

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

# Auditor's Report

To the Annual General Meeting of Solteq Plc

## **Report on the Audit of the Financial Statements**

### **Opinion**

We have audited the financial statements of Solteq Plc (business identity code 0490484-0) for the year ended 31 December 2019. The financial statements comprise both the consolidated and the parent company's statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the group's and parent company's financial performance, financial position and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU 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 the Financial Statements* section of our report.

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

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

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

### **Material uncertainty related to going concern basis**

We would like to draw attention to the Accounting policies and section Going concern principle. Solteq Group's bond totaling EUR 24.5 million with fixed interest rate will mature in summer 2020. The company initiated measures to ensure refinancing during the financial year 2019 and the refinancing is still under negotiation. The arrangement consists of the renewal of the bond and overdraft and liquidity facilities. The management expects operations to continue with only a low risk of inadequate funding.

The aforementioned conditions show such material uncertainty, which may cast significant doubt upon the company's ability to continue as a going concern.

Furthermore, we would like to draw attention to the fact that the consolidated statement of financial position includes goodwill, carried at EUR 38.8 million, and parent company's statement of financial position includes merger losses, carried at EUR 34.1 million. As described in the previous chapter there is uncertainty related to the Group's ability to continue as a going concern and thus the carrying value of goodwill and merger losses may not be supported.

Our opinion has not been qualified by this matter.

## Materiality

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

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

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
<b>Goodwill and merger loss impairment assessment (Refer to Accounting policies and note 14)</b>	
<ul style="list-style-type: none"><li>— In recent years the Group has expanded its activities through acquisition of companies. As a result, the consolidated statement of financial position includes a significant amount of goodwill. Due to merging the acquired companies to the parent company, there is a significant amount of merger losses in the parent company's other intangible assets.</li><li>— Goodwill and merger loss in parent company's statement of financial position are not amortized but are tested at least annually for impairment. Determining the cash flow forecasts underlying the impairment tests requires management make judgments over certain key inputs, for example revenue growth rate, discount rate, long-term growth rate and inflation rates.</li><li>— Due to the high level of judgement related to the forecasts used, and the significant</li></ul>	<ul style="list-style-type: none"><li>— Our audit procedures included, among others, assessing key inputs in the calculations such as revenue growth, profitability and discount rate, by reference to the parent company's Board approved budgets, data external to the Group and our own views. We assessed the historical accuracy of forecasts prepared by management by comparing actual results for the year with the original forecasts.</li><li>— We involved KPMG valuation specialists that assessed the technical accuracy of the calculations and compared the assumptions used to market and industry information.</li><li>— Furthermore, we considered the appropriateness of the Group's disclosures in respect of goodwill and parent company's merger loss and impairment testing.</li></ul>

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carrying amounts involved, impairment assessment of goodwill and merger loss is considered a key audit matter.

— As mentioned above, there is uncertainty related to the valuation of goodwill in the consolidated statement of financial position and merger losses in the parent company's statement of financial position due to the refinancing being still under negotiation and the bond maturing in summer 2020.

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### **Revenue recognition (Refer to Accounting policies and note 3)**

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- The consolidated revenue comprise different revenue flows based on different contract types, such as services, own and third party software license sales and maintenance, hardware sales and long-term contracts.
- The most significant risks relate to long-term projects accounted for measuring the progress towards complete satisfaction of a performance obligation. These involve management judgment on among others total revenue, total costs, progress towards complete satisfaction of the performance obligation and possible loss-making projects. The contracts may also contain variable consideration components.
- Preparation of revenue recognition entries for long-term projects includes manual phases, which causes a risk of human error.
- Due to the analyses of different contract terms and conditions associated with the choice of a revenue recognition method and high level of management judgement involved, revenue recognition is considered a key audit matter.
- Our audit procedures included evaluation of the revenue recognition principles applied by the Group and assessment of their appropriateness by reference to IFRS standards.
- We assessed the control environment in respect of the main sales software and the related user rights management.
- We identified and assessed internal controls over revenue recognition as well as tested their effectiveness. In addition we performed substantive testing and analytical procedures based on data analytics in order to assess the appropriateness of revenue recognition and the accounting treatment of recording revenue and the related expenses in the correct period.
- We discussed with the management the revenue recognition practices applied and decisions involving management judgement which had an impact on revenue recognition.
- Furthermore, we considered the appropriateness of the Group's disclosures in respect of revenue recognition principles and net sales.

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

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the

laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

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

### **Other Reporting Requirements**

#### **Information on our audit engagement**

Solteq Plc became a public interest entity on 6 September 1999. We have been the company's auditors since it became a public interest entity

#### **Other Information**

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

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

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

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

Tampere 26 February 2020

KPMG OY AB

LOTTA NURMINEN

*Authorised Public Accountant, KHT*