Annual Report 2016

digia

Contents

About Digia

We Help to Build a Smoother Digital World and Growth Together with Our Customers

Digia is a profitably growing IT service company that helps its customers harness digital opportunities

As a visionary partner, Digia develops and innovates solutions that support business operations together with its customers. We adapt our expertise to their specific industries to help them develop digital services, manage operations and utilise information. We employ 872 experts in Finland and Sweden. We are expanding our international presence together with our customers.

Digia’s continuing operations had net sales of EUR 86.5 in 2016. The company is listed on NASDAQ Helsinki (DIG1V).

One of our major assets is our profound knowledge and understanding of the core processes of local organisations, and of the supporting operational systems and integrations. Our digital business services give us a bigger role in our customers' value chains. Our service model also includes consultancy, service desing, development partnerships, and life-cycle services.

We have solid industry expertise in commercial, logistics and industrial sectors, in the public sector, and in banking and insurance.

In Finland, we operate in Helsinki, Jyväskylä, Rauma, Tampere, Oulu, Turku and Vaasa. In Sweden, we operate in Stockholm.

Digia is a Profitably Growing IT Service Company

€ 000	2016	2015	Change, %
Continuing operations			
Net sales	86,463	80,946	6.8%
Operating profit	5,419	5,854	-7.4%
- as a % of net sales	6.3%	7.2%	
Profit for the period	4,064	4,246	-4.3%
- as a % of net sales	4.7%	4.8%	
Profit for the period, discontinued operations	**75,843**	**981**	
Total profit for the period, continuing and discontinued operations	**79,907**	**5,228**	
Return on equity, %	11.0%	13.5%	
Return on investment, %	11.0%	15.6%	
Interest-bearing liabilites	13,686	13,513	1.3%
Cash and cash equivalents	1,994	6,710	-70.3%
Net gearing, %	35.6%	16.6%	
Equity ratio, %	49.8%	53.7%	
Earnings per share, EUR, undiluted	0.20	0.20	
Earnings per share, EUR, diluted	0.20	0.20	

Application of new ESMA Guidelines

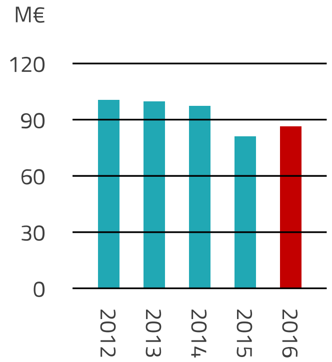
Digia Plc has adjusted the terms used in its financial reporting in accordance with the new guidelines on Alternative Performance Measures (APM) issued by the European Securities and Markets Authority (ESMA).

Demerger of Digia and Qt Group Plc

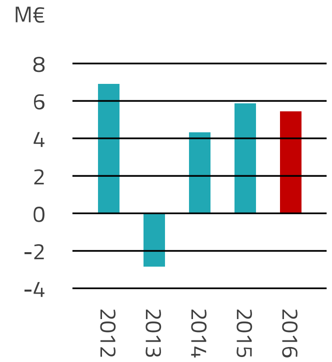
The demerger of Digia Plc and Qt Group Plc came into force on 1 May 2016. This annual report presents the business operations of Digia Plc, that is, the former Domestic segment. Qt Group's business operations are treated as discontinued operations. In addition to Qt's net result, the reported figures for discontinued operations include demerger expenses and the difference between the fair values and carrying amounts of net assets transferred to Qt.

More detailed key figures for the last five years and the formulae for the key figures are provided in the notes to the financial statements (notes 28 and 30).

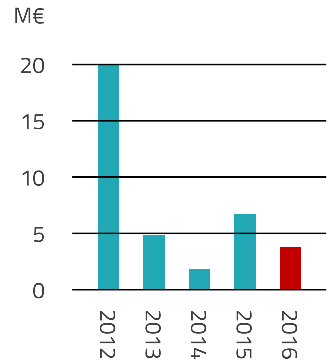
Net sales



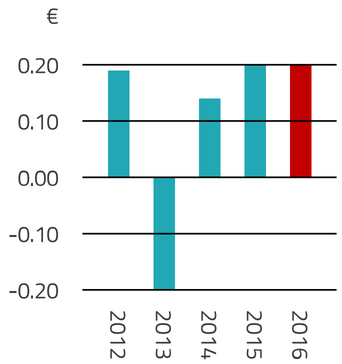
Operating profit



Cash flow from operations



Earnings per share before extraordinary items



The comparison figures of 2012–2014 include the Qt business.

CEO's Review

Digia is a profitably growing IT service company that helps its customers harness digital opportunities. As a visionary partner, Digia develops and innovates solutions that support business operations together with its customers. Our ability to provide solutions extends from digital services to the development and integration of our customers' business processes.

Digia's development is guided by the changes that impact our customers' everyday lives

Digitalisation is nothing new, but it is affecting companies and other organisations at an accelerating rate. The digital world will never again change as slowly as it is now. During this revolution, customers need practical support from a partner with whom they can easily create new operating models and business opportunities.

This market revolution and our customers' evolving requirements are an opportunity for us. We have profound expertise in different organisations' core processes and their digitalisation. Our strength lies in our extensive range of expertise from service design to back-end systems and flexible solution integrations. We create seamless and continually developing service packages. We are a visionary partner, working with our customers to build growth. The best results are achieved through close cooperation.

In 2016 we formulated a new strategy and built a foundation for growth

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

Our key strategic themes for 2016–2019 are digitising services and processes, bolstering the service business, adapting our offering for selected industries, and deep partnership with our customers. Expert and enthusiastic employees form the foundation of all our operations.

In order to support growth, we restructured our organisation and updated our operating models. Digia now comprises four service areas: Digital Services, Integration and Information Management, Industry Solutions, and Digia Financial Solutions and Services.

During the year, Digia grew both organically and via acquisitions. We enhanced and restructured our organisation, and also actively invested in recruitment. Digia's payroll increased by 113 people in 2016, with 75 new employees joining Digia in the second half of the year.

We made a strategic acquisition in June, bolstering our position in digital services and the growing e-commerce market by acquiring the entire share capital of Igence Oy Ab.

In Finance Solutions and Services, we launched a new business in which we offer a variety of services, such as back office functions for asset management. We launched cooperation with our first customer at the beginning of October.

In November, we signed a 15-year framework agreement with the Tax Administration for the delivery, maintenance and further development of Finland's national income register. This project was launched in late 2016. At Digia, we are working to make Finnish society more competitive and functional through digitalisation.

A profitably growing IT service company

Digia's net sales for 2016 totalled EUR 86.5 million, representing growth of 6.8 per cent. Digia's operating margin was 6.3 per cent.

We see significant potential in digitalisation and the revolution in business models. To fully tap into these opportunities, Digia will continue to make investments in personnel development and recruitment, updating business models, and strengthening its offering.

We expect favourable developments in our markets compared to last year. Boosting net sales growth is our key objective for 2017.

I would particularly like to thank all Digia personnel for their valuable contribution. Together, we have achieved a lot. I would also like to thank our customers for their cooperation and our shareholders for their confidence in our company.

Timo Levoranta
President & CEO

Mission and Strategy

Our development at Digia is guided by the changing day-to-day wor of our customers. We promise to work capably, with passion and in co-operation, so that the end results of our work function as agreed. Our customer promises are what guides our work every day.

Mission

With our inventive solutions we bring success to people, businesses and communities in their everyday lives.

Our software and services form an important element within the society. We build these to help people expand the horizons of their daily lives and make the most of every day.

Strategy

Digia is a profitably growing IT service company that helps its customers harness digital opportunities.

As a visionary partner, Digia develops and innovates solutions that support business operations together with its customers. Our ability to provide solutions extends to customers' core systems, ERP and the integration of business processes.

Digia's growth strategy for 2016–2019 aims to strengthen the company's position, particularly in the growing markets for digital services, process digitisation and the service business.

The company wants to grow at a much faster pace than the IT market and seeks average annual growth of 15 per cent. Growth is sought both organically and inorganically.

Digia seeks growth from areas that are seeing stronger growth than the traditional IT market, such as digital services and process development. We are expanding our international presence together with our customers. In addition to organic growth, Digia is proactively looking for acquirees that would support its strategy.

Key themes of Digia’s strategy for 2016–2019:

- Digitalisation of services and processes
- Bolstering the service business
- Adapting the offering for selected industries
- Deep partnership with customers
- Expert and enthusiastic employees

During the first part of the strategy period, the company will focus on strengthening the foundation.

More information

Digia’s strategy: www.digia.com/en/company/strategy/

Stock exchange releases: www.digia.com/en/investors/stock-exchange-releases/

Press releases: www.digia.com/en/actual/news/

Digia Builds Growth on a Firm Foundation

New organisation and four service areas

Digia announced its growth strategy for 2016–2019 in spring 2016. On 1 October 2016, we implemented a structural reorganisation to support growth. This restructuring sought to create a firm foundation to support the realisation of our strategy to the fullest possible extent.

Digia comprises four service areas: Digital Services, Integration and Information Management, Industry Solutions, and Digia Financial Solutions and Services.

A Horizontal Services organisation works in close cooperation with our businesses and plays a key role in creating shared service models and working methods. Standardisation will enable us to provide a better customer experience and improve the quality of our operations.

Service Areas

Digital Services

By bringing together our digital service expertise, we standardise and strengthen our activities in this area and acquire an even stronger position in the digital services market.

Integration and Information Management

Integration and analytics expertise is an important strategic strength for us. It enables us to provide our customers with functional and intelligent end-to-end solutions from core systems to digital services. Guaranteeing service continuity will also play an increasingly important role.

Industry Solutions

Offerings tailored to specific industries form one of Digia's strategic cornerstones. Product groups that naturally have an industry perspective will be led and developed in Industry Solutions. We have profound expertise in several industries in particular: retail, logistics and industry, the public sector, and banking and insurance.

Digia Financial Solutions and Services

In addition to business based on Digia Financial Solutions products, the Financial Solutions and Services area focuses on our financial services business, which was launched in September 2016 and enables customers to outsource their back office operations to Digia. Strengthening our service operations is one of Digia's key strategic cornerstones.

Our Customers' Daily Business

See what our customers think about digitalisation, and the effect it has had on their business and daily lives. Digia helps its customers to embrace the changes in our daily digital lives.

Case Feon Oy: New ERP in record time

When Feon Oy started up in early 2016, the company needed an ERP in double-quick time. Although it usually takes at least six months to implement an ERP, Feon was able to get a suitable Digia Enterprise system up and running in only three months.
http://www.digia.com/en/customers/customer-stories/feon-oy/

Case Lassila & Tikanoja: CRM makes it easier to tackle everyday challenges and implement strategy

Lassila & Tikanoja wanted to standardise operating methods within its sales organisation and put customer data to better use throughout the organisation as a whole. L&T wants to turn our consumer society into a recycling society by improving its customers' material, energy and cost efficiency. Improved customer understanding will play a key role in realising this goal, and L&T is seeking to achieve this with the aid of CRM.
http://www.digia.com/en/customers/customer-stories/lassila--tikanoja/

Case Satel Oy: A complete overview of customer relationships is the key to both better service and business development

Satel Oy, an internationally operating Finnish manufacturer of radio modems, needed a new ERP, as its current system no longer met the company's business requirements. Satel chose Digia Enterprise ERP with integrated CRM.
http://www.digia.com/en/customers/customer-stories/satel-oy/

Case Varma: An agile operating model keeps the wheels of development turning

When the time came to change its integration platform, Varma Mutual Pension Insurance Company took this opportunity to renew its integration in general. In conjunction with the integration platform change, and with Digia's aid, Varma introduced the DevOps model to keep the wheels of development turning in the future as well.
http://www.digia.com/en/customers/customer-stories/varma/

Case Savon Sellu: Digital production diary improves information flow

Kuopio-based firm Savon Sellu Oy wanted to improve information flow at its plant. The company introduced Digia's ProDiary application, which enables employees to check production events at the plant. This user-friendly digital production diary has also been integrated into the ERP system, thereby reducing overlapping work.
http://www.digia.com/en/customers/customer-stories/savon-sellu/

Case Rexel: Mobile app keeps stores open 24/7

Rexel Finland Oy, a distributor of electrical supplies, noted that its customers have a need to shop at its stores outside normal opening hours. As a solution, Rexel created the Nonstop concept, which enables customers to shop at whatever time is most convenient for them. This concept includes a mobile app that allows customers to buy products by scanning them with their own mobile devices.
http://www.digia.com/en/customers/customer-stories/rexel/

Case Hankkija: Change of ownership and a tight transition period set the framework for an extensive overhaul of financial systems

Following a change of ownership, Hankkija, Finland's leading agricultural store chain, needed a partner to overhaul its financial systems. This project aimed to ensure the continuity of financial administration functions both during and after the transition period. Digia has long served as Hankkija's ERP provider. Hankkija selected Digia as its partner for the transition phase. The process and system changes had to be carried out within two years. The project was successful and Hankkija now uses Microsoft Dynamics AX.
http://www.digia.com/en/customers/customer-stories/hankkija/

Case Tradeka: Tradeka was convinced by the e-voting application

The Co-operative Tradeka already thought about the possibility of e-voting during the previous election of its representative body. The decision to offer the option in addition to traditional postal voting was made in the spring of 2016. Digia was selected as a partner for its good references and expert team, among other reasons.
http://www.digia.com/en/customers/customer-stories/tradeka/

Case Liikennevirasto: SOA office predicts future business requirements

When the Finnish Transport Agency was established in 2010, there was also a desire to better meet future business requirements. Service-oriented architecture (SOA) provided a solution, as it takes a service-oriented rather than a system-specific approach. The SOA office established with Digia now provides important consulting and technical assistance to the Finnish Transport Agency's projects.
http://www.digia.com/en/customers/customer-stories/liikennevirasto/

More information

Digia's customers: http://www.digia.com/en/customers/customer-stories/

About Digia › Personnel › Human resources

Human resources

Skilled and motivated personnel are the cornerstone of Digia's success. Our HR development is guided by our strategy and its requirements, and our customer promises: ability with passion, together, as promised. In addition to recruitment, internal resourcing and subcontracting, we also acquire expertise through corporate acquisitions and business transfers in accordance with Digia's growth target. Educational partnerships, recruitment marketing, and a variety of events also played an important role in developing our expertise and employer image during 2016.

Competence development

The training programmes offered by Digia Learning Academy continued in 2016. The Academy's programmes support personnel's operational and competence development. They promote expertise and knowledge sharing, and a culture of doing things together.

In 2016, we supported a culture of inclusion and teamwork with initiatives such as training for supervisors, 360 assessments, and DISC workplace and leader profiling. Our training themes included leadership and management, supervisory work, and various situations involving interaction and communication.

Digia's technological competence development also received a boost when our new Chief Technology Officer (CTO) started in late 2016. Our aim is to develop the competence required to meet future needs and create even more customer-oriented architectural services.

Integration Academy promotes knowledge sharing and competence development

Digia held its first ever Integration Academy in spring 2016. This open programme sought to introduce Digia's integration business and tools to external parties. The Integration Academy was organised in collaboration with IBM, which provided students with a teaching environment in the IBM BlueMix cloud. The Integration Academy was held on seven nights over two weeks. The training was provided by Digia's own experts. The Integration Academy is one of the training programmes offered by Digia's Learning Academy.

The Academy received plenty of applications from both career changers and soon-to-be graduates. Yet the Integration Academy wasn't solely about recruitment. It also sought to stimulate interest and create a positive image of Digia as an employer – and in this we succeeded. Digia increased its recognition in the job market, and some of the 14 Integration Academy students were recruited to permanent positions in integration. You can read news and participants' comments about the Integration Academy on our website. The Integration Academy will run another programme in early 2017.

Leadership and supervisory work

Good leadership and supervisory work has been proven to have a direct impact on staff motivation and wellbeing in the workplace and, consequently, the entire organisation's productivity and customer satisfaction. High-calibre supervisory work also covers performance and wellbeing management, which are vital for good, profitable growth.

At Digia, coaching leadership is part of both competence development and target-oriented performance and wellbeing management. We continually strengthen our supervisors' skills through a variety of training programmes. In 2016, we focused on improving the quality of supervisory work by arranging three long-term supervisor training programmes in collaboration with an external partner. We adopted a coaching leadership approach to support the many facets of a supervisor's role. Our themes were: the challenges of supervisory work, leadership profiling, motivation and self-management, building a top team, generating motivation, and emotional intelligence as a leadership tool. The training programme as a whole also focused on effective communications, which are one of the most important elements of supervisory work. We also supported our supervisors' capacity to cope at work with the aid of training organised in collaboration with our insurance company and occupational healthcare.

We saw clear developments in wellbeing management during the year. Digia invested in supervisor training, reporting transparency, and effective practical cooperation between supervisors, HR services, our insurance company, and occupational healthcare. Our combination of wellbeing management and good supervisory work seeks to strengthen target-oriented performance management. Target-oriented performance management can have a favourable impact on employee commitment and the leadership experience. During the year, we introduced new ways of achieving targets, such as using wellbeing management benchmarks to support knowledge management; cooperation between supervisors and occupational healthcare during routine management; and preventative measures against mental overload.

HR systems and processes aid management

Communications play an important role in routine management, and Digia made even greater use of social media channels in 2016. Yammer has been in heavy daily use, as it is a good channel for online teamwork and group communications, and also for reaching a larger audience. The Intranet's HR services page was updated in terms of both content and look-and-feel to better meet the needs of our growing organisation. Our monthly HR Info briefings are an important regular channel through which we can work with supervisors to mobilise operative HR matters throughout the organisation.

In 2016, we continued to develop our HR system (Sympa HR) to better meet Digia's needs. Thanks to this system, up-to-date information about employment contracts is more readily available to both supervisors and employees. Sympa HR provides valuable information on the breakdown of personnel by job title and career path. This information can now be harnessed more effectively in, for example, recruitment and task rotation. Key HR figures are transferred from Sympa HR to the Qlikview reporting system, providing supervisors with up-to-date figures and a better overview of routine management.

Regular codetermination meetings are organised about once a month with the aim of further improving employer-employee cooperation. In 2016, we drew up an annual codetermination reporting schedule for keeping shop stewards informed about key HR figures and statistics relating to social responsibility and collective agreements.

Employee satisfaction

Two personnel surveys were conducted at Digia in 2016. When our new President & CEO started in the spring, we asked our personnel what kinds of developments they would like to see. The open-ended questions received plenty of responses, providing the CEO with a comprehensive view of opinions at Digia. The responses also helped our businesses to set their own targets.

When our new organisation came into force in the autumn, we conducted a more extensive survey to measure personnel satisfaction. The commitment framework consisted of a range of different themes: Working together, Targets, The courage to evolve, Learning, Achievement, An esteemed company, Supervisors and Commitment. The response rate was good, 83 per cent. Working together and supervisory work were clearly seen as some of our strengths. We also measured commitment, achieving a score of 3.97 points (out of a maximum of 5). The results of the personnel survey were used to draw up 2017 development programmes for the entire organisation.

We can be proud of our commitment to Digia. The majority felt that their work was meaningful and they wanted to continue working at Digia. When it comes to our employer image, the survey also showed that Digia personnel are willing to recommend their employer and believe in the company’s future.

Further developments are still required in some areas, such as closer cooperation between Digia units, assigning roles in our new organisation, and the clarification of targets. In the future, we will be sharing our expertise to an even greater extent and working with our customers to overcome challenges even more successfully. As part of the ongoing mobilisation of our strategy, we will also continue developing our target-oriented management and common working methods.

Recruitment and task rotation

Digia is experiencing vigorous growth, and this was clearly visible in both recruitment and recruitment marketing in 2016. Last year, we undertook a broad range of measures to develop our recruitment process and increase Digia's recognition.

Over 230 new personnel joined Digia in 2016 (business transfers included). We published over a hundred calls for applications and received about 3,000 applications via our recruitment system, plus numerous others by email or from executive search partners. We were also in direct contact with potential candidates via social media or through recommendations from current personnel.

New channels and visibility

During 2016, we increased our recruitment visibility in social media in particular, and also introduced several new recruitment channels. We are seeking to increase recognition of the Digia brand with a customised approach for different target groups: juniors, experienced experts, and management. We conducted numerous targeted social media campaigns, developed our website, and created a new online prospectus to aid recruitment communications.

During the year, Digia attended dozens of different recruitment events all across Finland. We also arranged a variety of meet-ups, campaigns, programmer training sessions, academy programmes, developer recruiting events, and professional retraining sessions. We published numerous blog posts and articles on recruitment and career themes (in Kauppalehti, for example), and we also increased our advertising in the mobile and tablet versions of Helsingin Sanomat. Our next focal point will be developing and adapting our applicant and recruitment communications to have an even greater appeal to software developers.

Digia offers career opportunities for promising young talents and career changers

Digia Career Compass is a recruiting programme targeted at students and graduates in IT and software development. About ten new talents were recruited through this programme in 2016. We want to offer students a flexible range of employment options, such as part-time or fixed-term contracts, hourly and project work, or thesis-writing positions. We revised our Career Compass programme to better meet students' graduation timetables and career planning by introducing targeted application periods and scheduling the programme's breakfast meetings during the early part of the year. We also offer development paths for young experts and career changers through, for example, the Integration Academy.

During the year, we also enhanced Digia's employer image and educational collaboration in a number of municipalities, particularly in the capital city region where the demand for expertise is high. We cooperated with the University of Helsinki and universities of applied sciences by creating content for students, organising visiting lecturers, marketing open positions, and visiting educational institutions to tell students about the potential careers available at Digia. We also offered students trainee places, project work themes, and excursions.

Recruitment as a channel for competence development

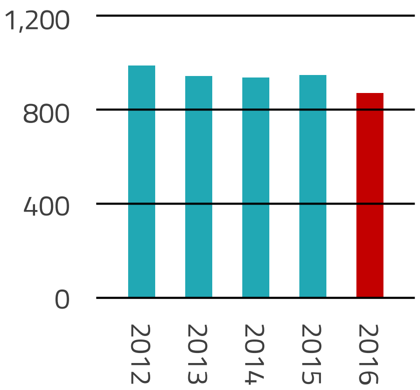
Last year, we developed our recruitment process in collaboration with HR recruitment personnel and supervisors who needed to recruit new employees. This included creating common working methods, standardising interview practices, and upgrading the recruitment system to better meet the requirements of our business.

Internal recruitment is an important channel for competence development, and also enables us to offer task rotation and career opportunities to Digia employees. During 2016, we boosted internal recruitment by publishing new pages on the intranet. We also improved our resourcing by publishing resources requests and temporary project-related openings for experts in the 'Experts needed' section of our intranet. All open positions that are publicly announced are naturally open to Digia personnel as well, and internal applicants are considered first. Our recruiting also made use of our personnel's own contacts and networks, and we offer a recruitment bonus for any recommendations that lead to a new hire.

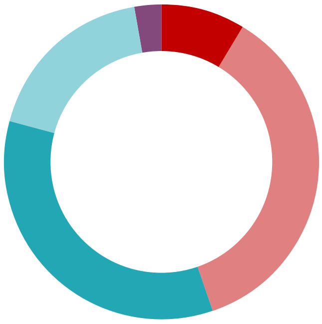
Personnel in figures

Digia was split into two independently listed companies, Digia Plc and Qt Group Plc in 1 May 2016.

Number of personnel 31.12.

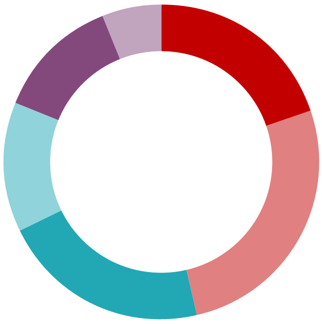


Personnel distribution by age 31.12.2016



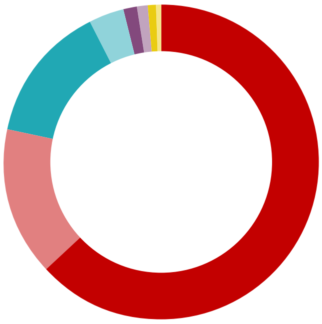
- 20–29......8.8%
- 30–39......36.0%
- 40–49......34.4%
- 50–59......18.1%
- 60–......2.7%

Personnel distribution by years of service 31.12.2016



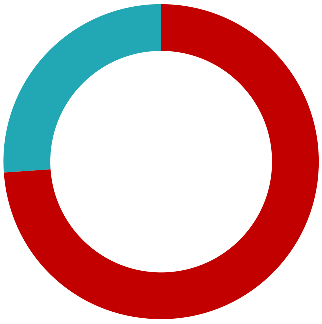
- <1...19.9%
- 1–5.....................................26.6%
- 6–10...................................21.5%
- 11–15.................................13.3%
- 16–20.................................12.7%
- >20..6.0%

Personnel distribution by office 31.12.2016



- Helsinki..................................551
- Jyväskylä...............................133
- Tampere.................................123
- Rauma......................................33
- Vaasa..12
- Stockholm................................10
- Oulu..6
- Turku...5

Distribution by gender 31.12.2016



- Male.....................................74.1%
- Female.................................25.9%

Environmental Policy

We are aware and concerned of the welfare of the environment around us. We recognize the impact of our industry on the environment as well as the means to influence on the welfare of the environment. We shall take environmental issues into account in managing our operations, as part of decision-making process and developing and monitoring our processes.

We value our customers' environmental objectives and we cooperate with suppliers and customers to provide the services that help to reduce environmental impacts. We act in accordance with the laws of each country we operate in. We consider the welfare of the environment in terms of the physical environment in which we operate our use of the products and the knowledge and awareness of our employees.

Physical operating environment
We take into account energy and water saving opportunities in our offices as well as when renovating or planning new offices.

Procurement process, recycling and disposal
When faced with an option to choose between environmentally friendly and less friendly products, we shall prefer environmentally friendly products. We identify means to reduce the amount of office supplies and consumer goods and when applicable increase their reuse. We shall seek to recycle all recyclable materials in our offices, such as paper, cardboard, metals and organic waste. We shall seek environmentally acceptable disposal when recycling is not an option.

Employee awareness
We offer our employees the opportunity to manage their own environmental footprint. We use electronic means of communication such as e-mail, and video and telephone conference tools whenever it is appropriate to avoid unnecessary travel. When travelling we encourage to choose environmentally friendly options. We shall validate applicability of every initiative to reduce our impact on the welfare of the environment around us.

Digia granted WWF Green Office certificate

Our Helsinki office underwent a Green Office inspection in August. The inspection went through, among other things, Digia’s Green Office targets and planned measures. A tour of the premises was then taken to see how Green Office principles had been put into practice.

As a result of the inspection, Digia’s Helsinki office was granted a Green Office certificate for the next three years. We are continuing to seek greener days at the office as planned. Digia has set several Green Office targets to be attained by 2019: a 10 per cent reduction in electricity consumption, an annual 5 per cent reduction in paper consumption, and an annual 3–5 per cent reduction in the number of kilometres travelled during business trips.

Shares and Shareholders

On 31 December 2016, the number of Digia Plc shares totalled 20,875,645. The company had a total of 4,617 shareholders on 31 December 2016.

Ten largest shareholders on 31 December 2016

Shareholders	Shares and votes
Ingman Development Oy Ab	21.6%
Ilmarinen Mutual Pension Insurance Company	14.6%
Jyrki Hallikainen	6.6%
Varma Mutual Pension Insurance Company	4.7%
Savolainen Matti	4.3%
Karvinen Kari Juhani	3.5%
Aktia Capital investment fund	3.0%
Aktia Nordic Small Cap investment fund	1.7%
Evli Finnish Small Cap investment fund	1.6%
Nordea Bank Finland Plc	1.1%

Shareholding by number of shares held on 31 December 2016

No.of shares	Shareholders	Shares and votes
1 – 100	26.5%	0.4%
101 – 1 000	55.6%	5.4%
1 001 – 10 000	15.7%	9.6%
10 001 – 100 000	1.6%	11.6%
100 001 – 1 000 000	0.4%	30.2%
1 000 001 – 4 000 000	0.1%	42.7%

Shareholding by sector on 31 December 2016

	Shareholders	Shares and votes
Companies	4.1%	27.2%
Finance and insurance	0.3%	10.8%
Public sector organisations	0.0%	19.2%
Non-profit associations	0.2%	1.2%
Households	94.9%	39.4%
Foreign holding	0.5%	2.0%

Digia Plc held a total of 57,372 treasury shares at the end of December 2016. The accounting counter value of these treasury shares is EUR 0.10 per share. The company held about 0.7 per cent of its capital stock on 31 December 2016. 39,116 of the said shares were distributed during January–December 2016 as bonuses. At the end of December 2016, 91,435 of these shares remained undistributed and were under the management of Evli Awards Management Ltd.

More information

Digia's share: www.digia.com/en/investors/share

Shareholders: www.digia.com/en/investors/shareholders

Information for Shareholders

The purpose of Digia's investor relations is to provide capital markets with open and reliable information on the company and its operating environment, in order to enable market participants to form an informed opinion on Digia as an investment.

Digia Plc shares are quoted on the Main List of the NASDAQ Helsinki Ltd, in the Information Technology IT Services.

Investor relations

Tuula Haataja, CFO
Atomitie 2 A, 00370 Helsinki
Tel. +358 10 313 3000
tuula.haataja@digia.com

Maarit Mikkonen, Communications Manager
Atomitie 2 A, 00370 Helsinki
Tel. +358 10 313 3000
maarit.mikkonen@digia.com

Financial information 2017

Digia Plc changed its financial reporting practices as of 1 January 2017. The decision is based on the amended Securities Markets Act, which entered into force on 26 November 2015. Amendments to the Securities Markets Act concern, among other things, giving up the requirement to disclose interim reports for the first three and nine months of the year. Instead of interim reports, Digia will disclose certain key figures and information on business performance for the three and nine month periods in a stock exchange release.

Digia will publish the following financial reviews in 2017:

- Financial statement release 2016: Friday 3 February 2017 at 8:00
- Business review 1–3/2017: Friday 28 April 2017 at 8:00
- Half Year Financial Report 1–6/2017: Friday 11 August 2017 at 8:00
- Business review 1–9/2017: Wednesday 25 October 2017 at 8:00

Annual Reports and other publications

Digia Plc, Corporate Communications
Atomitie 2 A, 00370 Helsinki, Finland
Tel. +358 10 313 3000
invest@digia.com

Annual reports, half year financial reports, business reviews, interim reports and stock exchange releases are available on our website at www.digia.com.

An online version of the Annual Report 2016 has been published. To download a PDF version of the Annual Report, click here.

Updating shareholder information

We kindly ask our shareholders to notify the bank, the brokerage firm or other book-entry register in which they have a book-entry securities account, of any change of address. This information cannot be updated through Digia.

Digia’s Demerge

On 16 March 2016, Digia’s Annual General Meeting approved Digia’s demerger plan and decided on the partial demerger of Digia Plc as set out in the demerger plan. Digia Plc is being demerged such that all assets, liabilities and responsibilities related to Digia’s Qt business are transferred to a new company called Qt Group Plc. Digia’s domestic business remains with Digia Plc. The implementation of the partial demerger was registered in the Trade Register on 1 May 2016.

Digia’s shareholders have received one Qt share for each Digia share they own as demerger compensation. No demerger compensation has been granted for treasury shares held by Digia.

More information

www.digia.com/en/investors/demerger

Governance

Corporate Governance Statement

This Statement has been issued separately from the company's Annual Report.

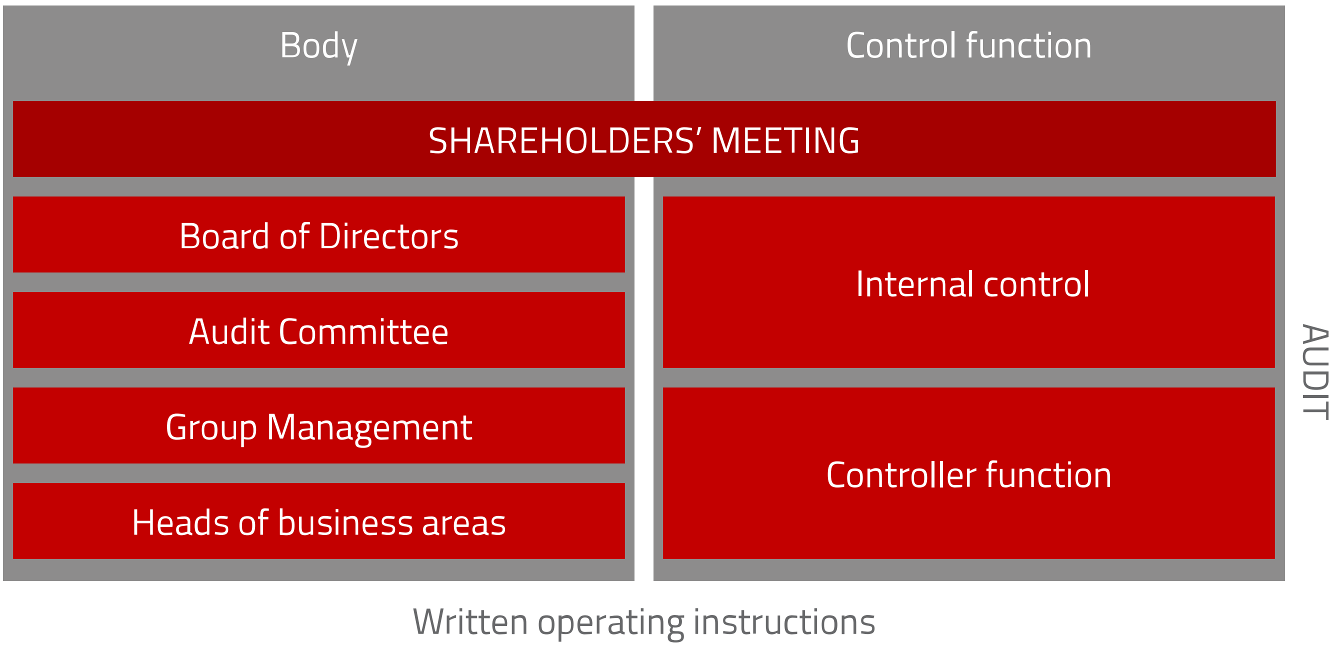
Digia Plc's (hereinafter "Digia") corporate governance system is based on the Companies Act, the Securities Markets Act, general corporate governance recommendations, the company's Articles of Association and its in-house rules and regulations on corporate governance. The company (and this Statement)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

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

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

General Overview of Governance

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



Shareholders' Meetings

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

The Annual General Meeting should convene annually within three (3) months of the date on which the financial year ends. An Extraordinary General Meeting must be held if the Board of Directors deems it necessary, or if requested in writing by a company auditor or shareholder holding a minimum of ten per cent (1/10) of the company's shares, for the purpose of discussing a specific issue.

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

Digia’s policy is that the Chairperson of the Board, Members of the Board, auditor, anyone nominated for the Board, and the President & CEO should be present at Shareholders’ Meetings.

The minutes of Shareholders’ Meetings will be available for shareholders to read at Digia’s internet pages, within two weeks of the meeting, www.digia.com/en/investors/governance/annual-general-meeting. The decisions made at the meeting will also be published in a stock exchange release immediately after the meeting.

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

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

Board of Directors

Activities and tasks

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

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

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

Board Diversity Policy

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

- the company's field of business,
- experience in managing a company of similar size,
- the nature of a listed company's business operations,
- management accounting,
- risk management,
- mergers and acquisitions, and
- Board work.

The Board should include members of both genders. The composition of the 2016 Board of Directors was successfully in line with Digia's diversity policy. Both genders are represented on the Board.

The Board of Directors' rules of procedure

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

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

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

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

The Board evaluates its activities and working methods at regular intervals, employing an external consultant to assist when necessary.

The Board convened a total of 16 times during 2016, and the attendance rate averaged 93 per cent. The table shows members' attendance rate at meetings:

Board Members

The Members of Digia Plc's Board of Directors in 2016

Member of the Board	Born in	Education	Main occupation	Holding 31 Dec 2016**	Member since
Martti Ala-Härkönen*	1965	DSc (Econ.), Lic.Sc. (Tech.)	CFO, Caverion Corporation	0	2016
Päivi Hokkanen	1959	MSc. (Econ.)	CIO, A-Katsastus Group	8,170	2012
Robert Ingman Vice Chair	1961	MSc. (Tech.), MSc. (Econ.)	Chair of the Board, Ingman Group Oy Ab	4,520,000	2010
Pertti Kyttälä Chair	1950	MSc. (Econ.)	Managing Director, Peranit Ltd	3,000	2005
Seppo Ruotsalainen	1954	Lic.Sc. (Tech.)	Board professional	0	2012
Leena Saarinen***	1960	MSc. (Food technology)	Board professional	-	2012–2016
Tommi Uhari***	1971	MSc. (Tech.)	Board professional	-	2010–2016
Kai Öistämö***	1964	D.Tech., MSc. (Tech.)	Board professional	-	2015–2016

* member as of 16 March 2016

** includes related-party holdings and related party entities

***member until 16 March 2016

Independence of the members of the Board of Directors

The Board of Directors assesses the independence of its members on an annual basis. Of the aforementioned current members of the Board, Päivi Hokkanen, Martti Ala-Härkönen, Pertti Kyttälä and Seppo Ruotsalainen are independent of the company and its major shareholders. The last assessment noted Pertti Kyttälä's more than ten-year continuous membership of the Board. However, it was not deemed to affect his independence overall. Robert Ingman is independent of the company. Robert Ingman is not independent of the company's major shareholders due to his holdings in related party entities.

Board Committees

In 2016, Digia's Board of Directors had three (3) committees: the Compensation Committee, the Audit Committee, and the Nomination Committee. At its meeting on 28 April 2016, the Board approved the 2016 rules of procedure for its committees.

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

Audit Committee

The purpose of the Audit Committee is to assist the Board of Directors in ensuring that the company's financial reporting, accounting methods, financial statements and any other financial information provided by the company comply with legislation and are balanced, transparent and clear. In 2016, the Audit Committee consisted of Pertti Kyttälä (Chairman), Seppo Ruotsalainen, Martti Ala-Härkönen, Leena Saarinen (until 16 March 2016) and Tommi Uhari (until 16 March 2016). The committee convened four times during the year with full attendance. The table below shows members' attendance at meetings.

Compensation Committee

Digia's Compensation Committee is tasked with preparing and following management remuneration schemes in order to ensure that the company's targets are met, that the objectivity of decision-making is maintained, and that the schemes are transparent and systematic. In the 2016 financial year, the Compensation Committee comprised Päivi Hokkanen (Chair), Robert Ingman, Martti Ala-Härkönen, Leena Saarinen (until 16 March 2016) and Kai Öistämö (until 16 March 2016). The committee convened eight times during the year with full attendance. The table below shows members' attendance rate at meetings.

Nomination Committee

The Nomination Committee prepares proposals for the Annual General Meeting on (a) the number of members of the Board of Directors, (b) the members of the Board of Directors, (c) the remuneration for the Chair, Vice Chair and members of the Board of Directors, and (d) the remuneration for the Chair and members of the committees of the Board of Directors. In 2016, the Nomination Committee consisted of Robert Ingman (Chair), Pertti Kyttälä, Seppo Ruotsalainen and Tommi Uhari (until 16 March 2016). The Nomination Committee convened four times during the year with full attendance. The table below shows members' attendance at meetings.

The attendance of Board and Committee members at meetings in 2016

Name	Board meetings	Audit Committee	Compensation Committee	Nomination Committee
Martti Ala-Härkönen*	11/12	3/3	6/6	-
Päivi Hokkanen	16/16	-	8/8	-
Robert Ingman	16/16	-	8/8	4/4
Pertti Kyttälä	16/16	4/4	-	4/4
Seppo Ruotsalainen	16/16	4/4	-	2/2
Leena Saarinen**	4/4	1/1	2/2	-
Tommi Uhari**	3/4	1/1	-	2/2
Kai Öistämö***	3/4	-	2/2	-

* member as of 16 March 2016

** member until 16 March 2016

President & CEO

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

The Board of Directors approves the CEO's service contract, which contains a written definition of the key terms and conditions of the CEO's employment. Juha Varelius was Digia Plc's President & CEO until 30 April 2016, and was succeeded by Timo Levoranta.

Group Management Team

The Group Management Team supports the President & CEO in the routine management of the company. The CEO appoints Management Team members and decides on the terms and conditions of their service contracts.

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

2016 Management Group members

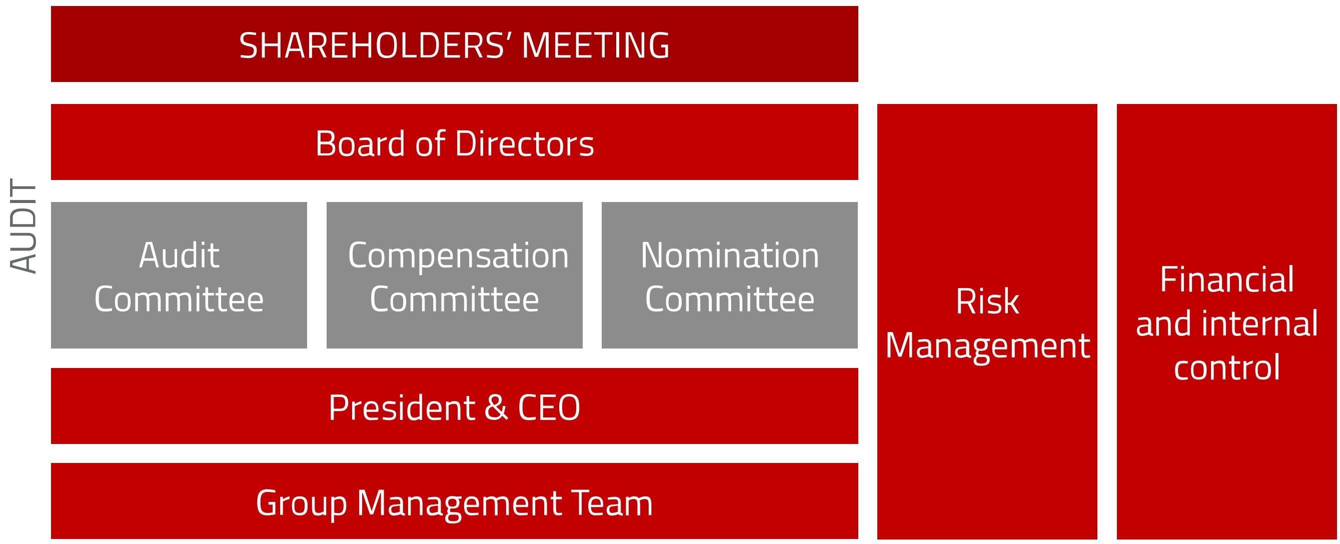
Name	Born in	Education	Area of responsibility	Holdings 31 Dec 2016*	Member since
Timo Levoranta	1965	MSc. (Tech.), MSc. (Econ.)	President & CEO	70	2016
Tuula Haataja	1964	MSc. (Econ.)	CFO	30,698	2013
Mika Kervinen	1968	L.L.M, Trained on the bench	General Counsel	0	2016
Erkki Talvela	1953	MSc. (Econ.)	Senior Vice President, Sales Marketing and Communications	0	2016
Samuli Aho	1968	Vocational Qualification in Business Information Technology	Vice President, eSolutions and Associations	1,000	2016
Tommi Flink	1965	MSc. (Information Technology)	Vice President, Financial Solutions and Services	7,213	2016
Tom Puusola	1968	Upper secondary school graduate in Technical Science	Vice President, Horizontal Services	15,606	2012
Teemu Virtanen	1978	BSc.	Vice President, Integration and Information Management	0	2016
Marko Saarinen	1969	MBA	Vice President, Digital Services	0	2016
Juhana Juppo	1971	MSc. (Computer Science)	CTO, Technologies	0	2016
Juha Varelius	1963	MSc. (Econ.)	President & CEO**	-	2007–2016

* Includes related-party holdings and related party entities

** Until 30 April 2016

Internal Control and Risk Management Related to Financial Reporting

Control functions and control environment



The company has a controller function tasked with verifying monthly reports. This controller function reports on the financial performance of the company and its divisions to Management, the Board of Directors, and the Board's Audit Committee.

The company uses a reporting system that compiles subsidiaries' reports into consolidated financial statements. There are also written directives for completing the financial reports of subsidiaries. Compliance with these directives is monitored by the controller function. The company also has the separate reporting facilities required for monitoring business operations and asset management.

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

Internal risk control

As a general rule, authorisation is distributed in such a way that no individual may independently perform measures unbeknown to at least one other individual. For example, the company's bookkeeping and asset management are managed by separate persons, and two authorised persons are required to sign on behalf of the company.

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

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

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

The Group's administration unit is in charge of HR management and policy, real estate properties, and ensuring appropriate working conditions at all locations. The legal affairs unit guides and monitors agreements made by the company, and ensures the legality of the Group's operations.

Digia has not yet established a separate function responsible for internal control. With the company's current business volume, its legal and financial management functions are able to handle internal control tasks.

Risk management

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

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

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

Personnel risks are evaluated and managed using a quarterly performance review and development discussion process in which key personnel participate. To enhance personnel commitment, the company strives to systematically improve the efficiency of internal communications via regular personnel events and by increasing the management's visibility.

Key project audits are carried out with a view to enhancing project risk management and securing the success of project deliveries to customers. The Group's certified quality systems are also regularly evaluated and the Group has increased the efficiency of its project delivery reporting practices for corporate governance and finance.

Data security audits are carried out to manage data security risks. The company also continually develops working models, practices and processes that promote data security. The Management Group is tasked with systematically managing risks associated with business integration, shared operating models and best practices, as well as their integrated development. Typical risks in the software business relate to the appropriate protection of the company's own immaterial property rights (IPRs) and violation of third parties' IPRs. These are managed through extensive internal policies, standard contracts, and appropriate supervision and analysis.

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

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

Insider Administration

Digia complies with the current Guidelines for Insiders issued by NASDAQ Helsinki. Digia's General Counsel is responsible for insider issues. Digia revised its insider administration to comply with the EU Market Abuse Directive and Regulation (596/2014), which came into force on 3 July 2016.

Insiders

Since the Market Abuse Directive came into force, Digia's insiders have been divided into:

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

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

Management's business transactions

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

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

Closed window

Insiders may not trade in the company's securities during a period of 30 days before the publication of one of the company's business reviews, interim reports or financial statement bulletins. Project-specific insiders may not trade in the company's securities whilst the project is ongoing.

Reporting misconduct

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

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

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

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

Auditor and Auditor's Fees

Auditor and auditor's fees

Digia has one official auditor, who must be an Authorized Public Accountant. The auditor is elected until further notice.

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

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

2016 Auditor's fees

EUR 1,000	2016
Auditor's fees	95
Tax counselling	-
Statements and certificates	-
Other fees	108
Total	**203**

Digia’s Remuneration Statement 2016

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

A) Decision-making procedures concerning remuneration

Board of Directors

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

CEO and other executives

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

Digia’s 2016 Annual General Meeting authorised the Board of Directors to decide on a share issue with or without consideration, and also on the granting of special rights (as specified in the Companies Act) for the purpose of, among other things, implementing the company’s share-based incentive scheme. This authorisation is valid for 18 months from the issue date of the authorisation, or until 16 September 2017; Digia’s Board of Directors did not use its authorisation during 2016.

Digia has an agreement with Evli Awards Management Ltd for the coordination of the company's share-based incentive schemes, their associated share management, and the payment of incentives to individuals in accordance with the terms and conditions of the schemes. The share-based incentives paid to the CEO and other executives during the 2016 financial year were paid by Evli Awards Management Ltd in accordance with the aforementioned agreement, using Digia shares that were managed by Evli and acquired (and financed) by Digia for use in incentive schemes for the company’s key personnel.

B) Key remuneration principles

Board remuneration

The 2016 Annual General Meeting decided to pay monthly remuneration of EUR 2,500 to Board members, EUR 3,500 to the Vice Chair and EUR 5,500 to the Chair for their work on the Board. All Board members also receive EUR 500 in fees per Board or Committee meeting. The Shareholders' Meeting also decided that standard and reasonable costs resulting from Board work would be reimbursed against invoice.

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

CEO's remuneration

Juha Varelius

Juha Varelius was Digia's CEO until 30 April 2016. Varelius's remuneration package comprised a monthly salary (in accordance with his service contract), a bonus payable on the attainment of set targets, and potential share bonuses payable to the CEO in accordance with the approved share-based incentive scheme.

In addition to his monthly salary, the CEO was entitled to a bonus in accordance with the bonus schemes approved for the Domestic and Qt segments.

- Under the Domestic bonus scheme, the CEO is paid an annual bonus equivalent to 1.5 times his monthly base salary upon the attainment of annual targets tied to net sales and operating profit budgets set by the Board of Directors. 70 per cent of this bonus is tied to the net sales targets and 30 per cent to operating profit targets. If these targets are exceeded, the bonus will increase to a maximum amount equivalent to 4.5 times his monthly base salary. The maximum bonus is payable if the net sales target exceeds by at least 8.2 per cent and the operating profit target by at least 19.3 per cent. Both targets are evaluated biannually, independently and irrespective of each other. However, if operating profit falls below 70.2 per cent of the set target, no bonus is paid, irrespective of the net sales outcome. CEO Varelius was eligible for a bonus under the Domestic bonus scheme while he was CEO of Digia Plc, that is, before he became CEO of Qt Group Plc when the demerger of Qt from Digia came into effect.

- Under the bonus scheme for the Qt segment, Qt's net sales growth was the earnings criterion for the bonus payable to the CEO. If this net sales target is achieved, the CEO is paid a bonus equivalent to 40 per cent of his annual base salary. If the target is exceeded, the bonus is increased so that half of each euro in excess of the net sales target is used to pay bonuses (including social security expenses) for the CEO and other personnel in the Qt segment. The maximum bonus for the CEO under the Qt bonus scheme is 120 per cent of his annual base salary. No bonus is paid if the Qt segment's operating profit fell more than EUR 1 million short of the operating profit budget. The bonus criteria is assessed and any bonuses due are paid biannually. While CEO Juha Varelius was still eligible for the Domestic segment bonus scheme, he was also paid 50 per cent of the aforementioned bonuses under the Qt bonus scheme.

The share-based incentive schemes for the company's top management were decided at a meeting of the Board of Directors on 12 March 2015, as authorised by the AGM. The Board decided on two separate bonus schemes: one for the Domestic segment and one for the Qt segment.

The Domestic scheme comprises three earning periods, which are the calendar years 2015–2017. The earnings criteria are the consolidated earnings per share and consolidated net sales, according to formulae settled annually by the Board. For each earnings period, the CEO and other key personnel covered by the scheme are entitled to a bonus equivalent to a maximum total of 115,000 Digia Plc shares. All bonuses under this scheme will be paid as a 50/50 combination of shares and cash. The cash portion of the bonus will primarily be used to cover taxes and other comparable costs arising from the scheme. The payment of bonuses from the share-based incentive schemes is subject to the employee in question being employed by the company on the payment date.

Under the Qt share-based incentive scheme in force at the beginning of the year, CEO Varelius was entitled to a minimum bonus equivalent to the value of 36,000 shares, if Digia's share price were a minimum of EUR 4.50 at the end of the earning period in spring 2018. This bonus will increase in line with the share price: a maximum bonus equivalent to the value of 180,000 shares were payable if Digia's share price reached at least EUR 8.50. However, the said Qt share-based incentive scheme terminated in accordance with its terms and conditions when Digia's planned demerger took effect in 1 May 2016. Consequently, the scheme's earnings period also expired prematurely and the bonuses payable to CEO Varelius were evaluated on the basis of Digia's average trade-weighted share price over a period of two weeks preceding the demerger. The share bonus was paid wholly in cash within one month of the date of demerger.

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

Timo Levoranta

Timo Levoranta has been Digia’s CEO as of 1 May 2016. Levoranta's remuneration package comprises a monthly salary (in accordance with his service contract), a bonus payable on the attainment of set targets, and potential share bonuses payable to the CEO in accordance with approved share-based incentive schemes.

- In addition to his monthly salary, CEO Levoranta is entitled to a bonus in accordance with the approved bonus scheme. On the basis of the bonus scheme, the CEO will be paid an annual bonus equivalent to 3 times his monthly base salary upon the attainment of annual targets tied to net sales and operating profit budgets set by the Board of Directors. 70 per cent of this bonus is tied to the net sales targets and 30 per cent to operating profit targets. Upon exceeding the said targets, the bonus shall increase up to a maximum amount equal to nine months base salary. Maximun bonus shall become payable if the net sales target is exceeded by a minimum of 8.2% and the profit target is exceeded by a minimum of 19.3%. Both targets are evaluated biannually independently, irrespective of each other, provided however that in the event the profit remains below 70.2% of the set target, no bonus shall be paid, irrespective of the net sales outcome.

- The Domestic scheme established by Digia Plc’s Board on 12 Mach 2015 comprises three earning periods, which are the calendar years 2015–2017. The earnings criteria are the consolidated earnings per share and consolidated net sales, according to formulae settled annually by the Board. For each earnings period, the CEO and other key personnel covered by the scheme are entitled to a bonus equivalent to a maximum total of 115,000 Digia Plc shares. All bonuses under this scheme will be paid as a 50/50 combination of shares and cash. The cash portion of the bonus will primarily be used to cover taxes and other comparable costs arising from the scheme. The payment of bonuses from the share-based incentive schemes is subject to the employee in question being employed by the company on the payment date. A maximum total of 112,499 shares have been granted as share bonuses from the scheme during the financial period.

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

Management incentives

On 31 December 2016, Digia’s top management consisted of ten people: the CEO, CFO, General Counsel, Commercial Director, CTO, and five other SVPs/VPs. You can read more about top management on the company’s website: www.digia.com/en/investors/governance/ceo-and-management.

The total remuneration package for these executives comprises a monthly salary and a bonus payable on the attainment of set targets. The earnings criteria and terms and conditions governing the bonus for members of Digia’s Management Team are the same as those governing the bonus for the CEO, except that the maximum annual bonus for Management Team members is equivalent to six (6) months' base salary. Top management is also covered by the Domestic segment’s share-based incentive scheme which is described above.

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

C) Remuneration report

Board remuneration

The following remuneration were paid to members of Digia's Board of Directors for Board and Committee work during the 2016 financial year:

EUR	2016
Martti Ala-Härkönen	31,750
Päivi Hokkanen	41,000
Robert Ingman	53,500
Pertti Kyttälä	76,500
Seppo Ruotsalainen	40,000
Leena Saarinen*	12,500
Tommi Uhari	11,500
Kai Öistämö*	11,500
Total	**278,250**

* Board member until 16 March 2016

CEO's remuneration

The CEO was paid the following as salary and other benefits during the 2016 financial year:

Juha Varelius, until 30 April 2016

EUR	2016
Salary (including fringe benefits)	92,784
Bonuses	66,629
Share-based incentive	138,946
Monetary bonus from shares	138,953
Total	**437,312**

Timo Levoranta, as of 1 May 2016

EUR	2016
Salary (including fringe benefits)	251,347
Bonuses	35,095
Share-based incentive	0
Monetary bonus from shares	0
Total	**286,442**

Management incentives

Other executives were paid the following as salary and other benefits during the 2016 financial year:

EUR	2016
Salary (including fringe benefits)	881,777
Bonuses	218,263
Share-based incentive	124,047
Monetary bonus from shares	200,623
Total	**1,424,710**

The management group included on 31 December 2016 the following members:

- Samuli Aho, Vice President, Management Team Member since 1 May 2016
- Tommi Flink, Vice President, Management Team Member since 1 May 2016
- Tuula Haataja, CFO, Management Team Member since 19 August 2013
- Juhana Juppo, CTO, Management Team Member since 19 September 2016
- Mika Kervinen, General Counsel, Management Team Member since 1 May 2016
- Tom Puusola, Senior Vice President, Management Team Member since 1 January 2012
- Marko Saarinen, Senior Vice President, Management Team Member since 1 July 2016
- Erkki Talvela, Commercial Director, Management Team Member since 1 May 2016
- Teemu Virtanen, Vice President, Management Team Member since 1 May 2016

Auditor and auditor’s fees

Digia has one official auditor, who must be an Authorized Public Accountant. The auditor is elected until further notice.

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

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

2016 Auditor's fees

EUR 1,000	2016
Audit	95
Other statutory assignments	-
Tax counselling	-
Other services	108
Total	**203**

Board of Directors' Report

Key Figures

The demerger of Digia Plc and Qt Group Plc came into force on 1 May 2016. This financial statement bulletin presents the business operations of Digia Plc, the former Domestic segment (continuing operations). Qt Group's business operations are treated as discontinued operations. In addition to Qt's net result, the reported figures for discontinued operations include demerger expenses and the difference between the fair values and carrying amounts of net assets transferred to Qt.

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

Financial Indicators

	2016	2015	2014	2013	2012
Net sales EUR 1,000	86,463	80,946	97,433	99,740	100,448
Operating profit, EUR 1,000	5,419	5,854	4,310	-2,822	6,884
Operating margin, %	6%	7%	4%	-3%	7%
Return on equity, %	11%	14%	8%	-10%	10%
Equity ratio, %	50%	54%	51%	50%	53%
Net gearing, %	36%	17%	30%	29%	28%

More detailed key figures for the last five years and the formulae for the key figures are provided in the notes to the financial statements (notes 28 and 30). Comparative figures 2012–2014 includes the Qt business figures.

Net Sales

Digia net sales in January–December 2016 totalled EUR 86.5 (80.9) million, representing growth of 6.8 per cent on the previous year. Net sales growth was supported by growth in the integration business, the customised solutions service business, the ERP business based on the company's own technologies, and the acquisition made in the digital services segment during the summer.

Demand remained good in the Integration and Information Management service area, and net sales saw year-on-year growth. As predicted, there was particularly high demand for commercialised services for labour-intensive tasks. Demand remained good throughout the year. Net sales in January–December 2016 saw year-on-year growth.

Industry Solutions service area’s good development in net sales during January–December 2016 was supported by favourable trends in customised solutions and the ERP business based on the company's own technologies.

In Financial Solutions and Services net sales in January–December 2016 saw year-on-year growth in Finland, but fell short of the previous year in Sweden.

The net sales of the product business in January–December 2016 totalled EUR 25.7 (23.1) million, or 29.7 (28.6) per cent of net sales.

Profit and Profitability

Digia’s operating profit in January–December 2016 totalled EUR 5.4 (5.9) million, or 6.3 (7.2) per cent of net sales. The fall in our operating profit stemmed from challenging delivery projects and the end of a long-term maintenance customer relationship in Financial Solutions and Services in Sweden. Investments in recruitment and sales also impacted profitability.

The profitability of the Integration and Information Management service area remained at a good level in the January–December period of 2016 thanks to changes in net sales structure.

Profitability in the Industry Solutions service area was good and improved on the previous year. In particular, improved profitability was seen in the ERP business based on Microsoft technologies. Although the profitability of site optimisation also improved, investments in this business continued to burden its earnings. During January–December 2016, profitability developed favourably especially thanks to good trends in both the customised solutions service business and the ERP business based on the company's own technologies.

In January–December 2016, the profitability of Digia Financial Solutions and Services fell on the previous year. Profitability was weakened by warranty work related to projects involving the delivery of Digia’s own products, the ending of a significant long-term maintenance customer relationship in Sweden, and planned investments in the service business.

Full-year earnings before taxes were EUR 5.1 (5.3) million, with earnings after taxes totalling EUR 4.1 (4.2) million.

Full-year earnings per share were EUR 0.20 (0.20) for continuing operations and EUR 3.63 for discontinued operations.

Net financial expenses were EUR 0.3 (0.5) million in January–December 2016.

Financing, Cash Flow and Expenditure

At the end of December 2016, Digia's balance sheet total stood at EUR 66.4 million (12/2015: EUR 84.3 million) and the equity ratio at 49.8 (12/2015: 53.7) per cent. Net gearing was 35.6 (12/2015: 16.6) per cent. Cash and cash equivalents totalled EUR 2.0 million (12/2015: EUR 6.7 million). The balance sheet comparison figures presented above include the Qt business.

The Group's interest-bearing liabilities totalled EUR 13.7 million at the end of December 2016 (12/2015: EUR 13.5 million). These consisted of EUR 8.0 million in long-term and EUR 4.0 million in short-term loans from financial institutions, and EUR 1.7 million in financial leasing liabilities.

Cash flow from operating activities in January–December 2016 totalled EUR 3.8 (6.7) million. Cash flow from investments came to EUR -4.5 (-1.4) million. The Igence acquisition is included in the cash flow from investments. Cash flow from financing was EUR -1.5 (-3.8) million.

Total investments in fixed assets were EUR 1.7 (1.5) million during January–December 2016. The return on investment (ROI) was 11.0 (15.6) per cent, and return on equity (ROE) was 11.0 (13.5) per cent.

Research and Development

Digia has invested in R&D and product development in all of its service areas. Research and development expenses totalled EUR 5.8 million in January–December 2016 (2015: 5.9; 2014: 6.2) representing 6.7 per cent of net sales (2015: 7.3%; 2014: 8.1%).

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

Personnel, Management and Administration

The number of Digia employees totalled 872 at the end of December 2016, showing an increase of 113 employees, or 14.9 per cent, on year-end 2015 (31 Dec 2015: 759 employees). During the reporting period, the number of employees averaged 810, an increase of 57 employees, or 7.6 per cent, on the 2015 average (2015: 753).

24 people transferred into Digia's employ when the Igence acquisition entered into force on 1 July. 213 employees transferred from Digia to Qt in conjunction with the demerger.

Employees by location, 31 Dec 2016:

	31 Dec 2016	31 Dec 2015	Change, no. of employees
Helsinki	550	481	69
Jyväskylä	133	118	15
Tampere	123	104	19
Oulu	6	10	-4
Rauma	33	35	-2
Vaasa	12	-	12
Turku	5	-	5
Stockholm	10	11	-1
Total	**872**	**759**	**113**

Digia Plc’s Annual General Meeting (AGM) of 16 March 2016 re-elected Päivi Hokkanen, Robert Ingman, Pertti Kyttälä and Seppo Ruotsalainen as members of the Board. Martti Ala-Härkönen was elected to the Board as a new member. At its organisational meeting after the AGM, the Board of Directors elected Pertti Kyttälä as Chair and Robert Ingman as Vice Chair of the Board.

Digia's President & CEO Timo Levoranta, as of 1 May 2016, and senior management were on 31 December 2016 as follows:

- Samuli Aho, Vice President, as of 1 May 2016
- Tommi Flink, Vice President, as of 1 May 2016
- Tuula Haataja, CFO, as of 19 August 2013
- Juhana Juppo, CTO, as of 19 September 2016
- Mika Kervinen, General Counsel, as of 1 May 2016
- Tom Puusola, Vice President, as of 1 January 2012
- Marko Saarinen, Vice President, as of 1 July 2016
- Erkki Talvela, Senior Vice President, Sales Marketing and Communications, as of 1 May 2016
- Teemu Virtanen, Vice President, as of 1 May 2016

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

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

Strategy Implementation and Business Development

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

Digia is a profitably growing IT service company that helps its customers harness digital opportunities. As a visionary partner, Digia develops and innovates solutions that support business operations together with its customers. Our ability to provide solutions extends to our customers' strategic systems, ERPs, and the integration of business processes.

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

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

Growth will primarily be sought from the most rapidly growing areas of the traditional IT market, such as digital services and process digitalisation. We are expanding our international presence together with our customers. In addition to pursuing organic growth, Digia is actively seeking potential strategic acquisitions.

Strategy implementation in 2016

In order to support growth, we restructured our organisation and updated our operating models. Digia now comprises four service areas: Digital Services, Integration and Information Management, Industry Solutions, and Digia Financial Solutions and Services.

In order to build a firm foundation for growth, we have been developing and renewing our competence, and actively recruiting. The number of employees increased by 113 during 2016, of whom 75 persons were hired during the second half of the year.

Digia made a strategic acquisition in June. We acquired the entire share capital of Igence Oy Ab, thereby bolstering our position in the growing e-commerce market. The acquisition was carried out on 1 July 2016.

We also strengthened our service business during the year by establishing a new business in the financial sector. This financial-sector service includes back office services for asset management, and cooperation with the first customer started in the beginning of October.

In October, the Tax Administration chose Digia to supply the national income register solution. The register is scheduled for launch in early 2019. The solution will be delivered as a fixed-price project worth EUR 13.7 million. The project was launched in late 2016. The package also includes maintenance and further development. Digia's share of the project's total value is about EUR 60 million over the 15-year contract period, including the fixed-price component of the project, provided that the solution is implemented in accordance with the assumptions made in the Tax Administration's call to tender.

Group Structure

Digia operates in seven locations in Finland – Helsinki, Jyväskylä, Oulu, Rauma, Tampere, Turku and Vaasa – and in Stockholm, Sweden. Our headquarters is located in Helsinki. At the end of the 2016 financial year, the Digia Group consisted of the parent company, Digia Plc, and its subsidiaries Digia Finland Oy, Digia Commerce Oy (formerly Igence Oy) and Digia Sweden AB. These subsidiaries are wholly owned by Digia.

Digia Plc's Annual General Meeting of 16 March 2016 approved Digia's demerger plan and decided on a partial demerger of Digia Plc in accordance with the said plan. Digia Plc was demerged such that all assets, liabilities and responsibilities related to its Qt business were transferred to Qt Group Plc, a new company established in the demerger. Digia Plc's Domestic business will remain with Digia. The partial demerger was registered in the Trade Register on 1 May 2016.

More information about the demerger can be found on the company's website under www.digia.com/en/investors/demerger.

Share Capital and Shares

On 31 December 2016, the number of Digia Plc shares totalled 20,875,645. The company had a total of 4,617 shareholders on 31 December 2016.

Ten largest shareholders on 31 December 2016

	Shares and votes
Ingman Development Oy Ab	21.6%
Ilmarinen Mutual Pension Insurance Company	14.6%
Jyrki Hallikainen	6.6%
Varma Mutual Pension Insurance Company	4.7%
Savolainen Matti	4.3%
Karvinen Kari Juhani	3.5%
Aktia Capital investment fund	3.0%
Aktia Nordic Small Cap investment fund	1.7%
Evli Finnish Small Cap investment fund	1.6%
Nordea Bank Finland Plc	1.1%

Shareholding by number of shares held on 31 December 2016

	Shareholders	Shares and votes
1 – 100	26.5%	0.4%
101 – 1 000	55.6%	5.4%
1 001 – 10 000	15.7%	9.6%
10 001 – 100 000	1.6%	11.6%
100 001 – 1 000 000	0.4%	30.2%
1 000 001 – 4 000 000	0.1%	42.7%

Shareholding by sector on 31 December 2016

	Shareholders	Shares and votes
Companies	4.1%	27.2%
Finance nad insurance	0.3%	10.8%
Public sector organisations	0.0%	19.2%
Non-profit associations	0.2%	1.2%
Households	94.9%	39.4%
Foreign holding	0.5%	2.0%

Digia Plc held a total of 57,372 treasury shares at the end of December 2016. The accounting counter value of these treasury shares is EUR 0.10 per share. The company held about 0.7 per cent of its capital stock on 31 December 2016. 39,116 of the said shares were distributed during January–December 2016 as bonuses. At the end of December 2016, 91,435 of these shares remained undistributed and were under the management of Evli Awards Management Ltd.

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

Share-based Payments

Share incentive scheme and management ownership

On 12 March 2015, Digia Plc's Board of Directors decided to establish a new share-based incentive scheme for the CEO and other members of the company's senior management. The purpose of this scheme is to align the objectives of the company's shareholders and management in order to increase shareholder value, promote management commitment, and offer management a competitive incentive scheme based on shareholding in the company. The scheme chosen on 12 March 2015 replaced the previous share-based incentive scheme, which ran until 2016.

The new scheme comprises three earning periods, which are the calendar years 2015–2017. The earnings criteria are the consolidated earnings per share and consolidated net sales, according to formulae settled annually by the Board. For each earnings period, the CEO and other key personnel covered by the scheme are entitled to a bonus equivalent to a maximum total of 115,000 Digia Plc shares. All bonuses under this scheme will be paid as a 50/50 combination of shares and cash. The cash portion of the bonus will primarily be used to cover taxes and other comparable costs arising from the scheme. A maximum total of 112,499 shares have been granted as share bonuses from the scheme during the financial period. The payment of bonuses from the share-based incentive schemes is subject to the employee in question being employed by the company on the payment date. The share-based incentive schemes are described in more detail in Note 19 Share-based payments.

EUR 0.2 million in expenses were incurred by the scheme during the 2016 financial year, and EUR 0.7 million in 2015–2016.

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

According to the list of shareholders on 31 December 2016, Digia's Board of Directors and CEO owned shares in the company as follows (includes the holdings of related-parties and related-party organisations):

Board of Directors	No. of shares
Pertti Kyttälä, Chair of the Board	3,000
Robert Ingman, Vice Chair of the Board	4,520,000
Martti Ala-Härkönen	0
Päivi Hokkanen	8,170
Seppo Ruotsalainen	0

President & CEO	No. of shares
Timo Levoranta	70

At year-end 2016, the CEO and members of the Board of Directors held a total of 4,531,240 of the company's shares and votes, representing 21.7 per cent of all shares.

Trading on the Helsinki Stock Exchange

Digia Plc’s shares are listed on NASDAQ Helsinki under IT, IT Consulting & Other Services. The company's short name is DIG1V. The lowest reported share quotation in January–December 2016 was EUR 2.81 and the highest EUR 7.40. The share officially closed at EUR 3.15 on the last trading day of the year. The trade-weighted average was EUR 4.32. The company's market capitalisation totalled EUR 65,758,282 on 31 December 2016.

Board of Directors' Report › Flagging Notifications

Flagging Notifications

On 26 April 2016, Digia Plc was notified of a change in the company's ownership, in accordance with Chapter 9, Section 10 of the Finnish Securities Market Act. Kari Juhani Karvinen informed Digia that the number of Digia Plc's shares and votes under his control had fallen to under 5 per cent of Digia Plc's shares and votes. After the notification, Kari Karvinen had a total of 1,000,000 Digia shares, corresponding to 4.79 per cent of all of Digia's shares and votes.

Other Major Events during the 2016 Financial Year

Digia Plc's Annual General Meeting (AGM) was held on 16 March 2016. The AGM adopted the financial statements for 2015, released the Board members and the CEO from liability, determined Board emoluments, set the number of Board members at five (5), and elected the company's Board of Directors for a new term.

With regard to profit distribution for 2015, the AGM approved the Board's proposal to pay a dividend of EUR 0.08 per share to all shareholders listed in the shareholder register maintained by Euroclear Finland Ltd on the reconciliation date of 18 March 2016. The dividend payment date was 29 March 2016.

The AGM granted the following authorisations to the Board

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

Digia Plc's AGM of 16 March 2016 authorised the Board of Directors to decide on the buyback and/or acceptance as collateral of no more than 2,000,000 company shares using the company's unrestricted equity. The Board shall decide on how these shares are to be acquired. Treasury shares may be bought back in disproportion to shareholders' holdings. This authorisation also includes the acquisition of shares through public trading on NASDAQ OMX Helsinki in accordance with the rules and instructions of NASDAQ OMX Helsinki and Euroclear Finland Ltd, or through offers made to shareholders. Shares may be acquired in order to improve the company's capital structure, to fund or complete acquisitions or other business transactions, to offer share-based incentive schemes, to sell on, or to be annulled. The shares must be acquired at the market price in public trading. This authorisation supersedes that granted by the AGM of 12 March 2015 and is valid for 18 months, that is, until 16 September 2017. Digia's Board of Directors did not use its authorisation during 2016.

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

The AGM of 16 March 2016 authorised the Board to decide on an ordinary or bonus issue of shares and the granting of special rights (as defined in Section 1, Chapter 10 of the Limited Liability Companies Act) in one or more instalments, as follows: The issue may total, at a maximum, 4 000 000 shares. The authorisation applies both to new shares and to treasury shares held by the company. By virtue of the authorisation, the Board has the right to decide on share issues and the granting of special rights, in deviation from the pre-emptive subscription rights of the shareholders (a directed issue). The authorisation may be used to fund or complete acquisitions or other business transactions, to offer share-based incentive schemes, to develop the company's capital structure, or for other purposes decided by the Board. The Board was authorised to decide on all terms relating to the share issue or special rights, including the subscription price, its payment and its recognition in the company's balance sheet. This authorisation supersedes that granted by the AGM of 12 March 2015 and is valid for 18 months, that is, until 16 September 2017. Digia's Board of Directors did not use its authorisation during 2016.

Demerger of Digia Plc to form two separate listed companies

In accordance with a proposal by the Board of Directors, Digia Plc's Annual General Meeting of 16 March 2016 approved the demerger plan signed by the Board on 16 December 2015, and decided to implement a partial demerger of Digia Plc. As set out in the demerger plan, Digia Plc was demerged such that all assets, liabilities and responsibilities related to its Qt business were transferred to a new company established in the demerger called Qt Group Plc. Digia Plc continued the operations of the domestic business.

Amendment to the Articles of Association

Digia's AGM of 16 March 2016 decided to amend Article 4 of the company's Articles of Association such that the Board of Directors shall henceforth have 4–8 members rather than 5–8 members. Article 4 remained otherwise unchanged. Article 4 in its entirety now reads as follows:

4§ Board of Directors

The Board of Directors shall have between four and eight (4–8) members. The term of all Board members expires at the end of the Annual General Meeting following their election. The Board of Directors elects its Chair and Vice Chair from among its members.

Approval of the demerger plan and deciding on a partial demerger

Digia Plc's Annual General Meeting approved the demerger plan and decided on a partial demerger of Digia Plc in accordance with the said plan. In accordance with the demerger plan, Digia Plc was demerged such that all assets, liabilities and responsibilities related to its Qt business were transferred to Qt Group Plc, a new company established in the demerger. Digia Plc's Domestic business will remain with Digia.

As part of the demerger, a decrease in Digia Plc's issue premium fund by its entire amount was approved, that is EUR 7,899,485.50. Any of the funds not used in the sharing out of assets to Qt Group Plc were transferred to Digia Plc's unrestricted shareholders' equity reserve.

More information about the AGM's decisions is available at www.digia.com/en/investors/governance/annual-general-meeting/agm-2016.

Events after the Financial Year

On 2 February 2017, Digia Plc's Board of Directors decided to establish a new share-based incentive scheme. The Board of Directors will confirm the target group of this long-term incentive scheme separately. Principally the target group consists of the CEO and other members of the company’s senior management. The purpose of this scheme is to align the objectives of the company’s shareholders and management in order to increase shareholder value and promote management commitment to the company and its long-term objectives. This scheme replaces the earlier share-based incentive scheme that ran until 2017.

The new scheme comprises the calendar years 2017–2019. Scheme participants may earn shares in the company if the criteria set for the three-year earnings period by the Board of Directors are achieved.

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

The payment of bonuses from the share-based incentive schemes is subject to the employee in question being employed by the company on the payment date. Under certain conditions the Board of Directors may decide on potential bonuses on a pro rata basis for the current and completed earnings periods.

Risks and Uncertainties

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

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

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

Major customer projects involve both business opportunities and risks. As customer projects increase in size, so do the risks associated with profitability management. It is important for us to be able to handle extensive contract and delivery packages.

Outlook and Guidance

Cloud services are rapidly increasing in significance in the IT market. At the same time, our project operations, which are based on traditional system deliveries, are moving towards services and agile projects.

The company's management sees major opportunities in digitalisation and the revolution in business models. To fully tap into these opportunities, Digia will continue to make investments in personnel development and recruitment, updating business models, and strengthening its offering.

Digia estimates that markets will develop favourably compared with 2016.

Digia’s net sales growth is expected to accelerate in 2017 (2016: net sales up 6.8%). Operating profit is anticipated to remain on a par with the previous year.

Board of Directors' Proposal for the Distribution of Profit

According to the updated balance sheet, Digia Plc's unrestricted shareholders' equity on 31 December 2016 was EUR 33,571,493 of which EUR 2,297,693 was profit for the financial year. At the Annual General Meeting, the Board of Directors will propose that a dividend of EUR 0,08 per share be paid according to the confirmed Balance Sheet for the fiscal year ending 31 December 2016. Shareholders listed in the shareholder register maintained by Euroclear Finland Oy on the dividend reconciliation date, 20 March 2017, will be eligible for the dividend. Dividends will be paid on 29 March 2017.

Financial Statements

Consolidated Income Statement (IFRS)

Continuing operations			(Adjusted)
€	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Net sales	1	**86,462,771.41**	**80,946,335.18**
Other operating income	3	743,257.20	427,237.42
Materials and services		-11,195,463.05	-9,151,915.51
Depreciation, amortisation and impairment	8	-1,442,251.92	-1,607,081.35
Personnel expenses	9	-57,514,617.46	-53,626,511.46
Other operating expenses	6	-11,634,383.95	-11,134,453.37
		-81,043,459.18	-75,092,724.25
Operating profit		**5,419,312.23**	**5,853,610.93**
Financial income	10	163,543.77	15,926.46
Financial expenses	10	-463,312.42	-529,872.61
		-299,768.65	-513,946.15
Earnings before tax		**5,119,543.58**	**5,339,664.78**
Income taxes	11	-1,056,036.37	-1,094,249.65
Net profit, continuing operations		**4,063,507.21**	**4,245,415.13**
Net profit, discontinued operations	29	**75,842,000.00**	**1,099,222.83**
Net profit		**79,905,507.21**	**5,344,637.96**

Earnings per share, EUR, continuing operations (basic and diluted EPS)	0.20	0.20
Earnings per share, EUR, discontinued operations (basic and diluted EPS)	3.63	0.05
Earnings per share, EUR, continuing and discontinued operations (basic and diluted EPS)	3.83	0.25

Statement of Comprehensive Income		
Exchange differences on translating foreign operations	-141,900.00	-26,908.34
Total comprehensive income	79,763,607.21	5,317,729.62
Distribution of total comprehensive income: Parent company shareholders	79,763,607.21	5,317,729.62

Consolidated Balance Sheet (IFRS)

€	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Goodwill	14	40,558,920.80	44,549,716.77
Other intangible assets	14	1,285,520.80	6,485,718.65
Tangible assets	13	2,386,983.09	1,859,081.61
Available-for-sale investments	25	624,427.48	626,983.95
Long-term receivables		213,613.50	14,143.75
Long-term collateral for rents		0.00	15,517.00
Deferred tax assets	15	194,053.47	293,254.10
		45,263,519.14	53,844,415.83
Current assets			
Accounts receivable and other receivables	16	19,131,968.28	23,741,136.85
Cash and cash equivalents	17	1,994,279.91	6,709,753.90
		21,126,248.19	30,450,890.75
Total assets		**66,389,767.33**	**84,295,306.58**

€	Note	31 Dec 2016	31 Dec 2015
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to parent-company shareholders			
Share capital	18	2,087,564.50	2,087,564.50
Issue premium fund		0.00	7,899,485.80
Other reserves		5,203,821.24	5,203,821.24
Unrestricted shareholders' equity reserve		30,049,535.32	31,370,258.22
Translation difference		-224,359.71	492,089.27
Retained earnings		-84,209,512.63	-11,393,572.90
Net profit		79,906,546.49	5,227,559.96
		32,813,595.21	40,887,206.09
Total shareholders' equity		**32,813,595.21**	**40,887,206.09**
Non-current liabilities			
Deferred tax liabilities	15	181,118.85	253,912.21
Financial liabilities	21	8,975,282.58	8,195,899.94
Other non-current liabilities		0.00	874,631.80
		9,156,401.43	9,324,443.95
Current liabilities			
Accounts payable and other liabilities		9,646,402.06	14,806,437.84
Income tax liabilities		421,200.16	1,005,440.71
Provisions	20	254,505.00	168,500.00
Accruals and deferred income		9,386,654.03	12,786,467.72
Financial liabilities	21	4,711,009.44	5,316,810.27
		24,419,770.69	34,083,656.54
Total liabilities		**33,576,172.12**	**43,408,100.49**
Total shareholders' equity and liabilities		**66,389,767.33**	**84,295,306.58**

Consolidated Cash Flow Statement (IFRS)

€ 000	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Cash flow from operations:		
Net profit	79,906	4,247
Adjustments to net profit	1,325	1,317
Change in working capital	870	-345
Interest paid	-270	-179
Interest income	118	5
Taxes paid	-1,603	377
Discontinued operations	-76,535	1,257
Cash flow from operations	**3,811**	**6,679**
Cash flow from investments:		
Purchases of tangible and intangible assets	-2,158	-1,187
Shares acquired in subsidiaries, net of cash and cash equivalents at the time of acquisition	-2,099	-
Discontinued operations	-217	-233
Cash flow from investments	**-4,474**	**-1,420**
Cash flow from financing:		

Repayments of finance lease liabilities	-747	294
Repayments of current loans	-11,900	-3,000
Withdrawals of current loans	4,000	276
Withdrawals of non-current loans	9,925	0
Dividends paid and other profit distribution	-1,855	-1,039
Discontinued operations	-951	-303
Cash flow from financing	**-1,528**	**-3,772**
Change in liquid assets	**-2,191**	**1,486**
Liquid assets at beginning of period	**6,710**	**5,132**
Effects of changes in foreign exchange rates	-224	91
Cash and cash equivalents transferred in the demerger	-2,301	-
Change in liquid assets	-2,191	1,486
Liquid assets at end of period	**1,994**	**6,710**

Changes in Shareholders' Equity

Proportion belonging to parent company shareholders

€ 000	Share capital	Premium fund	Unrestricted share-holders' equity reserve	Other reserves	Translation difference	Retained earnings	Total share-holders' equity
Shareholders' equity, 1 January 2015	2,088	7,899	31,370	5,204	401	-10,243	36,719
Net profit (+) / loss (-)	-	-	-	-	-	5,228	5,228
Total recognised income and expenses for the period	-	-	-	-	-	5,228	5,228
Dividends paid	-	-	-	-	-	-1,039	-1,039
Share-based transactions settled in equity	-	-	-	-	-	-111	-111
Other comprehensive income	-	-	-	-	91	-	91
	-	-	-	-	91	1,150	-1,059
Shareholders' equity, 31 December 2015	2,088	7,899	31,370	5,204	492	-6,166	40,887

€ 000	Share capital	Premium fund	Unrestricted share-holders' equity reserve	Other reserves	Translation difference	Retained earnings	Total share-holders' equity
Shareholders' equity, 1 January 2016	**2,088**	**7,899**	**31,370**	**5,204**	**492**	**-6,166**	**40,887**
Net profit (+) / loss (-)	-	-	-	-	-	79,907	79,907
Total recognised income and expenses for the period	**-**	**-**	**-**	**-**	**-**	**73,741**	**120,794**
Dividends paid	-	-	-	-	-	-1,659	-1,659
Share-based transactions settled in equity	-	-	-	-	-	39	39
Other comprehensive income	-	-	-	-	-716	-	-716
Demerger consideration, fair value	-	-	-	-	-	-85,771	-85,771
Dissolution of premium fund*	-	-7,899	7,899	-	-	-	0
Effect of demerger	-	-	-9,220	-	-	9,220	0
Other items	-	-	-	-	-	128	128
	-	**-**	**-**	**-**	**-716**	**-78,043**	**-87,980**
Shareholders' equity, 31 December 2016	**2,088**	**0**	**30,050**	**5,204**	**-224**	**-4,303**	**32,814**

* The demerger-related transfer of the issue premium fund to the unrestricted shareholders' equity reserve was carried out on 16 March 2016 following a decision made by the Annual General Meeting.

Distributable funds, 31 December

€ 000	2016 Parent	2015 Parent
Unrestricted shareholders' equity reserve	30,050	31,370
Retained earnings	1,224	72
Net profit	2,298	2,772
Total	**33,571**	**34,215**

Basic Information on the Group and its Accounting Policies

Basic information on the company

Digia is a profitably growing IT service company that helps its customers harness digital opportunities. As a visionary partner, Digia develops and innovates solutions that support business operations together with its customers. We adapt our expertise to their specific industries to help them develop digital services, manage operations and utilise information. We employ almost 900 experts in Finland and Sweden. We are expanding our international presence together with our customers.

One of our major assets is our profound knowledge and understanding of the core processes of local organisations, and of the supporting operational systems and integrations. Our digital business services give us a bigger role in our customers' value chains. Our service model also includes consultancy, service design, development partnerships, and life-cycle services. We have solid industry expertise in commercial, logistics and industrial sectors, in the public sector, and in banking and insurance.

We operate in seven locations in Finland – Helsinki, Jyväskylä, Oulu, Rauma, Tampere, Turku and Vaasa – and in Stockholm, Sweden. The company is listed on NASDAQ Helsinki (DIG1V). Digia Plc is domiciled in Helsinki and its registered office is at Atomitie 20 A, 00370 Helsinki.

Accounting policies

Basis of preparation

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS), observing the IAS and IFRS standards, as well as SIC and IFRIC interpretations valid on 31 December 2016.

Consolidation principles

The consolidated financial statements include the parent company, Digia Plc, and all 100% owned subsidiaries. Acquired subsidiaries are consolidated using the cost method, according to which the assets and liabilities of the acquired entity are measured at fair value at the time of acquisition, and the remaining difference between the acquisition price and the acquired shareholders' equity constitutes goodwill. Subsidiaries acquired during the fiscal period are included in the consolidated financial statements as from when control was gained, while divested subsidiaries are included until the date of divestment.

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

As of 1 January 2016, the Digia Group has applied the following new and amended standards:

- Annual Improvements to IFRSs, collection of amendments 2012–2014 (effective for financial periods beginning on or after 1 January 2016): In the Annual Improvements procedure, all the minor and less urgent changes to the standards are gathered together and carried out once a year. Changes apply to four standards. The effects of the amendments vary depending on the standard but are not material.
- Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative (effective for financial periods beginning on or after 1 January 2016). The amendments clarify the IAS 1 guidance with respect to materiality, the aggregation of items in the income statement and balance sheet, the presentation of headings, the structure of the financial statements and the accounting principles. Minor changes have been made to the presentation of Digia's consolidated financial statements.
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for financial periods beginning on or after 1 January 2016): The amendments prohibit the depreciation of intangible assets on the basis of sales revenue. Exceptionally, assets can be depreciated on the basis of sales revenue only if revenue and consumption of the intangible asset are highly correlated. Sales income-based depreciation methods are not applicable to property, plant and equipment. The amendments had no effect on Digia's consolidated financial statements

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

The preparation of financial statements under IFRS means that Group management must necessarily make certain estimates and judgements concerning the application of the accounting principles. Information about such considerations made by the management when applying the corporate accounting principles with the greatest influence on the figures presented in the financial statements are explained under the item 'Accounting policies requiring consideration by management and crucial factors of uncertainty associated with estimates'.

Segment reporting

The demerger of Digia Plc and Qt Group Plc came into force on 1 May 2016, as of which date Digia has reported on a single business segment. As from 1 October 2016, Digia has comprised four service areas: Digital Services, Integration and Information Management, Industry Solutions, and Digia Financial Solutions and Services. The change has no effect on the company's reporting.

Foreign currency translation

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

Receivables and liabilities denominated in foreign currencies have been converted into euro at the exchange rate in effect on the balance sheet date. Gains and losses arising from foreign currency transactions are recognised through profit or loss. Foreign exchange gains and losses from operations are included in the corresponding items above operating profit.

The income statements of non-Finnish consolidated companies have been converted into euro at the weighted average exchange rate for the period, and their balance sheets have been converted at the exchange rate quoted on the balance sheet date. Translation differences arising from the application of the cost method are treated as items adjusting consolidated shareholders' equity.

Tangible assets

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

Buildings and structures	25 years
Machinery and equipment	3–8 years
Leasehold improvements	3–5 years

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

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

Government grants

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

Intangible assets

Goodwill

Goodwill corresponds to the proportion of the acquisition cost of an entity acquired between 1 January 2004 and 31 December 2016 that exceeds the Group's share of the fair value of the entity's net assets on the date of acquisition.

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

1. Sum of the following items:

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

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

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

No regular amortisation is booked on goodwill but it is tested annually for impairment. For this purpose, goodwill is allocated to cash generating units. Goodwill is recognised at the original cost from which the impairment is deducted. Any adjustments of acquisition cost are booked no later than 12 months after the date of acquisition.

Research and development costs

The R&D spend is primarily recognised as expenses. R&D expenses are capitalised if they fulfil the IFRS capitalisation criteria for intangible assets.

Other intangible assets

Patents, trademarks and licences with a limited useful life are booked in the balance sheet and recognised as expenses in the income statement by straight-line depreciation over their useful life. Amortisation is not booked on intangible assets with an unlimited useful life but they are tested annually for impairment. After the demerger of Qt Group Plc, Digia does not have any other such intangible assets that would have an unlimited useful life.

Leases

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

Financing assets and liabilities

Financing assets are divided into receivables and liabilities, either as held-to-maturity, held-for-trading, or available-for-sale. Loans are included under non-current and current liabilities. Interest expenses are recognised as expenses in the period during which they have arisen. Loan transaction costs are periodised during the loan period using the effective interest method.

Accounts receivable and other receivables

Accounts receivable and other receivables are measured at nominal value. An impairment of accounts receivable is established when there is evidence based on a case-by-case risk assessment that the Group will not be able to collect all amounts due according to the original terms of receivables.

Cash and cash equivalents

Cash and cash equivalents consist of cash and withdrawable bank deposits and other short-term investments. Accounts with a credit facility are treated as short-term loans under current liabilities.

Amortisation

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

Employee benefits

Pension liabilities

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

Share-based payments

Digia has incentive schemes where payments are made either in equity instruments or in cash. The benefits granted through these arrangements are measured at fair value on the date of their being granted and recognised as expenses in the income statement evenly during the vesting period. Correspondingly, in arrangements where the payment is made in cash, the liability and the change in its fair value is recognised as a liability on an accrual basis. The impact of these arrangements on the financial results is shown in the income statements under the cost of employee benefits.

Provisions

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

A restructuring provision is recognised when the Group has prepared a detailed restructuring plan, begun its implementation and disclosed the matter. The provision is based on expected actual costs, such as agreed compensation for termination of employment.

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

A guarantee provision is recognised once a product or service subject to guarantee terms has been sold and the amount of potential guarantee costs can be estimated with sufficient accuracy.

Shares, dividends and shareholders’ equity

Dividends proposed by the Board of Directors will not be deducted from distributable shareholders’ equity before the Board’s approval has been received. Immediate costs relating to the acquisition of Digia Plc’s own shares are recognised as deductions in shareholders’ equity.

Earnings per share

Earnings per share are calculated by dividing the period's earnings after tax belonging to the parent company's shareholders by the weighted average of shares outstanding during the fiscal period, excluding own shares acquired by Digia Plc. Diluted earnings per share are calculated assuming that all subscription rights and options have been exercised by the beginning of the next fiscal year. In addition to the weighted average of shares outstanding, the denominator also includes shares received from subscription rights and options assumed to have been exercised. The subscription rights and options assumed to have been exercised will not be taken into account in earnings per share if their actual price exceeds their average price during the fiscal year.

Income taxes

Taxes recognised in the income statement include taxes based on taxable income for the financial period, adjustments to taxes for previous periods, as well as changes in deferred taxes. Tax based on taxable income for the period is calculated using the corporate income tax rate applicable in each country. Deferred tax assets and liabilities are recognised for temporary differences between the taxable values and book values of asset and liability items. The biggest temporary differences arise from the depreciation of fixed assets and revaluation at fair value in connection with acquisitions. Deferred taxes are determined on the basis of the tax rate enacted by the balance sheet date. Deferred tax receivables are recognised up to the probable amount of taxable income in the future, against which the temporary difference can be utilised.

Revenue recognition

Work carried out by people is recognised monthly in accordance with progress. Long-term projects with a fixed price are recognised on the basis of their percentage of completion once the outcome of the project can be reliably estimated. The percentage of completion is determined as the proportion of costs arising from work performed for the project up to the date of review in the total estimated project costs. If estimates of the project change, the recognised sales and profit/margin are amended in the period during which the change becomes known and can be estimated for the first time. Any loss expected from a project is recognised as an expense immediately after the matter has been noted. Licensing income is recognised in accordance with the factual substance of the agreement. Income recognition requires a binding contract and complete delivery of the product. Depending on the type of the licence, income is recognised based on the time of delivery. Licence maintenance fees are allocated over the agreement period.

Accounting policies requiring consideration by management and crucial factors of uncertainty associated with estimates

Estimates and assumptions regarding the future have to be made during the preparation of the financial statements, and the outcome may differ from the estimates and assumptions. Furthermore, the application of accounting policies requires consideration. These estimates and assumptions are based on historical experience and other justifiable assumptions that are believed to be reasonable under the circumstances and that serve as a foundation for evaluating the items included in the financial statements. The estimates mainly concern the following items:

Impairment testing

The Group carries out annual impairment testing of goodwill and intangible assets with an unlimited useful life and evaluates any indications of impairment as described above in the accounting policies. Recoverable amounts from cash generating units are determined as calculations based on value in use. The preparation of these calculations requires the use of estimates.

Revenue recognition

As described in the revenue recognition policies, the revenue and costs of a long-term project are recognised as income and expenses, on the basis of percentage of completion once the outcome of the project can be reliably estimated. Recognition associated with the degree of completion is based on estimates of expected income and expenses of the project and reliable measurement and estimation of project progress. If estimates of the project's outcome change, the recognised sales and profit/margin are amended in the period during which the change becomes known and can be estimated for the first time. Any loss expected from a project is immediately recognised as an expense.

Financial risks

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

In accordance with the company's investment policy, cash and cash equivalents are invested only in low-risk short rate funds and bank deposits. The Group's policy defines creditworthiness requirements for customers in order to minimise the amount of credit losses. A sufficient provision was made for uncertain accounts receivable at the end of the fiscal period.

The most significant currency risks relating to accounts receivable or accounts payable are managed by means of forward foreign exchange contracts, when necessary. At the end of the fiscal year, the company did not have any such forward contract in force. Interest rate trends are monitored systematically in different bodies within the company, and possible interest rate risks hedges are made with the appropriate instruments. At the end of the fiscal year, the company had no such hedging instruments in force.

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

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

* = The regulation has not been approved for application within the EU on 31 December 2016.

- IFRS 15 Revenue from Contracts with Customers (effective for financial periods beginning on or after 1 January 2018): The new standard replaces the current IAS 18 and IAS 11 standards and their related interpretations. IFRS 15 includes a five-step model for the recognition of revenue with respect to the timing and amount. Revenue is recognised as control is passed, either over time or at a point in time. The standard also increases the amount of disclosures in the notes to the financial statements. The effects of IFRS 15 on Digia's consolidated financial statements have been assessed as follows:

    - The key concepts of IFRS 15 have been analysed with respect to different revenue flows. These include own licences and their maintenance, third-party licences and their maintenance, and the sale of work and services.
    - The standard will be adopted at the beginning of 2018, using a partly retroactive approach and practical tools. The company will apply this standard to each previous reporting period presented.
    - A preliminary review indicates that the expected impacts are not large. The IFRS 15 project was launched in autumn 2016, at which time sales agreements were analysed with respect to the four abovementioned revenue flows. The preliminary review indicates that the current revenue recognition principles will not change with regard to sales of work and third-party licence or service sales. A difference in timing will be introduced to some of the company's own licences and their maintenance. Earlier, these licences were recognised as revenue for a delivery project, but in future they will be recognised upon installation in the customer environment. That is, the licences comprise separate performance obligations and the related delivery project will be recognised over time.

- Clarifications to IFRS 15 Revenue from Contracts with Customers* (effective for financial periods beginning on or after 1 January 2018): The clarifications have been included in the evaluation of the effects of IFRS 15 described above.
- IFRS 9 Financial Instruments and its amendments (effective for financial periods beginning on or after 1 January 2018): IFRS 9 replaces the current IAS 39. The new standard includes revised guidance on the recognition and measurement of financial instruments. It also incorporates a new expected loss impairment model to be used for specifying impairment recognised on financial assets. The general provisions regarding hedge accounting have also been revised. The provisions included in IAS 39 concerning the recognition and derecognition of financial instruments remain unchanged. Assessments indicate that the impacts of IFRS 9 on Digia's consolidated financial statements will be slight.
- IFRS 16 Leases* (effective for financial periods beginning on or after 1 January 2019): The new standard replaces IAS 17 and related interpretations. IFRS 16 requires lessees to recognise leases as lease payment obligations and related asset items in the balance sheet. Balance sheet entry is very similar to the accounting treatment of finance leases under IAS 17. There are two concessions with regard to recognition of leases in the balance sheet, relating to leases with a short term of less than 12 months and leases in respect of assets valued at no more than USD 5,000. For lessors, accounting treatment will largely remain the same as under the current IAS 17. The Group has started the preliminary assessment of the effects of the standard. Based on that, it is estimated that Digia's lease payment obligation to be recognised in the consolidated financial statements and balance sheet will amount to about EUR 10 million.

- Amendment to IAS 7 Statement of Cash Flows – Disclosure Initiative* (effective for financial periods beginning on or after 1 January 2017). The amendments seek to enable users of financial statements to evaluate changes in liabilities – both those and those without an effect on cash flow – arising from financing activities. The amendment affects the notes to Digia’s consolidated financial statements.
- Amendment to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses* (effective for financial periods beginning on or after 1 January 2017). The amendments clarify that the existence of deductible temporary differences depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or how an amount equivalent to said carrying amount will be accrued in the future. The amendment has no effect on Digia's consolidated financial statements.
- Amendments to IFRS 2 Share-based Payment -Clarification and Measurement of Share-based Payment Transactions* (effective for financial periods beginning on or after 1 January 2018). The amendments clarify the accounting treatment of certain kinds of arrangements. They concern three subareas: measurement of cash-settled payment transactions; share-based payment transactions net of withholding tax; and modification of share-based payment transactions from cash-settled to equity-settled.
- Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration* (effective for financial periods beginning on or after 1 January 2018). When advance consideration denominated in foreign currency is paid or received for the related asset, income or expense, IAS 21 The Effects of Changes in Foreign Exchange Rates does not express an opinion on how the date of transaction should be determined for the purpose of translating said item. The interpretation clarifies that the date of transaction is the date of initial recognition of the advance payment or deferred income. If there are multiple payments or receipts in advance, a date of transaction is established for each. The amendment has no effect on Digia's consolidated financial statements.
- Annual Improvements to IFRSs, collection of amendments 2014–2016* (for IFRS 12, effective for financial periods beginning on or after 1 January 2017, and for IFRS 1 and IAS 28 for financial periods beginning on or after 1 January 2018): In the Annual Improvements procedure, all the minor and less urgent changes to the standards are gathered together and carried out once a year. Changes apply to three standards. The effects of the amendments vary depending on the standard but are not material.

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

Notes to the Consolidated Financial Statements

1. Long-term projects

The reported consolidated net sales include income recognised on long-term projects totalling EUR 20.4 million in 2016 (EUR 15.4 million in 2015). The consolidated income statement included income recognised on incomplete long-term projects totalling EUR 10.7 million on 31 December 2016 (EUR 8.5 million 31 December 2015). The statement of financial position includes advance payments recognised on incomplete long-term projects totalling EUR 0.4 million on 31 December 2016 (EUR 0.3 million on 31 December 2015).

Notes to the Consolidated Financial Statements

2. Acquired business operations

On 1 July 2016, Digia acquired the entire share capital of Igence Oy Ab, a webshop expert. With this acquisition, Digia expanded its current offering and expertise, especially in solutions for webshops and commercial product data management. The figures for the acquired business have been consolidated with Digia's result as from 1 July 2016. With the acquisition, 24 employees in Finland were transferred to the company's employ. The purchase price of EUR 2.1 million was paid in cash. The transaction also includes an additional purchase price of no more than EUR 1.5 million. The additional purchase price will be determined on the basis of the net sales of the acquired business in 2017. Management estimates that the additional purchase price will be paid in full. The value of customer contracts will be amortised over seven years from the date of acquisition.

Values of the acquired businesses on the acquisition date, € 000

Intangible assets	4
Accounts receivable and other receivables	361
Cash and cash equivalents	76
Total assets	**440**
Accounts payable and other liabilities	425
Total liabilities	**425**
Net assets	15
Goodwill	2,572
Value of customer contracts	940
Acquisition cost	3,527

Cash flow effect of the acquired businesses, € 000

Acquisition cost	-3,527
Cash and cash equivalents	76
Additional purchase price	1,500
Acquisition-related costs and taxes	-52
Net cash flow of acquisition	**-2,003**

Notes to the Consolidated Financial Statements

3. Other operating income

€ 000	2016	(Adjusted) 2015
Grants	396	333
Other income	347	94
Total	**743**	427

Notes to the Consolidated Financial Statements

4. Adjustments to operating profit

No adjustments to operating profit were recognised in 2016. Restructuring expenses of EUR 0.6 million related to the reorganisation carried out in 2015 were recorded as adjustments to operating profit for 2015.

Notes to the Consolidated Financial Statements

5. Auditors' fees

		(Adjusted)
€ 000	2016	2015
Audit	95	127
Other statutory duties	-	3
Tax counselling	-	-
Other services	108	5
Total	**203**	135

Notes to the Consolidated Financial Statements

6. Other operating expenses

€ 000	2016	(Adjusted) 2015
Costs of premises	2,272	3,491
IT costs	2,237	1,659
Voluntary personnel expenses	3,109	2,766
Travel	1,108	937
External services	1,309	1,228
Other expenses	1,599	1,053
Total	**11,634**	**11,134**

Notes to the Consolidated Financial Statements

7. Product development expenses

€ 000	2016	(Adjusted) 2015
Product development expenses	5,781	5,925
Total	**5,781**	**5,925**

Notes to the Consolidated Financial Statements

8. Depreciation and amortisation

€ 000	2016	(Adjusted) 2015
Depreciation and amortisation by asset category		
Intangible assets	537	671
Property, plant and equipment		
Buildings	7	7
Machinery and equipment	898	929
Total	**905**	936
Total depreciation and amortisation	**1,442**	1,607

Notes to the Consolidated Financial Statements

9. Personnel expenses

€ 000	2016	(Adjusted) 2015
Wages and salaries	45,830	42,591
Pension costs, defined contribution plans	8,700	8,046
Share-based payments	252	796
Other personnel expenses	2,733	2,194
Total	**57,515**	53,627

Group personnel on average during the period	2016	2015
Business units	810	753
Administration and management	38	40
Total	**848**	793

Information on employee benefits and loans to the management are presented in Note 26, Related party transactions.

Notes to the Consolidated Financial Statements

10. Financial income and expenses

Financial income

€ 000	2016	(Adjusted) 2015
Interest income from cash and cash equivalents	3	2
Interest income from accounts receivable	1	2
Dividend income	10	10
Exchange rate gains	149	1
Other financial income	-	1
Total	**164**	**16**

Financial expenses

€ 000	2016	(Adjusted) 2015
Interest expenses for financing loans valued at accrued acquisition cost	273	289
Interest expenses for accounts payable	6	1
Loan administration fees	85	113
Exchange rate losses	11	98
Other financial expenses	88	29
Total	**463**	**530**

Notes to the Consolidated Financial Statements

11. Income taxes

€ 000	2016	(Adjusted) 2015
Current tax	1,038	1,265
Taxes from previous periods	8	-11
Other items	-	-
Deferred tax	9	-157
Total	**1,056**	**1,094**

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

€ 000	2016	(Adjusted) 2015
Earnings before tax	80,963	5,341
Taxes calculated at the domestic corporation tax rate	16,193	1,068
Deviating tax rates of foreign subsidiaries	-	-
Income not subject to tax*	-15,375	169
Non-deductible expenses	97	-207
Other items	124	263
Taxes for the period in the income statement	-	-30
Total	**1,038**	**1,263**
Current tax	**1,038**	1,263

* Mainly comprises an item not subject to tax related to the demerger consideration for the demerger of Digia Plc and Qt Group Plc

Notes to the Consolidated Financial Statements

12. Earnings per share

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

	2016	(Adjusted) 2015
Profit for the period attributable to parent company shareholders (€ 000)		
Continuing operations	4,064	4,245
Discontinued operations	75,842	1,099
Continuing and discontinued operations, total	79,906	5,345
Weighted average number of shares during the period	20,738,761	20,768,097
Earnings per share, EUR, continuing operations (basic and diluted EPS)	0.20	0.20
Earnings per share, EUR, discontinued operations (basic and diluted EPS)	3.63	0.05
Earnings per share, EUR, continuing and discontinued operations (basic and diluted EPS)	3.83	0.25

There was no dilution effect in 2016 and 2015.

Notes to the Consolidated Financial Statements

13. Property, plant and equipment

€ 000	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Total 2016	Total 2015
Acquisition cost, 1 January	17	162	20,456	84	20,719	19,376
Acquisition cost transferred in the demerger	-	-	-622	-	-622	-
Additions	-	2	1,919	-	1,921	1,368
Disposals	-	-	-8	-	-8	-25
Acquisition cost, 31 December	17	164	21,745	84	22,010	20,719
Accumulated depreciation and amortisation, 1 January	-	-99	-18,679	-83	-18,860	-17,677
Depreciation transferred in the demerger	-	-	219	-	219	-
Depreciation	-	-7	-976	-	-983	-1,183
Accumulated depreciation and amortisation, 31 December	-	-106	-19,436	-83	-19,624	-18,860
Book value, 1 January	17	64	1,777	1	1,859	1,699
Book value, 31 December	17	59	2,309	1	2,386	1,859

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

€ 000	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Total 2016	Total 2015
Acquisition cost and provisions	-	-	12,513	-	12,513	11,170
Demerger, 2 May 2016	-	-	-514	-	-514	-
Accumulated depreciation	-	-	-10,556	-	-10,556	-9,657
Demerger, 2 May 2016	-	-	219	-	219	-
Book value, 31 December	-	-	1,661	-	1,661	1,514

Notes to the Consolidated Financial Statements

14. Intangible assets

€ 000	Goodwill	Development costs	Other intangible assets	Total 2016	Total 2015
Acquisition cost, 1 January	95,944	2,487	34,177	132,608	132,501
Acquisition cost transferred in the demerger	-6,562	-	-7,162	-13,724	-
Additions	2,572	-	1,249	3,821	140
Disposals	-	-	-227	-227	-33
Acquisition cost, 31 December	91,954	2,487	28,037	122,478	132,608
Accumulated depreciation and amortisation, 1 January	-51,394	-2,487	-27,691	-81,572	-80,192
Depreciation transferred in the demerger	-	-	1,510	1,510	-
Depreciation	-	-	-571	-571	-1,380
Accumulated depreciation and amortisation, 31 December	-51,394	-2,487	-26,751	-80,632	-81,572
Book value, 1 January	44,550	0	6,486	51,036	52,309
Book value, 31 December	40,559	0	1,286	41,844	51,036

Impairment testing

The Group carries out impairment testing of goodwill and intangible assets with an indefinite useful life. The table below shows the distribution of goodwill and values subject to testing at the end of the reporting period:

€ 000	Specified intangible assets	Amortisations during the period	Goodwill	Other items	Total value subject to testing
Digia	968	306	40,559	6,060	47,587

The goodwill of the businesses acquired in 2016 accounted for EUR 2,572 thousand.

The current values for Digia's operations were calculated for a five-year forecast period based on the following assumptions:
Net sales and operating profit for 2017 according to budget. In the five-year forecast period, annual growth in net sales of 10.0 per cent and 2.0 per cent thereafter, operating profit growth of 6.0 per cent, and a pre-tax discount rate of 10.6 per cent. Post-forecast-period cash flows were extrapolated using the same assumptions as for the forecast period.

According to a sensitivity analysis, goodwill requires either net sales to remain at the current level with profitability of 5.2 per cent, or a 3.0 per cent growth in net sales with profitability of 3.3 per cent.

Notes to the Consolidated Financial Statements

15. Deferred tax assets and liabilities

Changes in deferred taxes during 2016:

€ 000	1 Jan 2016	Recognised in income statement	Subsidiaries acquired/ divested	Discontinued operations	31 Dec 2016
Deferred tax assets:					
Provisions	7	44	-	-	51
Other items	287	-120	-	-24	143
Total	**293**	**-76**	**-**	**-24**	**194**

€ 000	1 Jan 2016	Recognised in income statement	Subsidiaries acquired/ divested	Discontinued operations	31 Dec 2016
Deferred tax liabilities:					
From business combinations	36	-49	188	-	175
Other items	218	-17	-	-195	7
Total	**254**	**-66**	**188**	**-195**	**181**

Changes in deferred taxes during 2015:

€ 000	1 Jan 2015	Recognised in income statement	Subsidiaries acquired/ divested	Discontinued operations	31 Dec 2015
Deferred tax assets:					
Provisions	48	-42	-	-	7
Other items	153	134	-	-	287
Total	**201**	**92**	**-**	**-**	**293**

€ 000	1 Jan 2015	Recognised in income statement	Subsidiaries acquired/ divested	Discontinued operations	31 Dec 2015
Deferred tax liabilities:					
From business combinations	122	-86	-	-	36
Other items	167	51	-	-	218
Total	**289**	**-35**	**-**	**-**	**254**

Notes to the Consolidated Financial Statements

16. Accounts receivable and other receivables

€ 000	2016	2015
Accounts receivable and other receivables		
Accounts receivable	14,320	18,345
Receivables from customers on long-term projects	1,452	1,219
Security deposit for rental due	29	160
Tax assets from the profit for the financial year	-	103
Prepayments and accrued income	3,223	2,897
Other receivables	108	1,016
Accounts receivable and other receivables	**19,132**	**23,741**

€ 000	2016	2015
Non-due accounts receivable	6,823	15,875
Accounts receivable due 1–30 days ago	2,234	1,706
Accounts receivable due 31–60 days ago	3,862	350
Accounts receivable due more than 60 days ago	1,401	415
Total	**14,320**	**18,345**

At the end of the fiscal year 2016, credit losses totalled EUR 0.02 million. At the end of the fiscal year 2015, credit losses totalled EUR 0.2 million. The book value of accounts receivable and security deposits for rental dues is a reasonable estimate of their fair value. Their balance sheet values best correspond with the sum of money that represents the maximum amount of credit risks. Essential items included in prepayments and accrued income are associated with the accrual of statutory insurance premiums and other accrued expenses.

Notes to the Consolidated Financial Statements

17. Cash and cash equivalents

€ 000	2016	2015
Mutual funds	334	331
Bank accounts	1,661	6,379
Total	**1,994**	**6,710**

Notes to the Consolidated Financial Statements

18. Notes on share capital

	Number of shares	Share capital (€ 000)
1 Jan 2015	20,875,645	2,088
31 Dec 2015	20,875,645	2,088

	Number of shares	Share capital (€ 000)
1 Jan 2016	20,875,645	2,088
31 Dec 2016	20,875,645	2,088

The maximum number of shares is 48 million (48 million in 2015). All shares grant equal rights to their holders. The nominal value of each share is EUR 0.1 and the Group’s maximum share capital is EUR 4.8 million (EUR 4.8 million in 2015). All outstanding shares are paid in full. At the end of the fiscal year, the company held 57,372 of its own shares, or 0.7 per cent of all shares. At the end of the period, 91,435 of these shares remained undistributed and were under the management of Evli Alexander Management Ltd.

The premium fund comprises the amount paid for shares in excess of the nominal value. The ‘Other reserves’ amount arises from fair valuation of acquired business operations in the consolidated financial statements. The translation differences reserve comprises translation differences arising from the translation of financial statements of non-Finnish units. The unrestricted shareholders’ equity reserve comprises investments similar to shareholders’ equity and the subscription price of shares when a specific decision is made not to enter it in shareholders’ equity.

The EUR 7,889 thousand transfer of the issue premium fund to the unrestricted shareholders' equity reserve was made on the basis of a decision by the Annual General Meeting on 16 March 2016.

Notes to the Consolidated Financial Statements

19. Share-based payments

The Group offers share-based bonuses as part of its key personnel commitment and incentive scheme. The purpose of this scheme is to align the objectives of the company's shareholders and management in order to increase shareholder value, promote management commitment, and offer management a competitive incentive scheme based on shareholding in the company. The share-based bonus scheme offers the target group an opportunity to receive shares in Digia Plc shares as a reward for the achievement of specified goals set for an earning period. The Board of Directors decides the earning criteria for the scheme and specifies the targets, as well as the maximum remuneration for the earning period for each person belonging to the target group.

On 12 March 2015, Digia Plc's Board of Directors decided to establish a new share-based incentive scheme for the CEO and other members of the company's senior management.

The scheme comprises three earning periods, which are the calendar years 2015–2017. The earnings criteria are the consolidated earnings per share and consolidated net sales, according to formulae settled annually by the Board. For each earnings period, the company CEO and other key personnel engaged in domestic business and included in the scheme are entitled to a reward whose value may not exceed the equivalent of 115,000 Digia Plc shares. Rewards under the scheme will be paid as a 50/50 combination of shares and cash. Primarily, the cash portion of the bonus will be used to cover taxes and other comparable costs arising from the scheme. During the year, the total number of shares issued as share-based bonuses was 112,499.

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

	President and CEO's share-based incentive scheme 2015–2017	Key personnel's share-based incentive scheme 2015–2017
Granting date	12 March 2015	12 March 2015
Instrument	Shares and cash	Shares and cash
Target group	President & CEO	Key personnel
Maximum number of shares*	50,000	65,000
Beginning of the earning period	1 Jan 2015	1 Jan 2015
End of the earning period	31 Dec 2015 / 31 Dec 2016 / 31 Dec 2017	31 Dec 2015 / 31 Dec 2016 / 31 Dec 2017
Vesting condition	Earnings per share and net sales	Earnings per share and net sales
Maximum validity, years	2.8	2.8
Remaining validity, years	1.0	1.0
Number of persons (31 December 2016)	1	7

* In addition to the bonus payment in shares, a cash bonus is paid to cover the cost of taxes and similar expenses.

The items related to share-based incentive schemes in 2016 are given in the table below. Because the cash portion of the bonus payment is also recorded as a share-based expense, the sums below are gross, i.e. the bonuses include the shares and the equivalent cash sum.

Events in 2016 fiscal year	President and CEO's share-based incentive scheme 2015–2017	Key personnel's share-based incentive scheme 2015–2017
Gross amounts, 1 January 2016**		
Outstanding at beginning of period	50,000	62,499
Changes during the period		
Granted during the year	-	-
Forfeited during the year	8,667	25,595
Exercised during the year	41,333	36,904
Gross amounts, 31 December 2016**		
Outstanding at end of period	0	0
Available for exercising at end of period	0	0

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

Determination of fair value

The fair value of share-based payments is determined on the day on which the scheme is agreed between the company and the recipient group. As the share-based bonus is paid as a combination of shares and cash, the determination of its fair value is divided into two parts in accordance with the IFRS 2 standard: the part settled in shares and the part settled in cash. The part settled in shares is recognised as shareholders' equity and the part settled in cash as a liability. The fair value of the part settled in cash is revalued on each reporting date until the end of earning period, and thus the fair value of the liability changes in accordance with the price of the Digia share.

Expense effect of share-based incentive schemes on 2016 income statement

Effect on earnings and financial position, € 000	President and CEO's share-based incentive scheme 2015–2017	Key personnel's share-based incentive scheme 2015–2017	Total
Share-based payment expense for the fiscal year	128	118	247
Share-based payments, shareholders' equity, 31 Dec 2016	67	85	152
Liabilities from share-based payments, 31 Dec 2016	51	65	116

Comparison data for 2015

Effect on earnings and financial position, € 000	Senior management share-based incentive scheme 2014–2016	Domestic scheme 2015–2017	Qt scheme 2015–2017	Total
Share-based payment expense for the fiscal year	92	451	299	842
Share-based payments, shareholders' equity, 31 Dec 2015	14	167	113	294
Liabilities from share-based payments, 31 Dec 2015	78	284	187	548

Notes to the Consolidated Financial Statements

20. Provisions

Changes in provisions during 2016:

€ 000	Restructuring provision	Unprofitable agreements	Total
1 Jan 2016	136	33	169
Increase in provisions	0	587	587
Provisions used	-136	-365	-501
31 Dec 2016	**0**	**255**	**255**

Changes in provisions during 2015:

€ 000	Restructuring provision	Unprofitable agreements	Total
1 Jan 2015	151	231	382
Increase in provisions	758	27	784
Provisions used	-773	-225	-998
31 Dec 2015	**136**	**33**	**169**

Restructuring provision

The restructuring provisions relate to organisational changes carried out during the year. They are included on the Balance Sheet under 'Accruals'.

Unprofitable agreements

A loss provision is created for fixed-price projects if it becomes apparent that the completion of the project will require significantly more work input than has been estimated in connection with selling the project and can be invoiced from the customer on the basis of the agreement.

On the balance sheet date 31 December 2016, there were five fixed-price projects for which loss provisions had been recorded on the basis of remaining work.

Notes to the Consolidated Financial Statements

21. Financial liabilities

€ 000	2016 Fair values	2015 Fair values	2016 Balance sheet values	2015 Balance sheet values
Non-current				
Bank loan	8,000	7,500	8,000	7,500
Finance lease liabilities	975	696	975	696
Total	**8,975**	8,196	**8,975**	8,196
Current				
Bank loan	4,000	4,500	4,000	4,500
Finance lease liabilities	711	817	711	817
Total	**4,711**	5,317	**4,711**	5,317
Total	**13,686**	13,513	**13,686**	13,513

The loan covenants related to the company's solvency and liquidity comprised the following key figures: operating profit before depreciation and amortisation (EBITDA) in relation to net debt and net gearing. The company fulfilled the set loan covenants in 2016. The maximum and minimum values specified in the loan covenants, and the realised figures on 31 December 2016 were:

	Covenant value	Realised value
Net debt / EBITDA, max.	2.5	1.5
Net gearing, max.	60%	36%

On 14 April 2016, Digia Plc agreed on a new three-year financial loan arrangement with Danske Bank Oyj that replaced Digia's loan portfolio, which totalled EUR 12 million. The new financial arrangement totalled EUR 17 million. The financial agreement includes customary covenant terms concerning the company's solvency and debt-servicing ability. The loans have floating interest rates tied to Euribor, plus a margin. The average interest rate of the loans in 2016 was 0.9% (2.1% in 2015).

The effective interest rate on finance lease liabilities during the fiscal year 2016 was 2.34% (2.74% in 2015).

Interest-bearing liabilities fall due as follows:

Year, € 000	2016	2015
2016	-	5,317
2017	4,711	7,979
2018	2,581	213
2019	6,277	4
2020	111	-
2021	56	-
Total	**13,686**	**13,513**

The tables below describe agreement-based maturity analysis results for 2016 and the 2015 comparison period. The figures are undiscounted and include interest payments and the repayment of loan capital:

€ 000 31 Dec 2016	Balance sheet values	Cash flow	Less than 1 year	1–2 years	2–5 years
Bank loans	12,000	12,186	4,096	2,073	6,017
Finance lease liabilities	1,686	1,686	711	581	394
Accounts payable and other liabilities	5,063	5,063	5,063	0	0
Total	**18,749**	**18,935**	**9,870**	**2,654**	**6,411**

€ 000 31 Dec 2015	Balance sheet values	Cash flow	Less than 1 year	1–2 years	2–5 years
Bank loans	12,000	12,159	4,649	7,510	0
Finance lease liabilities	1,513	1,513	817	479	217
Accounts payable and other liabilities	3,324	3,324	3,324	0	0
Total	**16,837**	**16,996**	**8,790**	**7,989**	**217**

Notes to the Consolidated Financial Statements

22. Due dates of finance lease liabilities

€ 000	2016	2015
Finance lease liabilities, total of minimum lease payments		
Within one year	731	835
Within more than one but less than five years	992	656
Finance lease liabilities, present value of minimum lease payments		
Within one year	711	817
Within more than one but less than five years	975	646
Financial expenses to be accrued in the future	37	42
Total amount of finance lease liabilities	**1,686**	**1,513**

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

Notes to the Consolidated Financial Statements

23. Operating leases

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

€ 000	2016	2015
Within one year	2,937	4,292
Within more than one but less than five years	8,489	3,825
After more than five years	0	931
Total	**11,426**	**13,423**

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

Notes to the Consolidated Financial Statements

24. Contingent liabilities

€ 000	2016	2015
Collateral pledged for own commitments		
Business mortgages	-	59,800
Other	539	1,426
Total	**539**	**61,194**

Other contingent liabilities are mostly related to bank guarantees on lease agreements.

In addition, the subsidiary Digia Finland Oy has received a customer complaint in the amount of EUR 0.4 million regarding a delivery agreement between the two parties. In its complaint, the customer stated that the project delivery is incomplete and defective. When the case is brought before a court, Digia believes it has a fair chance of winning.

Notes to the Consolidated Financial Statements

25. The Group's shares and holdings

Group companies	Domicile	Domestic operations	Share of ownership	Share of votes
Digia Plc	Helsinki	Finland	Parent company	
Digia Finland Oy	Helsinki	Finland	100%	100%
Digia Commerce Oy	Vaasa	Finland	100%	100%
Digia Sweden AB	Stockholm	Sweden	100%	100%

Other shares and holdings	€ 000
Keimola Golf Club Oy	7
Kiinteistö Oy Rukan Kuukkeli	62
Kytäjä Golf Oy	38
Vierumäki Golf Oy	17
Vierumäki Golf Club Oy	35
Vierumäen Loma-aika Oy	138
Vierumäen Kuntoharju Oy	270
Rikunniemen Huolto Oy	6
Tahko Golf Club Oy	39
Tahkovuorenpeikko Oy	11
Other	1
Total	**624**

Notes to the Consolidated Financial Statements

26. Related party transactions

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

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

€ 000	2016	2015
Salaries and other short-term employee benefits	1,316	647
Share-based bonuses	253	146
Total	**1,569**	792

The salaries and fees paid in 2016 to the CEO and the members of the Board of Directors were as follows:

		€ 000
Kyttälä Pertti	Chairman of the Board of Directors	77
Ingman Robert	Vice Chairman of the Board	54
Ruotsalainen Seppo	Member of the Board	40
Saarinen Leena	Member of the Board	13
Ala-Härkönen Martti	Member of the Board	32
Uhari Tommi	Member of the Board	12
Hokkanen Päivi	Member of the Board	41
Öistämö Kari	Member of the Board	12
Varelius Juha	President & CEO	425
Levoranta Timo	President & CEO	287
Total		**990**

The incentive schemes are described in Note 19 Share-based payments and in the separate report on corporate governance. Transactions related to the sale of services to related parties totalled EUR 7,200 (EUR 7,200 in 2015). Transactions associated with the purchase of goods or services totalled EUR 0 (EUR 0 in 2015). The Group has no related-party loans.

Notes to the Consolidated Financial Statements

27. Management of financing risks

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

Interest rate risk

The Group's interest rate risk is primarily associated with a long-term bank loan that has an interest rate linked to Euribor rates. Changes in market interest rates have a direct effect on the Group's future interest payments. During the financial period 2016, the interest rate on the long-term bank loan varied between 0.7% and 1.7% (in 2015, between 1.7% and 2.7%). The impact of a +/-1% change in the loan's interest rate is EUR 0.1 million per annum. The Group's money market investments are a source of interest rate risk, but the overall impact of these investments is negligible. Interest rate developments are monitored systematically in different bodies within the company, and possible interest rate hedges will be made with the appropriate instruments.

Credit risks

The Group's customers are mostly well-known Finnish and foreign companies with well-established credit, and thus the Group has no significant credit risks. The Group's policy defines creditworthiness requirements for customers, investment transactions and counterparties. Services and products are only sold to companies with a good credit rating. The counterparties in investment transactions are companies with a good credit rating. Credit risks associated with commercial operations are primarily the responsibility of operational units. The parent company's finance function provides customer financing services in a centralised manner and ensures that the principles of the financing policy are observed with regard to terms of payment and collateral required. At the end of the fiscal year 2016, credit losses totalled EUR 0.02 million (EUR 0.2 million in 2015). The maturity analysis of accounts receivable for 2016 and 2015 is presented in Note 16.

Liquidity risk

The Group aims to continuously estimate and monitor the amount of financing required for business operations in order to maintain sufficient liquid funds for financing operations and repaying loans falling due. The Group maintains its immediate liquidity with the help of cash management solutions such as Group accounts and credit facilities at banks. The amount of unused standby credit facility on 31 December 2016 was EUR 3.0 million, and the company has the ability to take out EUR 4.0 million in new loans. Cash and cash equivalents on 31 December 2016 totalled EUR 2.0 million. An agreement-based maturity analysis on discounted equity and interest payments for the reporting periods 2016 and 2015 is presented in Note 21.

Management of the capital structure

The Group’s capital management aims at supporting company business by means of optimal management of the capital structure, ensuring normal operating conditions and increasing shareholder value with a view to achieving the best possible profit. At the end of the year, the Group’s interest-bearing net liabilities were EUR 11.7 million (31 Dec. 2015: EUR 6.8 million). When calculating gearing, the interest-bearing net liabilities are divided by shareholders’ equity. Gearing includes interest-bearing net liabilities less cash and cash equivalents. Interest-bearing liabilities have mainly been used to finance the company’s business acquisitions. Net gearing at the year-end 2016 was 36% (2015: 17%).

The share of liabilities of total shareholders’ equity on 31 December 2016 and 31 December 2015 was as follows:

€ 000	2016	2015
Interest-bearing liabilities	13,686	13,513
Cash and cash equivalents	1,994	6,710
Interest-bearing net liabilities	11,692	6,803
Total shareholders' equity	32,814	40,887
Net gearing, %	36%	17%

Notes to the Consolidated Financial Statements

28. The Group's key financial ratios

€ 000	2016	2015	2014	2013	2012
Extent of business					
Net sales, € 000	86,463	80,946	97,433	99,740	100,448
- change on previous year, %	6.8%	-	-2.3%	-0.7%	-17.6%
Gross capital expenditure, € 000	1,660	1,473	1,147	1,598	802
- % of net sales	2%	1%	1%	2%	1%
Capitalisation for research and development	-	-	-	-	-
- % of net sales	0%	0%	0%	0%	0%
Comparable number of personnel, 31 Dec.	872	759	932	938	982
Average number of personnel	810	753	935	939	1,025
Profitability					
Operating profit, € 000	5,419	5,854	4,310	-2,822	6,884
- % of net sales	6%	7%	4%	-3%	7%
Net profit, € 000	4,064	4,246	2,850	-4,067	4,024
- % of net sales	5%	5%	3%	-4%	4%
Return on equity, %	11%	14%	8%	-10%	10%
Return on investment, %	11%	16%	9%	-4%	11%

Financing and financial standing

Loans from financial institutions, € 000	13,686	13,513	16,245	16,883	19,849
Cash and cash equivalents, € 000	1,994	6,710	5,132	6,454	8,283
Net gearing, %	36%	17%	30%	29%	28%
Equity ratio, %	50%	54%	51%	50%	53%
Cash flow from operations, € 000	3,811	6,679	1,824	4,855	19,946
Dividends (paid)*	1,059	1,039	2,082	2,082	2,077
Earnings per share, EUR undiluted	0.20	0.20	0.14	-0.20	0.19
Earnings per share, EUR diluted	0.20	0.20	0.14	-0.20	0.19
Equity per share	1.57	1.96	1.76	1.73	2.01
Dividend per share (proposal for 2016)	0.08	0.08	0.05	0.10	0.10
Dividend payout ratio	-	32%	36%	-	53%
Effective dividend yield	-	3%	2%	3%	4%
Price/earnings ratio (P/E)	16.58	28.04	19.0	-	13.79
Lowest share price	2.81	2.74	2.66	2.65	2.28
Highest share price	7.40	7.47	4.59	4.34	3.30
Average share price	4.32	4.05	3.79	3.19	2.82
Market capitalisation	65,758	146,338	55,529	81,624	54,694
Trading volume, shares	4,200,698	7,652,995	3,864.505	4,095,297	1,652,971
Trading volume, %	20%	37%	19%	20%	8%

* In 2012 and 2014, repayment of capital instead of dividends.

The weighted average number of shares during the reporting period, adjusted for share issues, came to 20,738,761 in total. The diluted weighted average number of shares during the period was 20,738,761. The number of outstanding shares at the end of the review period was 20,726,838. At the year-end, the company held 57,372 of its own shares. The comparison figures for earnings in 2015 have been adjusted. The comparison figures for 2014–2012 include the Qt business.

Notes to the Consolidated Financial Statements

29. Discontinued Operations

In accordance with the decision of Digia Plc's Annual General Meeting of 16 March 2016, Digia's partial demerger came into force on 1 May 2016. Digia Plc was demerged such that all assets, liabilities and responsibilities related to its Qt business were transferred to Qt Group Plc, a new company established in the demerger. The table below presents the key financial figures for the Qt business as discontinued operations. In addition to Qt's net result, the reported figures for discontinued operations include demerger expenses and the difference between the fair values and carrying amounts of net assets transferred to Qt.

Discontinued operations	2016
Net sales	10,619
Operating profit	848*
Effect of demerger on earnings	74,994
Net profit	75,842
Goodwill	6,562
Other intangible rights	5,742
Tangible assets	515
Accounts receivable	6,532
Cash and cash equivalents	2,301
Other receivables	1,058
Advance payments received	6,550
Other liabilities	4,947

* Includes EUR 0.4 million in demerger-related expenses.

Notes to the Consolidated Financial Statements

30. Formulas for the Indicators

Return on investment (ROI), %:

(Profit or loss before taxes + interest and other financing costs) x 100

Balance sheet total – non-interest bearing liabilities (average)

Return on equity (ROE), %:

(Profit or loss before taxes – taxes) x 100

Shareholders' equity + minority interest (average)

Equity ratio, %:

(Shareholders' equity + minority interest) × 100

Balance sheet total – advance payments received

Earnings per share:

Earnings before extraordinary items and taxes – taxes +/- minority interest

Average number of shares during the period, adjusted for share-issues

Dividend per share:

Total dividend

Number of shares at the end of the period, adjusted for share-issues

Dividend payout ratio, %:

Dividend per share x 100

Earnings per share

Net gearing:

(Loans from financial institutions – cash, bank receivables and financial securities) × 100

Shareholders' equity

Effective dividend yield, %:

Dividend per share × 100

Last trading price for the period, adjusted for share issues

Price/earnings ratio (P/E):

Last trading price for the period, adjusted for share issues

Earnings per share

Parent Company's Income Statement (FAS)

€	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Net sales	1	7,200,000.00	7,920,000.00
Other operating income	2	232,190.56	30,960.00
Personnel expenses	3	-3,022,077.48	-4,184,612.35
Depreciation, amortisation and impairment	4	-266,045.95	-276,247.07
Other operating expenses	5	-3,842,686.52	-2,912,572.54
		-6,898,619.39	-7,342,471.96
Operating profit		**301,380.61**	**577,528.04**
Financial income and expenses	6	-536,772.27	-189,383.40
Earnings before extraordinary items and taxes		**-235,391.66**	**388,144.64**
Accumulated appropriations			
Group contribution		3,000,000.00	3,000,000.00
Earnings before tax		**2,764,608.34**	**3,388,144.64**
Income taxes	7	-466,915.08	-615,729.61
Net profit		**2,297,693.26**	**2,772,415.03**

Parent Company's Balance Sheet (FAS)

€	Note	31 Dec 2016	31 Dec 2015
ASSETS			
FIXED ASSETS			
Intangible assets	8		
Intangible rights		119,499.35	324,554.36
Other long-term expenses		144,740.09	45,985.99
		264,239.44	370,540.35
Tangible assets	9		
Land and water areas		16,818.79	16,818.79
Buildings and structures		57,692.77	64,286.23
Machinery and equipment		590,196.97	129,674.13
Permanent fixed assets		1,210.95	1,210.95
		665,919.48	211,990.10
Investments	10		
Shares in Group companies		106,941,107.93	113,577,840.00
Other shares and holdings		606,292.32	606,292.32
		107,547,400.25	114,184,132.32
Total fixed assets		**108,477,559.17**	**114,766,662.77**

CURRENT ASSETS

Current receivables	11		
Receivables from Group companies		35,442.90	1,053,198.66
Accounts receivable		8,296.43	-
Other receivables		58,213.43	96,751.53
Prepayments and accrued income		401,203.53	170,080.92
		503,156.29	1,320,031.11
Cash and cash equivalents		1,399,228.43	3,071,583.22
Total current assets		**1,902,384.72**	**4,391,614.33**
Total assets		**110,379,943.89**	**119,158,277.10**

€	Note	31 Dec 2016	31 Dec 2015
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Equity attributable to parent company shareholders	12		
Share capital		2,087,564.50	2,087,564.50
Issue premium fund		0.00	7,899,485.80
Unrestricted shareholders' equity reserve		30,049,535.32	31,370,258.22
Retained earnings		1,224,264.56	72,104.05
Net profit		2,297,693.26	2,772,415.03
Total shareholders' equity		**35,659,057.64**	**44,201,827.60**
LIABILITIES			
Non-current liabilities			
Loans from financial institutions	13	8,000,000.00	7,500,000.00
		8,000,000.00	7,500,000.00
Current liabilities			
Accounts payable	14	296,293.33	237,374.15
Interest-bearing liabilities		4,000,000.00	4,500,000.00
Liabilities to Group companies		59,717,453.29	60,543,397.78
Other liabilities		1,986,530.20	512,933.55
Accruals and deferred income		564,649.62	1,257,439.79
Taxes based on the net result for the year		155,959.81	405,304.23
		66,720,886.22	67,456,449.50
Total liabilities		**74,720,886.25**	**74,956,449.50**
Total shareholders' equity and liabilities		**110,379,943.89**	**119,158,277.10**

Parent Company's Cash Flow Statement (FAS)

€ 000	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Cash flow from operations:		
Net profit before taxes	2,297	2,772
Adjustments to net profit	-1,730	-1,085
Change in working capital	1,455	803
Interest paid	-352	-300
Interest income	0	38
Taxes paid	-716	-201
Net cash flow from operations	**955**	**2,026**
Cash flow from investments:		
Purchase of tangible and intangible assets	-1,673	-134
Acquisition of subsidiary, net of cash acquired	-2,099	-868
Cash flow from investments	**-3,771**	**-1,002**
Cash flow from financing:		
Acquisition of treasury shares	0	-386
Repayments of current loans	-13,000	0
Repayments of non-current loans	0	-3,000
Withdrawals of current loans	4,000	0
Withdrawals of non-current loans	9,000	0
Group financing items*	3,000	4,813
Dividends paid and other profit distribution	-1,855	-1,039
Cash flow from financing	**1,145**	**388**

Change in liquid assets	**-1,672**	**1,413**

Liquid assets at beginning of period	**3,072**	**1,659**
Change in liquid assets	-1,672	1,413
Liquid assets at end of period	**1,399**	**3,072**

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

Basic Information on the Parent Company and Accounting Policies (FAS)

Basic information on the company

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

Accounting policies

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

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

Group structure

Digia Plc's Annual General Meeting of 16 March 2016 approved Digia's demerger plan and decided on a partial demerger of Digia Plc in accordance with the said plan. Digia Plc was demerged such that all assets, liabilities and responsibilities related to its Qt business were transferred to Qt Group Plc, a new company established in the demerger. Digia Plc's Domestic business remains with Digia. The partial demerger was registered in the Trade Register on 1 May 2016.

Pension schemes

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

Leasing payments

Leasing payments are recognised as annual expenses.

Fixed assets, depreciation and amortisation

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

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

Intangible assets	
Intangible rights	3–5 years
Other long-term expenses	3–5 years

Tangible assets	
Buildings and structures	25 years
Machinery and equipment	3–8 years

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

Board’s dividend proposal

According to the balance sheet dated 31 December 2016, Digia Plc’s unrestricted shareholders' equity was EUR 33,571,493, of which EUR 2,297,693 was profit for the financial year. At the Annual General Meeting, the Board of Directors will propose that a dividend of EUR 0.08 per share be paid according to the confirmed balance sheet for the fiscal year ending 31 December 2016. Shareholders listed in the shareholder register maintained by Euroclear Finland Oy on the dividend reconciliation date, 20 March 2016, will be eligible for the dividend. Dividends will be paid on 29 March 2017.

Notes to the Parent Company's Financial Statement

1. Net sales

Net sales by segment

€ 000	2016	2015
Group administration services	7,200	7,920
Group total	**7,200**	**7,920**

Notes to the Parent Company's Financial Statement

2. Other operating income

€ 000	2016	2015
Rental income	30	30
Other operating income	202	-
Total	**232**	**30**

Notes to the Parent Company's Financial Statement

3. Information on personnel and governing bodies

€ 000	2016	2015
Board emoluments and remuneration and CEO's compensation	990	852
Other salaries and remunerations	1,545	2,803
Pension insurance premiums	392	433
Other personnel expenses	94	96
Total	**3,022**	**4,184**

Number of personnel, 31 December	2016	2015
Management and administration	32	34
Total	**32**	**34**

Notes to the Parent Company's Financial Statement

4. Depreciation, amortisation and impairment

€ 000	2016	2015
Planned depreciation and amortisation		
Property, plant, and equipment, and intangible assets	266	276
Total	**266**	**276**

Notes to the Parent Company's Financial Statement

5. Auditors' fees

€ 000	2016	2015
Audit	92	122
Other statutory duties	-	6
Tax counselling	-	1
Other services	108	66
Total	**200**	**194**

Notes to the Parent Company's Financial Statement

6. Financial income and expenses

Financial income

€ 000	2016	2015
Interest and financial income from Group companies	-	835
Interest and financial income from others	128	1
Total	**128**	**836**

Financial expenses

€ 000	2016	2015
Interest expenses to Group companies	380	536
Interest expenses to other companies	162	293
Loan administration fees	82	78
Impairment on investments in fixed assets	3	0
Other financial expenses	38	118
Total	**665**	**1,025**

Notes to the Parent Company's Financial Statement

7. Income taxes

€ 000	2016	2015
Income taxes on operations	-133	16
Income taxes on extraordinary operations	600	600
Total	**467**	**616**

Deferred tax assets arising from accrual differences and from temporary differences between book values and taxation values are unrecorded in the Statement of Financial Position, in accordance with the principle of materiality. Deferred tax assets totalled EUR 59,777.78 at the end of the fiscal year.

Notes to the Parent Company's Financial Statement

8. Intangible assets

€ 000	Intangible rights	Other long-term expenses	Total 2016	Total 2015
Acquisition cost, 1 January	5,223	706	5,939	5,878
Additions	117	140	257	61
Disposals	-200	-4	-204	-
Acquisition cost, 31 December	5,150	842	5,992	5,939
Accumulated depreciation and amortisation, 1 January	-4,909	-660	-5,569	-5,331
Depreciation	-122	-37	-159	-238
Accumulated depreciation and amortisation, 31 December	-5,031	-697	-5,728	-5,569
Book value, 1 January	325	45	371	547
Book value, 31 December	119	146	265	371

Notes to the Parent Company's Financial Statement

9. Property, plant and equipment

€ 000	Land and water areas	Buildings and structures	Machinery and equipment	Total 2016	Total 2015
Acquisition cost, 1 January	17	162	2,018	2,197	2,087
Additions	-	-	561	561	110
Acquisition cost, 31 December	17	162	2,579	2,758	2,197
Accumulated depreciation and amortisation, 1 January	-	-99	-1,888	-1,986	-1,948
Depreciation	-	-7	-100	-107	-38
Accumulated depreciation and amortisation, 31 December	-	-105	-1,988	-2,093	-1,986
Book value, 1 January	17	64	130	211	140
Book value, 31 December	17	58	590	665	211

Notes to the Parent Company's Financial Statement

10. Financial assets

€ 000	Investments in subsidiary shares	Other shares and holdings	Total 2016	Total 2015
Acquisition cost, 1 January	113,578	606	114,184	114,219
Additions	3,623	-	3,623	-
Disposals	-3	-	-3	-38
Transferred in the demerger	-10,257	-	-10,257	-
Acquisition cost, 31 December	106,941	606	107,547	114,184
Book value, 1 January	113,578	606	114,184	114,222
Book value, 31 December	106,941	606	107,547	114,184

Itemisation of other shares and holdings

Group companies	Domicile	Domestic segment	Share of ownership	Share of votes
Digia Sweden AB	Stockholm	Sweden	100%	100%
Digia Finland Oy	Helsinki	Finland	100%	100%
Digia Commerce Oy	Vaasa	Finland	100%	100%

Other shares and holdings	€ 000
Kiinteistö Oy Rukan Kuukkeli	62
Kytäjä Golf Oy	39
Vierumäki Golf Oy	17
Vierumäki Golf Club Oy	35
Vierumäen Loma-aika Oy	138
Vierumäen Kuntoharju Oy	270
Rikunniemen Huolto Oy	6
Tahko Golf Club Oy	39
Total	**606**

Notes to the Parent Company's Financial Statement

11. Current receivables

€ 000	2016	2015
Receivables from Group companies		
Accounts receivable	-	186
Prepayments and accrued income	35	867
Borrowings	8	-
Other receivables	58	97
Prepayments and accrued income	401	170
Total	**503**	**1,320**

Notes to the Parent Company's Financial Statement

12. Shareholders' equity

€ 000	2016	2015
Share capital, 1 January	2,088	2,088
Share capital, 31 December	2,088	2,088
Premium fund, 1 January	7,899	7,899
Transfer to unrestricted shareholders' equity reserve	-7,899	-
Premium fund, 31 December	0	7,899
Total restricted shareholders' equity	2,088	9,987
Unrestricted shareholders' equity reserve, 1 January	31,370	31,370
Transfer from premium fund	7,899	-
Demerger consideration	-9,220	-
Unrestricted shareholders' equity reserve, 31 December	30,050	31,370
Retained earnings, 1 January	3,232	1,406
Dividends paid	-1,659	-1,039
Own shares	-204	-388
Share-based payments	-145	92
Retained earnings, 31 December	1,224	72
Net profit	2,298	2,772

Total unrestricted shareholders' equity	33,571	34,215
Total shareholders' equity	**35,659**	**44,202**

Distributable funds 31 December

€ 000	2016	2015
Unrestricted shareholders' equity reserve	30,050	31,370
Retained earnings	1,224	72
Net profit	2,298	2,772
Total	**33,571**	**34,215**

Notes to the Parent Company's Financial Statement

13. Non-current liabilities

€ 000	2016	2015
Loans from financial institutions	8,000	7,500
Total	**8,000**	**7,500**

Notes to the Parent Company's Financial Statement

14. Current liabilities

€ 000	2016	2015
Interest-bearing		
Interest-bearing liabilities	4,000	4,500
Liabilities to Group companies		
Borrowings	57,299	57,417
Total interest-bearing current liabilities	**61,299**	**61,917**
Liabilities to Group companies		
Accounts payable	-	92
Accruals and deferred income	2,419	3,035
To others		
Accounts payable	296	237
Other liabilities	1,987	513
Accruals and deferred income	721	1,663
Total interest-free current liabilities	**5,422**	**5,540**
Total current liabilities	**66,721**	**67,456**

Material items included in accrued expenses arise from the accrual of holiday pay, accrued provisions for salaries and fees and allocation of tax on taxable income.

Notes to the Parent Company's Financial Statement

15. Contingent liabilities

Lease liabilities

€ 000	2016	2015
Due during the current financial period	183	197
Due later	449	137
Total	**632**	**334**

Other lease liabilities

€ 000	2016	2015
Due during the current financial period	2,712	2,746
Due later	8,398	7,351
Total	**11,110**	**10,097**

Other liabilities

€ 000	2016	2015
Collateral pledged for own commitments		
Other	538	1,024
Total	**538**	**1,024**

Signatures to the Board's Report and Financial Statement

Helsinki, 2 February 2017

Pertti Kyttälä Chairman of the Board of Directors	Martti Ala-Härkönen	Päivi Hokkanen
Robert Ingman	Seppo Ruotsalainen	Timo Levoranta President & CEO

Auditor's note

A report of the audit has been submitted today.

Helsinki, 2 February 2017

KPMG Oy Ab

Virpi Halonen
Authorised Public Accountant

Auditor's report

To the Annual General Meeting of Digia Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Digia Plc (business identity code 0831312-4) for the year ended 31 December, 2016. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance, financial position and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Impairment of goodwill (€40.6 million) – Refer to Accounting policies and Note 14 to the consolidated financial statements)

Key audit matter	Our response
Goodwill, in total €40.6 million, represents 61 percent of the consolidated balance sheet total and 124 percent of the total consolidated equity as at 31 December 2016, and is the most significant single item in the consolidated balance sheet.	We involved KPMG valuation specialists when analyzing the reasonableness of the assumptions underlying the goodwill impairment tests, and the technical accuracy of the impairment model.
Goodwill is tested for impairment annually, and more frequently if there is any indication of impairment.	We compared the assumptions used in the impairment tests for 2015, especially in respect of net sales and profitability, into performance in 2016, to assess the accuracy of Digia's estimation process.
Preparation of impairment tests requires high level of management judgement.	As part of our year-end audit procedures we considered the accuracy and adequacy of the notes provided on goodwill and impairment testing in the consolidated financial statements.

Revenue recognition, project accounting and impairment of accounts receivable - Refer to Accounting policies and Note 16 to the consolidated financial statements

Key audit matter	Our response
Digia recognizes revenue from fixed price contracts and contracts with target price by reference to the stage of completion. The stage of completion of a project is determined as the proportion that project costs incurred for work performed to date bear to the estimated total project costs. Revenue recognition for long-term projects requires management judgements, especially in respect of future costs and amount of work to complete a project. Regardless the monthly project review process applied by the Group there is a risk of estimation accuracy of both cost and work load forecasts for fixed price projects. This especially applies to new software products. If the forecasts are inaccurate, projects may become loss-making.	We assessed the appropriateness of the revenue recognition practices followed by Digia, and tested the effectiveness of the key internal controls in place over completeness and accuracy of revenues.
	We also performed audit procedures to analyze the revenue recognition principles applied to most significant long-term projects accounted for using percentage-of-completion method, by comparing to IFRS standards, Group's accounting practices and terms of sale in the contracts.
	As part of our audit we derived total revenue estimates for certain projects from the contract prices and price changes, as well as actual working hours from the employee time tracking system.
	Furthermore, we analyzed most significant on-going projects and related work load estimates to identify any loss-making projects.
Accounts receivable, totaling €14.3 million as at 31 December 2016, is a significant single balance sheet item. Regardless the fact that there are no significant credit losses incurred in the past, there is a valuation risk associated with the accounts receivable as it is a major single balance sheet item.	We evaluated monitoring routines for accounts receivable and tested the effectiveness of the key internal controls. We also analyzed the accounts receivable and assessed the payments received after the year-end to identify any receivables potentially impaired.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Requirements

Other Information

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

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

If, based on the work we have performed on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 2 February 2017
KPMG OYAB

Virpi Halonen
Authorised Public Accountant, KHT

List of Accounting Books and Storage Methods

Accounting books	Storage method
Journals	Electronic archive
General ledger	Electronic archive
Accounts receivable	Electronic archive
Accounts payable	Electronic archive
Payroll	Electronic archive
Travel Invoices	Electronic archive
Balance sheet book	Separately bound
Itemisations of balance sheet	Electronic archive
Voucher types and method of storage	Until 1 January 2021
Eurocard vouchers	Paper documents
Accruals	Electronic archive
Bank receipts	Paper documents
Travel and expense invoices	Electronic archive
Sales invoices	Paper documents
Sales payments	Electronic archive
Memoranda	Paper documents
Purchasing invoices	Electronic archive
Payments of purchases	Electronic archive
Payroll receipts	Paper documents
Tax account receipts	Paper documents

Digia Plc
Atomitie 2 A
FI-00370 Helsinki
www.digia.com