

SOLTEQ

An abstract graphic consisting of several thick, pink, wavy lines that flow from the left side of the page, curve upwards and then downwards, and continue towards the right. The lines are set against a dark navy blue background.

Financial Statements Bulletin

JANUARY 1–DECEMBER 31, 2020

Solteq Plc Financial Statements Bulletin January 1–December 31, 2020

October–December

- Comparable revenue totaled EUR 16,408 thousand (15,009) and revenue EUR 16,408 thousand (15,708).
- Comparable EBITDA was EUR 3,320 thousand (1,927) and EBITDA EUR 3,080 thousand (4,387).
- Comparable operating profit was EUR 2,027 thousand (867) and operating profit EUR 1,787 thousand (3,328).
- Earnings per share was EUR 0.03 (0.11).
- The comparable revenue was 9.3 percent higher than in the comparison period, while revenue grew by 4.5 percent.

January–December

- Comparable revenue totaled EUR 60,452 thousand (55,293) and revenue EUR 60,452 thousand (58,291).
- Comparable EBITDA was EUR 10,810 thousand (6,582) and EBITDA EUR 10,380 thousand (9,714).
- Comparable operating profit was EUR 5,780 thousand (2,579) and operating profit was EUR 5,350 thousand (5,711).
- Earnings per share was EUR 0.10 (0.15).
- Solteq Group's equity ratio was 35.5 percent (32.0).
- Net cash flow from operating activities was EUR 6,302 thousand (4,128).
- The comparable revenue was 9.3 percent higher than in the comparison period, while revenue grew by 3.7 percent.
- The company will continue to invest in future growth by focusing on the development of its own cloud-based software products and services. As development investments are commercialized, the company's annual product development investments account for 10–15 percent of the Software segment's revenue. During the financial year, product development investments amounted to EUR 3.0 million (3.9). Investments to product development during 2021 are expected to be approximately EUR 2.5 million.
- Solteq Group's revenue is expected to grow clearly and operating profit to improve.
- The Board of Directors proposes a dividend of EUR 0.15.

Key figures

	10-12/2020	10-12/2019	Change %	1-12/2020	1-12/2019	Change %
Revenue, TEUR	16,408	15,708	4.5	60,452	58,291	3.7
Comparable revenue, TEUR	16,408	15,009	9.3	60,452	55,293	9.3
EBITDA, TEUR	3,080	4,387	-29.8	10,380	9,714	6.9
Comparable EBITDA, TEUR	3,320	1,927	72.3	10,810	6,582	64.2
Operating profit, TEUR	1,787	3,328	-46.3	5,350	5,711	-6.3
Comparable operating profit, TEUR	2,027	867	133.7	5,780	2,579	124.1
Profit for the financial period, TEUR	622	2,049	-69.6	1,980	2,803	-29.4
Earnings per share, EUR	0.03	0.11	-69.6	0.10	0.15	-29.4
Operating profit, %	10.9	21.2		8.9	9.8	
Comparable operating profit, %	12.4	5.8		9.6	4.7	
Equity ratio, %				35.5	32.0	

Profit guidance 2021

Solteq Group's revenue is expected to grow clearly and operating profit to improve.

CEO Olli Väättäinen:

Company performed very well in a changed market situation

Solteq Group's comparable revenue grew clearly and the improvement in profit was significant. Solteq Group's comparable revenue was EUR 60.5 million – when the absence of the SAP ERP business is taken into account – up by 9.3 percent. The Group's comparable operating profit was EUR 5.8 million, up by 124.1 percent year-on-year. The comparable operating profit margin was 9.6 percent. The company's comparable EBITDA increased by 64.2 percent year-on-year to EUR 10.8 million. Solteq Group's comparable EBITDA margin was 17.9 percent.

Effective from the beginning of the year, the new segmentation restructured the company into two business segments: Solteq Software (software business) and Solteq Digital (services business). The Software segment accounted for about a third and the Digital segment about two thirds of the Group's revenue. Both segments performed well, as expected. Revenue from international subsidiaries accounted for 20.6 percent of consolidated revenue, which – due to the COVID-19 pandemic – was slightly below expectations.

Solteq Software business grew during the financial year. The segment's long-term financial goal is to grow by at least 20 percent a year. Success was driven by Utilities business area with its order intake of EUR 22 million. Solteq Digital performed consistently well, thanks to the customer orders secured prior to the pandemic. Investments in the company's product development amounted to around EUR 3 million.

The company monitored and assessed the impact of the COVID-19 pandemic on its business throughout the year. The pandemic had only minor negative impact in Finland, mainly affecting customer projects in the travel, service, and leisure sectors. The organization's operational capacity

and the safety of its stakeholders were ensured by measures adopted in the early stages of the pandemic.

The company issued a new bond on October 1, 2020, using the assets obtained to redeem a bond that would have matured on July 1, 2021. A new, fixed-rate and unsecured senior bond worth EUR 23.0 million was admitted to public trading on Nasdaq Helsinki Ltd on October 5, 2020. The company used the new bond to secure its long-term financing and going concern.

Solteq Group's business outlook is good both in Finland and internationally. Driven by the Utilities business, Solteq Software is expected to continue its upward growth trend. The business outlook for Solteq Digital is expected to remain stable despite the pandemic. The digital reality is affecting everyone. Keeping up with the latest developments is therefore on the current and future agendas of companies of different sizes and in various sectors.

Operating environment

Solteq primarily operates with selected solutions in chosen sectors of the Nordic IT services and software market. The markets offer good prospects for positive business development – despite the general uncertainty created by the COVID-19 pandemic. A market research company IDC forecasts that companies are on their way to meet their 'digital destiny'. IDC estimates that 65 percent of global GDP will be digitized by 2022, as most products and services are based on a delivery model or require digital augmentation to remain competitive. IDC forecasts that global IT spending will reach 6,800 billion dollars by 2023.

The digital services and software products provided by the company comprehensively cover trends that are expected to strengthen in the future. According to a recent report by Gartner, IT decision-makers in the Nordics are expected to increase their investments during 2021 particularly in terms of data utilization, cloud technology, the development of digital business, process automation, artificial intelligence, and machine learning.

Solteq offers industry-specific solutions for trade, manufacturing industry, car retail, utilities sector, hotel and restaurant business, and public sector. The company has a significant competitive edge based on long-term experience of the industry-specific needs. Demand continues to grow in these sectors for solutions that digitalize core operations and make use of artificial intelligence, data, automation and seamless omnichannel systems. The negative impact of the COVID-19 pandemic is expected to occur during the first half of the year, affecting customer projects in the travel, restaurant, and leisure sectors.

The digitalizing energy sector is one of the company's key drivers for growth in the Nordics. Demand for digital expert services and solutions is being increased by statutory obligations to renew data systems. Gartner forecasts that short-term IT investments will grow by 4.8 percent in the Utilities sector in Western Europe. Solteq specializes in software and IT services in the industry, which has quickly raised the company into a strong market position. Solteq has also expanded its Utilities sector operations to Sweden, where the energy sector is awaiting the development and confirmation of a more detailed timetable for a centralized information-exchange system project, similar to Datahub in Finland.

The company will continue to invest in its own product development, in which the autonomous robotics solutions for retail trade and indoor logistics play a key role. Gartner predicts that autonomous solutions

will soon become more common in a wide range of industries. The market research company forecasts growing use of autonomous robotics in US retail stores, from the current level of around one percent to 60 percent by 2025. Research company ROBO Global expects fast adoption of autonomous robotics solutions by logistics and warehouse centers due to the transformation of delivery chains and the rapid growth in online shopping. Solutions making use of automation and robotics are also expected to become more common in construction as well: Research and consulting company MarketsandMarkets expects demand to increase at an annual rate of 10 percent, while investments will reach USD 121.5 billion by 2024.

IT sector players are expected to provide more agile and scalable delivery models. Solteq meets expectations with an organization that makes use of agile methods and by focusing on the as-a-Service (aaS) model and its own software products.

Revenue and profit

October–December

Solteq's revenue for the fourth quarter increased by 4.5 percent compared to the previous year and totaled EUR 16,408 thousand (15,708). The increase in comparable revenue – factoring in the absence of the SAP ERP business – was 9.3 percent.

Operating profit totaled EUR 1,787 thousand (3,328). Comparable operating profit was EUR 2,027 thousand (867).

Profit before taxes was EUR 830 thousand (2,776) and the profit for the financial period was EUR 622 thousand (2,049).

January–December

Revenue in January–December increased by 3.7 percent compared to the previous year and totaled EUR 60,452 thousand (58,291). The increase in comparable revenue – factoring in the absence of the SAP ERP business – is 9.3 percent.

Operating profit for the review period was EUR 5,350 thousand (5,711). Comparable operating profit was EUR 5,780 thousand (2,579).

Profit before taxes was EUR 2,737 thousand (3,679) and the profit for the financial period was EUR 1,980 thousand (2,803).

Solteq Digital

October–December

Solteq Digital performed well in the final quarter. Both growth and profitability improved in terms of comparable figures. The segment's comparable revenue was EUR 10,605 thousand (10,190), up by 4.1 percent – when the absence of SAP ERP business is taken into account. The comparable EBITDA

increased by 65.2 percent, amounting to EUR 1,596 thousand (966). The segment's comparable operating profit was EUR 920 thousand (287), up by 220.6 percent year-on-year.

January–December

Solteq Digital performed well, with the impact of the COVID-19 pandemic being offset by a good number of customer orders secured prior to the pandemic. The segment's comparable revenue was EUR 41,610 million (38,197), with growth – when the absence of SAP ERP business is taken into account – of 8.9 percent. The profitability remained on a good level: comparable EBITDA was EUR 6,236 thousand (3,871) and comparable operating profit EUR 3,499 thousand (1,199). Comparable EBITDA increased by 61.1 percent and comparable operating profit by 191.7 percent.

The segment's business consists of three solution areas: commercial solutions, data-driven solutions, and business solutions. During 2020, 43.1 percent of the segment's revenue derived from commercial solutions, 22.6 percent from data-driven solutions, and 34.3 percent from business solutions.

Solteq Digital's sales figures of 2020 fell somewhat short of the expectations from earlier in the year as the pandemic hit the travel, restaurant, and leisure sector customer projects the hardest. Demand nevertheless remained healthy in the segment's key business areas, such as eCommerce solutions and the retail business.

During the current financial year, the segment's business outlook is expected to remain stable.

Solteq Digital	10-12/2020	10-12/2019	Change %	1-12/2020	1-12/2019	Change %
Revenue, TEUR	10,605	10,889	-2.6	41,610	41,195	1.0
Comparable revenue, TEUR	10,605	10,190	4.1	41,610	38,197	8.9
EBITDA, TEUR	1,356	3,495	-61.2	5,856	7,072	-17.2
EBITDA, %	12.8	32.1		14.1	17.2	
Comparable EBITDA, TEUR	1,596	966	65.2	6,236	3,871	61.1
Comparable EBITDA, %	15.0	9.5		15.0	10.1	
Operating profit, TEUR	680	2,817	-75.8	3,119	4,401	-29.1
Operating profit, %	6.4	25.9		7.5	10.7	
Comparable operating profit, TEUR	920	287	220.6	3,499	1,199	191.7
Comparable operating profit, %	8.7	2.8		8.4	3.1	

Solteq Software

October–December

The fourth quarter of 2020 was a period of strong growth for Solteq Software. The growth was driven by the Utilities business area. The segment's revenue was EUR 5,803 thousand (4,819), up by 20.4 percent. Comparable EBITDA was 1,725 thousand (961), up by 79.5 percent. Comparable operating profit during the quarter was EUR 1,107 thousand (580), up 90.7 percent year on year.

January–December

Solteq Software's revenue was EUR 18,842 thousand (17,095), up by 10.2 percent. Comparable EBITDA was EUR 4,574 thousand (2,711) and comparable operating profit EUR 2,281 thousand (1,379). The Utilities business made a particularly strong contribution to the good performance of the fiscal year.

The segment's business primarily consists of the Utilities business and the Retail sector's software and services. The Utilities business area contributed 44.3 percent and the Retail business 46.3 percent of the segment's revenue. The COVID-19 pandemic decelerated new business efforts of Retail solutions within the travel, restaurant, and leisure sectors.

During 2020, the Utilities business signed several customer delivery contracts, in total worth over EUR 22 million, including various contract options. In addition, the first Utilities customer deliveries were carried out in Estonia and Sweden at the end of the year. Due to the new customer contracts, the company achieved a significant position as a provider of customer information systems and online services in the Utilities sector.

In the autonomous robotics business area, the company formed Intelligent Sustainable Urban Flows consortium together with KONE Corporation and Lassila & Tikanoja Plc. The project started in August 2020. The consortium aims to develop increasingly intelligent and automated solutions for the internal logistics on large real estate. Business Finland granted Solteq a EUR 800 thousand grant to carry out the two-year project.

Towards the end of the year, the first commercial Solteq Retail Robot pilot project was launched together with a Finnish retail chain. The company will continue to investigate the possibility of incorporating the Solteq Robotics business area.

The share of recurring revenue accounted for 24 percent of the segment's revenue. This was lower than the company's previous estimates, owing to high invoicing for expert work related to delivery projects in the Utilities business. Recurring revenue consists of software licensing, maintenance, and support fees. The company aims to increase recurring revenue to account for more than 50 percent of the revenue within the next three years.

During the financial year, Solteq invested EUR 3,035 thousand in product development. Going forward, product development investments are expected to be less than EUR 2,500 thousand in 2021.

The business outlook for the Solteq Software segment is expected to remain positive.

Solteq Software	10-12/2020	10-12/2019	Change %	1-12/2020	1-12/2019	Change %
Revenue, TEUR	5,803	4,819	20.4	18,842	17,095	10.2
EBITDA, TEUR	1,725	892	93.4	4,524	2,642	71.2
EBITDA, %	29.7	18.5		24.0	15.5	
Comparable EBITDA, TEUR	1,725	961	79.5	4,574	2,711	68.7
Comparable EBITDA, %	29.7	19.9		24.3	15.9	
Operating profit, TEUR	1,107	511	116.4	2,231	1,311	70.2
Operating profit, %	19.1	10.6		11.8	7.7	
Comparable operating profit, TEUR	1,107	580	90.7	2,281	1,379	65.3
Comparable operating profit, %	19.1	12.0		12.1	8.1	

Balance sheet and financing

Total assets amounted to EUR 74,681 thousand (76,980). Liquid assets totaled EUR 4,877 thousand (3,648). The company has a standby credit limit of EUR 4,000 thousand, which at the end of the review period was unused. At the end of the comparison period, EUR 2,000 thousand of the standby credit limit was in use. The company also has a bank account credit limit of EUR 2,000 thousand which was unused at the end of both the review and the comparison periods. At the end of the review period, the company had a EUR 1,463 thousand Business Finland loan for product development (1,201).

The Group's interest-bearing liabilities were EUR 31,371 thousand (35,167).

Solteq Group's equity ratio was 35.5 percent (32.0).

On July 1, 2015 Solteq issued an unsecured bond with a nominal value of EUR 27.0 million. The bond carried a fixed annual interest of 6.0 percent and its maturity was five years. To reduce the company's interest costs, Solteq repurchased and cancelled the share of the above-mentioned bond with a nominal value of EUR 2.5 million during the financial year 2016. The company's bond liability after the transaction was EUR 24.5 million.

The company began a written procedure on April 21, 2020 to change the terms of the above-mentioned bond with a nominal value of EUR 27.0 million, so that the bond's original maturity date of July 1, 2020 would be extended by 12 months owing to the COVID-19 pandemic and the financial market situation. Changing the terms of the bond in the written procedure was accepted on May 18, 2020. The new maturity date was set to July 1, 2021.

Solteq announced on September 24, 2020 that it was issuing a new unsecured senior fixed interest rate bond with a nominal value of EUR 23.0 million and voluntarily redeeming the bond that would mature on July 1, 2021. After the review period, the new bond was issued on October 1, 2020, and the proceeds obtained from it were used to redeem the old bond on October 13, 2020. The new bond will mature on October 1, 2024. Annual interest of 6.0 percent will be paid on it, and it can be redeemed before the final maturity date. With the new bond, the company secured its long-term financing and going concern.

The terms of the bond issued in 2015 include financial covenants concerning the distribution of funds and incurring financial indebtedness other than permitted under the terms of the Bond (Incurrence Covenant). The covenants require that at any agreed review date, the equity ratio exceeds 27.5 percent, the interest coverage ratio (EBITDA/net interest cost) exceeds 3.00:1, and that the Group's net interest-bearing debt to EBITDA ratio does not exceed 3.50:1.

As to the new bond, issued on October 1, 2020, the financial covenants concerning the distribution of funds and incurring financial indebtedness other than permitted under the terms of the bond are the same as previously, but the Group's net interest-bearing debt to EBITDA ratio should not exceed 4:1.

The maturity distribution of financial liabilities is presented in the tables section of this Financial Statements Bulletin.

Investment, research, and development

The net investments during the review period were EUR 5,456 thousand (4,632). During the review period, EUR 3,035 thousand (3,882) of the net investments were capitalized development costs relating to continued further development of the existing software products and the development of new software products. Other investments were EUR 2,421 thousand (2,216). Other investments include the net change in rented premises and equipment, totaling EUR 2,201 thousand.

Capitalized development costs include EUR 1,992 thousand (2,874) of staff costs.

Personnel

The number of permanent employees at the end of the review period was 597 (598).

Key figures for group's personnel

	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Average number of personnel during period			593	597
Employee benefit expenses, TEUR	8,277	8,298	31,379	30,951

Related party transactions

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

The related party actions and euro amounts are presented in the tables at the end of this Financial Statements Bulletin.

Shares, shareholders, and treasury shares

Solteq Plc's equity on December 31, 2020 was EUR 1,009,154.17 which was represented by 19,306,527 shares. The shares have no nominal value. All shares have an equal entitlement to dividends and company assets. Shares are governed by a redemption clause.

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

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

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

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

Exchange and rate

During the review period, the exchange of Solteq's shares in the Nasdaq Helsinki Ltd was 6.7 million shares (0.8) and EUR 13.1 million (1.2). The highest rate during the review period was EUR 3.70 and lowest rate EUR 0.96. The weighted average rate of the share was EUR 1.95 and end rate EUR 2.80. The market value of the company's shares at the end of the review period totaled EUR 54.1 million (28.8).

Ownership

At the end of the review period, Solteq had a total of 3,390 shareholders (2,209). Solteq's 10 largest shareholders owned 13,296 thousand shares i.e. they owned 68.9 percent of the company's shares and votes. Solteq Plc's members of the Board of Directors and CEO owned 592 thousand shares on December 31, 2020 (592).

Annual General meeting

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

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

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

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

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

In addition, the Annual General Meeting authorized the Board of Directors to decide on accepting the company's own shares as pledge as follows:

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

Board of directors and auditors

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

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

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

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

Other events during the review period

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

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

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

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

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

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

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

On May 18, Solteq Plc announced that it has successfully completed a written procedure in order to amend the terms and conditions of its bond.

On August 20, Solteq Plc announced that Ilkka Brander, member of Executive Team of Solteq Plc and EVP of Solteq Software segment, has announced his resignation in order to assume a new position outside of Solteq.

On September 15, Solteq Plc announced that it considers the issuance of new euro-denominated senior unsecured fixed rate bond with a nominal value of approximately EUR 25.0 million.

On September 24, Solteq Plc announced that it issues a new euro-denominated senior unsecured fixed rate bond with a nominal value of EUR 23.0 million and redeems its unsecured fixed rate bond with maturity in 2021 on October 13, 2020.

On September 30, Solteq Plc announced that it has signed an agreement to provide a Finnish customer with a comprehensive customer service system. The value of the agreement is over EUR 5.5 million.

On October 1, Solteq Plc announced that the Finnish Financial Supervisory Authority has approved the listing prospectus of the new bond. The new bond will mature on October 1, 2024, bear a fixed interest rate of 6.00 percent per annum and be callable before its final maturity.

Events after the review period

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

Risks and uncertainties

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

The company issued a new bond and voluntarily redeemed a bond maturing in 2021. The new, fixed-rate and unsecured senior bond in a nominal amount of EUR 23.0 million will mature on October 1, 2024. The company used the new bond to secure its long-term financing and going concern.

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

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

Impact of the COVID-19 pandemic on financial reporting

The company is continuously monitoring the COVID-19 pandemic situation, assessing its impact on the company's operations, strategy and realization of targets, performance, financial position, and cash flows. Based on information currently available, the COVID-19 pandemic is not expected to have any long-term impact on the company's financial performance.

Based on the impairment tests of goodwill and capitalized development costs were performed during the last quarter of the financial year 2020. No need for impairment was identified, but a clear margin was left for each tested unit and project. No impairment losses were recognized in 2020 related to the goodwill of the group, merger losses of the parent company or development costs. Impairment tests have been carried out at the cash-generating unit level. The recoverable amount has been determined by means of the value in use. The determined anticipated cash flows are based on the operating result budget for 2021 and operating result forecasts for the subsequent four years. The pandemic has had no effect on the valuation of the assets.

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

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

Following the financial arrangements carried out in the final quarter of the year, the company has a EUR 23.0 bond that matures on October 1, 2024. The company also has a EUR 4,000 thousand standby credit limit and a EUR 2,000 thousand credit limit, both unused at the end of the review period on December 31, 2020. The company's operations are on a solid foundation and it is the management's view that the company has the capacity to overcome the COVID-19 pandemic's negative impacts on its business operations.

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

At the end of the financial year 2020, the distributable equity of the Group's parent company is EUR 19,592,728.08.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.15 per share be paid for the financial year 2020.

Financial reporting

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

Changes in segment reporting

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

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

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

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

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

Financial information

Consolidated statement of comprehensive income

TEUR	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Revenue	16,408	15,708	60,452	58,291
Other income	45	2,571	279	2,594
Materials and services	-1,603	-1,706	-5,936	-5,440
Employee benefit expenses	-9,905	-9,908	-36,891	-36,757
Other expenses	-1,864	-2,278	-7,523	-8,974
Depreciations and impairments	-1,293	-1,059	-5,030	-4,003
Operating profit	1,787	3,328	5,350	5,711
Financial income and expenses	-958	-552	-2,613	-2,032
Profit before taxes	830	2,776	2,737	3,679
Income taxes	-208	-727	-757	-876
Profit for the financial period	622	2,049	1,980	2,803
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Currency translation differences	48	22	1	-44
Other comprehensive income				-29
Other comprehensive income, net of tax	48	22	1	-73
Total comprehensive income	670	2,071	1,981	2,731
Total profit for the period attributable to owners of the parent	622	2,049	1,980	2,803
Total comprehensive income attributable to owners of the parent	670	2,071	1,981	2,731
Earnings per share, EUR (undiluted)	0.03	0.11	0.10	0.15
Earnings per share, EUR (diluted)	0.03	0.11	0.10	0.15

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

Consolidated statement of financial position

TEUR	31 Dec 2020	31 Dec 2019
Assets		
Non-current assets		
Tangible assets	433	654
Right-of-use assets	6,933	7,298
Intangible assets		
Goodwill	38,949	38,840
Other intangible assets	11,277	10,151
Other investments	441	481
Other long-term receivables	158	108
Non-current assets total	58,190	57,531
Current assets		
Inventories	74	164
Trade and other receivables	11,540	15,638
Cash and cash equivalents	4,877	3,648
Current assets total	16,492	19,449
Total assets	74,681	76,980
Equity and liabilities		
Equity attributable to equity holders of the parent company		
Share capital	1,009	1,009
Share premium reserve	75	75
Distributable equity reserve	12,910	12,910
Retained earnings	12,515	10,533
Total equity	26,509	24,528
Non-current liabilities		
Deferred tax liabilities	567	588
Financial liabilities	24,138	1,201
Lease liabilities	4,830	5,156
Non-current liabilities total	29,536	6,945
Current liabilities		
Financial liabilities	0	26,461
Trade and other payables	16,173	16,657
Provisions	61	41
Lease liabilities	2,402	2,349
Current liabilities total	18,636	45,508
Total equity and liabilities	74,681	76,980

Consolidated cash flow statement

TEUR	1-12/2020	1-12/2019
Cash flow from operating activities		
Profit for the financial period	1,980	2,803
Adjustments for operating profit	7,575	3,732
Changes in working capital	-60	-595
Interests paid	-3,218	-1,829
Interests received	25	16
Net cash from operating activities	6,302	4,128
Cash flow from investing activities		
Disposal of other shares and holdings	38	
Divested businesses	4,071	
Investments in tangible and intangible assets	-3,477	-4,668
Net cash used in investing activities	631	-4,668
Cash flow from financing activities		
Long-term loans, increase	23,262	1,201
Short-term loans, increase		3,595
Short-term loans, decrease	-26,500	-3,595
Payment of finance lease liabilities	-2,465	-2,361
Net cash used in financing activities	-5,704	-1,160
Changes in cash and cash equivalents	1,230	-1,700
Cash and cash equivalents at the beginning of period	3,648	5,347
Cash and cash equivalents at the end of period	4,877	3,648

Consolidated statement of changes in equity

TEUR

	Share capital	Share premium account	Invested unrestricted equity reserve	Currency translation difference	Retained earnings	Total
Equity 1 Jan 2019	1,009	75	12,910	-56	7,859	21,797
Profit for the financial period					2,803	2,803
Other items on comprehensive income				-44	-29	-73
Total comprehensive income	0	0	0	-44	2,775	2,731
Equity 31 Dec 2019	1,009	75	12,910	-100	10,633	24,528
Equity 1 Jan 2020	1,009	75	12,910	-100	10,633	24,528
Profit for the financial period					1,980	1,980
Other items on comprehensive income				1		1
Total comprehensive income	0	0	0	1	1,980	1,981
Transactions with owners						
Returned dividends					0	0
Transactions with owners	0	0	0	0	0	0
Equity 31 Dec 2020	1,009	75	12,910	-99	12,613	26,509

Quarterly Key Indicators

TEUR	1-3/2020	4-6/2020	7-9/2020	10-12/2020
Revenue	15,674	15,080	13,289	16,408
Comparable revenue	15,674	15,080	13,289	16,408
EBITDA	1,875	2,710	2,715	3,080
Comparable EBITDA	2,039	2,736	2,715	3,320
Operating profit	716	1,481	1,365	1,787
Comparable operating profit	880	1,507	1,365	2,027
Result before taxes	108	995	804	830
TEUR	1-3/2019	4-6/2019	7-9/2019	10-12/2019
Revenue	14,930	14,660	12,993	15,708
Comparable revenue	14,049	13,992	12,243	15,009
EBITDA	2,455	1,572	1,300	4,387
Comparable EBITDA	2,131	1,522	1,003	1,927
Operating profit	1,530	571	282	3,328
Comparable operating profit	1,206	521	-15	867
Result before taxes	1,062	64	-223	2,776

Revenue from contracts with customers

Group

TEUR	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Services	13,461	12,580	49,416	45,415
Revenue from long-term projects	1,147	1,407	4,419	5,922
Revenue from software licenses	1,734	1,536	6,339	6,386
Hardware sales	66	185	278	568
Total	16,408	15,708	60,452	58,291

Solteq Digital

TEUR	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Services	9,414	8,988	36,103	33,508
Revenue from long-term projects	499	1,046	2,560	4,188
Revenue from software licenses	656	793	2,778	3,176
Hardware sales	37	62	169	323
Total	10,605	10,889	41,610	41,195

Solteq Software

TEUR	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Services	4,047	3,592	13,314	11,907
Revenue from long-term projects	649	361	1,858	1,734
Revenue from software licenses	1,078	742	3,561	3,210
Hardware sales	29	123	109	244
Total	5,803	4,819	18,842	17,095

Total investments

TEUR	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Group total	719	346	5,456	4,632

Maturity of financial liabilities

TEUR	Book value	Contractual cash flows	1-12 months	13-24 months	25-36 months	Later
Financial liabilities, Dec 31 2020						
Bond	22,676	28,532	1,383	1,383	1,383	24,383
Loans from financial institutions	1,463	1,537	12	15	95	1,416
Lease liabilities	7,233	7,485	2,658	1,995	1,516	1,317
Trade payables	4,671	4,671	4,671			
Financial liabilities total	36,042	42,225	8,724	3,392	2,993	27,116
Financial assets, Dec 31 2020						
Trade receivables	10,374					
Cash and cash equivalents	4,877					
Financial assets total	15,252					

The company has a standby credit limit of EUR 4,000 thousand and a bank account credit limit of EUR 2,000 thousand, which at the end of the review period were unused.

The company's business fundamentals are strong, and the operating profit and cash flow from operating activities are positive, which provides funding for the working capital requirements of the business. In addition, in order to pay back the bond maturing on July 1, 2021 (totaling EUR 24.5 million) and to secure the company's financial position and growth strategy, the company decided to issue a new bond, worth EUR 23.0 million, which will mature on October 1, 2024. The proceeds from the issue were used for the refinancing of the company's existing bond. With the new bond, the company secured long-term financing and going concern.

Fair value of financial assets and liabilities

The fair values of the financial assets and liabilities are mainly the same as the book values. Hence, they are not presented in table form in the Financial Statements Bulletin.

Liabilities

TEUR	31 Dec 2020	31 Dec 2019
Business mortgages	10,000	10,000
Off-balance sheet lease liabilities	1,412	1,027

Related party transactions

TEUR	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Service sales		6		6
Purchases		2	3	8
Total	0	8	3	14

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

Distribution of holdings by sector December 31, 2020

	Number of owners		Shares and votes	
	PCS	%	PCS	%
Private companies	100	2.9	2,714,359	14.1
Financial and insurance institutions	9	0.3	5,428,619	28.1
Public sector organizations	2	0.1	3,245,597	16.8
Households	3,264	96.3	7,642,225	39.6
Non-profit organizations	2	0.1	231	0.0
Foreign owners	13	0.4	275,496	1.4
Total	3,390	100.0	19,306,527	100.0
Total of nominee registered	9	0.3	629,360	3.3

Distribution of holdings by share December 31, 2020

Number of shares	Number of owners		Shares and votes	
	PCS	%	PCS	%
1 – 100	941	27.8	48,976	0.3
101 - 1 000	1,718	50.7	806,448	4.2
1 001 - 10 000	640	18.9	1,911,230	9.9
10 001 - 100 000	75	2.2	2,118,942	11.0
100 001 - 1 000 000	11	0.3	3,090,156	16.0
1 000 000 -	5	0.1	11,330,775	58.7
Total	3,390	100.0	19,306,527	100.0
of which nominee registered	9	0.3	629,360	3.3

Major shareholders December 31, 2020

		Shares and votes	
		number	%
1.	Sentica Buyout III Ky	4,621,244	23.94
2.	Profiz Business Solution Oy	2,060,769	10.67
3.	Elo Mutual Pension Insurance Company	2,000,000	10.36
4.	Saadetdin Ali	1,403,165	7.27
5.	Varma Mutual Pension Insurance Company	1,245,597	6.45
6.	Aalto Seppo Tapio	730,000	3.78
7.	Roininen Matti Juhani	430,000	2.23
8.	Väättäinen Olli Pekka	400,000	2.07
9.	Lamy Oy	225,000	1.17
10.	Sentica Buyout III Co-Investment Ky	180,049	0.93
10 largest shareholders total		13,295,824	68.87
Total of nominee-registered		629,360	3.26
Others		5,381,343	27.87
Total		19,306,527	100.00

Financial performance indicators

	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Revenue, MEUR	16.4	15.7	60.5	58.3
Change in revenue, %	4.5	5.2	3.7	2.5
Operating profit, MEUR	1.8	3.3	5.4	5.7
% of revenue	10.9	21.2	8.9	9.8
Profit before taxes, MEUR	0.8	2.8	2.7	3.7
% of revenue	5.1	17.7	4.5	6.3
Net investments in non-current assets, MEUR	0.7	0.3	5.5	4.6
Equity ratio, %			35.5	32.0
Net debt, MEUR			26.5	31.5
Gearing, %			99.9	128.5
Return on equity, rolling 12 months, %			7.8	12.1
Return on investment, rolling 12 months, %			9.1	10.4
Personnel at end of period			597	598
Personnel average for period			593	597

Key indicators per share

	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Earnings per share, EUR (undiluted)	0.03	0.11	0.10	0.15
Earnings per share, EUR (diluted)	0.03	0.11	0.10	0.15
Equity per share, EUR			1.37	1.27

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

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

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

Items affecting comparability and alternative performance measures

Items affecting comparability:

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

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

Comparable revenue

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

TEUR	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Revenue	16,408	15,708	60,452	58,291
Items affecting comparability				
SAP ERP business transfer agreement		-699		-2,998
Total items affecting comparability	0	-699	0	-2,998
Comparable revenue	16,408	15,009	60,452	55,293

Comparable operating profit (EBIT)

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

TEUR	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Operating profit (EBIT)	1,787	3,328	5,350	5,711
Items affecting comparability				
SAP ERP business transfer agreement		-2,736		-3,479
Cost of integrating the acquired business				72
Non-recurring severance packages	240	39	430	39
Damages from completed customer projects		98		98
Costs incurred by the re-organization of operations		138		138
Total items affecting comparability	240	-2,461	430	-3,132
Comparable operating profit (EBIT)	2,027	867	5,780	2,579

Calculation of financial ratios

Equity ratio, %: $\text{equity} / (\text{balance sheet total} - \text{advances received}) \times 100$

Gearing, %: $(\text{interest bearing liabilities} - \text{cash and cash equivalents}) / \text{equity} \times 100$

Return on Equity (ROE), %: $\text{profit for the financial period (rolling 12 months)} / \text{equity (average for the period)} \times 100$

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

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

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

Equity per share: $\text{equity} / \text{number of shares}$

EBITDA: $\text{operating profit} + \text{depreciation and impairments}$

Net debt: $\text{interest bearing liabilities} - \text{cash and cash equivalents}$

Business combinations

There were no acquisitions during the review or comparison period.

Financial reporting in 2021

Solteq Plc's audited Annual Report and financial statements for 2020 will be published on the company's website by 25 March 2021.

Solteq Plc's financial information bulletins in 2021 have been scheduled as follows:

- Interim Report 1-3/2021 Thursday April 29, 2021 at 8.00 am
- Half Year Report 1-6/2021 Thursday August 12, 2021 at 8.00 am
- Interim Report 1-9/2021 Thursday October 28, 2021 at 8.00 am

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

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