	100%	100%
Digia Sweden Ab	Stockholm	Sweden	100%	100%
Avarea Oy	Helsinki	Finland	100%	100%
Mavisystems Oy	Helsinki	Finland	100%	100%
Mirosys Oy	Turku	Finland	100%	100%

In order to streamline our Group structure, Digia launched several subsidiary merger processes in late 2017. Oy Nord Software Ltd was first merged into Digia Nord Oy, after which both Digia Nord Oy and Commerce Oy were merged into Digia Finland Oy. The mergers came into effect on 31 March 2018. Integration House Oy merged into Digia Finland Oy on 30 June 2018.

Other shares and holdings	31 Dec 2017	Change	31 Dec 2018
Other shares total	484	0	484
Total	484	0	484

Other shares include holiday cabins usable by personnel and golf shares.

7.8 New and future standards

New and amended standards and interpretations to be applied in future financial periods

The Digia Group has not yet applied the following new or revised standards and interpretations published by the IASB. The Group will introduce each standard and interpretation as of its effective date or, if the effective date is some other date than the first day of the fiscal period, as of the beginning of the fiscal period following the effective date.

IFRS 16 Leases* (effective for financial periods beginning on or after 1 January 2019): The new standard replaces IAS 17 and related interpretations. IFRS 16 requires lessees to recognise leases as lease payment obligations and related asset items in the balance sheet. Balance sheet entry is very similar to the accounting treatment of finance leases under IAS 17. There are two concessions with regard to recognition of leases in the balance sheet, relating to leases with a short term of less than 12 months and leases in respect of assets valued at no more than USD 5,000. For lessors, accounting treatment will largely remain the same as under the current IAS 17. The effect of the standard on the lease payment obligation recognised in Digia's balance sheet as at 1 January 2019 amounts to EUR 9.7 million. This amount primarily comprises lease agreements for business premises, IT equipment and car maintenance lease agreements. Digia will use the aforementioned exemptions granted by the standard, which are estimated to amount to about EUR 1.5 million. A finance lease agreement is recognised in the balance sheet at the fair value of the leased item in the start of the lease period or at a lower present value of minimum rents. Assets acquired on finance leases are depreciated over the asset's useful life or the lease period, whichever is shorter.

Cumulative adjustment will be applied in the adoption of the standard; information on the comparison period will not be adjusted, but reported according to IAS 17. Existing finance lease liabilities will not be modified. Instead, the liabilities arising from existing lease agreements will be recognised using the alternative interest on additional credit at the time of transition and reporting the assets and liabilities of these lease agreements in the same amounts. Digia has prepared itself for the standard change by acquiring a system suitable for the management of leases and the reporting required by IFRS 16.

Other new or amended standards and interpretations have no effect on the consolidated financial statements.

7.9 Events after the balance sheet date

On 3 January 2019, Digia Plc was notified of a change in the company's ownership, in accordance with Chapter 9, Section 10 of the Finnish Securities Market Act. Erkki Etola informed Digia that the combined holding of Tiiviste-Group Oy and Etola Oy, two companies under his control, exceeded the flagging limit of 10 per cent of Digia's shares and votes. Companies controlled by Erkki Etola now hold a total of 2,930,495 Digia Plc shares, corresponding to 10.93 per cent of all Digia shares and votes. At the same time, Etola Oy's ownership exceeds 5% of the flagging limit. Etola Oy owns 1,605,495 Digia Plc shares.

On 31 January 2019, Digia Plc and the owners of Starcut Oy signed an agreement whereby Digia Plc will acquire Starcut Oy's entire share capital. With this acquisition, Digia bolsters its Digia Digital service area, which comprises service design, analytics, e-commerce and agile application development. Demand for digital services has increasingly rapidly shifted to mobile-driven development. Starcut, which specialises in advanced mobile solutions, thus rounds out Digia's state-of-the-art offering excellently. As a result of the acquisition, Starcut's 19 top experts in Helsinki will transfer into Digia's employ.

At the end of the year, Digia started negotiations with Danske Bank Plc on combining two loans such that on the basis of a binding loan decision, the loan term of the new loan agreement ends on 7 June 2021 with short-term debt in the fiscal year 2019 amounting to EUR 2.6 million.

8 The Group's key financial ratios

8.1 Indicators

	2018	2017 [4]	2016 [4]
Extent of business			
Net sales, EUR 1,000	112,122	94,537	86,463
– change on previous year, comparable, %	18.6%	9.3%	6.8%
Gross capital expenditure, EUR 1,000	647	2,928	1,660
– % of net sales	0.6%	3.1%	1.9%
Capitalisation for research and development	–	–	–
– % of net sales	0%	0%	0%
Comparable number of personnel, 31 Dec	1,091	1,005	872
Average personnel	1,069	954	810
Profitability			
Operating profit, EUR 1,000	6,494	1,852	5,419
– % of net sales	5.8%	2.0%	6.3%
Net profit, EUR 1,000	4,704	974	4,064
– % of net sales	4.2%	1.0%	4.7%
Return on equity, %	10.2%	2.5%	11.0%
Return on investment, %	10.6%	3.7%	11.0%

	2018	2017 [4]	2016 [4]
Financing and financial standing			
Net debt, EUR 1,000	12,707	4,772	11,692
Net gearing	26.6%	10.8%	35.6%
Equity ratio, %	54.9%	51.0%	49.8%
Cash flow from operations, EUR 1,000	3,602	3,144	3,811
Dividends (paid)	1,069	1,658	1,059
Earnings per share, EUR, undiluted [1]	0.18	0.04	0.20
Earnings per share, EUR, diluted [1]	0.18	0.04	0.20
Equity per share [2]	1.78	1.65	1.57
Equity per share, adjusted for share issue [3]	1.78	1.65	1.57
Dividend per share (2018 proposal)	0.07	0.04	0.08
Dividend payout ratio	–	100.0%	40.0%
Effective dividend yield	–	1.7%	2.5%
Price/earnings ratio (P/E)	15.83	58.75	16.58
Lowest share price	2.10	2.19	2.81
Highest share price	3.13	3.13	7.40
Average share price	2.73	2.55	4.32
Market capitalisation	76,448	63,036	65,758
Trading volume, shares	7,174,515	7,524,604	4,200,698
Trading volume,%	26.7%	28.1%	20.1%

[1] Per-share key figures for 2017 have been adjusted for the share issue. The dilution-adjusted key figures account for the effect of the share-based incentive scheme for management.

[2] Shareholders' equity divided by the undiluted number of shares on the closing date.

[3] Shareholders' equity edivided by the undiluted number of shares, adjusted for the share issue (2017), average.

The weighted average number of shares during the review period, adjusted for share issues, was 26,693,082. The diluted weighted average number of shares during the period was 26,693,082. The number of outstanding shares at the end of the review period was 26,631,883. At the year-end, the company held 57,372 of its own shares. The comparison figures for earnings in 2017 have been adjusted.

As alternative performance measures, the company reports operating profit, return on equity, return on investment, net gearing and equity ratio, which are not defined in IFRS. The company presents the alternative performance measures to describe the financial situation and development of business operations, as it considers this information necessary for investors. Formulas for the IFRS key figures are presented in Note 8.2 and reconciliations in Note 8.3.

[4] Figures for 2017 have been adjusted.

8.2 Formulas for the indicators

Return on investment, % (ROI):

$$\frac{\text{(Profit or loss before taxes + interest and other financing costs)}}{\text{Balance sheet total – non-interest bearing financial liabilities (average)}} \times 100$$

Return on equity (ROE), %:

$$\frac{\text{(Profit or loss before taxes – taxes)}}{\text{Shareholders' equity + minority interest (average)}} \times 100$$

Equity ratio (%):

$$\frac{\text{(Shareholders' equity + minority interest)}}{\text{Balance sheet total – advances received}} \times 100$$

Earnigs per share:

$$\frac{\text{Earnings before extraordinary items and taxes – taxes +/– minority interest}}{\text{Average number of shares during the period, adjusted for share issues}}$$

Earnings per share:

$$\frac{\text{Total dividend}}{\text{Number of shares at the end of the period, adjusted for share issues}}$$

Dividend payout ratio, %:

$$\frac{\text{Dividend per share}}{\text{Earnings per share}}$$

Net gearing:

$$\frac{\text{(Interest-bearing liabilities – cash and cash equivalents)}}{\text{Shareholders' equity}} \times 100$$

Effective dividend yield, %:

$$\frac{\text{Dividend per share}}{\text{Last trading price for the period, adjusted for share issues}} \times 100$$

Price/earnings (P/E):

$$\frac{\text{Last trading price for the period, adjusted for share issues}}{\text{Earnings per share}}$$

8.3 Reconciliation of alternative performance measures

Return on equity, %	31 Dec 2018	31 Dec 2017 adjusted
Profit before taxes	5,968	1,199
Taxes	1,264	225
Profit before taxes – taxes	4,704	974
Shareholders' equity (average for the year)	45,932	38,475
Return on equity, %	10.2%	2.5%

Return on investment, %	31 Dec 2018	31 Dec 2017 adjusted
Profit before taxes	5,968	1,199
Financial expenses	640	822
Profit before taxes + financial expenses	6,608	2,021
Balance sheet total (average for the period)	87,333	76,503
Non-interest-bearing liabilities (average for the year)	24,927	21,911
Balance sheet total – non-interest bearing liabilities	62,406	54,565
Return on capital invested, %	10.6%	3.7%

Net gearing	31 Dec 2018	31 Dec 2017 adjusted
Interest-bearing liabilities	14,440	16,630
Cash, bank receivables and financial securities	1,733	11,858
Shareholders' equity	47,782	44,136
Net gearing	26.6%	10.8%

Equity ratio	31 Dec 2018	31 Dec 2017 adjusted
Shareholders' equity	47,782	44,136
Balance sheet total	88,104	86,616
Advance payments received	1,114	148
Balance sheet total – advances received	86,989	86,468
Equity ratio	54.9%	51.0%

9 Parent company's financial statements (FAS)

9.1 Parent company's income statement

EUR 1,000		1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Net sales	1	11,558	8,795
Other operating income	2	75	61
Personnel expenses	3	–3,710	–2,406
Depreciation, amortisation and impairment	4	–462	–363
Other operating expenses	5	–6,374	–5,629
		–10,470	–8,337
Operating profit		**1,088**	**458**
Financial income and expenses	6	–541	–1,128
Earnings before appropriations		**546**	**–670**
Accumulated appropriations			
Group contribution		5,000	800
Profit before taxes		**5,546**	**130**
Income taxes	7	–1,238	12
Net profit		**4,308**	**142**

9.2 Parent company balance sheet

EUR 1,000	Note	31 Dec 2018	31 Dec 2017
ASSETS			
FIXED ASSETS			
Intangible assets	8		
Intangible rights		130	172
Other long-term expenses		187	222
		317	395
Tangible assets	9		
Land and water areas		17	17
Buildings and structures		45	51
Machinery and equipment		670	570
Other fixed assets		1	1
		733	639
Investments	10		
Shares in Group companies		121,466	113,762
Other shares and holdings		480	480
		121,946	114,242
Total fixed assets		**122,996**	**115,276**
CURRENT ASSETS			
Current receivables	11		
Receivables from Group companies		148	2,783
Accounts receivable		0	12
Other receivables		204	187
Prepayments and accrued income		441	990
		792	3,972
Cash and cash equivalents		317	10,251
Total current assets		**1,109**	**14,224**
Total assets		**124,105**	**129,500**

EUR 1,000	Note	31 Dec 2018	31 Dec 2017
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Equity attributable to parent-company shareholders	12		
Share capital		2,088	2,088
Unrestricted shareholders' equity reserve		42,540	42,540
Retained earnings		1,172	1,910
Net profit		4,308	142
Total shareholders' equity		**50,108**	**46,681**
LIABILITIES			
Non-current liabilities			
Loans from financial institutions	13	4,800	11,400
Other non-current liabilities		726	579
		5,526	11,979
Current liabilities			
Accounts payable		221	271
Current interest-bearing liabilities	14	6,600	2,600
Liabilities to Group companies		58,745	63,176
Other liabilities		1,277	4,266
Accruals and deferred income		883	524
Taxes based on the net result for the year		745	3
		68,471	70,840
Total liabilities		**73,997**	**82,819**
Total shareholders' equity and liabilities		**124,105**	**129,500**

9.3 Parent company's cash flow statement

EUR 1,000	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Cash flow from operations:			
Net profit		4,308	142
Adjustments to net profit		–2,070	725
Change in working capital		–4,382	2,182
Interest paid		–502	–612
Interest income		1	6
Taxes paid		129	–772
Net cash flow from operations		**–2,516**	**1,671**
Cash flow from investments:			
Purchases of tangible and intangible assets		–478	–466
Acquisition of subsidiary, net of cash acquired		–9,576	–4,603
Cash flow from investments		**–10,054**	**–5,069**
Cash flow from financing:			
Proceeds from share issue		–	12,491
Acquisition of treasury shares		–243	
Repayment of current loans		–2,600	–8,000
Withdrawals of current loans		–	4,000
Withdrawals of non-current loans		–	6,000
Group financing items [1]		747	–582
Group contribution		5,800	
Dividends paid and other profit distribution	12	–1,069	–1,658
Cash flow from financing		**2,635**	**12,251**
Change in liquid assets		**–9,934**	**8,852**
Liquid assets at beginning of period		**10,251**	**1,399**
Change in liquid assets		–9,934	8,852
Liquid assets at end of period		**317**	**10,251**

[1] Group financing items comprise changes in loans and receivables between the parent company and its subsidiaries.

9.4 Basic information on the parent company and accounting policies

Basic information on the company

Digia Plc is the parent company of the Digia Group. It is domiciled in Helsinki and its registered office is at Atomitie 2, 00370 Helsinki. Digia Plc's active subsidiaries are Digia Finland Oy, Avarea Oy, Mavisystems Oy and its subsidiary Mirosys Oy as well as Digia Sweden Ab.

Accounting policies

The parent company's financial statements have been prepared in accordance with Finnish Accounting Standards (FAS). The financial statements are based on original acquisition costs. Book values based on original costs have been reduced to correspond to fair value as necessary.

Since 1 June 2005, the parent company has operated as the Group's administrative company and charged the Group companies for services rendered.

Pension schemes

The Group's pension schemes are arranged through a pension insurance company. Pension premiums and expenses allocated to the financial period are based on confirmations received from the insurance company. Pension expenses are recognised as expenses for the year in which they arise.

Leasing payments

Leasing payments are recognised as annual expenses.

Fixed assets, depreciation and amortisation

Fixed assets are recognised in the balance sheet at immediate cost less planned depreciation and amortisation.

The economic lives underlying planned depreciation and amortisation are as follows:

Intangible assets	
Intangible rights	3–5 years
Other long-term expenses	3–5 years
Tangible assets	
Buildings and structures	25 years
Machinery and equipment	3–8 years

Purchases of fixed assets with an economic life of less than three years are recognised as annual expenses.

Board's dividend proposal

According to the balance sheet dated 31 December 2018, Digia Plc's unrestricted shareholders' equity was EUR 48,020,874, of which EUR 4,308,129 was profit for the financial year. At the Annual General Meeting, the Board of Directors will propose that a dividend of EUR 0.07 per share be paid according to the confirmed balance sheet for the fiscal year ending 31 December 2018. Shareholders listed on the shareholder register maintained by Euroclear Finland Oy on the dividend reconciliation date, 19 March 2019, will be eligible for the payment of dividend. Dividends will be paid on 26 March 2019.

9.5 Notes to the parent company's financial statements

1. Net sales

Net sales by segment

EUR 1,000	2018	2017
Group administration services	11,558	8,795
Total	11,558	8,795

2. Other operating income

EUR 1,000	2018	2017
Rental income	32	27
Other operating expenses	43	34
Total	75	61

3. Information on personnel and governing bodies

EUR 1,000	2018	2017
Board emoluments and remuneration and CEO's compensation	610	611
Other salaries and remunerations	2,622	1,462
Pension insurance premiums	385	313
Other personnel expenses	94	20
Total	3,710	2,406

Number of personnel, 31 December	2018	2017
Management and administration	27	23
Total	27	23

4. Depreciation, amortisation and impairment

EUR 1,000	2018	2017
Planned depreciation and amortisation		
Property, plant, and equipment, and intangible assets	462	363
Total	462	363

5. Auditors' fees

EUR 1,000	2018	2017
Audit	64	61
Other statutory duties	–	12
Tax counselling	–	1
Other services	14	40
Total	77	113

6. Financial income and expenses

Financial income

EUR 1,000	2018	2017
Interest and financial income from others	93	80
Total	93	80

Financial expenses

EUR 1,000	2018	2017
Interest expenses to Group companies	357	358
Interest expenses to other companies	179	169
Loan administration fees	73	69
Impairment on investments in fixed assets	0	126
Costs of issuing equity	0	460
Other financial expenses	26	27
Total	635	1,208

7. Income taxes

EUR 1,000	2018	2017
Income taxes on operations	–1,209	12
Income taxes for previous periods	–30	–
Total	–1,238	12

Deferred tax assets arising from accrual differences and from temporary differences between book values and taxation values are unrecorded in the Statement of Financial Position, in accordance with the principle of materiality. Deferred tax assets totalled EUR 105.3 thousand at the end of the fiscal year.

8. Intangible assets

EUR 1,000	Intangible rights	Other long-term expenses	Total 2018	Total 2017
Acquisition cost, 1 January	5,281	1,011	6,292	5,992
Additions	55	87	142	305
Decrease	–	–	–	–5
Acquisition cost, 31 December	5,336	1,098	6,434	6,292
Accumulated depreciation and amortisation, 1 January	–5,109	–789	–5,898	–5,728
Depreciation	–97	–123	–220	–170
Accumulated depreciation and amortisation, 31 December	–5,206	–912	–6,118	–5,898
Book value, 1 January	172	222	395	265
Book value, 31 December	130	187	316	395

9. Property, plant and equipment

EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Total 2018	Total 2017
Acquisition cost, 1 January	17	162	2,745	2,924	2,758
Increase	–	–	335	335	166
Acquisition cost, 31 December	17	162	3,080	3,259	2,924
Accumulated depreciation and amortisation, 1 January	–	–112	–2,174	–2,286	–2,093
Depreciation	–	–7	–235	–241	–193
Accumulated depreciation and amortisation, 31 December	–	–119	–2,409	–2,527	–2,286
Book value, 1 January	17	51	570	639	665
Book value, 31 December	17	45	670	732	639

10. Investments

EUR 1,000	Investments in subsidiary shares	Other shares and holdings	Total 2018	Total 2017
Acquisition cost, 1 January	113,762	606	114,369	107,547
Additions	7,733	–	7,733	6,821
Decrease	–	–	–	–
Acquisition cost, 31 December	121,495	606	122,101	114,369
Accumulated amortisation, 1 January	–	–126	–126	–
Amortisation	–29	–	–29	–126
Accumulated amortisation, 31 December	–29	–126	–155	–126
Book value, 1 January	113,762	480	114,242	107,547
Book value, 31 December	121,466	480	121,946	114,242

Itemisation of subsidiaries and other shares and holdings

Group companies	Domicile	Domestic segment	Share of owner-ship	Share of votes
Digia Sweden Ab	Stockholm	Sweden	100%	100%
Digia Finland Ltd	Helsinki	Finland	100%	100%
Avarea Oy	Helsinki	Finland	100%	100%
Mavisystems Oy	Helsinki	Finland	100%	100%
Mirosys Oy	Turku	Finland	100%	100%

11. Current receivables

EUR 1,000	2018	2017
Receivables from Group companies		
Accounts receivable	–	1,956
Prepayments and accrued income	48	827
Loan receivables	100	–
Accounts receivable	–	12
Other receivables	204	187
Prepayments and accrued income	441	990
Total	792	3,972

12. Shareholders' equity

EUR 1,000	2018	2017
Share capital, 1 January	2,088	2,088
Share capital, 31 December	2,088	2,088
Total restricted shareholders' equity	2,088	2,088
Unrestricted shareholders' equity reserve, 1 January	42,540	30,050
Rights issue	–	12,491
Unrestricted shareholders' equity reserve, 31 December	42,540	42,540
Accrued earnings, 1 January	2,006	3,522
Dividends	–1,069	–1,658
Own shares	–243	0
Share-based payments	478	47
Accrued earnings, 31 December	1,172	1,910
Net profit	4,308	142
Total unrestricted shareholders' equity	48,021	44,593
Total shareholders' equity	50,108	46,681

Calculation of distributable shareholders' equity, 31 Dec

EUR 1,000	2018	2017
Unrestricted shareholders' equity reserve	42,540	42,540
Retained earnings	1,172	1,910
Net profit	4,308	142
Total	48,021	44,593

13. Non-current liabilities

EUR 1,000	2018	2017
Loans from financial institutions	4,800	11,400
Total	4,800	11,400

14. Current liabilities

EUR 1,000	2018	2017
Interest-bearing		
Interest-bearing liabilities	6,600	2,600
Liabilities to Group companies		
Borrowings	57,398	56,643
Total interest-bearing current liabilities	63,998	59,243
Liabilities to Group companies		
Accruals and deferred income	1,347	6,533
To others		
Accounts payable	221	271
Other liabilities	1,285	4,266
Accruals and deferred income	1,620	527
Total interest-free current liabilities	4,473	11,597
Total current liabilities	68,471	70,840

Material items included in accrued expenses arise from the accrual of holiday pay, as well as accrued provisions for salaries and fees.

15. Contingent liabilities

Lease liabilities

EUR 1,000	2018	2017
Due during the current financial period	342	327
Due later	531	789
Total	874	1,117

Other lease liabilities

EUR 1,000	2018	2017
Due during the current financial period	2,887	2,440
Due later	4,352	5,112
Total	7,239	7,552

Other liabilities

EUR 1,000	2018	2017
Collateral pledged for own commitments		
Other	600	537
Total	600	537

Signatures to the Board's Report and Financial Statements

Helsinki 7. February 2019

Robert Ingman Chair of the Board of Directors	Martti Ala-Härkönen	Santtu Elsinen
Päivi Hokkanen	Seppo Ruotsalainen	Outi Taivainen
Timo Levoranta President & CEO		

Auditor's Note

A report of the audit has been submitted today.

Helsinki, 7 February 2019

KPMG Oy Ab

Virpi Halonen
Authorised Public Accountant

Auditor's Report

To the Annual General Meeting of Digia Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Digia Plc (business identity code 0831312–4) for the year ended 31 December, 2018. The financial statements comprise the consolidated balance sheet, income statement, 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 consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland 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 3.7 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 matters

Valuation of goodwill EUR 50.5 million – Note 7.1 to the consolidated financial statements

The key audit matter

- Goodwill totaling EUR 50.5 million, has increased by EUR 4.7 million compared to previous financial year due to acquisitions and represents a significant individual item in the consolidated balance sheet.
- Goodwill is tested for impairment annually, and more frequently if there is any indication of impairment.
- Preparation of impairment tests requires significant amount of management judgement and assumptions on future cash flows.

How the matter was addressed in the audit

We have carried out among other things the following audit measures:

- we have analyzed the reasonableness of the assumptions underlying the goodwill impairment tests compared to the market information and tested accuracy of the technical model. We have involved KPMG valuation specialists in our audit.
- we have compared the assumptions used in previous year's impairment tests, especially in respect of net sales and profitability, into performance in 2018, to assess the accuracy of Digia's estimation process.
- we have considered the accuracy and adequacy of the disclosures in respect of goodwill and impairment testing.

Revenue recognition, project accounting and valuation of accounts receivable – Note 2, 3.2, 5.2 and 6.6 to the consolidated financial statements

The key audit matter

- Digia's net sales is generated through work performed by people, own and third party licenses and products as well as the services. A portion of the net sales consist of long-term projects with a fixed price or target price which are recognized over a time on the basis of their percentage of completion. The percentage of completion is determined based on costs from work performed for the project compared to the total estimated project costs.
- Revenue recognition for long-term projects requires management judgement, especially in respect of future costs and amount of work to complete a project. Regardless the monthly project review process applied by Digia there is a risk of estimation accuracy of both cost and required work forecasts for fixed price and target price projects. If the forecasts are inaccurate, projects may become loss-making contracts.
- Accounts receivable, totaling EUR 19.2 million as at 31 December 2018, is a significant balance sheet item. Regardless the fact that there are no significant credit losses incurred in the past, there may be a valuation risk associated with significant balance sheet item.

How the matter was addressed in the audit

Our audit procedures included, among others:

- we have assessed the appropriateness of the revenue recognition principles followed by Digia, and tested the effectiveness of the key internal controls in place over completeness and accuracy of revenues.
- we have performed audit procedures to analyze the revenue recognition principles applied to most significant long-term projects accounted for using percentage of completion method, by comparing to IFRS standards, Digia's accounting practices and terms of sale in the contracts. We have derived total revenue estimates for certain projects from the contract prices and price changes, as well as analyzed the actual working hours. In addition, we have analyzed most significant on-going projects and related work load estimates to identify potential loss-making projects.
- we have evaluated monitoring routines for accounts receivable and tested the effectiveness of the key internal controls. We have also analyzed the accounts receivable and compared to receivables to the confirmation letters received from third parties.

Responsibilities of the Board of Directors and the President and CEO for the Financial Statements

The Board of Directors and the President and CEO 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 President and CEO 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 President and CEO are responsible for assessing the parent company's and the group's ability to continue as 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 Financial Statements

Our objectives are to obtain reasonable assurance on 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 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 President and CEO'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

We were first appointed as auditors by the Annual General Meeting on 12.3.2015, and our appointment represents a total period of uninterrupted engagement. Virpi Halonen, Authorised Public Accountant, KHT has acted as the responsible auditor of the audit engagement.

Other Information

The Board of Directors and the President and CEO 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.

Helsinki February 7, 2019

KPMG OY AB

Virpi Halonen
Authorised Public Accountant, KHT

Digia Plc

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