

Financial Review **2018**



The digital era promises massive productivity gains and brand-new business models. To make this a reality, new technologies and smarter solutions need to be adopted on an industrial scale. Companies have to overcome complex challenges standing in the way of their transformation.

We innovate solutions that clear the way for the future. To us, engineering is all about questioning assumptions and using the best technologies available for efficient and sustainable results, from heavy machinery to cloud-based software. We support and serve our customers with industry-specific expertise. In our hands, their challenges turn into solutions that save time, energy or trees and enable new business.

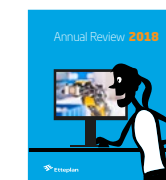
Our ambition is to drive the industrial change, grow and explore together with our customers, wherever they need us. Instead of just selling hours, we design solutions that are innovative, measurable and exceed expectations. Our customers' success is our success.

Engineering with a difference.



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Etteplan's Annual Report 2018 consists of two parts. Annual Review 2018 is available at www.etteplan.com.



CEO'S REVIEW

Continued profitable growth and strengthened expertise in digital solutions

We developed our operations significantly in 2018 and strengthened our digital expertise in particular. Etteplan offers a strong and increasingly comprehensive range of engineering services for industrial customers, from equipment and plant engineering to embedded systems, software solutions, digitalization and technical documentation solutions.

Etteplan had another successful year in 2018 and we continued our profitable growth. The market situation was good in all of our market areas and our strong operational efficiency produced record results. Our operating profit rose to a new level, exceeding EUR 20 million for the first time. In addition, our cash flow was excellent. Our revenue also grew by more than 10 per cent and was 236 million euros. However, we cannot be fully satisfied with this, as the growth fell short of our target level of 15 per cent.

The Engineering Services service area achieved excellent success throughout the year. Operational efficiency was at an excellent level and our profitability

exceeded our target level of 10 per cent in the second and third quarter. We were also active in developing our service offering in new technologies, such as additive manufacturing and digital twin solutions, which we expect to be sources of significant future growth.

The Embedded systems and IoT service area recovered from the project challenges that had previously burdened it and resumed a level of performance that matches our expectations in the latter part of the year. Growth was strong, and profitability was again excellent in the last quarter. Growth was supported by the acquisitions of Eatech Oy and Koodain Solutions Oy earlier in 2018. The

acquisitions significantly strengthened our competences, particularly as a provider of comprehensive digital solutions, agile software development and cloud service software. The acquisitions were a continuation of our previous investments in digitalization and software development as well as the acquisition of Soikea

Solutions Oy over two years ago. At the end of the year, we merged these three companies acquired by Etteplan into a software development unit that operates in Finland under the Etteplan MORE brand. We have further strengthened our ability to challenge other players in the market and provide IoT services to industrial customers. With more than 700 professionals, we are in an excellent position to support the accelerating digitalization of our customers' business and we expect continued strong growth from the service area going forward.

Our Technical Documentation business did not reach our expected level during the latter part of the year. Growth slowed down as our customers' investments in new operating models decreased from the previous year and the number of new outsourcing agreements declined. However, activity in outsourcing discussions has now picked up again and we are currently engaged in several significant negotiations regarding outsourcing solutions. Business in the fourth quarter of the year was also burdened by the continued challenges in Germany. We have initiated new immediate measures to rectify the situation and we believe the business will improve in spring 2019.

Our growth in China continued and we opened two new Chinese offices in 2018, in Qingdao and Wuhan. The number of our offices in China grew to eight in the beginning of 2019 when we opened an office in Shenzhen.

We renewed our organization in the beginning of 2019 to respond even

better to the changing competitive situation. Our balance sheet is healthy, which provides us with opportunities for developing our business and accelerating our growth as we move forward.

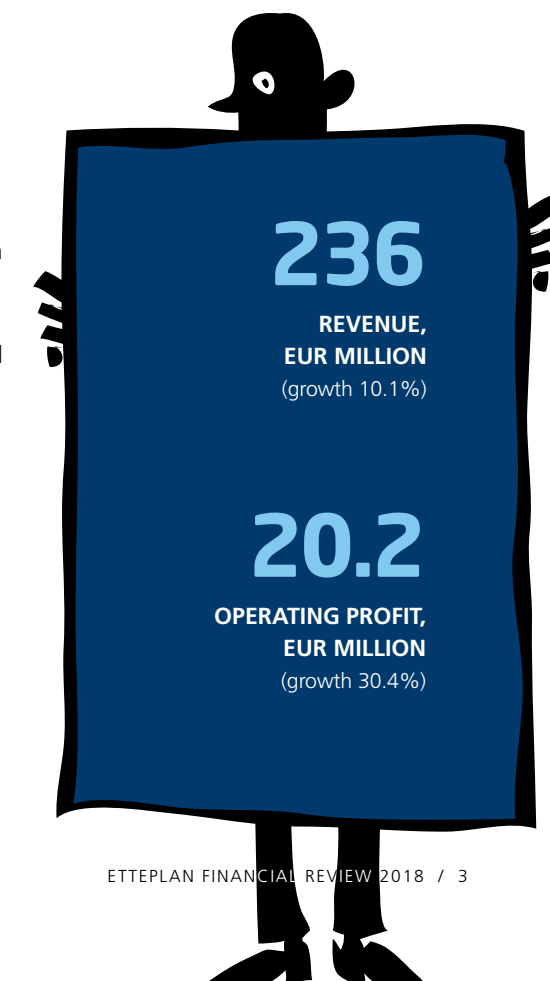
Our revenue has now grown for 21 consecutive quarters and our operating profit has improved for 11 consecutive quarters. This has been enabled by excellent performance throughout the organization, and I want to thank everyone at Etteplan for these achievements. I also want to thank our customers for their good and successful cooperation. Our goal is to continue to be a reliable and highly competent partner in solving our customers' various challenges.

We are also pleased that our success has been reflected in the company's market capitalization, and we started the year 2019 in the Mid Cap category on the stock exchange. I also wish to take this opportunity to thank our shareholders for their trust and the opportunity to develop the company with a long-term view.

While the market situation is currently characterized by political uncertainty and demand growth has slowed down, we expect market growth and the positive development of our business to continue in 2019.

Juha Näkki
President and CEO

» Boosted by our growth, also our market capitalization grew, and we rose to the Mid Cap category on the stock exchange in the beginning of 2019.



Board of Directors' review

January 1-December 31, 2018

Operating environment

Etteplan's business is affected by global megatrends as well as industry-specific development. The Internet of Things (IoT), digitalization, environmental regulations and shorter product life cycles are creating a need for intelligent and efficient engineering solutions in all industrial sectors. Companies continue to direct their investments to these areas, which creates opportunities for operators in the engineering industry. The continued trend of service outsourcing had a positive effect on the industry's development. The trend of centralizing service purchasing continued, presenting growth opportunities for global engineering companies.

The most important factor in Etteplan's development is the global development of the machinery and metal industry. Our operating environment continued to develop favorably in all market areas. Uncertainty in the markets increased slightly during the year due to the political situation.

Market development was positive in all of Etteplan's main markets. Competition for employees and the lower availability of specialized experts in certain areas due to the good market situation continued to affect the development of the sector in all market areas.

In Finland, the general market demand remained good. The total revenue of companies in the technology industry increased by six per cent in 2018 compared to 2017. Based on the orders in the past few months, we estimate that revenue during the first quarter will be higher compared to last year.

In Finland, the revenue of the engineering business increased by five per cent in 2018 compared to 2017. Based on the orders in the past few months, we estimate the revenue of engineering services companies in the first quarter to be higher compared to last year.

In Sweden, market demand remained at a very good level. In Germany, the Netherlands and Poland, the demand for engineering services remained at a good level.

In China, demand was at a good level. The opening up of the service market continued, presenting growth opportunities for operators in the engineering industry.

Revenue

Etteplan's revenue grew by 10.1 per cent and was EUR 236.5 million (2017: EUR 214.8 million). Revenue increased by 11.7 per cent at comparable exchange rates. Organic growth was 6.2 per cent. At comparable exchange rates, organic growth was 7.9 per cent.

Growth was supported by Etteplan's service offering and strong market position as well as the Eatech acquisition carried out in May. The challenges in our Technical Documentation business in Germany continued: a significant project delivery was delayed further, and we encountered new unexpected challenges.

Etteplan's business is subject to periodic fluctuation due to the number of working days, holiday seasons and the timing of product development and investment projects in customer companies to mainly in the spring and the latter part of the year. The revenue in the third quarter is typically lower than that of other quarters.

The revenue of acquired companies is not included in the organic growth of revenue for the 12 months following the acquisition.

Result

EBIT from business operations improved by 27.5 per cent and was EUR 21.9 (17.2) million, or 9.3 (8.0) per cent of revenue. Non-recurring items had a combined negative effect of EUR 1.0 (0.7) million on EBIT from business operations. Operational costs increased by 8.9 (14.7) per cent.

The utilization rate was high, which continued to improve Etteplan's profitability. The operational efficiency of Engineering Services again produced an excellent result. The profitability

of the Embedded Systems and IoT service area was excellent. Measures taken to improve the efficiency of business operations have restored profitability to a level that corresponds to our expectations. In the Technical Documentation service area, challenges in Germany continued to affect profitability.

Operating profit (EBIT) improved by 30.4 per cent and was EUR 20.2 (15.5) million, or 8.5 (7.2) per cent of revenue. Non-recurring items had a combined negative effect of EUR 0.3 (0.4) million on operating profit.

Financial expenses amounted to EUR 1.6 (1.3) million.

Profit before taxes was EUR 19.4 (14.7) million. Taxes in the income statement amounted to 21.2 (21.4) per cent of the

result before taxes. The amount of taxes was EUR 4.1 (3.2) million.

The profit was EUR 15.3 (11.6) million.

Undiluted earnings per share were EUR 0.62 (0.47). Equity per share was EUR 2.72 (2.34) at the end of December. Return on capital employed (ROCE) before taxes was 21.3 (17.8) per cent.

Financial position and cash flow

The Group's cash and cash equivalents stood at EUR 16.1 million at the end of December (EUR 10.1 million). The Group's interest-bearing debt amounted to EUR 36.3 (35.0) million. The total of unused short-term credit facilities stood at EUR 9.9 (8.7) million.

Operating cash flow saw excellent development and was 23.1 (18.3) million. Cash flow after investments was EUR 13.1 (13.1) million. The accrual of cash flow was affected by the good operational result and favorable mix of customers' payment terms.

Operating cash flow accrues unevenly over the four quarters of the year due to periodic fluctuation in business.

Total assets on December 31, 2018 were EUR 160.6 (144.4) million. Goodwill on the balance sheet was EUR 65.2 (59.0) million.

At the end of December, the equity ratio was 42.9 (40.7) per cent.

Capital expenditure

The Group's gross investments were EUR 16.5 (7.6) million. The gross investments mainly consisted of acquisitions, growth-related equipment purchases and license fees for engineering software.

Personnel

The number of personnel increased by 9.0 per cent year



on-year and stood at 3,055 (2,802) at the end of December 2018. The Group employed 2,995 (2,711) people on average. International growth continued and, at the end of December, 1,073 (988) people were employed by the Group outside of Finland. One employee was temporarily laid off at the end of December.

Business review

The success of the outsourcing business and acquisitions strengthen Etteplan's market position and support the Company's growth. The demand for Managed Services and services related to the digitalization of machinery and equipment remained at a good level. Etteplan's customers are investing in digitalization and intelligent devices, which presents significant growth opportunities.

The demand for Etteplan's services continued to develop favorably in all market areas. The lower availability of specialized experts in certain areas affected the development of business. New product development and equipment engineering projects as well as plant engineering investments saw good demand. The demand situation in Finland remained at a good level. In Sweden, Etteplan strengthened its market position and business continued to develop well. The demand for the Company's services remained good in the Netherlands, Germany and Poland.

Boosted by the improved market situation, the new offices opened in 2017 and 2018 and the opening up of the service market, the number of hours sold in the Chinese market increased by 35 per cent. In January 2019, Etteplan announced it is opening its eighth office in China. The new office will be located in Shenzhen, which is a major city and sub-provincial city in Guangdong Province and part of the Pearl River Delta megalopolis, which has a population of 120 million people. The new office will serve companies operating in southeastern China in particular.

Revenue from key accounts grew by 6.1 per cent compared to 2017.

The share of revenue represented by Managed Services was 54 (57) per cent. The share of Managed Services decreased slightly year-on-year due to measures taken to improve the profitability of the project business in the Embedded Systems and IoT service area. A further factor was that in the good market environment our customers were buying more individ-

ual resources to ensure their deliveries.

Etteplan's target is to achieve a share of 65 per cent of revenue for Managed Services by the end of 2019. Etteplan renewed its organization and structure on January 1, 2019 in order to boost growth, enhance the development of service solutions and sales as well as improve its capability to achieve the target set for Managed Services. The growth in the share of Managed Services enhances Etteplan's capacity management and improves profitability.

Etteplan strengthened its digital services and software capabilities in May 2018 by acquiring Eatech Oy, building on the acquisitions of Soikea Solutions Oy two years ago and Koodain Solutions Oy earlier in 2018. Eatech, Soikea and Koodain together form an agile software design unit within the Embedded Systems and IoT service area, and they will operate in Finland under the Etteplan MORE brand.

Etteplan continued to develop its service solutions and related technology solutions. We strengthened our expertise in areas such as additive manufacturing, digital twin solutions and other digital technologies. We have started our trials related to artificial intelligence this year as well as our first customer project in this field.

GOVERNANCE

Annual General Meeting

Etteplan Oyj's Annual General Meeting was held on April 5, 2018, at the Company's premises in Vantaa. The Annual General Meeting approved the financial statements and discharged the members of the Board of Directors and the President and CEO from liability for the financial year 2017.

In accordance with the proposal of the Nomination and Remuneration Committee of the Board of Directors, the Annual General Meeting resolved that the Board of Directors shall consist of six members. In accordance with the proposal of the Nomination and Remuneration Committee of the Board of Directors, the Annual General Meeting re-elected **Cristina Andersson, Matti Huttunen, Robert Ingman, Leena Saari-nen, Mikko Tepponen** and **Patrick von Essen** as members of the Board of Directors.

KPMG Oy Ab, Authorized Public Accountants, with Authorized Public Accountant **Ari Eskelinen** as the main responsible auditor. Certified Auditor **Olli Wesamaa** was elected as the

other auditor. The auditors' fees were resolved to be paid according to invoices approved by the Company.

Board authorization

The Annual General Meeting authorized the Board of Directors to resolve on the repurchase of the Company's own shares in one or more tranches using the Company's unrestricted equity. A maximum of 2,000,000 shares in the Company may be repurchased. The Company may deviate from the obligation to repurchase shares in proportion to the shareholders' current holdings, i.e. the Board has the right to decide on a directed repurchase of the Company's own shares.

The authorization includes the right for the Board to resolve on the repurchase of the Company's own shares through a tender offer made to all shareholders on equal terms and conditions and at the price determined by the Board, or in public trading organized by the Nasdaq OMX Helsinki Ltd at the market price valid at any given time, so that the Company's total holding of own shares does not exceed ten (10) per cent of all the shares in the Company. The minimum price for the shares to be repurchased is the lowest market price quoted for the shares in the Company in public trading and, correspondingly, the maximum price is the highest market price quoted for the shares in the Company in public trading during the validity of the authorization.

Should the shares in the Company be repurchased in public trading, such shares will not be purchased in proportion to the shareholders' current holdings. In that case, there must be a weighty financial reason for the Company to repurchase its own shares. The shares may be repurchased in order to be used as consideration in potential acquisitions or in other structural arrangements. The shares may also be used for carrying out the Company's incentive schemes for its personnel. The repurchased shares may be retained by the Company, invalidated or transferred further.

The repurchase of the Company's own shares will reduce the non-restricted equity of the Company.

The authorization is valid for 18 months from the date of the resolution of the Annual General Meeting starting on April 5, 2018 and ending on October 5, 2019. The authorization replaces the corresponding previous authorization.

Shares

Etteplan's shares are listed in Nasdaq Helsinki Ltd's Medium Cap market capitalization group in the Industrials sector under the ETTE ticker. Etteplan moved from the Small Cap group to the Medium Cap group on January 1, 2019. The Company has one series of shares. All shares confer an equal right to a dividend and the Company's funds.

The Company's share capital on December 31, 2018, was EUR 5,000,000.00 and the total number of shares was 24,963,308.

The number of Etteplan Oyj shares traded was 1,151,274 (2017: 1,659,974), for a total value of EUR 9.72 (12.3) million. The share price low was EUR 7.04, the high EUR 10.35, the average EUR 8.44 and the closing price EUR 7.94. Market capitalization on December 31, 2018, was EUR 197.44 (192.45) million.

Treasury shares

In 2018, Etteplan repurchased a total of 61,513 of the Company's own shares. The Company held 96,203 of its own shares on December 31, 2018 (December 31, 2017: 34,690), which corresponds to 0.39 (December 31, 2017: 0.14) per cent of all shares and voting rights.

Etteplan Oyj's Board of Directors decided on May 28, 2018 to continue to repurchase the Company's own shares until December 31, 2018, based on the authorization given by the Annual General Meeting (AGM) held on April 5, 2018. The repurchases are part of the share repurchase program initiated on December 19, 2017 to repurchase shares for use in fulfilling obligations pertaining to the share-based incentive plan for the Group's key personnel. The maximum price was increased from EUR 9 per share to EUR 10 per share based on a decision made by the Board of Directors on August 16, 2018.

Incentive plan for key personnel

The Board of Directors of Etteplan Oyj decided on May 31, 2017, to establish a new share-based incentive plan for the Group's key personnel. The incentive plan includes one earning period comprising the calendar years 2017-2019. The earnings criteria are Etteplan Group's revenue increase and the development of Total Shareholder Return (TSR). The potential

reward will be paid partly in the Company's shares and partly in cash. The proportion to be paid in cash is intended to cover taxes and tax-related costs arising from the reward to the key personnel. Approximately 20 people belong to the target group of the incentive plan. The rewards to be paid on the basis of the plan will correspond to the value of an approximate maximum total of 260,000 Etteplan Oyj shares (including also the proportion to be paid in cash). The shares to be paid out as potential rewards will be transferred from the shares held by the Company or shares acquired from the market and, therefore, the incentive plan will have no diluting effect on the value of the share. The potential non-recurring reward of the incentive plan will be paid after the earning period in 2020.

Flaggings

Etteplan Oyj received no flagging notices in 2018.

Events after the review period: Etteplan renews its organization and structure and makes changes in the segment reporting

On January 1, 2019, Etteplan introduced a new global organization in which the service areas form the reporting lines instead of the previous country organization. At the same time, the areas of responsibility of the Management Group's members changed and a new member was appointed to the Management Group. The names of Etteplan's service areas also changed on January 1, 2019.

Starting from January 1, 2019, Etteplan's service areas and the people responsible for them are as follows:

- Riku Riikonen, SVP, Engineering Solutions.
- Kari Liuska, SVP, Software and Embedded Solutions.
- Mikael Vatn, SVP, Technical Documentation Solutions.

In addition, we formed four new corporate level functions:

- Global Sales is responsible for developing sales in the entire company. Jukka Lahtinen was appointed as SVP, Global Sales and a member of Etteplan's Management Group.
- Solutions & Technologies will focus on managing and developing our offering, new service solutions, service products and technologies. Petri Ikonen was appointed SVP, Solutions & Technologies.
- Operational Excellence is responsible for Operational Development, Project Management Office and IT. Veikko Lamminen was appointed SVP, Operational Excellence.

- Human Resources was organized as a separate function. It is responsible for human resources, HR development and recruitment. Marcus Reijonen acts as SVP, Human Resources (interim).

Outi Torniainen continues as SVP, Marketing & Communications; and Per-Anders Gådin as CFO; SVP, Finance. All the above are members of Etteplan's Management Group and they report to the President and CEO Juha Näkki. Outi-Maria Liedes-Jauhiainen, SVP, Operational Development and HR, and a member of Etteplan's Management Group, retired at the beginning of 2019.

Etteplan's business was previously conducted in one operating segment. With the organizational changes, Etteplan will also change the internal reporting provided for the chief operating decision-maker, i.e. Etteplan's Management Group, for decision-making. From the first Interim Report 2019 onwards, each of the aforementioned service areas will form an operating and reporting segment of its own. With the changes to the segment reporting, Etteplan increases the transparency of the implementation of the company's business strategy and the realization of targets. More information about the changes will be provided during spring 2019.

Effects of the adoption of IFRS 16 Leases

IFRS 16 'Leases' -standard requires the lessees to recognize lease agreements on the balance sheet as a right-of-use assets and related lease liabilities.

The new standard will have an effect on the Group's balance sheet, cash flow statement and key figures, as at the moment the rental agreements for the Groups offices are classified as operating leases, which are not recognized in the balance sheet. The Group adopted the standard on January 1, 2019 and will report according to it for the first time in the January–March 2019 Interim Report.

EBIT for 2019 is expected to increase slightly, as result of that the interest of the lease liability is treated as a financial cost. The operating cash flow will increase and the financial cash flow will decrease with approximately the same amount as repayment of the principal portion of the lease liability will be classified as cash flows from financing activities. The group's total liabilities will also increase, which will lead to lower equity ratio.

At the time of adopting the standard an interest-bearing liability of approximately EUR 15 million is recognized, corresponding to the discounted future rent payments of the leased items. Rights-of-use assets will be recognized in the balance sheet equal to the amount of the additional liability.

Operating risks and uncertainty factors

Etteplan's financial results are exposed to a number of strategic, operational and financial risks. The uncertainties caused by the general economic development continue to constitute risks for Etteplan's business. The possibility of changes in customers' business operations is a significant risk to Etteplan's operations. The Company's operations are based on skilled staff. The availability of competent professionals is an important factor for ensuring profitable growth and operations. The increased difficulties in recruiting professional staff, particularly in certain expert disciplines, continued to present a business risk.

Market outlook 2019

The most important factor affecting Etteplan's business is the global development of the machinery and metal industry. Our business environment continues to develop favorably in all market areas. In Europe, demand growth is expected to slow down slightly due to political uncertainty. In Asia, the growth of the service market is expected to continue.

Financial guidance 2019

We expect the revenue and operating profit for the year 2019 to grow compared to 2018.

Annual General Meeting 2019

Etteplan Oyj's Annual General Meeting will be held in Vantaa, Finland, on Thursday, April 4, 2019, starting at 10:00 a.m. The summons to the AGM will be published as a separate release.

The Board's proposal for distribution of 2018 profits

The parent company's distributable shareholders' equity according to the balance sheet on December 31, 2018, is EUR 42,492,281.86. The Board of Directors will propose to the Annual General Meeting, which will convene on April 4, 2019, that on the dividend payout date a dividend of EUR 0.30 per

share be paid on the Company's externally owned shares, for a total amount of EUR 7,488,992.40 at most, and that the remaining profit be transferred to retained earnings.

Corporate Governance statement

Etteplan publishes the Corporate Governance Statement for 2018 separately from the Board of Directors' review. The statement is available on the Company's website www.etteplan.com

Statement of non-financial information

Etteplan publishes the Statement of non-financial information for 2018 separately from the Board of Directors' review. The statement is available on the Company's website www.etteplan.com.

Etteplan Oyj

Board of Directors

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR 1,000	Note	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Revenue	7	236,477	214,768
Other operating income	8	1,172	446
Materials and services	10	-21,822	-20,429
Staff costs	11	-156,183	-144,965
Other operating expenses	12	-33,667	-29,021
Depreciation and amortization	19, 20	-5,792	-5,315
Operating profit (EBIT)		20,184 8.5%	15,484 7.2%
Financial income	14	791	538
Financial expenses	15	-1,580	-1,277
Profit before taxes		19,396	14,745
Income taxes	17	-4,116	-3,160
Profit for the financial year		15,280	11,586
Other comprehensive income, that may be reclassified to profit or loss			
Currency translation differences		-1,200	-727
Other comprehensive income, that will not be reclassified to profit or loss			
Change in fair value of investments available-for-sale		0	9
Change in fair value of equity investments at fair value through other comprehensive income		3	0
Other comprehensive income for the year, net of tax	17	-1,197	-718
Total comprehensive income for the year		14,083	10,868
Profit for the financial year attributable to			
Equity holders of the parent company		15,280	11,470
Non-controlling interest		0	115
		15,280	11,586
Total comprehensive income attributable to			
Equity holders of the parent company		14,083	10,759
Non-controlling interest		0	108
		14,083	10,868
Earnings per share calculated from the profit attributable to equity holders of the parent company			
Basic earnings per share, EUR	18	0.62	0.47
Diluted earnings per share, EUR	18	0.62	0.47

The notes are an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR 1,000	Note	Dec 31, 2018	Dec 31, 2017
ASSETS			
Non-current assets			
Goodwill	22	65,165	59,014
Other intangible assets	19	20,856	17,875
Tangible assets	20	4,065	3,524
Investments available-for-sale	21	0	691
Investments at fair value through other comprehensive income	21	695	0
Other non-current receivables		54	88
Deferred tax assets	31	161	79
Non-current assets, total		90,995	81,270
Current assets			
Inventory	23	362	250
Work in progress	7	20,503	19,246
Trade and other receivables	24	32,367	33,260
Current tax assets		223	326
Cash and cash equivalents		16,115	10,074
Current assets, total		69,569	63,157
TOTAL ASSETS		160,564	144,427
EQUITY AND LIABILITIES			
Equity			
Share capital	25	5,000	5,000
Share premium account	25	6,701	6,701
Unrestricted equity fund	25	20,101	18,524
Own shares	25	-452	-80
Cumulative translation adjustment	25	-3,901	-2,701
Other reserves	25	231	228
Retained earnings	25	24,567	18,780
Profit for the financial year	25	15,280	11,470
Equity, total		67,527	57,923
Non-current liabilities			
Deferred tax liabilities	31	4,518	3,442
Interest-bearing liabilities	27	24,105	19,634
Other non-current liabilities	29	2,036	700
Non-current liabilities, total		30,659	23,776
Current liabilities			
Interest-bearing liabilities	27	12,147	15,329
Advances received	7	3,064	2,057
Trade and other payables	30	45,386	43,667
Current income tax liabilities		1,782	1,675
Current liabilities, total		62,378	62,728
Liabilities, total		93,037	86,504
TOTAL EQUITY AND LIABILITIES		160,564	144,427

The notes are an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR 1,000	Note	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
OPERATING CASH FLOW			
Cash receipts from customers		239,983	211,280
Operating expenses paid		-212,081	-189,949
Operating cash flow before financial items and taxes		27,903	21,331
Interest and payment paid for financial expenses	15	-956	-773
Interest received	14	59	55
Income taxes paid	17	-3,950	-2,359
Operating cash flow (A)		23,055	18,254
INVESTING CASH FLOW			
Purchase of tangible and intangible assets	19, 20	-1,752	-2,105
Acquisition of subsidiaries, net of cash acquired	5	-8,262	-3,108
Proceeds from sale of tangible and intangible assets	8	21	26
Proceeds from sale of investments		1	0
Investing cash flow (B)		-9,992	-5,187
Cash flow after investments (A+B)		13,063	13,067
FINANCING CASH FLOW			
Purchase of own shares	25	-516	-262
Expenses paid for directed share issue		-7	0
Acquisition of non-controlling interest		0	-1,696
Issue of new current loans	27	3,559	607
Repayments of current loans	27	-24,743	-5,855
Issue of new non-current loans	27	22,102	5,000
Payment of finance lease liabilities	27, 28	-1,765	-1,642
Dividend paid	25	-5,684	-3,930
Financing cash flow (C)		-7,054	-7,777
Variation in cash (A+B+C) increase (+) / decrease (-)		6,009	5,290
Assets at the beginning of the financial period		10,074	4,750
Exchange gains or losses on cash and cash equivalents		32	35
Assets at the end of the financial period		16,115	10,074

The notes are an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR 1,000	Share capital	Share premium account	Unrestricted equity fund	Other reserves	Own shares	Cumulative translation adjustment	Retained earnings	Capital attributable to equity holders of the parent company, total	Non-controlling interest	Equity total
Equity Jan 1, 2017	5,000	6,701	18,524	219	-386	-1,981	24,535	52,613	165	52,777
Comprehensive income										
Profit for the financial year							11,470	11,470	115	11,586
Fair value reserve available-for-sale assets				9				9		9
Cumulative translation adjustment						-720		-720	-7	-727
Total comprehensive income for the year	0	0	0	9	0	-720	11,470	10,759	108	10,868
Transactions with owners										
Dividends							-3,930	-3,930		-3,930
Acquisition of NCI without change in control							-1,671	-1,671	-273	-1,945
Purchase of own shares					-262			-262		-262
Share based incentive plan					567		-154	413		413
Transactions with owners, total	0	0	0	0	306	0	-5,755	-5,449	-273	-5,723
Equity Dec 31, 2017	5,000	6,701	18,524	228	-80	-2,701	30,251	57,923	0	57,923

EUR 1,000	Share capital	Share premium account	Unrestricted equity fund	Other reserves	Own shares	Cumulative translation adjustment	Retained earnings	Capital attributable to equity holders of the parent company, total	Non-controlling interest	Equity total
Equity Jan 1, 2018	5,000	6,701	18,524	228	-80	-2,701	30,251	57,923	0	57,923
Comprehensive income										
Profit for the financial year	0	0	0	0	0	0	15,280	15,280	0	15,280
Change in fair value of equity investments at fair value through other comprehensive income	0	0	0	3	0	0	0	3	0	3
Cumulative translation adjustment	0	0	0	0	0	-1,200	0	-1,200	0	-1,200
Total comprehensive income for the year	0	0	0	3	0	-1,200	15,280	14,083	0	14,083
Transactions with owners										
Dividends	0	0	0	0	0	0	-5,684	-5,684	0	-5,684
Directed share issue	0	0	1,577	0	0	0	0	1,577	0	1,577
Purchase of own shares	0	0	0	0	-516	0	0	-516	0	-516
Share-based incentive plan	0	0	0	0	144	0	0	144	0	144
Transactions with owners, total	0	0	1,577	0	-372	0	-5,684	-4,478	0	-4,478
Equity Dec 31, 2018	5,000	6,701	20,101	231	-452	-3,901	39,846	67,527	0	67,527

Notes to the consolidated financial statements

1 GENERAL INFORMATION

The Parent Company of Etteplan Group is Etteplan Oyj, a Finnish public limited company established under Finnish law. The Company is domiciled in Vantaa. Etteplan's shares are listed in Nasdaq Helsinki Ltd's Medium Cap market capitalization group in the Industrials sector under the ETTE ticker. Etteplan moved from the Small Cap group to the Medium Cap group on January 1, 2019.

Etteplan provides industrial equipment and plant engineering, embedded systems, IoT (Internet of Things), and technical documentation solutions to the world's leading companies in the manufacturing industry. Our services are geared to improve the competitiveness of our customers' products and engineering processes throughout the product life cycle. The results of Etteplan's innovative engineering can be seen in numerous industrial solutions and everyday products.

A copy of the Consolidated Financial Statements can be obtained from the Company's website www.etteplan.com or from the office of the Group's Parent Company at the address Muovitie 1, 15860 Hollola, Finland.

The Etteplan Oyj Board of Directors approved these Financial Statements for publication at its meeting on February 7, 2019.

According to the Finnish Limited Liability Companies Act, the shareholders have the opportunity to approve or reject the Financial Statements at the Annual General Meeting held after the publication. Furthermore, the Annual General Meeting can decide on the modification of the Financial Statements.

2 A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out in this section. These policies have been consistently applied to all the years presented, unless stated otherwise.

2.1 Basis for preparation

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union by December 31, 2018. The Consolidated Financial Statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities, which are recognized at fair value. Non-material investments in non-listed companies are recognized at acquisition cost less possible impairment.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Figures in the Financial Statements are presented in thousands of euros and are therefore rounded.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

IFRS 15, 'Revenue from contracts with customers' establishes principles for recognizing revenue from the entity's contracts with customers and for the related disclosures. Recognition of revenue can happen over time or at a certain point in time depending on when a customer obtains control of a good or service. The Group has implemented the standard retrospectively on January 1, 2018. The implementation of the new standard did not have an effect neither on the amount nor timing of revenue recognition. The Group's revenue is mainly consistent of services, the revenue for which is recognized over time as the service is being performed. Identifying separate performance obligations in customer agreements and recognizing revenue according to standalone transaction prices did not affect the timing of revenue recognition. There

are no material financing components involved in the Group's transaction prices. The Group's previous accounting policies regarding accounting for variable considerations have been in line with IFRS 15. The Group has not identified incremental costs of obtaining a contract to be activated. Contract assets are presented in the statement of financial position in line item 'Work in progress' and contract liabilities in line item 'Advances received'. Contract assets were previously included in line item 'Trade and other receivables' and contract liabilities in line item 'Trade and other payables'.

In applying IFRS 15 the Group uses the practical expedient permitted by the standard and does not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied as at the end of the reporting period when the performance obligations are part of a contract that has an original expected duration of one year or less or when the Group has right to invoice a customer at an amount that corresponds directly with its performance to date.

IFRS 9 'Financial Instruments' includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets. The Group has implemented the standard on January 1, 2018, but does not present restated comparatives. The Group uses the simplified approach included in the standard, under which the expected credit losses of receivables are measured over the entire lifetime of the receivables. The implementation of the standard did not have a material impact on the Group's figures. Investments in quoted and unquoted shares, previously classified as available-for-sale (AFS) under IFRS 39 are classified at fair value through other comprehensive income (FVTOCI) under IFRS 9. The main difference between AFS and FVTOCI is that gains and losses resulting from changes in the fair value of equity investments accounted for under FVTOCI are not recycled to the income statement upon impairment or disposal, with only the dividend income recognized in the income statement. Hedge accounting principles have also been renewed in the new standard. The Group does not have derivatives or hedged items.

(b) New standards, amendments and interpretations issued, but not effective for the financial year beginning January 1, 2018 and not early adopted

Standards and interpretations effective for annual periods beginning after January 1 are not expected to have a significant

effect on the Consolidated Financial Statements of the Group, except the following:

IFRS 16 'Leases' -standard requires the lessees to recognize lease agreements on the balance sheet as right-of-use assets and related lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, which relate to either short term contracts in which the lease term is 12 months or less, or to low value items i.e. assets of value USD 5,000 or less. The new standard will have a material effect on the Group's balance sheet and key figures, as at the moment the rental agreements for the Groups offices are classified as operating leases, which are not recognized in the balance sheet. The Group will adopt the standard non-retrospectively on January 1, 2019. The table below describes provisionally the formation of rental liability in the balance sheet at the time of adopting the standard:

	EUR 1,000
Rental liability outside balance sheet on Dec 31, 2018	9,758
Discounted with Group incremental borrowing rate, 2%	9,542
Additional liability from extension options	5,234
Additional rental liability from operating leases under IFRS 16 on Jan 1, 2019	14,776
Finance lease liability booked in balance sheet on Dec 31, 2018	3,007
IFRS 16 lease liability at Jan 1, 2019	17,783

Additional right-of-use assets will be recognized in the balance sheet equal to the amount of the additional liability (provisionally EUR 14,776 thousand). In applying the IFRS 16 for the first time, the Group will use the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristic
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Extension options are included in several of the Group's office premises rental agreements. These terms are used to maximize operational flexibility in terms of managing contracts. The Group's management uses judgment when determining

the extent to which the extension options are used. In the provisional calculations the management has come to the conclusion to use 12 months as the extension period in all rental agreements that include an extension option, which the management believes to give the most accurate view of the Group's total rent liability.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. A contingent consideration classified as liability is revalued to fair value at the end of each financial year and the resulting profit or loss is recognized in the income statement. Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between the Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting

policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Management Group is identified as the chief operating decision-maker. The chief operating decision-maker assesses the financial performance and position of the Group, and makes strategic decisions. The financial information, which the chief operating decision-maker uses as a basis for decision making, does not differ substantially from the information presented in the Consolidated Statement of Comprehensive Income and Statement of Financial Position. The Group's business is conducted in one operating segment.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currencies of the Group entities are the same as their home currencies. The Consolidated Financial Statements are presented in euro, which is the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or valuation, where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as a net investment hedge. Foreign exchange gains and losses that relate to loans and cash and cash equivalents are presented in the income statement within 'Financial income' or 'Financial expenses'. All other foreign exchange gains and losses are presented in the income statement within 'Other operating expenses'.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate. Exchange differences arising are recognized in equity.

2.5 Intangible assets

(a) Goodwill

Goodwill corresponds to that part of the acquisition cost which exceeds the Group's share of the fair value, on the date of purchase, for the net asset value of the acquired subsidiary. Goodwill is measured at historical cost less impairment. Goodwill is not amortized, but is tested for impairment annually and whenever there is objective evidence of goodwill impairment. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose, taking into account the current organization structure and level of reporting.

(b) Other intangible assets

Other intangible assets include software licenses, software created internally, other intangible rights and intangible assets acquired in business combinations; customer base and contractual intangible assets (Fair value adjustments in acquisitions). Other intangible assets are recorded in the balance sheet at

historical cost. Intangible assets acquired in business combinations are recognized at fair value at the acquisition date. Assets with limited useful lives are amortized on a straight-line basis over their useful lives. The amortization periods of intangible assets are:

software	3 to 7 years
internally created software	3 to 5 years
customer base	10 years
contractual intangible assets	3 years
other intangible assets	3 years

The residual value, useful life and amortization method of each asset is examined at the end of each financial year and adjusted, if necessary, to reflect the changes in expectations of the economic benefits to be gained from the asset.

Research costs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs, which are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Computer software development costs recognized as assets are amortized over their useful lives. Significant, unfinished intangible assets are tested for impairment annually.

2.6 Tangible assets

Tangible assets are stated at historical cost less accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they occur.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

computers	3 years
vehicles	5 years
office furniture	5 to 10 years
renovation of premises	5 to 7 years

Land areas are not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in other operating income or expenses in the income statement.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.7 Impairment of non-financial assets

The Group assesses at the end of each reporting period, whether there are indications of impairment of non-financial assets. Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization, as well as assets with unlimited useful life, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which

the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to dispose and value-in-use. Value-in-use is defined as the discounted estimated future net cash flows generated by the asset or cash-generating unit. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows followed for internal management (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each financial period. The essential assumptions for impairment tests are presented in Note 22 to the Financial Statements ('Impairment testing').

2.8 Financial instruments

2.8.1 Recognition

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

At initial recognition, the Group measures a financial instrument at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial instrument. Transaction costs of financial instruments carried at FVPL are expensed in profit or loss.

2.8.2 Classification and measurement

From January 1, 2018 the Group classifies its financial instruments in the following subsequent measurement categories.

Financial assets:

- measured at amortized cost
- measured at fair value through Other Comprehensive Income (OCI), and
- measured at fair value through profit or loss

Financial liabilities:

- measured at amortized cost, and
- measured at fair value through profit or loss

The classification depends on the Group's business model for managing the financial instruments and the contractual terms of the cash flows. The classification changes only if the business model changes.

Gains and losses for assets and liabilities measured at fair value will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- **Amortized cost:** Instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in financial income using the effective interest rate method. Any gain or loss arising on impairment or derecognition is recognized directly in profit or loss.
- **FVOCI:** Instruments that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.
- **FVPL:** Instruments that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is measured at FVPL is recognized in profit or loss in the period in which it arises.

Equity instruments

The Group measures all equity investments at fair value. The Group's management has elected to present fair value gains and losses on equity investments in OCI, because these

investments consist of premises shares used by the Group and quoted and unquoted, mainly phone company shares, which are not held for trading. The changes in the fair value of these shares does not have a material link to the business operations of the Group. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of these investments. Dividends from such investments continue to be recognized in profit or loss when the Group's right to receive payments is established.

More information on the balance sheet items included in each measurement category can be found in note 21.

2.8.2.1. Classification of financial assets until December 31, 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy. Until Dec 31, 2017 the Group classified its financial assets as 'Loans and other receivables' and 'Available-for-sale' financial assets. The classification depended on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition.

'Loans and other receivables' category included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. The Group's loans and other receivables comprised also 'Trade and other receivables' and 'Cash and cash equivalents' in the balance sheet.

'Available-for-sale' category included non-derivatives that were either designated in this category or not classified in any of the other categories.

2.8.3 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. See note 4.1.4 for further details.

2.9 Trade receivables

Trade receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. Trade receiva-

bles are classified as current assets, if collection is expected in one year or less. Otherwise, they are classified as non-current assets.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. Items included under cash and cash equivalents have maturities of three months or less from the date of acquisition. Cash and cash equivalents are derecognized when the Group's contractual right to receive cash flows has expired or essentially all of the risks and rewards incident to ownership have been transferred from the Group.

2.11 Trade payables and other payables

Trade payables and other payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business. They are classified as current liabilities unless payment is not due within one year or less after the reporting period.

2.12 Loans

Loans are recognized initially at fair value, net of transaction costs incurred. Loans are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

2.13 Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is determined using the FIFO method. Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.14 Equity

Etteplan Oyj has one series of shares. Share capital is classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the equity holders of the Parent Company.

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's Financial Statements in the period in which the dividends are decided on by the General Meeting of shareholders.

2.15 Current and deferred income tax

The taxes in the consolidated income statement include the current tax for Group companies, corrections to taxes from previous financial periods, and the change in deferred taxes. Current tax is calculated on taxable income according to the tax rate in force in each country concerned. In the case of items entered directly in shareholders' equity, the tax effect is recognized in equity.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability, in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. The most significant temporary differences arise from the depreciation and amortization of assets and the provisions of foreign subsidiaries. Deferred taxes are determined by using the tax base in force on the balance sheet date or the enacted tax base at the time of tax base transition.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Whether

the conditions for recognizing a deferred tax asset are met, is evaluated at the end of each financial period.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 Employee benefits

(a) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. In Sweden and the Netherlands, the Group has defined benefit plans, which are so called multi-employer plans, of which there is not sufficient information available to use benefit accounting. These plans are accounted as defined contribution plans.

(b) Bonus plans

The Group recognizes a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Share-based incentive plans

Share-based incentive plans are treated as arrangements that are settled partly as shares and partly as cash. The part of a remuneration earned that the participants receive as Etteplan Oyj shares is treated as an arrangement that is settled as shares and recorded in shareholders' equity; the part of a remuneration earned that is paid in cash to pay off taxes and other levies is recorded in liabilities. The fair value of the employee services received in exchange for the grant of the shares is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted taking into account market performance conditions and non-vesting conditions. At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions and service conditions. The Group recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment in equity.

2.17 Revenue recognition

Etteplan's revenue streams consist mainly of the following three service areas:

- a) Engineering services refer to the innovation, engineering and calculations of the technical attributes of machinery or equipment for the purpose of product development and manufacturing. Assignments are typically product development projects for a new product, plant engineering projects or Engineering-to-Order projects, involving the customization of the product in accordance with end customer requirements and the market area's legislation.
- b) Embedded systems and IoT refers to product development services and technology solutions that allow the controlling of machines and equipment and enable their digital connectivity as part of the Internet of Things.
- c) Technical documentation refers to the documentation of a product's technical attributes, such as manuals and service instructions for the users of a product, as well as related content management and distribution in print or digital form.

Revenue includes income from design activities and sales of materials for projects, adjusted for indirect taxes and dis-

counts. Etteplan's services can be divided into the following categories according to the method of revenue recognition:

- a) Design and consultancy projects, where either a fixed price or a target price limiting the amount of revenue that can be recognized for the project is set in the agreement with the customer. In this type of projects revenue is recognized based on the percentage of completion method. The percentage of completion is measured as the costs of the project realized as a proportion to the total expected costs of the project, because it is seen as the most accurate way of measuring the transfer of control to the customer. Revenue recognition is done separately to each performance obligation. In the case of contracts whose outcome cannot be assessed reliably, project expenditure is expensed for the period in which it arises. Likewise, the amount of revenue recognized from a project does not exceed expenditure. The total loss on a contract that will probably result in a loss is expensed immediately.
- b) Design and consultancy projects, where all costs incurred can be invoiced to the customer without other limitations than the agreed invoicing price. In this type of projects revenue is recognized over time as the service is being performed. The performance obligation in the agreement with the customer is most typically one working hour.
- c) Arrangements, where the customer buys a License to software created by Etteplan and maintenance related to the license. Revenue for the license itself is recognized when the customer obtains access to the license. Revenue for maintenance related to the license is recognized over time as the service is rendered.

Transaction prices are based on customer agreements, where separate prices are set for separate performance obligations. Changes to customer agreements as well as additional work agreed on, are recognized as separate performance obligations. The Group has enforceable right to payment for performance completed to date, in case a project is terminated, in essentially all of its projects.

Costs incurred from work performed and transferred to customer, but not yet invoiced, are activated as contract assets and included in the balance sheet line item 'Work in progress'. Contract assets are transferred to Trade payables upon invoicing. Invoices are most typically payable within 30

days. Payments received from customers in advance of work being transferred are recorded as contract liabilities in the balance sheet line item 'Advance payments'. These amounts are recognized as revenue as the work is being transferred to the customer.

2.18 Interest and dividend income

Interest income is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

Dividend income is recognized when the shareholder gains the right to receive payment.

2.19 Lease agreements

Lease agreements in which all risks and rewards incident to ownership remain with the lessor are treated as other lease agreements (operating leases). Contractual lease payments are entered as expenses in the income statement over the lease period.

Leases that transfer essentially all risks and rewards incident to ownership to the Group are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in financial liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases are depreciated and amortized over the shorter of the useful life of the asset and the lease term.

2.20 Non-recurring items

Non-recurring items are disclosed separately in the Financial Statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income and expense that are shown

separately due to the significance of their nature or amount. Non-recurring items can include among other things costs and income related to business combinations as well as certain reorganization costs.

3 CRITICAL ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

When preparing the Consolidated Financial Statements, estimates and assessments must be made concerning the future. These may affect assets and liabilities at the time of balance sheet preparation, as well as income and expenses in the reporting period. Actual figures may differ from those used in the financial statements. The Group's management may have to make judgement based decisions relating to the choice and application of accounting policies for the financial statements. This particularly concerns the cases when effective IFRSs allow alternative valuation, recording and presenting manners. The Group's management has exercised judgment in implementing the new IFRS standards effective in 2018. Management judgment is exercised, among other things, in determining timing of the transfer of control when recognizing revenue under IFRS 15 and in determining the amount of expected credit losses under IFRS 9.

Judgements and estimates made in the preparation of the financial statements are based on the management's best judgement on the closing date. They are based on previous experience and future expectations considered to be most likely on the closing date. These include, in particular, factors related to the Group's financial operating environment affecting sales and the cost level. The Group monitors the realization of these estimates and assumptions. The effects of any changes in estimates and assumptions are recognized in the period in which they have been detected.

The assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Fair value measurement in connection with acquisitions

In business combinations, tangible assets have been compared with the market prices of equivalent assets, and decline in the value of acquired assets due to various factors has been estimated. The fair value measurement of intangible assets is based on estimates of asset-related cash flows. The manage-

ment believes that the estimates and assumptions are sufficiently precise for use as the basis for fair value measurement. Any indications of impairment of tangible and intangible assets are reviewed annually.

(b) Impairment testing

The Group tests goodwill and intangible assets with unlimited useful lives for impairment annually. Indications of impairment are evaluated in the manner described in note 2.7. Recoverable amounts for cash-generating units are based on value-in-use calculations. Estimates are required in making these calculations. Values recorded in the balance sheet at the end of the financial year were EUR 65,165 thousand (2017: EUR 59,014 thousand). Additional information on the sensitivity of the recoverable amounts to changes in assumptions used is disclosed in Note 22 Impairment testing.

(c) Contingent considerations

The amount of a contingent consideration in a business combination is often dependent on the future economic development of the business acquired. The actual outcome may deviate from the assumptions made at initial recognition, which can lead to revaluation of the previously recognized contingent consideration.

(d) Revenue recognition

Revenue recognized over time is based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided (percentage of completion method). The percentage of completion is measured as the costs of the project realized as a proportion to the total expected costs of the project. Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

4 MANAGEMENT OF FINANCIAL RISKS

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance.

4.1 Financial risk factors

In its business operations, the Group is exposed to several types of financial risks: foreign-currency, interest, financing and liquidity, counterparty and credit risks. The objective of financial risk management is to protect the Group from unfavorable changes in the financial market and thus contribute as much as possible to guaranteeing the Group's profitability and equity, and to guarantee sufficient liquidity in a cost-efficient manner. Management of financial risks has been centralized with the Group's financial department, which is responsible for identification and evaluation of, and protection against, the Group's financial risks. Furthermore, the financial department is responsible, in a centralized fashion, for funding of the Group, and it provides the management with information about the financial situation of the Group and the business units.

4.1.1 Foreign-currency risk

Foreign-currency risk related to different currencies comes about as a result of foreign-currency-denominated commercial transactions and from translation of foreign-currency-denominated balance sheet items into the reporting currency.

(a) Transaction risk

The majority of the Group's business operations are handled in the currency of the project country of the respective group company. This means that both sales and costs are in the same currency. In the period under review, the Group did not have significant transaction risks generated from the currency flow in foreign currencies. The Group did not take steps to protect itself against transaction risks during the review period.

(b) Translation risk

The Group is exposed to a translation risk caused by fluctuations in foreign currency exchange rates, when it translates balance sheet items of subsidiaries based outside the euro area into its reporting currency. Main risk is with goodwill booked in Swedish Krona (SEK). The goodwill booked in SEK at December 31, 2018 was EUR 22,009 thousand (2017: EUR 22,928 thousand).

A sensitivity analysis of the effect of reasonable potential changes in exchange rates on the Group's profit for the financial year, equity and goodwill at balance sheet date is presented in the table below. In the analysis, the change in exchange

rates has been estimated to be +/- 10 per cent from reporting date, and other factors are estimated to remain unchanged.

2018 EUR 1,000	Effect in profit for the financial year	Effect in other equity items	Effect in goodwill
EUR/SEK exchange rate 10% increase	-151	-411	-2,001
EUR/SEK exchange rate 10% decrease	184	503	2,445
EUR/PLN exchange rate 10% increase	-23	-155	0
EUR/PLN exchange rate 10% decrease	28	190	0
EUR/CNY exchange rate 10% increase	-124	17	-169
EUR/CNY exchange rate 10% decrease	151	-20	207

2017 EUR 1,000	Effect in profit for the financial year	Effect in other equity items	Effect in goodwill
EUR/SEK exchange rate 10% increase	-166	-358	-2,084
EUR/SEK exchange rate 10% decrease	203	437	2,548
EUR/PLN exchange rate 10% increase	-15	-145	0
EUR/PLN exchange rate 10% decrease	18	177	0
EUR/CNY exchange rate 10% increase	-39	56	-171
EUR/CNY exchange rate 10% decrease	48	-68	208

4.1.2 Interest risk

The Group is exposed to interest risk in two ways: because of changes in value for balance sheet items (i.e. a price risk) and cash flow risk caused by changes in market interest rates.

On the balance sheet date, the total amount of interest-bearing debt excluding leasing liabilities was EUR 33,243 thousand (2017: EUR 32,350 thousand) covered with contracts in which the interest range is between 0.65 and 2.0 per cent (2017: between 0.9 and 2.0 per cent). All of the Group's loans have variable interest rates.

The Group monitors the interest risk by calculating the effect of one percentage point change in interest rates on the Group's next twelve months' interest expenses. The sensitivity of the interest position to changes in interest rates is determined by calculating how much an equal one percentage point change in interest rates throughout the Group's interest rate range would change yearly interest expenses. Interest bearing loans from financial institutions excluding finance lease liabilities are included in the calculation. At the balance sheet date the Group's sensitivity to an increase in interest rates of

one percentage point was approximately EUR 255 thousand (2017: EUR 252 thousand).

4.1.3 Financing and liquidity risk

The Group aims to guarantee solid liquidity in all market conditions through efficient cash management. Credit limits tied to cash pool arrangements are used for short-term financing. On the balance sheet date, the Group had EUR 12,092 thousand (2017: EUR 10,433 thousand) of available credit limits, of which EUR 2,163 thousand (2017: EUR 1,766) was in use. Refinancing risk is attempted to be minimized by applying a balanced maturity schedule for its loan portfolio, ensuring sufficient maturity of loans, and using several banks as sources of financing.

The Group has financial covenants, which are tied to the equity ratio of the Group and to the debt/EBITDA ratio of the Group. In case the Group's equity ratio at the time of the Financial Statement is below 25% or the debt/EBITDA ratio is higher than 3.5, the financier has the right to demand immediate payment of all the Group's loans. According to Consolidated Financial Statements in 2018 the terms of these covenants were not breached. Applying IFRS 16 will increase the interest-bearing debt of the Group and therefore, changes to the covenants will most likely be made in the future.

To balance the cash effect of the long payment terms typical to design business, the Group sells a part of its key customer receivables to a finance institution. There is no credit risk related to the sold receivables and these receivables are not included in the Consolidated Statement of Financial Position.

4.1.4 Counterparty and credit risk

Financing contracts have the associated risk of the counterparty being unable to fulfill its obligations under the contract. To minimize the counterparty risk financing contracts are concluded with leading Nordic banks that have a good credit rating.

Credit risk related to business operations arises out of a customer's inability to perform its contractual obligations. A considerable proportion of the Group's business operations focus on large, financially solid companies that operate internationally. Credit risk is also reduced by the customer companies being divided among several different sectors of operation. The Group aims to ensure that services are sold only to such customers that have an appropriate credit rating. Credit risk is controlled systematically, and overdue sales receivables are assessed on a weekly basis. The Company strives to control the effects of increased financial uncertainty by actively monitoring its receivables and by an efficient debt collection process. The maximum customer credit risk exposure at the end of the financial year is the book value of accounts receivable.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets ('Work in progress') including amounts not due. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The measurement of the expected credit losses includes forward looking information in the form of the estimated growth of the EU gross domestic product. The Group also recognizes a case by case estimated credit loss allowance according to judgment exercised by the management. Generally, the Group recognizes a 50 per cent allowance for receivables that are more than 60 days past due and a 100 per cent reservation for receivables that are more than 90 days past due. The lifetime expected credit loss allowance and the case by case credit loss allowance are presented as net. The total deduction in trade receivables related to expected credit losses at December 31 is determined as follows:

2018 EUR 1,000	Past due					Total
	Not due	0-30 d	31-60 d	61-90 d	Over 90 d	
Expected loss rate	0.1%	0.1%	1.4%	3.8%	7.3%	
Trade receivables	23,764	3,000	782	367	965	28,879
Contract assets	20,503	0	0	0	0	20,503
Lifetime expected loss allowance	44	3	11	14	70	143
Case by case loss allowance	0	0	0	0	312	312
Loss allowance net						312

2017 EUR 1,000	Past due					Total
	Not due	0–30 d	31–60 d	61–90 d	Over 90 d	
Trade receivables	25,381	3,130	701	377	1,316	30,905
Contract assets	19,246	0	0	0	0	19,246
Case by case loss allowance	0	0	0	0	251	251
Loss allowance net						251

Movements of the allowance for impairment:	2018	2017
Case by case loss allowance Jan 1	-251	-167
Loss allowance calculated under IFRS 9	-162	0
Loss allowance recognized Jan 1	-251	-167
Payments received	115	14
Provision for impairment of receivables, decrease (+) / increase (-)	-175	-99
Loss allowance Dec 31	-312	-251

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

Consistent with others in the industry, the Group monitors capital on the basis of the net gearing ratio. This ratio is calculated as net debt divided by equity. Net debt is calculated as total gross interest-bearing debt less cash and cash equivalents. To ensure sufficient flexibility, the goal is to keep the net gearing ratio within 30–100%.

The following table sets out the Group's net gearing ratio:

EUR 1,000	2018	2017
Gross interest-bearing debt	36,252	34,963
Less: cash and cash equivalents	-16,115	-10,074
Net debt	20,137	24,889
Total equity	67,527	57,923
Net gearing ratio	29.8%	43.0%

Maturity analysis of financial liabilities

2018 EUR 1,000	Less than 1 year	1–5 years
Borrowings	10,943	22,300
Finance lease payments	1,204	1,803
Interest payments	211	278
Liabilities from acquisitions	860	2,000
Trade and other payables	9,641	29
Financial liabilities total	22,859	26,410

2017 EUR 1,000	Less than 1 year	1–5 years
Borrowings	14,050	18,300
Finance lease payments	1,279	1,334
Interest payments	280	148
Liabilities from acquisitions	715	653
Trade and other payables	9,312	39
Financial liabilities total	25,637	20,474

Non-monetary changes in interest-bearing liabilities in the financing cash flow

EUR 1,000	2018	2017
Interest-bearing liabilities Jan 1	34,963	34,269
Financing cash flow	-847	-1,890
Non-monetary changes		
New finance leases	2,170	2,733
Exchange differences	-35	-148
Non-monetary changes, total	2,136	2,585
Interest-bearing liabilities Dec 31	36,252	34,963

5 BUSINESS COMBINATIONS

Eatech Oy

Etteplan strengthened its digital services and software capabilities by acquiring Eatech Oy on May 15, 2018. Eatech, founded in 2006, specializes in software and mobile solutions, service design, testing services and also offers continues services for maintaining business critical systems. Eatech currently employs more than 100 experts.

The acquisition consideration recognized at the time of the acquisition is EUR 12,149 thousand in total. The acquisition consideration consists of cash payments, a directed share issue and a contingent consideration. The cash consideration amounts to EUR 8,075 thousand. The fair value of the consideration transferred as a directed share issue, calculated using the closing price on date of acquisition, is EUR 1,584 thousand. In addition to these payments a contingent consideration of EUR 0 - 4,000 thousand (undiscounted amount) is agreed upon. The contingent consideration will be paid in full provided that the thresholds set in the share transfer agreement for revenue and operating profit in years 2018 and 2019 are met. The fair value of the contingent consideration is estimated by applying the income approach. At the time of acquisition the fair value of the contingent consideration was EUR 2,500 thousand.

The goodwill of EUR 6,184 thousand arising from the acquisition is attributable to the technical know-how of the acquiree's personnel, and the company's operating model. None of the goodwill recognized is expected to be deductible for income tax purposes.

A measurement period adjustment of EUR 1,500 thousand was made on Dec 31, 2018 to the fair value of the contingent consideration at the time of acquisition, and correspondingly to goodwill recognized, due to new information gained regarding the circumstances that prevailed at the time of acquisition.

Koodain Solutions Oy

Etteplan reinforced its software design expertise on February 5, 2018, by acquiring Koodain Solutions Oy, a Finnish software development and technology consultancy company. Koodain, which specializes in Android software design and solutions, is included in Etteplan's figures as of February 1, 2018. Koodain Solutions' 11 experts were transferred to Etteplan as existing employees.

The acquisition consideration was EUR 1,360 thousand consisting of a cash payment and a contingent consideration.

The cash consideration amounted to EUR 1,000 thousand in total. In addition to this payment a contingent consideration of EUR 0-360 thousand (undiscounted amount) is agreed upon. The contingent consideration will be paid in full provided that Koodain Solutions Oy's result in the financial year 2018 reaches the thresholds set in the share transfer agreement. The fair value of the contingent consideration is estimated by applying the income approach. At the time of acquisition the fair value of the contingent consideration was EUR 360 thousand.

The goodwill of EUR 903 thousand arising from the acquisition is attributable to the technical know-how of the acquiree's personnel, and the company's operating model. None of the goodwill recognized is expected to be deductible for income tax purposes.

A measurement period adjustment of EUR 60 thousand was made on Dec 31, 2018 to the fair value of the contingent consideration at the time of acquisition, and correspondingly to goodwill recognized, due to new information gained regarding the circumstances that prevailed at the time of acquisition.

Acquisitions total

The following table summarizes the consideration paid for the acquisitions and the assets acquired and liabilities assumed recognized at the time of acquisition.

Consideration transferred:	EUR 1,000
Cash payments	9,065
Directed share issue	1,584
Contingent consideration	2,860
Total consideration transferred	13,509

Assets and liabilities

Tangible assets	164
Customer relationships (intangible assets)	4,419
Contractual intangible assets	928
Trade and other receivables	2,366
Cash and cash equivalents	1,481
Total assets	9,357

Current liabilities	1,866
Deferred tax liability	1,069
Total liabilities	2,935

Total identifiable net assets	6,422
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Formation of Goodwill:

Consideration transferred	13,509
Total identifiable net assets	-6,422
Goodwill	7,087

Trade and other receivables comprise gross contractual amounts of EUR 2,366 thousand, none of which was expected to be uncollectible at time of acquisition.

Costs related to acquisitions, EUR 322 thousand, are included in other operating expenses in the consolidated statement of comprehensive income.

The revenue included in the consolidated statement of comprehensive income contributed by the acquired companies was EUR 7,339 thousand and profit EUR 958 thousand. Had the companies been consolidated from January 1, 2018, the consolidated statement of comprehensive income would show revenue of EUR 239,460 thousand and profit of EUR 15,492 thousand.

Changes in contingent considerations

A profit of EUR 681 thousand was recognized in the income statement from premeasurements of contingent considerations related to previous years' acquisitions.

6 SEGMENT REPORTING

The Group has one operating segment, the revenue of which consists mainly of rendering of services. The table below present the division of non-current assets by geographical area according to the location of the asset.

EUR 1,000	2018	2017
Non-current assets*		
Finland	58,983	48,060
Sweden	23,646	24,529
China	2,171	2,293
Central Europe	5,339	5,618
Total	90,140	80,500

* Other non-current assets excluding financial instruments and deferred tax assets.

7 REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue

The tables below present the disaggregation of revenue by geographical area, revenue stream and timing of revenue recognition. The external revenue of each geographical area is presented according to the location of the seller. Etteplan China operations sell their services both locally and through other Group companies thus this revenue is partly included in the revenue from other countries.

EUR 1,000	2018	2017
Primary geographical location		
Finland	161,571	146,506
Sweden	50,353	45,512
China	7,587	5,688
Central Europe	16,966	17,062
Total	236,477	214,768

Revenue streams	2018	2017
Engineering services	132,061	120,868
Embedded systems and IoT	60,017	51,961
Technical documentation	44,305	41,796
Other	94	143
Total	236,477	214,768

Timing of revenue recognition	2018	2017
Transferred at a point in time	1,969	1,588
Transferred over time	234,508	213,180
Total	236,477	214,768

Assets and liabilities related to contracts with customers

The Group recognized the following contract assets and liabilities related to contracts with customers. In 2017 contract assets ('Work in progress') were included in line item 'Trade receivables and other receivables' and contract liabilities ('Advances received') were included in line item 'Trade payables and other payables' in the balance sheet. For details on impairment loss allowance, please see note 4.1.4.

EUR 1,000	2018	2017
Contract assets (Work in progress)		
Work in progress Jan 1	19,246	15,573
Additions	222,246	197,478
Invoicing	-219,838	-193,041
Work in progress and advances received presented as net	-1,030	-731
Other changes	-121	-33
Contract assets Dec 31	20,503	19,246
Contract liabilities (Advances received)		
Advances received Jan 1	2,057	2,655
Additions	18,539	18,816
Revenue recognized that was included in the contract liability at the beginning of the period	-16,587	-18,804
Work in progress and advances received presented as net	-1,030	-731
Other changes	86	121
Contract liabilities Dec 31	3,064	2,057

8 OTHER OPERATING INCOME

EUR 1,000	2018	2017
Premeasurement of contingent considerations in business combinations	681	224
Sales profit of tangible and intangible assets	12	4
Other operating income	480	218
Total	1,172	446

9 NON-RECURRING ITEMS

Items that are material either because of their size or their nature, and that are non-recurring are considered as non-recurring items and are presented within the line items to which they best relate. The lines in which they are included in the income statement are specified in the table below.

EUR 1,000	2018	2017
Other operating income	681	224
Staff costs and other operating expenses	-1,012	-660
Operating profit (EBIT)	-331	-436

10 MATERIALS AND SERVICES

EUR 1,000	2018	2017
Materials	5,406	5,311
Services from others	16,416	15,118
Total	21,822	20,429

11 NUMBER OF PERSONNEL AND STAFF COSTS

	2018	2017
Personnel		
Personnel at year-end	3,055	2,802
Personnel, average	2,995	2,711
Personnel by category		
Design personnel	2,926	2,690
Administrative personnel	129	112
Total	3,055	2,802

EUR 1,000	2018	2017
Staff costs		
Wages and salaries	125,622	114,926
Pension costs - defined contribution plans	18,129	18,019
Other indirect employee costs	12,432	12,020
Total	156,183	144,965

Employee benefits of the Board of Directors and top management are disclosed in note 'Related party transactions'.

In Sweden and the Netherlands a part of the pension arrangements are multi-employer defined benefit plans, which are secured through an insurance. The plans pool the assets contributed by various entities that are not under common control. The assets provide benefits to employees of more than one entity. Sufficient information for the calculation of obligations and asset by employer is not available from the insurers. Therefore, these plans are treated in accounting as defined contribution plans. Total amount paid to the insurer in 2018 in Sweden was EUR 1,130 thousand (2017: EUR 1,160 thousand) and in the Netherlands EUR 463 thousand (2017: EUR 450 thousand).

12 OTHER OPERATING EXPENSES

EUR 1,000	2018	2017
Software and telecommunication expenses	8,282	7,480
Travel expenses	8,013	7,071
Premises expenses	6,365	5,894
Voluntary personnel expenses	5,361	4,318
Change in credit loss allowance	175	89
Other expenses	5,451	4 169
Total	33,648	29,021

13 AUDIT FEES

EUR 1,000	2018	2017
Auditing, KPMG-network	82	69
Auditor's statements based on laws and regulations, KPMG Oy Ab	5	0
Other services (tax services), KPMG Oy Ab	19	22
Other services (other services), KPMG Oy Ab	76	0
Auditing, other auditors	74	96
Other services, other auditors	4	60
Total	260	247

14 FINANCIAL INCOME

EUR 1,000	2018	2017
Dividend income from investments	9	11
Interest income from loans and other receivables	49	44
Foreign exchange gain	733	483
Total	791	538

15 FINANCIAL EXPENSES

EUR 1,000	2018	2017
Interest on borrowings	679	548
Leasing interest expenses	74	67
Foreign exchange loss	684	456
Other financial expenses	143	206
Total	1,580	1,277

16 TRANSLATION DIFFERENCES RECOGNIZED IN INCOME STATEMENT

EUR 1,000	2018	2017
Foreign exchange gain included in financial income	733	483
Foreign exchange loss included in financial expenses	-684	-456
Total	49	26

17 INCOME TAXES

EUR 1,000	2018	2017
Tax on income from operations	-4,195	-2,915
Tax corrections for previous accounting periods	43	-166
Change in deferred tax asset	22	-286
Change in deferred tax liability	14	207
Total	-4,116	-3,160

Reconciliation between income taxes in the income statement and the theoretical amount of tax that would arise using the Group's domestic tax rate (2018: 20.0%, 2017: 20.0%)

EUR 1,000	2018	2017
Accounting profit before tax	19,396	14,745
Income tax expense		
Mathematical tax based on parent company's tax rate	-3,879	-2,949
Differences (net)		
Effect of different tax rates in group companies	-76	-56
Calculated tax based on non-deductible items on unit's tax rate	-705	-241
Calculated tax based on non-taxable items on unit's tax rate	536	190
Tax corrections for previous accounting periods	-43	-166
Use of previously unrecognized tax on confirmed losses	345	127
Unrecognized tax on loss for the period	-265	-78
Other tax difference	-29	13
Income tax expense	-4,116	-3,160

Tax charge (-) / credit (+) relating to components of other comprehensive income

2018	Before tax	Tax charge / credit	After tax
Change in fair value of equity investments at fair value through other comprehensive income	4	-1	3
Currency translation differences	-1,200	0	-1,200
Other comprehensive income for the year, net of tax	-1,196	-1	-1,197

2017	Before tax	Tax charge / credit	After tax
Change in fair value of investments available-for-sale	11	-2	9
Currency translation differences	-727	0	-727
Other comprehensive income for the year, net of tax	-716	-2	-718

18 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the financial year attributable to equity holders of the Parent Company by the weighted average number of externally owned shares during the financial year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to reflect the conversion of all dilutive effect ordinary shares.

	2018	2017
Profit for the financial year (EUR 1,000)	15,280	11,586
Non-controlling interest (EUR 1,000)	0	-115
Profit attributable to equity holders of the Parent Company (EUR 1,000)	15,280	11,470
Issue adjusted weighted average number of shares (1,000 pcs)	24,818	24,663
Basic earnings per share (EUR/share)	0.62	0.47
The diluted weighted average number of shares for the calculation of earnings per share	24,818	24,663
Diluted earnings per share (EUR/share)	0.62	0.47

19 INTANGIBLE ASSETS

INTANGIBLE ASSETS 2018 EUR 1,000	Intangible rights	Internally created intangible assets	Fair value adjustments in acquisitions	Other intangible assets, finance lease	Advance payments	Goodwill	Total
Acquisition cost Jan 1	12,270	2,968	21,146	3,649	240	59,014	99,286
Translation difference	-21	0	-73	-12	0	-936	-1,042
Acquisition of subsidiaries	0	0	5,346	0	0	7,087	12,433
Additions	593	120	0	329	504	0	1,546
Reclassifications between items	712	-606	0	0	-87	0	19
Disposals	-2,562	-217	0	0	0	0	-2,779
Acquisition cost Dec 31	10,992	2,265	26,419	3,966	657	65,165	109,464
Cumulative amortization Jan 1	-10,998	-1,841	-6,964	-2,595	0	0	-22,398
Translation difference	20	0	21	10	0	0	52
Cumulative amortization on disposals and reclassifications	2,544	207	0	0	0	0	2,751
Amortization for the financial period	-644	-200	-2,371	-632	0	0	-3,847
Cumulative amortization Dec 31	-9,079	-1,834	-9,314	-3,216	0	0	-23,443
Book value Dec 31, 2018	1,913	431	17,105	750	657	65,165	86,021

INTANGIBLE ASSETS 2017 EUR 1,000	Intangible rights	Internally created intangible assets	Fair value adjustments in acquisitions	Other intangible assets, finance lease	Advance payments	Goodwill	Total
Acquisition cost Jan 1	11,689	2,581	20,237	2,293	73	58,128	95,002
Translation difference	-80	0	-66	-9	0	-811	-965
Acquisition of subsidiaries	21	0	975	0	0	1,697	2,692
Additions	615	405	0	1,364	201	0	2,585
Reclassifications between items	29	0	0	0	-34	0	-5
Disposals	-5	-18	0	0	0	0	-23
Acquisition cost Dec 31	12,270	2,968	21,146	3,649	240	59,014	99,286
Cumulative amortization Jan 1	-10,374	-1,480	-5,093	-1,891	0	0	-18,839
Translation difference	59	0	32	8	0	0	99
Amortization for the financial year	-683	-361	-1,903	-711	0	0	-3,659
Cumulative amortization Dec 31	-10,998	-1,841	-6,964	-2,595	0	0	-22,398
Book value Dec 31, 2017	1,271	1,127	14,181	1,055	240	59,014	76,888

20 TANGIBLE ASSETS

TANGIBLE ASSETS 2018 EUR 1,000	Land and water	Machinery and equipment	Machinery and equipment, finance lease	Other tangible assets	Total
Acquisition cost Jan 1	19	13,710	8,967	892	23,589
Translation difference	0	-106	-44	0	-151
Acquisition of subsidiaries	0	120	0	44	164
Additions	0	522	1,842	20	2,384
Reclassifications between items	0	78	-91	0	-13
Disposals	0	-744	-1	-32	-777
Acquisition cost Dec 31	19	13,580	10,673	923	25,196
Cumulative depreciation Jan 1	0	-11,851	-7,438	-776	-20,065
Translation difference	0	100	35	0	136
Cumulative amortization on disposals and reclassifications	0	655	89	0	743
Depreciation for the financial period	0	-745	-1,143	-57	-1,945
Cumulative depreciation Dec 31	0	-11,841	-8,457	-833	-21,131
Book value Dec 31, 2018	19	1,739	2,216	91	4,065

TANGIBLE ASSETS 2017 EUR 1,000	Land and water	Machinery and equipment	Machinery and equipment, finance lease	Other tangible assets	Total
Acquisition cost Jan 1	19	12,954	7,639	842	21,455
Translation difference	0	-116	-32	-3	-151
Acquisition of subsidiaries	0	54	0	0	54
Additions	0	831	1,368	53	2,253
Reclassifications between items	0	17	0	0	17
Disposals	0	-31	-8	0	-39
Acquisition cost Dec 31	19	13,710	8,967	892	23,589
Cumulative depreciation Jan 1	0	-11,250	-6,551	-743	-18,545
Translation difference	0	107	26	2	135
Cumulative depreciation on reclassifications	0	3	8	0	11
Depreciation for the financial year	0	-711	-921	-35	-1,667
Cumulative depreciation Dec 31	0	-11,851	-7,438	-776	-20,065
Book value Dec 31, 2017	19	1,860	1,529	116	3,524

21 FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

Financial assets Dec 31, 2018 EUR 1,000

	Note	Amortized cost	Fair value through OCI	Book value total	Fair value
Quoted and unquoted shares	21		695	695	695
Trade and other receivables	24	29,155		29,155	29,155
Cash and cash equivalents		16,115		16,115	16,115
Financial assets total		45,271	695	45,965	45,965

Financial liabilities Dec 31, 2018 EUR 1,000

	Note	Amortized cost	Fair value through OCI	Book value total	Fair value
Loans from financial institutions	27	33,245		33,245	33,245
Finance lease liabilities	28	3,007		3,007	3,007
Liabilities from acquisitions	29, 30		2,860	2,860	2,860
Trade and other payables	30	9,670		9,670	9,670
Financial liabilities total		45,922	2,860	48,782	48,782

Financial assets Dec 31, 2017 EUR 1,000

	Note	Loans and other receivables*	Available-for-sale**	Book value total	Fair value
Quoted and unquoted shares	21		691	691	691
Trade and other receivables	24	31,103		31,103	31,103
Cash and cash equivalents		10,074		10,074	10,074
Financial assets total		41,177	691	41,868	41,868

*Reclassification Jan 1, 2018 to measurement category 'Amortized cost'.

**Reclassification Jan 1, 2018 to measurement category 'Fair value through OCI'.

Financial liabilities Dec 31, 2017 EUR 1,000

	Note	Amortized cost	Fair value through profit and loss	Book value total	Fair value
Loans from financial institutions	27	32,350		32,350	32,350
Finance lease liabilities	28	2,613		2,613	2,613
Liabilities from acquisitions	29, 30		1,368	1,368	1,368
Trade and other payables	30	9,351		9,351	9,351
Financial liabilities total		44,315	1,368	45,683	45,683

FAIR VALUE HIERARCHY

The tables below analyze financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs that are not based on observable market data (that is, unobservable inputs).

Financial assets recognized at fair value through OCI (2017: measurement category 'Available for sale')

EUR 1,000	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Quoted shares	185	0	0	185	181	0	0	181
Premises shares	0	480	0	480	0	480	0	480
Unquoted shares	0	0	30	30	0	0	30	30
Total	185	480	30	695	181	480	30	691

Reconciliation of financial assets recognized at fair value through OCI (2017: measurement category 'Available for sale')

EUR 1,000	2018				2017			
	Quoted shares	Premises shares	Unquoted shares	Total	Quoted shares	Premises shares	Unquoted shares	Total
Opening balance at Jan 1	181	480	30	691	170	480	30	680
Gain/loss recognized in other comprehensive income	4	0	0	4	11	0	0	11
Closing balance Dec 31	185	480	30	695	181	480	30	691

Financial liabilities recognized at fair value through profit or loss

EUR 1,000	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Contingent liability in acquisitions	0	0	2,860	2,860	0	0	1,368	1,368
Total	0	0	2,860	2,860	0	0	1,368	1,368

Reconciliation of financial liabilities recognized at fair value through profit or loss

EUR 1,000	2018		2017	
	Contingent liability in acquisitions	Total	Contingent liability in acquisitions	Total
Opening balance at Jan 1	1,368	1,368	1,568	1,568
Additions	3,425	3,425	954	954
Revaluation	-681	-681	-224	-224
Translation difference	-10	-10	0	0
Payment	-1,243	-1,243	-929	-929
Closing balance Dec 31	2,860	2,860	1,368	1,368

Additional information regarding contingent liabilities in acquisitions is provided in note 5 Business combinations.

22 IMPAIRMENT TESTING

Goodwill is allocated to cash-generating units (CGUs) for determination of impairment. In impairment testing the recoverable amount is defined as value-in-use. Value in use is defined as the discounted estimated future net cash flows generated by the asset or cash-generating unit.

The impairment test has been done in Q4 2018 after budgets for 2019 were done and is based on goodwill as per September 30, 2018. Cash flows after tax are based on budget figures for year one and financials approved by management for a next five-year period. The management makes estimations on the market demand and market environment, which are examined against external information sources. When defining the cash flow, attention is paid on anticipated price and margin development, costs, net working capital and investment needs. The management determines these based on past performance and expectations for market development.

The discount rate applied to cash flow projections is determined based on the post-tax weighted average cost of capital (WACC) that depicts the overall costs of shareholders' equity and liabilities. The discount rate is based on the weighted average of 30-year government bond rates in the countries where the CGUs operate. The bond rates are adjusted for the general market risk and the business risk of the CGUs.

The recoverable amount is compared with the book value of the cash-generating unit. An impairment loss is booked as cost in the income statement, if the recoverable amount is lower than the book value. No impairment loss has been booked during the financial year or the comparison year.

Book value Sep 30 (MEUR)	2018	2017
Finland	40.0	31.5
Sweden	21.9	23.4
China	1.8	1.9
The Netherlands and Germany	2.8	2.8
Total	66.5	59.6

Key assumptions used for value-in-use calculations	2018	2017
Aggregate growth percentage year 2–5		
Finland	1.0%	1.0%
Sweden	2.0%	2.0%
China	5.0%	5.0%
The Netherlands and Germany	1.0%	1.0%
Growth rate after 5 years	1.0%	1.0%
Discount rate before tax		
Finland	10.0%	10.4%
Sweden	9.8%	10.2%
China	15.1%	11.9%
The Netherlands and Germany	9.3%	9.7%
Discount rate after tax		
Finland	8.1%	8.4%
Sweden	7.8%	8.1%
China	11.5%	9.1%
The Netherlands and Germany	7.2%	7.6%

The recoverable amount exceeds the book value as follows (MEUR):	2018	2017
Finland	110.5	16.0
Sweden	28.9	69.9
China	5.0	5.1
The Netherlands and Germany	7.4	6.9
Total	151.8	97.9

Sensitivity analysis

In connection with impairment testing sensitivity analyses have been performed using the following variables:

- 0-growth in net sales
- Decrease of profitability (EBIT) by 4 percentage points
- Increase of discount rate by 4 percentage points

According to management understanding realization of the variables used in the sensitivity analysis would not lead to impairment losses in cash-generating units.

In Sweden a negative change in EBIT% with 4.8 percentage points would result in the recoverable amount being equal to the carrying amount. In Finland a negative change in EBIT% with 5.8 percentage points would result in the recoverable

amount being equal to the carrying amount. In China a negative change in EBIT% with 4.9 percentage points would result in the recoverable amount being equal to the carrying amount. In The Netherlands and Germany a negative change in EBIT% with 4.7 percentage points would result in the recoverable amount being equal to the carrying amount. Any other likely change in the three parameters isolated would not result in the recoverable amounts being equal to the carrying amounts in the CGUs.

23 INVENTORY

EUR 1,000	2018	2017
Inventory at the beginning of financial year	250	255
Additions	122	0
Change in value of inventory recorded in income statement	-10	-5
Total	362	250

24 TRADE AND OTHER RECEIVABLES

EUR 1,000	2018	2017
Trade receivables	28,879	30,905
Work in progress (contract assets)	20,503	19,246
Credit loss allowance	-312	-251
Other receivables	534	362
Prepayments and accrued income	3,265	2,245
Total	52,870	52,507

Main items included in prepayments and accrued income	2018	2017
Accruals of personnel expenses	447	10
Prepaid office rents	215	203
Prepaid leasing	159	145
Other prepayments and accrued income on expenses	2,444	1,887
Total	3,265	2,245

Analysis of receivables by currency	2018	2017
EUR	36,800	36,510
SEK	11,875	11,158
CNY	3,198	2,285
PLN	577	2,227
Other currencies	421	327
Total	52,870	52,507

25 EQUITY

Shareholder's equity

Shareholders' equity consists of share capital, share premium account, unrestricted equity fund, own shares, cumulative translation adjustment, other reserves and retained earnings.

Share premium account contains the emission gain from original stock listing as well as funds raised in bonus issues.

Unrestricted equity fund includes funds raised in share issues.

Translation differences contains translation differences arising from the conversion of financial statements of foreign units and the foreign subsidiary net investment hedge. The aggregate amount of the net investment hedge (EUR 149 thousand) related to the Swedish unit is recorded in the profit and loss statement upon disposal of the unit.

Other reserves include the fair value reserve, which consists of fair value adjustments of investments at fair value through other comprehensive income (until Dec 31, 2017: available-for-sale assets) amounting to EUR 231 thousand (2017: EUR 228 thousand). The aggregate amount of fair value adjustments are recorded in Retained earnings upon disposal of the investments.

Shares and share capital

The fully paid and registered share capital of the Company at the end of the financial year was EUR 5,000,000 and number of shares was 24,963,308 (2017: 24,771,492). No changes in share capital occurred during financial year. The Company has one series of shares. Each share entitles its holder to one vote in the shareholders' meeting and gives an equal right to dividends.

Shares are listed on NASDAQ OMX Helsinki Ltd under the ETTE ticker. The share has no nominal value and there is no maximum number of shares. All issued shares are fully paid.

The number of company-held shares at the end of the financial year was 96,203 (2017: 34,690).

The Board of Directors' authorization to acquire and dispose own shares and to increase the share capital through a rights issue is disclosed in the section Shares and shareholders.

The Board of Directors has proposed to the Annual General Meeting a dividend of EUR 0.30 to be paid for the financial year 2018.

26 SHARE-BASED PAYMENTS

In order to advance the achievement of Etteplan's long-term growth and other targets, the Board of Directors of Etteplan Oyj resolved on May 31, 2017, to establish a new share-based incentive plan for the Group's key personnel. The aim of the incentive plan is to combine the objectives of the shareholders and the key personnel in order to increase the value of the Company, to commit the key personnel to the Company, and to offer them a competitive reward plan based on holding the Company's shares. The incentive plan includes one earning period, comprising calendar years 2017–2019. The earnings criteria are Etteplan Group's revenue increase and the development of Total Shareholder Return (TSR). The potential reward will be paid partly in the Company's shares and partly in cash. The proportion to be paid in cash is intended to cover taxes and tax-related costs arising from the reward to the key personnel. Approximately 20 people belong to the target group of the incentive plan. The rewards to be paid on the basis of the plan will correspond to the value of an approximate maximum total of 260,000 Etteplan Oyj shares (including also the proportion to be paid in cash). The shares to be paid out as potential rewards will be transferred from the shares held by the Company or shares acquired from the market, and therefore the incentive plan will have no diluting effect on the value of the share.

The number of shares expected to be granted to the key personnel at measurement date was 68,475. The fair value of the services provided by the key personnel are determined indirectly from the fair value of the Company's share. The fair value at measurement date was EUR 8.08. Expected dividends or any other features of the shares are excluded from the calculation of fair value.

Staff costs include share-based payments:

EUR 1,000	2018	2017
To be settled in equity in future financial periods	144	208
Settled in cash in reporting financial period, taxes and tax-like payments	0	72
To be settled in cash in future financial periods	176	233
Total	321	514

27 INTEREST-BEARING LIABILITIES

EUR 1,000	2018	2017
Non-current		
Loans from financial institutions	22,302	18,300
Finance lease liabilities	1,803	1,334
Total	24,105	19,634
Analysis by currency		
EUR	23,816	19,514
SEK	289	120
Total	24,105	19,634

EUR 1,000	2018	2017
Current		
Loans from financial institutions	10,943	14,050
Finance lease liabilities	1,204	1,279
Total	12,147	15,329
Analysis by currency		
EUR	9,273	12,498
SEK	194	127
CNY	2,680	2,704
Total	12,147	15,329

28 DUE DATES OF THE FINANCIAL LEASING LIABILITIES

EUR 1,000	2018	2017
Minimum lease payments		
Within a year	1,758	1,385
More than one year, but not more than five years	1,320	1,288
Total	3,078	2,673
Future financing cost	-71	-62
Present value	3,007	2,612
Present value aging		
Within a year	1,709	1,340
More than one year, but not more than 5 years	1,298	1,271
Total	3,007	2,612

The average interest rate of the finance lease agreements in year 2018 was 2.6% (2017: 2.6%).

29 OTHER NON-CURRENT LIABILITIES

EUR 1,000	2018	2017
Liability from acquisitions	2,000	653
Pension liabilities	7	7
Other non-current liabilities	29	39
Total	2,036	700
Analysis by currency		
EUR	2,029	692
SEK	7	7
Total	2,036	700

30 TRADE AND OTHER PAYABLES

EUR 1,000	2018	2017
Advances received (contract liabilities)	3,064	2,057
Trade payables	9,641	9,312
Accrued expenses	23,481	23,563
Tax payables	7,730	7,057
Liability from acquisitions	860	715
Other payables	3,674	3,019
Total	48,450	45,724

Main items included in accrued expenses

EUR 1,000	2018	2017
Interest liabilities	38	78
Accrued employee expenses	21,771	22,157
Other accrued expenses	1,672	1,328
Total	23,481	23,563

Analysis by currency

EUR 1,000	2018	2017
EUR	36,955	35,504
SEK	9,410	8,234
CNY	1,288	1,116
PLN	707	808
Other	90	62
Total	48,450	45,724

31 DEFERRED TAXES

DEFERRED TAXES 2018

Deferred tax assets					
EUR 1,000	Jan 1, 2018	Translation difference	In income statement	Acquisitions	Dec 31, 2018
Finance lease	6	0	2	0	8
Share-based incentive plan	72	0	80	0	152
Total	79	0	82	0	161

Deferred tax liabilities					
EUR 1,000	Jan 1, 2018	Translation difference	In income statement	Acquisitions	Dec 31, 2018
Discretionary provisions	291	-10	348	0	630
Fair value adjustments in acquisitions	2,755	-11	-438	1,069	3,375
Other timing differences	396	0	117	0	514
Total	3,442	-21	28	1,069	4,518

DEFERRED TAXES 2017

Deferred tax assets					
EUR 1,000	Jan 1, 2017	Translation difference	In income statement	Acquisitions	Dec 31, 2017
Finance lease	5	0	1		6
Share-based incentive plan	359	0	-287	0	72
Total	365	0	-286	0	79

Deferred tax liabilities					
EUR 1,000	Jan 1, 2017	Translation difference	In income statement	Acquisitions	Dec 31, 2017
Discretionary provisions	277	-7	22	0	291
Fair value adjustments in acquisitions	2,856	-5	-301	205	2,755
Other timing differences	160	-5	241	0	396
Total	3,293	-18	-38	205	3,442

At December 31, 2018 the Group had gross losses carried forward of EUR 1,737 thousand (2017: EUR 1,606 thousand) of which a deferred tax asset has not been recognized. These losses are usable to offset future taxable gains a minimum of five years.

32 PLEDGES, MORTGAGES AND GUARANTEES

EUR 1,000	2018	2017
For own debts		
Business mortgages	320	320
Pledged shares	120	120
Other contingencies	106	100
For own debts total	545	540
Operating Lease liabilities		
For payment under one year	4,786	3,382
For payment 1-5 years	4,972	3,815
Operating Lease liabilities total	9,758	7,197
Pledges, mortgages and guarantees total	10,303	7,736

33 RELATED-PARTY TRANSACTIONS

The Group's related-party includes such persons that have control, joint control or significant influence over the Group. Also, the Group's key management personnel is included in the related-party. Key management personnel refers to persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. Spouses, wards and companies in control or joint control of the before mentioned persons are considered as other related parties. The ultimate controlling party, Ingman Group Oy Ab, and its group companies are also included in related-parties.

Related-party transactions are priced according to Group's normal pricing basis and sales conditions, which are equivalent to those that prevail in arm's length transactions.

Group companies Dec 31, 2018

Company	Domicile	Group's / Parent company's holding
Parent company Etteplan Oyj	Vantaa, Finland	
Etteplan Finland Oy	Hollola, Finland	100% / 100%
Espotel Oy	Espoo, Finland	100% / 100%
Etteplan Poland sp.z.o.o.	Wroclaw, Poland	100% / 0%
Eatech Oy	Tampere, Finland	100% / 100%
Koodain Solutions Oy	Jyväskylä, Finland	100% / 100%
Etteplan MORE Oy	Tampere, Finland	100% / 100%
Sorona Innovation AB	Lund, Sweden	100% / 100%
Etteplan Sweden AB	Västerås, Sweden	100% / 100%
Etteplan Technology Center Ltd.	Kunshan, China	100% / 0%
Etteplan Consulting (Shanghai) Co., Ltd.	Shanghai, China	100% / 100%
Etteplan B.V.	Eindhoven, the Netherlands	100% / 100%
Etteplan Netherlands B.V.	Eindhoven, the Netherlands	100% / 0%
Etteplan Deutschland GmbH	Neukirchen-Vlyun, Germany	100% / 0%
Etteplan USA Inc.	Austin, USA	100% / 0%

The following group companies have been merged in 2018:

	Domicile	Merged to
SDS Aura Oy	Aura, Finland	Etteplan Finland Oy
Etteplan Venlo B.V.	Venlo, the Netherlands	Etteplan Netherlands B.V.

The following transactions were carried out with related parties:

EUR 1,000	2018	2017
Sales and purchases of services and related receivables and payables		
Sales of services to other related parties	1,100	479
Purchases of services from other related parties	232	202
Trade receivables from other related parties	193	82
Trade payables to other related parties	5	105

Key management compensation

Key management of Etteplan Oyj includes the Board of Directors, CEO and Management Group.

Salaries, fees and fringe benefits paid

EUR 1,000	2018	2017
Members of the Board		
Robert Ingman, Chairman of the Board	63	61
Cristina Andersson (Apr 4, 2017 onwards)	30	22
Matti Huttunen	30	30
Pertti Nupponen (until Apr 4, 2017)	0	8
Teuvo Rintamäki (until Apr 4, 2017)	0	7
Leena Saarinen	36	33
Mikko Tepponen (Apr 4, 2017 onwards)	30	22
Patrick von Essen	33	30
CEO and other members of the Management Group		
Juha Näkki, salaries and fees paid	496	1,728
Juha Näkki, statutory pension costs	54	192
Other members of the Management Group, salaries and fees paid	1,696	2,496
Other members of the Management Group, statutory pension costs	249	306
Management compensation total	2,715	4,938*

*Fees paid to management in 2017 include nonrecurring payments of rewards of share-based incentive plans accumulated over years 2014-2016.

The Annual General Meeting annually resolves the remuneration for the members of the Board of Directors.

Stock options to the key management

Stock options have not been granted to the Company's management during 2018.

34 EVENTS AFTER THE BALANCE SHEET DATE

On January 1, 2019, Etteplan introduced a new global organization in which the service areas form the reporting lines instead of the previous country organization. With the organizational changes, Etteplan will also change the internal reporting provided for the chief operating decision-maker, i.e. Etteplan's Management Group, for decision-making. From the first Interim Report 2019 onwards, each of the service areas will form an operating and reporting segment of its own.

The Group's management is not aware of any events after the balance sheet date that could have a material impact on the Group's financial position or the figures or calculations reported in these financial statements.

35 KEY FIGURES FOR FINANCIAL TRENDS

EUR 1,000, financial period Jan 1–Dec 31	2018	2017	2016
Revenue	236,477	214,768	183,938
Change in revenue, %	10.1	16.8	30.3
EBIT from business operations	21,874	17,163	12,071
% of revenue	9.3	8.0	6.6
Operating profit (EBIT)	20,184	15,484	10,131
% of revenue	8.5	7.2	5.5
Profit before taxes	19,396	14,745	9,441
% of revenue	8.2	6.9	5.1
Profit for the financial year	15,280	11,586	7,604
Return on equity, %	24.4	20.9	17.4
ROCE, %	21.3	17.8	14.8
Equity ratio, %	42.9	40.7	40.0
Gross investments	16,527	7,589	30,186
% of revenue	7.0	3.5	16.4
Net gearing, %	29.8	43.0	55.9
Personnel, average	2,995	2,711	2,407
Personnel at year end	3,055	2,802	2,545
Wages and salaries	156,183	144,965	129,172

36 KEY FIGURES FOR SHARES

Financial period Jan 1–Dec 31	2018	2017	2016
Earnings per share, EUR	0.62	0.47	0.33
Equity per share, EUR	2.72	2.34	2.14
Dividend per share, EUR (Proposal by the Board of Directors)	0.30	0.23	0.16
Dividend per earnings per share, %	48	49	49
Effective dividend return, %	3.8	3.0	2.9
P/E-ratio, EUR	12.8	16.6	17.2
Share price, EUR:			
lowest	7.04	5.56	3.81
highest	10.35	9.49	5.90
average for the year	8.44	7.40	5.04
closing	7.94	7.78	5.58
Market capitalization, EUR 1,000	197,455	192,450	136,909
Number of shares traded, 1,000 pcs	1,151	1,660	1,863
Percentage of shares traded	5	7	8
Adjusted average number of shares during the financial year, 1,000 pcs	24,818	24,663	22,855
Adjusted number of shares at year end, 1,000 pcs	24,963	24,771	24,771

NON-IFRS KEY FIGURES

Etteplan presents non-IFRS key figures to supplement its Consolidated Financial Statements which are prepared in accordance with IFRS. These key figures are designed to measure growth and provide insight into the company's underlying operational performance. This section describes the most important non-IFRS key figures used by the Group. Formulas for all key figures are presented on the next page.

EBIT from business operations and EBIT from business operations, %

EBIT from business operations is presented, because it reflects the Group's operational performance better than Operating profit (EBIT). EBIT from business operations does not include amortization of fair value adjustments at acquisitions or premeasurements of contingent considerations.

EBIT from business operations, % presents EBIT from business operations as a percentage share of revenue.

The table below shows a reconciliation between EBIT from business operations and Operating profit (EBIT).

EUR 1,000	Note	2018	2017
EBIT		20,184	15,484
Amortization on fair value adjustments at acquisitions	21	2,371	1,903
Premeasurements of contingent considerations	5	-681	-224
EBIT from business operations		21,874	17,163

Organic growth and growth in comparable currencies

Organic (revenue) growth is presented in addition to total revenue growth, because it improves the comparability of revenue growth between periods by presenting the revenue growth without the effects of the last 12 months' acquisitions.

Organic growth is calculated by comparing net sales between comparison periods excluding revenue from acquisitions that have taken place in the past 12 months.

The revenue growth created by last 12 months' acquisitions is presented as un-organic growth.

Revenue growth in comparable currencies is presented, because it improves the comparability of revenue growth between periods by presenting the revenue growth with comparable exchange rates.

For the calculation of growth in comparable currencies, revenue for the current period is calculated by using the comparable period's exchange rates. The figure is presented for Group revenue and organic growth.

The share of revenue represented by Managed Services

Etteplan measures the share of revenue represented by Managed Services (MSI Index). Managed Services are service solutions, such as projects and continuous services, where the customer pays for results instead of resources. The share of revenue represented by Managed Services is presented, because it describes Etteplan's strategy implementation and explains, in part, the changes in profitability.

FORMULAS FOR THE KEY FIGURES

IFRS KEY FIGURES

Basic earnings per share	=	$\frac{\text{Profit for the financial year attributable to equity holders of the parent company}}{\text{Issue adjusted average number of shares during the financial year}} \times 100$
Diluted earnings per share	=	$\frac{\text{Profit for the financial year attributable to equity holders of the parent company adjusted with dilutive effect}}{\text{Issue adjusted average number of shares during the financial year adjusted with dilutive effect}} \times 100$

NON-IFRS KEY FIGURES

EBIT from business operations	=	Operating profit (EBIT) + amortization on fair value adjustments in acquisitions +/- premeasurements of contingent considerations
Organic growth	=	$\frac{\text{Revenue current year} - \text{Revenue comparison year} - \text{Revenue from acquirees current year}}{\text{Revenue comparison year}} \times 100$
Revenue growth from key accounts	=	$\frac{\text{Revenue from key accounts current year} - \text{Revenue from key accounts comparison year}}{\text{Revenue from key accounts comparison year}} \times 100$
The share of revenue represented by Managed Services	=	$\frac{\text{Revenue from Managed Services}}{\text{Revenue}} \times 100$
Return on equity (ROE)	=	$\frac{\text{Profit for the financial year}}{\text{Equity, total average}} \times 100$
Return on capital employed (ROCE), before taxes	=	$\frac{\text{Profit before taxes} + \text{Financial expenses}}{\text{Total equity and liabilities} - \text{non-interest bearing liabilities}} \times 100$
Equity ratio, %	=	$\frac{\text{Equity, total}}{\text{Total equity and liabilities} - \text{Advances received}} \times 100$
Gross investments	=	Total investments made to non-current assets including acquisitions and capitalized development costs
Net gearing, %	=	$\frac{\text{Interest-bearing liabilities} - \text{Cash and cash equivalents}}{\text{Equity, total}} \times 100$
Equity per share	=	$\frac{\text{Equity, total}}{\text{Adjusted number of shares at the end of the year}}$
Market capitalization	=	Number of outstanding shares at the end of the year x last traded share price of the year
Dividend per share	=	$\frac{\text{Dividend for the financial year}}{\text{Adjusted number of shares during the financial year}}$
Dividend as percentage of earnings	=	$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$
Effective dividend yield, %	=	$\frac{\text{Dividend per share}}{\text{Adjusted last traded share price}} \times 100$
Price/earnings ratio (P/E)	=	$\frac{\text{Adjusted last traded share price}}{\text{Earnings per share}}$
Share price trend	=	For each financial year, the adjusted low and high actual traded prices are given as well as the average price for the financial year adjusted for share issues. Average price = $\frac{\text{Total turnover of shares in euros}}{\text{Number of shares traded during the financial year}}$
Trend in share turnover, in volume and percentage figures	=	The trend in turnover of shares is given as the number of shares traded during the financial year and as the percentage of traded shares relative to issued stock during the year.

PARENT COMPANY'S INCOME STATEMENT

EUR 1,000	Note	Jan 1–Dec 31, 2018 FAS	Jan 1–Dec 31, 2017 FAS
Revenue	1	9,611	9,567
Other operating income	2	30	32
Staff costs	3	-4,018	-3,425
Depreciation and amortization	10,11	-504	-612
Other operating expenses	5	-6,907	-6,209
Operating profit/loss		-1,787	-646
Financial income and expenses	6,7	1,383	1,261
Profit before appropriations and taxes		-404	615
Appropriations	8	11,994	9,392
Income taxes	9	-2,236	-1,520
Profit for the financial year		9,354	8,487

PARENT COMPANY'S BALANCE SHEET

EUR 1,000	Note	Dec 31, 2018 FAS	Dec 31, 2017 FAS
ASSETS			
Non-current assets			
Intangible assets	10	2,328	2,522
Tangible assets	11	14	29
Shares in group companies	12	98,672	85,845
Other investments	12	19	19
Non-current receivables	13	6,209	6,209
Non-current assets, total		107,242	94,623
Current assets			
Current receivables	14	18,396	16,753
Cash and cash equivalents	15	10,358	6,661
Current assets, total		28,754	23,413
TOTAL ASSETS		135,996	118,036
EQUITY AND LIABILITIES			
Equity			
Share capital	16	5,000	5,000
Share premium account	16	6,701	6,701
Unrestricted equity fund	16	20,215	18,715
Own Shares	16	-804	-289
Retained earnings	16	13,812	11,009
Profit for the financial year	16	9,354	8,487
Equity, total		54,278	49,623
APPROPRIATIONS	17	256	250
Liabilities			
Non-current liabilities	18	24,000	18,653
Current liabilities	19	57,462	49,509
Liabilities, total		81,718	68,413
TOTAL EQUITY AND LIABILITIES		135,996	118,036

PARENT COMPANY'S CASH FLOW STATEMENT

EUR 1,000	Jan 1–Dec 31, 2018 FAS	Jan 1–Dec 31, 2017 FAS
OPERATING CASH FLOW		
Cash receipts from customers	9,970	9,489
Operating expenses paid	-10,903	-9,146
Operating cash flow before financial items and taxes	-933	343
Interest and payment paid for financial expenses	-376	-353
Dividends received	1,371	1,117
Income taxes paid	-2,045	-1,018
Operating cash flow (A)	-1,983	90
INVESTING CASH FLOW		
Purchase of tangible and intangible assets	-282	-653
Acquisition of subsidiaries	-9,973	-3,281
Disposal of subsidiaries	250	0
Change of internal bank account receivables	916	-1,034
Investing cash flow (B)	-9,089	-4,967
FINANCING CASH FLOW		
Purchase of own shares	-516	-262
Issue of new current loans	2,000	0
Repayments of current loans	-24,492	-5,418
Change of internal bank account liabilities	11,713	9,157
Issue of new non-current loans	22,000	5,000
Dividend paid	-5,684	-3,930
Group contribution	9,500	6,700
Financing cash flow (C)	14,521	11,248
Variation in cash (A+B+C) increase (+) / decrease (-)	3,449	6,370
Assets at the beginning of the period	6,675	125
Exchange gains or losses on cash and cash equivalents	235	180
Assets at the end of the period	10,358	6,675

PARENT COMPANY'S ACCOUNTING POLICIES

Basis of preparation

The financial statements of the parent company, Etteplan Oyj, are prepared in accordance with Finnish accounting and company legislation (FAS).

Recognition of income

The parent company's accounting principles for recognition of income correspond to those applied in the consolidated financial statements. Etteplan Oyj's revenue consists of software and management fees from Group companies.

Activated development costs

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use
- management intends to complete the software product and use or sell it
- there is an ability to use or sell the software product
- it can be demonstrated how the software product will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs, which are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Computer software development costs recognized as assets are amortized over their estimated useful lives.

Measurement of non-current assets

Non-current assets are capitalized in the balance sheet at historical cost less depreciation according to plan and possible impairment loss. Depreciation according to plan is based on the estimated useful life of the asset. Land areas are considered to have an unlimited useful life.

The useful lives of other non-current assets are:

software	5 years
computers	3 years
office furniture	5 to 10 years
renovation of premises	5 years
goodwill	5 to 10 years
internally created software	3 to 5 years

Maintenance and repair costs are expensed. Major basic improvement investments are capitalized and depreciated over their useful life. Capital gains and losses arising on the retirement and sale of non-current assets are included either in other operating income or under other operating expenses.

Income taxes

Taxes in the income statement include taxes based on taxable earnings for the financial period as well as corrections to taxes for previous periods. Taxes based on taxable earnings are calculated using the tax rate in force at the time of the financial statement.

Accumulated appropriations in the parent company

Postponed depreciations of machinery and equipment amount to a total of EUR 18 thousand. A deferred tax asset is not booked for the postponed depreciations.

Pension agreements

Pension security for the employees of the parent company is arranged with external pension insurance companies. Pension expenses are recorded as expenses in the year in which they are incurred.

Lease agreements

Contractual lease payments are expensed over the lease period.

NOTES TO THE INCOME STATEMENT, PARENT COMPANY

1 REVENUE

EUR 1,000	2018	2017
Finland	9,611	9,567

Revenue consists of software and management fees from Etteplan Group companies.

2 OTHER OPERATING INCOME

EUR 1,000	2018	2017
Other operating income	30	32
Total	30	32

3 NUMBER OF PERSONNEL AND STAFF COSTS

	2018	2017
Personnel		
Personnel at year-end	47	42
Personnel, average	46	41
Personnel by category		
Administration personnel	47	42
Total	47	42

EUR 1,000	2018	2017
Staff costs		
Wages and salaries	3,440	2,878
Pension costs - defined contribution plans	502	487
Other indirect employee costs	76	60
Total	4,018	3,425

Employee benefits of the Board of Directors and top management are disclosed in Group note 'Related party transactions'.

4 AUDIT FEES

EUR 1,000	2018	2017
Auditing, KPMG Oy Ab	45	48
Other services (tax services), KPMG Oy Ab	19	22
Other services (other services), KPMG Oy Ab	76	0
Auditing, other auditors	7	14
Other services, other auditors	0	38
Total	147	122

5 OTHER OPERATING EXPENSES

EUR 1,000	2018	2017
Leasing and rents	943	919
IT-costs	3,168	2,875
Services from Group companies	610	661
Other operating expenses	2,186	1,754
Total	6,907	6,209

6 FINANCIAL INCOME

EUR 1,000	2018	2017
Intra-group dividend income	1,370	1,338
Dividend income from others	7	9
Interest and other financial income, Intra-group	94	94
Foreign exchange gain	249	183
Total	1,721	1,625

7 FINANCIAL EXPENSES

EUR 1,000	2018	2017
Interest on borrowings from others	316	345
Foreign exchange loss	9	19
Other financial expenses	13	0
Total	338	364

8 APPROPRIATIONS

EUR 1,000	2018	2017
Group contributions received	12,000	9,500
Increase (-) / decrease (+) in depreciation in excess of plan	-6	-108
Total	11,994	9,392

9 INCOME TAXES

EUR 1,000	2018	2017
Tax on income from operations	2,176	1,520
Tax corrections for previous accounting periods	60	0
Total	2,236	1,520

NOTES TO THE BALANCE SHEET, PARENT COMPANY

10 INTANGIBLE ASSETS, PARENT COMPANY

Intangible assets 2018 EUR 1,000	Intangible rights	Other intangible assets	Advance payments	Goodwill	Total
Acquisition cost Jan 1	5,011	153	126	2,500	7,789
Additions	271	0	24	0	295
Reclassifications between items	65	0	-65	0	0
Acquisition cost Dec 31	5,347	153	84	2,500	8,084
Cumulative amortization Jan 1	-4,245	-132	0	-890	-5,267
Amortization for the financial year	-255	-21	0	-212	-489
Cumulative amortization Dec 31	-4,500	-153	0	-1,102	-5,756
Book value Dec 31, 2018	847	0	84	1,397	2,328

Intangible assets 2017 EUR 1,000	Intangible rights	Other intangible assets	Advance payments	Goodwill	Total
Acquisition cost Jan 1	4,453	153	34	2,500	7,140
Additions	523	0	126	0	649
Reclassifications between items	34	0	-34	0	0
Acquisition cost Dec 31	5,011	153	126	2,500	7,789
Cumulative amortization Jan 1	-3,882	-110	0	-678	-4,671
Amortization for the financial year	-362	-22	0	-212	-596
Cumulative amortization Dec 31	-4,245	-132	0	-890	-5,267
Book value Dec 31, 2017	766	21	126	1,609	2,522

11 TANGIBLE ASSETS, PARENT COMPANY

Tangible assets 2018 EUR 1,000	Machinery and equipment	Other tangible assets	Total
Acquisition cost Jan 1	1,148	55	1,203
Additions	0	0	0
Acquisition cost Dec 31	1,148	55	1,203
Cumulative depreciation Jan 1	-1,121	-54	-1,175
Depreciation for the financial year	-14	-1	-15
Cumulative depreciation Dec 31	-1,135	-55	-1,190
Book value Dec 31, 2018	13	0	14

Tangible assets 2017 EUR 1,000	Machinery and equipment	Other tangible assets	Total
Acquisition cost Jan 1	1,144	55	1,199
Additions	4	0	4
Acquisition cost Dec 31	1,148	55	1,203
Cumulative depreciation Jan 1	-1,106	-53	-1,159
Depreciation for the financial year	-15	-1	-16
Cumulative depreciation Dec 31	-1,121	-54	-1,175
Book value Dec 31, 2017	27	1	29

12 INVESTMENTS, PARENT COMPANY

Investments 2018 EUR 1,000	Shares in Group companies	Other investments	Total
Acquisition cost Jan 1	85,845	19	85,864
Increases	13,748	0	13,748
Decreases	-921	0	-921
Acquisition cost Dec 31	98,672	19	98,691
Book value Dec 31, 2018	98,672	19	98,691

Investments 2017 EUR 1,000	Shares in Group companies	Other investments	Total
Acquisition cost Jan 1	83,296	19	83,315
Increases	2,793	0	2,793
Decreases	-244	0	-244
Acquisition cost Dec 31	85,845	19	85,864
Book value Dec 31, 2017	85,845	19	85,864

The parent company's direct holdings in Group companies is listed in the Group's note 'Related-party transactions'.

13 NON-CURRENT RECEIVABLES

EUR 1,000	2018	2017
Non-current receivables from Group companies		
Loan receivables	6,209	6,209
Non-current receivables total	6,209	6,209

14 CURRENT RECEIVABLES

EUR 1,000	2018	2017
Current receivables from Group companies		
Trade receivables	1,379	1,595
Dividend receivables	400	300
Other receivables	796	832
Internal bank account receivables	2,882	3,798
Group contribution receivables	12,000	9,500
Current receivables from others		
Other short-term receivables	18	19
Current prepayments and accrued income	921	709
Current receivables total	18,396	16,753

Main items included in prepayments and accrued income	2018	2017
Prepayments of IT costs	429	387
Other prepayments and accrued income on expenses	492	322
Total	921	709

15 CASH AND CASH EQUIVALENTS

EUR 1,000	2018	2017
Bank accounts and cash	10,358	6,661
Total	10,358	6,661

Cash and cash equivalents in the balance sheet correspond with the financial assets in the cash flow statement.

16 EQUITY

EUR 1,000	2018	2017
Restricted equity		
Share capital Jan 1	5,000	5,000
Share capital Dec 31	5,000	5,000
Share premium account Jan 1	6,701	6,701
Share premium account Dec 31	6,701	6,701
Restricted equity total	11,701	11,701

EUR 1,000	2018	2017
Unrestricted equity		
Unrestricted equity fund Jan 1	18,715	18,715
Directed share issue in business combinations	1,500	0
Unrestricted equity fund Dec 31	20,215	18,715
Treasury shares Jan 1	-289	-1,004
Additions	-516	-262
Share-based payments	0	977
Treasury shares Dec 31	-804	-289
Retained earnings Jan 1	19,496	15,093
Dividends paid	-5,684	-3,930
Share-based payments	0	-154
Retained earnings Dec 31	13,812	11,009
Profit for the financial year	9,354	8,487
Unrestricted equity total	42,577	37,922

Shareholders' equity total	54,278	49,623
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Distributable funds Dec 31	2018	2017
Retained earnings	13,812	11,009
Treasury shares	-804	-289
Unrestricted equity fund	20,215	18,715
Profit for the financial year	9,354	8,487
Activated development costs (Prepayments)	-84	0
Distributable funds Dec 31	42,492	37,922

Number of shares Jan 1 (1,000 pcs)	24,771	24,771
Directed share issue	192	0
Number of shares Dec 31 (1,000 pcs)	24,963	24,771

Additional information regarding the shares is presented in section 'Shares and share capital' in Group note 25.

17 ACCUMULATED APPROPRIATIONS

EUR 1,000	2018	2017
Depreciation in excess of plan	256	250
Total	256	250

18 NON-CURRENT LIABILITIES

EUR 1,000	2018	2017
Loans from financial institutions	22,000	18,000
Accrued liabilities on acquisitions	2,000	653
Total	24,000	18,653

19 CURRENT LIABILITIES

EUR 1,000	2018	2017
Current liabilities to group companies		
Trade payables	82	104
Other payables	225	148
Internal bank account liabilities	46,140	34,427
Current liabilities to others		
Trade payables	1,394	1,332
Other liabilities	195	202
Accrued expenses	1,914	1,733
Income tax liability	652	461
Accrued liability on acquisitions	860	610
Loans from financial institutions	6,000	10,492
Current liabilities total	57,462	49,509
Main items included in accrued expenses		
Interest liabilities	32	76
Accrued employee expenses	1,664	1,475
Other accrued expenses	218	182
Total	1,914	1,733

20 PLEDGES, MORTGAGES AND GUARANTEES

EUR 1,000	2018	2017
Guarantees given		
Other contingencies	320	320
Guarantees for Group companies	4,943	3,856
Finance Lease liabilities		
For payment in next financial year	2,079	2,004
For payment later	1,804	2,082
Operating Lease liabilities		
For payment in next financial year	75	75
For payment later	48	89
Credit limits		
Total credit limit available	8,438	9,277
Pledges, mortgages and guarantees total	17,707	17,701

Etteplan Oyj has given a Parent Company guarantee totalling EUR 4,449 thousand for loans, of which EUR 2,082 thousand is in use, for Etteplan Technology Center Ltd.

Etteplan Oyj has given a Parent Company guarantee totalling EUR 2,300 thousand for loans, of which EUR 598 thousand is in use, for Etteplan Consulting (Shanghai) Co., Ltd.

Etteplan Oyj has given a Parent Company guarantee totalling EUR 570 thousand for loans, of which EUR 0 is in use, for Etteplan B.V.

Etteplan Oyj has given a Parent Company guarantee totalling EUR 170 thousand for loans, of which EUR 0 is in use, for Etteplan Netherlands B.V.

Etteplan Oyj has given a Parent Company guarantee totalling EUR 4,000 thousand for loans, of which EUR 2,263 thousand is in use, for Etteplan Deutschland GmbH.

Etteplan Oyj has given a Parent Company guarantee totalling EUR 709 thousand for loans, of which EUR 0 is in use, for Etteplan Poland sp.z.o.o.

Shares and shareholders

Share capital and shares

On December 31, 2018, Etteplan Oyj's share capital, entered in the trade register and paid in full, was EUR 5,000,000 and the number of shares was 24,963,308. The Company has one series of shares. Each share confers the right to one vote at the General Meeting and the same right to a dividend.

Share quote

Etteplan's shares are listed in Nasdaq Helsinki Ltd's Medium Cap market capitalization group in the Industrials sector under the ETTE ticker. Etteplan moved from the Small Cap group to the Medium Cap group on January 1, 2019.

Share price trend and turnover

The number of Etteplan Oyj shares traded in January–December was 1,151,274 (1–12/2017: 1,659,974), for a total value of EUR 9.72 (12.3) million. The share price low was EUR 7.04, the high EUR 10.35, the average EUR 8.44 and the closing price EUR 7.94. Market capitalization on December 31, 2018, was EUR 197.44 (192.45) million.

Shareholders

At the end of 2018, the Company had 2,598 (2,670) registered shareholders. In total, 335,698 shares, or 1.35 per cent of all shares, were nominee-registered.

Flaggings

Etteplan Oyj received no flagging notices in January–December 2018.

Treasury shares

Etteplan Oyj's Board of Directors decided on December 19, 2017 to initiate a share repurchase program of Etteplan's own shares in accordance with the authorization given to it at the Annual General Meeting on April 4, 2017. The shares will be

repurchased for use in fulfilling obligations pertaining to the share-based incentive plan for the Group's key personnel.

The number of repurchased shares will not exceed 100,000 shares and the corresponding number of voting rights, which corresponds to approximately 0.4 per cent of the total number of Etteplan's shares. A maximum sum of EUR 890,000 can be spent on the repurchase program.

Etteplan Oyj's Board of Directors decided on May 28, 2018 to continue the share repurchase program initiated on December 19, 2017 based on the authorization given by the Annual General Meeting (AGM) held on April 5, 2018, at a maximum price of EUR 9 per share. The maximum price was increased from EUR 9 per share to EUR 10 per share based on a decision made by the Board of Directors on August 16, 2018.

In January–December 2018, Etteplan repurchased a total of 61,513 of the Company's own shares. The Company held 96,203 of its own shares on December 31, 2018 (December 31, 2017: 34,690), which corresponds to 0.39 (December 31, 2017: 0.14) per cent of all shares and voting rights.

Current authorizations

The Annual General Meeting authorized the Board of Directors to resolve on the repurchase of the Company's own shares in one or more tranches using the Company's unrestricted equity. A maximum of 2,000,000 shares in the Company may be repurchased. The Company may deviate from the obligation to repurchase shares in proportion to the shareholders' current holdings, i.e. the Board has the right to decide on a directed repurchase of the Company's own shares.

The authorization includes the right for the Board to resolve on the repurchase of the Company's own shares through a tender offer made to all shareholders on equal terms and conditions and at the price determined by the Board, or in public trading organized by the Nasdaq OMX Helsinki Ltd at the market price valid at any given time, so that the Company's total

holding of own shares does not exceed ten (10) per cent of all the shares in the Company. The minimum price for the shares to be repurchased is the lowest market price quoted for the shares in the Company in public trading and, correspondingly, the maximum price is the highest market price quoted for the shares in the Company in public trading during the validity of the authorization.

Should the shares in the Company be repurchased in public trading, such shares will not be purchased in proportion to the shareholders' current holdings. In that case, there must be a weighty financial reason for the Company to repurchase its own shares. The shares may be repurchased in order to be used as consideration in potential acquisitions or in other structural arrangements. The shares may also be used for carrying out the Company's incentive schemes for its personnel. The repurchased shares may be retained by the Company, invalidated or transferred further.

The repurchase of the Company's own shares will reduce the non-restricted equity of the Company.

The authorization is valid for 18 months from the date of the resolution of the Annual General Meeting starting on April 5, 2018 and ending on October 5, 2019. The authorization replaces the corresponding previous authorization.

Option rights

The Company does not currently have a share option program.

Share-based incentive plans

The Board of Directors of Etteplan Oyj decided on May 31, 2017, to establish a new share-based incentive plan for the Group's key personnel. The incentive plan includes one earning period comprising the calendar years 2017–2019. The earnings criteria are Etteplan Group's revenue increase and the development of Total Shareholder Return (TSR). The potential reward will be paid partly in the Company's shares and partly in cash. The proportion to be paid in cash is intended to cover taxes and tax-related costs arising from the reward to the key personnel. Approximately 20 people belong to the target group of the incentive plan. The rewards to be paid on the basis of the plan will correspond to the value of an approximate maximum total of 260,000 Etteplan Oyj shares (including also the proportion to be paid in cash). The shares to be paid out as potential rewards will be transferred from the shares held by the Company or shares acquired from the market and, therefore, the incentive plan will have no diluting effect on the value of the share. The potential non-recurring reward of the incentive plan will be paid after the earning period in 2020.

MAJOR SHAREHOLDERS, DECEMBER 31, 2018

Name	Number of shares	Proportion of shares and votes, %
Ingman Group Oy Ab	16,500,000	66.10
Oy Fincorp Ab	2,503,000	10.03
Varma Mutual Pension Insurance Company	985,593	3.95
VAS Invest Oy	562,573	2.25
Tuori Klaus Tapani	421,200	1.69
Taaleritehdas Mikro Markka Fund	351,808	1.41
Tuori Aino Mirjami	308,275	1.23
Kempe Anna Carita	110,073	0.44
Näkki Juha Antti Ilmari	104,947	0.42
Etteplan Oyj	96,203	0.39
SEB Gyllenberg Finland Small Cap Fund	81,000	0.32
Kempe Pia Pauliina	71,000	0.28
Kempe Lasse Martin	63,000	0.25
Kokkonen Toni Jere Ensio	58,818	0.24
Kopponen Antti Tapani	58,818	0.24
Mäkelä Esa Tapio	58,818	0.24
Kylänpää Osmo Olavi	53,200	0.21
Säästöpankki Small Cap Mutual Fund	49,241	0.20
Tapper Teemu Petteri	48,503	0.19
Vesterinen Atso Ilmari	48,502	0.19
Other shareholders	2,093,038	8.38
Nominee-registered shares	335,698	1.35
Total	24,963,308	100.00

BREAKDOWN OF SHAREHOLDINGS BY OWNER GROUP, DECEMBER 31, 2018

Name of the sector	Number of shareholders	Number of shares	Proportion of shares and votes, %
National economy total (domestic sector)			
Companies	99	17,403,629	69.72
Financial and insurance institutions	14	3,000,628	12.02
Public sector entities	3	988,643	3.96
Households	2,453	3,176,464	12.72
Non-profit institutions	11	34,268	0.14
Foreigners	18	23,978	0.10
Nominee-registered shares		335,698	1.35
Total	2,598	24,963,308	100.00

BREAKDOWN OF SHAREHOLDINGS BY SIZE CLASS, DECEMBER 31, 2018

Number of shares, pcs	Number of shareholders	Proportion of shareholders, %	Number of shares	Proportion of shares and votes, %
1-100	766	29.48	32,417	0.13
101-1,000	1,397	53.77	563,796	2.26
1,001-10,000	384	14.78	1,008,844	4.04
10,001-100,000	41	1.58	1,360,996	5.45
100,001-1,000,000	8	0.31	2,994,255	11.99
> 1,000,000	2	0.08	19,003,000	76.12
Total	2,598	100.00	24,963,308	100.00

Board of Directors' dividend proposal

At December 31, 2018, the parent company's distributable shareholders' equity amounted to EUR 42.5 million, of which the net profit for the financial year was EUR 9.4 million.

The Board of Directors proposes that from the distributable funds at the disposal of the Annual General Meeting, a dividend of EUR 0.30 per share be paid on the Company's externally owned shares, for a total amount of EUR 7.5 million at most. Dividend will not be paid out to shares that are company-held on the record date of dividend payout, April 8, 2019.

No substantial changes have occurred in the financial position of the Company since the end of the financial year. The Company's liquidity is good and the Board of Directors judges that the proposed distribution of dividend will not endanger the Company's solvency.

It is proposed that the dividend be paid on April 15, 2019.

Vantaa, February 7, 2019

Robert Ingman
Chairman of the Board

Cristina Andersson
Member of the Board

Matti Huttunen
Member of the Board

Leena Saarinen
Member of the Board

Mikko Tepponen
Member of the Board

Patrick von Essen
Member of the Board

Auditor's Report

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

To the Annual General Meeting of Etteplan Oyj

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Etteplan Oyj (business identity code 0545456-2) for the year ended 31 December, 2018. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement 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 Board of Directors.

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 13 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.

KEY AUDIT MATTER

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Valuation of goodwill – Accounting policies and Note 22 to the consolidated financial statements

- Goodwill, totaling EUR 65 million, has increased by EUR 7 million due to the 2018 acquisitions, and is a significant individual item in the consolidated balance sheet.
- The company prepares annually impairment tests for the financial statements on a discounted cash flows basis with sensitivity analyses. Estimating future cash flows underlying the impairment tests involves a significant element of management judgment, particularly in respect of growth in net sales, profitability and discount rates.

- We analyzed critically the management's assumptions that form the basis on which the cash flow projections for future years are prepared.
- We involved KPMG valuation specialists to assess the appropriateness of the discount rate used and the technical integrity of calculations as well as for comparison of the assumptions used to the market and industry-specific data.
- In addition, we assessed the adequacy of the sensitivity analyses and the appropriate presentation of notes related to impairment tests in the consolidated financial statements.

Revenue recognition – Accounting policies and Note 7 to the consolidated financial statements

- Revenue recognition consists mainly of revenue from rendering of services. Total revenue amounted to EUR 236 million.
- Revenue recognition is a key audit matter due to the significance of revenue when assessing the size of business, growth and profitability of Etteplan. Revenue recognition involves a risk of revenue being recognized in the incorrect period and at inaccurate amount due to related management estimates and large volumes of transaction data.
- For projects, where either a fixed price or a target price has been determined, revenue is recognized over time based on the project's percentage of completion. The percentage of completion is determined as the proportion of actual costs to the total estimated project costs. Inaccurate cost estimates lead to erroneous revenue recognition.

- We evaluated the company's revenue recognition and accounting policies by reference to the principles of revenue recognition determined under IFRS.
- We tested the effectiveness of key internal controls in place over the completeness and accuracy of revenue. We also assessed the operative effectiveness of relevant IT systems for financial reporting purposes.
- We compared total revenue estimates to customer contracts for projects where revenue is recognized over time based on the project's percentage of completion. In addition, we analyzed working hours recorded for work in progress projects in comparison to total hours estimated by the management. We also considered the appropriateness of the process for updating estimated project costs and percentages of completion.
- In addition, we performed substantive audit procedures to evaluate the completeness and accuracy of revenue recorded and assessed the effect of other events which require management judgment.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to

provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

OTHER REPORTING REQUIREMENTS

Information on our audit engagement

KPMG Oy Ab was first appointed as auditors by the Annual General Meeting on 4 April 2017, and our appointment represents a total period of uninterrupted engagement of 2 years.

Authorized Public Accountant, HT Olli Wesamaa was first appointed as auditor by the Annual General Meeting on 18 November 2013.

Other Information

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears

to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

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

Helsinki, 26 February 2019

Ari Eskelinen
Authorized Public
Accountant, KHT

Olli Wesamaa
Authorized Public
Accountant, HT

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Finland

c/o DFK Finland Oy
Pohjoisesplanadi 21 B
00100 Helsinki
Finland

Uncertainty in the global economy affects risk assessment

Etteplan assesses business risks annually. Based on this systematic risk assessment, we adjust our operations as necessary. In the risk assessment conducted in 2018, the overall risk level was higher than in the previous year due to an increase in strategic and operational risks. Other risks remained at the same level as in 2017.

A uniform group-wide risk management assessment that covers all risk categories has been conducted annually in connection with the strategy process since 2011. In the assessment, we focus particularly on monitoring changes in previously identified risks, identifying new business risks and developing proactive risk management. Etteplan complies with international risk management criteria (CAS and COSO).

The key aspects of the risk assessment include:

- proactive measures
- securing operations
- limiting adverse impacts
- utilizing opportunities

Major risks in 2018

Etteplan's major risks in 2018 were related to personnel and potential changes in customers' business operations. The most significant of the personnel risks was the availability of competent professionals, as the Company's business operations and growth are based on competent personnel. The risk is mitigated by systematic human resource management and by ensuring that Etteplan is perceived as an attractive employer among industry professionals.

The biggest operational risk in 2018 was related to potential changes in customers' business operations. The uncertainty caused by the general economic development and the global economy also constituted a risk for Etteplan's business. Operational risks are reduced by long-term customer relationships, the geographical distribution of business operations and Etteplan's diverse expertise.

Six risk categories

Risks related to Etteplan Group's business operations are divided into six categories, and the risks are monitored according to this classification. Risks related to EU regulations were adopted as a new risk category in 2017. Etteplan's business risks include both internal and external risks.

Risk classification:

1. Strategic risks
2. Operational risks
3. Personnel risks
4. IT & security risks
5. Financial risks
6. Risks related to EU regulations

The typical risks of Etteplan's business operations are described in the following section. However, the Company's operations may also be subject to other risks. The most significant risks and uncertainties identified during the financial year are described in the report of the Board of Directors on pages 4–9.

RISK CATEGORY	EXAMPLES OF RISKS	EXAMPLES OF PREVENTIVE ACTIONS	RESPONSIBLE ORGAN
Strategic risks	Risks related to business development, strategy implementation, the lack of highly competent professionals, the business environment, markets, globalization, as well as mergers and acquisitions	Strategy and business plans, diversified customer base, balanced personnel structure, compliance with M&A procedures, corporate governance, Code of Conduct and risk management policy	President and CEO, business management, finance, human resources and communications functions
Operational risks	Organization and management, sales, projects, assignments, customer relationship and financing-related risks	Compliance with management systems, sales process, quality policy, the key account process and service delivery processes, the Group's insurance policies	Business management, Quality, Human Resources and Finance functions
Personnel risks	Competence management, management and organization, attrition, recruitment, the staffing of assignments, occupational health and well-being related risks.	Use of competence management system, employee surveys, internal training, HR management, introduction process, compliance with Code of Conduct	Human resources function, business management, entire personnel
IT & security risks	Information security, network and system downtime, computer viruses and customer IT connections related risks	Compliance with IT policies and IT security regulations, supplier service level agreements	IT Director, business management, entire personnel
Financial risks	Currency, interest, financing and liquidity, counterparty and credit risks related to the financing of business operations	Compliance with payment and credit policies and Group treasury policy, internal controls	CFO, Finance function, business management
Risks related to EU regulations	Risks related to the EU General Data Protection Regulation (GDPR)	Compliance with IT policy and HR policy, continuously monitoring changes and updating practices	President and CEO, IT Director, HR Director

Strategic risks

The overall level of Etteplan's strategic risks increased from 2017. The risk level decreased relative to revenue. The Company's most significant strategic risks were related to business development, markets, the competitive situation and the implementation of strategy.

The risk level in 2018 was increased by risks related to Etteplan's position in emerging and other global markets, as well as the degree to which the Company's technology offering matches future market needs. Other significant risks were related to the growth of the Group's business in China and the digitalization of services.

The Company's growth through acquisitions also constitutes an operational risk. For this reason, Etteplan has carefully prepared procedures for acquisitions and integration, which reduces the risk. In addition to acquisitions, organic growth is an important part of the growth objectives for Etteplan's business. The most significant risk related to achieving this goal is the potential lack of highly talented professionals.

Possible unpredictable changes in customers' business also constitute a risk for Etteplan's business operations. The economic downturn can have a negative effect on investments and hence also on Etteplan's business and profitability. The Group aims to reduce its vulnerability to market risks and business cycles through a balanced customer base comprised of customers operating in different industries, markets and geographical areas. The engineering business is characterized by intense competition, particularly in an economic downturn.

Operational risks

Etteplan's operational risk level increased from the previous year. The risk level was increased by market uncertainty. The Company's growth reduced the relative monetary value of the operational risks.

Assignments involve a risk that a service or deliverable involves a professional error or negligence, which could cause significant financial or other damage. In order to manage operational risks, Etteplan emphasizes compliance with management systems, codes of practice and acceptance procedures, training of personnel and compliance with instructions concerning the management of quotes and contracts, particularly in the delimitation of contractual liability.

Assignments can be carried out at a fixed price, at a ceiling

fee or on an hourly-rated basis. Fixed-price and ceiling-fee assignments involve the risk that estimates regarding the work of professionals are exceeded. This can be caused by inaccurate time and cost estimates, performance delays, disputes about compensation for additional or changed services, human error or other unexpected circumstances. Quality management systems and project review processes are in use throughout the Group to avoid and mitigate such risks.

The project manager plays a key role in the risk management of assignments. The manager is responsible for managing and controlling the assignment from beginning to end: from tender preparation to final acceptance. To ensure the effectiveness of risk management, training is provided to project managers in all of their essential areas of activity, and control mechanisms are in place for both large and risky assignments.

Etteplan also aims to restrict the liability risks inherent to engineering services by using standardized contract terms and insurances. The Company has a liability insurance program that encompasses the entire Group. However, the insurance does not cover all liability risks.

Personnel risks

Etteplan's personnel risks were again estimated to be at a high level in 2018, although the risk level did decrease slightly from the previous year. Competition for highly competent professionals in the field of technology continued in all of Etteplan's main markets. If they materialize, personnel risks can slow down the Company's growth. The availability of competent professionals helps ensure the Company's profitability and business development.

The most significant personnel risks at Etteplan are related to personnel competence management, attrition and appropriate staffing of assignments. The realization of these risks are prevented among others by regular PDP discussions, systematic follow-up on occupational health and welfare at work, as well as by internal procedures and guidelines. The Group maintains the personnel's job satisfaction and welfare at work by developing group-wide people processes, as well as by investing in the development of personnel, as well as the quality of management and leadership.

The focus areas in HR management in 2018 are presented in the Annual Review 2018 on pages 26–27.

Financial risks

Etteplan's financial risks remained unchanged and at a low level in 2018. The major risks were related to the possibility of external fraud and the use of different currencies in business operations.

The financial risks are managed in accordance with the treasury policy approved by Etteplan's Board of Directors. The aim is to hedge against significant financial risks, balance the cash flow and give the business time to adjust its operations to changing conditions. Reviews concerning financing risks are presented in the notes to the consolidated financial statements on pages 24-26. Etteplan prevents the realization of financial risks through internal procedures and guidelines as well as through internal control.

IT & security risks

The effective functioning of information and communication systems is essential for Etteplan's business operations. The related IT & security risk level remained unchanged at a moderate level in 2018. The major risks were related to software licenses and managing their prices, as well as external interference with IT systems.

IT & security risks are examined carefully, as Etteplan's business operations are dependent on information and communication systems. System failures or access limitations can negatively affect the operations of the Group. Etteplan prevents the realization of information security related risks by internal procedures and guidelines, as well as by internal control. Measures limiting the effects of external influences on the systems include backup copies, firewalls, system monitoring, virus scanners and managing access rights.

Risks related to EU regulations

Etteplan introduced risks related to EU regulations as a new risk category in 2017. These risks remained at a low level in 2018.

The major risks are related to the EU General Data Protection Regulation and the processing of personal data. Etteplan prevents the realization of these risks by having up-to-date IT policies, training, procedures and guidelines that meet the regulatory requirements. We continuously monitor regulatory developments in all areas of our business and update our internal practices and procedures accordingly.

Board of Directors as of December 31, 2018



ROBERT INGMAN

Chairman of the Board of Directors since 2013
Member of the Board of Directors since 2009
Member of the Nomination and Remuneration Committee



CRISTINA ANDERSSON

Member of the Board of Directors since 2017



PATRICK VON ESSEN

Member of the Board of Directors since 2014
Member of the Nomination and Remuneration committee



MATTI HUTTUNEN

Member of the Board of Directors since 2015



LEENA SAARINEN

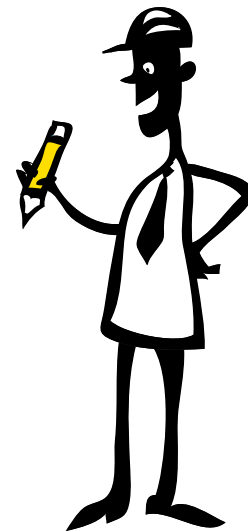
Member of the Board of Directors since 2013
Chairman of the Nomination and Remuneration Committee



MIKKO TEPPONEN

Member of the Board of Directors since 2017

» More information on Board of Directors' members on Etteplan website at www.etteplan.com.



» More information on Management Group members on Etteplan website at www.etteplan.com.

Management Group as of December 31, 2018



JUHA NÄKKI

President and CEO since 2012
Chairman of the Management Group since 2012
Management Group member since 2008



PER-ANDERS GÅDIN

Chief Financial Officer since 2009
Management Group member since 2009



PETRI IKONEN

Senior Vice President, Technical documentation, since 2015
Management Group member since 2015



VEIKKO LAMMINEN

Senior Vice President, Operations Finland, since 2012



OUTI-MARIA LIEDES

Senior Vice President, HR and Operational Development, since 2008
Management Group member since 2008



KARI LIUSKA

Senior Vice President, Embedded systems and IoT, since 2016
Management Group member since 2016



RIKU RIIKONEN

Senior Vice President, Engineering Service, since 2015
Management Group member since 2015



OUTI TORNIAINEN

Senior Vice President, Communications and Marketing since 2016
Management Group member since 2016



MIKAEL VATN

Senior Vice President, Central and Western Europe, since 2012
Management Group member since 2012

Investor information

Etteplan's shares are listed in Nasdaq Helsinki Ltd's Medium Cap market capitalization group in the Industrials sector under the ETTE ticker. Etteplan moved from the Small Cap group to the Medium Cap group on January 1, 2019.

Periodic fluctuation

Etteplan's business is subject to periodic fluctuation due to the number of working days, holiday seasons and the timing of product development and investment projects in customer companies to mainly in the spring and the latter part of the year. The revenue in the third quarter is typically lower than that of other quarters. Only the key figures in the Financial Statements for the entire year provide an appropriate description of the Company's financial situation.

A stable dividend payer

Etteplan's aim is to increase shareholder value and to be a stable dividend payer. The dividend has been approximately 50 per cent of earnings per share.

The Annual General Meeting on April 5, 2018 resolved, in accordance with the proposal of the Board of Directors, to pay a dividend of EUR 0.23 per share for the financial year 2017. The remaining funds were to be left in unrestricted equity. The dividend was paid to the shareholders registered on the record date of the payment of dividend in the shareholders' register maintained by Euroclear Finland Ltd. The record date of the payment of dividend was April 9, 2018. The dividend was paid on April 16, 2018.

The Board of Directors proposes to the Annual General Meeting of April 4, 2019 that a dividend of EUR 0.30 per share be paid for the financial year 2018. If the Annual General Meeting approves the Board's proposal on the payment of dividend, the dividend shall be paid to the shareholders registered on the record date of the payment of dividend, April 8, 2019, in the shareholders' register maintained by Euroclear Finland Ltd. The dividend payment date proposed by the Board of Directors is April 15, 2019.

ETTEPLAN'S INVESTOR RELATIONS PRINCIPLES

The objective of Etteplan's investor relations is to produce accurate, sufficient and up-to-date information about Etteplan's strategy, business operations, markets, and financial position to ensure that the capital markets have relevant information about the Company as an investment.

Outlook

Information on Etteplan's outlook and earnings forecast is published in the Financial Statements release for the financial year, the half year financial report and the interim reports. The outlook is approved by the Board of Directors. Etteplan does not publish quarterly earnings forecasts.

Market estimates

Upon request, the Group will review analyses or reports compiled by an analyst for factual errors, insofar as the reports and analyses are based on materials released by the Group. Etteplan does not comment on or take any responsibility for estimates or forecasts published by capital market representatives.

Silent period

Etteplan observes a silent period of 30 days prior to the announcement of financial results. During this period, Etteplan's management and personnel refrain from making any contact with or comments to investors, analysts, and the media about the Company's business outlook, financial results, or projections. At other times, we are pleased to respond to inquiries by investors and analysts and arrange meetings.

Analysts following Etteplan

Evli Bank Plc, Jerker Salokivi, tel. +358 9 4766 9149
Inderes Oy, Juha Kinnunen, tel. +358 40 778 1368
Nordea Bank Plc, Pasi Väisänen, tel. +358 9 5300 5192

Investor relations contacts

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Outi Tornainen, Senior Vice President,
Communications and Marketing, tel. +358 10 307 3302
Per-Anders Gådin, CFO, tel. +46 70 399 7929

Information for shareholders

GENERAL MEETING OF SHAREHOLDERS

The Etteplan Oyj Annual General Meeting will be held on Thursday, April 4, 2019, starting at 10 a.m. on the Company premises in Vantaa at Ensimmäinen savu, 01510 Vantaa. The invitation to the General Meeting of shareholders shall be published according to Etteplan Oyj's Articles of Association on the Company website www.etteplan.com.

RIGHT TO ATTEND

Every shareholder who, on March 25, 2019, is registered as a shareholder on the list of shareholders maintained by Euroclear Finland Ltd has the right to participate in the Annual General Meeting.

NOTIFICATION OF ATTENDEES

To be able to participate in the Annual General Meeting, the shareholder must register for this no later than 10 a.m. on April 1, 2019 either by e-mail to [registration\(at\)etteplan.com](mailto:registration(at)etteplan.com) or by telephone on +358 10 307 3222. The shareholder may also register by sending a registration letter to Etteplan Oyj, Yhtiökokous, PO Box 216, 01511 Vantaa, Finland. The letter must arrive before the registration deadline. Any proxy documents, identified and dated, must be delivered to the Company for inspection to the address mentioned above prior to the expiry of the registration period.

Important dates

Record date for participation in the General Meeting:
March 25, 2019

Deadline for registration for the General Meeting:
April 1, 2019 at 10 a.m.

General Meeting: April 4, 2019 at 10 a.m.

Record date for the payment of dividend: April 8, 2019

Dividend payment date: April 15, 2019

SHAREHOLDER REGISTER INFORMATION

Shareholders should notify the bank, brokerage firm, or other account operator with which they have a book-entry securities account about changes in address or account numbers for the payment of dividends and other matters related to their holdings in the share.

DISCLOSURE OF FINANCIAL INFORMATION IN 2019

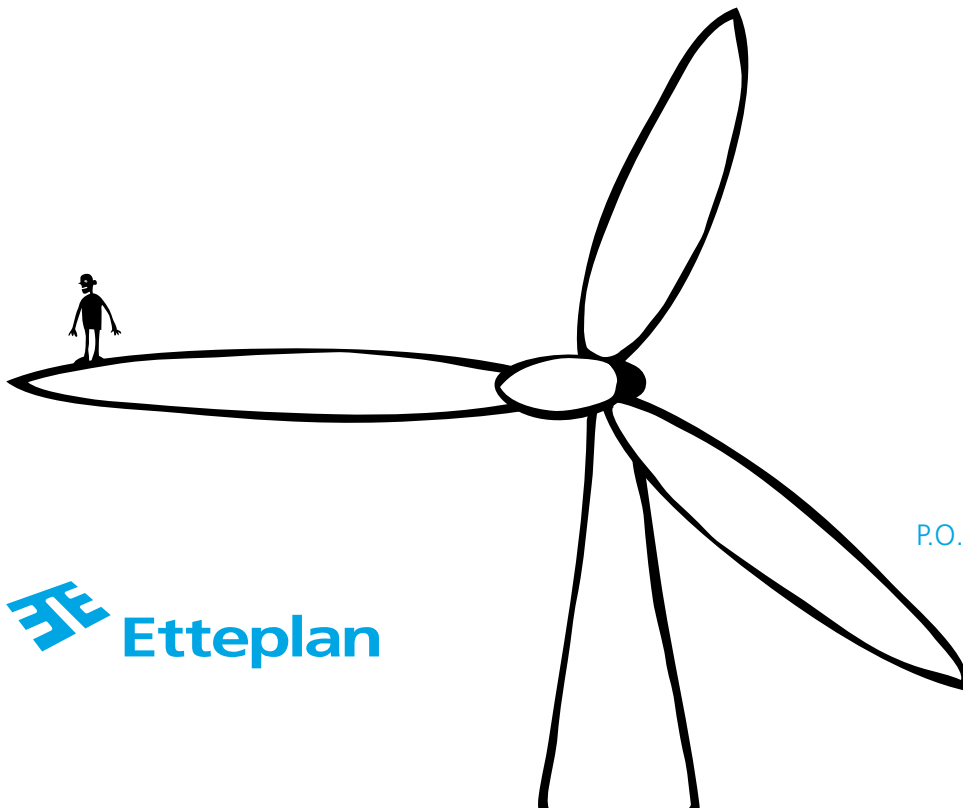
Etteplan Oyj publishes financial reports and releases in Finnish and English. Financial reports and releases are made available at www.etteplan.com immediately after their publication.

PUBLICATION DATES FOR REVIEWS AND REPORTS IN 2019:

- Interim report 1–3/2019: Wednesday, May 8, 2019
- Half year financial report 1–/2019: Tuesday, August 13, 2019
- Interim report 1–9/2019: Thursday, October 31, 2019

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Engineering with a difference.



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