sitowise

SITOWISE HOLDING I OY

BUSINESS ID 2767842-8

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

FINANCIAL PERIOD 1 JANUARY–31 DECEMBER 2019

CONTENTS

Sitowise Holding I Oy
Linnoitustie 6 D
FI-02600 Espoo, Finland

Translation from the original document in Finnish,
"2019 Toimintakertomus ja tilinpäätös (IFRS)" (legal document)

CONSOLIDATED FINANCIAL STATEMENTS IFRS

Sitowise publishes its first IFRS-compliant consolidated financial statements for the financial year ended 31 December 2019, including comparison data for the financial year ended 31 December 2018 and opening balance sheet of 1 January 2018.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Note	1 January–31 December 2019	1 January–31 December 2018
Net sales	**2.1**	**143,016**	**125,693**
Other operating income	2.3	815	1,020
Materials and services	2.4	-13,398	-12,921
Personnel expenses	2.5	-91,692	-79,896
Other operating expenses	2.6	-19,422	-14,834
Share of profit of associated companies		0	393
Depreciation, amortization and impairment	2.7	-8,674	-6,184
Operating profit		**10,644**	**13,271**
Financial income	4.1	477	48
Financial expenses	4.1	-2,745	-2,193
Profit before taxes		**8,376**	**11,126**
Income taxes	7.2	-506	-1,613
Result from continuing operations		**7,870**	**9,513**
Discontinued operations			
Result from discontinued operations	8.2	-1,012	-6,480
Profit for the period		**6,858**	**3,033**

Other comprehensive income

Items that may be reclassified subsequently to profit or loss		
Other comprehensive income	124	-10
Total comprehensive income	**6,982**	**3,023**
Attributable to:		
Owners of the parent	7,006	3,042
Non-controlling interest	-24	-19

Discontinued operations include the business of the Klaipeda project and Sitowise AS. Sitowise took part in a dredging contracting project in Lithuania in 2017–2019. The project, Klaipeda, was not part of the Group's core business, and it ended in spring 2019. Sitowise AS was a Norwegian subsidiary that Sitowise divested during 2019.

The notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR thousand	Note	31 December 2019	31 December 2018	1 January 2018
Assets				
Goodwill	3.2	101,733	79,139	67,521
Other intangible assets	3.2	3,961	1,879	1,296
Tangible assets	3.3	27,561	17,566	18,368
Participating interests		0	0	1,331
Other shares, similar rights of ownership and receivables		1,252	823	744
Deferred tax assets	6.1	1,401	181	159
Other receivables		0	0	2
Non-current assets total		**135,908**	**99,589**	**89,421**
Trade and other receivables	3.4	42,179	34,127	29,563
Cash and cash equivalents	4.2	10,346	9,280	1,681
Current assets total		**52,524**	**43,407**	**31,244**
Assets total		**188,432**	**142,996**	**120,666**

EUR thousand	Note	31 December 2019	31 December 2018	1 January 2018
Shareholders' equity and liabilities				
Share capital		3	3	3
Fund for invested unrestricted equity		40,471	32,610	30,119
Subordinated loans		14,145	14,145	14,145
Translation difference		117	-6	4
Retained earnings		2,343	-1,118	-1,752
Equity attributable to owners of the parent		**57,078**	**45,634**	**42,519**
Non-controlling interest		291	164	0
Total shareholders' equity		**57,369**	**45,798**	**42,518**
Deferred tax liabilities	6.1	1,257	172	184
Financial liabilities	4.2	77,179	50,906	44,196
Other liabilities		2	40	22
Non-current liabilities total		**78,437**	**51,118**	**44,402**
Income tax liabilities		842	1,009	375
Financial liabilities	4.2	7,979	12,614	7,282
Provisions	3.5	1,634	974	638
Accounts payable and other liabilities	3.6	42,171	31,481	25,450
Total current liabilities		**52,626**	**46,079**	**33,745**
Total shareholders' equity and liabilities		**188,432**	**142,996**	**120,666**

The notes are an integral part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

EUR thousand	1 January–31 December 2019	1 January–31 December 2018
Cash flow from operating activities:		
Profit for the period	6,858	3,033
Adjustments		
Income taxes	506	1,613
Depreciation, amortization and impairment	9,399	6,184
Share of profit of associated companies	0	-393
Financial income and expenses	2,268	4,763
Other adjustments	49	27
Change in working capital		
Increase (+) / decrease (-) in trade and other receivables	-2,194	-1,259
Increase (+) / decrease (-) in accounts payable and other liabilities	2,011	102
Interest paid and other financial expenses	-2,890	-2,015
Interest received and other financial income	91	117
Income taxes paid	-1,654	-1,667
Cash flow from operating activities	**14,444**	**10,505**
Cash flow from investing activities:		
Investments in tangible and intangible assets	-2,601	-1,786
Acquired business operations	-900	-1,537
Investments in subsidiaries and associated companies	-21,659	-8,615
Purchase and sale of other shares	73	-32
Cash flow from investing activities	**-25,087**	**-11,969**
Cash flow from financing:		
Payments from share issue	7,861	2,491
Withdrawal/repayment of loans	12,057	12,376
Share repurchase	-2,432	-1,518
Dividends paid	-906	-460
Payment of lease liabilities	-4,896	-3,826
Cash flow from financing	**11,683**	**9,063**
Cash and cash equivalents at the start of the period	9,280	1,681
Change in cash and cash equivalents, increase (+) / decrease (-)	1,040	7,599
Impact of changes in foreign exchange rates	26	0
Cash and cash equivalents at the end of the period	**10,346**	**9,280**

The notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

EUR thousand	Share capital	Fund for invested unrestricted equity	Equity loans	Translation difference	Retained earnings	Total	Non-controlling interest	Total shareholders' equity
Shareholders' equity 1 January 2018	**3**	**30,119**	**14,145**	**4**	**-1,752**	**42,519**	**0**	**42,518**
Profit for the period					3,014	3,014	19	3,033
Adjustments for the previous financial year					-411	-411		-411
Other comprehensive income				-10	0	-10		-10
Total comprehensive income	**0**	**0**	**0**	**-10**	**2,602**	**2,592**	**19**	**2,612**
Share issues		2,491				2,491		2,491
Share repurchases					-1,518	-1,518		-1,518
Distribution of dividends					-450	-450		-450
Transactions with non-controlling interests						0	145	145
Transactions with owners	**0**	**2,491**	**0**	**0**	**-1,968**	**523**	**145**	**669**
Shareholders' equity 31 December 2018	**3**	**32,610**	**14,145**	**-6**	**-1,118**	**45,634**	**164**	**45,798**
Shareholders' equity 1 January 2019	**3**	**32,610**	**14,145**	**-6**	**-1,118**	**45,634**	**164**	**45,798**
Profit for the period					6,834	6,834	24	6,858
Adjustments for the previous financial year					-188	-188		-188
Other comprehensive income				124	-3	121		121
Total comprehensive income	**0**	**0**	**0**	**124**	**6,643**	**6,767**	**24**	**6,791**
Share issues		7,861			34	7,894		7,894
Share repurchases					-2,432	-2,432		-2,432
Distribution of dividends					-784	-784		-784
Transactions with non-controlling interests						0	102	102
Transactions with owners	**0**	**7,861**	**0**	**0**	**-3,183**	**4,678**	**102**	**4,780**
Shareholders' equity 31 December 2019	**3**	**40,471**	**14,145**	**117**	**2,343**	**57,078**	**291**	**57,369**

The notes are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIC INFORMATION

The Group's parent company is the Finnish limited liability company Sitowise Holding I Oy (hereinafter referred to as "the Company"), domiciled in Espoo, with the mailing address Linnoitustie 6, FI-02600 Espoo, Finland. The Group's main line of business is consultancy in building and infrastructure construction. The company's biggest shareholder is Intera Fund III, domiciled in Helsinki.

The consolidated financial statements are available from the Company's head office at Linnoitustie 6, FI-02600 Espoo, Finland, and the Group's website **www.sitowise.com**.

The Board of Directors of Sitowise Holding I Oy approved these financial statements in its meeting on 25 February 2021. The official financial statements for 2019 are the FAS financial statements approved by the Board of Directors in March. The FAS financial statements for 2019 were published in April.

1. GENERAL INFORMATION

1.1. ACCOUNTING POLICIES

The consolidated financial statements of the Sitowise Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved for use in the European Union, and the IAS and IFRS standards and SIC and IFRIC interpretations in force on 31 December 2019 have been applied in preparing them. IFRS refers to standards and interpretations that companies referred to in the Finnish Accounting Act and regulations issued under it must comply with and that have been approved for application in accordance with the procedure enacted by Regulation (EC) No 1606/2002 of the European Parliament and of the Council. The notes to the consolidated financial statements also fulfil the requirements of Finnish accounting and company legislation supplementing the IFRS standards.

The Sitowise Group is publishing its first consolidated financial statements prepared in accordance with the IFRS standards for the financial period ended 31 December 2019. The financial statements also include the consolidated financial statements for the financial period ended 31 December 2018. The Group's IFRS transition date is 1 January 2018. Previously, the Sitowise Group followed the Finnish Accounting Standards (FAS). The Sitowise Group has applied IFRS 1 First-time Adoption of International Financial Reporting Standards in preparing these financial statements. The impacts of the transition are described in the note "Adoption of IFRS".

The consolidated financial statements have been prepared on the basis of original cost, unless otherwise specified in the accounting policies. The consolidated financial statements include the financial statements of the parent company and all of the companies in which the group has control. A subsidiary is consolidated at the date the group gains control and deconsolidated at the date the the control ceases. All intra-group transactions are eliminated in the consolidated financial statements.

Item-specific accounting policies and descriptions of decisions requiring management discretion and the use of estimates and assumptions are presented in conjunction with each item.

The operating currency of the Sitowise Group is the euro. The figures disclosed in the financial statements are rounded up, so the sum of individual figures can deviate from the reported sum.

1.2. TRANSLATION OF ITEMS DENOMINATED IN FOREIGN CURRENCIES

Items included in the financial statements of Group companies are measured at the currency of the primary economic operating environment of the respective company (operating currency).

Transactions denominated in foreign currencies are translated into the operating currency at the exchange rate of the transactions. Foreign exchange gains and losses arising from payments associated with such transactions and translation of monetary assets and liabilities denominated in foreign currencies at the exchange rate of the closing date are recognized through profit and loss.

The profit and loss accounts and balance sheets of international units using an operating currency different from the reporting currency are translated into the reporting currency as follows:

- the assets and liabilities on each reported balance sheet are translated using the exchange rate of the closing date; and
- the income and expenses on each profit and loss account are translated at average exchange rates for the financial period.

1.3. KEY DECISIONS MADE BY THE MANAGEMENT REQUIRING DISCRETION AND MAIN UNCERTAINTY FACTORS RELATING TO ESTIMATES

Preparing the financial statements in accordance with the IFRS requires the management to make discretionary decisions and use estimates and assumptions that have impacts on the amounts of assets and liabilities on the closing date, reporting of contingent assets and liabilities and the amounts of income and expenses for the reporting period. These estimates and assumptions are based on prior experience and other justifiable factors, such as expectations concerning future events which the management of the Sitowise Group considers reasonable, taking into account the conditions on the closing date and when the said estimates and assumptions were made.

Even though these estimates are based on the best view of the Sitowise Group's management of events and measures on the closing date, it is possible that the outcomes differ from these estimates. The estimates and underlying assumptions are continuously updated when preparing the financial statements. The Group may need to adjust its estimates if the conditions on which the estimates are based change, or if the Group receives new information or accumulates more experience. Any changes are recognized in the accounts for the financial period during which the estimate or assumption is updated.

Decisions based on management discretion which the management has made when applying the accounting policies and which have impacts on the figures disclosed in the financial statements are associated with the following areas, among others: goodwill impairment testing, allocation of the cost of acquisitions, measurement of tangible assets and economic lives of other intangible assets. The assumptions are obtained from external sources if such are available.

Impairment testing is described in Note 3.2. Any other uncertainty factors associated with the management's discretion are described in conjunction with the notes concerned.

2. OPERATING PROFIT

This section focuses on the Group's result and its formation. Next, the different components of the Group's operating profit are discussed.

2.1. NET SALES

Sitowise provides its customers with all design and consultancy services for the built environment under the one-stop-shop principle. The net sales of the Sitowise Group are primarily comprised of sales of services and service solutions, which may also include software or system development. The main market areas are Finland and Sweden.

Accounting policy

Identification of a contract: IFRS 15 includes criteria for identifying and combining contracts. As a rule, Sitowise only concludes a single contract with the same customer on a single project. However, contracts can be combined when several almost simultaneous contracts concerning the same site have been concluded with the customer. If separate framework agreements have been concluded with the same customer on different areas of design, it means that the contracts should not be combined for revenue recognition. The justification of this is that the contract negotiations have often been carried out by completely different persons and they have not been negotiated as a single whole.

Amendments to contracts: In the contracts of the Sitowise Group, additional work is most commonly addressed as part of the project whole, i.e. expansions of the existing project. In some cases, additional and alteration work can also be established as separate projects and performance obligations. If the scope of application of a contract is expanded due to the work added to it being separable and the total contractual price increases by the separate selling prices for work, the alteration and additional work will be accounted for as a separate performance obligation and recognized as revenue as a separate project.

Identification of performance obligations: The services promised in the customer contract are estimated and the performance obligations delivered to the customer are identified at the time of concluding the contract. In the practice pursuant to IFRS 15, the entire project is considered to be a single performance obligation in the customer contracts of the Infrastructure Solutions, Smart City and Project management business areas. In the Building Solutions business area, on the other hand, performance obligation levels depend on the customer and the product/service offered. If the sub-areas of design are defined and priced as a single aggregate of duties in the request for quote, quote and contract, the assignment is treated as a single performance obligation.

The Sitowise Group primarily acts as the principal in all of its contracts, as it is itself always liable for fulfilling the contract. The Sitowise Group is also responsible for final delivery to the customer when using subcontractors.

Determination of transaction price and its allocation to performance obligations: The transaction price is the amount amount of consideration to which the Sitowise Group expects it to be entitled for the services provided to the customer. The consideration pledged in the customer contract may include fixed or variable monetary amounts or both. The amount of sales income to be recognized includes management estimates, and the recognition is based on the best estimate by the project managers and management of the amount of consideration to which the Sitowise Group expects to be entitled.

Revenue recognition: The services provided by the Sitowise Group are customized for the customer, and the Sitowise Group primarily has a contractual right to payment for the customized output received by the time of review. The determination of sales revenue recognized over time is based on the percentage of completion. The percentage of completion is determined as the percentage of the working hours and costs of work performed by the time of review of the estimated total amount of work and costs of the project. If the service package involves software or software maintenance services, their licence and maintenance revenue is recognized for the contract period.

The estimated sales income and total costs of the project are updated at the end of each reporting period. If the outcome of a long-term project cannot be reliably estimated, revenue from the project is recognized only to the extent that the monetary amount corresponding to actual costs is available. If it is probable that the total cost of project completion exceed the total revenue received from the project, the expected loss is immediately expensed.

If the invoicing of the project is lower than the sales revenue recognized on the basis of percentage of completion, the difference is reported as a contractual asset in the Project receivables item on the balance sheet. If the invoicing of the project is higher than the sales revenue recognized on the basis of percentage of completion, the difference is reported as a contractual liability on the balance sheet.

The Sitowise Group applies a few practical reliefs in recognizing revenue from customer contracts. The Sitowise Group has set euro-denominated limits for revenue recognition based on the percentage of completion, varying by business area. If the price of the project is below the limit, revenue is not recognized based on the percentage of completion, but the contract is recognized as revenue monthly based on the work performed.

Significant decisions based on management discretion
When revenue recognition is based on the percentage of completion, the outcome of the contract is assessed regularly and reliably. Revenue recognition based on the percentage of completion is based on estimates of the probable sales revenue and expenses of the project, as well as reliable measurement of the percentage of completion of the project. If the estimates of the project outcome change, the revenue recognition based on the percentage of completion is adjusted for the reporting period during which the change is initially known. The expected loss from the project is recognized as a loss provision immediately in conjunction with the following monthly reporting.

2.1.1. Net sales by segment

EUR thousand	2019	2018
Building Solutions	60,664	56,637
Infrastructure Solutions	47,521	41,970
Project Management	13,091	13,509
Smart City	11,103	10,061
International	10,729	3,342
Others	-93	173
Total	**143,016**	**125,693**

2.1.2. Net sales by market area

EUR thousand	2019	2018
Finland	132,364	125,138
Sweden	8,058	162
Other countries *)	2,594	393
Total	**143,016**	**125,693**

*) the biggest other countries are: Switzerland and Germany

The net sales of the geographical areas are reported by the customer's location.

Assets based on customer contracts are reported in Notes 3.4 and 3.5.

Revenue from customer contracts expected to be recognized and relating to remaining performance obligations by 31 December 2019 amount to approximately EUR 111 million.

2.2. SEGMENT REPORTING

The Sitowise Group has one operating segment. This corresponds with the method of reporting internally to the Chief Operating Decision Maker and the way in which the Chief Operating Decision Maker makes decisions on allocating resources and estimates performance.

Significant decisions based on management discretion
The management of the Sitowise Group has exercised discretion in specifying the Group's segment reporting. Areas requiring discretion have included specifying the chief operating decision maker, decisions used in managing the Group and the reports used. The Managing Director has been specified as the Chief Operating Decision Maker. The Managing Director is responsible for the allocation of resources and assessment of performance.

2.3. OTHER OPERATING INCOME

Accounting policy
The Sitowise Group recognizes new grants received when it there is reasonable certainty that the grant will be received and the Group both fulfils and complies with the terms and conditions of the grant. The Sitowise Group systematically recognizes grants received as income and correspondingly the related costs are expensed based on the percentage of completion.

EUR thousand	2019	2018
Gain on fixed assets	18	438
Contributions received	532	559
Other income	265	23
Total	**815**	**1,020**

The Sitowise Group has received public grants from Business Finland, ESA (European Space Agency), Sitra and the Ministry of the Environment, among others.

A public grant received for the acquisition of a fixed asset is booked as a reduction of the acquisition cost of the fixed asset.

2.4. MATERIALS AND SERVICES

EUR thousand	2019	2018
Subcontracting expenses	6,359	7,124
Project and other expenses	7,039	5,796
Total	**13,398**	**12,921**

Project and other expenses include costs relating to customer projects as well as travel and meeting expenses.

2.5. PERSONNEL EXPENSES

Accounting policy
The defined contribution pension scheme is an arrangement in which the Sitowise Group pays fixed premiums to pension insurance policies. The Sitowise Group has no legal or factual obligations to make additional payments if the insurance does not provide sufficient funds for paying all benefits based on the work performance for the current and previous financial periods to all employees.

The total compensation paid by the Sitowise Group to its personnel is comprised of salaries, wage supplements, short-term incentives and fringe benefits.

EUR thousand	2019	2018
Wages and salaries	75,309	65,698
Pension expenses	12,628	11,528
Other social security expenses	3,755	2,670
Total	**91,692**	**79,896**

Average number of personnel	2019	2018
Salaried employees	1,514	1,290

Information about the remuneration of the management is reported in Note 7.3 on related party transactions.

The Sitowise Group has a share-based incentive scheme for its Managing Director. The Managing Director has the right to subscribe for shares in Sitowise Holding I Oy under certain conditions. The incentive scheme is described in Note 7.3.

2.6. OTHER OPERATING EXPENSES

EUR thousand	2019	2018
Other personnel-related expenses	5,537	4,555
Data and telecommunication expenses	5,953	4,579
Sales and marketing expenses	680	695
Rent expenses	2,240	1,734
Other expenses	5,012	3,271
Total	**19,422**	**14,834**

The material items included in other expenses are legal and other counselling fees and communications expenses. Practical reliefs allowed by IFRS 16 have been applied, and part of lease costs are included in other operating expenses. On IFRS 16, see Note 3.3.

2.6.1. Auditors' fees

EUR thousand	2019	2018
Statutory audit	100	101
Tax advice	12	29
Total	**111**	**129**

2.7. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Accounting policy
Depreciation of machinery, equipment and other tangible assets is recognized over their economic useful lives. Depreciation is recognized using the straight-line method based on the acquisition cost and estimated economic useful life of the asset. The Sitowise Group reviews the depreciation periods and methods at least at the end of each financial period. If the economic useful life of an asset differs from the previous estimate, the depreciation period will be adjusted accordingly.

Impairment loss is the amount by which the book value of an asset exceeds the recoverable value of the asset.

An impairment test is conducted annually on the development costs.

Economic useful lives of assets for the 2019 and 2018 financial periods are as follows:

- IT-related machinery and equipment 4 years
- Other machinery and equipment 5 years
- Long-term expenses 5–10 years

Economic useful lives of assets are as follows:

- Intangible rights 3–5 years
- Acquired asset, technology 5 years
- Acquired asset, customer relationships 5 years

EUR thousand	2019	2018
Machinery and equipment	1,807	1,326
Leases	5,195	4,316
Tangible assets	**7,002**	**5,642**
Intangible rights and other intangible assets	912	438
Other long-term expenses	33	104
Intangible assets	**945**	**542**
Goodwill	727	0
Total	**8,674**	**6,184**

The Sitowise Group has not recognized impairment of tangible or intangible assets during the 2018–2019 financial periods. The impairment loss recognized for goodwill is associated with the impairment of the goodwill of the Sitowise Group's Norwegian subsidiary Sitowise AS. The subsidiary was subsequently divested during 2019.

3. OPERATIONAL ASSETS AND LIABILITIES

3.1. BUSINESS COMBINATIONS

In conjunction with the IFRS transition, the Sitowise Group has applied the first-time adopter relief based on which IFRS 3 Business Combinations has not been retrospectively applied to acquisitions completed prior to 1 January 2018. The Sitowise Group carried out several mergers and acquisitions during the 2019 and 2018 financial periods as presented in the table on the next page.

Accounting policy
Acquired subsidiaries are consolidated into the consolidated financial statements using the acquisition method. The consideration given in business combinations and the identifiable assets and assumed liabilities of the acquired company are measured at fair value upon acquisition. The consideration given in conjunction with acquisitions includes any funds given, liabilities to the previous owners of the acquiree and issued equity shares.

Any additional purchase price is measured at fair value upon acquisition. The additional purchase price is classified as either equity or a liability. If the additional purchase price is classified as a liability, it is measured at fair value on the closing date of each reporting period. An additional purchase price classified as equity is not remeasured.

Company	Time	Transaction method	Location	Personnel
Dimenteq Oy	2/2018	Share purchase (100%)	Salo	33
HS-Tec Oy	6/2018	Share purchase (100%)	Kangasala	8
MA-arkkitehdit	9/2018	Asset purchase	Helsinki	11
J Väänänen	10/2018	Asset purchase	Tampere	5
Kon-Ins Oy	10/2018	Share purchase (100%)	Raisio	11
Geotek	11/2018	Asset purchase	Oulu	12
Siltaexpertit Oy	12/2018	Share purchase (100%)	Pornainen	8
DWG ASA	12/2018	Share purchase (25% -> 55%)	Riga	34
Insinööritoimisto LVI-insinöörit Oy	1/2019	Share purchase (100%)	Kuopio	8
Yhtyneet Insinöörit	3/2019	Share purchase (100%)	Espoo	24
Byggnadstekniska Byrån Ab	5/2019	Share purchase (100%)	Stockholm	140
PN-Line Oy	7/2019	Asset purchase	Tampere	1
Envimetria	12/2019	Share purchase (100%)	Lohja	15
Elbox	12/2019	Share purchase (100%)	Vantaa	10
Saircon Oy	12/2019	Share purchase (100%)	Vantaa	6
Karlsson & Segelström Construct AB	12/2019	Share purchase (100%)	Örebro	17

Non-controlling interest in the acquiree is measured at fair value or at an amount corresponding to the proportional share of the non-controlling interest of the identifiable net assets of the acquiree.

Acquisition-related expenses, such as expert fees, are expensed for the periods during which they occur and services are received.

Mergers and acquisitions have been a central part of the active growth strategy of the Sitowise Group. The mergers and acquisitions have primarily been minor supplementary acquisitions, with the median number of personnel concerned being 11 employees per acquisition. Each acquisition in 2018 and 2019 has had an impact of less than 10% individually on the net sales of the Sitowise Group. The starting point in acquisitions has been to strengthen local expertise and resources. Accordingly, Sitowise Group treats its acquisitions as a whole in its reporting.

EUR thousand	2019	2018
Purchase price	31,964	14,249
Assets	15,767	4,274
Liabilities	6,122	1,643
Net assets	9,645	2,631
Goodwill	22,319	11,618

The acquisition of Byggnadstekniska Byrå was the biggest acquisition made in 2018 and 2019. In May 2019, the Sitowise Group acquired its entire share capital and thereby expanded into the Swedish market, and some 140 experts joined the Sitowise Group. Customer relationships were identified as a separate asset item in the goodwill of DWG, Byggnadstekniska Byrå and PN-Line Oy. Technology was identified as an asset item separate from goodwill in the acquisition of Dimenteq Oy. The estimated economic useful life of these assets is 5 years.

3.2. GOODWILL AND OTHER INTANGIBLE ASSETS

Accounting policy

Apart from goodwill, intangible assets are recognized at cost less amortization using the straight-line method over their economic useful lives. Intangible assets include goodwill, intangible rights and other intangible assets.

Goodwill

Goodwill from the acquisition of business operations is recognized at the amount by which the consideration given, non-controlling interest and any previous holding in the acquiree combined exceed the Group's share of the fair value of the acquired net assets. Goodwill is recognized on the balance sheet less any accumulated impairment losses. Goodwill is not amortized, but tested annually for any impairment.

For impairment testing, goodwill is allocated to the Sitowise Group, which is expected to benefit from the business combinations from which the goodwill emerged. Impairment testing is described in more detail below in this note.

Other intangible assets

Other intangible assets include intangible rights and other intangible assets. Intangible assets such as system deliveries, which have a limited economic useful life, are recognized on the balance sheet at original acquisition cost less accumulated amortization and any impairment.

Technology and customer relationships owned by the Sitowise Group have been acquired in conjunction with previous mergers and acquisitions, and they were initially recognized on the balance sheet at fair value and are amortized using the straight-line method over their estimated economic useful lives.

The Sitowise Group assesses on the closing date of each financial period whether there are indications of the impairment of intangible assets other than goodwill. If indications emerge, the Group assesses the recoverable amount from the said asset. The recoverable amount is the fair value of the asset less the higher of costs of selling or value in use. An impairment loss is recognized through profit and loss when the book value of the asset exceeds the recoverable amount. When recognizing the impairment loss, the Group reassesses the economic useful life of the intangible asset. The impairment loss is reversed if a change has taken place in the circumstances and the recoverable amount of the asset has changed from the time of recognizing the impairment loss. However, the impairment loss will not be reversed in excess of the book value of the asset had the impairment loss not been recognized.

The impairment of goodwill is described in Note 3.2. impairment testing.

Significant decisions based on management discretion

Technology and customer relationships owned by the Sitowise Group have been acquired in conjunction with previous mergers and acquisitions, and they were initially recognized on the balance sheet at fair value and are amortized using the straight-line method over their estimated economic useful lives. The management has estimated the economic useful life of technology to be 5 years and the economic useful life of customer relationships to be 5 years.

EUR thousand	Goodwill	Other intangible assets	Total
Acquisition cost 1 January 2019	79,139	4,712	83,851
Business combinations	22,319	2,397	24,716
Increase		768	768
Decrease		426	426
Exchange rate differences	275		275
Acquisition cost 31 December 2019	101,733	8,303	110,035
Accumulated depreciation, amortization and impairment 1 January		-2,833	-2,833
Depreciation and amortization for the period		-1,509	-1,509
Accumulated depreciation, amortization and impairment 31 December		-4,342	-4,342
Acquisition cost 31 December 2019	**101,733**	**3,961**	**105,693**

EUR thousand	Goodwill	Other intangible assets	Total
Acquisition cost 1 January 2018	67,521	3,590	71,111
Business combinations	11,618	235	11,853
Increase		887	887
Acquisition cost 31 December 2018	79,139	4,712	83,851
Accumulated and depreciation and amortization for the period		-2,833	-2,833
Accumulated depreciation, amortization and impairment 31 December		-2,833	-2,833
Acquisition cost 31 December 2018	**79,139**	**1,879**	**81,018**

3.2.1. Impairment testing

Accounting policy
Goodwill is allocated to cash-generating units in impairment testing. The impairment testing is carried out annually, and if there are indications of value possibly being impaired. Furthermore, other assets are tested for impairment if there are indications of any impairment.

If any evidence of impairment is found, the recoverable amount of the said asset is estimated. The recoverable amount is determined on the basis of value in use. An impairment loss is recognized when the book value of the asset exceeds the recoverable amount. The impairment loss is immediately recognized through profit and loss, and the economic useful life of the amortized asset is reassessed when recognizing the impairment loss. The need for recognizing impairment losses is reviewed at the level of cash-generating units, namely the Sitowise Group. An impairment loss recognized for goodwill is never reversed.

Significant decisions based on management discretion
The preparation of calculations used in testing goodwill for impairment requires making estimates concerning the future. The management's estimates and related critical uncertainty factors are associated with the components of calculations concerning the recoverable amount, which include discount rate, growth rate after the projection period and development of net sales and operating profit, including the level of the company's costs. The discount rate indicates current estimates of the time value of money and a relevant risk premium, which, in turn, indicates risks and uncertainty factors not taken into account by adjusting the estimates concerning the corresponding cash flows. The discount rates used and projections of business growth and profitability, including sensitivity analyses, are presented below.

3.2.1.1. Impairment testing of goodwill
The Sitowise Group has one cash-generating unit at the level of which goodwill is monitored and to which goodwill is allocated. Cash flow projections are based on the confirmed budget for the next year and confirmed strategy for the subsequent years. The length of the projection period used in impairment testing calculations is five years.

The management's conservative estimate of long-term cash flow growth has been used in determining the growth in the terminal value. The growth factor used for the terminal value is 2.0% annual growth, corresponding to long-term GDP growth in the market areas in which the Sitowise Group operates. The discount rate of cash flows is determined using the weighted average cost of capital (WACC). The key factors of WACC are risk-free interest rate, market risk premium, industry-specific beta factor, cost of debt and ratio of equity to liabilities. The table below presents the assumptions by testing dates.

Impairment tests on 31 December 2019, 31 December 2018 and 31 December 2017 did not indicate a need for impairment of goodwill, with the recoverable amount exceeding the book value in all test periods.

The Sitowise Group has estimated that no anticipated change in the key assumptions would cause a situation in which the book value of a cash-generating unit would exceeds its recoverable amount. A sensitivity analysis was carried out in conjunction with the impairment testing, in which the discount rate was increased by 2 percentage points and the terminal growth assumption was reduced by 50% to 1%. Based on the sensitivity analyses, the probability of goodwill impairment losses was low. According to the view of the management, changes in the basic assumptions should not be interpreted as an indication of the probability of their realization. The sensitivity analyses are hypothetical and should be treated with caution.

Assumptions used in impairment calculation	31 December 2019	31 December 2018	31 December 2017
Growth in net sales during the projection period (CAGR)	5.6%	5.3%	11.4%
EBITDA during the projection period	13.2%	14.8%	14.9%
Terminal growth assumption	2.0%	2.0%	2.0%
Discount rate (pre-tax WACC)	7.1%	8.1%	8.2%

3.3. TANGIBLE ASSETS

Accounting policy
Tangible assets are primarily comprised of office furniture, IT hardware and other tools. Property, plant and equipment is measured at original acquisition cost less accumulated amortization and any impairment.

The Group assesses on the closing date of each reporting period whether there are indications of the impairment of a tangible asset. If indications emerge, the Group assesses the recoverable amount from the said asset. An impairment loss is recognized when the book value of the asset exceeds the recoverable amount.

EUR thousand	Machinery and equipment	Other tangible assets	Total
Acquisition cost 1 January 2019	7,452	36	7,488
Increase	2,650		2,650
Decrease	-159		-159
Exchange rate differences	6		6
Acquisition cost 31 December 2019	9,949	36	9,985
Accumulated depreciation, amortization and impairment 1 January	-4,562		-4,562
Depreciation and amortization for the period	-1,810		-1,810
Exchange rate differences	-1		-1
Accumulated depreciation, amortization and impairment 31 December	-6,372		-6,372
Acquisition cost 31 December 2019	**3,577**	**36**	**3,612**

EUR thousand	Machinery and equipment	Other tangible assets	Total
Acquisition cost 1 January 2018	6,082	36	6,118
Increase	1,375		1,375
Decrease	-5		-5
Exchange rate differences	0		0
Acquisition cost 31 December 2018	7,452	36	7,488
Accumulated and depreciation and amortization for the period	-4,562		-4,562
Exchange rate differences	0		0
Accumulated depreciation, amortization and impairment 31 December	-4,562		-4,562
Acquisition cost 31 December 2018	**2,891**	**36**	**2,926**

3.3.1. Leases IFRS 16

Accounting policy
As a rule, the Sitowise Group recognizes all lease-related assets (right of use assets) and lease liabilities on its balance sheet. At the time of concluding a contract, the Sitowise Group assesses whether the contract is a lease or includes a lease. The contract is a lease or includes a lease if the contract gives the right to control the use of a specific asset for a fixed period against consideration.

A right of use asset and a corresponding liability are recognized for all lessees' leases, with the exception of short-term leases and leases of minor value. The right of use asset is measured at acquisition cost at the start of the contract and later at acquisition cost less accumulated depreciation and amortization and any impairment losses, adjusted for the impact of any reassessments of the lease liability. The lease liability is measured at the start of the contract at the current value of rents not paid on the said date. At subsequent times, the amount of the lease liability is influenced by, inter alia, interest accrued on the lease liability, rents paid and amendments to the contract.

At the Sitowise Group, right of use assets include premises and vehicles leased under ordinary terms and conditions. The Group treats premises which have a period of notice of less than one year and are located in smaller locations as short-term leases. Computers, tablets, printers and similar hardware is treated as assets with minor value. The Group uses the IFRS relief clause and does not apply IFRS 16 to intangible assets. The discount rate used is the interest rate of the company's additional credit, the components of which are the reference interest rate and the financial institution's margin.

Sitowise Group has a sublease agreement that is part of a rental arrangement. Due to the principal rental arrangement, Sitowise Group does not recognize income from the sublease agreement and the Group does not recognize liabilities or capitalize fixed assets."

Significant decisions based on management discretion
The management of the Sitowise Group regularly reviews the strategic value of locations. This influences the IFRS 16 interpretation regarding for how long the Group is likely to extend a lease on premises until further notice, for example.

During the 2019 financial period, outgoing cash flow due to leases totalled EUR 5.2 million. During the 2018 financial period, outgoing cash flow due to leases totalled EUR 4.6 million.

EUR thousand	IFRS 16 right-of-use assets
Acquisition cost 1 January 2019	18,956
Increase	15,136
Decrease	-636
Exchange rate differences	11
Acquisition cost 31 December 2019	33,467
Accumulated depreciation, amortization and impairment 1 January	-4,316
Depreciation and amortization for the period	-5,195
Exchange rate differences	-7
Accumulated depreciation, amortization and impairment 31 December	-9,517
Acquisition cost 31 December 2019	**23,949**

EUR thousand	IFRS 16 right-of-use assets
Acquisition cost 1 January 2018	15,477
Increase	3,479
Decrease	
Exchange rate differences	0
Acquisition cost 31 December 2018	18,956
Accumulated and depreciation and amortization for the period	-4,316
Exchange rate differences	0
Accumulated depreciation, amortization and impairment 31 December	-4,316
Acquisition cost 31 December 2018	**14,640**

The Sitowise Group signed two leases on premises in Sweden in December 2019. The move from the old premises to new ones in Stockholm took place during 2020, and the lease commenced on 1 June 2020. The lease on the new premises in Malmö commenced on 2 January 2020.

Rent expenses from short-term contracts are included in other operating expenses, amounting to EUR 2,536 thousand in 2019 and EUR 1,734 thousand in 2018.

3.4. TRADE AND OTHER RECEIVABLES

Accounting policy

Trade receivables are recognized on the balance sheet at original invoiced value less any impairment. A provision for impairment is immediately recognized through profit and loss. An allowance for impairment is based on expected credit losses from trade receivables. The model of expected credit losses is forward-looking and based on the historic credit loss rate. The Sitowise Group records the final credit loss when debt collection measures prove to be unsuccessful. For example, a credit loss recommendation provided by the debt collection agency or the debtor applying for administration or bankruptcy.

Provisions for impairment related to trade receivables are based on historic data concerning materialized credit losses. The expected credit loss rate for all trade receivables is 2.8%, including trade receivables more than 365 days overdue, for which 100% impairment is recognized in accordance with the expected credit loss rate.

No expected credit loss provisions has been made on project receivables.

EUR thousand	2019	2018
Trade receivables	27,931	26,087
Project receivables	8,749	4,079
Expenses not belonging to the period	4,853	3,396
Other accrued income	646	565
Total	**42,179**	**34,127**

3.5. PROVISIONS

Accounting policy

A provision is recorded when the Group has a legal or constructive obligation based on a past event and it is probable that fulfilling the obligation will require a payment, and the amount of the obligation can be estimated reliably. Provisions are recognized at the present value of the costs required to cover the obligation, according to the best estimate of the management at the end of the reporting period. If it is possible to obtain compensation from a third party for some of the obligation, the compensation is reduced from the provision, but only at the point when it is probable that the Group will receive the compensation. A provision is only recognized in the case that an obligation can be estimated reliably.

At the time of recognition, management needs to assess whether an obligation exists that is probable and what is the magnitude and timing of the probable obligation.

EUR thousand	2019	Expected credit loss	Expected credit loss	2018	Expected credit loss	Expected credit loss
Undue	23,838	0.01%	2	23,639	0.01%	2
0–29 days	3,219	0.1%	3	1,569	0.1%	2
30–59 days	493	1.0%	5	-60	1.0%	-1
60–119 days	117	4.0%	5	522	4.0%	22
120–365 days	265	6.3%	18	417	6.3%	28
Over 365 days	0	100%	777	0	100%	627
Total	**27,932**		**810**	**26,087**		**679**

A provision is recognized on onerous (loss-making) contracts in which the unavoidable costs of meeting the obligations exceed the benefits received from the contract. A loss provision is reduced as revenue is recognized from an onerous project.

Provisions include normal business related claims and onerous contracts related provisions.

EUR thousand	2019	2018
Provisions 1.1.	974	638
Change	660	337
Provisions 31.12.	**1,634**	**974**

3.6. ACCOUNTS PAYABLE AND OTHER LIABILITIES

EUR thousand	2019	2018
Accounts payable	5,494	3,390
Liabilities based on contracts with customers	6,370	4,262
Accrued expenses	20,980	19,253
Other liabilities	10,961	5,550
Total	**43,805**	**32,455**

The most essential items in accrued expenses included accrual of personnel expenses and ordinary business-related accrued costs.

Other liabilities include the purchase price liabilities associated with mergers and acquisitions. The acquisition of Karlsson & Segerström, for example, was carried out at the end of 2019.

Liabilities based on customer contracts include both the difference between net sales based on the percentage of completion and invoicing, and ordinary provisions for costs relating to customer projects.

Estimated cost accruals have been taken into account in the project revenue and/or cost accruals.

4. FINANCIAL ITEMS AND CAPITAL STRUCTURE

4.1. FINANCIAL INCOME AND EXPENSES

EUR thousand	2019	2018
Dividend income	1	0
Other interest and financial income	476	48
Interest on lease liabilities	-503	-455
Interest expenses	-2,161	-1,451
Other financial expenses	-81	-188
Impairment *)	0	-99
Total	**-2,268**	**-2,145**

*) Impairment of golf shares.

4.2. FINANCIAL ASSETS AND LIABILITIES

Measurement of fair values

The fair value of an asset or liability is the price that would be received from selling the asset or paid for transferring the debt between market parties in a regular transaction on the measurement date. The Sitowise Group makes use of market data in measuring fair value if there is an active market for the financial asset or liability. Otherwise, other measurement methods will be applied.

Fair values are classified as follows to different levels of the fair value hierarchy, illustrating the significance of input data used in the measurement methods:

- Level 1: Quoted fair values for identical assets and liabilities in active markets
- Level 2: Fair values are measured using inputs other than quoted prices included within Level 1, and they are observable for the asset or liability, either directly or indirectly.
- Level 3: Fair values are measured using asset or liability data not based on observable market inputs

The Sitowise Group considers that the book values of current trade receivables, accounts payable and cash and cash equivalents correspond to the best estimate of their fair values. Moreover, the Group considers that the book values of loans from financial institutions and other non-current liabilities correspond to the best estimate of their fair values.

4.2.1. Financial assets

The Group classifies its financial assets under the Measured at amortized cost category. The classification of financial assets is based on the business model specified by the Group and contractual cash flows of financial assets. At Sitowise, non-current receivables include receivables falling due after more than one year. Current financial assets include trade receivables and cash and cash equivalents.

Cash and any bank deposits that can be withdrawn on demand are included in cash equivalents at the Sitowise Group. Short-term deposits are considered to be easily convertible into cash because their original maturity is at most three months. The cash and cash equivalents reported on the balance sheet correspond to the cash and cash equivalents reported on the cash flow statement. On 31 December 2019, cash and cash equivalents amounted to EUR 10,346 thousand (31 December 2018: EUR 9,280 thousand).

Cash and cash equivalents are derecognized when the Group has lost the contractual right to cash flows or has transferred risks and income to outside the Group to a significant extent.

4.2.2. Financial liabilities

Financial liabilities measured at amortized cost are included in the Group's external loans from financial institutions and accounts payable. Financial liabilities are measured initially at fair value and recognized on the balance sheet less transaction costs. A financial liability is classified as current if the Group does not have an unconditional right to postpone the repayment of the liability a minimum of 12 months from the closing date of the reporting period. If loans are repaid or refinanced, any remaining costs not expensed relating to them are recognized in financial expenses.

Financial assets/liabilities 31 December 2019 EUR thousand	Measured at amortized cost	Measured at fair value through other comprehensive income	At fair value through profit and loss	Book value total	Fair value	Level 1	Level 2	Level 3
Non-current financial assets								
Other shares and participations		1,252		1,252	1,252			1,252
Other financial assets	23,949						23,949	
Loans receivable								
Current financial assets								
Trade receivables	27,931			27,931	27,931			
Cash and cash equivalents	10,346			10,346	10,346			
Total	**62,226**	**1,252**		**39,529**	**39,529**			

Financial assets/liabilities 31 December 2018 EUR thousand	Measured at amortized cost	Measured at fair value through other comprehensive income	At fair value through profit and loss	Book value total	Fair value	Level 1	Level 2	Level 3
Non-current financial assets								
Other shares, similar rights of ownership and receivables		823		823	823			823
Other financial assets	14,640						14,640	
Loans receivable	40			40	40		40	
Current financial assets								
Trade receivables	26,087			26,087	26,087			
Cash and cash equivalents	9,280			9,280	9,280			
Total	**50,046**	**823**	**0**	**36,230**	**36,230**			

Financial assets/liabilities 31 December 2019 EUR thousand	Measured at amortized cost	Measured at fair value through other comprehensive income	At fair value through profit and loss	Book value total	Fair value	Level 1	Level 2	Level 3
Non-current financial liabilities								
Loans from financial institutions	57,625			57,625	57,625		57,625	
Other non-current liabilities	19,554			19,554	19,554		19,554	
Current financial liabilities								
Loans from financial institutions	3,383			3,383	3,383		3,383	
Accounts payable	5,494			5,494	5,494			
Other current liabilities	4,595		4,931	9,527	9,527		4,595	4,931
Total	**90,651**		**4,931**	**95,583**	**95,583**			

Financial assets/liabilities 31 December 2018 EUR thousand	Measured at amortized cost	Measured at fair value through other comprehensive income	At fair value through profit and loss	Book value total	Fair value	Level 1	Level 2	Level 3
Non-current financial liabilities								
Loans from financial institutions	40,642			40,642	40,642		40,642	
Other non-current liabilities	10,264			10,264	10,264		10,264	
Current financial liabilities								
Loans from financial institutions	8,018			8,018	8,018		8,018	
Accounts payable	3,390			3,390	3,390			
Other current liabilities	4,596		480	5,076	5,076		4,596	480
Total	**66,911**		**480**	**67,391**	**67,391**			

These financial liabilities are measured at amortized cost using the effective interest method.

The Sitowise Group had an estimated EUR 4,931 thousand (31 December 2019) and EUR 480 thousand (31 December 2018) of additional purchase price liabilities.

Loans from financial institutions were comprised of a variable rate bank loan in 2019. The bank loans include ordinary covenants, such as cash flow covenant, ratio of net debt to EBITDA and investment covenant. During the 2018 and 2019 financial periods, the Group fulfilled all of the covenants.

Share type	31 December 2019	Change	31 December 2018
A1	471,506	0	471,506
A2	817,951	50,890	767,061
P1	12,367,506	1,318,879	11,048,627
P2	8,822,906	-35,254	8,858,160
Total	**22,479,869**	**1,334,515**	**21,145,354**

4.2.3. Shares

Sitowise Holding I Oy has four series of shares: A1, A2, P1 and P2. All share series combined, the number of shares was 22,479,869 shares and share capital amounted to EUR 2,500 on 31 December 2019. The company held a total of 476,185 of its own A2, P1 and P2 shares.

The company's series A1, A2, P1 and P2 shares differ with regard to the rights and obligations they confer as specified in article 6 of the Articles of Association. The company's shares are subject to a redemption clause pursuant to article 9 of the Articles of Association.

On 31 December 2019, the company had shares as follows:

Directed share issues were organized during the financial period in conjunction with mergers and acquisition and with inviting the company's key personnel to become partners.

Series P1 and P2 shares have priority in repayment order to series A1 and A2 shares. The holding is based on series A1 and A2 shares.

The Board of Directors proposed and the Annual General Meeting approved that dividends of EUR 665,856.26 were distributed to series P1 shares for the financial period ended 31 December 2019.

4.2.4. Fund for invested unrestricted equity

Payments made for subscriptions for shares during the financial period are recognized in full in the fund for invested unrestricted equity.

4.2.5. Equity loans

Sitowise Holding I Oy has shareholders loans that meet the criteria for equity loans, and these loans are treated as part of shareholders' equity. The Group has no payment obligation relating to the principal or interest of the loan. Sitowise Holding I Oy has not and will not grant a security for the payment of the principal or interest of the subordinated loan. Sitowise Holding I Oy has the right, but no obligation to refund the principal of the subordinated loan or pay interest. The borrower's board of directors decides on the payment of interest on the subordinated loan and refund of principal. The subordinated loan has no maturity date. On 31 December 2019, equity loans totalled EUR 14.1 million (EUR 14.1 million on 31 December 2018).

5. FINANCIAL AND CAPITAL RISKS

5.1. MANAGEMENT OF FINANCIAL RISKS

The management of financial risks at the Sitowise Group aims to ensure the financial stability of the Group and availability of sufficient financing options in different market situations. In addition, the aim is to support the businesses in identifying and managing business-related financial risks. The Group is exposed to diverse market risks. Changes in these risks have effects on the company's assets, liabilities and anticipated business transactions. The risks are caused by changes in interest and exchange rates. Financial risk management is carried out as part of the Group's risk management efforts. The foundation of the management of financial risks is based on principles aiming for business continuity.

The situation of financial risks is regularly reported on to the company's Board of Directors and management. The company's Board of Directors makes the most significant in-principle decisions concerning risk management. The Board of Directors reviews all material financing-related matters, such as external loan arrangements, on a case-by-case basis. The CFO of the Sitowise Group is responsible for ensuring financing, identifying risks and, if necessary, implementation of hedging together with external counterparties. The business units and subsidiaries are responsible for the management of risks involved in their respective business operations, and subsidiaries also for projecting cash flows.

5.1.1. Exchange rate risk

The Sitowise Group is exposed to exchange risks, the most significant of which is the Swedish krona through the business operations of the Swedish subsidiaries. The Sitowise Group does not actively hedge against exchange rate risks, as the income and expenses of business operations are primarily in the same currency ("natural hedge").

Translation risks is primarily caused by foreign currency-denominated internal loans of the parent company. The Group's finance unit regularly analyzes translation risk and reports on essential factors in this area to the management. The most significant internal loans are denominated in the Swedish krona. The translation risk is not hedged.

5.1.2. Interest rate risk

The Group is exposed to financial risks, such as the impacts of changes in interest rates and availability of competitive financing. Changes in the macroeconomic environment or general situation in the financial markets may have negative impacts on the availability, price and other terms and conditions of financing. An increase in interest rates could have a material direct impact on the costs of available financing and the company's existing financial expenses. An increase in interest rates could thereby affect the costs of the company's debt financing in the future. The company aims to continuously project and monitor the need for financing in its business operations so that the company has sufficient liquid assets for financing its operations and repaying maturing debt.

On the closing date, the Group had EUR 61 million in interest-bearing bank loans (2018: EUR 49 million). Loans from financial institutions were comprised of a variable rate loan in 2019, similarly to the previous year. On the closing date, the interest rate exposure of the Sitowise Group was approximately EUR 600 thousand, assuming that interest rates would increase by one percentage point. See also 4.2.2. Financial liabilities.

5.1.3. Credit risk

Credit risk is the risk of a financial loss that occurs if a customer fails to fulfil their contractual obligations. The credit risk of the Sitowise Group is related to counterparties from which it has outstanding receivables or with which the Sitowise Group has long-term contracts. The tools of credit risk management at the Sitowise Group include frontloaded payment schedules of projects, thorough investigation of the customers' background data and agreeing on advance payments.

The Sitowise Group assesses at the end of each reporting period whether there is objective evidence of impairment of a financial asset or group of financial assets. If there is justified indication of impairment, the said financial asset is recognized as a credit loss. Credit losses are recognized as expenses through profit and loss.

The Sitowise Group considers that there are indications of a credit loss if any of the following indications is present:

- Significant financial difficulties of the debtor
- Probability of the debtor's bankruptcy or other financial restructuring
- Default of payments

5.1.4. Solvency risk

In order to manage the solvency risk, the Sitowise Group continuously maintains sufficient liquidity reserves. The Sitowise Group aims to have a sufficient amount of liquid assets to deal with fluctuations in the need for working capital. At the end of 2019, cash and cash equivalents totalled EUR 10 million (2018: EUR 9 million). At the end of 2019, the Group additionally had a EUR 5 million unused overdraft facility (2018: EUR 5 million unused overdraft facility).

Contractual cash flows in financial liabilities

EUR thousand	2020	2021	2022 ->
Loans from financial institutions	3,739	3,739	59,768
Lease liabilities	4,655	3,402	18,782
Accounts payable	5,494		
Total	**13,889**	**7,141**	**78,550**

EUR thousand	2019	2020	2021 ->
Loans from financial institutions	8,328	3,739	63,507
Lease liabilities	4,896	4,655	22,184
Accounts payable	3,390		
Total	**16,613**	**8,394**	**85,691**

5.2. MANAGEMENT OF CAPITAL RISKS

In the management of working capital, the Sitowise Group aims to ensure the ability to operate continuously in order to be able to provide the shareholders with returns and increase the value of their invested capital. The Sitowise Group monitors the ratio of net debt to adjusted EBITDA.

Net debt is calculated as current and non-current loans from financial institutions less cash and cash equivalents. The desired ratio of net debt to EBITDA is tied to the covenants of credit arrangements.

The table below presents the net debt of the Sitowise Group.

EUR thousand	2019	2018
Loans from financial institutions	61,008	48,660
Cash and cash equivalents	-10,346	-9,280
Net debt	**50,662**	**39,381**

Net debt does not include IFRS 16 lease liabilities

6. DISCONTINUED OPERATIONS

The Sitowise Group took part in a dredging contracting project in Lithuania in 2017–2019. The project, Klaipeda, was not part of the Sitowise Group's core business, and it ended in spring 2019. Project Klaipeda is reported under discontinued operations in the profit and loss account, and the figures for the comparison period have been adjusted. Project Klaipeda is a "discontinued operation" pursuant to IFRS 5.

The Sitowise Group was divesting its subsidiary Sitowise AS at the end of 2019. Sitowise AS is reported under discontinued operations in the profit and loss account, and the figures for the comparison period have not been adjusted. Project Klaipeda is "held for sale" pursuant to IFRS 5.

The profit, assets and liabilities of discontinued operations are presented in the tables below.

EUR thousand	2019	2018
Income	3,694	2,717
Expenses	-4,706	-9,113
Profit before taxes	**-1,012**	**-6,397**
Taxes	0	0
Result from discontinued operations	**-1,012**	**-6,397**

EUR thousand	12/2019
Non-current assets	1
Trade and other receivables	441
Cash and cash equivalents	108
Accounts payable and other liabilities	-410

7. OTHER NOTES

7.1. GROUP STRUCTURE

Accounting policy

The consolidated financial statements include the parent company Sitowise Holding I Oy and all subsidiaries over which the parent company had control on the closing date of the reporting period. Sitowise Holding I Oy has control when it is exposed, or has rights, to variable returns from its involvement with a company and has the ability to affect those returns through its power over the company. Acquired subsidiaries are consolidated as of the date on which Sitowise Holding I Oy gains control. Divested subsidiaries are consolidated until control ceases to exist.

Intra-Group transactions, receivables, debts and unrealized margins and internal distribution of profits are eliminated in preparing the consolidated financial statements. The allocation of profit (loss) for the financial period to non-controlling interests is presented in the statement of comprehensive income. Non-controlling interests' share of shareholders' equity is reported as a separate figure under shareholders' equity on the balance sheet.

Associated companies are companies in which the Group has considerable influence. The Group considers considerable influence to emerge primarily when the Group holds 20–50 per cent of a company's votes or has otherwise considerable influence, but no control. Associated companies are consolidated in the financial statements using the equity method.

At the end of the financial year, the Sitowise Holding I Oy Group was comprised of the parent company Sitowise Holding I Oy and the following companies:

Company	Domicile	Holding 2019		Holding 2018	
Sitowise Holding II Oy	Espoo	100.0%		100.0%	
Sitowise Oy	Espoo	100.0%		100.0%	
Sito Rakennuttajat Oy	Espoo	100.0%		100.0%	
Sito Liikkumispalvelut Oy	Espoo			100.0%	*)
Dimenteq Oy	Salo			100.0%	*)
Envimetria Oy	Lohja	100.0%	******)		
Helimäki Akustikot Oy	Helsinki	100.0%	******)	100.0%	
HS Tec Oy	Kangasala	100.0%	**)	100.0%	
Insinööritoimisto LVI-Insinöörit Oy	Kuopio	100.0%	***)		
Instaro Oy	Oulu			100.0%	*)
Kon-Ins Oy	Raisio	100.0%	**)	100.0%	
Maapörssi Oy	Järvenpää	100.0%		100.0%	
Saircon Oy	Vantaa	100.0%	*******)		
Siltaexpertit Oy	Pornainen	100.0%	***)	100.0%	
Sähkösuunnittelu Elbox Oy	Vantaa	100.0%			
Wise Group Consulting Oy	Helsinki	100.0%	****)	100.0%	
Yhtyneet Insinöörit Oy	Helsinki	100.0%	***)		
AS DWG	Riga, Latvia	55.0%		55.0%	
Byggnadstekniska Byrån AB	Stockholm, Sweden	100.0%			
Karlsson Segelström Construct AB	Örebro, Sweden	100.0%			
Segelström & Karlsson Bygg AB	Örebro, Sweden	100.0%			
Sitowise AS	Oslo, Norway		*****)	94.6%	
Sitowise Consulting Oü	Tallinn, Estonia	100.0%		100.0%	
Sitowise Holding AB	Stockholm, Sweden	100.0%			

*) Companies merged with Sitowise Oy on 31 December 2018
**) Companies merged with Sitowise Oy on 31 May 2019
***) Companies merged with Sitowise Oy on 31 December 2019
****) Not consolidated in the consolidated financial statements, company has no operations, merged on 31 May 2020
*****) Sitowise Oy's holding divested in November 2019
******) Companies merged with Sitowise Oy on 31 May 2020
*******) Company merged with Sitowise Oy on 31 July 2020

7.2. INCOME TAXES

Accounting policy

The Sitowise Group's tax expense recognized through profit and loss is comprised of tax based on the taxable profit for the period, any taxes on previous financial periods and deferred taxes. The tax based on the taxable profit for the period is calculated in accordance with the local tax legislation of each Group company. If the taxes are associated with other comprehensive income or transactions or other events recognized directly in shareholders' equity, income taxes are recognized in the said items. The tax for the financial period is calculated using the tax rates confirmed by the closing date of the reporting period.

Deferred tax assets and liabilities are primarily recognized for all temporary differences between the tax bases of assets and liabilities and unused tax losses and credits. The most significant temporary differences arise from tangible and intangible assets, confirmed tax losses and allocations of the fair values of subsidiary acquisitions. Deferred tax assets are recognized at the maximum up to the amount for which it is probable that there will be future taxable income against which the temporary difference can be used. The prerequisites for recognizing deferred tax assets are assessed on the closing date of the reporting period. Deferred tax liabilities are recognized in full. Deferred taxes are recognized using the tax rates enacted or factually confirmed by the closing date of the reporting period.

Significant decisions based on management discretion

The decision on recognizing deferred tax assets on the balance sheet requires discretion. Deferred tax assets are only recognized when it is more likely that they will be realized than not realized, which, in turn, is determined by whether sufficient taxable income will be generated in the future. The assumptions concerning the accumulation of taxable income are based on future cash flows projected by the management. These estimates concerning future cash flows, on the other hand, depend on estimates concerning the volume of future sales, business expenses, investments and other items affecting the profitability of business operations, among other things. These estimates and assumptions involve risks and uncertainty, and therefore it is possible that changes in conditions result in charges in expectations, which in turn can affect the deferred tax assets recognized on the balance sheet as well as any other tax losses or temporary differences not yet recognized. The ability of the Sitowise Group to accumulate taxable income also depends on general factors relating to the economy, financing, competitiveness, legislation and regulation which are beyond its own control. If the future taxable income of the Sitowise Group is lower than projected by the management when measuring the deferred tax assets to be recognized, the value of the assets decreases or they lose all value. In this case, the amounts recognized on the balance sheet may have to be reversed through profit and loss. Changes in circumstances can also lead to recognizing deferred tax assets for confirmed losses for which no receivables have been currently recognized.

EUR thousand	2019	2018
Tax based on the taxable profit for the financial year	-1,721	-1,655
Adjustments concerning previous financial periods	1	9
Change in deferred taxes	1,214	33
Total	**-506**	**-1,613**

Reconciliation between tax expenses and taxes calculated using the 20% domestic tax rate

EUR thousand	2019	2018
Profit before taxes	8,376	11,126
Tax calculated using the 20% domestic tax rate	-1,675	-2,225
Adjustments concerning previous financial periods	1	9
Differing tax rates of foreign subsidiaries	-19	-3
Tax-free income and non-deductible expenses	444	215
Confirmed loss	642	0
Other items	101	391
Taxes on the profit and loss account	**-506**	**-1,613**

EUR thousand	1 January 2019	Recognized on the profit and loss account	Recognized in shareholders' equity	31 December 2019
Financing items				0
Difference between depreciation and amortization in accounting and taxation	44	56		101
Other items	137	1,164		1,300
Deferred tax assets total	**181**	**1,220**	**0**	**1,401**
Financing items	173	20		193
Difference between depreciation and amortization in accounting and taxation				0
Other items	-1	1,065		1,064
Deferred tax liabilities total	**172**	**1,085**	**0**	**1,257**

Deferred tax assets, other items, includes deferred tax assets of EUR 1.2 million due to Sito Rakennuttajat Oy's confirmed loss.

Deferred tax liabilities, other items, includes deferred tax liabilities of EUR 1.1 million from mergers and acquisitions carried out during the financial period.

EUR thousand	1 January 2018	Recognized on the profit and loss account	Recognized in shareholders' equity	31 December 2018
Financing items				0
Difference between depreciation and amortization in accounting and taxation		44		44
Other items	159	-22		137
Deferred tax assets total	**159**	**22**	**0**	**181**
Financing items	184	-11		173
Difference between depreciation and amortization in accounting and taxation				0
Other items		-1		-1
Deferred tax liabilities total	**184**	**-12**	**0**	**172**

7.3. RELATED PARTY TRANSACTIONS

Accounting policy

Parties are considered to be related when one party can exercise control, shared control or significant influence over the other in decision-making involving its finances and operating activities.

The related parties of the Sitowise Group include major shareholders, the parent company, subsidiaries and key management personnel. Key management personnel include members of the Board of Directors, the Managing Director and members of the Group Management Team and their immediate family members.

Intera Fund III Ky holds 37.0% of the shares in Sitowise Holding I Oy. The holding is based on series A1 and A2 shares.

Transactions with related parties not eliminated in the consolidated financial statements are reported as related party transactions.

EUR thousand	2019	2018
Other related parties		
Income		
Expenses	-173	-58
Receivables	845	395
Liabilities	4	

Other related parties include transactions by the members of the Board of Directors or key management personnel and their family members, or companies over which they exercise control, with Group companies.

7.3.1. Remuneration and holdings of the management

The Annual General Meeting decides on the remuneration of the members of the Board of Directors. As of September 2019, the remuneration paid to the chairman of the Board of Directors is EUR 3,500 per month and the remuneration paid to other members (excluding the representatives of Intera Partners) is EUR 950 per month.

The remuneration of the Managing Directors and members of the Group Management Team is comprised of total salary (including salary and any fringe benefits, such as ordinary company car and mobile phone benefit) and a short-term incentive decided on by the company's Board of Directors. The short-term incentive is comprised of an annual performance bonus. The Sitowise Group has not taken out additional pension insurance policies for the Managing Director or senior management. The Board of Directors annually confirms the conditions and reward criteria based on which performance bonuses are paid to the Group Management Team. Any performance bonus is based on reaching the set financial objectives, such as EBITDA or other objectives, at the level of the Group and/or the business unit concerned. In addition to these, members of the Group Management Team may have personal or team-specific objectives.

EUR thousand	2019	2018
Remuneration of the Board of Directors	56	63
Wages and salaries paid to the Managing Directors, including fringe benefits	457	204
Wages and salaries paid to the members of the Management Team, including fringe benefits	1,080	975
Management's wages and salaries total	**1,593**	**1,242**

The Managing Director changed during 2019, and both directors' wages and salaries are reported in the table. The wages and salaries are cash-based.

The Managing Director's retirement age is 64 years and six months. The period of notice of the Managing Director is six months for both parties. Besides salary for the period of notice, the Managing Director is not entitled to a separate severance payment upon resigning. If the company terminates the Managing Director's employment due to a reason other than the Managing Director's severe misconduct, crime or similar reason, the Managing Director is, in addition to salary for the six-month period of notice, entitled to compensation amounting to a maximum of six months' salary, provided that the Managing Director has not entered into an employment or service relationship with a third party during the said period.

Holdings of the Board of Directors and Management Team	qty	% of shares
Board of Directors *)	9,109	0.7%
Managing Director	10,998	0.9%
Other members of the Management Team	41,572	3.3%
Total	**1,273,178**	**100%**

*) Includes direct holding and/or via a company

Some of the members of the Board of Directors are in the service of Intera Partners. Intera Fund III Ky, governed by Intera Partners, held 37% of the shares at the end of 2019.

7.3.2. Share-based incentive scheme

In June 2019, the Board of Directors of the Sitowise Group decided, as authorized by the shareholders, on a share-based incentive scheme for the Managing Director of the Sitowise Group. The share-based incentive scheme is part of the company's remuneration scheme for the Managing Director, and it aims to support the implementation of the company's strategy and to align the objectives of the Managing Director and the company's shareholders to increase the value of the company and improve its performance.

The share-based incentive scheme is considered to be included in the scope of application of IFRS 2 Share-based Payment. The option rights included in the scheme are measured at fair value at the time of granting and expensed through profit and loss in equal items as the vesting period proceeds. The expense determined at the time of granting the options is based on the Group's estimate of the number of options expected to be vested at the end of the vesting period. The fair value is determined using the Black-Scholes-Merton model. The Group updates the assumption of the final number of options on the closing date of each reporting period. Changes in the estimates are recognized through profit and loss.

The Managing Director has the right to subscribe for 7,692 series A2 shares in Sitowise Holding I Oy. The subscription period of the shares commences on the date on which the options are granted and is valid until further notice. Each option entitles its holder to subscribe for one new series A2 share in the company. The subscription price of the shares is EUR 52 per A2 share. The profit and loss account of the Sitowise Group for 2019 includes expenses of EUR 34 thousand relating to this.

7.4. SIGNIFICANT EVENTS AFTER THE CLOSING DATE

Minttu Vilander, M.A., started as Chief Communications and Corporate Responsibility Officer and member of the Management Team at Sitowise in February.

The full demerger of Sitowise Oy's wholly owned subsidiary Sito Rakennuttajat Oy was registered on 30 June 2020.

Sitowise Oy's wholly owned subsidiaries Envimetria Oy, Helimäki Akustikot Oy and Wise Group Consulting Oy merged into Sitowise Oy on 31 May 2020.

Sitowise Oy's wholly owned subsidiary Saircon Oy merged into Sitowise Oy on 31 July 2020.

In July, Sitowise Oy acquired the entire share capital of Jyväskylä-based IT company Ficonic Solutions Oy.

In August, Sitowise Oy divested its telecommunications business to Rejlers. The telecommunications unit has been part of the Project management business of Sitowise, which will be reorganized with the divestment. In the transformation, Sitowise's building development function will become part of the Building Solutions business and infrastructure development and circular economy and project management will be part of the Infrastructure Solutions business going forward.

The impact of COVID-19 on the Sitowise Group is described in the Board of Directors' report under future outlook.

7.5. CONTINGENCIES AND COMMITMENTS

Sitowise Group's contingencies and commitments are listed in the table below:

EUR thousand	2019	2018
Pledges and commitments given on own account		
Business mortgages	284,000	284,000
Pledged shares	179,658	126,125
Bank guarantees	1,953	2,031
Total	**465,611**	**412,156**
Bank guarantees		
Contract guarantees	150	150
Other guarantees	1,803	1,881
Total	**1,953**	**2,031**
Received guarantees		
Escrow	200	200

8. ADOPTION OF IFRS STANDARDS

The IFRS financial statements are the Sitowise Group's first consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the EU in force on 31 December 2019. The IFRS transition date was 1 January 2018. The Group applied IFRS 1 First-time Adoption of International Financial Reporting Standards in the IFRS transition. In addition, the Group applied IFRS 16 Leases as of 1 January 2018.

Previously, the Group followed the Finnish Accounting Standards (FAS).

The impacts of the adoption of IFRS standards on the consolidated profit and loss account for the financial period 1 January–31 December 2018 and consolidated balance sheet pursuant to the Finnish Accounting Standards (FAS) on the IFRS transition dates 1 January 2018 and 31 December 2018.

Income reconciliation 1 January–31 December 2018 EUR thousand	FY 2018 FAS	Leases	Discontinued operations	Acquisitions	Other adjustments	FY 2018 IFRS
Net sales	128,611	0	-223	0	-2,696	125,693
Other operating income	1,020	0	0	0	0	1,020
Materials and services	-17,667	0	2,051	0	2,696	-12,921
Personnel expenses	-80,150	0	272	0	-18	-79,896
Other operating expenses	-21,130	4,551	1,762	-134	116	-14,834
Share of profit of associated companies	393	0	0	0	0	393
Depreciation, amortization and impairment	-11,050	-4,316	0	9,182	0	-6,184
Operating profit	**28**	**235**	**3,862**	**9,048**	**98**	**13,271**
Financial income	48	0	0	0	0	48
Financial expenses	-5,162	-455	2,618	0	806	-2,193
Profit before taxes	**-5,086**	**-221**	**6,480**	**9,048**	**904**	**11,126**
Income taxes	-1,645	44	0	1	-12	-1,613
Result from continuing operations	**-6,731**	**-177**	**6,480**	**9,049**	**892**	**9,513**
Discontinued operations						
Result from discontinued operations	0	0	-6,480	0	0	-6,480
Profit for the period	**-6,731**	**-177**	**0**	**9,049**	**892**	**3,033**

Income reconciliation 1 January–31 December 2019 EUR thousand	FY 2019 FAS	Leases	Discontinued operations	Acquisitions	Other adjustments	FY 2019 IFRS
Net sales	147,990	0	-3,694	0	-1,280	143,016
Other operating income	560	254	0	0	0	815
Materials and services	-17,658	0	2,980	0	1,280	-13,398
Personnel expenses	-92,637	0	1,200	0	-255	-91,692
Other operating expenses	-25,210	5,464	1,244	-789	-132	-19,422
Share of profit of associated companies	0	0	0	0	0	0
Depreciation, amortization and impairment	-13,311	-5,195	-725	10,556	0	-8,674
Operating profit	**-265**	**523**	**1,004**	**9,767**	**-386**	**10,644**
Financial income	44	0	0	0	433	477
Financial expenses	-3,204	-503	0	0	962	-2,745
Profit before taxes	**-3,425**	**21**	**1,004**	**9,767**	**1,009**	**8,376**
Income taxes	-572	-4	0	64	6	-506
Result from continuing operations	**-3,997**	**17**	**1,004**	**9,831**	**1,015**	**7,870**
Discontinued operations						
Result from discontinued operations	0	0	-1,012	0	0	-1,012
Profit for the period	**-3,997**	**17**	**-8**	**9,831**	**1,015**	**6,858**

Balance sheet reconciliation 1 January 2018 EUR thousand	1 January 2018 FAS	Leases	Discontinued operations	Acquisitions	Other adjustments	1 January 2018 IFRS
Assets						
Goodwill	67,521	0	0	0	0	67,521
Other intangible assets	1,923	0	0	0	-627	1,296
Tangible assets	2,264	15,477	0	0	627	18,368
Participating interests	1,331	0	0	0	0	1,331
Other shares, similar rights of ownership and receivables	744	0	0	0	0	744
Deferred tax assets	0	0	0	0	159	159
Other receivables	2	0	0	0	0	2
Non-current assets total	**73,785**	**15,477**	**0**	**0**	**159**	**89,421**
Trade and other receivables	30,358	0	0	0	-794	29,563
Cash and cash equivalents	1,681	0	0	0	0	1,681
Current assets total	**32,038**	**0**	**0**	**0**	**-794**	**31,244**
Assets total	**105,824**	**15,477**	**0**	**0**	**-635**	**120,666**

EUR thousand	1 January 2018 FAS	Leases	Discontinued operations	Acquisitions	Other adjustments	1 January 2018 IFRS
Shareholders' equity and liabilities						
Share capital	3	0	0	0	0	3
Fund for invested unrestricted equity	30,119	0	0	0	0	30,119
Subordinated loans	14,145	0	0	0	0	14,145
Retained earnings	-2,497	0	0	0	748	-1,748
Equity attributable to owners of the parent	**41,770**	**0**	**0**	**0**	**748**	**42,519**
Non-controlling interest	**0**	**0**	**0**	**0**	**0**	**0**
Deferred tax liabilities	0	0	0	0	184	184
Financial liabilities	33,594	11,466	0	0	-864	44,196
Other liabilities	22	0	0	0	0	22
Non-current liabilities total	**33,617**	**11,466**	**0**	**0**	**-681**	**44,402**
Contractual liabilities						
Income tax liabilities	375	0	0	0	0	375
Financial liabilities	3,325	4,012	0	0	-54	7,282
Accounts payable and other liabilities	26,737	0	0	0	-649	26,088
Total current liabilities	**30,437**	**4,012**	**0**	**0**	**-703**	**33,745**
Total shareholders' equity and liabilities	**105,824**	**15,477**	**0**	**0**	**-635**	**120,666**

Balance sheet reconciliation 31 December 2018 EUR thousand	31 December 2018 FAS	Leases	Discontinued operations	Acquisitions	Other adjustments	31 December 2018 IFRS
Assets						
Goodwill	70,318	0	0	8,821	0	79,139
Other intangible assets	2,200	0	0	227	-548	1,879
Tangible assets	2,379	14,640	0	0	548	17,566
Participating interests	0	0	0	0	0	0
Other shares, similar rights of ownership and receivables	823	0	0	0	0	823
Deferred tax assets	1	44	0	0	136	181
Non-current assets total	**75,721**	**14,684**	**0**	**9,048**	**136**	**99,589**
Trade and other receivables	37,999	0	0	0	-3,871	34,127
Cash and cash equivalents	9,280	0	0	0	0	9,280
Current assets total	**47,278**	**0**	**0**	**0**	**-3,871**	**43,407**
Assets total	**122,999**	**14,684**	**0**	**9,048**	**-3,736**	**142,996**

EUR thousand	31 December 2018 FAS	Leases	Discontinued operations	Acquisitions	Other adjustments	31 December 2018 IFRS
Shareholders' equity and liabilities						
Share capital	3	0	0	0	0	3
Fund for invested unrestricted equity	32,610	0	0	0	0	32,610
Subordinated loans	14,145	0	0	0	0	14,145
Retained earnings	-11,654	-177	0	9,049	1,658	-1,124
Equity attributable to owners of the parent	**35,104**	**-177**	**0**	**9,049**	**1,658**	**45,634**
Non-controlling interest	**164**	**0**	**0**	**0**	**0**	**164**
Deferred tax liabilities	0	0	0	-1	173	172
Financial liabilities	41,608	10,264	0	0	-966	50,906
Other liabilities	3,233	0	0	0	-3,193	40
Non-current liabilities total	**44,841**	**10,264**	**0**	**-1**	**-3,986**	**51,118**
Income tax liabilities	1,009	0	0	0	0	1,009
Financial liabilities	7,917	4,596	0	0	102	12,614
Accounts payable and other liabilities	33,965	0	0	0	-1,509	32,456
Total current liabilities	**42,891**	**4,596**	**0**	**0**	**-1,408**	**46,080**
Total shareholders' equity and liabilities	**122,999**	**14,684**	**0**	**9,048**	**-3,736**	**142,997**

Balance sheet reconciliation 31 December 2019 EUR thousand	31 December 2019 FAS	Leases	Discontinued operations	Acquisitions	Other adjustments	31 December 2019 IFRS
Assets						
Goodwill	85,356	0	0	16,377	0	101,733
Other intangible assets	2,127	0	0	2,301	-467	3,961
Tangible assets	3,145	23,949	0	0	467	27,561
Participating interests	0	0	0	0	0	0
Other shares, similar rights of ownership and receivables	1,252	0	0	0	0	1,252
Deferred tax assets	1,199	40	0	0	162	1,401
Non-current assets total	**93,078**	**23,989**	**0**	**18,679**	**162**	**135,908**
Trade and other receivables	42,988	0	0	0	-810	42,179
Cash and cash equivalents	10,346	0	0	0	0	10,346
Current assets total	**53,334**	**0**	**0**	**0**	**-810**	**52,524**
Assets total	**146,412**	**23,989**	**0**	**18,679**	**-648**	**188,432**

EUR thousand	31 December 2019 FAS	Leases	Discontinued operations	Acquisitions	Other adjustments	31 December 2019 IFRS
Shareholders' equity and liabilities						
Share capital	3	0	0	0	0	3
Fund for invested unrestricted equity	40,471	0	0	0	0	40,471
Subordinated loans	14,145	0	0	0	0	14,145
Retained earnings	-19,180	-160	0	18,873	2,927	2,460
Equity attributable to owners of the parent	**35,438**	**-160**	**0**	**18,873**	**2,927**	**57,078**
Non-controlling interest	**291**	**0**	**0**	**0**	**0**	**291**
Deferred tax liabilities	489	0	0	575	193	1,257
Financial liabilities	58,228	19,554	0	0	-604	77,179
Other liabilities	771	0	0	-769	0	2
Non-current liabilities total	**59,488**	**19,554**	**0**	**-194**	**-411**	**78,437**
Contractual liabilities						
Income tax liabilities	842	0	0	0	0	842
Financial liabilities	3745	4,595	0	0	-362	7,979
Accounts payable and other liabilities	46,608	0	0	0	-2,802	43,805
Total current liabilities	**51,195**	**4,595**	**0**	**0**	**-3,164**	**52,626**
Total shareholders' equity and liabilities	**146,412**	**23,989**	**0**	**18,679**	**-648**	**188,432**

EUR thousand	1 January 2018	31 December 2018	31 December 2019
FAS retained earnings	-2,497	-11,654	-19,180
IFRS 16	0	-177	-160
IFRS 3	0	9,049	18,873
Other standards	744	1,664	2,810
IFRS retained earnings	**-1,752**	**-1,118**	**2,343**

The cash and cash equivalents of the Sitowise Group were EUR 10,346 thousand (31 December 2019) and 9,280 thousand (31 December 2018). The IFRS transition did not have an impact on the cash and cash equivalents of the Sitowise Group. The most significant differences in the cash flow statements are associated with the reporting of lease liabilities.

8.1. LEASES

The Sitowise Group adopted the new IFRS 16 standard on 1 January 2018, applying a simplified retrospective procedure and accordingly recognized leases as assets and lease liabilities on the balance sheet, from which they will be expensed as amortization and financial expenses over the lease term.

In the FAS financial statements of the Sitowise Group, rents are expensed through profit and loss over the lease term. Lease liabilities arising from leases are reported as off-balance sheet liabilities in the notes.

An equal increase as a fixed asset and lease liability relating to leases was recognized in the IFRS financial statements on 1 January 2018. Rent payments previously reported in other operating expenses in accordance with FAS on the consolidated profit and loss account are divided into repayment of lease liability and interest expenses. In addition, depreciation on fixed assets are recognized on the IFRS profit and loss account. The Sitowise Group recognized a deferred tax asset relating to lease entries in 2018. The Sitowise Group makes use of practical reliefs for short-term leases of minor value, for which rent payments are expensed to other operating income during the lease term.

8.2. DISCONTINUED OPERATIONS

During 2017–2019, the Group took part in a dredging contracting project in Lithuania through its subsidiary Sito Rakennuttajat Oy. The project was not part of the Group's core business, and it ended in spring 2019. In accordance with the IFRS standards, discontinued operations are reported separately from continuing operations.

8.3. GOODWILL AND COMPANY ACQUISITIONS

The Sitowise Group chose 1 January 2018 as the date of adopting IFRS 3, as of which business combinations have been treated in accordance with IFRS 3. In conjunction with the IFRS transition, the Sitowise Group has applied the first-time adopter relief based on which IFRS 3 Business Combinations has not been retrospectively applied to acquisitions completed prior to 1 January 2018.

On the date of adoption of IFRS 3, 1 January 2018, the Group's FAS balance sheet included EUR 67,521 thousand of goodwill from business combinations. The classification or treatment of these mergers and acquisitions in the financial statements have not been adjusted in preparing the Group's opening IFRS balance sheet. Goodwill equals the book value pursuant to the previous financial statements standards, which has been used as the deemed cost pursuant to the IFRS standards.

In accordance with IFRS, company acquisitions are treated using the acquisition method. Goodwill is not amortized, but tested annually for any impairment. Because of this, the amortization of goodwill recognized in the FAS financial statements for 1 January–31 December 2018, totalling EUR 9.2 million, has been reversed to goodwill. The impairment testing on goodwill did not indicate impairment of goodwill. In accordance with IFRS, acquisition-related costs are recognized as expenses on the profit and loss account when they emerge, and they are reported in other operating expenses on the profit and loss account.

The following adjustments pursuant to IFRS have been recognized in the FAS goodwill on 1 January 2018 and 31 December 2018:

EUR thousand	1 January 2018	31 December 2018
FAS goodwill	67,521	70,318
Reversal of FAS amortization of goodwill		9,190
Acquisition-related expenses recognized as expense		-134
Recognized customer relationships and technology purchases		-235
IFRS goodwill	**67,521**	**79,139**

The Sitowise Group recognized EUR 235 thousand of customer relationships and technology from the acquisition of DWG and Dimenteq. The amortization period for these intangible assets is five years.

EUR thousand	1 January 2018	31 December 2018
Recognized customer relationships and technology purchases		235
Depreciation and amortization according to plan		-8
IFRS goodwill	**0**	**227**

In conjunction with the acquisition of Dimenteq, the Sitowise Group recognized technology-related deferred tax liabilities of EUR 0.1 thousand. The Sitowise Group did not recognize deferred tax liabilities in conjunction with the acquisition of DWG, because there is no corporate tax in Latvia.

8.4. OTHER ADJUSTMENTS

8.4.1. Effective interest
The Sitowise Group had EUR 36,001 thousand of loans from financial institutions on 1 January 2018 and EUR 48,660 thousand on 31 December 2018. The Sitowise Group made several additions to its bank contract and took out new loans during the year through these contract additions. The funds were used for financing acquisitions.

The loans from financial institutions included transaction expenses which were expensed at the time of withdrawing the loan in the FAS financial statements. When applying the IFRS, loans are initially recognized at fair value less transaction costs. The loan-related transaction costs are amortized over the loan term using the effective interest method. The Sitowise Group recognized transaction costs relating to the effective interest method on the IFRS adjustment as a decrease in interest-bearing loans and, adjusted for deferred tax, increase in retained earnings. The adjustment made for the 2018 financial year had an impact of EUR -43 thousand on the profit for the period.

8.4.2. Alterations and renovations of leased premises
Alterations and renovations to leased premises are classified into other long-term expenses in the FAS. In accordance with the IFRS, alterations and renovations of leased premises,
EUR 627 thousand on 1 January 2018, EUR 548 thousand on 31 December 2018, were classified as tangible assets instead of intangible assets.

8.4.3. Subordinated loans
Subordinated loans granted to the Sitowise Group total EUR 14,145 thousand. The loan meets the criteria for a subordinated loan laid down in chapter 12 of the Limited Liability Companies Act. In the FAS, interest expenses are recognized on the profit and loss account and interest liabilities on the balance sheet for subordinated loans.
In accordance with the IFRS standards, these interest expenses and interest liabilities have been removed from the balance sheet, because the Board of Directors has not made a decision on recognizing or repaying interest. On 1 January 2018, the interest liabilities of the subordinated loans were adjusted by EUR 649 thousand and on 31 December 2018 by EUR 1,509 thousand.

8.4.4. Expected credit losses (ECL)
The Sitowise Group recognizes a loss allowance for trade receivables for expected credit losses.

Loss allowances associated with trade receivables are always measured at an amount corresponding to the expected credit losses for the entire period of validity. This allowance was recognized in retained earnings on 1 January 2018 and the change in the period 1 January–31 December 2018 in the profit for the period. The adjustment had an impact of EUR 93 thousand on the profit for the period 1 January–31 December 2018.

The Sitowise Group uses a provision matrix for measuring the expected credit losses from trade receivables. The provision matrix is based on previously realized observed default rates during the expected period of validity of trade receivables, and it is adjusted for forward-looking estimates.

8.4.5. Employment benefits
In accordance with the IFRS, share-based incentive schemes and options are recognized as employment benefits. Because of this, the Sitowise Group recognized the options of the “working partners” of its subsidiary DWG as short-term employment benefits on the profit and loss account instead of shareholders’ equity. On 31 December 2018, shareholders’ equity was adjusted by EUR 10 thousand.

8.4.6. Revenue recognition
On the basis of certain customer contracts, the Sitowise Group is an agent and not a principal, such as in the Maapörssi business. Maapörssi is a recycling exchange for soil. Therefore, the net sales and subcontracting costs are adjusted by EUR 2,696 thousand as of 31 December 2018 in accordance with the IFRS.

8.4.7. Deferred taxes
The Group has not recognized deferred taxes for temporary differences in the FAS financial statements of 31 December 2018. When applying the IFRS, deferred taxes are, as a rule, calculated for all temporary differences between book value and value in taxation.

SIGNATURES OF THE BOARD OF DIRECTORS AND AUDITOR’S NOTE

SIGNATURES TO THE FINANCIAL STATEMENTS

Helsinki, 25 February 2021

Eero Heliövaara Chairman of the Board	Pekka Eloholma Managing Director	Janne Näränen
Taina Kyllönen	Elina Piispanen	Petri Rignell
Tomi Terho		

AUDITOR'S NOTE

Our auditor’s report has been issued today.

Helsinki, 25 February 2021

KPMG Oy Ab

Turo Koila
Authorized Public Accountant (KHT)

KPMG Oy Ab

Töölönlahdenkatu 3 A
PL 1037
FI-00101 HELSINKI, FINLAND

Tel. +358 20 760 3000 I www.kpmg.fi

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

Auditor's Report

To the Board of Directors of Sitowise Holding I Oy

Opinion

We have audited the consolidated financial statements of Sitowise Holding I Oy (business identity code 2767842-8) and subsidiaries (the Group), which include the consolidated balance sheet on 31 December 2019, the consolidated statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period ended notes, including a summary of significant accounting policies.

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.

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

Responsibilities of the Board of Directors and the Managing Director for the consolidated 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 are also responsible for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and the Managing Director are responsible for assessing 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 consolidated financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 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 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 consolidated 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 group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events so that the consolidated 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.

Other Information

Sitowise Holding I Oy has prepared statutory financial statements for 2019, which include the financial statements of both the parent company and the Group, which have been prepared in accordance with the regulations on the preparation of financial statements in force in Finland. We have submitted to the Annual General Meeting the auditor's report dated March 31, 2020 on the statutory financial statements.

Helsinki 25 February 2021

KPMG OY AB

Turo Koila
Authorised Public Accountant, KHT

The most sustainable and responsible partner in developing a prosperous living environment

Sitowise Holding I Oy
Linnoitustie 6 D FI-02600 Espoo, Finland
Tel. +358 20 747 6000
www.sitowise.com