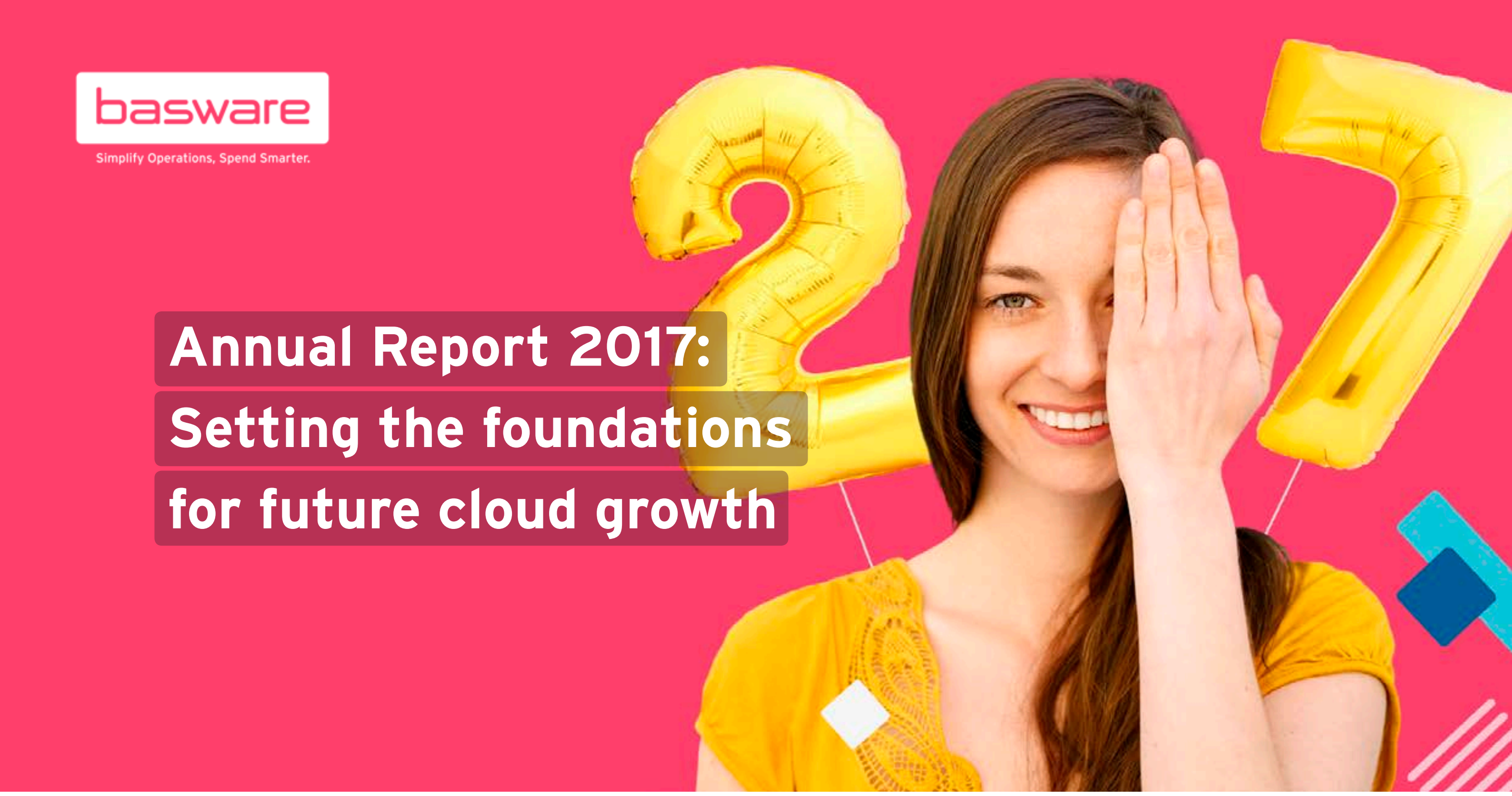


basware

Simplify Operations, Spend Smarter.

Annual Report 2017: Setting the foundations for future cloud growth

Net sales **149** M€

Cloud revenue **53**%

Cloud growth **20**%

Cloud revenues 53% of net sales

Basware's net sales in 2017 were EUR 149 million (2016: EUR 149 million). Cloud revenues grew 20% from 2016 and accounted for 53% of total net sales (2016: 45%). Within cloud revenues, SaaS revenue grew by 45% and transaction services revenue by 12% from 2016. Non-cloud revenues declined in line with expectations as we transition customers to the cloud.

Subscription order intake up by 63%

Basware's subscription order intake increased by 63% in 2017, a strong growth from 2016. Subscription annual recurring revenue gross order intake includes SaaS and other subscription types and covers new cloud customers, add-ons and renewal uplifts. Transaction revenue and churn are excluded.

Subscription order intake

+63%

Over 1,800 people in 14 countries

People are Basware's most important resource. At the end of 2017, Basware employed 1,829 people in 14 countries around the world.

CEO's Review

We have set the foundations for the future, and the effects are only just starting to become visible.

As both CEO and a shareholder of Basware, I am very proud of what we have achieved in 2017. We have continued to grow our cloud business rapidly, increased order intake, released exciting new innovations, and at the same time implemented significant productivity improvements. We have set the foundations for the future, and the effects of these changes are only just starting to become visible.

Basware's mission to help our customers simplify operations and spend smarter is something that I feel very passionate about. Every single organisation in the world can benefit from using Basware's solutions and this means that there is a huge market opportunity for us, worth EUR 15 billion annually in Europe and North America alone. Basware's Network, the largest e-invoicing network in the world, is a major differentiator and helps our customers to make all of their purchasing processes 100 percent paperless. A commissioned study conducted by Forrester Consulting on behalf of Basware published in November 2017 found that Basware's solutions have a return on investment of 307 percent and a payback time of 12 months for customers (read the full report: The Total Economic Impact™ Of Basware's Purchase-To-Pay Cloud Solution).

Basware's strategic priority is cloud revenue growth and with 20 percent growth in 2017, we met our guidance for 2017. Basware's cloud revenues now account for 53 percent of net sales, up from 45 percent in full year 2016. The ever increasing share of cloud revenues is a key driver for total growth. Subscription order intake, our main lead indicator for future cloud revenue growth, also continued to rise, up 63 percent compared to 2016.

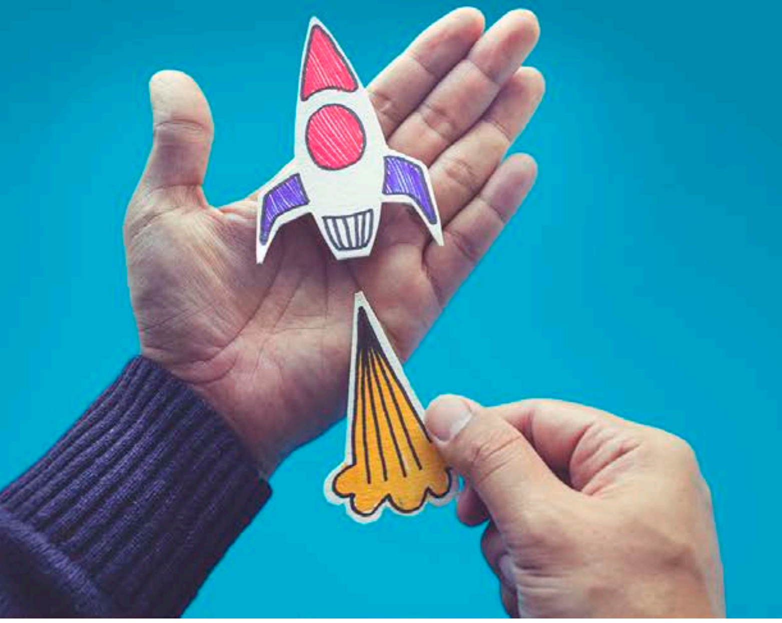
Basware's vision is to offer the best global solution for purchasing, invoicing and paying. Basware leads innovation in our industry and we continued to announce more enhancements to our solutions that benefit our customers by utilising the huge data asset in our systems. These included further enhancements to the company's award-winning Analytics function, including peer benchmarking, predictive analytics and supplier quality analytics; new strategic sourcing offering; and Basware Vault, a compliant, efficient and secure cloud-based archiving service for e-invoices. In Q2 2017, the company also announced a partnership with Nordea to offer Basware's Discount product to Nordea's corporate banking customers.

At the same time as focusing on serving customers and growing cloud revenues, we have continued to work on streamlining our business and increasing productivity. Sales productivity has increased significantly compared to 2016. We successfully executed all aspects of the productivity programme announced in November 2016.

Basware's people are what makes our company, and employee satisfaction is very important to us. Together with the great team that we have globally at Basware I am excited and confident about Basware's future and our ability to capture the significant market opportunity ahead of us.

Cloud-focused strategy

Targeting scalable cloud revenue growth through four strategic focus areas.



Basware is the global leader in providing networked source-to-pay, e-invoicing and value-added services.

Our vision is to deliver the best global solution for purchasing, invoicing and paying.

Basware's key strategic priority for the strategy period 2017-2020 is cloud revenue growth. The company continues to strengthen its leading market position in order to grow cloud revenue.

Basware's vision is to deliver **the best global solution for purchasing, invoicing and paying**.

Our mission is to help customers **simplify operations and spend smarter.**

Cloud revenue growth is Basware's primary objective and where long-term value in our business will be created. Organic growth is our key focus, supported by a disciplined acquisition strategy.

Strategic focus areas

Basware has defined four strategic focus areas that guide our strategy implementation:

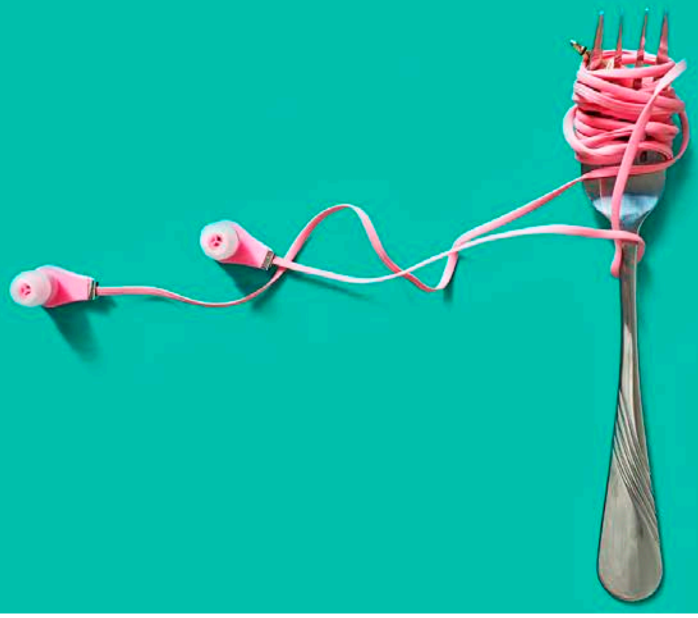
- Customer Value beyond Expectations: Customer-centricity is key. We provide customers maximum value across the full customer journey
- No. 1 Networked Source-to-Pay Offering: We have the market-leading, cloud-based, innovative networked source-to-pay solution
- Largest and Smartest Commerce Network: We have the largest open commerce network in the world and provide our customers with innovative value-added services
- Undisputed Market Leader: Position Basware as THE thought leader by promoting innovations, unleashing customer advocacy and growing market share

Our mission is to help customers simplify operations and spend smarter.

Strategic targets for 2017-2020

Basware focuses on scalable cloud growth during the strategy period 2017-2020. We have two strategic targets:

- **Cloud revenue growth**: Cloud revenues to increase by more than 20% CAGR on an organic basis
- **Scalability:** Cost of goods sold and operating expenses to grow at a lower rate than cloud revenues on an organic basis



Solutions and services

Helping our customers realize tomorrow's financial goals today.

Simplify operations, spend smarter.

We created the purchase-to-pay market over 30 years ago, so we understand what it takes for businesses to overcome their spending challenges. But our solutions are not just about improving the everyday, they are designed to help our customers unlock the full potential of their financial supply chain through smarter cash flow management.

With Basware's solutions our customers can

- connect with buyers and suppliers through the Basware Network, the largest open e-invoicing network in the world
- manage their spending through our industry-leading Source-to-Pay solutions and services
- optimize their cash flows using our innovative value-added services

Industry-leading expertise and solution capabilities

Basware has been consistently recognized as a global market leader by independent industry analysts, highlighting, in particular, our expertise in analytics and our best-in-class solution capabilities.

Our mission is to help our customers simplify operations and spend smarter.

In 2017, we introduced a range of new capabilities to our Analytics solution, including Predictive Analytics, Peer Benchmarking and Supplier Quality Analytics. We also added Smart Coding functionality to our Accounts Payable solution in order to help our customers further automate their invoice processing. On the Network side, we launched Vault - a compliant, efficient and secure cloud-based archiving service for e-invoices - that is available to our all Network customers. We also announced a strategic partnership with Nordea to deliver a dynamic discounting solution based on Basware Discount in the Nordic countries.

Basware continues to lead industry innovation.

Read more about our solutions and services.

Baswareans

Focusing on competence development and employee engagement in 2017.

In 2017, Basware continued investing in employees with a focus on evolving employee engagement. Building competence and developing a high-performance culture was at the heart of the people strategy. Further developments were made to the Leadership program including developing employee's careers embedding personal development plans and encouraging continuous conversations between the Managers and their employees.

A greater focus was also invested in both competence development and general employee engagement for all Baswareans. Activities took place in all Basware locations ranging from, specific development opportunities, enhanced offerings in the Learning Management system and social events including giving back to the community activities.

Coherent approach to rolling out our refreshed strategy was a success

A very coherent approach to rolling out our refreshed strategy was executed with global, local and team events ensuring that all employees understood clearly our strategy and what it means for their teams and themselves as individuals. Read more about our strategy.

This activity saw some good success with Basware being awarded "Great Place to Work" award in all US locations and the "Best and Brightest" award in India. The annual employee satisfaction survey also saw some good results with an amazing response rate of 90% and an overall result of 69% of our employees stating "they would recommend a friend" to work for Basware.

2017 was a year of focus on our sales organisation developing the foundation for high performance. The employee engagement result demonstrated the investment was being returned with an employee satisfaction score of 74%.

Overall our objective to develop engagement was achieved with further steps taken to provide a solid foundation for the future.

Read more: Basware careers

Corporate Governance Statement

This Corporate Governance Statement has been composed in accordance with Chapter 7, Section 7 of the Finnish Securities Markets Act and the reporting requirements of the Finnish Corporate Governance Code 2015 issued by the Finnish Securities Market Association. Basware complies with the Code with no deviations.

Basware Corporation ("the Company") is a public listed company registered in Finland, with its headquarters located in Espoo, Finland. Basware Group ("Basware" or "the Group") is comprised of the parent company Basware Corporation and its Finnish and foreign subsidiaries. Decision-making and governance of the Group comply with the Company's Articles of Association, the Finnish Companies Act, and other applicable legislation. In addition, the Company complies with the Nasdaq Helsinki Ltd's Guidelines for Insiders. The Company's subsidiaries comply with local legislation.

This Corporate Governance Statement has been composed in accordance with Chapter 7, Section 7 of the Finnish Securities Markets Act and the reporting requirements of the Finnish Corporate Governance Code 2015 issued by the Finnish Securities Market Association (available at www.cgfinland.fi/en/). Basware complies with the Code with no deviations.

This Corporate Governance Statement is issued separately from the Report of Board of Directors.

Description of the Company's Governance

The General Meeting of Shareholders, Board of Directors and CEO are responsible for the management of Basware Corporation, and their tasks are determined as specified in the Finnish Companies Act. The CEO is responsible for Group-level operational activity, assisted by the Group's Executive Team.

Annual General Meeting

The Annual General Meeting is the highest decision-making body of the Company. The Annual General Meeting is arranged once a year on the date determined by the Board of Directors and held within six (6) months of the end of the financial period. Extraordinary General Meetings can be arranged during the year, if necessary.

In accordance with the Articles of Association, the Annual General Meeting is held in a place determined by the Board of Directors, either in Espoo, Helsinki or Vantaa. Notice of the General Meeting of Shareholders shall be published as a stock exchange release and announced on Company's website no earlier than three (3) months and no later than three (3) weeks prior to the General Meeting of Shareholders. The Annual General Meeting deals and takes decisions on proposals to the Annual General Meeting and other matters in accordance with the Finnish Companies Act and the Company's Articles of Association , which are available at Company's investors pages.

All shareholders registered by the record date in the Company's list of shareholders maintained by Euroclear Finland Ltd have the right to attend the General Meeting.

In 2017, the Annual General Meeting was held in Helsinki on March 16, 2017.

Board of Directors

In accordance with the Articles of Association, the Company's Board of Directors has a minimum of four (4) and a maximum of eight (8) regular members. The Board members are elected by the

Annual General Meeting for one term of office at a time. The term of office begins at the end of the General Meeting that elected the Board and expires at the end of the first Annual General Meeting following the election. The Articles of Association place no restrictions on the power of the General Meeting to elect members for the Board of Directors. The Board of Directors elects a Chairman and a Vice chairman from among its members, and the Board of Directors is deemed to have a quorum present when more than half of its members are present.

The rules of procedure are published in its entirety on the Company's Investors pages.

The Board of Directors of Basware Corporation is responsible for the Company's management and the appropriate arrangement of its operations. The Board supervises the Company's operations and management and decides on significant matters concerning the company strategy, organization, financing and investments. The duties and responsibilities of the Board are defined primarily by the Articles of Association and the Finnish Companies Act. The Board annually ratifies rules of procedure that specify the meeting procedures of the Board and its tasks.

The Board of Directors assesses the independence of the board members and reports who are independent of the Company and who are independent of its significant shareholders. All current members of Board of Directors are independent of the Company and of major shareholders.

Diversity Principles of the Board

The Board of Directors of Basware has in its meeting on December 13, 2016, defined and approved the diversity principles for the Board of Directors. The diversity principles can be found on the Company's investors pages.

According to the diversity principles, both genders shall be represented on the Board of Directors and the aim of the Company is to strive towards an appropriately balanced gender distribution. Both genders are currently represented on the Board of Directors and its composition aligns with the goals set in the diversity principles in 2016. The mix of diverse financial and technical backgrounds of Board Members and extensive international experience in various leadership and board positions gives good foundation to the diversity of the Board of Directors. The duration of office of the Board Members is also divided so that the mix of new and long term Board members is balanced.

Board of Directors on Dec. 31, 2017

In 2017, Basware's Board of Directors had six members: Hannu Vaajoensuu (Chairman of the Board), Ilkka Sihvo (Vice Chairman of the Board), David Bateman, Michael Ingelög, Tuija Soanjärvi and Anssi Vanjoki.

Hannu Vaajoensuu (b. 1961)

- Chairman of the Board of Directors
- MSc in Economics
- Several Board Chairman/Vice Chairmanships or memberships
- Independent of the company and its significant shareholders
- Own and controlled corporations' ownership: 575,857 shares

Ilkka Sihvo (b. 1962)

- Vice Chairman of the Board of Directors
- Member of the Audit Committee
- MSc in Economics and MSc in Technology (Engineering)
- CEO, Solaforce Oy and CEO, Softaforce Oy
- Independent of the company and its significant shareholders
- Own and controlled corporations' ownership: 885,300 shares

David Bateman (b. 1974)

- Member of the Board of Directors
- BA and MA in Management Studies from Cambridge University
- Senior Advisor, Alternative Finance, Arrowgrass and CEO and founder, Captec Systems Ltd
- Independent of the company and dependent of its significant shareholder
- Own and controlled corporations' ownership: 0 shares

Michael Ingelög (b. 1971)

- Member of the Board of Directors
- Member of the Audit Committee
- Economics and Business Administration studies at Uppsala University, Sweden
- Entrepreneur and a private investor in to Financial Technology and several board memberships
- Independent of the company and its significant shareholders
- Own and controlled corporations' ownership: 5,000 shares

Tuija Soanjärvi (b. 1955)

- Member of the Board of Directors
- Chairman of the Audit Committee
- MSc in Economics
- Several board memberships
- Independent of the company and its significant shareholders
- Own and controlled corporations' ownership: 1,804 shares

Anssi Vanjoki (b. 1956)

- Member of the Board of Directors
- MSc in Economics
- Chairman of the Board of Amer Sports Corporation, angel investor, chairman and board member of several technology start-up companies
- Independent of the company and its significant shareholders
- Own and controlled corporations' ownership: 880 shares

More information on the members of the Board of Directors is available on the Company's investor pages.

Meetings of the Board in 2017

The Board primarily meets on a monthly basis, however no meetings are scheduled during a few months. Additional meetings are held when necessary. In 2017, the Board of Directors held 10 meetings.

Board attendance at meetings in 2017

	Attendance (%)	**Meetings attended**
Hannu Vaajoensuu (Chairman)	90	9/10
Ilkka Sihvo (Vice Chairman)	100	10/10
David Bateman	100	10/10
Michael Ingelög	100	10/10
Tuija Soanjärvi	80	8/10
Anssi Vanjoki	100	10/10

Committees of the Board of Directors

The Board of Directors has established among its members the Audit Committee to assist the full Board in its work. Considering the scope and nature of the Company's operations, as well as the Board's working methods, it has not been deemed necessary to establish other committees. However, during 2017 a separate working group, consisting of selected Board members, discussed and worked on compensation matters.

Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Company's process for monitoring compliance with laws and regulations. The Audit Committee works in accordance with its charter confirmed by the Board of Directors, and the Committee reports to the Board on each meeting. The charter is published in its entirety on the Company's investor pages.

The Audit Committee consists of a minimum of two (2) members of the Board. The Board elects the members and the Chairman of the Audit Committee from among its members at the organizational meeting for a term of one (1) year. The majority of the members of the Audit Committee shall be independent of the Company and at least one (1) member shall be independent of significant shareholders. Each member shall have the qualifications necessary to perform the responsibilities of the Committee and at least one (1) member must have accounting, book-keeping or auditing or related financial expertise.

In 2017, the Audit committee consisted of three (3) members of the Board of Directors: Tuija Soanjärvi was elected as the Chairman and Michael Ingelög and Ilkka Sihvo as the members of the Committee.

Meetings of the Audit Committee in 2017

The Audit Committee meets at minimum four (4) times during its term and additionally as necessary. In 2017, the Audit Committee held three (3) meetings and will hold one (1) more meeting during its term in January 2018.

Attendance of Audit Committee members at the meetings in 2017

	Attendance (%)	**Meetings attended**
Tuija Soanjärvi (Chairperson)	100	3/3
Michael Ingelög	100	3/3
Ilkka Sihvo	100	3/3

Shareholders' Nomination Board

The Annual General meeting, held on March 15, 2016, decided to establish a permanent Shareholders' Nomination Board in accordance with the proposal of the Board of Directors. The Nomination Board shall be responsible for preparing and presenting proposals covering the remuneration and number of members of the Company's Board of Directors as well as the proposal on the members of the Board of Directors to Annual General Meeting and, where needed, to an Extraordinary General Meeting. The Nomination Board shall also be responsible for identifying successors for existing Board members.

The Nomination Board consists of four (4) members, three (3) of which are appointed by the Company's three (3) largest shareholders. The chairman of the Company's Board of Directors serves as the fourth member.

The Company's largest shareholders entitled to appoint members to the Nomination Board shall be determined annually on the basis of the registered holdings in the Company's shareholders' register held by Euroclear Finland Ltd as of the first weekday in September in the year concerned, or on the basis of separate shareholding information presented by nominee registered shareholders.

As regards individual persons as shareholders, their direct ownership and ownership of corporations over which he/she exercises control as well as ownership of his/her spouse and children, will be taken into account in the determination. If a shareholder who has distributed his/her holdings e.g. into several funds and has an obligation under the Finnish Securities Markets Act to take these holdings into account when disclosing changes in share of ownership makes a written request to such effect to the Chairman of the Board of Directors no later than on the weekday prior to the first weekday in September such shareholder's holdings in several funds or registers will be combined when calculating the shares which determine the nomination right. A nominee registered shareholder shall, within the same time limit, present to the Chairman of the Company's Board of Directors a sufficient evidence on the amount of shareholding of such nominee registered shareholder as well as a request that such shareholding would be taken into account in connection with the appointment of Nomination Board members.

The Chairman of the Company's Board of Directors shall request each of the three (3) largest shareholders established on this basis to appoint one (1) member to the Nomination Board. In the event that a shareholder does not wish to exercise their right to appoint a member, it shall pass to the next-largest shareholder that would not otherwise be entitled to appoint a member. In case two (2) shareholders have an equal number of shares and votes and the representatives of both such shareholders cannot be appointed to the Nomination Board, the decision between them shall be made by drawing lots.

The Nomination Board serves until further notice, unless the General Meeting decides otherwise. Its members shall be elected annually and their term of office shall end when new members are elected to replace them.

The following members were nominated to the Nomination Board of the Company as of September 4, 2017:

Andrew Billett (b. 1975), Arrowgrass Capital Partners (Major shareholder)

- BA (Hons) International History and Politics
- Partner, Arrowgrass Capital Partners

Ilkka Sihvo (b. 1962), Major shareholder of Basware

- MSc in Economics and MSc in Technology (Engineering)
- CEO, Solaforce Oy and CEO, Softaforce Oy

Annika Ekman (b. 1977), Ilmarinen (Major shareholder)

- M.Sc. (Econ.)
- Head of Direct Equity Investments, Ilmarinen Mutual Pension Insurance Company

Hannu Vaajoensuu (b. 1961), Chairman of Basware's Board of Directors

- MSc in Economics
- Several board chairman/vice chairmanships or memberships

Meetings of the Shareholders Nomination Board in 2017

The Shareholders' Nomination Board held two (2) meetings in 2017 and will hold one (1) more meeting during its term in 2018.

Attendance of Shareholders Nomination Board members at the meetings in 2017

	Attendance (%)	**Meetings attended**
Andrew Billett (Chairman)	100	2/2
Annika Ekman	100	2/2
Ilkka Sihvo	100	2/2
Hannu Vaajoensuu	100	2/2

CEO and Executive Team

CEO

The Board of Directors appoints the CEO. The CEO is in charge of the management of the Company's business operations and governance in accordance with the Articles of Association, the Finnish Companies Act and the instructions given by the Board. Pursuant to Finnish Companies Act, as his general duties, the CEO is responsible for arranging the executive management of the company in accordance with the instructions and orders given by the Board of Directors. Further, according to the Finnish Companies Act, the CEO is responsible for arranging that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Executive Team

The Executive Team supports the CEO in managing the Company's business, but it does not have any authority based on legislation or the Articles of Association. The Executive Team includes the CEO (Chairman) and persons appointed at the proposal of the CEO.

Basware Executive Team on Dec. 31, 2017

Vesa Tykkyläinen (b. 1960), CEO

- BSc in Telecommunications
- Own and controlled corporations' ownership: 15,835 shares

Jane Broberg (b. 1966), SVP Human Resources

- Business studies
- Own and controlled corporations' ownership: 1,706 shares

Tehseen Dahya (b. 1966), SVP North America

- MBA graduate
- Own and controlled corporations' ownership: 53,116 shares

Lars Madsen (b. 1974), Chief Marketing Officer

- MSc in Business & Quality Management
- Own and controlled corporations' ownership: 2,863 shares

Ilari Nurmi (b. 1975), SVP Purchase-to-Pay

- MSc in Engineering
- Own and controlled corporations' ownership: 9,882 shares

Mikko Pilkama (b. 1972), SVP Network & Financing Services

- MSc in International Economics
- Own and controlled corporations' ownership: 1,409 shares

Niclas Rosenlew (b. 1972), CFO

- MSc in Finance
- Own and controlled corporations' ownership: 7,512 shares

Paul Taylor (b. 1957), SVP Global Sales

- Business studies
- Own and controlled corporations' ownership: 2,817 shares

Jussi Vasama (b. 1974), SVP Customer Services

- MSc in Technology
- Own and controlled corporations' ownership: 1,490 shares

All Executive Team members report to the Group's CEO, Vesa Tykkyläinen.

Description of internal control procedures and the main features of risk management systems

Overview of the risk management system

General principles of the risk management and relationship with internal control

Risk management is an integral part of internal control. The Group's risk management is guided by legal requirements, business requirements set by the shareholders as well as the expectations of customers, personnel and other important stakeholders. Risk management refers to identification, assessment, measurement, monitoring and mitigating of risks that are fundamentally related to or part of the Company's business.

The aim of the risk management is to identify the risks relevant to the Company's business operations and to define the measures, responsibilities and time schedules required for effective risk management. The risk management process is aligned with other governance and management processes and the results achieved are used systematically as part of operative planning.

Risk management is carried out and risks are reported in accordance with the Company's risk management policy and risk management process. The evaluations of risks reviews are performed annually and risks and activities are being followed up on periodically in Board and Audit Committee meetings.

The steering and monitoring of business operations is based on the reporting and business planning system covering the entire Group. The CEO and the CFO give both the Board and the Executive Team meetings presentations of the Group's situation and development in monthly reports.

Overview of the Company's internal control

Main features of the Company's internal control framework

The Board is responsible for internal control and the Board's Audit Committee is responsible for monitoring the efficiency of the Company's internal control, internal audit, and risk management systems. The Board shall ensure that the Company has determined operating principles for internal control and that the Company monitors the effectiveness of the control procedures. Moreover, the Board shall ensure that planning, information and control systems used for risk management are sufficient and support the Company's business objectives. The CEO and the CFO are responsible for the practical arrangement of control procedures.

The aim of internal control and risk management is to ensure that the Company's operations are efficient and productive, that information is reliable and that regulations and operating principles are followed throughout the Group.

The Group's centralized finance function and group accounting as well as controlling function, operating under the CFO, are responsible for the overall control system for financial reporting. Harmonized methods of financial reporting are applied in all Group companies, utilizing a uniform ERP system and harmonized account scheme, and also software for electronic procurement management, purchase invoices and travel expense reports and financial management. The entire Group applies International Financial Reporting Standards (IFRS) in its financial reporting.

Main features of the monitoring mechanisms for the Company's operations and controls

Monitoring refers to the process to assess Basware's internal control system and its performance in the long term. Basware also continuously monitors its operations through various assessments, such as internal and external audits. Basware's management monitors internal control as part of routine management work. The business management is responsible for ensuring that all operations comply with applicable laws and regulations. The Group's financial and controller functions monitor compliance with the financial reporting processes and control. The financial and controller functions also monitor the correctness of external and internal financial reporting. The Board of Directors assesses and ensures the appropriateness and effectiveness of Basware's internal control and risk management.

Operating principles for internal control

The correctness and reliability of financial reporting are ensured through compliance with the Group policies and guidelines. Controls that ensure the correctness of financial reporting include controls related to accounting transactions, controls related to the selection of and compliance with the accounting principles, information system controls and fraud controls. The high automation rate of the Group's shared information systems and the systems' integrated control points facilitate an efficient internal control process with an audit trail for financial reporting. The Group's centralized finance functions continuously develop global reliable, harmonized, scalable and efficient operating methods.

The result of business operations and attainment of annual goals is assessed monthly by the Executive Team and approximately monthly in Board meetings. Monthly management and Board reporting includes both actual and forecast data compared to the goals and actual results of previous periods. Financial reports generated for use by the business management monitor certain key indicators associated with the business progress on a regular basis.

Main features of the practical application of the Company's internal control

The internal control processes include internal guidelines, reporting, various technical systems and procedures relating to operations. They help ensure that management directives are followed and that activities are taken to achieve the Group's objectives. The daily tasks include management reviews and audits and operational reviews and audits, carrying out checks that are suitable for each function, country or business area.

The purpose of management reporting is to produce aptly timed and essential information for making decisions. The controlling function provides the guidelines on monthly reporting for the entire organization and is in charge of special reporting instructions associated with forecasting. The Group's financial administration internally distributes information on financial reporting-related processes and procedures on a regular basis and the personnel perform their internal control tasks according to such information. When necessary, financial administration also arranges targeted training for the rest of the organization on the procedures associated with financial reporting and changes in them.

The Group's Investor Relations function maintains the guidelines on the disclosure of financial information in cooperation with financial administration and the legal department.

Other information to be provided in the Corporate Governance Statement

Overview of the Company's internal audit

Internal audit assists the Board of Directors and Audit Committee in assessing and ensuring the appropriateness and effectiveness of Basware's internal control and risk management. Internal audits are performed for the Group's functions and units. Internal audits are performed annually based on a long term internal audit plan. The long term internal audit plan is approved by the Board of Directors. The management and Board of Directors review the observations and recommendations of the internal audits.

Decision-making procedure for related party transactions

The Company has a process for identifying parties that are related to the Company and continuously assesses and monitors related party transactions. The Company evaluates and monitors transactions to be concluded between the Company and its related parties to ensure that any conflicts of interest are duly taken into account in the Company's decision-making. Any related party transactions are only entered into, when they are useful to the Company on the whole and serve the interests of the Company. Decisions on entering into related party transactions shall always be based on careful preparatory work. Any preparatory work, decision-making, and the evaluation and approval of individual transactions is subject to disqualifying potentially conflicted persons from such work. Related party transactions are appropriately identified and followed up by the Company's Audit Committee and reported in accordance with the Company's reporting practices.

Main procedures relating to insider administration

In insider matters, Basware complies with the applicable legislation, the standards of the Finnish Financial Supervisory Authority as well as Nasdaq Helsinki's Guidelines for Insiders. Inside information refers to all information of a precise nature, which has not been made public and relates, directly or indirectly, to one or more issuers or to one or more financial instruments and which, if made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments. Basware discloses any possible inside information concerning the Company as soon as possible as a stock exchange release. However, the Company may, on its own responsibility and on a case-by-case basis, delay disclosure of inside information to the public in accordance with the conditions outlined in the Market Abuse Regulation ((EU) No 596/2014). Should the Company decide to delay disclosure, the Company documents and continuously monitors the preconditions of delayed disclosure. The Company notifies the Finnish Financial Supervisory Authority of the delayed disclosure immediately after the information has been publicly disclosed.

Basware does not maintain a list of permanent insiders, but establishes project-specific insider lists following the identification of a specific issue as inside information by the Company's Board of Directors and the Board's decision to establish an insider list relating to the identified issue. The Company maintains its project-specific insider lists in the insider list service provided by Euroclear Finland Ltd.

Trading restrictions

Persons discharging managerial responsibilities in the company may not trade in any financial instruments in the company during a closed period of 30 calendar days before the announcement of the company's half-year report, annual financial statements, or Q1 and Q3 interim reports. In addition to persons discharging managerial responsibilities in the company, the trading restriction applies to the company's employees participating in the preparation, drawing-up, and disclosure of the company's financial reports.

Audit

The Company's audit shall be performed by an authorized auditor or audit firm. The Audit Committee maked a recommendation to the Board, who is responsible for making a formal proposal to the Annual General Meeting for audit firm to be selected. The audit firm selected has, together with the Group's CFO, overall responsibility for co-ordinating audits for the whole group (audit plans for each Group company) and their cost. Moreover, if required, a local authorized audit firm can be selected to carry out the audit required by local legislation with a prior approval by the CFO.

The Annual General Meeting elects an authorized auditor as the Company's auditor. In 2017, Authorized Public Accountant Firm Ernst & Young Oy was elected as the Company's auditor, with Terhi Mäkinen, Authorized Public Accountant, as the principal auditor. The auditor's term expires after the conclusion of the next Annual General Meeting following the election.

In 2017, the auditor was paid remuneration for audit services EUR 216,000 and for non-audit services EUR 207,000.

Remuneration Report

Basware Corporation's remuneration report describes the decision-making procedure and main principles of remuneration of members of the Board of Directors, CEO and the Executive Team and explains remuneration paid to Board members, CEO and the Executive Team in 2017.

Management of compensation

The Annual General Meeting, held on March 15, 2016, decided to establish a permanent Shareholders' Nomination Board. The Nomination Board shall be responsible for preparing and presenting proposals covering the remuneration of members of the company's Board of Directors to Annual General Meeting and, where needed, to an Extraordinary General Meeting. The Board of Directors has not established a separate Compensation Committee.

The compensation principles of the top management are decided by the Board. The Board decides on the service terms and conditions of the CEO, specified in writing. The Board annually approves the personnel incentive scheme.

Remuneration of the Board of Directors

The General Meeting of Shareholders decides on the remuneration paid to the Board of Directors.

The Annual General Meeting held on March 16, 2017 resolved to compensate the members of the Board according to the following:

- members EUR 27,500 per year;
- Vice Chairman of the Board EUR 32,000 per year and
- Chairman of the Board EUR 55,000 per year.

In addition, chairmen of the Board of Directors and its committees shall receive EUR 500 per attended meeting and members of the Board of Directors and its committees EUR 400 per attended meeting. Out of the annual remuneration to be paid to the Board members, 40 percent of total gross compensation will be used to purchase Basware Corporation's shares at trading on regulated market organized by Nasdaq Helsinki Ltd. However, this only applies Board members whose ownership of Basware Corporation is less than 5,000 shares. The purchase of shares will take place as soon as possible after the decision by the General Meeting. Shares received as remuneration may not be sold or otherwise transferred during a period of two (2) years. This restriction does not concern persons who are no longer Board members. Travel expenses of the members of the Board of Directors are reimbursed in accordance with the company's travel policy.

Remuneration of the CEO

The Board decides on the service terms and conditions of the CEO, specified in writing. Currently the CEO has:

- 3 months' period of notice and salary for the period of notice should the Company give notice, in addition to which he is entitled to severance pay equivalent of 12 months' fixed salary;
- 3 months' period of notice and salary for the period of notice should the person resign himself, no additional compensation is paid;

- 12-month prohibition of competition as of the termination of employment on the part of the company;
- 24-month prohibition of competition as of the termination of employment on the part of the CEO; and
- retirement age and pension benefits pursuant to the Employees' Pensions Act (TyEL).

The short-term remuneration of the CEO is comprised of salary, fringe benefits and a possible annual bonus based on performance. The CEO's long-term remuneration consists of a share-based incentive scheme. The annual bonus is determined on the basis of the attainment of goals related to the company's growth and profitability according to its strategy as well as personal objectives. The Board of Directors monitors the fulfillment of the performance and result criteria of the incentive scheme twice a year and approves the bonus to be paid.

The salary of the CEO Vesa Tykkyläinen for the period January 1-December 31, 2017, including benefits, was EUR 374,777 (EUR 90,060 in September 26-December 31, 2016). Salary in money was EUR 359,217 (EUR 86,880 in September 26-December 31, 2016) and fringe benefits EUR 15,560 (EUR 3,180 in September 26-December 31, 2016). Tykkyläinen was paid no bonus in 2017 (EUR 0 in in September 26-December 31, 2016). During 2017, Tykkyläinen was granted a total of 1,500 shares on the basis of the incentive schemes. Of these, 750 shares were conveyed to Tykkyläinen, the value of which was approximately EUR 25,524 based on the average share price of the payment days, and EUR 25,524 was paid in cash to cover the withholding tax.

The accrued pension costs of Vesa Tykkyläinen amounted to EUR 81,670 (EUR 18,000 in September 26-December 31, 2016). The CEO's pension plan is pursuant to the employment pension legislation.

Remuneration of the Executive Team

The compensation principles of the top management are decided by the Board. The short-term remuneration of the top management consists of salary, fringe benefits and a possible annual bonus based on performance. The top management's long-term remuneration consists of a share-based incentive scheme. The bonus based on performance is no more than 50 percent of annual basic salary. The bonus is determined on the basis of the attainment of goals supporting to the company's growth and profitability according to its strategy and personal objectives. The Board of Directors monitors the fulfillment of the performance and result criteria of the incentive scheme twice a year and approves the bonus to be paid.

For the period January 1 - December 31, 2017, the members of Executive Team, excluding CEO, were paid in salaries and fringe benefits total of EUR 1,573,993 (EUR 2,313,092 in 2016). Salary in money was EUR 1,535,001 (EUR 1,854,340 in 2016) and fringe benefits totaled EUR 38,992 (EUR 85,438 in 2016). In addition, EUR 44,275 (EUR 156,486 in 2016) were paid as bonus payments and EUR 403,520 (EUR 216,828 in 2016) on the basis of the long-term incentive scheme.

Remuneration of Executive Team in 2017:

	Salary	**Fringe benefits**	**Bonus payments**	**Share-based payments**	**Total**
CEO Vesa Tykkyläinen	359 217	15 560	0	51 048	425 825
Other Executive team	1 535 001	38 992	44 275	403 472	2 021 740
In total	**1 894 218**	**54 552**	**44 275**	**454 520**	**2 447 565**

Incentive schemes

The compensation principles of the top management are decided annually by the Board. The Executive Team members' performance bonus is no more than 50 percent of annual basic salary. The performance bonus percentage is not limited in the CEO's contract of employment. The bonus is determined on the basis of the attainment of personal objectives and goals supporting the company's growth and profitability according to its strategy. The Board of Directors monitors the fulfillment of the performance and result criteria of the incentive scheme and approves the bonus. In addition to the annual bonus based on performance, the long-term remuneration of the top management consists of share-based incentive schemes, decided by the Board.

Matching Share Plan 2017-2019

The Board of Directors resolved on March 1, 2017 to establish a new matching share plan for 2017-2019 for Basware Executive Team members.

The prerequisite for receiving reward on the basis of the matching share plan is that the member of the Basware Executive Team in question acquires Basware shares. The Basware Executive Team member will, as a reward, receive matching shares for each share subject to the share ownership prerequisite after a matching period of three years. Receipt of matching shares is contingent on the continuation of employment or service upon reward payment and that the shares in question are still held by the member.

The Board of Directors resolved that the rewards to be paid in aggregate to the Basware Executive Team on the basis of the matching share plan correspond to the value of a maximum total of 75,000 Basware Corporation shares, including also the proportion to be paid in cash.

Members of Basware Executive Team acquired or allocated a total of 35,017 Basware Corporation shares in the beginning of the plan. The rewards to be paid to Basware Executive Team members on the basis of the plan thus corresponds to a maximum of 70,034 Basware Corporation shares, including also the proportion to be paid in cash.

Performance Share Plan 2017-2019

The Board of Directors resolved on March 1, 2017 to establish a new performance share plan for 2017-2019 for key employees.

The performance share plan includes three performance periods, calendar years 2017-2018, 2018-2019 and 2019-2020. The Board of Directors decides on the performance criteria and on the required performance levels for each criterion at the beginning of each performance period. The plan is directed at approximately 60 key employees, including the members of the Basware Executive Team.

The potential reward from the performance period 2017-2018 is based on the company's total shareholder return and the Group's cumulative Cloud revenue during 2017-2018. The rewards to be paid on the basis of the performance period 2017-2018 correspond to the value of a maximum total of 156,000 Basware Corporation shares, including also the proportion to be paid in cash.

At the end of 2017, the performance share plan included 62 key employees for the performance period 2017-2019. The rewards to be paid on the basis of the plan corresponds to a maximum total of 156,000 Basware Corporation shares, including also the proportion to be paid in cash.

Restricted Share Plan 2017

The Board of Directors resolved on March 1, 2017 to establish a new restricted share plan for 2017. The restricted share plan is directed to selected key employees at Basware. Receipt of the reward is contingent on the continuation of employment or service upon reward payment.

The reward from the restricted share plan will be paid after a vesting period of one to three years. The total rewards to be allocated on the basis of the plan amount to a maximum of 20,000 Basware Corporation shares, including also the proportion to be paid in cash.

At the end of 2017, the restricted share plan 2017 included 6 key employees. The rewards to be paid on the basis of the plan corresponds to a maximum total of 5,750 Basware Corporation shares, including also the proportion to be paid in cash.

Restricted Share Plan 2016

The Board of Directors resolved on February 1, 2016 to establish a new restricted share plan for 2016. The restricted share plan was directed to selected key employees at Basware and the total rewards to be allocated on the basis of the plan amounted to a maximum of 4,000 Basware Corporation shares, including also the proportion to be paid in cash. Receipt of the reward was contingent on the continuation of employment or service upon reward payment.

The restricted share plan 2016 included two Basware key employees, who were both paid the reward at the end of the vesting period in March 2017. The rewards paid on the basis of the plan corresponded to a total of 3,000 Basware Corporation shares, including also the proportion to be paid in cash. The plan has ended.

Matching Share Plan 2015-2018

The Board of Directors resolved on March 23, 2015 to establish a new matching share plan for 2015-2018. The restricted share plan was directed to selected key employees at Basware and the total rewards to be allocated on the basis of the plan amounted to a maximum total value of 11,000 Basware Corporation shares. In addition to the share reward, employees included in the plan will also be paid a cash portion to cover the taxes resulting from the reward.

The prerequisite for receiving reward on the basis of the matching share plan is that the employee in question acquires Basware Corporation shares at the beginning of the plan. The participating employee can, as a reward, receive matching shares for each share subject to the share ownership prerequisite after a matching period of three years. Receipt of matching shares is contingent on the continuation of employment or service upon reward payment and that the shares in question are still held by the participating employee.

In 2017, the matching share plan 2015-2018 included four Basware key employees. The rewards to be paid on the basis of the plan corresponded to a maximum total value of 5,148 Basware Corporation shares. The plan ended in January 2018.

Performance Share Plan 2015-2017

The Board of Directors resolved on March 23, 2015 to establish a new performance share plan for 2015-2017 for key employees.

The performance share plan includes three performance periods, calendar years 2015, 2016 and 2017. The first one third of the earned shares were allocated 6 months, the second one third 12 months and the last one third 18 months after the end of the earning period. In addition, the members of Basware Executive Team had the possibility in early 2015 to be allocated shares against purchased shares without consideration against their shareholding over three years during the earning periods in 2015-2017.

For the earning period 2015, the rewards to be paid on the basis of the plan corresponded to a maximum total of 67,500 Basware Corporation shares, including also the proportion to be paid in cash. The reward for the earning period 2015 was based on the revenue and operating profit growth and the total shareholder return of Basware Corporation. For the earning period 2015, the plan included 35 key employees and the rewards earned corresponded to a total of 28,059 Basware Corporation shares, including also the proportion to be paid in cash. The rewards for the earning period 2015 were paid in June 2016 and January and July 2017.

For the earning period 2016, the rewards to be paid on the basis of the plan corresponded to a maximum total of 79,525 Basware Corporation shares, including also the proportion to be paid in cash. The targets for earning period 2016 were not reached and therefore no reward was paid for the earning period.

The earning period 2017 was not started, and the plan was replaced with a new share-based incentive plan based on the resolution of the Board of Directors on March 1, 2017.

Non-financial Statement

Basware is committed to operating responsibly and sustainably, helping customers move to paperless processes, fostering employee welfare and taking care of cybersecurity and data privacy.

This statement describes how Basware manages social and environmental challenges in its business operations. Basware is committed to operating responsibly and sustainably, helping customers move to paperless processes, fostering employee welfare and taking care of cybersecurity and data privacy. This statement has been compiled in order to fulfil the reporting requirements on non-financial information as outlined in Chapter 3a, Sections 1-6 of the Finnish Accounting Act.

Business operations

Basware is the global leader in networked source-to-pay solutions, including e-invoicing and value-added services. Basware's commerce network connects businesses in over 100 countries and territories around the globe. As the largest open business network in the world, Basware provides scale and reach for organizations of all sizes, enabling them to grow their business and unlock value across their operations by simplifying and streamlining their financial processes. Small and large companies around the world achieve significant cost savings, more flexible payment terms, greater efficiencies and closer relationships with their suppliers.

Basware is comprised of the group's parent company, Basware Corporation, and its subsidiaries. Basware Corporation is a public listed company domiciled in Espoo, Finland. Basware Corporation's shares are listed on Nasdaq Helsinki Ltd. All Basware companies comply with local legislation and other applicable guidelines and requirements.

Basware operates globally and has offices in 14 countries around the world. In 2017, the company's average number of employees was 1,838. At the end of 2017, 35 percent of the company's employees worked in India, 24 percent in Finland, 32 percent in rest of Europe and 9 percent in Americas and APAC.

Social responsibility

Social and employee matters

Employees are Basware's most important resource. Operating globally, Basware complies with the standards of the International Labour Organization as well as with all relevant local employment legislation. In addition, Basware is committed to acting in accordance with the United Nations' Universal Declaration of Human Rights and the principles of the United Nations' Global Compact. Basware has a global Code of Conduct that applies to all Basware employees globally. The Code of Conduct describes the principles according to which Basware operates and expects its suppliers and partners to operate. 94 percent of Basware's employees had completed Code of Conduct training by the end of 2017, with the target of reaching 99 percent by the end of Q1/2018.

Basware's ability to attract, retain and develop the right type of talent at all levels is critical for the company's success. Basware promotes learning and development at an organizational, team and individual level and is committed to a safe and healthy workplace. The company's employees' average years of service is 4.9 years and the attrition rate 15.3 percent. 98 percent of the company's employees are permanent employees and 98 percent work full-time. The average age of employees is 35.3 years. The company's CEO-to-employee pay ratio based on base salary is 5-to-1.

Basware conducts an employee engagement survey annually. The results of the survey are used for developing ways of working within the company together with the employees

Basware supports diversity in the workforce and is committed to equal opportunity in the workplace. Basware does not tolerate any discrimination based on race, color, sex, religion, age, political affiliation, sexual orientation, or origin. Women account for 28 percent and men for 72 percent of employees. In the 2017 annual employee engagement survey, employees were asked whether they believe that people at Basware are comfortable working with colleagues with diverse backgrounds. 98 percent of employees answered either favourably or neutral.

As part of Basware's commitment to conducting its business in an honest and ethical manner, Basware takes a zero-tolerance approach to bribery and corruption, and upholds all relevant laws to countering bribery and corruption in all jurisdictions it operates in. Basware has an Anti-Bribery and Corruption Policy, which sets out the responsibilities of Basware employees in observing and upholding the company's position on bribery and corruption and provides guidance for Basware employees on how to recognize and deal with bribery and corruption issues. No bribery or corruption incidents were reported to the company in 2017.

Cybersecurity and data protection

Providing digital, cloud-based services and solutions, Basware operates in an industry characterized by a high information security and data privacy risk. Basware takes any threats to its own or its customers' information systems and data very seriously. Information security risks are integrated into the company's multi-disciplinary risk assessment. To manage risks arising from information security breaches, Basware has a continuous information security model, which includes tracking and follow-up of any security incidents for mitigation and corrective actions. As part of this model, Basware continuously assesses its systems, support processes and personnel and analyzes implications of any security incidents. Personnel training and certification play a key role in assuring the integrity of the company's systems and the quality of the company's customer promise. In addition, Basware's service integrity control environments are externally audited at regular intervals.

Whilst using Basware's services, customers transmit orders, invoices and other business data to the company's applications for further processing. In processing customers' business contact data identifying individuals Basware complies with all relevant legal requirements governing the protection of personal data.

Environmental responsibility

Basware's corporate environmental responsibility is incorporated into the company's business strategy and operations. In its day-to-day activities, Basware complies with all applicable environmental laws and regulations and expects all its suppliers and partners to obey all relevant legal and industry-specific environmental requirements.

Basware's most material environmental exposures are energy consumption at our office locations and third-party data centres and the impact of business travel and commuting. Basware tracks its greenhouse gas emissions annually and reports them to CDP. Basware has implemented an improvement programme to track and reduce its emissions footprint and to improve the energy efficiency of its office locations. Basware seeks to reduce the need for business travel by using collaborative technologies and online meeting tools. Basware is committed to open and transparent communication on its environmental performance.

The direct environmental impact of Basware's services is estimated to be immaterial to moderate due to the nature of Basware's business. Basware's digital solutions and services have the potential to provide Basware's customers with environmental benefits by automating their financial processes by provision of cloud-based software, thus reducing the use of paper and the reliance on separate, company-specific data centres. Basware is working towards a clearer understanding of the environmental impacts of its solutions and services and is committed to full transparency in communicating about the environmental benefits and burdens of its business.

Financial Statements

Board of Directors' Report
January 1 - December 31, 2017

	1.1.-31.12.2017	1.1.-31.12.2016	Change, %
Net sales	149,241	148,580	0.4
Cloud revenue	79,169	66,242	19.5
ARR order intake	12,838	7,896	62.6
EBITDA	672	-5,394	
Adjusted EBITDA	3,367	2,063	63.2
Operating result	-9,436	-13,946	32.3
Adjusted operating result	-6,741	-6,490	-3.9
Result before tax	-12,203	-16,256	24.9
Result for the period	-11,451	-14,318	20.0
Cash and cash equivalents	20,683	35,755	-42.2
Earnings per share, EUR			
Diluted	-0.79	-1.00	20.5
Adjusted earnings per share diluted	-0.61	-0.48	-26.8

Business operations

Basware is the global leader in networked source-to-pay solutions, including e-invoicing and financing services. Basware's commerce network connects businesses in over 100 countries and territories around the globe. As the largest open business network in the world, Basware provides scale and reach for organizations of all sizes, enabling them to grow their business and unlock value across their operations by simplifying and streamlining financial processes. Small and large companies around the world achieve significant cost savings, more flexible payment terms, greater efficiencies and closer relationships with their suppliers.

Business performance

In 2017, Basware continued to grow its cloud business rapidly, increased order intake, released exciting new innovations, and at the same time implemented significant productivity improvements. This sets the foundations for the future, and the effects of these changes are only just starting to become apparent.

Basware's strategic priority is cloud revenue growth and with 20 percent growth in 2017, the company met its guidance for 2017. In 2017, Basware's cloud revenues accounted for 53 percent of net sales, up from 45 percent in 2016. The increasing share of cloud revenues is a key driver for total growth. Subscription order intake, the company's main lead indicator for future cloud revenue growth, also continued to rise, up 63 percent in 2017.

Winning and retaining customers are key to Basware's success. In 2017, the company acquired a number of significant new customers as well as transforming existing customers to the cloud. New customers won in 2017 include, for example, Vinci Energies, Handelsbanken, IPG, Aspen Square and Tennis Australia. Customers that Basware transformed from on-premise to cloud solutions included Unicredit Bank, Engie, Adecco, Metso and Bradken.

Basware's vision is to offer the best global solution for purchasing, invoicing and paying. Basware is recognised as a trail blazer by industry analysts and was cited as a Leader in "The Forrester Wave™: eProcurement, Q2 2017" report, which came out in May 2017. According to the Forrester report, Basware excels in invoice automation for global organizations and is a particularly strong fit for enterprises that want to automate processing of high invoice volumes.

Basware leads innovation in the industry and continued to announce more enhancements to the company's solutions in 2017. These included further enhancements to the company's award-winning Analytics function, including peer benchmarking, predictive analytics and supplier quality analytics; new strategic sourcing offering; and Basware Vault, a compliant, efficient and secure cloud-based archiving service for e-invoices. In Q2 2017, the company also announced a partnership with Nordea to offer Basware's Discount product to Nordea's corporate banking customers.

At the same time as focusing on serving customers and growing cloud revenues, Basware also continued to work on streamlining the company's business and increasing productivity. The company's sales productivity increased compared to 2016. In addition, the company successfully executed the productivity programme announced in November 2016.

Basware is a global market leader as recognised by key industry analysts and continues to win the trust of new customers. With a cloud-focused strategy, combined with actions to further improve the company's operations, Basware is well positioned to capture the significant market opportunity ahead of the company.

Net sales

In 2017, Basware's net sales amounted to EUR 149 241 thousand (EUR 148 580 thousand), a growth of 0.4 percent. This equated to 1.5 percent organic growth at constant currencies.

Net sales by type

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016	Change, %
Cloud Revenue			
SaaS	33,190	22,975	44.5
Transaction services	40,164	35,996	11.6
Other cloud revenue	5,815	7,270	-20.0
Cloud Revenue Total	**79,169**	**66,242**	**19.5**
Non-Cloud Revenue			
Maintenance	37,026	40,761	-9.2
License sales	4,192	7,188	-41.7
Consulting services	28,982	34,389	-15.7
Other non-cloud revenue	-129	0	
Non-Cloud Revenue Total	**70,072**	**82,338**	**-14.9**
Total	**149,241**	**148,580**	**0.4**

Cloud revenues grew strongly during the financial year. Cloud revenues were EUR 79 169 thousand (EUR 66 242 thousand), up by 19.5 percent, and accounted for 53.0 percent (44.6 %) of net sales.

SaaS revenues grew significantly compared to 2016 with total growth of 44.5 percent. Transaction services revenues grew 11.6 percent.

In non-cloud revenues, maintenance and consulting revenues declined in line with expectations as we transition customers to the cloud.

In 2017, the share of Basware's net sales outside Finland was 67.9 percent (66.3 %).

Subscription order intake

In 2017, Basware's subscription annual recurring revenue gross order intake, including SaaS and other subscription types, amounted to EUR 12.8 million (EUR 7.9 million). Subscription annual recurring revenue gross order intake increased by 62.6 percent compared to 2016. There will be a time lag before order intake is visible in net sales.

Subscription annual recurring revenue gross order intake

EUR thousand

	31.12.2017	31.12.2016	Change, %
ARR order intake	12,838	7,896	62.6

Financial performance

In 2017, Basware's adjusted EBITDA was EUR 3 367 thousand (EUR 2 063 thousand). The operating result for the year amounted to EUR -9 436 thousand (EUR -13 946 thousand). Basware's unadjusted performance measures for 2016 included approximately EUR 5 million costs related to personnel reductions as part of the productivity programme.

The company's operating expenses including employee benefits, depreciation and amortization as well as other operating expenses were EUR 143 946 thousand (EUR 146 783 thousand), decreasing by 1.9 percent from 2016. Personnel expenses made up 68.8 percent (71.3 %) or EUR 99 083 thousand (EUR 104 600 thousand) of the operating expenses.

Materials and services were EUR 14 865 thousand (EUR 15 746 thousand), down 5.6 percent from 2016.

Basware announced a productivity programme to simplify its operations and increase scalability in the fourth quarter of 2016. The savings achieved as result of personnel reductions were EUR 5.1 million in 2017. In addition to achieving expenses savings, Basware has achieved improvements in sales and marketing productivity over the same period. Taken together, these increase the scalability of Basware's business, meaning the ability to grow revenues faster than costs.

The company's net finance expenses were EUR 2 391 thousand (EUR 887 thousand) in 2017. Basware's share of the result of the joint venture with Arrowgrass Capital Partners LLP totalled EUR -1 048 thousand (EUR -2 170 thousand).

Basware's result before tax was EUR -12 203 thousand (EUR -16 256 thousand) and result EUR -11 451 thousand (EUR -14 318 thousand). Taxes for the financial year impacted the result positively by EUR 752 thousand (EUR 1 939 thousand).

Undiluted earnings per share were EUR -0.80 (EUR -1.00) for the financial year.

Financing and investments

Cashflows from operating activities were EUR -4 001 thousand (EUR -1 774 thousand) in 2017. Basware's operating cash flows are seasonal as a relatively large part of payments for annual maintenance are made in the first quarter. Working capital changes included the cash impact of restructuring provisions related to the productivity programme announced in November 2016.

Basware's cash and cash equivalents including short-term deposits totalled EUR 20 683 thousand (EUR 35 755 thousand) at the end of the financial year. In addition to cash and cash equivalents, Basware has an undrawn revolving credit facility of EUR 10 million, bringing total available liquidity at the end of the financial year to EUR 30 683 thousand (EUR 38 755 thousand).

In the third quarter of 2017, the company signed a new term loan financing totalling EUR 30 million, with EUR 10 million maturing in September 2019 and EUR 20 million in September 2020.

The equity ratio was 54.8 percent (58.5 %) and gearing 24.7 percent (8.7 %). The company's interest-bearing liabilities totalled EUR 49 282 thousand (EUR 47 280 thousand), of which current liabilities accounted for EUR 1 996 thousand (EUR 10 548 thousand). The return on investment was -5.7 percent (-9.5 %) and return on equity -9.2 percent (-10.5 %).

Gross investments including acquisitions and capitalized research and development costs totalled EUR 12 498 thousand (EUR 51 882 thousand) in 2017.

Research and development

Basware's research and development investments totalled EUR 22 319 thousand (EUR 23 092 thousand), or 14.9 percent (15.5 %) of net sales during the financial year. The expenses decreased by 3.3 percent compared to 2016. The decrease was due primarily to savings achieved as a result of the productivity programme announced in November 2016. The research and development costs excluding depreciation included in the result for the financial year totalled EUR 12 439 thousand (EUR 12 214 thousand), or 8.3 percent (8.2 %) of net sales. Research and development expenses capitalized during the financial year amounted to EUR 9 879 thousand (EUR 10 878 thousand). A total of 410 (419) people worked in research and development at the end of the financial year.

Personnel

Basware employed 1 838 (1 811) people on average during the financial year and 1 829 (1 889) at the end of the financial year.

Average number of personnel

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016	Change, %
Finland	447	500	-10.6
EMEIA	587	599	-2.0
India	645	577	11.8
Americas & APAC	159	135	17.8
Total	**1,838**	**1,811**	**1.5**

At the end of the financial year, the share of Basware's personnel outside Finland was 76.1 percent (74.0 %). 11.2 percent (12.2 %) of the personnel work in sales and marketing, 59.3 percent (58.6 %) in professional services, production and customer care, 22.4 percent (22.2 %) in research and development, and 7.1 percent (7.0 %) in administration.

The average age of employees is 35.3 (35.5) years. Women account for 27.7 percent (27.1 %) of employees, men for 72.2 percent (72.9 %).

Share and shareholders

Basware Corporation's share capital totalled EUR 3 528 369 (3 528 369) at the end of the financial year and the number of shares was 14 401 936 (14 401 936). Basware Corporation holds 42 233 (58 622) of its own shares, corresponding to approximately 0.3 percent (0.4 %) of the total number of shares.

Basware had 11 682 (12 620) shareholders at the end of the financial year, including 10 nominee-registers (10). Nominee-registered holdings accounted for 46.7 percent (37.0 %) of the total number of shares.

The company's Annual General Meeting of March 16, 2017 authorized the Board of Directors to decide on the repurchase of the company's own shares and on share issue as well as on the issuance of options and other special rights entitling to shares.

Annual General Meeting and authorizations of the Board of Directors

The Annual General Meeting of Basware Corporation held on March 16, 2017 adopted the annual accounts for the financial period ended on December 31, 2016. The members of the Board of Directors as well as the CEOs were discharged from liability for the financial period ended on December 31, 2016. In accordance with the proposal of the Board of Directors, the Annual General Meeting resolved that no dividend will be paid for the year 2016.

The Annual General Meeting decided the number of members of the Board of Directors to be six. Mr. Hannu Vaajoensuu, Mr. Ilkka Sihvo, Mr. David Bateman, Mr. Michael Ingelög, Mrs. Tuija Soanjärvi and Mr. Anssi Vanjoki were elected as members of the Board of Directors.

The Annual General Meeting decided that the remuneration for the members of the Board of Directors will be paid as follows: to the members of the Board of Directors and committee members EUR 27 500, to the vice chairman of the Board of Directors and the Chairman of the Audit Committee EUR 32 000 and to the chairman of the Board of Directors EUR 55 000. In addition, the chairmen of the Board of Directors and its committees shall receive EUR 700 per attended meeting and members of the Board of Directors and its committees shall receive EUR 500 per attended meeting. Out of the annual remuneration to be paid to the Board members, 40 percent of total gross compensation amount will be used to purchase Basware Corporation's shares at trading on regulated market organized by Nasdaq Helsinki Ltd. However, this only concerns Board members whose ownership of Basware Corporation is less than 5 000 shares. The purchase of shares will take place as soon as possible after the decision by the General Meeting. Shares received as remuneration may not be sold or otherwise transferred during a period of two years. This restriction does not concern persons who are no longer Board members. Travel expenses of the members of the Board of Directors are reimbursed in accordance with the company's travel policy.

Ernst & Young Oy, Authorized Public Accounting Firm, was elected as the company's auditor. Ernst & Young Oy has advised that it will appoint Ms. Terhi Mäkinen, Authorized Public Accountant, as the principally responsible auditor of the company.

The Annual General Meeting decided to authorize the Board of Directors to decide on repurchase of company's own shares in accordance with the proposal of the Board of Directors. By virtue of the authorization, the Board of Directors is entitled to decide on repurchasing a maximum of 1 420 000 company's own shares. The company's own shares shall be repurchased otherwise than in proportion to the holdings of the shareholders by using the non-restricted equity through trading on regulated market organized by Nasdaq Helsinki Ltd at the market price prevailing at the time of acquisition. The shares shall be repurchased and paid for in accordance with the rules of Nasdaq Helsinki Ltd and Euroclear Finland Ltd. The shares shall be repurchased for use as consideration in possible acquisitions or other arrangements related to the company's business, as financing for investments or as part of the company's incentive program or to be held by the company, to be conveyed by other means or to be cancelled. The Board of Directors shall decide on other terms and conditions related to the repurchase of the company's own shares. The Repurchase Authorization shall be valid until June 30, 2018 and shall revoke the previous authorizations for repurchasing the company's own shares.

The Annual General Meeting decided to authorize the Board of Directors to decide on issuing new shares and/or conveying the company's own shares held by the company and/or granting special rights entitling to shares pursuant to Chapter 10, Section 1 of the Finnish Companies Act in accordance with the proposal of the Board of Directors.

New shares may be issued and the company's own shares may be conveyed to the company's shareholders in proportion to their current shareholdings in the company or by waiving the shareholder's pre-emption right, through a directed share issue if the company has a weighty financial reason to do so, such as using the shares as consideration in possible acquisitions or other arrangements related to the company's business, as financing for investments or as part of the company's incentive program. The new shares may also be issued in a free share issue to the company itself.

New shares may be issued and the company's own shares held by the company may be conveyed either against payment or for free. A directed share issue may be free only if there is an especially weighty financial reason both for the company and with regard to the interests of all shareholders in the company.

Based on the authorization, the Board of Directors may decide to issue a maximum of 2 840 000 new shares and convey a maximum of 1 466 792 of the company's own shares held by the company. The number of shares to be issued to the company itself together with the shares repurchased by the company on basis of the repurchase authorization shall be at the maximum of 1 420 000 shares.

The Board of Directors may grant special rights referred to in Chapter 10, Section 1 of the Finnish Companies Act, which carry the right to receive, against payment, new shares of the company or the company's own shares held by the company. The right may also be granted to the company's creditor in such a manner that the right is granted on a condition that the creditor's receivable is used to set off the subscription price (convertible bond). The maximum number of new shares that may be subscribed by virtue of the special rights granted by the company is in total 1 000 000 shares which number shall be included in the maximum number of new shares stated above.

The subscription price of the new shares and the consideration payable for the company s own shares shall be recorded under the invested non-restricted equity fund. The Board of Directors shall decide on all other terms and conditions related to the authorizations. The authorizations shall be valid until June 30, 2018 and shall revoke the previous authorizations for share issues and granting of stock options and other special rights entitling to shares.

The Annual General meeting decided to approve the proposal regarding the clarification of the Charter of the Nomination Board in accordance with the proposal of the Nomination Board, i.e. so that also the shareholdings of nominee registered shareholders may be taken into account when determining the composition of the Nomination Board.

In its first meeting held after the Annual General Meeting, the Board of Directors elected Hannu Vaajoensuu as the Chairman and Ilkka Sihvo as the Vice Chairman of the Board. Tuija Soanjärvi was elected as the Chairman of the Audit Committee, and Michael Ingelög and Ilkka Sihvo as its members.

Other events of the period

A new long-term incentive structure

On March 2, 2017, the company announced that the Board of Directors of Basware Corporation had established a new long-term incentive plan structure for the Group key employees. The new structure consists of three share-based plans:

- a Matching Share Plan 2017-2019, where Basware Executive Team members personally invest in Basware shares and have their investments matched by Basware;
- a Performance Share Plan 2017-2019, which steers key employees toward realizing established strategic objectives and increasing shareholder value; and
- a Restricted Share Plan 2017 for selected key contributors in key markets.

The aim of the new plans is to further align the objectives of shareholders and key employees, to retain key employees at the company and to offer key employees competitive reward plans based on acquiring, receiving and holding the company's shares.

Changes in Basware's Executive Team

Mr. Jussi Vasama was appointed as Senior Vice President, Customer Services and as a member of the Executive Team at Basware. He commenced in this position on May 2, 2017.

Mr. Mikko Pilkama joined Basware on May 1, 2017 as Senior Vice President, Network and Financing Services and as a member of the Executive Team at Basware. Both Vasama and Pilkama report to Vesa Tykkyläinen, CEO, Basware Corporation.

Corporate Governance Statement

The Corporate Governance Statement is issued separately from the report of Board of Directors. Basware Corporation's Corporate Governance Statement is available on the company's investor website.

Risks and uncertainty factors

Basware has a growth strategy with high net sales growth expectations for the cloud business. Executing the strategy for 2017-2020 requires significant investments in sales and marketing and related resources as well as continued investments in product development. At the same time, the industry transformation from an on-premise license-based business model to a SaaS model will accelerate the decline of certain Basware revenue streams, including license sales and maintenance. The transformation will also make Consulting revenues more volatile. Until the transformation is complete, this will act as a drag on Group net sales growth.

Additionally, even higher than expected pace in the license to SaaS transformation would have a negative impact on expected net sales in the short term. In addition to SaaS, Basware expects high growth rates in its network-based transaction services which will, besides successful sales effort, also require an efficient supplier onboarding process. Sales from Value Added Services, including Financing Services, are dependent on Basware's ability to bring innovative and attractive products to the market according to its planned timetable and move customers quickly to a phase where they are using the services extensively enough to provide meaningful revenue to Basware.

The fact that close to 50 percent of the company's sales are expected to come from non-euro countries exposes the Group's net sales growth to foreign exchange rate movements. In case there is a significant depreciation of GBP, USD, NOK, SEK or AUD against the euro, reported net sales may be affected, despite good performance in local currencies. In addition, a proportion of Basware's costs are denominated in INR and RON. Should there be a significant appreciation in these currencies against the euro, this may affect the company's result.

Execution of the growth strategy and going through constant change puts new demands on the organization as well as its management and leadership capabilities. The company's ability to attract, retain and develop the right type of talent to deliver on its strategy is critical as well as management focus and ability to drive change.

Basware considers acquisitions as part of its strategy. Acquisitions entail risks, such as failure in integrating acquisitions or in ensuring that the planned financial benefits and synergies of the acquisitions materialize.

The cloud transformation process requires cash investment. The company's ability to secure financing for this transformation may affect its ability to deliver on the strategy.

Basware's biggest operational risks relate to service disruption as a result of for example data centre failures, various data security threats and non-compliance risks related to Basware's solutions and services, the company's activities or its employees' behaviour. Operational risks are actively managed by continuous improvement in risk monitoring and protection practices as well as internal training of Basware's personnel.

Basware operates in a market where technological and business model innovation play a key role. While Basware is recognized as a leader within its segments by independent analysts, it is critical that Basware continues to innovate and develop its offering.

Non-financial statement 2017

This statement describes how Basware manages social and environmental challenges in its business operations. Basware is committed to operating responsibly and sustainably, helping customers move to paperless processes,

fostering employee welfare and taking care of cybersecurity and data privacy. This statement has been compiled in order to fulfil the reporting requirements on non-financial information as outlined in Chapter 3a, Sections 1-6 of the Finnish Accounting Act.

Business operations

Basware is the global leader in networked source-to-pay solutions, including e-invoicing and value-added services. Basware's commerce network connects businesses in over 100 countries and territories around the globe. As the largest open business network in the world, Basware provides scale and reach for organizations of all sizes, enabling them to grow their business and unlock value across their operations by simplifying and streamlining their financial processes. Small and large companies around the world achieve significant cost savings, more flexible payment terms, greater efficiencies and closer relationships with their suppliers.

Basware is comprised of the group's parent company, Basware Corporation, and its subsidiaries. Basware Corporation is a public listed company domiciled in Espoo, Finland. Basware Corporation's shares are listed on Nasdaq Helsinki Ltd. All Basware companies comply with local legislation and other applicable guidelines and requirements.

Basware operates globally and has offices in 14 countries around the world. In 2017, the company's average number of employees was 1 838. At the end of 2017, 35 percent of the company's employees worked in India, 24 percent in Finland, 32 percent in rest of Europe and 9 percent in Americas and APAC.

Social responsibility

Social and employee matters

Employees are Basware's most important resource. Operating globally, Basware complies with the standards of the International Labour Organization as well as with all relevant local employment legislation. In addition, Basware is committed to acting in accordance with the United Nations' Universal Declaration of Human Rights and the principles of the United Nations' Global Compact. Basware has a global Code of Conduct that applies to all Basware employees globally. The Code of Conduct describes the principles according to which Basware operates and expects its suppliers and partners to operate. 94 percent of Basware's employees had completed Code of Conduct training by the end of 2017, with the target of reaching 99 percent by the end of Q1/2018.

Basware's ability to attract, retain and develop the right type of talent at all levels is critical for the company's success. Basware promotes learning and development at an organizational, team and individual level and is committed to a safe and healthy workplace. The company's employees' average years of service is 4.9 years and the attrition rate 15.3 percent. 98 percent of the company's employees are permanent employees and 98 percent work full-time. The average age of employees is 35.3 years. The company's CEO-to-employee pay ratio based on base salary is 5-to-1.

Basware conducts an employee engagement survey annually. The results of the survey are used for developing ways of working within the company together with the employees.

Basware supports diversity in the workforce and is committed to equal opportunity in the workplace. Basware does not tolerate any discrimination based on race, color, sex, religion, age, political affiliation, sexual orientation, or origin. Women account for 28 percent and men for 72 percent of employees. In the 2017 annual employee engagement survey, employees were asked whether they believe that people at Basware are comfortable working with colleagues with diverse backgrounds. 98 percent of employees answered either favourably or neutral.

As part of Basware's commitment to conducting its business in an honest and ethical manner, Basware takes a zero-tolerance approach to bribery and corruption, and upholds all relevant laws to countering bribery and corruption in all jurisdictions it operates in. Basware has an Anti-Bribery and Corruption Policy, which sets out the responsibilities of Basware employees in observing and upholding the company's position on bribery and corruption and provides guidance for Basware employees on how to recognize and deal with bribery and corruption issues. No bribery or corruption incidents were reported to the company in 2017.

Providing digital, cloud-based services and solutions, Basware operates in an industry characterized by a high information security and data privacy risk. Basware takes any threats to its own or its customers' information systems and data very seriously. Information security risks are integrated into the company's multi-disciplinary risk assessment. To manage risks arising from information security breaches, Basware has a continuous information security model, which includes tracking and follow-up of any security incidents for mitigation and corrective actions. As part of this model, Basware continuously assesses its systems, support processes and personnel and analyzes implications of any security incidents. Personnel training and certification play a key role in assuring the integrity of the company's systems and the quality of the company's customer promise. In addition Basware's service integrity control environments are externally audited at regular intervals.

fostering employee welfare and taking care of cybersecurity and data privacy. This statement has been compiled in order to fulfil the reporting requirements on non-financial information as outlined in Chapter 3a, Sections 1-6 of the Finnish Accounting Act.

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The direct environmental impact of Basware's services is estimated to be immaterial to moderate due to the nature of Basware's business. Basware's digital solution and services have the potential to provide Basware's customers with environmental benefits by automating their financial processes by provision of cloud-based software, thus reducing the use of paper and the reliance on separate, company-specific data centres. Basware is working towards a clearer understanding of the environmental impacts of its solutions and services and is committed to full transparency in communicating about the environmental benefits and burdens of its business.

Future outlook

Operating environment and market outlook

All organisations need to manage their purchasing processes from procurement through to handling invoices and paying them. Currently many organisations only have unsophisticated or partial tools to manage these processes and as a result many are faced with unmanaged spending, inefficient manual and paper-based processes and poor visibility of cashflows. Basware offers a uniquely complete solution for these challenges that is differentiated by the Basware Network, the largest e-invoicing network in the world, and enables customers to manage 100 percent of their spending and make their purchasing processes completely paperless.

Basware expects the demand for networked purchase to pay services to continue to grow. The total potential market for networked purchase to pay services is estimated to be worth EUR 15 billion in annual revenues in Europe and North America.

Outlook for 2018

Basware is the global leader in providing networked source-to-pay, e-invoicing and value-added services. Basware's key strategic priority for the strategy period 2017-2020 is cloud revenue growth. The company continues to strengthen its leading market position in order to grow cloud revenue.

For 2018 Basware expects the following on an organic basis at constant currencies:

- Cloud revenues to be between EUR 90 and 95 million
- Total costs excluding amortization, depreciation and adjustments to EBITDA to be slightly above 2017 levels

Constant currencies means that the effects of any changes in currencies are eliminated by calculating the figures for the period using 2017 exchange rates. Organic means that the figures are adjusted to remove the effects of any acquisitions or disposals within the past 12 months.

Events after the period

Changes in Basware's Executive Team

Mr. Eric Wilson was appointed as Senior Vice President, North America and as a member of the company's Executive Team as of January 4, 2018. Wilson reports to Vesa Tykkyläinen, CEO, Basware Corporation.

Board of Directors's proposal for dividend

On December 31, 2017, the Group's parent company's distributable funds were EUR 68 704 thousand. The Board of Directors proposes to the Annual General Meeting that no dividend be paid for 2017.

Consolidated Statement of Comprehensive Income (IFRS)

	Notes	1.1.-31.12.2017	1.1.-31.12.2016	Change, %
NET SALES	**2**	**149,241**	**148,580**	**0.4**
Other operating income	4	134	4	3,250.0
Materials and services	5	-14,865	-15,746	-5.6
Employee benefits expenses	6	-99,083	-104,600	-5.3
Depreciation and amortization	11, 12	-10,108	-8,552	18.2
Other operating expenses	7	-34,755	-33,631	3.3
Operating result		**-9,436**	**-13,946**	**-32.3**
Financial income	8	672	746*	-9.9
Financial expenses	8	-2,391	-887*	169.5
Share of results of a joint venture	14	-1,048	-2,170	-51.7
Result before tax		**-12,203**	**-16,256**	**-24.9**
Income taxes	9	752	1,939	-61,2
RESULT FOR THE PERIOD		**-11,451**	**-14,318**	
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Remeasurement of defined benefit plan	17	155	-94	
Exchange differences on translating foreign operations		-6,588	-1,463	
Income tax relating to components of other comprehensive income	9	290	311	
Other comprehensive income, net of tax		**-6,144**	**-1,245**	
TOTAL COMPREHENSIVE INCOME		**-17,594**	**-15,563**	
Result attributable to:				
Equity holders of the parent company		-11,451	-14,318	
		-11,451	**-14,318**	
Total comprehensive income attributable to:				
Equity holders of the parent company		-17,594	-15,563	
		-17,594	**-15,563**	
Earnings per share				
Undiluted, EUR	10	-0.80	-1.00	
Diluted, EUR	10	-0.79	-1.00	

*The automatic currency valuation booking policy of cashpool accounts has been clarified. Comparatives for 2016 have been changed accordingly. The change had no impact on net financial items or result for the period.

Consolidated Statement of Financial Position (IFRS)

	Notes	Dec. 31, 2017	Dec. 31, 2016	Change, %
ASSETS				
Non-current assets				
Intangible assets	11	49,039	47,325	3.6
Goodwill	3	91,961	96,811	-5.0
Tangible assets	12	1,291	1,585	-18.5
Share of investment in joint venture	13	153	1,201	-87.3
Available-for-sale investments	14	38	38	
Trade and other receivables	15	3,985	2,789	42.9
Deferred tax assets	9	10,362	8,403	23.3
Non-current assets		**156,828**	**158,152**	**-0.8**
Current assets				
Trade receivables	15	24,534	24,638	-0.4
Other receivables	15	9,145	8,372	9.2
Income tax receivables	9	358	126	184.1
Cash and cash equivalents	16	20,683	35,755	-42.3
Current assets		**54,720**	**68,891**	**-20.6**
TOTAL ASSETS		**211,548**	**227,043**	**-6.8**

	Notes	Dec. 31, 2017	Dec. 31, 2016	Change, %
EQUITY AND LIABILITIES				
Shareholder's equity				
Share capital	19	3,528	3,528	
Share premium account	19	1,187	1,187	
Treasury shares	19	-841	-1,043	-19.3
Invested unrestricted equity fund	19	111,132	111,333	-0.2
Other reserves	19	592	540	9.7
Translation differences	19	-11,160	-4,863	-129.5
Retained earnings	19	11,488	22,182	-48.2
Shareholders' equity		**115,925**	**132,864**	**-12.8**
Non-current liabilities				
Deferred tax liabilities	9	4,569	4,904	-6.8
Interest-bearing liabilities	20, 22	47,286	36,732	28.7
Other non-current financial liabilities	20	1,693	1,555	8.9
Liabilities from defined benefit plan	17	434	506	-14.3
Non-current liabilities		**53,982**	**43,697**	**23.5**
Current liabilities				
Interest-bearing liabilities	20, 22	1,996	10,548	-81.1
Trade payables and other liabilities	20	38,539	34,225	12.6
Income tax liabilities	9	177	637	-72.3
Current provisions	21	928	5,072	-81.7
Current liabilities		**41,640**	**50,482**	**-17.2**
TOTAL EQUITY AND LIABILITIES		**211,548**	**227,043**	**-6.8**

Consolidated Statement of Cash Flows (IFRS)

	1.1.-31.12.2017	1.1.-31.12.2016
CASH FLOW FROM OPERATING ACTIVITIES		
Result for the period	**-11,451**	**-14,318**
Adjustments for result		
Depreciation and amortization	10,108	8,552
Share of results of a joint venture	1,048	2,170
Proceeds from sale of non-current assets	111	-23
Unrealised foreign exchange gains and losses	764	-318
Finance income and expenses	1,002	476
Income taxes	-752	-1,939
Other non-cash items	602	535
Other adjustments	-71	74
Working capital changes		
Change in inventories	0	30
Change in trade and other receivables	-2,683	35
Change in trade and other payables	4,252	-1,867
Change in provisions	-4,141	5,071
Interest paid	-705	-165
Interest received	28	125
Other financial items in operating activities	-280	-447
Income taxes paid/received	-1,832	234
Net cash from operating activities	**-4,001**	**-1,774**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of tangible and intangible assets	-12,485	-12,660
Proceeds from sale of tangible and intangible assets	0	11
Acquisition of subsidiaries and businesses	0	-25,013
Investment made to a joint venture	0	-3,037
Cash flows used in investing activities	**-12,485**	**-40,698**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from current borrowings	0	10,548
Repayment of current borrowings	-27,998	-1,667
Proceeds from non-current borrowings	30,000	36,732
Cash flows from financing activities	**2,002**	**45,613**
Net change in cash and cash equivalents	**-14,484**	**3,141**
Cash and cash equivalents at the beginning of period	35,755	33,238
Net foreign exchange difference	-588	-624
Cash and cash equivalents at the end of period	**20,683**	**35,755**

Consolidated Statement of Changes in Equity (IFRS)

EUR thousand

	Share capital	Share premium account	Treasury shares	Invested unrestricted equity	Other reserves	Translation differences	Retained earnings	Total
Shareholders' equity Jan. 1, 2017	3,528	1,187	-1,043	111,333	540	-4,863	22,182	132,864
Comprehensive income						-6,297	-11,451	-17,748
Dividend distribution								0
Share based payments			202	-202			602	602
Share issue								0
Adjustment to previous years					52			52
Define benefit plans							155	155
Shareholders' equity Dec. 31, 2017	**3,528**	**1,187**	**-841**	**111,131**	**592**	**-11,160**	**11,488**	**115,925**

	Share capital	Share premium account	Treasury shares	Invested unrestricted equity	Other reserves	Translation differences	Retained earnings	Total
Sahreholders' equity Jan. 1, 2016	3,528	1,187	-1,108	104,334	540	-3,712	36,378	141,147
Comprehensive income						-1,151	-14,317	-15,468
Dividend distribution								0
Share based payments			65	-65			535	535
Share issue				7,065				7,065
Adjustment to previous years							-320	-320
Define benefit plans							-94	-94
Shareholders' equity Dec. 31, 2016	**3,528**	**1,187**	**-1,043**	**111,333**	**540**	**-4,863**	**22,182**	**132,864**

Notes to the Consolidated Financial Statements (IFRS)

Basware is a leading supplier of networked source-to-pay solutions. Basware Corporation is a public Finnish company founded under Finnish law. The company's domicile is Espoo, Finland. The shares of the parent company Basware Corporation have been listed on NASDAQ Helsinki Ltd. since 2000. The consolidated financial statements for the year ended on December 31 2017 were authorized for issue in accordance with a resolution of the Board of directors on February 1, 2018. Shareholders may adopt or reject the financial statements at the Annual General Meeting.

1. ACCOUNTING PRINCIPLES

Basis of preparation

Basware Corporation's consolidated financial statements have been prepared according to the International Financial Reporting Standards (IFRS), approved for use in EU countries, in accordance with the IAS and IFRS standards, as well as IAS and IFRIC interpretations valid on December 31, 2017. The Group's Financial Statements are presented in euros, which is the primary and reporting currency of the Group's parent company, and they are based on acquisition costs unless otherwise stated in the accounting principles. The amounts presented in the financial statements are rounded, so the sum of individual figures may differ from the sum reported.

New and revised standards and interpretations

As of January 1, 2017, the Group has applied the following new and revised standards and interpretations. The amended standards and interpretations had no impact on the consolidated financial statements:

- Amendment to IAS 12 Income Taxes: Recognition of deferred tax assets for unrealized losses
- Amendment to IAS 7 Disclosure Initiative

Amendments that will enter into force during the financial year 2018 or later

In addition to the standards and interpretations presented in the financial statements for 2017, the Group will adopt the following standards, interpretations and amendments to standards published by the IASB during financial periods beginning on or after January 1, 2018. The Group will adopt each standard on the effective date, or if the effective date is not the first day of a reporting period, as of the beginning of the following reporting period, provided that they are approved by the EU.

- IFRS 15 Revenue from Contracts with Customers (effective date January 1, 2018). The EU has approved the standard. The standard provides a five-step revenue recognition model. Revenue is recognized when control of the good or service sold is transferred to the customer. The recognition model includes clearly more detailed instructions than the currently valid standards IAS 11 Construction Contracts and IAS 18 Revenue. In addition, notes requirements are significantly expanded.

  Basware has adopted IFRS 15 Revenue from Contracts with Customers as of January 1, 2018 (mandatory application), with full retrospective application. The Group made a preliminary analysis of the impacts of IFRS 15 in 2016 and further analysis were conducted during 2017. The impacts were assessed by reviewing customer contracts in relation to the IFRS 15 revenue recognition model. Based on the assessment, the Group has identified those revenue types that will be affected by the new standard. The Group is currently in the process of finalizing the impact calculations on the Group's revenue and revising the Group's revenue recognition policy to conform to the new standard. As the new standard affects only a minority of the Group's customer contracts, the estimated impact of the standard on the Group's total revenue is not material, being within the range EUR +/-0.5 million. However, as a result of IFRS 15 standard implementation, part of Cloud revenue will be recognized later and part of Non-cloud revenue will be recognized earlier compared to the current revenue recognition standard. The estimate is that 2017 Cloud revenue will be approximately EUR 1.5 - 2.5 million lower, and Non-cloud revenue approximately EUR 1.5 - 2.5 million higher based on IFRS 15 compared to the current standard.

  In connection with the IFRS 15 implementation, the Group will also make certain changes in the revenue allocation between Cloud and Non-cloud. Revenues related to dedicated customer services as part of SaaS subscriptions will now be allocated as cloud revenues. This will not impact Group revenue but it is estimated that EUR 2.0 - 3.0 million of revenues recorded as part of Non-cloud will be recorded as Cloud revenue.

The net impact of IFRS 15 and the changes in revenue allocation between Cloud and Non-cloud is estimated to be EUR +/- 0.5 million on Group level, Cloud revenue will increase EUR 0.5 - 1.5 million and non-Cloud revenue will decrease EUR 0.5 - 1.5 million, thus increasing slightly the Cloud revenue share of the Group's total revenue.

- IFRS 9 Financial Instruments (effective date January 1, 2018). The EU has approved the standard. IFRS 9 will replace the existing IAS 39 Financial Instruments: Recognition and Measurement standard. In accordance with the section on classification and measurement included in IFRS 9, financial assets are classified and measured based on the entity's business model and contractual cash flows of financial assets. The classification and measurement of financial liabilities primarily complies with the principles of IAS 39, the current standard.

  The hedge accounting model provides more opportunities for the application of hedge accounting, thereby allowing entities to reflect their risk management practices in more detail in financial statements. The hedge effectiveness testing rules have been revised, and the new principles are based on financial dependence.

  The impairment model pursuant to IAS 39 was based on credit losses incurred, while the new impairment model takes into account expected credit losses. Entities recognize the expected credit losses and changes in them in each reporting period so that changes in the credit risk after initial recognition are taken into consideration. The standard will provide new disclosure requirements concerning the entity's risk management practices. The Group estimates that credit losses will be recognized earlier under the new standard and that notes information disclosed will be affected. The Group continues the assessment of the impact of the amendment in the beginning of 2018. Based on the preliminary calculations the Group is not expecting changes to have material impact on the Group's future financial statements.

- IFRS 16 Leases (estimated effective date January 1, 2019). The EU has approved the standard. IFRS 16 specifies the requirements for recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model. IFRS 16's approach to lessor accounting is substantially unchanged from current standards. As a general rule, all leases with a term of over 12 months are recognized in the balance sheet unless the underlying asset has a low value. According to the Group's current estimate, the amendments will have an impact on the Group's financial statements.

- Amendment to IFRS 2 Share-based Payment (estimated effective date January 1, 2019). The EU has not approved the amendment. The amendment concerns incentive schemes with "net settlement features" to cover withholding tax obligations and where the employer has an obligation to withhold a tax from the received benefit of the share-based payment in the country in question. The current IFRS 2 requires the entity to divide the payment into an equity-settled component and a cash-settled component.

  In the future, a compensation cost pursuant to IFRS 2 will be recognized for such payments, based on the entire scheme being an equity-settled payment. The compensation cost is thus recognized based on the number of gross shares awarded in spite of the employee ultimately only receiving the net shares and the company paying the portion required for meeting the withholding obligations in cash to the tax authority. The withholding paid by the company to the tax authority is recognized directly in equity. According to the Group's current estimate, the amendments will have an impact on the Group's future financial statements, and it is continuing its assessment of the impact of the amendments.

- Amendment to IAS 28 Long-term Investments in Associates and Joint Ventures (estimated effective date January 1, 2019). The EU has not approved the amendment. The amendment clarifies that an entity must apply IFRS 9 Financial Instruments to associates or joint ventures which are not combined using the equity method. According to the Group's current estimate, the amendments have no impact on the Group's future financial statements, and it is continuing its assessment of the impact of the amendments.

- Amendment to IFRS 9 Prepayment Features with Negative Compensation (estimated effective date January 1, 2019). The EU has not approved the amendment. The amendment clarifies the accounting for a debt instrument classified as a financial liability in case of an early termination of the contract. IASB also clarified in its Basis for Conclusion the accounting for profit or loss arising from a modification of a financial liability. According to the Group's current estimate, the amendments will have no impact on the Group's future financial statements, and it is continuing its assessment of the impact of the amendments.

- Annual Improvements to IFRS 2014-2016 (estimated effective date January 1, 2019). The EU has not yet approved the changes. Minor, non-urgent amendments to standards are collected and adopted in the annual improvement procedure once a year. The effects of the changes vary by standard. The amendments concern the following standards: IFRS 1, IAS 28 and IFRS 12. According to the Group's current estimate, the amendments will have no impact on the Group's future financial statements, and it is continuing its assessment of the impact of the amendments.

- Annual Improvements to IFRS 2015-2017 (estimated effective date January 1, 2019). The EU has not approved the changes. Minor, non-urgent amendments to standards are collected and adopted in the annual improvement procedure once a year. The effects of the changes vary by standard. The amendments concern the following standards: IFRS 3, IFRS

11, IAS 12 and IAS 23. According to the Group's current estimate, the amendments will have no impact on the Group's future financial statements, and it is continuing its assessment of the impact of the amendments.

- Interpretation: IFRIC 22 Foreign Currency Transactions and Advance Consideration (estimated effective date January 1, 2019). The EU has not yet approved the interpretation. The interpretation clarifies the exchange rate to be used in receipt or in payment of advance consideration and in recognizing equivalent non-monetary asset or non-monetary liability arising from the receipt or payment of advance consideration. The non-monetary asset or liability is valued by using the exchange rate when the non-monetary balance sheet item is recognized. According to the Group's current estimate, the interpretation will have no impact on the Group's future financial statements, and it is continuing its assessment of the impact of the interpretation.
- Interpretation: IFRIC 23 Uncertainty over Income Tax Treatments (estimated effective date January 1, 2019). The EU has not yet approved the interpretation. The interpretation clarifies the requirements of IAS 12 Income Taxes in situations, where there is uncertainty over income tax treatments under IAS 12.

  The interpretation addresses the following issues:

  - Whether the entity should consider each tax treatment independently or whether tax treatments should be considered collectively

  - The entity's assumptions for taxation authorities' actions and information concerning uncertain tax positions

  - How the entity considers uncertain tax positions when determining taxable profit (or loss), tax bases, unused tax losses and credits and tax rates

  - How the entity accounts for changes in facts and circumstances

  According to the Group's current estimate, the interpretation will have no impact on the Group's future financial statements, and it is continuing its assessment of the impact of the interpretation.

Basis of consolidation

The consolidated financial statements comprise the parent company Basware Corporation and the subsidiaries controlled by it at the end of reporting period. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Being in control means the power to govern the financial and operating policies of the company to obtain benefits from its activities. The subsidiaries have been included in the Group financial statements as of the acquisition date. Intra-group holding is eliminated using the acquisition cost method. Acquired companies are accounted for using the purchase method according to which the assets and liabilities of the acquired company are measured at their fair value when it has been possible to determine the value reliably. Deferred taxes of the acquisition cost adjustments are recognized according to the valid tax rate and the remainder is recognized as goodwill on the balance sheet. When circumstances indicate that there are changes in elements of control the consolidation is re-assessed.

Intra-group business transactions, internal liabilities and receivables, and internal profit distribution are eliminated in the Group financial statements.

Basware has a 50 percent interest in a joint venture which was established with Arrowgrass Capital Partners LLP in the UK. Basware has determined its interest in the joint venture to be accounted for using the equity method. Basware's share of results of the joint venture is presented as a separate line item in the financial items of the consolidated statement of comprehensive income and in investments in the consolidated statement of financial position. The Group does not have interests in other joint ventures or associates.

Transactions in foreign currencies

Transactions in foreign currencies are recorded in the operating currency at the approximate exchange rates prevailing at the transaction dates. Monetary items in foreign currencies have been translated into the operating currency using the exchange rates at the end of the reporting period. Non-monetary items denominated in foreign currencies are carried at the exchange rate at the date of the transaction.

In the Group financial statements, the income statements of foreign subsidiaries are translated into euros at the average rate for the financial period and balance sheets at the exchange rate of the balance sheet date. Average rate difference due to different exchange rates on the statement of comprehensive income and balance sheet are entered in other comprehensive income. Translation differences arising from the elimination of foreign subsidiaries and translation of equity items accumulated after the acquisition are entered in other comprehensive income. Foreign currency gains and losses from monetary items part of the net investment in a foreign unit are recognized in other comprehensive income and entered on the statement of comprehensive income when the foreign unit is divested.

Net sales

Net sales are presented net of discounts and exchange rate differences of foreign currency sales.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group when there is a binding agreement of the sale, the revenue can be reliably measured, and significant benefits and risks related to ownership or rights of use of the product have been transferred to the buyer on delivery on the product or service is rendered.

Service revenue is recognized at the time of delivery. Start-up fees are recognized as revenue when the work related to the start-up procedure has been completed and the customer has been connected to the service environment. Transaction revenue is recognized on the basis of actual transaction volumes and service charges on a monthly basis over the term of the contract. The alliance fees of financing-related added value services are recognized as revenue when the related obligations have been performed.

Revenue from license sales is recognized when the above mentioned criteria has been fulfilled. License agreements with a right of return or conditions related to the product's functionality or implementation project are recognized as revenue once the right of return has expired or the above-mentioned conditions have been fulfilled. Maintenance revenue is allocated over the contract period.

Revenue and costs of fixed-price consulting projects are recognized as revenue and expenditure on the basis of the percentage of completion when the outcome of the project can be reliably estimated. The percentage of completion of the project is specified as the proportion of hours worked of the estimated total number of hours. If the resulting costs and recognized profits exceed the amount invoiced for the transaction, the different is presented in “Trade and other receivables” on the balance sheet. If the resulting costs and recognized profits are lower the invoicing for the transaction, the difference is presented in “Trade payables and other liabilities” on the balance sheet. When it is likely that the total costs required for completing the project exceed the total revenue from the transaction, the expected loss is recognized as an expense immediately.

Other operating income

Other operating income includes proceeds from the sale of business operations and property, plant and equipment, rental income, and government grants to the extent that they are not related to capitalized R&D projects.

Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received. When the grant relates to an expense item, it is recognized as other operating income for the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to capitalized R&D projects it will reduce the carrying amount of the asset, and they are recognized in profit and loss by way of lower depreciation charge over the useful life of the intangible asset.

Research and development costs

Research expenses are booked as an expense as they are incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- its intention to complete and its ability and intention to use or sell the asset
- how the asset will generate future economic benefits
- the availability of resources to complete the asset
- the ability to measure reliably the expenditure during development.

Costs related to the adoption of new technology or development of a new generation of products are capitalized and recognized and amortized over the useful life of 3–5 years. In determining the useful life, the obsolescence of technology and the typical life cycle of products in the industry are taken into consideration. Amortization begins when development is complete, the asset is available for use and the product is ready for commercial utilization. Maintenance of existing products and minor enhancements are expensed when they are incurred. Government grants related to research and development are recognized through profit or loss in the periods during which the corresponding costs are recognized as expenses.

Operating profit

Operating profit is the net sum of operating income added to net sales, less cost of sales consisting of materials and services, less the costs resulting from employee benefits, depreciation and amortization as well as other operating expenses and any impairment. Exchange rate differences and gains or losses arising from changes in the fair value of derivatives are included in operating profit, provided that they result from items related to business operations; otherwise they are recognized under financing items. All other items of the consolidated statement of comprehensive income are presented after operating profit.

Goodwill

Goodwill is measured as the excess of the cost of the acquisition over the Group's share of the fair values of the acquiree's net assets at the time of the acquisition. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Other intangible assets

Other intangible assets are measured at cost less accumulated amortization and possible impairment. Government grants related to the acquisition of an intangible asset are deducted from the acquisition cost of the asset and recognized as income by reducing the depreciation charge of the asset they are related to. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of intangible assets are 3–10 years. Each financial year end useful lives are reviewed and adjusted prospectively, if appropriate.

Customer relationships and technology acquired in business combinations are measured at fair value at the time of acquisition and depreciated over the useful life.

Tangible assets

Tangible assets are measured at cost less accumulated depreciation and possible impairment. The useful lives of tangible assets are 3–10 years. The useful life of an asset is reviewed at least at the end of each financial year and adjusted, if appropriate.

Sales gains and losses on disposal or transfer of tangible assets are presented in other operating income and expenses.

Impairment of tangible and intangible assets

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash generating unit (CGU) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. An asset’s recoverable amount is the higher of CGU’s fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the entity specific risks. Impairment losses relating to goodwill cannot be reversed in future periods.

Borrowing costs

The company recognizes borrowing costs as an expense in the period during which they are incurred. If the borrowing costs are due to an asset whose completion for the intended purpose or sale necessarily requires a considerably long time, the borrowing costs are capitalized as part of the acquisition cost of the asset.

Leases

Leases on property, plant and equipment are classified as finance leases if they transfer substantially the risks and rewards incidental to ownership to the Group. Finance leases are capitalized at the beginning of the lease as assets and liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments. A leased asset is depreciated over the useful life of the asset. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance lease liability is presented in current and non-current interest-bearing financial liabilities.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Contract costs

The incremental costs of obtaining a contract with a customer including significant sales commissions related to long-term service contracts are capitalized if the recognition criteria are satisfied and the entity expects to recover those costs. The capitalized costs are amortized on a straight-line basis over the contract term in which the services are transferred and the revenue is recognized.

Financial assets

The financial assets are categorized as follows:

- Financial assets at fair value through profit or loss
- Held-to-maturity investments
- Loans and other receivables
- Available-for-sale financial assets

The categorization is based on the purpose of the acquisition of the financial assets, and it is performed in connection with the original acquisition. Financial assets are classified as non-current assets if they mature in more than 12 months. If they are to be held for less than 12 months, they are disclosed as current assets. Financial assets measured at fair value through profit or loss are classified as current assets.

Transaction costs are included in the acquisition cost of the financial assets, when the item in question is not recognized at fair value through profit or loss. All purchases and sales of financial assets are recognized at the transaction date, which is the date on which the Group commits to purchase or sell the financial instruments.

A financial asset is derecognised when the rights to receive cash flows from the asset have expired the Group has transferred substantially all the risks and rewards of the asset.

Financial assets at fair value through profit or loss

A financial asset is grouped into the Financial assets at fair value through profit or loss category if it is acquired as held for trading, or it is designated as at fair value through profit or loss upon initial recognition. Derivatives that are not eligible for hedge accounting are classified as held for trading. The assets are valued at fair value at the balance sheet date, and the change in value is recognized under finance income on the income statement.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. They are measured at amortized cost using the effective rate method.

Loans and other receivables

Loan receivables and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held by the Group with the intent to sell. Loan receivables and other receivables are valued at amortized cost using the effective rate method. They are included in current or non-current loan receivables, trade receivables and other receivables category on the balance sheet in accordance with their nature.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets specifically designated to this group or not categorized otherwise. Available-for-sale financial assets are measured at fair value. When the fair value cannot be reliably determined, they are measured at acquisition cost.

Changes in the fair value of available-for-sale financial assets are entered in other comprehensive income and presented in the fair value reserve, taking into account the tax effect. Changes in fair value are transferred from other comprehensive income to the income statement as adjustments when the instrument is sold or its value has decreased so that an impairment loss has to be recognized for the instrument.

Cash and cash equivalents

Cash and cash equivalents consist of cash, short-term bank deposits that can be withdrawn on demand and other current highly liquid investments that can be exchanged to an amount of cash assets that is known in advance, and with a low risk of changes in value. Items classified as cash and cash equivalents have a maximum maturity of three months from acquisition.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default of payments, the likelihood of bankruptcy, and delay of more than 180 days of a payment or other observable data indicating that there is a measurable decrease in the estimated future cash flows. If the amount of the impairment loss is decreased during a subsequent period and the decrease can be objectively considered to be associated with an event after the impairment was recognized, the recognized loss is reversed through profit or loss.

Financial liabilities

Financial liabilities are initially recognized at fair value, net of transaction cost. Subsequently, financial liabilities, excluding derivative liabilities, are valued at amortized cost using the effective interest method. Financial liabilities are classified as non-current liabilities if they mature in more than 12 months. Liabilities maturing in less than 12 months are classified as current.

Derivates

Derivative contracts are recognized at fair value through profit and loss. Gains and losses resulting from fair value measurement are treated in accounting as specified by the purpose of the derivative contract.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. For cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss.

Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the obligation will have to be settled, and the amount of the obligation can be reliably estimated. Provisions are measured at the present value required in order to cover the obligation. The present value factor used in the calculation of the present value is selected so that it represents the market insight into the time value of money and liability-related risks at the time of the assessment.

Employee benefit expenses

The Group has exclusively defined contribution pension arrangements, and the related payments are expensed in the year they are incurred.The Group has exclusively defined contribution pension arrangements, and the related payments are expensed in the year they are incurred.

Group also has defined benefit based incentive schemes to commit personnel in accordance with local regulations and practices in countries where it operates. The calculations for defined benefit plans are done according to same principles as defined benefit plans for pensions and they predispose the Group to actuary risks like payroll risk, interest risk and risk related to expected lifetime. Amounts of the defined benefit plans are based on the yearly calculations submitted by independent actuaries. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using interest rates of Government issued bonds, if interest rate of high quality-corporate bonds is not available. These plans are unfunded.

Share-based payments

Group has share-based incentive schemes in which the payment are made either as in equity instruments or in cash. Share-based incentive schemes are valued at fair value on the grant date, recognized as an expense in the consolidated statement of comprehensive income during the period in which the conditions are met (the vesting period) and with a corresponding adjustment to the equity or liability. The liability of the part settled in cash is revalued at each balance sheet date with changes in fair value recognized in the consolidated statement of comprehensive income. The expense from share-based incentive schemes is recognized in employee benefits expenses in the consolidated statement of comprehensive income.

Income taxes

Income taxes comprise of tax based on the taxable income for the financial year and deferred taxes. Taxes are recognized in the statement of comprehensive income except for the expenses entered directly to shareholders' equity when they are entered on the balance sheet as part of shareholders' equity.

Taxes based on taxable income are recorded according to the local tax rules of each country using the tax rate in force.

When uncertainty is included to interpretation of income tax rules, Group estimates, if a company is able to fully utilize the tax position that is stated in income tax computation. If necessary, tax bookings are adjusted to reflect the changes in tax position. At reporting date booked income tax amounts reflect the estimates of future tax payments.

Deferred taxes are calculated from all temporary differences between the carrying amount and taxable value at the tax rates confirmed at the reporting date. The most significant temporary differences arise from depreciation of property, plant and equipment, unused tax losses, and adjustments for fair values in connection with acquisitions. Deferred tax is not recognized for non-tax deductible goodwill. In respect of deductible temporary differences associated with investments in subsidiaries, and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised. Deferred tax is not recognized for non-distributed profits of subsidiaries in so far as the difference is not likely to be discharged in the foreseeable future. Deferred tax assets are recognised for all other deductible temporary differences. A deferred tax asset is recognized to the extent that it is likely that there will be future taxable income against which it is deductible. The requirements for the recognition of deferred tax assets are reassessed at each reporting date.

Shareholders' equity

Costs related to the issue or purchase of equity instruments are recorded as a reduction of shareholders' equity. Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity.

Accounting principles requiring management's judgement and key uncertainties relating to the use of estimates

Preparation of financial statements in accordance with the IFRS standards requires Basware's management to make estimates and assumptions that have an effect on the amount of assets and liabilities on the balance sheet at the closing date as well as the amounts of income and expenses for the financial period. In addition, the management must exercise its judgment regarding the application of accounting policies. Since the estimates and assumptions are based on the views at the date of the Financial Statements, they include risks and uncertainties. The actual results may differ from the estimates and assumptions.

More information on the most significant items requiring management's judgement:

	Number for the note
Goodwill	3
Development expenses	7
Trade receivables	15
Deferred tax assets	9
Share-based payments	6
Financial risk management	18

Alternative performance measures

Basware presents the following financial measures to supplement its Consolidated Financial Statements which are prepared in accordance with IFRS. These measures are designed to measure growth and provide insight into the company's underlying operational performance. The Group has applied the recent guidance from ESMA (the European Securities and Markets Authority) on Alternative Performance Measures which is applicable as of July 3, 2016 and defined alternative performance measures as follows.

Recurring revenue reported by the company consists of net sales excluding license sales and consulting revenue for deliveries. Alliance fees from financing-related value added services are not included in the recurring revenue.

Cloud revenue includes net sales from transactions services, SaaS and other subscription revenues, and financing services excluding alliance fees.

Organic revenue growth is calculated by comparing net sales between comparison periods in constant currencies excluding alliance fees as well as net sales from acquisitions that have taken place in the past 12 months. Net sales in constant currencies is calculated by eliminating the impact of changes in currencies by calculating the net sales for the period by using the comparable period's exchange rates.

Gross investments are total investments made to non-current assets including acquisitions and capitalized R&D costs.Other capital expenditure consists of investments in property, plant & equipment and intangible assets excluding acquisitions and capitalized R&D costs.

EBITDA is defined as operating profit + depreciation and amortization.

Adjusted EBITDA is reported excluding any adjustments related to alliance fees, acquisitions and disposals, restructuring and efficiency measures, impairment losses and litigation fees and settlement

2. OPERATING SEGMENTS

Basware has one reporting segment: purchase-to-pay.

As a result of reorganisation in the beginning of 2017, Basware reports net sales by type. Net sales by type is divided into two groups: Cloud and Non-cloud. Cloud revenue includes net sales from SaaS and other subscription types, transaction revenue and financing services excluding alliance fees. Non-cloud revenue includes net sales from licences, maintenance and consulting, as well as alliance fees.

Basware reports geographical areas Finland, EMEIA, and Americas & APAC. Finland includes the Finnish operations and corporate functions. EMEIA includes Scandinavia and the rest of Europe as well as operations in Russia, India and Africa. Americas & APAC includes business operations in North and South America and the Pacific region.

The geographical information of non-current assets is reported by the location of the assets in the annual financial statements.

Net sales by type

EUR thousand	1.1.-31.12.2017	1.1.-31.12.2016
Cloud revenue		
SaaS	33,190	22,975
Transaction services	40,164	35,996
Other cloud revenue	5,815	7,270
Cloud revenue total	**79,169**	**66,242**
Non-cloud revenue		
Maintenance	37,026	40,761
License sales	4,192	7,188
Consulting services	28,982	34,389
Other non-cloud revenue	-129	0
Non-cloud revenue total	**70,072**	**82,338**
Total	**149,241**	**148,580**

Net sales by customer location

EUR thousand	1.1.-31.12.2017	1.1.-31.12.2016
Finland	47,891	50,093
EMEIA	69,467	71,163
Americas & APAC	31,883	27,324
Group total	**149,241**	**148,580**

Net sales by geographical area

EUR thousand	1.1.-31.12.2017	1.1.-31.12.2016
Finland	82,909	80,623
EMEIA	84,231	78,698
Americas & APAC	31,758	26,870
Sales between areas	-49,657	-37,612
Total	**149,241**	**148,580**

Operating result by geographical area

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Finland	-14,991	-15,425
EMEIA	-4,828	436
Americas & APAC	3,010	2,006
Operating result between areas	7,373	-962
Total	**-9,436**	**-13,946**

Non-current assets based on the location of the assets

EUR thousand

	31.12.2017	31.12.2016
Finland	62,528	57,464
EMEIA	51,952	55,589
Americas & APAC	31,986	36,500
Total	**146,466**	**149,554**

Net sales by currency

%

	1.1.-31.12.2017	1.1.-31.12.2016
EUR	54.9	55.4
USD	16.8	13.8
GBP	8.2	10.5
Other	20.1	20.3
Total	**100.0**	**100.0**

3. GOODWILL

EUR thousand	31.12.2017	31.12.2016
Acquisition cost Jan. 1	96,811	69,262
Translation difference	-4,850	-164
Additions	0	27,713
Acquisition cost Dec. 31	**91,961**	**96,811**
Book value Dec. 31	**91,961**	**96,811**

Goodwill comprises of the following arrangements:

EUR tousand	Goodwill
Momentum Doc, AB (2002)	994
Iocore AS / Basware AS (2005)	2,329
Trivet Oy (2005)	669
Analyste Oyj (2006)	13,869
Digital Vision Technologies Ltd. (2007)/ Basware UK	7,443
Contempus AS (2008)	4,483
Itella Information AS/Basware AS (2009)	411
First Businesspost GmbH (2012)	9,076
Certipost (2013)	10,316
Basware Holdings Ltd (2015)	16,017
Verian (2016)	26,353
Total	**91,961**

Goodwill is tested according to IAS 36. Basware does not possess any other intangible assets than Goodwill that has indefinite economical life. Unfinised intangible assets are also subjected to impairment testing during reporting period. Impairment testing is carried out at Group level as the Basware has centralised steering model and reporting structure that this. Goodwill is monited at group level internally.

Goodwill has been tested for impairment in the last quarter of 2017. The recoverable amounts from the cash generating unit (CGU) are determined based on value-in-use calculations. The calculations are prepared on a discounted cash flow method basis, derived from the management approved estimates for the following year and subsequent development derived from the strategic plans.

Cash flows beyond the 5-year period are calculated using the terminal value method. The terminal growth rate of 2.5 percent (2.0%) used in projections is based on management's assessment on conservative long term growth. Key driver for the valuation is the revenue growth based on group's performance and future strategic growth plans, market position as well as the potential in key markets.

The applied discount rate is the weighted average pre-tax cost of capital (WACC). The components of the WACC are risk-free rate, market risk premium, company specific factor, and industry specific beta, cost of debt and debt/equity ratio. The WACC of 12.8 percent (10.5 %) has been used in the calculations.

As a result of the impairment test, no impairment loss for the CGU were recognized for the financial periods ended 31 December 2017 and 2016 respectively. The recoverable amount exceeds the total carrying amount of fixed assets.

A sensitivity analysis was conducted and there is no indication that the changes in the assumptions could be so substantial that the carrying amount would exceed the recoverable amount. In the future impairment testing is influenced by how the Group will meet the targets set for year 2020 and beyond. In a sensitivity analysis the impacts of substantial changes to the most significant assumptions like revenue growth, EBIT-margin percentage and the discount rate was assessed. Revenue growth would have to be at 0 percent or below, or the terminal year EBIT-margin percentage below at 50 % projected levels for an impairment to take place.

4. OTHER OPERATING INCOME

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Other operating income	134	4
Total	**134**	**4**

5. MATERIALS AND SERVICES

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Purchases during the period	-13,385	-12,943
Increase / decrease in inventories	0	30
External services	-1,480	-2,774
Total	**-14,865**	**-15,746**

6. PERSONNEL AND EMPLOYEE BENEFITS

Average number of personnel

EUR thousand	1.1.-31.12.2017	1.1.-31.12.2016
Finland	447	500
EMEIA (excluding India)	587	599
India	645	577
Americas & APAC	159	135
Total	**1,838**	**1,811**

Employee benefits expenses

EUR thousand	1.1.-31.12.2017	1.1.-31.12.2016
Salaries and fees	-81,505	-86,654
Share-based incentive plans	-1,161	-973
Expenses from defined benefit plans	-114	-74
Pension expenses, defined benefit plans	-6,809	-7,348
Other employee benefits	-9,494	-9,551
Total	**-99,083**	**-104,600**

Management and Board salaries, fees and benefits

Group's key employees are defined as CEO, members of the Board of Directors and Executive team. No loans, guarantees or other collaterals have been given on behalf of group's key employees.

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
CEO of parent company		
Vesa Tykkyläinen (from 26 September 2016)	-426	-90
Esa Tihilä (until 25 September 2016)	0	-403
Compensation of the members of the Board of Directors		
Hannu Vaajoensuu	-62	-60
Ilkka Sihvo	-39	-37
Tuija Soanjärvi	-40	-33
Anssi Vanjoki	-33	-33
Michael Ingelög	-35	-33
David Bateman	0	0
Total	**-635**	**-689**

Key management employee benefits

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Salaries and other short-term employee benefits	-1,618	-2,288
Post-employment benefits	-629	-661
Share-based payments	-403	-634
Total	**-2,650**	**-3,583**

The salary of the CEO Vesa Tykkyläinen for the period January 1-December 31, 2017, including benefits, was EUR 384 thousand (EUR 90 thousand in September 26-December 31, 2016). Salary in money was EUR 359 thousnad (EUR 87 thousand), including fringe benefits of EUR 16 thousand (EUR 3 thousand). Tykkyläinen was paid no bonus from the financial year 2016.

During 2017, Tykkyläinen was granted a total of 1,500 shares on the basis of the incentive schemes. Of these, 750 shares were conveyed to Tykkyläinen, the value of which was approximately EUR 26 thousand based on the average share price of the payment days, and EUR 26 thousand was paid in cash to cover the withholding tax.

The accrued pension costs of Vesa Tykkyläinen amounted to EUR 82 thousand (EUR 18 thousand in September 26-December 31, 2016). The CEO's pension plan is pursuant to the employment pension legislation. The CEO has 6 months' period of notice, in addition to which he is entitled to severance pay equivalent of 12 months' fixed salary.

Esa Tihilä stepped down as the CEO of Basware Corporation on September 26, 2016. The salary of the notice period was EUR 164 thousand and the one-time severance pay EUR 328 thousand. Esa Tihilä received from the incentive schemes total 3 900 shares, of which half was conveyed as shares and half paid in cash.

Share-based payments

Performance Share Plan 2015-2017

The Board of Directors resolved on March 23, 2015 to establish a new performance share plan for 2015-2017 for key employees.

The performance share plan includes three performance periods, calendar years 2015, 2016 and 2017. The first one third of the earned shares were allocated 6 months, the second one third 12 months and the last one third 18 months after the end of the earning period. In addition, the members of Basware Executive Team had the possibility in early 2015 to be allocated shares against purchased shares without consideration against their shareholding over three years during the earning periods in 2015-2017.

For the earning period 2015, the rewards to be paid on the basis of the plan corresponded to a maximum total of 67,500 Basware Corporation shares, including also the proportion to be paid in cash. The reward for the earning period 2015 was based on the revenue and operating profit growth and the total shareholder return of Basware Corporation. For the earning period 2015, the plan included 35 key employees and the rewards earned corresponded to a total of 28,059 Basware Corporation shares, including also the proportion to be paid in cash. The rewards for the earning period 2015 were paid in June 2016 and January and July 2017.

For the earning period 2016, the rewards to be paid on the basis of the plan corresponded to a maximum total of 79,525 Basware Corporation shares, including also the proportion to be paid in cash. The targets for earning period 2016 were not reached and therefore noreward was paid for the earning period.

The earning period 2017 was not started, and the plan was replaced with a new share-based incentive plan based on the resolution of the Board of Directors on March 1, 2017.

Matching Share Plan 2015-2018

The Board of Directors resolved on March 23, 2015 to establish a new matching share plan for 2015-2018. The restricted share plan was directed to selected key employees at Basware and the total rewards to be allocated on the basis of the plan amounted to a maximum total value of 11,000 Basware Corporation shares. In addition to the share reward, employees included in the plan will also be paid a cash portion to cover the taxes resulting from the reward.

The prerequisite for receiving reward on the basis of the matching share plan is that the employee in question acquires Basware Corporation shares at the beginning of the plan. The participating employee can, as a reward, receive matching shares for each share subject to the share ownership prerequisite after a matching period of three years. Receipt of matching shares is contingent on the continuation of employment or service upon reward payment and that the shares in question are still held by the participating employee.

In 2017, the matching share plan 2015-2018 included four Basware key employees. The rewards to be paid on the basis of the plan corresponded to a maximum total value of 5,148 Basware Corporation shares. The plan ended in January 2018.

Restricted Share Plan 2016

The Board of Directors resolved on February 1, 2016 to establish a new restricted share plan for 2016. The restricted share plan was directed to selected key employees at Basware and the total rewards to be allocated on the basis of the plan amounted to a maximum of 4,000 Basware Corporation shares, including also the proportion to be paid in cash. Receipt of the reward was contingent on the continuation of employment or service upon reward payment.

The restricted share plan 2016 included two Basware key employees, who were both paid the reward at the end of the vesting period in March 2017. The rewards paid on the basis of the plan corresponded to a total of 3,000 Basware Corporation shares, including also the proportion to be paid in cash. The plan has ended.

Matching Share Plan 2017-2019

The Board of Directors resolved on March 1, 2017 to establish a new matching share plan for 2017-2019 for Basware Executive Team members.

The prerequisite for receiving reward on the basis of the matching share plan is that the member of the Basware Executive Team in question acquires Basware shares. The Basware Executive Team member will, as a reward, receive matching shares for each share subject to the share ownership prerequisite after a matching period of three years. Receipt of matching shares is contingent on the continuation of employment or service upon reward payment and that the shares in question are still held by the member.

The Board of Directors resolved that the rewards to be paid in aggregate to the Basware Executive Team on the basis of the matching share plan correspond to the value of a maximum total of 75,000 Basware Corporation shares, including also the proportion to be paid in cash.

Members of Basware Executive Team acquired or allocated a total of 35,017 Basware Corporation shares in the beginning of the plan. The rewards to be paid to Basware Executive Team members on the basis of the plan thus corresponds to a maximum of 70,034 Basware Corporation shares, including also the proportion to be paid in cash.

Performance Share Plan 2017-2019

The Board of Directors resolved on March 1, 2017 to establish a new performance share plan for 2017-2019 for key employees.

The performance share plan includes three performance periods, calendar years 2017-2018, 2018-2019 and 2019-2020. The Board of Directors decides on the performance criteria and on the required performance levels for each criterion at the beginning of each performance period. The plan is directed at approximately 60 key employees, including the members of the Basware Executive Team.

The potential reward from the performance period 2017-2018 is based on the company's total shareholder return and the Group's cumulative Cloud revenue during 2017-2018. The rewards to be paid on the basis of the performance period 2017-2018 correspond to the value of a maximum total of 156,000 Basware Corporation shares, including also the proportion to be paid in cash.

At the end of 2017, the performance share plan included 62 key employees for the performance period 2017-2019. The rewards to be paid on the basis of the plan corresponds to a maximum total of 156,000 Basware Corporation shares, including also the proportion to be paid in cash.

Restricted Share Plan 2017

The Board of Directors resolved on March 1, 2017 to establish a new restricted share plan for 2017. The restricted share plan is directed to selected key employees at Basware. Receipt of the reward is contingent on the continuation of employment or service upon reward payment.

The reward from the restricted share plan will be paid after a vesting period of one to three years. The total rewards to be allocated on the basis of the plan amount to a maximum of 20,000 Basware Corporation shares, including also the proportion to be paid in cash.

At the end of 2017, the restricted share plan 2017 included 6 key employees. The rewards to be paid on the basis of the plan corresponds to a maximum total of 5,750 Basware Corporation shares, including also the proportion to be paid in cash.

Effect on the profit for the period on the financial position in 2017

EUR thousand

	Performance Share Plan 2015 - 2017	Matching Share Plan 2015 - 2018	Restricted Share Plan 2016
Expense for the reporting period	-42,863	333,543	28,718
Recognized in equity 2017	-26,540	65,713	23,060
Recognized as liability	-16,323	267,830	5,658

	Matching Share Plan 2017 - 2019	Performance Share Plan 2017 - 2019	Restricted Share Plan 2017
Expense for the reporting period	586,222	660,633	178,677
Recognized in equity 2017	224,820	228,319	87,118
Recognized as liability	361,402	432,314	91,559

Effect on the profit for the period on the financial position in 2017

EUR thousand

	Performance Share Plan 2015 - 2017	Matching Share Plan 2015 - 2018	Restricted Share Plan 2016
Maximum number of shares, including the portion to be settled in cash	147,075	11,000	4,000
Initial grant date	March 23, 2015	March 23, 2015	July 21, 2017
Vesting date	July 1, 2016 / Jan. 1, 2017 / July 1, 2017 / Jan. 1, 2018 / July 1, 2018	Jan 31, 2018	March 31, 2017
Vesting conditions	Growth of net sales and EBIT and Total Shareholder Return (TSR)	Share ownership and employment precondition until reward payment	Employment precondition until reward payment
Maximum contractual life, years	2.3/3.3	2.9	0.7
Remaining contractual life, years	0	0.1	0
Number of persons at the end of reporting period	0	4	0
Payment method	Shares and cash	Shares and cash	Shares and cash

	Matching Share Plan 2017 - 2019	Performance Share Plan 2017 - 2019	Restricted Share Plan 2017
Maximum number of shares, including the portion to be settled in cash	75,000	156,000	20,000
Initial grant date	March 1, 2017	March 1, 2017	March 1, 2017
Vesting date	March 31, 2020	March 31, 2019	March 16, 2018
Vesting conditions	Share ownership and employment precondition until reward payment	Total Shareholder Return and Net sales growth of Cloud -business	Employment precondition until reward payment
Maximum contractual life, years	3.1	2.1	1
Remaining contractual life, years	2.2	1.2	0.2
Number of persons at the end of reporting period	8	62	6
Payment method	Shares and cash	Shares and cash	Shares and cash

Changes in 2017

	Performance Share Plan 2015 - 2017	Matching Share Plan 2015 - 2018	Restricted Share Plan 2016
Outstanding at the beginning of the period	98,468	10,548	4,000
Granted	-	-	-
Forfeited	81,787	5,400	1,000
Exercised	16,681	-	3,000
Outstanding at the end of the period	-	5,148	-

	Matching Share Plan 2017 - 2019	Performance Share Plan 2017 - 2019	Restricted Share Plan 2017
Outstanding at the beginning of the period	-	-	-
Granted	70,034	116,609	5,750
Forfeited	-	7,000	-
Exercised	-	-	-
Outstanding at the end of the period	70,034	109,609	5,750

7. OTHER OPERATING EXPENSES

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Other operating expenses		
Rents	-4,843	-4,860
Non-statutory employee benefits	-1,120	-1,352
Travel	-4,140	-4,348
Marketing	-6,046	-6,652
IT and telephone	-1,855	-1,902
Bad Debt from account receivables	113	-1,040
Auditor fees	-423	-267
Other expenses	-16,441	-13,211
Total	**-34,755**	**-33,631**
Auditor fees		
Audit fees	-216	-247
Tax advices	0	-110
Other fees and services	-207	-219
Auditor fees total	**-423**	**-576**
Research and development expenses		
Research and development in income statement	-12,439	-12,214
Increases in capitalized development expenses	-9,879	-10,878
Total	**-22,319**	**-23,092**

According to new presentation financial year depreciations of capitalized development expenses are excluded and FY2016 figures are revised.

8. FINANCE INCOME AND EXPENSES

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Finance income		
Interest income	28	125
Other financial income	644	621
Total	**672**	**746***
Finance expenses		
Interest expenses	-967	-287
Other finance expenses	-1,423	-599
Total	**-2,391**	**-887***
Finance income and expenses total	**-1,719**	**-141**

Other finance income is comprised of the proceeds of fund investments and realized exchange gains and other finance expenses are mainly comprised of realized exchange losses.

*The automatic currency valuation booking policy of cashpool accounts has been clarified. Comparatives for 2016 have been changed accordingly. The change had no impact on net financial items or result for the period.

Exchange differences recognized on income statement

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Exchange differences included in net sales	-129	0
Exchange differences included in purchases and expenses	-19	-131
Foreign exchange gains	541	586
Foreign exchange losses	-1,419	-584
Exchange differences recognized on income statement	**-1,026**	**-129**

9. INCOME TAX AND DEFERRED TAXES

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Income tax on operations	-1,169	-1,058
Tax for previous accounting periods	-276	-80
Change in deferred tas liabilities and tax assets	2,196	3,077
Income tax total	**752**	**1,939**

Tax rate reconciliation

EUR thousand	1.1.-31.12.2017	1.1.-31.12.2016
Profit before taxes	-12,203	-16,256
Tax calculated at domestic tax rate	2,441	3,250
Tax for previous years	-276	-80
Effect of different tax rates of foreign subsidiaries	-414	10
Effect of change in tax rate	-183	5
Non-deductible expenses	-85	6
Other	-125	-8
Income not subject to tax	27	21
Application of loss from previous year	333	-24
Profit not included in the accounting profit	15	-299
Unrecognized deferred tax assets from tax losses	-771	-434
Share of profit of a joint venture	-210	
Reassessment of deferred tax assets	0	-508
Income taxes	**752**	**1,939**

Taxes relating to other comprehensive income

EUR thousand	1.1.-31.12.2017	1.1.-31.12.2016
Taxes on foreign exchange gains from net investments	289	311

Income tax receivables and income tax payables

EUR thousand	31.12.2017	31.12.2016
Income tax receivables	358	126
Income tax liabilities	177	637

Local tax authorities are investigating tax position of Basware's Indian subsidiary from previous years. The related tax risk and uncertainty has been identified, but for the moment the risk assessment has not resulted in tax bookings in the Group. With further information the arguments for tax bookings are reassessed in the future.

Deferred tax assets 2017

EUR thousand	Jan. 1, 2017	In income statement	Business acquisitions	Period change booked in equity	Dec. 31, 2017
Losses	8,118	1,661	0	0	9,779
Other items	286	297	0	0	583
Total	**8,404**	**1,958**	**0**	**0**	**10,362**

Deferred tax liabilities 2017

EUR thousand	Jan. 1, 2017	In income statement	Exchange rate differences	Business acquisitions	Dec. 31, 2017
Allocation of fair value on purchases	4,885	-207	-109	0	4,569
Other temporary differences	19	-19	0	0	0
Total	**4,904**	**-226**	**-109**	**0**	**4,569**

Deferred tax assets 2016

EUR thousand	Jan. 1, 2016	In income statement	Business acquisitions	Period change booked in equity	Dec. 31, 2016
Losses	4,138	3,980			8,118
Other items	695	-409			286
Total	**4,832**	**3,571**			**8,403**

Deferred tax liabilities 2016

EUR thousand	Jan 1, 2016	In income statement	Exchange rate differences	Business acquisitions	Dec. 31, 2016
Allocation of fair value on purchases	4,060	963	-138		4,885
Other temporary differences	485	-469	3		19
Total	**4,545**	**494**	**-135**	**0**	**4,904**

The Group has a total of EUR 9 779 thousand (EUR 8 118 thousand) of deferred tax assets for unutilized tax losses of subsidiaries, of which EUR 6 323 thousand will expire during 2026–2034, while the rest have no expiry period. According to the transfer pricing principle, subsidiaries accumulate taxable income against which confirmed losses can be utilized in the future. The Group has total of EUR 2 000 thousand unutilized tax credit and losses from which deferred tax assets has not been recognized. The Group will reassess the amount of deferred tax receivables if there are changes in the expectations for accumulation of future taxable profit.

During the fourth quarter of 2017 United States and Belgium enacted new corporate income tax rates for 2018 onwards. Basware has measured its deferred tax liabilities and deferred tax assets applying the enacted, reduced tax rates. The reduction of corporate income tax rates did not have a material impact on Group's income tax expenses for the period.

10. EARNING PER SHARE

EUR thousand	1.1.-31.12.2017	1.1.-31.12.2016
Result for the period	-11,451	-14,318
Average number of shares (1,000)		
Undiluted	14,357	14,294
Diluted	14,407	14,313
Earnings per share		
Undiluted, EUR	-0.80	-1.00
Diluted, EUR	-0.79	-1.00

11. INTANGIBLE ASSETS 2017

EUR thousand	Development costs	Intangible rights *	Other long-term investments	Assets, unfinished projects	Total
Acquisition cost Jan. 1	30,005	45,754	1,005	22,297	99,061
Translation difference (+/-)	-68	-1,238	-69	0	-1,375
Additions	2,005	2,132	331	7,338	11,806
Disposals	-110	0	-166	0	-276
Reclassifications between items	17,379	-250	0	-17,276	-147
Acquisition cost Dec. 31	**49,211**	**46,398**	**1,101**	**12,359**	**109,069**
Cumulative amortization Jan. 1	-23,006	-28,187	-543	0	-51,736
Translation difference (+/-)	68	561	35	0	664
Cumulative amortisation on disposals	-51	208	74	0	231
Amortization	-4,696	-4,357	-135	0	-9,188
Cumulative amortization Dec. 31	**-27,685**	**-31,775**	**-568**	**0**	**-60,029**
Book value Dec. 31, 2017	**21,526**	**14,623**	**533**	**12,359**	**49,040**

INTANGIBLE ASSETS 2016

EUR thousand	Development costs	Intangible rights *	Other long-term investments	Assets, unfinished projects	Total
Acquisition cost Jan. 1	24,435	38,037	810	16,857	80,138
Translation difference (+/-)	46	-440	1	0	-394
Additions	1,300	6,803	194	11,015	19,311
Acquisitions through business combinations	0	4	0	0	4
Disposals	0	0	1	0	1
Reclassifications between items	4,225	1,350	0	-5,575	0
Acquisition cost Dec. 31	**30,005**	**45,754**	**1,005**	**22,297**	**99,061**
Cumulative amortization Jan. 1	-19,922	-23,488	-420	0	-43,829
Translation difference (+/-)	-46	-137	-8	0	-191
Cumulative amortisation on disposals	0	0	-1	0	-1
Amortization	-3,039	-4,561	-114	0	-7,715
Cumulative amortization Dec. 31	**-23,006**	**-28,187**	**-543**	**0**	**-51,736**
Book value Dec. 31, 2016	**6,998**	**17,566**	**463**	**22,297**	**47,325**

Goodwill is presented in Note 3.

12. TANGIBLE ASSETS 2017

EUR thousand

	Machinery and equipment	Machinery and equipment, finance lease	Other tangible assets	Total
Acquisition cost Jan. 1	11,903	130	133	12,166
Translation difference (+/-)	-204	-3		-207
Additions	691			691
Decreases	-108			-108
Reclassifications	46			46
Acquisition cost Dec. 31	**12,328**	**127**	**133**	**12,588**
Cumulative amortization Jan. 1	-10,451	-130	0	-10,581
Translation difference (+/-)	157	3		160
Other	-8			-8
Decreases	52			52
Amortization	-920			-920
Cumulative amortization Dec. 31	**-11,170**	**-127**	**0**	**-11,297**
Book value Dec. 31, 2017	**1,158**	**0**	**133**	**1,291**

TANGIBLE ASSETS 2016

EUR thousand

	Machinery and equipment	Machinery and equipment, finance lease	Other tangible assets	Total
Acquisition cost Jan. 1	11,011	128	122	11,261
Translation difference (+/-)	-102	2		-100
Additions	961		11	972
Acquisitions through business combinations	0			0
Decreases	33			33
Acquisition cost Dec. 31	**11,903**	**130**	**133**	**12,166**
Cumulative amortization Jan. 1	-9,688	-128	0	-9,816
Translation difference (+/-)	98	-2		96
Decreases	-21			-21
Amortization	-840			-840
Cumulative amortization Dec. 31	**-10,451**	**-130**	**0**	**-10,581**
Book value Dec. 31, 2016	**1,452**	**0**	**133**	**1,585**

13. SHARES IN JOINT VENTURES

The joint ventures' financial information presented below is based on the financial statements for 2017.

EUR thousand

	31.12.2017	31.12.2016
Non-current assets	5	240
Current assets	201	2,087
Long-term liabilities	854	0
Short-term liabilities	110	968
Net Sales	0	0
Result for the period	**-2,097**	**-4,230**

Joint Ventures Dec. 31, 2017

Name	Main industry	Registered location	Share of ownership(%)
Clear Funding Limited	Financing services	London, United Kingdom	50

Basware has determined its interest in the joint venture to be accounted for using the equity method. Basware's share of results (50 %) of the joint venture is presented as a separate line item in the financial items of the consolidated statement of comprehensive income and in investments in the consolidated statement of financial position.

14. AVAILABLE-FOR-SALE INVESTMENTS

EUR thousand

	31.12.2017	31.12.2016
Available for sale Investments	38	38
Total	**38**	**38**

Available-for-sale investments include shares of unlisted companies.

15. CURRENT TRADE AND OTHER RECEIVABLES

EUR thousand

	31.12.2017	31.12.2016
Non-current assets		
Other non-current receivables	3,985	2,789
Total	**3,985**	**2,789**
Current receivables		
Trade receivables	24,534	24,638
Trade receivables from joint venture	0	200
Other receivables	182	208
Prepaid expenses and accrued income	8,963	7,964
Total	**33,679**	**33,010**

The fair values of financial assets and liabilities are presented in Note 22.

No significant concentrations of credit risk are associated with the receivables. The balance sheet values equal the best to the maximum amount of the credit risk. Principles of the Group's credit risk management are presented in note 18.

The ageing analysis of trade receivables and impairment loss

EUR thousand

	2017	Impairment loss	Net 2017	2016	Impairment loss	Net 2016
Non-overdue sales receivables	16,565	0	16,565	14,566	0	14,566
Overdue sales receivables						
1-180 days	7,891	0	7,891	9,694	0	9,694
181-360 days	404	-300	104	763	-382	382
Over 360 days	247	-274	-27	504	-504	0
Total	**25,108**	**-574**	**24,534**	**25,527**	**-886**	**24,641**

16. CASH AND CASH EQUIVALENTS

EUR thousand

	31.12.2017	31.12.2016
Cash and cash equivalents	20,683	37,755
Total	**20,683**	**37,755**

Group has in Indian subsidiary an incentive scheme to commit employees, where benefit is paid to the employee after five years in service, in case of the employment is ending.

The calculations for defined benefit plans are done according to same principles as defined benefit plans for pensions and they predispose the Group to actuary risks like wage risk, interest risk and risk related to expected lifetime. These plans are unfunded.

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Opening value Jan. 1	**506**	**0**
Amounts recognised in profit and loss		
Service cost, benefits earned during the year	102	75
Interest expense (+)/income (-)	33	19
	-31	0
Amounts recognised in other comprehensive income		
Acturial losses (+)/gains (-)	-155	97
Other changes		
Items from revaluations	0	332
Benefits paid	-22	-18
Ending value Dec. 31	**433**	**506**
The most significant actuarial assumptions		
Discount interest (%)	7.45 %	8.00 %
Increase of wages (%)	9.00 %	9.00 %

18. MANAGEMENT OF FINANCIAL RISKS

The company’s international business involves customary financing risks. The purpose of financial risk management is to ensure the availability of sufficient financing cost-efficiently and monitor and, if necessary, limit the emerging risks by taking appropriate measures. Risk management is centralized in the Group’s finance department.

Currency risk

Basware's net sales increased by 1.5 percent (5.4%) in constant currencies during 2017.

The Group's main currency is euro, accounting for approximately 55 percent of net sales in 2017 (approximately 55% in 2016). In addition to the euro area, Basware operates in various areas, in 2017 the most significant being Norway, Sweden, the United States and the United Kingdom. The company is exposed to exchange rate risks in these countries through intra-company trade, exports and imports as well as through the equity and funding of foreign subsidiaries. The foreign exchange-denominated cash flow in the subsidiaries according to the company’s hedging policy did not exceed the annual currency-specific limit for hedging measures, and the company therefore did not hedge these cash flows against exchange rate fluctuations.

As of January 1, 2008, the capital structure of Basware Corporation’s foreign subsidiaries has been changed to the extent that the majority of the long-outstanding intercompany trade receivables in the parent company have been converted to a long-term net investment in a foreign operation. The purpose of the loan arrangement is to fund a long-term strategic investment.

According to IFRS 7 a sensitivity analysis of currency risk would have had an impact of EUR +/- 0.3 million (EUR 0.1 million) on the profit before tax at the closing date, assuming a rate change of +/- 5 % of the local currencies (AUD, SEK, NOK, DKK, GBP, USD, RON, INR) against the euro. Other variables are assumed to remain unchanged. The calculation includes the foreign currency trade payables and accounts receivables.

A sensitivity analysis of currency risk in foreign exchange-denominated net investments would have had an impact of +/- EUR 0.6 million (EUR 0.5 million) on other comprehensive items in income statement. Other variables are assumed to remain unchanged. The calculation includes the foreign currency net investments and subordinated loans in the subsidiaries.

The parent company’s operating currency is euro. Foreign currency-denominated assets and liabilities translated into the euro at the exchange rates of the closing date are as follows:

Nominal values 2017

EUR thousand

	USD	AUD	GBP	SEK	DKK	NOK	RON	INR
Non-current assets	28,590	433	1,887	1,194	170	759	198	395
Current assets								
Cash and cash equivalents	1,997	169	667	430	208	950	677	479
Trade and other receivables	5,572	994	2,914	1,980	918	1,247	360	458
Current liabilities								
Non-interest bearing liabilities	5,802	857	3,390	1,162	748	1,168	727	1,407

Nominal values 2016

EUR thousand

	USD	AUD	GBP	SEK	DKK	NOK	RON	INR
Non-current assets	33,126	333	9,961	1,229	166	947	201	206
Current assets								
Cash and cash equivalents	909	140	555	436	240	966	429	331
Trade and other receivables	6,311	855	3,327	1,758	1,044	1,411	292	1
Current liabilities								
Non-interest bearing liabilities	5,100	785	2,872	1,441	1,058	1,305	352	823

Interest rate risk

The company had a total of EUR 40.3 million (EUR 37.3 million) of variable-rate bank loans at the closing date.

In the third quarter of 2017, the company signed a new term loan financing totalling EUR 30 million, with EUR 10 million maturing in September 2019 and EUR 20 million in September 2020. In addition, the EUR 10 million revolving credit facility was extended by one year to March 2019.

The company is exposed to cash flow interest rate risk through its loan portfolio. The goal of the company's risk management with regard to interest rate risk is to minimize the negative impacts of changes in interest rates on the company's financial performance. The company applies diverse interest rate hedging instruments to manage interest rate risks. The average interest rate of loans was 2.85 percent (1.25%).

According to IFRS 7, the average balances of the variable rate loans realized during the period have been used in the sensitivity analysis. At the closing date, the effect of variable rate interest-bearing liabilities on profit before taxes would have been +/- EUR 431.6 thousand (EUR 124.5 thousand) had the interest rate increased or decreased by 1 percentage point.

Liquidity risk

The company maintains sufficient liquidity reserves through centralized Group-level cash management, payment traffic, and overdraft facilities. The Group's liquidity remained good during the financial year. Group management has not identified any major concentration of liquidity risks in cash assets and equivalents or in sources of funding. The tables below describes a maturity analysis on agreements. The figures have not been discounted and they included loan rate and repayments of capital.

Maturity distribution of financial liabilities 2017

EUR thousand

	Balance sheet value	Cash flow	0-6 months	6 months - 1 year	1-5 year
Bank Loans	49,282	53,505	1,709	1,708	50,088
Trade and other payables	12,532	12,532	11,862	670	0
Total	**61,814**	**66,037**	**13,571**	**2,378**	**50,088**

Maturity distribution of financial liabilities 2016

EUR thousand

	Balance sheet value	Cash flow	0-6 months	6 months - 1 year	1-5 year
Bank Loans	47,280	48,275	7,257	3,811	37,208
Trade and other payables	11,350	11,350	11,350	0	0
Total	**58,630**	**59,625**	**18,607**	**3,811**	**37,208**

Credit risks

The company's sales receivables are spread to a vast clientele and do not include significant credit risks. Business management regularly monitors the payment of sales receivables as part of the management of customer accounts. The Group has not used surety bonds to secure sales receivables.

Impairment losses recognized during the financial period and the age distribution of sales receivables are presented in Note 15.

Capital management

Shareholders' equity reported in the Group balance sheet is managed as capital. The company's capital management aims to ensure the continuity of the company's operations (going concern) and increase the value of shareholder's investment.

The capital structure can be adjusted by decisions on, e.g. distribution of dividend, share repurchase and share issues. The resolutions of the Annual General Meeting and the authorizations of the Board of Directors are presented in the Board of Directors' Report. Additional information on the share and share issue is presented under Share and Shareholders.

The company's objective is to maintain a strong equity ratio and a moderate gearing ratio. The company's equity ratio is 54.8 percent (58.5%) and gearing ratio is 24.7 percent (8.7%).

19. SHAREHOLDER'S EQUITY

In the following table is presented changes in shareholders equity and corresponding movements in shares.

Shareholders' equity 2017

EUR thousand

	Shareholders' equity	Share premium account	Invested non-restricted equity	Other reserves	Own share	Total
Jan. 1, 2017	3,528	1,187	111,334	540	-1,044	115,545
Share issue						0
Decrease of treasury shares			-202		202	0
Transactions that do not affect the number of shares				52		52
Dec. 31, 2017	**3,528**	**1,187**	**111,132**	**592**	**-842**	**115,597**

Shareholders' equity 2016

EUR thousand

	Shareholders' equity	Share premium account	Invested non-restricted equity	Other reserves	Own share	Total
Jan. 1, 2016	3,528	1,187	104,334	540	-1,109	108,480
Share issue			7,065			7,065
Decrease of treasury shares			-65		65	0
Dec. 31, 2016	**3,528**	**1,187**	**111,333**	**540**	**-1,043**	**115,545**

Number of shares 2017

	31.12.2017	31.12.2016
Number of outstanding shares Jan. 1	14,343,314	14,152,770
Share issue (+)	0	180,707
Incentive plan (+)	16,389	9,837
Number of outstanding shares Dec. 31	**14,359,703**	**14,343,314**
Treasury shares Jan. 1	58,622	68,459
Incentive plan (-)	16,389	9,837
Treasury shares Dec. 31	**42,233**	**58,622**

Other reserves

Other funds include the fair value reserve, which includes the increase in the value of the Analyste deal shares between the publication and realization of the deal in 2006.

Treasury shares

The treasury shares reserve includes the acquisition cost of own shares held by the Group.

Dividends

The Annual General Meeting resolved in accordance with the proposal of the Board of Directors that no dividend will be paid for the year 2016 (2015: 0 euros per dividend). No substantial changes has taken place in the company's financial position after the end of the financial period.

20. TRADE AND OTHER LIABILITIES

EUR thousand

	31.12.2017	31.12.2016
Long-term trade and other liabilities		
Other liabilities	1,693	1,555
Total	**1,693**	**1,555**
Short-term trade and other liabilities		
Trade liabilities	8,284	7,055
Accrued expenses and deferred income	26,007	22,874
Other Liabilities	4,248	4,296
Total	**38,539**	**34,225**

Accrued expenses includes personnel related expenses EUR 16 064 thousand (EUR 12 390 thousand).

The fair value of financial assets and liabilities are presented in Note 22.

21. REORGANISATION PROVISION

EUR thousand

	31.12.2017	31.12.2016
Provision for restructuring		
Booking value Jan. 1	5,072	0
Additions	0	5,072
Disposals	-4,144	0
Booking value Dec. 31	**928**	**5,072**

The group announced a productivity programme on November 2, 2016 in order to simplify operations and improve productivity. The measures announced included also personnel reductions and concerned a total of 130 employees globally. Negotiations with employees were carried out in accordance with local legislation in each location affected. For some countries, employees' severance pay is payable still during 2018.

22. FINANCIAL ASSETS AND LIABILITIES

EUR thousand

	Note	2017 Book value	2017 Fair value	2016 Book value	2016 Fair value
Financial assets					
Non-current					
Available-for-sale financial assets					
Unlisted shares	14	38	38	38	38
Non-current loan receivables and other receivables	14	1,400	1,400	1,212	1,212
Current					
Current trade and other receivables	15	24,716	24,716	25,046	25,046
Cash and cash equivalents	16	20,683	20,683	35,755	35,755
Financial liabilities					
Non-current					
Financial loans measured at amortized cost					
Loans from financial institutions, interest-bearing		47,286	47,286	36,732	36,732
Current					
Financial liabilities - financial liabilities valued at amortized acquisition cost					
Loans from financial institutions, interest-bearing		1,996	1,996	10,548	10,548
Trade and other payables	20	12,528	12,528	11,350	11,350

* Non-hedged accounting, level 2

In determining the fair values of the financial assets and liabilities, the following price quotations, assumptions and valuation models have been used.

Available-for-sale financial assets

Available-for-sale financial assets consist of unlisted share investments valued at cost less any impairment. Therefore, the fair value of the investments cannot be specified reliably. Unlisted shares do not have an active market, and the Group does not intend to give up these investments for the time being.

Trade and other receivables

The book value of trade and other receivables corresponds to their fair value as the effect of discounting is not substantial taking into account the maturity of receivables.

Derivatives

The fair value of derivatives is determined on the basis of available market information.

Financial liabilities

The floating interest rates of bank loans are based on 1-month euribor, depending on the maturity of the loan. Therefore, the fair value of floating rate loans is considered to correspond to their book value.

The fair value of finance leases is based on discounting future cash flows using an interest rate corresponding to the interest rate of corresponding lease agreements.

The maturity distribution of financial liabilities is presented in Note 18.

The group does not have any held-to-maturity investments

23. COMMITMENTS AND CONTINGENT LIABILITIES

EUR thousand

	31.12.2017	31.12.2016
Own guarantees		
Business mortgage of own debt	1,200	1,200
Guarantees	202	273
Commitments on behalf of subsidiaries		
Guarantees	100	100
Other own contingent liabilities		
Lease liabilities		
Current lease liabilities	850	1,169
Lease liabilities maturing in 1- 5 years	847	1,362
Total	**1,697**	**2,530**
Rental liabilities *		
Current rental liabilities	6,424	4,989
Rental liabilities maturing in 1- 5 years	11,368	9,421
Rental liabilities maturing over 5 years	180	41
Total	**17,973**	**14,452**
Other own contingent liabilities total	**19,670**	**16,983**
Commitments and contingent liabilities total	**21,172**	**18,555**

*Value added tax is only included in vehicle leasing liabilities. The lease agreements are ordinary lease agreements and the finance lease agreements are ordinary finance lease agreements and have no associated leaseback clauses. The group does not have pledges, mortgages or guarantees on behalf of external parties.

24. RELATED PARTY TRANSACTIONS

Basware Group’s related parties include the subsidiaries, joint venture Clear Funding Ltd and the co-owner of joint venture, Arrowgrass Capital Partners LLP.

Basware Corporation's subsidiaries are disclosed in note 25 and Shares in joint venture are disclosed in note 13.

In addition, the related parties of Basware include the members of the Board of Directors, the members of the Corporate Executive Team, CEO and their family members and their controlled companies. Key management compensations are disclosed in note 6.

EUR thousand

	31.12.2017	31.12.2016
Joint venture Clear Funding LTD:		
Net sales	0	784
Trade receivables	0	200

Loans from related parties

EUR thousand

	31.12.2017	31.12.2016
Arrowgrass Master Fund LTD	**10,000**	**10,000**

Loans from related parties includes the share of Arrowgrass Master Fund LTD of the Group’s new term loan financing signed in September 2017 and totaling EUR 30 million. The other lenders are Nordea Bank AB, OP Corporate Bank Plc and Ilmarinen Mutual Pension Insurance Company. Loans from related parties have been provided at commercial interest rates.

25. SHARES IN SUBSIDIARIES

	Domicile	Country	Group holding, % omistusosuus, %
Basware International Oy	Espoo	Finland	100
Basware GmbH	Düsseldorf	Germany	100
Basware UK Ltd.	Staffordshire	Great Britain	100
Basware AB	Stockholm	Sweden	100
Basware B.V.	Amsterdam	Netherlands	100
Basware A/S	Herlev	Denmark	100
Basware, Inc.	Delaware	United States	100
Basware SAS	Paris	France	100
Basware AS	Oslo	Norway	100
Basware Pty Ltd	Chatswood	Australia	100
Basware SRL	Iasi	Romania	100
Basware India Private Limited	Chandigarh	India	100
Basware Belgium NV	Aalst	Belgium	100
Basware Holdings Ltd.	London	Great Britain	100
Basware Shared Services Ltd.	London	Great Britain	100
Basware Supplier Solutions Ltd.	London	Great Britain	100
Procserve Solutions Ltd.	London	Great Britain	100
Procserve Services Ltd.	London	Great Britain	100
Procserve Inc.	Arlington	United States	100
Basware Technologies LLC	Fort Mill	United States	100

Foreign branches

The parent company has branches in India, Chandigarh (reg. no F03347) and Russia, Moscow (eg. no 16926.1).

Basware UK subsidiaries, Basware UK Ltd and Basware Holdings Ltd sub-group entities have applied exemption from the local statutory audit requirements under section 479A of the Companies Act 2006.

Basware GmbH is exempt from the duty of corporations to audit and disclose financial statements pursuant to German legislation (§ 264 III HGB).

26. EVENTS AFTER THE REPORTING PERIOD

After the balance sheet date, no significant events have taken place within the Group.

Parent Company Income Statement (FAS)

	Note	1.1.-31.12.2017	1.1.-31.12.2016	Change, %
NET SALES	**2**	**82,909**	**80,623**	**2.8**
Other operating income	3	0	3	-100
Materials and services	4	-12,762	-14,344	-11.0
Employee benefits expenses	5	-33,508	-39,485	-15.1
Depreciation and amortization	6	-7,139	-6,674	7.0
Other operating expenses	7	-43,328	-35,740	21.2
Operating profit		**-13,827**	**-15,618**	**-11.5**
Financial income	8	1,818	2,514	-27.7
Financial expenses	8	-3,273	-2,668	22.7
Profit before tax		**-15,282**	**-15,772**	**-3.1**
Income taxes	9	-187	-115	62.1
PROFIT FOR THE PERIOD		**-15,469**	**-15,887**	**-2.6**

*The automatic currency valuation booking policy of cashpool accounts has been clarified. Comparatives for 2016 have been changed accordingly. The change had no impact on net financial items or result for the period.

Parent Company Balance Sheet (FAS)

	Note	31.12.2017	31.12.2016	Change, %
ASSETS				
Non-current assets				
Intangible assets	10	39,470	34,981	12.8
Tangible assets	11	431	642	-32.8
Investments	12	123,133	124,418	-1.0
Long-term other receivables	13	1,192	797	49.5
Non-current assets total		**164,226**	**160,838**	**2.1**
Current assets				
Short-term trade and other receivables	14	29,352	35,675	-17.7
Cash and cash equivalents		14,266	25,483	-44.0
Current assets total		**43,619**	**61,158**	**-28.7**
TOTAL ASSETS		**207,844**	**221,996**	**-6.4**

	Note	31.12.2017	31.12.2016	Change, %
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital		3,528	3,528	0
Share premium account		1,118	1,118	0
Other reserves		112,089	112,291	-0.2
Retained earnings		5,964	21,649	-72.5
Profit for the period		-15,469	-15,887	-2.6
Shareholders' equity total	**15**	**107,230**	**122,700**	**-12.6**
Current provisions	16	201	1,199	-83.3
Liabilities				
Long-term liabilities	17	47,463	36,909	28.6
Short-term liabilities	18	52,950	61,189	-13.5
Total liabilities		**100,413**	**98,098**	**2.4**
TOTAL EQUITY AND LIABILITIES		**207,844**	**221,996**	**-6.4**

Parent Company Cash Flow Statement (FAS)

	1.1.-31.12.2017	1.1.-31.12.2016
CASH FLOW FROM OPERATING ACTIVITIES		
Result for the period	**-15,469**	**-15,887**
Adjustments for profit		
Planned depreciations	7,139	6,674
Proceeds from sale of non-current assets	-6	350
Unrealized exchange gains and losses	1,233	1,221
Finance income and expenses	260	-1,049
Income taxes	187	115
Other non-cash items	105	0
Working capital changes	**-2,424**	**7,703**
Interest paid	-714	-121
Interest received	1,017	1,441
Other financial items in operating activities	-312	-325
Income taxes paid	-187	1,031
Net cash from operating activities	**-9,170**	**1,154**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of tangible and intangible assets	-11,550	-13,424
Proceeds from sale of tangible and intangible assets	0	125
Acquisition of subsidiaries and businesses	133	-30,493
Investment made to a joint venture	0	-3,037
Repayment of loan receivables	7,141	3,039
Addition / deduction of cash equivalents	-1,208	-3,447
Cash flows used in investing activities	**-5,484**	**-47,237**
Cash flow before financing activities	**-14,654**	**-46,083**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from current borrowings	0	10,548
Repayment of current borrowings	-27,998	-1,667
Addition / deduction of current borrowings	1,435	7,497
Proceeds from borrowings	30,000	36,732
Net cash used in financing activities	**3,437**	**53,110**
Net change in cash and cash equivalents	**-11,217**	**7,028**
Cash and cash equivalents at the beginning of period	25,483	18,455
Cash and cash equivalents at the end of period	**14,266**	**25,483**

Notes to the Parent Company Financial Statements (FAS)

1. ACCOUNTING PRINCIPLES

Basware Corporation’s financial statements have been prepared in accordance with the Finnish Accounting Act.

Transactions in foreign currencies

Transactions in foreign currencies are recorded at the exchange rates prevailing at the transaction dates. At the end of the accounting period, the unsettled balances on foreign currency receivables and liabilities are valued at the rates of exchange prevailing at the end of the accounting period. Foreign exchange gains and losses related to normal business operations are entered in the appropriate income statement account before operating profit and foreign exchange gains and losses associated with financing are entered as a net amount under financial income and expenses.

Revenue recognition

Net sales are generated by Automation Services, Customer Support, Professional Services, and License Sales. When net sales are calculated, sales revenue is adjusted for exchange rate differences of foreign currency sales.

Revenue recognition of product sales requires that there is a binding agreement of the sale, the product has been delivered, proceeds from the transaction can be reliably specified, the financial gain will benefit the company with sufficient probability, and significant benefits and risks related to ownership or rights of use of the product have been transferred to the buyer.

Service revenue is recognized at the time of delivery. Start-up fees are recognized as revenue when the work related to the start-up procedure has been completed and the customer has been connected to the service environment. Transaction revenue is recognized on the basis of actual transaction volumes and use charges on a monthly basis on the basis of the existence of an agreement. The alliance fees of financing-related added value services are recognised as revenue when the related obligations have been performed.

License agreements with a right of return or conditions related to the product's functionality or implementation project are recognized as revenue once the right of return has expired or the above-mentioned conditions have been fulfilled. Maintenance revenue is allocated over the contract period.

Revenue and costs of fixed-price consulting projects are recognized as revenue and expenditure on the basis of the percentage of completion when the outcome of the project can be reliably estimated. The degree of completion of the project is specified as the proportion of hours worked of the estimated total number of hours. If the resulting costs and recognized profits exceed the amount invoiced for the transaction, the different is presented in “Trade and other receivables” on the balance sheet. If the resulting costs and recognized profits are lower the invoicing for the transaction, the difference is presented in “Trade payables and other liabilities” on the balance sheet. When it is likely that the total costs required for completing the project exceed the total revenue from the transaction, the expected loss is recognized as an expense immediately.

Other operating income

Other operating income includes proceeds from the sale of business operations and property, plant and equipment, rental income, and public subsidies to the extent that they are not related to capitalized R&D projects.

Research and development costs

Research expenses are booked as an expense as they are incurred. Costs related to the adoption of new technology or development of a new generation of projects are capitalized and recognized and amortized over the useful life of 3-5 years. In determining the useful life, the obsolescence of technology and the typical life cycle of products in the industry are taken into consideration. Amortization starts once the product is ready for commercial utilization. Maintenance of existing products and minor enhancements are recognized as they are incurred. Public subsidies related to research and development are recognized through profit or loss in the periods during which the corresponding costs are recognized as expenses.

Pensions

The statutory pension coverage for employees is provided through insurance policies taken out with a pension institution. The statutory pension expenses are recognized as expenses in the year they are incurred.

Intangible assets

Intangible assets are recognized at the original acquisition cost less accumulated depreciation according to plan and possible impairment. Public subsidies related to the acquisition of an intangible asset are deducted from the acquisition cost of the asset and recognized as income by reducing the depreciation charge of the asset they are related to. The expected useful lives of intangible assets are 3-10 years.

Tangible assets

Tangible assets are recognized in the balance sheet at the original acquisition cost less accumulated depreciation. The useful lives of tangible assets are 3-5 years.

Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the obligation will have to be settled, and the amount of the obligation can be reliably estimated.

Leases

Leasing payments are recognized as annual expenses.

Income taxes

Income taxes have been recognized in accordance with Finnish tax legislation.

2. NET SALES

Net sales by revenue type

EUR thousand

	1.1.-31.12.2017	1.1-31.12.2016
Net sales		
Cloud Revenue		
SaaS	20,510	14,614
Transaction services	22,715	19,666
Other cloud revenue	430	998
Cloud Revenue Total	**43,656**	**35,279**
Non-Cloud Revenue		
Maintenance	26,374	28,349
License sales	2,605	4,683
Consulting services	10,341	12,280
Other non-cloud revenue	-67	33
Non-Cloud Revenue Total	**39,253**	**45,344**
Total	**82,909**	**80,623**

Net sales by business area

EUR thousand

	1.1.-31.12.2017	1.1-31.12.2016
Finland	47,604	49,871
Export	35,305	30,752
Total	**82,909**	**80,623**

3. OTHER OPERATING INCOME

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Other operating income	0	3
Total	**0**	**3**

4. MATERIALS AND SERVICES

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Purchases during the financial period	-10,661	-9,901
Change in inventories	0	-30
Services purchased	-2,101	-4,413
Total	**-12,762**	**-14,344**

5. PERSONNEL AND EMPLOYEE BENFITS

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Personnel expenses		
Salaries paid to CEO and the Board of Directors	-634	-1,057
Salaries paid to other personnel	-26,923	-31,410
Pension expenses	-4,498	-4,937
Other personnel expenses	-1,453	-2,081
Total	**-33,508**	**-39,485**

Salaries and fees paid to each member of the management are detailed in Note 6 to the consolidated financial statementS.

Number of personnel

	31.12.2017	31.12.2016
Personnel average for the period	449	1,079
Personnel at the end of the period	439	830

Operations of the Indian branch were incorporated in August 2016 and as a result India's personnel was moved to Basware India Limited.

6. DEPRECIATION AND AMORTIZATION

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Intangible assets	-6,858	-6,317
Tangible assets	-280	-357
Total	**-7,139**	**-6,674**

7. OTHER OPERATING EXPENSES

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Other operating expenses		
Rents	-1,563	-1,787
Non-statutory employee benefits	-570	-638
Travelling	-1,010	-1,280
Marketing	-3,597	-3,530
IT and telephone	-1,102	-1,136
Auditor fees	-367	-576
Other expenses	-35,118	-26,793
Total	**-43,328**	**-35,740**
Audit fees	-160	-247
Tax consultancy	0	-110
Other fees and services	-207	-219
Audit fees total	**-367**	**-576**

8. FINANCE INCOME AND EXPENSES

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Other interest and financial income		
From group companies	1,648	2,343*
From others	170	170
Other interest and financial income total	1,818	2,513*
Interest and financial expenses		
To group companies	-2,202	-2,335*
From others	-1,071	-333
Other interest and financial expenses total	-3,273	-2,668*
Total	**-1,455**	**-154**

*The automatic currency valuation booking policy of cashpool accounts has been clarified. Comparatives for 2016 have been changed accordingly. The change had no impact on net financial items or result for the period.

9. DIRECT TAXES

EUR thousand

	1.1.-31.12.2017	1.1.-31.12.2016
Income taxes on actual business	0	-103
Income taxes from previous financial periods	-187	-12
Total	**-187**	**-115**

The deferred tax asset arising from accumulated losses, total of EUR 6,1 million, has not been booked to balance sheet.

10. INTANGIBLE ASSETS 2017

EUR thousand

	Development costs	Intangible rights	Goodwill/merger loss	Other long-term investments	Assets, unfinished projects	Total
Acquisition cost Jan. 1	28,541	14,574	17,625	64	22,297	83,100
Additions	2,005	2,103	0	0	7,338	11,446
Decreases	-110	0	0	0	0	-110
Reclassifications between items	17,319	-42	0	0	-17,277	0
Acquisition cost Dec. 31	**47,755**	**16,635**	**17,625**	**64**	**12,358**	**94,436**
Cumulative amortization Jan. 1	-21,551	-8,905	-17,625	-38	0	-48,119
Amortization	-4,681	-2,162	0	-5	0	-6,848
Cumulative amortization Dec. 31	**-26,232**	**-11,067**	**-17,625**	**-43**	**0**	**-54,967**
Book value Dec. 31, 2017	**21,523**	**5,568**	**0**	**21**	**12,358**	**39,469**

INTANGIBLE ASSETS 2016

	Development costs	Intangible rights	Goodwill/merger loss	Other long-term investments	Assets, unfinished projects	Total
Acquisition cost Jan. 1	23,016	11,126	17,625	509	16,857	69,132
Additions	1,300	2,098			11,015	14,413
Decreases	0			-445	0	-445
Reclassifications between items	4,225	1,350			-5,575	0
Acquisition cost Dec. 31	**28,541**	**14,574**	**17,625**	**64**	**22,297**	**83,100**
Cumulative amortization Jan. 1	-18,573	-6,500	-16,711	-342	0	-42,126
Amortization	-2,978	-2,405	-914	304		-5,993
Cumulative amortization Dec. 31	**-21,551**	**-8,905**	**-17,625**	**-38**	**0**	**-48,119**
Book value Dec. 312016	**6,990**	**5,669**	**0**	**26**	**22,297**	**34,981**

11. TANGIBLE ASSETS 2017

EUR thousand

	Machinery and equipment	Other tangible assets	Total
Acquisition cost Jan. 1	6,165	133	6,298
Additions	69		69
Acquisition cost Dec. 31	**6,234**	**133**	**6,367**
Cumulative amortization Jan. 1	-5,656	0	-5,656
Amortization	-280		-280
Cumulative amortization Dec. 31	**-5,936**	**0**	**-5,936**
Book value Dec. 31, 2017	**298**	**133**	**431**

TANGIBLE ASSETS 2016

EUR thousand

	Machinery and equipment	Other tangible assets	Total
Acquisition cost Jan. 1	6,622	121	6,743
Additions	409	11	420
Decreases	-865	0	-865
Acquisition cost Dec. 31	**6,165**	**133**	**6,298**
Cumulative amortization Jan. 1	-6,020	0	-6,020
Decreases	722		722
Amortization	-357		-357
Cumulative amortization Dec. 31	**-5,656**	**0**	**-5,656**
Book value Dec. 31, 2016	**509**	**133**	**642**

12. INVESTMENTS

EUR thousand

	31.12.2017	31.12.2016
Shares in group companies		
Book value Jan. 1	97,621	57,698
Increase	453	49,156
Disposals	0	-9,232
Book value Dec. 31	**98,075**	**97,621**
Balance sheet value Dec. 31	**98,075**	**97,621**
Other shares		
Book value Jan. 1	38	38
Book value Dec. 31	**38**	**38**
Share of investment in a joint venture		
Book value Jan. 1	4,994	1,957
Increase	0	3,037
Book value Dec. 31	**4,994**	**4,994**
Receivables from group companies		
Loan receivables from group companies	20,026	21,764
Total	**123,133**	**124,418**

Shares in subsidiaries

EUR thousand

	Domicile	Country	Parent company holding, %
Basware International Oy	Espoo	Finland	100
Basware GmbH	Düsseldorf	Germany	100
Basware AB	Stockholm	Sweden	100
Basware B.V.	Amsterdam	The Netherlands	100
Basware A/S	Herlev	Denmark	100
Basware, Inc.	Delaware	United States	100
Basware SAS	Paris	France	100
Basware AS	Oslo	Norway	100
Basware Pty Ltd	Chatswood	Australia	100
Basware India Private Limited	Chandigarh	India	99
Basware Belgium NV	Aalst	Belgium	99
Basware SRL	Iasi	Romania	100
Basware Holdings Ltd.	London	United Kingdom	100
Basware Shared Services Ltd.	London	United Kingdom	100
Basware Supplier Solutions Ltd.	London	United Kingdom	100
Procserve Solutions Ltd.	London	United Kingdom	100
Procserve Services Ltd.	London	United Kingdom	100
Procserve Inc.	Arlington	United States	100

Foreign branches

The parent company has branches in India, Chandigarh (reg.no. F03347) and Russia, Moscow (reg.no. 16926.1).

Basware UK subsidiaries, Basware UK Ltd and Basware Holdings Ltd sub-group entities have applied exemption from the local statutory audit requirements under section 479A of the Companies Act 2006.

Basware GmbH is exempt from the duty of corporations to audit and disclose financial statements pursuant to German legislation (§ 264 III HGB).

13. NON-CURRENT RECEIVABLES

EUR thousand

	31.12.2017	31.12.2016
Rent deposits	423	402
Accrued employee expenses	769	395
Total	**1,192**	**797**

14. CURRENT RECEIVABLES

EUR thousand

	31.12.2017	31.12.2016
Accounts receivables	7,544	6,718
Receivables from group companies		
Accounts receivables	5,802	3,002
Interest receivables	153	360
Loan receivables	8,833	13,614
Other receivables	3,206	8,572
Total	**17,994**	**25,547**
Prepaid expenses and accrued income	3,686	3,131
Receivables from joint venture	0	200
Other receivables	128	79
Total	**3,814**	**3,410**
Current receivables total	**29,352**	**35,675**
Prepaid expenses and accrued income		
Accrued employee expenses	344	12
Other prepaid expenses and accrued income	3,342	3,119
Total	**3,686**	**3,131**

15. SHAREHOLDERS' EQUITY

EUR thousand

	31.12.2017	31.12.2016
Share capital Jan. 1	3,528	3,528
Share capital Dec. 31	**3,528**	**3,528**
Share premium account Jan. 1	1,118	1,118
Share premium account Dec. 31	**1,118**	**1,118**
Equity Dec. 31	**4,647**	**4,647**
Invested non-restricted equity Jan. 1	112,291	105,291
Decrease of treasury shares	-201.79282	-65
Share issue	0	7,065
Invested non-restricted equity Dec. 31	**112,089**	**112,291**
Retained earnings Jan. 1	5,762	21,584
Decrease of treasury shares	202	65
Result for the period	-15,469	-15,887
Retained earnings Dec. 31	**-9,505**	**5,762**
Non-restricted equity Dec. 31	**102,584**	**118,053**
Shareholders' equity Dec. 31	**107,231**	**122,700**
Specification of distributable funds		
Result for the period	-15,469	-15,887
Retained earnings	5,964	21,649
Other distributable funds	112,089	112,291
Development expenses, activated	-33,881	-29,295
Distributable funds	**68,704**	**88,758**

16. PROVISIONS

EUR thousand

	31.12.2017	31.12.2016
Restructuring provisions		
	1,199	0
Additions	0	1,199
Disposals	-998	0
	201	**1,199**

Reorganisation provisions are detailed in Note 21 to the consolidated financial statements.

17. NON-CURRENT LIABILITIES

EUR thousand

	31.12.2017	31.12.2016
Loans from financial institutions	47,286	36,732
Debts to group companies	177	177
Non-current liabilities total	**47,463**	**36,909**

18. CURRENT LIABILITIES

EUR thousand

	31.12.2017	31.12.2016
Accounts payable	**5,643**	**4,602**
Liabilities to group companies		
Accounts payable	450	1,047
Other debts	32,947	34,791
Total	**33,397**	**35,838**
Loans from financial institutions	1,996	10,548
Other debts	1,980	2,050
Accrued expenses and deferred income	9,933	8,151
Total	**13,910**	**20,749**
Current liabilities total	**52,950**	**61,189**
Accrued expenses and deferred income		
Accrued employee expenses	8,452	6,363
Other accrued expenes	99	1,788
Total	**8,551**	**8,151**

19. COMMITMENTS AND CONTINGENT LIABILITIES

EUR thousand

	31.12.2017	31.12.2016
Own guarantees		
Business mortgages of own debt	1,200	1,200
Guarantees	202	273
Commitments on behalf of subsidiaries		
Guarantees	100	100
Other own contingent liabilities		
Leasing liabilities		
Current lease liabilities	182	194
Lease liabilities maturing in 1 - 5 years	229	136
Total	**411**	**329**
Rental liabilities		
Current rental liabilities	3,567	1,721
Rental liabilities maturing in 1 - 5 years	6,705	4,671
Rental liabilities maturing over 5 years	0	0
Total	**10,272**	**6,392**
Other own contingent liabilities total	**10,683**	**6,721**
Commitments and contingent liabilities total	**12,185**	**8,293**

Value added tax is only included in vehicle leasing liabilities. The other liabilities are exclusive of value added tax. The lease agreements are ordinary lease agreements. The finance lease agreements are ordinary finance lease agreements and have no associated leaseback clauses. The group does not have pledges, mortgages or guarantees on behalf of external parties.

Auditor's Report

(Translation of the Finnish original)

To the Annual General Meeting of Basware Corporation

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Basware Corporation (business identity code 0592542-4) for the year ended 31 December, 2017. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion,

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

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

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

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

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in 7 to the consolidated financial statements.

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

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 fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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.

Valuation of Goodwill

We refer to the Group's accounting policies and the note 3

At the balance sheet date 31 December 2017, the value of goodwill amounted to EUR 92 million representing 43% of total assets and 79% of total equity (2016: EUR 97 million, 43% of total assets and 73% of total equity). The annual impairment test was a key audit matter as:

- the management’s annual impairment test is complex and involves judgments
- the annual impairment test is based on market and economical assumptions
- the goodwill balance is significant.

The cash flows of the cash generating unit is based on the value in use. Changes in the assumptions used can significantly impact the value in use. The value in use is dependent on several assumptions such as the revenue growth, operating profit, and discount rate used. Changes in these assumptions can lead to an impairment.

How our audit addressed the Key Audit Matter

Our audit procedures included, among others, involving valuation specialists to assist us in evaluating the assumptions and methodologies used by the group including those related to forecasted revenue, operating profit and the weighted average cost of capital used in discounting the cash flows.

We reviewed the sensitivity in the available headroom by cash generating unit and focused on whether any reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount.

We compared the historical forecasting of the group with actual outcome and we compared projections to the latest budgets approved by the board. We checked the mathematical accuracy of the underlying calculations.

We compared the groups’ disclosures related to impairment tests in note 3 in the financial statements with presentation requirements in applicable accounting standards and we reviewed the information provided on sensitivity analysis.

Revenue Recognition

We refer to the Group’s accounting policies and the note 2

Revenue is recognised when the risks and rewards of the underlying products and services have been transferred to the customer.

The group focuses on revenue as a key performance measure which could create an incentive for revenue to be recognized before the risks and rewards have been transferred.

Revenue recognition was determined to be a key audit matter and a significant risk of material misstatement referred to in EU Regulation No 537/241, point (c) of Article 10(2) due to the risk related to the recognition of revenue before risks and rewards have been transferred.

How our audit addressed the Key Audit Matter

Our audit procedures, considering the significant risk of material misstatement related to revenue recognition, included amongst other:

- assessing the application of group’s accounting policies over revenue recognition and comparing the group’s accounting policies over revenue recognition with applicable accounting standards;
- identifying the nature of the revenues and identification of any unusual contract terms;
- testing the revenue recognized including testing of group’s controls on revenue recognition, when applicable. Our testing included tracing the information to agreements and payments;
- assessing the revenue recognized with substantive analytical procedures and
- assessing the group’s disclosures on revenue recognition.

Deferred tax assets

We refer to the Group’s accounting policies and the note 9

At the balance sheet date 31 December 2017, the deferred tax assets on unused tax losses amounted to EUR 10 million.

The deferred tax assets was a key audit matter as the management’s assumptions used to determine the recognition criteria as well as the probability on utilizing the tax losses in the future are judgmental and depending on the future market and economical situation. The deferred tax assets is a significant balance.

How our audit addressed the Key Audit Matter

During the audit of the deferred tax assets we assessed the evidence that there will be future taxable income available to utilize the deferred tax assets.

Our assessment focused on loss generating group companies and we focused on:

- the reasons for the losses;
- the key assumptions used by the management and we concentrated on the future economical development;
- the future taxable income available considering any restrictions in the local tax legislation impacting the utilization; and
- assessing the group's disclosures on deferred tax assets.

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 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

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 14 February 2008, and our appointment represents a total period of uninterrupted engagement of 10 years.

Other information

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

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

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

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

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

Helsinki, Finland, February 1, 2018

Ernst & Young Oy
Authorized Public Accountant Firm

Terhi Mäkinen
Authorized Public Accountant

Key Figures (IFRS)

Group Key Financial Performance Indicators

EUR thousand

	2017	2016	2015	2014	2013
Net sales	149,241	148,580	143,410	127,674	123,349
Growth of net sales, %	0.4 %	3.6 %	12.3 %	3.5 %	8.5 %
EBITDA	672	-5,394	11,902	11,354	10,383
% of net sales	0.5 %	-	8.3 %	8.9 %	8.4 %
Adjusted EBITDA	3,367	2,063	12,121	11,354	10,383
% of net sales	2.3 %	1.4 %	8.3 %	8.9 %	8.4 %
Operating profit	-9,436	-13,946	4,676	4,325	3,331
Growth of operating profit, %	-	-	7.5 %	29.8 %	-59.9 %
% of net sales	-	-	8.1 %	3.4 %	2.7 %
Adjusted operating result	-6,741	-6,490	4,894	4,325	3,331
% of net sales	-	-	3.4 %	3.4 %	2.7 %
Profit before tax	-12,203	-16 256	3,563	4,328	3,284
% of net sales	-	-	2.5 %	3.4 %	2.7 %
Profit for the period	-11,451	-14 318	3,083	2,959	2,605
% of net sales	-	-	2.1 %	2.3 %	2.1 %
Return on equity, %	-9.2 %	-10.5 %	2.2 %	2.5 %	2.6 %
Return on investment, % *	-5.7 %	-6.8 %	3.6 %	4.4 %	3.9 %
Interest bearing liabilities	49,282	47,280	1,667	5,000	8,632
Cash assets	20,683	35,755	33,238	28,954	13,218
Gearing, %	24.7 %	8.7 %	-22.4 %	-38.6 %	-4.7 %
Equity ratio, %	54.8 %	58.5 %	79.1 %	82.8 %	77.1 %
Total assets	211,548	227,043	178,545	168,781	127,043
Gross investments **	12,498	51,882	39,971	5,821	20,733
% of net sales	8.4 %	34.9 %	27.9 %	4.6 %	16.8 %
R&D costs ***	22,319	24,274	20,748	17,680	18,184
% of net sales	15.0 %	16.3 %	14.5 %	13.8 %	14.7 %
R&D personnel at end of period	410	419	373	332	370
Personnel expenses	99,083	104,600	85,726	77,779	76,919
Personnel average for period	1,838	1,811	1,591	1,466	1,485
Personnel at end of period	1,829	1,889	1,648	1,493	1,472
Growth of personnel, %	-3.2 %	14.6 %	10.4 %	1.4 %	3.4 %

*) The automatic currency valuation booking policy of cashpool accounts has been clarified. Due to the change in presentation of 2016 comparatives, also the return on investment has been revised to reflect the clarified booking policy.

**) Includes aquisitions and capitalized R&D costs.

***) According to new presentation financial year depreciations of capitalized development expenses are excluded and FY2016 figures are revised.

Group Share Indicators

EUR thousand

	2017	2016	2015	2014	2013
Earnings per share, undiluted	-0.80	-1.00	0.22	0.22	0.20
Earnings per share, diluted	-0.79	-1.00	0.22	0.22	0.20
Adjusted earnings per share, undiluted (EUR)	-0.61	-0.48	0.23	0.22	0.20
Adjusted earnings per share, diluted (EUR)	-0.61	-0.48	0.23	0.22	0.20
Equity per share	8.07	9.26	9.97	9.88	7.62
Dividend per share	0.00 *	0.00	0.00	0.10	0.23
Dividend per profit, %	0.0 %	0.0 %	0.0 %	45.1 %	113.4 %
Effective dividends, %	0.0 %	0.0 %	0.0 %	0.2 %	0.9 %
Price/Earnings ratio (P/E)	-59.56	-36.24	171.31	184.31	123.45
Share price performance, share issue adjusted					
lowest share price	31.96	30.48	31.80	23.50	16.75
highest share price	47.50	40.90	47.80	42.21	25.60
average share price	38.84	36.22	39.20	35.65	20.35
closing share price	47.50	36.30	37.32	41.05	25.03
Market value of shares at end of period	682,085,892	520,662,298	530,736,266	577,640,124	321,771,012
Share issue adjusted number of traded shares	1,681,791	1,931,525	3,156,826	4,792,273	1,723,866
% of average share number	11.7 %	13.5 %	22.3 %	36.1 %	13.4 %
Number of shares **					
- end of the period	14,359,703	14,343,314	14,152,770	14,146,426	12,931,229
- average during the period	14,357,343	14,293,754	14,150,954	13,286,327	12,848,540
- average during the period, diluted	14,406,674	14,313,442	14,173,167	13,297,962	12,848,540

*) Board of Director's proposal to the Annual General Meeting of Shareholders

**) Excluding treasury shares

Calculation of Key Indicators

Return on equity (ROE), %
(Profit or loss before taxes - taxes) x 100

Shareholders' equity (average)

Return on investment (ROI), %
(Profit before taxes + interest and other financial expenses) x 100

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

Gearing, %
(Interest-bearing liabilities - interest-bearing assets) x 100

Shareholders' equity

Equity ratio, %
Shareholders' equity x 100

Balance sheet total - advance payments received

Earnings per share
Profit for the period

Adjusted average number of shares during the period

Adjusted earnings per share (Adjusted EPS) is calculated by excluding from the result any adjustments related to alliance fees, acquisitions and disposals, restructuring and efficiency measures, impairment losses and litigation fees and settlements.

Equity per share
Shareholders' equity

Adjusted number of shares at the end of the financial period - own shares

Dividend per share
Total dividend

Adjusted number of shares at the end of the financial period - own shares

Dividend/profit, %
Dividend per share x 100

Earnings per share

Effective dividend yield, %
Dividend per share x 100

Adjusted share price at the end of the financial period

Price-earnings ratio (P/E)
Adjusted share price at the end of the financial period

Earnings per share

Adjusted EBITDA

Adjusted EBITDA is reported excluding any adjustments related to alliance fees, acquisitions and disposals, restructuring and efficiency measures, impairment losses and litigation fees and settlements.

Adjusted operating result (Adjusted EBIT)

Adjusted EBIT os calculated from operating result excluding any adjustments related to alliance fees, acquisitions and disposals, restructuring and efficiency measures, impairment losses and litigation fees and settlements.

Gross investments

Total investments made to non-current assets including acquisitions and capitalized research and development costs.

Share and Shareholders

SHARE

Basware shares are listed on Nasdaq Helsinki Ltd. The company has one series of shares, with the trading code BAS1V. Basware has been listed on the Helsinki Stock Exchange (Nasdaq Helsinki Ltd.) since February 29, 2000. The listing price of the share was EUR 5.70.

At the end of 2017, the total number of shares issued by Basware was 14,401,936 (14,401,936). The book counter value per share is EUR 0.30. Each share confers one vote in the general meeting of shareholders, and all shares carry an equal right to dividend.

Share capital

At the end of 2017, Basware Corporation's share capital was EUR 3,528,368.70 (EUR 3,528,368.70).

Share price performance and trading

During 2017, the highest price of the share was EUR 47.50 (EUR 40.90), the lowest was EUR 31.96 (EUR 30.48) and the closing price was EUR 47.50 (EUR 36.30). The average price of the share was EUR 38.84 (EUR 36.22) during the period.

A total of 1,681,791 (1,931,525) shares were traded during the period, corresponding to 11.7 percent (13.5%) of the average number of shares. Market capitalization with the period’s closing price on December 31, 2017, was EUR 682,085,892 (EUR 520,662,298).

The total amount of own shares held by the company on December 31, 2017 was 42,233 shares (58,622 shares), representing approximately 0.3 percent (0.4 %) of all of outstanding shares. The Group repurchased 669 own shares from the markets for remuneration of the Board of Directors.

Incentive schemes

Additional information on the company's share-based incentive schemes is available on the company's investor webpages.

SHAREHOLDERS

Basware had 11,682 (12,620) shareholders on December 31, 2017, including nominee registers (10). Nominee registered holdings accounted for 46.7 percent (37.0%) of the total number of shares.

Distribution of holdings by number of shares, December 31, 2017

	Number of shareholders	Number of shares	Votes, %
1-100	9,757	235,144	1.6
101-1,000	1,745	467,683	3.2
1,001-10,000	132	304,667	2.1
10,001-100,000	28	1,064,784	7.4
100,001+	20	12,329,658	85.6
Total	**11,682**	**14,401,936**	**100.0**

Distribution by sector, December 31, 2017

	Number of shareholders	Number of shares	Votes, %
Private companies	383	635,236	4.4
Financial and insurance institutions	25	8,283,164	11.0
Public sector organizations	8	1,448,557	10.1
Non-profit organizations	36	58,159	0.4
Households	11,178	3,742,351	26.0
Foreign	52	234,469	1.5
Of which nominee-registered	10	6,730,476	46.7
Total	**11,682**	**14,401,936**	**100.0**

Major shareholders 31.12.2017

	Number of shares	Votes, %
1. Sihvo Ilkka Juhani	885,300	6.2
2. Ilmarinen Mutual Pension Insurance Company	757,921	5.3
3. OP-Finland Value Fund	606,454	4.2
4. Vaajoensuu Hannu	575,857	4.0
Vaajoensuu Hannu	309,357	2.6
Havacment Oy	266,500	1.9
5. Eräkangas Kirsi	486,376	3.4
6. Perttunen, Sakari	384,375	2.7
7. Veritas Pension Insurance Company Ltd.	343,479	2.4
8. The State Pension Fund	256,000	1.8
9. Pöllänen Antti	208,400	1.5
10. Eräkangas Lotta	196,400	1.4
13. Swiss Life Luxembourg Sa	185,950	1.3
12. Fondita Nordic Micro Cap Investment Fund	180,000	1.3
13. OP-Suomi Pienyhtiöt -sijoitusrahasto	170,091	1.2
14. Perttunen Meimi	145,107	1.0
15. Fondita Nordic Small Cap -sijoitusrahasto	140,000	1.0
16. Danske Invest Finnish Institutional Equity Fund	104,700	0.7
17. Danske Invest Finnish Small Cap Fund	90,000	0.6
18. Vaajoensuu Henri	83,800	0.6
19. Vaajoensuu Petra	83,800	0.6
20. Vaajoensuu Sara	83,700	0.6
Total 20 shareholders	**5,967,710**	**41.5**
Nominee registered total	6,730,476	46.7
Total remaining	1,703,750	11.8
Total	**14,401,936**	**100.0**

Ownership of the Board of Directors and Executive Team, December 31, 2017

The members of the Board of Directors and Executive Team held in total 1,565,471 company shares on December 31, 2017. This amount accounted for 10.9 percent of the total number of shares and votes. The members of the Board of Directors and members of the Executive Team held shares on December 31, 2017 as follows:

Holdings of the Board of Directors and Executive Team on December 31, 2017

	Number of shares	% of all shares
David Bateman	0	0.0
Michael Ingelög	5,000	0.0
Ilkka Sihvo	885,300	6.2
Tuija Soanjärvi	1,804	0.0
Hannu Vaajoensuu	575,857	4.0
Anssi Vanjoki	880	0.0
Board total	**1,468,841**	**10.2**
Jane Broberg	1,706	0.0
Tehseen Dahya	53,116	0.4
Lars Madsen	2,863	0.0
Ilari Nurmi	9,882	0.1
Mikko Pilkama	1,409	0.0
Paul Taylor	7,512	0.1
Vesa Tykkyläinen	2,817	0.0
Jussi Vasama	15,835	0.1
Executive Team total	**96,630**	**0.7**

For Shareholders

Basware Share

Basware shares are listed on Nasdaq Helsinki Ltd. The Basware share has been listed on the Helsinki Stock Exchange (Nasdaq Helsinki Ltd.) since February 29, 2000.

Trading code	BASV1
ISIN code	FI0009008403
Book-counter value	EUR 0.30
Listing price on February 29, 2000	EUR 5.70
Closing price on December 31, 2017	EUR 47.50

Annual General Meeting

Annual General Meeting of Basware Corporation will be held on Thursday, March 15, 2018 at 1:00 PM in Helsinki, at the address of Iso Roobertinkatu 14, Helsinki, Finland.

Each shareholder, who is registered on March 5, 2018 in the shareholders' register of the company held by Euroclear Finland Ltd, has the right to participate in the General Meeting.

A shareholder, who wishes to participate in the General Meeting, shall register for the meeting no later than 4:00 PM (Finnish time) on March 7, 2018 by giving a prior notice of participation to the company. Such notice can be given:

- at Basware's investor webpages; or
- by telephone at +358 20 770 6867 on weekdays between 9:00 AM and 4:00 PM; or
- by regular mail to Basware Corporation, Annual General Meeting 2018, P.O. Box 97, 02601 Espoo, Finland.

The proposals for the decisions on the matters on the agenda of the General Meeting are available on Basware's investor webpages.

Dividend

Board of Directors proposes to the Annual General Meeting that no dividend be paid for 2017.

Financial reporting in 2018

During 2018, Basware Corporation will publish financial information as follows:

- Interim Report January-March 2018 (Q1) on Thursday, April 19, 2018
- Half-Year Financial Report January-June 2018 (Q2) on Wednesday, July 18, 2018
- Interim Report January-September 2018 (Q3) on Wednesday, October 17, 2018

Interim reports are prepared according to the IAS 34 Interim Financial Reporting standard.

All interim reports and stock exchange releases are available on Basware's investor webpages.

Questions about the annual report?

Contact us if you have any questions or feedback:

IR@basware.com

investors.basware.com

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