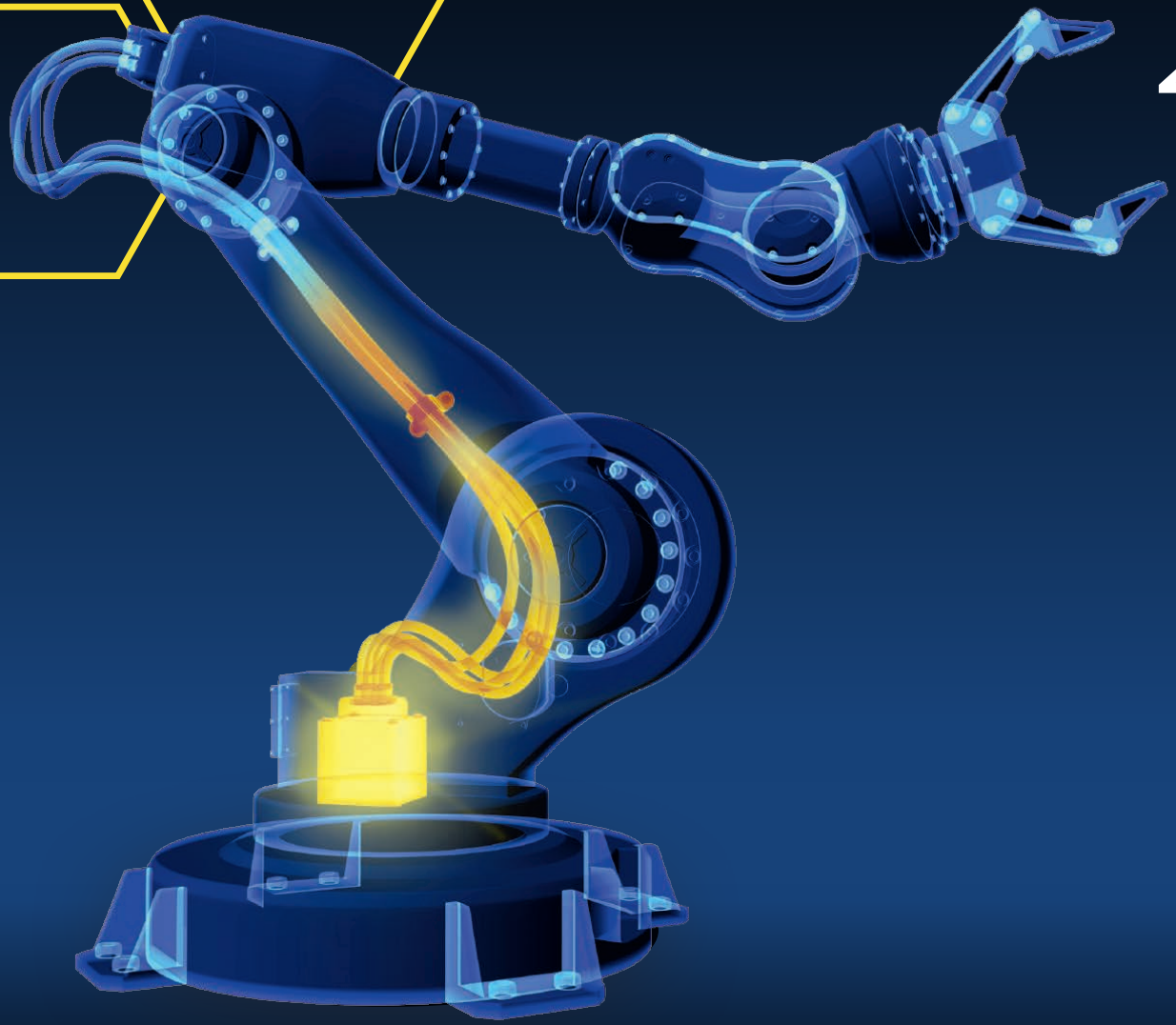


# ANNUAL REPORT 2018

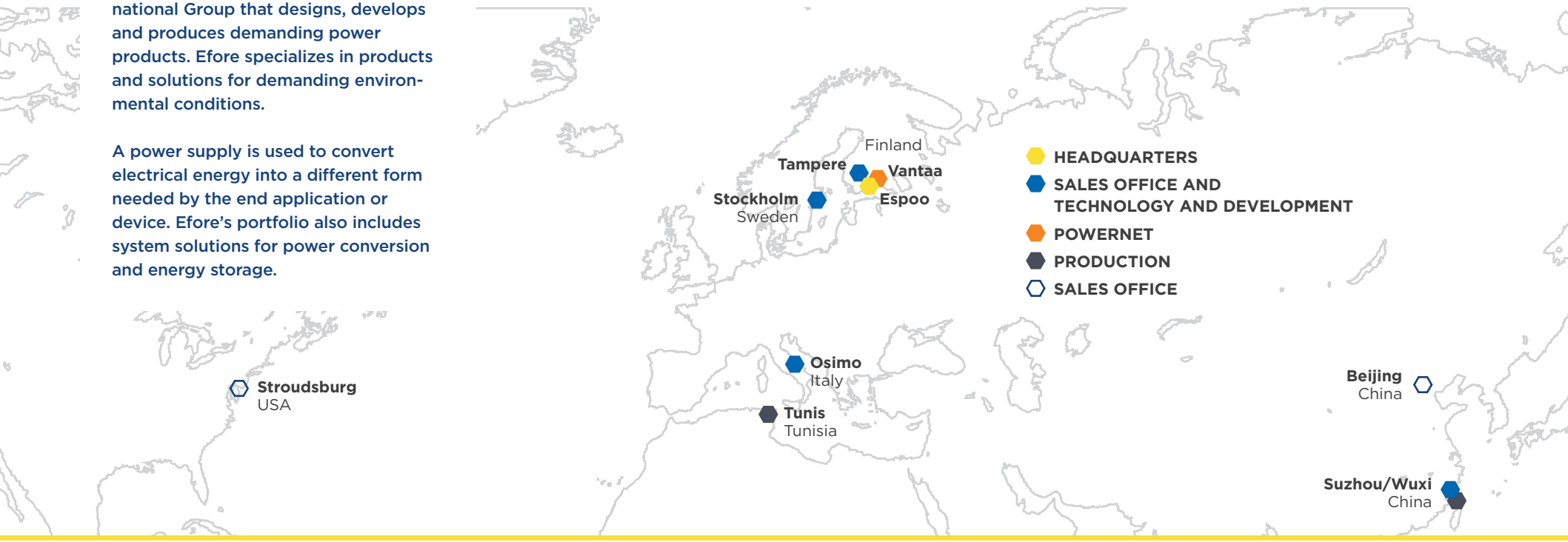
EFORE
TRUSTED POWER PARTNER

# CONTENTS

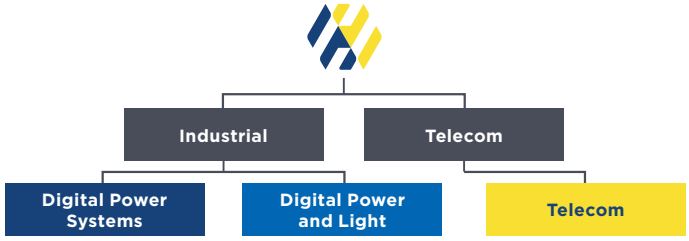
# EFORE IN BRIEF

Efore, established in 1973, is an international Group that designs, develops and produces demanding power products. Efore specializes in products and solutions for demanding environmental conditions.

A power supply is used to convert electrical energy into a different form needed by the end application or device. Efore's portfolio also includes system solutions for power conversion and energy storage.




Efore has two business areas: Industrial and Telecom. The Industrial area comprises two business lines, Digital Power Systems and Digital Power and Light. The Telecom division's business line is Telecom.



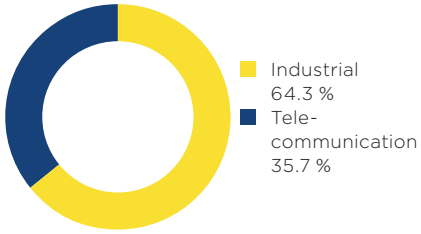
# FINANCIAL YEAR 2018 IN BRIEF

| Key figures | | 2018 | 2017 |
|---|---|---|---|
| Net sales | MEUR | **52.4** | 69.9 |
| Adjusted EBITDA | MEUR | **-2.3** | 3.6 |
| EBITDA | MEUR | **-2.9** | 3.6 |
| Adjusted operating profit/loss | MEUR | **-6.7** | -0.2 |
| Operating profit/loss | MEUR | **-7.2** | -0.2 |
| Profit/loss before taxes | MEUR | **-8.5** | -1.0 |
| Profit/loss for the period | MEUR | **-7.8** | -0.6 |
| Return on equity (ROE) | % | **-95.4** | -7.9 |
| Return on investment (ROI) | % | **-35.4** | -2.2 |
| Cash flow from operating activities | MEUR | **-2.8** | 4.7 |
| Net interest-bearing liabilities | MEUR | **9.4** | 8.1 |
| Solvency ratio | % | **20.6** | 17.9 |
| Net gearing | % | **100.6** | 115.6 |
| Earnings per share | EUR | **-0.14** | -0.01 |
| Equity per share | EUR | **0.02** | 0.13 |
| Dividend per share | EUR | **0** | 0 |
| Share price on December 31 | EUR | **0.04** | 0.43 |
| Market capitalization on December 31 | MEUR | **16.9** | 22.5 |
| Personnel, average | | **406*** | 432 |

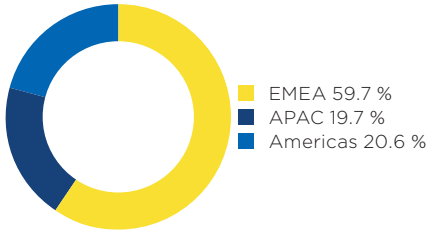
*Excluding the personnel of Powernet International Oy

- Net sales and result of the full year were significantly below the previous financial year and profit for the period was negative. The year was twofold. In the first half of the year, the net sales and result of the full year dropped especially due to a volume decrease in Telecom business. However, a gradual recovery started during the second half of the year.
- At the end of 2018, Efore organized a rights issue which was successfully completed and oversubscribed. As a result, Efore collected gross proceeds of EUR 11 million.
- At the end of 2018, after the successful completion of the rights issue, Efore completed the acquisition of Powernet International, strengthening Efore's technical know-how as well as its product and system portfolio.
- Towards the end of the year (November 27), Efore signed a letter of intent concerning a joint enterprise with a Chinese power supply partner in the Telecom business area. Negotiations related to structural arrangements in the Telecom business area and expansion of the product offering have progressed well.
- The product range was expanded by introducing next-generation products, such as Modular High Efficiency (MHE) equipment, to the market. MHE is an excellent product for the high energy conversion power supply market and will provide a good basis for the year 2019.

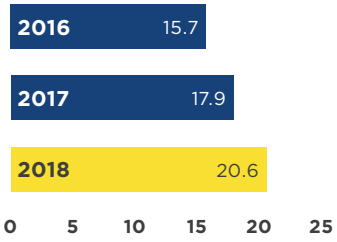
**Net sales by sectors**



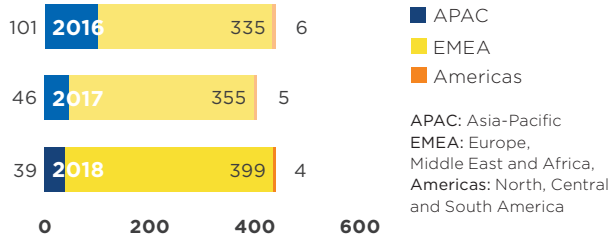

**Net sales by areas**




**Solvency ratio, %**




**Personnel by geographical area on December 31**



# A MAJOR STRUCTURAL CHANGE IMPLEMENTED IN EFORE

When I took on the position of Efore's CEO in spring 2016, the company was facing major challenges in turnover development and profitability. In addition, Efore had decided to give up its production in China. However, towards the end of 2016, we found solutions for outsourcing the production to Hodgen Technology Ltd and we were able to reduce our fixed costs and improve our balance sheet. Analysing Efore's processes and making them more efficient was an essential part of improving our operational efficiency. Our turnover and financial result, however, have continued to be poor. This is mostly due to a sharp fall in the volume of the Telecom business, which lasted until autumn 2018, and to the fact that we have not managed to sufficiently address trends in demand in our customer segments with our customer portfolio.

We created a solid foundation for growth and positive financial development by reducing costs and taking steps to improve our efficiency. After that, we were able to launch a more comprehensive reform: to look for completely new operating policies and growth areas. The main guidelines and goals of the reform are explained in the updated strategy confirmed by our Board of Directors in autumn 2018, which is presented on pages 8–9 of this annual report.

The key measures we launched in November to recreate Efore were: an agreement on the acquisition of Powernet International Oy, which specialises in the planning and manufacture of customised power sources and systems; signing a letter of intent on cooperation with a Chinese power source partner; and launching a rights issue. With the issue, we managed to raise approximately EUR 11 million in gross proceeds, which we had set as our goal. Thanks to the above actions, there are preconditions for positive development.

We also kept our guidelines for 2018 so that the cashflow from our business was positive in the second half and business profit better than earlier in the year. Another positive trend is that for the first time in four years the turnover for the second half was higher than for the first half.

My temporary term as CEO, which was originally planned to only last one year, continued for almost three years due to the challenges of the post. Efore's new CEO from the beginning of 2019 has been Vesa Leino, who in his former role as the company CFO closely participated in defining new guidelines for Efore with me for almost a year and a half.

I wish to thank our customers, staff, owners, the Board of Directors and partners for their constructive cooperation throughout my term as CEO. I am convinced that we were together able to create good preconditions for Efore's future development.

Jorma Wiitakorpi
CEO until December 31, 2018

**"IN 2018, IT WAS TIME TO START LOOKING FOR COMPLETELY NEW OPERATING POLICIES AND GROWTH AREAS FOR EFORE."**

# PRODUCTS AND SOLUTIONS WITH HIGH ADDED VALUE DRIVING GROWTH

As Jorma said in his review, Efore faced major challenges and changes in 2018. However, we managed to create good preconditions for profitable growth for the coming years through determined actions, a successful rights issue and business structure arrangements.

We feel that our strength on the fiercely competitive market is the smart, customised power supply solutions that we offer to address our customers' demanding needs. Enabled by the successful share issue, the Powernet acquisition, completed at the end of 2018, extended further our technical competence as well as our product and system portfolio. Together with new products launched in Italy, this will help us shift our focus specifically towards higher added value products and solutions. Through cooperation with our new Chinese power source partner, we seek to improve our profitability and to trigger further growth with the introduction of new products.

We firmly believe that the actions, decisions and strategic choices we made in 2018 will help us build new, growing business. The need for high-quality, energy-efficient power electronics is constantly increasing. The electrification and digitalisation of functions in all spheres of society and phenomena offering almost unlimited application opportunities, such as the Internet of Things (IoT) and big data, ensure that there will be a growing need for electricity, and therefore also power sources, in the future. Growing automation in the manufacturing industry and the gradual shift of the telecommunication sector towards 5G technology in part also increase demand for power sources.

We aim to increase our turnover and profitability in the industrial and telecommunication business through good customer understanding, sound technological expertise and high-quality products. To achieve this goal, we will offer our current customers an even broader product portfolio and larger systems and actively look for new customers in the market for products and solutions intended for demanding operational environments. Among others, we perceive computer centres, power electronics solutions for solar panel systems as well as solutions needed by railways and other demanding transport systems as new growth areas.

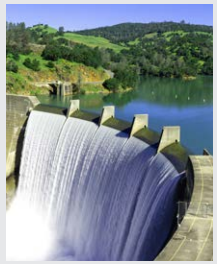
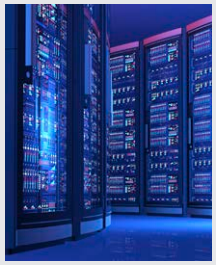
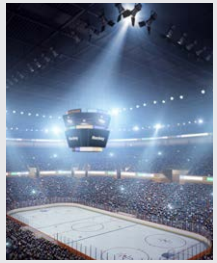
I warmly thank Jorma Wiitakorpi for our collaboration so far and for his valuable support as I take on the CEO position. We have shared the same views and ideas about Efore's development and goals throughout the collaboration. The implementation of the joint plan will also continue after the CEO change.

**"WE AIM IS TO INCREASE OUR TURNOVER AND PROFITABILITY IN THE INDUSTRIAL AND TELECOMMUNICATION BUSINESS."**

Vesa Leino
CEO as of January 1, 2019

# BUSINESS OPERATIONS

**Efore designs, develops and manufactures demanding power supply products and solutions. The company specializes in products and solutions for demanding environmental conditions. Efore portfolio also includes system solutions for power conversion and energy storage.**

| | PRODUCTS | APPLICATION AREAS | |
|---|---|---|---|
| **Digital Power Systems** |   | • Power supply products and highly customized power supply solutions<br>• For use especially in demanding operating environments |   |
| **Telecom** |   | • Power supplies for network devices, properties enabling solar energy solutions, etc. |   |
| **Digital Power and Light** |  | • Customized products for industrial uses and LED power supplies for lighting end products |   |

| CUSTOMER SEGMENTS | BUSINESS AND RECENT DEVELOPMENT | OTHER | |
|---|---|---|---|
| • Power transmission and distribution<br>• Production and refinement of oil and gas<br>• Rail transport<br>• Defense sector<br>• Telecommunications<br>• Maritime transport | • About half of sales come from power supply systems and half from individual power supply products.<br>• The acquisition of Powernet expands and internationalizes the technical expertise and customer base of the Systems product line, and strengthens the company's product and system offering. | **A NEW MHE RECTIFIER**<br>• Efficiency over 96%, the highest in the industry<br>• For challenging operating environments<br>• Longer life, lower life cycle cost | **Digital Power Systems** |
| • Telecommunications<br>• Data communications<br>• Defense sector<br>• Other industries | • Previously, focus on telecom companies with the main offering comprising tailored power supplies.<br>• Customers in the product line include international networking equipment manufacturers.<br>• The goal is to increase the supply of standardized products that are more scalable and meet the needs of more customers. | **PARTNERSHIP MODEL**<br>The goal is to collaborate with a larger strategic partner.<br>Advantages of partnership<br>• Wider offering for customers<br>• Wider customer base<br>• Shared R&D resources<br>• Scalable growth and improved profitability | **Telecom** |
| **APPLICATION AREAS**<br>• Industrial automation<br>• Industrial testing<br>• LED displays<br>• Transport equipment<br>• Healthcare<br>• Low-power LED<br>• High-power LED | • The company's strength lies in long-term customer relationships based on years of experience and expertise in the different sub-segments of the industry.<br>• Product range has been expanded to include test and measurement instruments and digital displays, and a new product platform has been launched.<br>• Product appreciation has been used to expand the product range.<br>• The focus has been shifted to the high-power LED power supply market from low-power LED power supplies. New products are already on the market. | **MODULAR PRODUCTS**<br>Cooling<br>Casing<br>Other features<br>BASE<br>Huge number of versatile custom-tailored variations | **Digital Power and Light** |

# SMART SOLUTIONS FOR ELECTRIC FUTURE

In November 2018, Efore's Board of Directors confirmed the company's updated strategy and the medium-term financial targets for 2019–2021.

Efore's mission, "Smart Solutions for Electric Future", is to produce efficient and high-quality power electronics products and systems to meet the current and future needs of its customers. Efore is involved in the electrification and digitalization of its customers' businesses and operating environments, thus helping to create more favorable conditions for sustainable development.

## CORNERSTONES OF OPERATIONS

### LIFE-CYCLE APPROACH

- Delivering complex power supply solutions to demanding markets
- Focus on own product development and innovation – development of intelligent, customizable, modular and complex systems in close collaboration with key customers
- Optimizing life-cycle costs

### PARTNERSHIPS

- Strengthening own technologies, product development know-how and capacity in cooperation with partners
- Producing simpler products with partners specializing in mass production
- In life-cycle management and maintenance, own resources supported by partners

### INTELLIGENT TAILORING

- Regional market knowledge – ability to understand customer needs
- Utilizing modular product platforms in combination with customer-specific tailoring – cost-efficient and fast customer service

### COST EFFICIENCY

- Support system reforms
- Better availability of raw materials
- Cost management through partnerships

# STRONGER THAN EVER, RENEWED EFORE HEADS FOR A BRIGHT FUTURE

In the future, Efore aims to provide its customers with a wider product portfolio and larger system entities and to be a more significant partner for its customers. The company will also be actively looking for new customers in the market for products and solutions intended for demanding operational environments. The company took significant steps towards achieving these goals as it acquired Powernet International Oy at the end of 2018 and signed a letter of intent on cooperation with a Chinese power supply partner on November 27. The aim is to implement the cooperation arrangement in the first quarter of 2019.

## POWERNET AND SYSTEMS – STRONGER TOGETHER

Powernet has significant customer accounts in Northern and Central Europe and its knowledge of customer industries is excellent.

Powernet will further strengthen the technical expertise of the Systems product line. The company is a pioneer in developing, for example, IoT technology for power supply systems monitoring.

Together, Powernet and Systems are ready for significant business growth.

## TELECOM – GROWTH THROUGH PARTNERSHIPS

EFORE
TRUSTED POWER PARTNER

- Excellent technical know-how and product development
- Long-term and satisfied customers

- A broad product portfolio
- Production capacity and cost efficiency

A letter of intent for a joint venture signed with a Chinese power supply manufacturer.

By sharing product development resources, the company will be able to respond to customer needs faster.

Scalable growth is based on a more comprehensive product range. Both new and existing, long-term and satisfied customers can be better served.

## FINANCIAL TARGETS

### TARGETS FOR 2019:

- net sales exceeding EUR 70 million
- clearly positive EBITDA (adjusted for items affecting comparability)
- positive cash flow from operating activities.

### MEDIUM-TERM TARGETS:

- 10% annual organic growth of net sales
- net sales exceeding EUR 90 million in 2021
- EBITDA at least 10% in 2021
- clear improvement of equity ratio from the first half of 2018.

# MEGATRENDS SUPPORT COMPANIES SPECIALIZING IN ADVANCED POWER SOURCE TECHNOLOGY

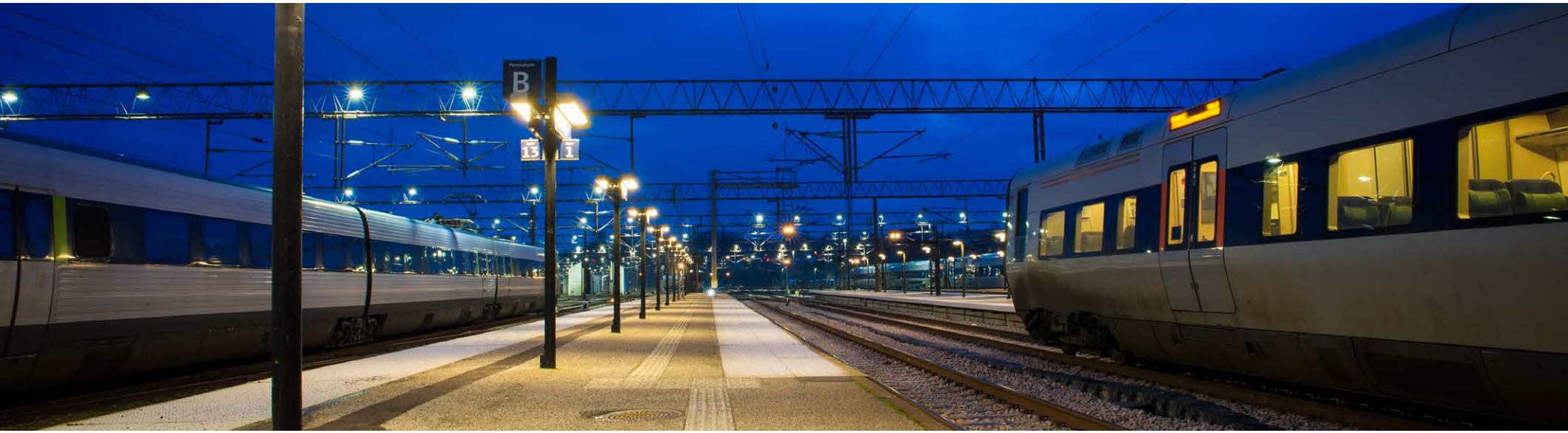
Electronic equipment cannot use electricity directly from the power grid. Instead, they need a power source to convert the current electrical energy into different form. In the end product, the power source is typically a component that is not visible from the outside.

There is no demand for power sources in themselves. Their demand depends on the demand for end products, such as mobile phone network base stations or industrial robots. Since the demand for power sources is derived from the demand for end products in this manner, the long-term growth of the power source market is linked to the growth of the amount of electronic equipment used.

The size of the global power source market is approximately USD 32 billion. Power sources manufactured by original equipment manufacturers (OEMs), themselves account for approximately a third of the market, with the remaining two-thirds being the commercial market in which Efore and other power source manufacturers operate. The typical customers of power source companies are OEMs, in whose end products the power source is a key component. Power source manufacturers sell their products to OEMs either directly or through wholesalers or distributors.

In 2018, the size of the commercial power source market was estimated to be approximately USD 21.4 billion. The average annual market growth between 2015 and 2020 is estimated to be 0.7 percent, which would make the size of the market USD 22.1 billion in 2020. While the market as a whole is growing only at a moderate rate, certain segments within it are seeing much faster growth.

The 10 largest players in the commercial power source market control about half of the market, with the other half divided between approximately a thousand companies. This means that medium-sized operators, such as Efore, have the opportunity to increase their



market share through special expertise or significant accounts.

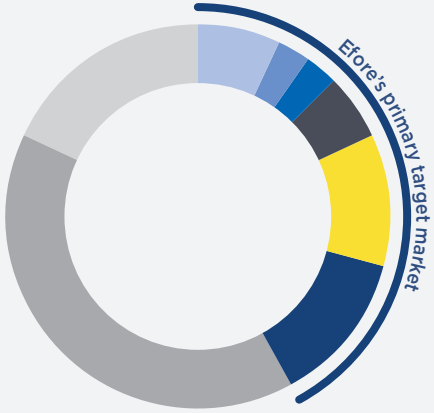
Slightly over half of the global commercial power source market consists of products whose research and development is the result of close cooperation between an OEM and a power source manufacturer. These are known as customized products.

Non-customized products sold to various industries and customers are referred to as standardized products. A standardized power source is not, however, a bulk product for which price is the only crucial buying criterion. The reason for this is that there are significant differences in the attributes of standardized power sources, such as their size and efficiency.

The power source market is influenced by several increasingly important global megatrends that support power source manufacturers with advanced technological expertise in particular. The growing use of LED lighting, for example, supports the market for a certain segment of power sources, because LED lighting always needs a separate power source. In the manufacturing industries, the increasing use of automation and new technologies are leading to higher demand for power sources. As the telecommunications industry gradually transitions to 5G technology, the number of connected devices will increase. The shorter range of 5G technology compared to previous generations also means that networks of base stations requiring power sources will need to be built more densely than before.

Efore's primary target market consists of transport, healthcare, the defense and aerospace industry, manufacturing, LED lighting and the telecommunications sector. The market research company Micro-Tech Consultants (MTC) estimates that all of the segments in the company's target market will grow in 2018–2020.

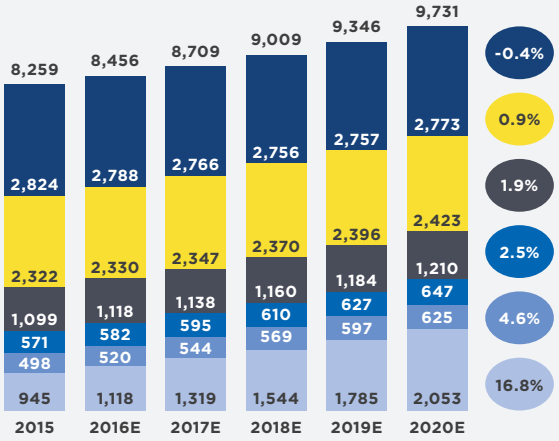
**Commercial power supply market in 2018E (%)**




- LED lighting 7.2
- Transport 2.7
- Healthcare 2.8
- Defense and aerospace 5.4
- Industry 11.1
- Telecommunications 12.9
- Consumer products 40.0
- Computer and non-consumer products 17.9

Source: Micro-Tech Consultants. Global Switching Power Supply Industry 2016

**Efore's primary target market by segment in 2015–2020E (USDM)**




- LED lighting
- Transport
- Healthcare
- Defense and aerospace
- Industry
- Telecommunications

Source: Micro-Tech Consultants. Global Switching Power Supply Industry 2016
CAGR = Compound annual growth rate

# REPORT OF THE BOARD OF DIRECTORS 2018

Efore is an international business that develops and manufactures demanding power electronics products. In 2018, Efore complied with the Insider Guidelines issued by Nasdaq Helsinki Ltd, as well as the Finnish Corporate Governance Code 2015 for Listed Companies issued by the Securities Market Association.

The Corporate Governance Statement has been published as a separate report on the Group's website and in the Annual Report.

## GROUP STRUCTURE

Efore Group consists of the parent company Efore Plc and its directly or indirectly wholly owned subsidiaries Efore (USA) Inc. in the United States, Efore (Suzhou) Electronics Co. Ltd in China, Efore (Suzhou) Automotive Technology Co. Ltd in China, Efore OU in Estonia, Efore AB in Sweden, Efore (Hong Kong) Co. Ltd in China, FI-Systems Oy and Efore Telecom Oy in Finland, as well as Efore S.p.A. in Italy, Efore Sarl in Tunisia and Efore Inc. in the United States.

Powernet International Oy and its subsidiary Powernet Oy became part of the Group structure as of December 31, 2018.

## NET SALES AND RESULT FOR THE FINANCIAL YEAR

Net sales totaled EUR 52.4 million (69.9 million).

Net sales of the industrial sector totaled EUR 33.7 million (36.3 million), with a year-on-year decrease of 7.2%. The weaker-than-expected demand by some key customers as well as delays in scheduled product launches together with exchange rate changes had a negative impact on the development of net sales of the industrial sector.

Net sales of the telecommunications sector totaled EUR 18.7 million (33.6 million), with a year-on-year decrease of 44.2%. A difficult market situation in the telecommunication sector and difficulties in the availability of materials and components had a negative impact on the development of the telecommunications sector net sales.

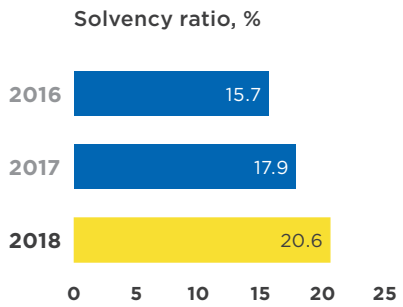
Operating result totaled EUR -7.2 million (-0.2 million). The decline in operating result was primarily due to the low level of net sales. Operating profit includes EUR 0.8 million of write-down of capitalized product development costs and EUR 0.6 million of year-end depreciation of production inventory.

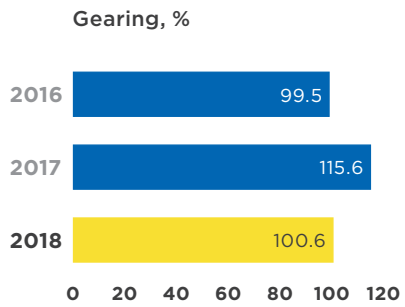
## BUSINESS DEVELOPMENT

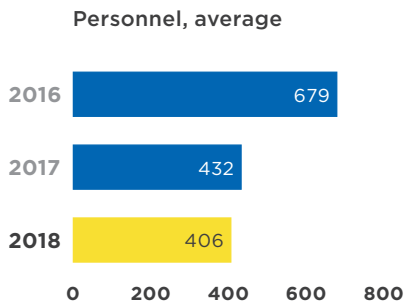
### Industrial sector

In December 2018, Efore strengthened its industrial business by acquiring the entire share capital of Powernet International Oy, which specializes in designing and manufacturing customized power supplies and systems. With this acquisition, Efore shifts its focus towards products and solutions with higher added value. Examples include customized power supply packages and turnkey delivery projects for the railway industry, among others.

The new MHE rectifier with efficiency of 97% was very well received in the



market. However, due to problems with the availability of components, the first volume deliveries were postponed to the beginning of 2019. The order backlog of the MHE was very good at the end of 2018, providing good prospects for revenue growth in 2019.

The Digital Power and Light product range was expanded with new product launches. Several new customer-specific products were delivered to key customers, utilizing previously developed product platforms. In addition, a new 200W product family was launched, with products designed specifically for display boards and home care equipment. As part of Efore's know-how, high-IP-class products were also introduced for challenging environments, such as wet conditions, operating rooms and complex automation solutions.

In spring 2018, the company also introduced a new, high power density Strato EVO product family, with the first products delivered during the second half of the year. Specifically designed for indoor and architectural use, as well as for outdoor lighting, Strato EVO products are a continuation of the successful Strato product family. With competitively priced and fully programmable power supplies, customers are able to reduce the amount of product items in stock and at the same time respond faster to market demand.

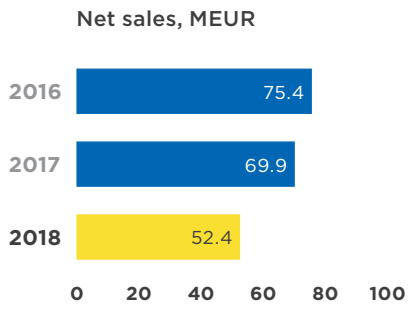
At the end of the financial year, the company also started deliveries of new power supplies in a higher power class (1500W). These products are used, for example, in the lighting of sports stadiums and airports. Interest in the 1500W product has clearly increased, supporting the strategy of high-power products and creating a basis for revenue growth in 2019.

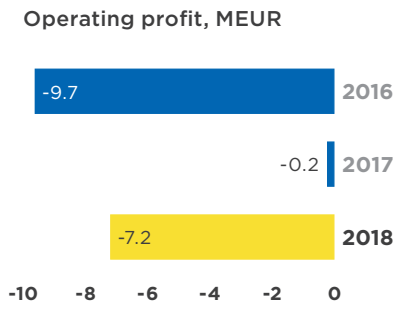
**Telecommunications business**

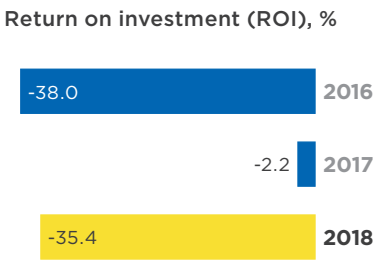
For telecommunications business, the year was both positive and negative. The first-half and full-year net sales were clearly below the level of 2017, but in the second half of the year, Telecommunications' net sales improved due to growing demand and exceeded the first half of the year. The growth in net sales in the second half of the year were hampered in particular by the availability problems of components due to the relatively rapid pick-up in demand.

The telecommunications market is still in a process of transformation, which places new demands on the industry. From 2017, in response to the market change, Efore has been targeting its product development investments primarily at smaller base station products. The range has also been extended to products that can be used independently of network technology. Products based on 5G technology play a key role in future network extensions.

System products for the telecommunications and industrial markets will play a more significant role in Efore's future product offering. System products in this context refer to larger entities, which include, in addition to Efore's cur-



rent products, electromechanical and cabling products, for example. These products can draw on the expertise and know-how already existing in the design of rectifier systems.

**Other development**

As a result of a component shortage, not all products could be delivered to customers according to their needs during the year. The company also had to make purchases at spot prices on the component market, which increased costs. The company is continuing to take measures to better ensure the availability of components. The development of operations at the Tunisia plant will continue through investments in production equipment and quality assurance.

The Group continued to develop its operational activities. As part of this process, the organizational structure was renewed at the beginning of 2018 by moving to a business line-based organization. In the new business line organization, Efore has two businesses: Industrial business and Telecom business. The Industrial business consists of two business lines: Digital Power & Light and Systems. The Telecom business has one product line: Telecom. The new organization structure enables Efore to be more customer-oriented as well as further improve its operational efficiency and ability to capitalize on new business opportunities.

Efforts to reduce the balance sheet continued and, as part of improving cost-efficiency, the product development operations of the Telecom business in Sweden were discontinued and centralized to Finland and China during the financial year. The Group also continued to take measures to adapt the fixed cost structure and improve operational efficiency during the second half of the year.

**Market outlook**

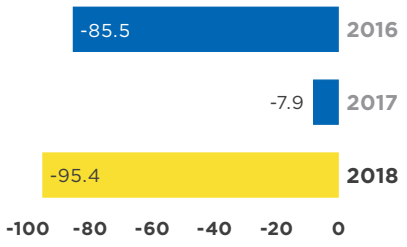
In the Industrial business, power supplies for LED lighting, measuring equipment, healthcare equipment and infrastructure continue to offer several growth opportunities. Efore will be investing in customer segments where high reliability and long product lifecycles are key business drivers. The product development efforts of Efore's Telecom business customers are increasingly focused on 5G-technology. The new products introduced to the market by Efore support both current technology as well as future 5G technology, which creates potential for growth.

**POWERNET INTERNATIONAL ACQUISITION**

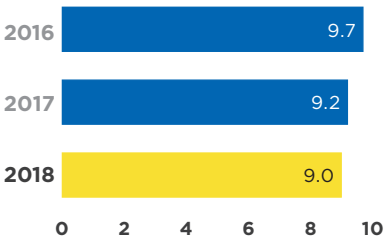
Efore plc acquired Powernet International Oy's entire share capital in December 2018. Powernet International specializes in development and manufacture of customer-specific power supplies and systems. The acquisition further shifts Efore's focus towards higher value-added products and solutions. Efore's Systems business and Powernet International form a strong platform based on Finnish know-how dating back years, on which Efore will build new and growing business.

From the beginning of 2019, Efore's Systems business and Powernet International Oy formed a new business line in the Industrial business. This new business line is called Digital Power Systems.

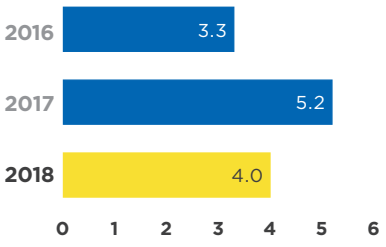
Return on equity (ROE), %




Product development costs, MEUR




Gross investments, MEUR



Established in 1992, Powernet International develops and manufactures customer-specific power supplies and systems. Examples of these include customized power supply and power distribution packages as well as turnkey project deliveries for the rail industry, among other sectors. Powernet International has also been a forerunner in the development of the IoT-enabled condition monitoring of power supply and power distribution packages, which is utilized in smart battery chargers, for example. Powernet International is a widely recognized player in North and Central Europe in particular. Powernet International has approximately 30 employees. In the financial year 2018, its net sales amounted to EUR 9.0 million, EBITDA was EUR 0.2 million and the operating profit was EUR -0.7 million.

The purchase price on a cash and debt-free basis (enterprise value) was EUR 4.5 million and the purchase price for the shares at the closing of the transaction was EUR 2.5 million. The parties also agreed on an earn-out based on the sales margin generated by Powernet products during the financial year 2019. The maximum amount of the earn-out is EUR 1.5 million.

## INVESTMENTS AND PRODUCT DEVELOPMENT

The Group's investments during the year amounted to EUR 6.8 million (EUR 5.2 million), which includes capitalization of product development costs in the amount of EUR 2.9 million (EUR 3.4 million) and the Powernet International acquisition, which amounted to EUR 2.8 million including the transaction costs related to the acquisition. At the end of the year, capitalized product development investments amounted to EUR 9.4 million (EUR 8.8 million).

During the year, the Group recognized impairment of EUR 0.8 million in capitalized product development costs mainly as a result of changes in the volume expectations of certain customers and their products in the Telecom business and in the Digital Power and Light business.

Product development expenditure for the full financial year amounted to EUR 9.0 million (EUR 9.2 million), of which EUR 2.9 million (EUR 3.4 million) were capitalized and EUR 6.0 million (EUR 5.8 million) were recognized as an expense, including depreciation, which corresponds to 11.5% (8.3%) of net sales.

During the financial year, impairment of EUR 5.0 million reducing the equity was recognized in the parent company's holdings in Group companies.

## FINANCIAL POSITION

Net interest-bearing liabilities totalled EUR 9.4 million (EUR 8.1 million) at the end of the financial year. Consolidated net financial expenses were EUR 1.3 million (EUR 0.9 million).

Cash flow from operating activities in January–December was EUR -2.8 million (EUR 4.7 million). The negative cash flow is attributable to the loss for the period. Cash flow after investments was EUR -9.6 million (EUR -0.5 million). The Group's solvency ratio at the end of December was 20.6% (17.9%) and the net gearing ratio was 100.6% (115.6%).

The liquid assets excluding undrawn credit facilities totalled EUR 3.7 million (EUR 4.5 million) at the end of December. At the end of the financial year, the Group had undrawn credit facilities, excluding factoring limits, amounting to EUR 1.5 million (EUR 3.4 million). The balance sheet total was EUR 45.7 million (EUR 39.3 million).

On May 31, 2018, Efore raised long-term credit of EUR 2.0 million in Italy. This credit has covenants related to net debt/EBITDA and net debt/net equity. The terms of the covenants were not met at the end of the financial year 2018. The official credit proposal requires the completion of Efore Spa's financial statements. The company's management believes that the negotiations will lead to acceptable results.

Efore's interest-bearing liabilities increased by EUR 1.9 million as a result of the Powernet International acquisition. Bank loans accounted for EUR 0.6 million of this amount, with other interest-bearing liabilities representing EUR 1.2 million. The creditor is Efore's main financier bank. The loan has covenants which were not met at the end of the financial year, on December 31, 2018. The bank has committed to grant a waiver regarding the covenants. The company has agreed with the bank to negotiate the restructuring of the covenants in the post-acquisition phase during the first half of 2019.

A new payment plan was negotiated in December 2018 for the next five-year period with Efore's main financier bank regarding the repayment of EUR 6.0 million in loans maturing on December 31, 2018. The bank waived its contractual right to call in the loan. Efore made an instalment of EUR 0.2 million on the loan at the end of the year. On the financial statements date, Efore's outstanding loans from its main financier bank amounted to EUR 5.8 million. As a result of the successfully completion of a rights issue, Efore pledged to repay loans from its main financier bank by an additional EUR 0.6 million at the beginning of 2019.

Efore Plc's rights issue was successfully completed in December 2018 to strengthen the Group's capital structure and working capital. As a result of the rights issue, the company raised the targeted gross proceeds of approximately EUR 11 million. The company used the gross proceeds to repay a short-term loan from its owners in the amount of EUR 4.6 million, including interest, carry out the Powernet International acqui-

sition and finance its general working capital needs.

**ENVIRONMENTAL POLICY AND OBLIGATIONS**

Efore's environmental systems are developed and maintained according to the international ISO 14001:2004 standard. All of the Group's product development and production sites are certified according to the standard.

The products are designed to meet the requirements of the European Union's WEEE (Waste Electrical and Electronic Equipment) Directive. Efore's product development is based on the guidelines of the EuP (Energy-using Products) Directive in order to minimize the use of natural resources related to the products.

Efore's production facility is equipped for lead-free production in accordance with the RoHS (Restriction of the use of certain Hazardous Substances) Directive. Lead-based production processes can also be employed, if necessary, to meet product requirements.

The recycling of electronics and metal waste is carried out in partnership with specialized service providers. Chemical waste is collected and transported to service providers who specialize in hazardous waste disposal.

No environmental risks or obligations having an impact on the company's financial position have emerged by the date of publication of the financial statements.

**PERSONNEL**

The Group had 406 (432) employees during the financial year on average. The number of employees at the end of the year was 442 (406). The increase in personnel at the end of the financial year was due to the acquisition of Powernet International in December 2018.

**BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT TEAM**

The Annual General Meeting held on April 12, 2018, re-elected Marjo Miettinen, Antti Sivula and Tuomo Lähdesmäki to the Board of Directors and elected Taru Narvanmaa and Matti Miettunen as new members. Jarmo Simola served as a Board member until March 28, 2018.

At the end of the financial year, the members of the Executive Management Team and their responsibilities were as follows: Jorma Wiitakorpi (President and CEO), Vesa Leino (Finance and ICT), Ari Kemppainen (Telecom Business), Carlo Rosati (Digital Power and Light), Samuli Räisänen (Systems Business) and Ruben Tomassoni (Operations).

Vesa Leino (born 1969), who has served as the Group CFO since summer 2017, was appointed as Efore Plc's new President and CEO effective from January 1, 2019. At the same time, Group Controller Olli Mustonen (born 1985) was appointed as Efore's CFO and member of the Executive Management Team effective from January 1, 2019. Jorma Wiitakorpi, who served as the President and CEO of Efore Plc since 2016, will continue as Efore Group's Business Development Director until June 30, 2019. His main responsibilities will be the implementation of the planned restructuring in China and activities related to Efore Group's cost-efficiency improvements. Wiitakorpi will remain a member of the Executive Management Team.

Carlo Rosati, Finance & Administration Manager in Italy, was appointed as Executive Vice President of Efore's Digital Power and Light business line from January 1, 2019. Alessandro Leopardi, Executive Vice President of Efore's Digital Light and Digital Power business lines, left the company on October 26, 2018.

Heikki Viika was appointed as Executive Vice President of the Digital Power Systems business line and member of the Executive Management Team effective from January 1, 2019. The Digital Power Systems business line consists of Efore's previous Systems business and the operations of Powernet International, which was acquired by the Group.

**AUDITORS**

The Annual General Meeting of April 12, 2018, appointed KPMG Oy Ab as the company's auditor, with Authorized Public Accountant Henrik Holmbom as the principal auditor.

**SHARE, SHARE CAPITAL AND SHAREHOLDERS**

At the end of the financial year, the number of shares was 421,636,788. The number of shares increased by 365,863,897 as a result of the share issue carried out in December 2018.

At the end of the financial year, Efore held 3,506,620 (3,501,995) of its own shares.

The highest share price during the financial year was EUR 0.22 (EUR 0.70) and the lowest price was EUR 0.03 (0.42). The average price during the year was EUR 0.10 (EUR 0.60) and the closing price was EUR 0.04 (EUR 0.43). Calculated based on the final trading price at the end of the financial year, the market capitalization was EUR 16.9 million (EUR 22.5 million).

The total number of Efore shares traded on Nasdaq Helsinki during the financial year was 39.0 million (9.4 million), which corresponds to 9.3% (16.9%) of the total number of shares. At the end of the financial year, Efore had 421,636,788 (55,772,891) fully paid-up shares and 4,131 (3,830) shareholders.

## FLAGGING NOTIFICATIONS

Evli Bank Plc's holding of the shares and votes in Efore Plc fell under the 5% threshold on December 20, 2018. Following the crossing of the notification threshold, Evli Bank Plc held 0.25% of the shares and votes in the company.

Skandinaviska Enskilda Banken AB's holding of the shares and votes in Efore Plc exceeded the 5% threshold on December 20, 2018. Following the crossing of the notification threshold, Skandinaviska Enskilda Banken AB held 9.15% of the shares and votes in the company.

Jussi Capital Oy's holding of the shares and votes in Efore Plc exceeded the 15% threshold on December 28, 2018. Following the crossing of the notification threshold, Jussi Capital Oy held 18.90% of the shares and votes in the company.

Soinitilat Oy's holding of the shares and votes in Efore Plc exceeded the 5% threshold on December 29, 2018. Following the crossing of the notification threshold, Soinitilat Oy held 5.87% of the shares and votes in the company.

## DECISIONS BY THE GENERAL MEETING

The Extraordinary General Meeting held on May 3, 2018, resolved, in accordance with the proposal of the Board of Directors, to authorize the Board of Directors to decide on a share issue according to the pre-emptive rights of shareholders.

The authorization entitles the Board to issue a maximum of 390,410,237 shares. The share issue may be implemented by issuing new shares or by transferring shares held by the company. The Board may exercise the authorization in one or more parts. The Board of Directors was authorized to decide on any other conditions pertaining to the issuance of shares.

The authorization was valid until December 31, 2018. The Board of Directors exercised the authorization during the financial year 2018.

The Annual General Meeting held on April 12, 2018, resolved to adopt the proposal of the Board of Directors to authorize the Board of Directors to, in one or more transactions, decide on the issuance of shares and the issuance of options and other special rights entitling to shares, as referred to in Chapter 10, Section 1 of the Companies Act, as follows:

The number of shares to be issued based on the authorization may, in total, amount to a maximum of 11,150,000 shares, corresponding to approximately 20.0% of all the shares in the company.

The Board of Directors decides on all the terms and conditions of the issuance of shares, options and other special rights entitling to shares. The authorization concerns both the issuance of new shares as well as the transfer of treasury shares. The issuance of shares and special rights entitling to shares may be carried out in deviation from the shareholders' pre-emptive rights (directed issue).

The authorization replaces the authorization given by the Annual General Meeting on April 5, 2017, to decide on the issuance of shares and special rights entitling to shares.

The authorization is valid until the close of the following Annual General Meeting, however, no longer than until June 30, 2019. The Board did not exercise this authorization in 2018.

## SHORT-TERM RISKS AND UNCERTAINTIES

The general economic development may have an effect on Efore's business environment. Due to the nature of its business, Efore is facing some notices of defects, and their final outcome cannot be predicted. Based on the current information, these claims are not expected to have a material impact on the Group's financial position.

The most significant business risks are related to the market success of key customers' products. The progress of Efore's product development projects depends partly on the customers' project schedules. Furthermore, demand fluctuations typical of the market cause rapid changes in Efore's business.

The lead times for component deliveries have become longer, and there are occasionally challenges related to the availability of certain components. This may continue to affect Efore's delivery capability going forward. Efore estimates that the component shortage will continue until 2020.

Expanding the product portfolio to include system-level solutions in the Industrial business may lead to an increased product liability risk.

The rights offering in the end of the year 2018 significantly improved Efore's solvency and decreased gearing. However, there are some risks related to the adequacy of financing. The company aims to manage these risks through the active planning and implementation of the different options.

## RISK MANAGEMENT

### Organization of risk management

The purpose of Efore's risk management system is to identify the strategic, operational and financial risks faced by the company and any conventional risks of loss. The risks that Efore takes in its operations are risks that are encountered in the pursuit of the company's strategy and goals. Risk management seeks to control these risks in a proactive and comprehensive manner. The measures taken can include risk avoidance, risk reduction and risk transfer by insurance or agreement.

**Management of business risks**
In accordance with Efore's operating principles, risk management forms an integral part of the company's business processes in all of its operational units. Efore Group and its operational units assess the risks of their own operations and are responsible for risk management plans related to them.

Efore's operational units have training and development programs for reducing occupational accidents and improving overall safety levels. Environmental management systems based on the ISO 14001:2004 standard and quality management tools based on ISO 9001/2000 are applied in the Group's different business locations and form the basis for the management of environmental risks.

There are separate guidelines for data security and corporate security. Risk management in procurement is based on harmonized purchasing guidelines, contract clauses and advanced data systems.

**Management of risks of loss**
Efore aims to prevent losses by observing the highest standards in its operations and taking proactive risk management measures. Risks that Efore cannot manage itself are insured. The aim is to have appropriate insurance cover for all risks of loss, such as those concerning assets, business interruption as well as operational and product liability.

**Management of financing risks**
The principles and aims of the Group's management of financing risks are determined by the management and confirmed by the Board of Directors. The management of financing risks aims at avoiding risks and establishing cost-effective arrangements for protecting the Group from factors that may affect its performance and cash flow.

The management of financing risks is discussed in Note 26 to the consolidated financial statements.

## ESTIMATE OF FINANCIAL DEVELOPMENT IN THE FINANCIAL YEAR 2019

The target for 2019 is to achieve over EUR 70 million net sales, clearly positive EBITDA (adjusted for items affecting comparability) and positive cash flows from operating activities.

## THE BOARD'S DIVIDEND PROPOSAL

The Board of Directors will propose to the Annual General Meeting of April 11, 2019, that no dividend be distributed and the loss be transferred to the retained earnings account.

## EVENTS AFTER THE END OF THE FINANCIAL YEAR

Skandinaviska Enskilda Banken AB's holding of the shares and votes in Efore Plc fell below the 5% threshold on January 2, 2019.

The following persons were appointed as members of Efore Plc's Shareholders' Nomination Board on January 14, 2019:
- Jussi Capital Oy: Jarkko Takanen
- Rausanne Group: Jarmo Malin
- Jaakko Heininen and related parties: Jaakko Heininen

In addition, Tuomo Lähdesmäki, Chairman of the Board of Directors of Efore Plc, serves as a member of the Nomination Board. In its constitutive meeting, the Nomination Board elected Jarkko Takanen as its Chairman.

The Shareholders' Nomination Board of Efore Plc prepared proposals on the composition of the Board of Directors and the remuneration of the Board of Directors to the Annual General Meeting to be held on April 11, 2019. The proposals were published in a stock exchange release on January 16, 2019, as follows:
- The Nomination Board proposes to the Annual General Meeting that four (4) members be elected to the Board of Directors.
- The Nomination Board proposes that Tuomo Lähdesmäki, Matti Miettunen, Taru Narvanmaa and Antti Sivula be re-elected as members of the Board for a term starting at the end the General Meeting at which he or she has been elected and expires at the closing of the Annual General Meeting 2020. Marjo Miettinen, who has been a member of Efore's Board of Directors since 2013, has announced that she is not available for re-election to the Board for reasons related to time management.
- All of the proposed Board members are considered to be independent of the company and its major shareholders.
- The candidate information relevant to serving on the Board of Directors is presented at the company website at www.efore.com.
- The Nomination Board proposes to the Annual General Meeting that the remuneration paid to the members of the Board of Directors and the Chairman of the Board of Directors be increased so that the fee paid to the Chairman would be EUR 3,750 per month (2018: EUR 3,500) and the fee paid to other Board members EUR 2,000 per month (2018: EUR 1,750). In addition, the Nomination Board proposes that the Board member serving as Chairman of the Audit Committee be paid EUR 750 per month for the upcoming term (2018: no additional fee).
- In addition, the Nomination Board proposes that travel expenses be payable against receipt.
- The proposals of the Nomination Board will be included in the notice to the Annual General Meeting.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, EUR 1,000

| Continuing operations | Note | Jan. 1,–Dec. 31, 2018 | Jan. 1,–Dec. 31, 2017 |
|---|---|---|---|
| **REVENUE** | 1 | **52,401** | 69,872 |
| Change in inventories of finished goods and work in progress | | **-597** | -1,864 |
| Work performed for own purposes and capitalised | | **133** | 103 |
| Other operating income | 3 | **195** | 530 |
| Material and services | 4 | **-36,618** | -47,956 |
| Employee benefits expense | 5 | **-10,758** | -11,022 |
| Depreciation and amortisation | 6 | **-3,568** | -3,713 |
| Impairment | 6 | **-779** | -85 |
| Other operating expenses | 7 | **-7,615** | -6,032 |
| **OPERATING PROFIT** | | **-7,207** | -165 |
| | | | |
| Financing income | 8, 10 | **1,592** | 2,634 |
| Financing expenses | 9, 10 | **-2,898** | -3,499 |
| **PROFIT/LOSS BEFORE TAX** | | **-8,513** | -1,030 |
| | | | |
| Tax on income from operations | 11 | **687** | 452 |
| **PROFIT/LOSS FOR THE PERIOD** | | | |
| | | **-7,827** | -578 |
| Other comprehensive income: | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Remeasurement of defined benefit plan | | | |
| Items that will not be reclassified to profit or loss | | **26** | 69 |
| Items that may be reclassified subsequently to profit or loss | | | |
| Exchange differences on translating foreign operations | | **-37** | -45 |
| **TOTAL COMPREHENSIVE INCOME** | | **-7,837** | -554 |
| | | | |
| **Profit attributable to:** | | | |
| Owners of the parent company | | **-7,827** | -579 |
| Non-controlling interests | | **0** | 1 |
| | | **-7,827** | -578 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the parent company | | **-7,837** | -555 |
| Non-controlling interests | | **0** | 1 |
| | | **-7,837** | -554 |
| | | | |
| **Earnings per share calculated on profit attributable to equity holders of the parent:** | | | |
| Earnings per share, eur | 12 | **-0.14** | -0.01 |
| Earnings per share, diluted eur | 12 | **-0.14** | -0.01 |

All figures are rounded and consequently the sum of individual figures can deviate from presented amounts.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION, EUR 1,000

| | Note | Dec. 31, 2018 | Dec. 31, 2017 |
|---|---|---|---|
| ASSETS | | | |
| | | | |
| NON-CURRENT ASSETS | | | |
| Intangible assets | 13 | **11,715** | 10,244 |
| Goodwill | 2, 13 | **4,275** | 1,114 |
| Tangible assets | 14 | **3,275** | 2,853 |
| Other non-current financial assets | 15 | **125** | 86 |
| Non-current trade and other receivables | 18 | **501** | 82 |
| Deferred tax asset | 16 | **3,667** | 2,945 |
| NON-CURRENT ASSETS | | **23,558** | 17,324 |
| | | | |
| CURRENT ASSETS | | | |
| Inventories | 17 | **9,036** | 8,736 |
| Trade receivables and other receivables | 18 | **9,332** | 8,453 |
| Tax Receivable, income tax | | **111** | 324 |
| Cash and cash equivalents | 19 | **3,653** | 4,513 |
| CURRENT ASSETS | | **22,132** | 22,026 |
| | | | |
| ASSETS | | **45,690** | 39,350 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION, EUR 1,000

| | Note | Dec. 31, 2018 | Dec. 31, 2017 |
|---|---|---|---|
| EQUITY AND LIABILITIES | | | |
| | | | |
| Owners of the parent company | | | |
| Share capital | 20 | **15,000** | 15,000 |
| Unrestricted equity reserve | 20 | **38,187** | 27,971 |
| Other reserves | 20 | **702** | 702 |
| Treasury shares | 20 | **-2,427** | -2,427 |
| Translation differences | 20 | **3,274** | 3,310 |
| Accumulated earnings | | **-45,348** | -37,546 |
| Owners of the parent company | | **9,389** | 7,010 |
| | | | |
| Non-controlling interests | | **1** | 1 |
| EQUITY | | **9,391** | 7,012 |
| | | | |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liability | 16 | **384** | 218 |
| Non-current liabilities, interest-bearing | 21, 22 | **5,396** | 871 |
| Other non-current liabilities | 2 | **731** | |
| Pension loans | 24 | **1,183** | 1,316 |
| Provisions | 25 | **634** | 251 |
| NON-CURRENT LIABILITIES | | **8,328** | 2,656 |
| | | | |
| CURRENT LIABILITIES | | | |
| Current interest-bearing liabilities | 21, 22 | **7,706** | 11,747 |
| Trade Payables and Other Liabilities | 23, 26, 27 | **19,824** | 17,309 |
| Tax liability, income tax | | **276** | 276 |
| Provisions | 25 | **165** | 349 |
| CURRENT LIABILITIES | | **27,972** | 29,682 |
| | | | |
| Liabilities | | **36,299** | 32,338 |
| | | | |
| EQUITY AND LIABILITIES | | **45,690** | 39,350 |

# CONSOLIDATED STATEMENT OF CASH FLOWS, EUR 1,000

| | Note | Jan. 1,–Dec. 31, 2018 | Jan. 1,–Dec. 31, 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Customer payments received | | **52,385** | 74,788 |
| Cash paid to suppliers and employees | | **-53,725** | -69,563 |
| Cash generated from operations | | **-1,340** | 5,225 |
| Interest paid | | **-528** | -429 |
| Dividends received | | **23** | 19 |
| Interest received | | **78** | 55 |
| Other financing items | | **-1,106** | -149 |
| Income taxes paid | | **71** | -41 |
| **Net cash from operating activities** | | **-2,801** | 4,679 |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of tangible and intagible assets | | **-3,995** | -5,278 |
| Proceeds from sale of tangible and intangible assets | | **30** | 121 |
| Proceeds from sale of investments | | **-2,803** | 0 |
| **Net cash used in investing activities** | | **-6,767** | -5,157 |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of share capital | | **6,176** | |
| Proceeds from short-term borrowings | | **8,441** | 6,050 |
| Repayment of short-term borrowings | | **-7,682** | -7,817 |
| Proceeds from long-term borrowings | | **1,800** | 867 |
| Payment of finance lease liabilities | | **-21** | -245 |
| **Net cash used in financing activities** | | **8,714** | -1,145 |
| | | | |
| **Net change in cash and cash equivalents** | | **-854** | -1,623 |
| | | | |
| Cash and cash equivalents, opening amount | | **4,513** | 6,411 |
| Net increase/decrease in cash and cash equivalents | | **-854** | -1,623 |
| Effects of exchange rate fluctuations on cash held | | **-6** | -275 |
| Cash and cash equivalents | 19 | **3,653** | 4,513 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, EUR 1,000

| | Share capital | Unrestricted equity reserve | Treasury shares | Reserves | Translation differences | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **EQUITY Jan. 1, 2017** | **15,000** | **27,971** | **-2,427** | **702** | **3,355** | **-37,037** | **7,564** | **1** | **7,565** |
| Profit/loss for the period | | | | | | -578 | -578 | -578 | -578 |
| **Other comprehensive income:** | | | | | | | | | |
| Remeasurement of defined benefit plan | | | | | | 69 | 69 | | 69 |
| Translation differences | 0 | 0 | 0 | 0 | -45 | 0 | -45 | 0 | -45 |
| **TOTAL COMPREHENSIVE INCOME** | | | | | **-45** | **-509** | **-554** | **1** | **-554** |
| **TOTAL EQUITY Dec. 31, 2017** | **15,000** | **27,971** | **-2,427** | **702** | **3,310** | **-37,546** | **7,010** | **1** | **7,012** |

| | Share capital | Unrestricted equity reserve | Treasury shares | Reserves | Translation differences | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **EQUITY Jan. 1, 2018** | **15,000** | **27,971** | **-2,427** | **702** | **3,310** | **-37,546** | **7,010** | **1** | **7,012** |
| Profit/loss for the period | | | | | | -7,827 | -7,827 | | -7,827 |
| **Other comprehensive income:** | | | | | | | | | |
| Remeasurement of defined benefit plan | | | | | | 26 | 26 | | 26 |
| Translation differences | | | | | -36 | -1 | -37 | 0 | -36 |
| **TOTAL COMPREHENSIVE INCOME** | | | | | **-36** | **-7,801** | **-7,837** | **1** | **-7,837** |
| Share issue | | 10,216 | | | | | 10,216 | | 10,216 |
| **TOTAL EQUITY Dec. 31, 2018** | **15,000** | **38,187** | **-2,427** | **702** | **3,274** | **-45,348** | **9,390** | **1** | **9,391** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, IFRS

## ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

### BASIC INFORMATION ON THE GROUP

Efore is an international Group developing and producing demanding power products. Efore's head office is based in Finland and the R&D functions are located in Finland, Italy and China. Sales and marketing operations are located in Europe, United States and China. The production unit is located in Tunisia.

The parent company is Efore Plc and the head office is in Espoo, Finland; the registered address is Linnoitustie 4 B, 02600 Espoo, Finland. The shares of Efore Plc have been quoted on the Nasdaq Helsinki Stock Exchange since 1989. Copies of the consolidated financial statements are available online at www.efore.com or from the parent company.

The consolidated financial statements were authorized for issue by the Board of Directors of Efore Plc on February 27, 2019. In accordance with Finnish Company Law the shareholders can approve, amend or reject the financial statements in the Annual General Meeting held after publishing the financial statements.

### GENERAL

The consolidated financial statements for the financial period January 1,2018 to December 31, 2018 are prepared in accordance with the International Financial Reporting Standards (IFRS) complying with the IAS and IFRS standards as well as the SIC and IFRIC interpretations in force on December 31, 2018. In the Finnish Accounting legislation based on the provisions of the Act, IFRSs refer to the standards and to their interpretations adopted in accordance with the procedures laid down in the EU regulation (EC) No 1606/2002. The notes to the consolidated financial statements are also prepared in accordance with the Finnish accounting and company legislation.

The consolidated financial statements are prepared under the historical cost convention except for financial assets and financial liabilities, which are recognized at fair value through profit or loss, derivative financial instruments and share-based payments measured at fair value at the grant date. Unless otherwise stated, all the figures in these financial statements are presented in thousands of euros.

### ASSUMPTION OF ABILITY TO CONTINUE AS A GOING CONCERN

The financial statements for the 2018 fiscal year have been prepared on the going concern basis. The financing arrangements are dependent on the future results of the Group.

In 31 May 2018 Efore has raised a long-term credit of EUR 2.0 million in Italy. This credit has covenants regarding net debt/ebitda and net debt/net equity. Note 26 includes detailed information of the credit.

Efore's interest-bearing liabilities increased EUR 1.9 million as a result of Powernet International acquisition, from these liabilities loans were EUR 0.6 million and other interest-bearing liabilities were EUR 1.2 million. The creditor is Efore's main financier bank. The loan has covenants and more detailed description is presented in Note 26.

The Company has agreed with its main financier bank on a reorganisation of its loans. A new payment programme for the next five years has been negotiated for the repayment of the EUR 6.0 million in loans from the main financier bank maturing on 31 December 2018. Bank also waived it's right for early expiration of the loans. Efore has amortized loan by EUR 0.2 million in the end of the year and as at 31 December 2018 Efore had loans with its main financier bank totaling to EUR 5.8 million. As a result of succesfully completed rights issue Efore has pledged to set off loans from main financier bank by additional EUR 0.6 million in the beginning of the year 2019. Note 26 includes a detailed description.

Efore Plc's rights issue was successfully completed in December 2018 to strengthen capital structure and working capital. As a result of the rights issue the Company raised the targeted gross proceeds of approximately EUR 11 million.

The management has taken into account company strategy, cost improvements and related forecasts, sources of financing and risks relating to adequacy of funding. Management assessment is that financing arrangements and completed share rights issue will ensure adequate financing and ensure continuity as going concern.

The management has taken into account the uncertainty factors when assessing the ability of the Group to continue as a going concern. The management considers that the planned actions concerning cost savings and reorganization will ensure the sufficiency of financing. At the time for preparing the financial statements there

was no commercial nor financial risks risks which the company has not been aware of.

### NEW AND AMENDED STANDARDS APPLIED IN FINANCIAL YEAR ENDED

The Group has applied as from 1 January 2018 the following new and amended standards that have come into effect.

- Efore has applied IFRS -15 standard "revenue from customer contracts" from 1st of January 2018. Revenues from customers contracts are coming from sale of goods and there is no relevant amount of services included. thus revenue recognition is done in one time as been earlier also.
- Efore has applied IFRS – 9 standard "financial instruments". It concerns booking timing of possible credit losses. There hs not been relevant effect on Efore.

Other new or renewed standards and interpretations does not have significant effect on group's financial statements.

### SUBSIDIARIES

The consolidated financial statements include the financial statements of the parent company Efore Plc and its subsidiaries. Subsidiaries are companies in which Efore Plc holds, through direct or indirect shareholding, over 50 per cent of the voting rights or in which it has the position to govern the financial and operating policies (control). Potential voting rights have been taken into account in assessment whether the control exists, when such instruments are exercisable at the balance sheet date.

Mutual shareholdings are eliminated using the acquisition method. Subsidiaries are consolidated from the date when the Group acquired control commences and are included up to the date control ceases.

All intercompany transactions, receivables, liabilities, unrealized gains or losses on intercompany transactions and distribution of profits within the Group are eliminated in the consolidation process. Unrealized losses due to impairment are not eliminated. The distribution of profit or loss for the financial period to the shareholders of the parent company is disclosed in the statement of income.

### ASSOCIATED COMPANIES

Associated companies, in which the Group holds, through direct or indirect shareholding, usually between 20 per cent and 50 per cent of the voting rights and in which it exercises significant influence but not control, are consolidated using the equity method. If the Group's share of the associated company's losses exceeds the acquisition cost of the company, the investment has no value in the balance sheet. No consideration is given to losses in excess of the acquisition amount unless the Group has other obligations relating to the associated company. Unrealized profits between Efore and its associates are eliminated in proportion to the share ownership. The profit or loss for the associated companies in the Group is presented as a separate line below operating profit. In the end of the fiscal year December 31, 2018 and December 31, 2017 there were no associated companies in the group.

### FOREIGN CURRENCY TRANSLATION

Figures for the performance and financial position of the Group entities are recorded at the currency that is primary used in the primary operating environment of the entities (functional currency). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the parent company.

### FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated into the respective functional currencies using the exchange rates at the date of the transaction. In practice, an exchange rate that approximates the rate at the date of the transaction is often used. Monetary foreign currency balances at the balance sheet date are translated into functional currency using the exchange rates prevailing at the balance sheet date. Non-monetary foreign currency item recognised at fair value are translated into functional currency using the exchange rates at the dates when the fair value was calculated. Otherwise non-monetary items are translated using the exchange rate at the transaction date. Gains and losses arising from foreign currency transactions and translation of monetary balances are recognized in profit or loss.

Exchange rate differences arising from the translation of balance sheet items in foreign currency and sales, purchases, expenses and financial items as well as from intra-group receivables and liabilities are recognised as exchange rate gains and losses in financial income and expenses. Exchange rate differences on used for hedging net positions in foreign currency are recognized as financial items.

### TRANSLATION OF THE FINANCIAL STATEMENTS OF THE FOREIGN GROUP COMPANIES

The statements of income of the foreign group companies are translated into euro at the average exchange rate of the average rates of the European Central Bank for the calendar months in the financial period, while the balance sheets are translated at the exchange rates at the balance sheet date. The use of different exchange rates for translating the result for income statement

and balance sheet results in translation differences, which are recognized in equity. Translation differences arising from the elimination of the cost of foreign subsidiaries and from the translation of the accumulated post-acquisition equity balances are recognized in equity. At disposal of a subsidiary, the relevant accumulated translation differences are transferred to profit or loss as part of the gain or loss on the sale. Translation differences due to consolidation are presented in equity as a separate item.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

At disposal of an item of the property, plant and equipment may consist of several parts with different useful lives that are in accounting treated as separate items. In such cases, replacement of such an item is capitalized and the carrying amount of the replaced parts is expensed. In other situations subsequent costs are recognised in the carrying amount of the property, plant and equipment only if it is probable that the future income of the item will profit the Group and the cost of the item can be determined reliably. Normal maintenance, repair and renewal costs are expensed as incurred. Land and water are not depreciated.

Property, plant and equipment are depreciated on a straight-line basis over the estimated economic lives of the assets. The estimated useful lives are as follows:

| | |
|---|---|
| Buildings and constructions | 20–40 years |
| Machinery and equipment | 3–10 years |
| Other tangible assets | 5 years |

Other tangible assets include improvement expenditure in rental premises. The residual values and useful lives are reviewed at least annually at year-end and where they differ from previous estimates, depreciation periods are changed accordingly to reflect changes in the expectations of future economic lives.

Gains and losses on scrapping and disposal of property, plant and equipment is recorded in other operating income or expenses.

Depreciation ends when the item of property, plant or equipment is classified as a non-current asset held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

## GOVERNMENT GRANTS

The recognition method for grants received from the Government or other entities subject to public law depends on the nature of the grant. Grants relating to expenses incurred are recognised as revenue in other operating income when the expenses occur. Grants relating to the acquisition of property, plant and equipment are deducted from the cost of the asset. The latter grants are recognised as income through lower depreciation and amortization charge during the useful lives of the asset. Government grants are recognised when there is reasonable assurance that the grants are received and the Group company complies with the conditions associated with them.

## INTANGIBLE ASSETS

### Goodwill

Goodwill from the business combinations is the excess of the cost over the net identifiable assets, liabilities and contingent liabilities measured at fair value. Goodwill is not amortized, it is subject to an annual procedure of impairment testing. The testing is done or more frequent if there is an indication that it might be impaired. For this purpose goodwill is allocated to the cash generating units “CGU” it relates to. An impairment loss is recognized in the consolidated income statement, if the impairment test shows that the carrying amount of the goodwill exceeds the estimated recoverable amount, and the carrying amount is reduced to the recoverable amount. Impairment losses on goodwill cannot be reversed.

### Research and development cost

Research cost is recognized as an expense in profit or loss. Development expenditure arising from designing new or more advanced products are capitalized in the balance sheet as intangible assets from the moment the product is technically feasible, it can be applied commercially and it is expected to generate future economic benefits. Capitalized development costs comprise the material, labour and testing cost that are directly attributable to the process of completing the product for its intended use.

The development process proceeds gradually including seven predefined milestones and four gate assessments. The gate assessments are approved by the management team. The capitalization of development costs in Efore starts when the management team concludes that the capitalization conditions in IAS 38 are met.

An asset is amortized from the date it is available for use. An asset that is not yet available for use is tested annually for impairment. Capitalized development costs are recognised subsequently at cost less accumulated amortization and impairment. Capitalized development costs are amortised on a straight-line basis over their useful life of 3–5 years.

**Intangible rights**
The intangible rights included licences concerning for IT software.

**Intangible assets financial lease**
Intangible assets financial lease consists of the capitalized value of finance lease for IT software.

**Other intangible assets**
Other intangible assets comprise the capitalized costs concerning IT projects. An intangible asset is initially stated at cost and only if the cost can be recorded reliably, and the expected future profits are probable.

Intangible assets are amortized on a straight-line basis over their expected useful lives. Intangible assets with indefinite useful lives are not amortized but tested annually for impairment.

Other intangible assets may also contain intangible assets acquired through business acquisitions such as intangible assets related to customer relations and product rights.

Amortisation periods for the other intangible assets are as follows:

| | |
|---|---|
| Customer relationships | 5–7 years |
| Product rights | 7 years |
| Development expenditure | 3–5 years |
| Intangible rights | 3–5 years |
| Intangible assets, financial lease | 5 years |
| Other intangible assets | 3–10 years |

## NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets, and the disposal groups, as well as assets and liabilities relating to discontinued operations are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. An asset is classified as held for sale when a disposal is highly probable and the asset, or the disposal group, is available for immediate sale in its present condition subject to usual and customary terms, when the management is committed to sell the asset and the sale is expected to be completed within one year from the date of classification. The assets held for sale, or the disposal group, is recognised at the lower of their carrying amount and disposable value. Depreciation and amortisation on these assets ends at the date of classification. Where IFRS 5 is not applicable on assets and liabilities in disposal groups the items are treated accordance to the applicable IFRS.

Assets classified as held for sale, disposal groups, items recognised directly into equity and relating to the assets held for sale as well as liabilities relating to disposal groups are presented separately in the balance sheet.

## INVENTORIES

Inventories are stated at the lower of historical cost or net realizable value. The cost of raw materials is calculated on the weighted average cost basis. The cost for finished goods and work in progress consists of raw materials, direct labour, other direct cost and an appropriate part of the variable and fixed production overheads based on the normal operating capacity. The net realizable value is the estimated sales price in the normal course of business less the cost of completion and realization. An allowance for excess inventory and obsolescence is recorded when the impairment occurs.

## LEASES

**Group as lessee**
Leases of tangible and intangible assets, where the Group has substantially all the risks and rewards of the ownership are classified as finance leases. Finance leases are capitalized in the balance sheet at the fair value of the leased asset at the inception of the lease term or the lower present value of the minimum lease payments. An item acquired through of finance lease is depreciated or amortised over the shorter of the item's useful life and the lease term. Lease payments are allocated between finance costs and reductions of the lease liability during the lease term. The interest on the remaining liability is constant in each financial period. Lease obligations are included in the interest-bearing liabilities.

Leases where the lessor retains the risks and rewards of the ownership are treated as operating leases. Payments under operating lease are expensed on a straight-line basis during the lease term.

## IMPAIRMENTS

**Tangible and intangible assets**
The carrying values of assets are tested annually at the balance sheet date to identify any impairment. If indications of impairment exist, the recoverable amount of the asset is estimated. Estimation is also made concerning the recoverable amount for the following assets at least annually irrespective of whether there are any indications of impairment: intangible assets with indefinite useful lives and capitalized development expenditure (unfinished intangible assets). The need for impairment is considered at the lowest unit level for which separately identifiable, mainly independent, cash inflows and outflows can be defined - the cash-generating unit level.

The recoverable amount of the asset is the disposal value or the value in use. The value in use represents the discounted future net cash flows expected to be derived from an asset or a cash-generating unit. The rate to discount is a pre-tax discount rate that reflecting current market assessments and the risks specific to the asset.

Impairment is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment is recorded immediately in profit or loss. At recognition of the impairment the useful life of a depreciable or amortizable asset is reviewed. An impairment recognized on other assets than goodwill is reversed subsequently if there are changes in the estimates concerning the recoverable amount of the asset. The impairment to be reversed may, however, not exceed the carrying value the asset had before recognition of the impairment.

## EMPLOYEE BENEFITS

### Pension obligations

The Group has entered into several pension schemes in different countries according to local regulations and practices. The pension schemes are classified as defined contribution plans. The Group pays fixed contributions to a separate entity and will have no legal or constructive obligation to pay further contributions if the payee of the contributions does not have sufficient assets to pay pension benefits in question. Payments made into defined contribution pension plans are expensed in the period to which they apply.

### Defined benefit obligations

The group has as a result of the acquisition of the Italian subsidiary a defined benefit obligation, which is due when employment of the employees covered ceases in the future. The related liability is recognised in the consolidated balance sheet. The valuation of this liability is based on actuarial calculations. The contributions to the fund are recognised as personnel expenses in the income statement and the interest cost as financial expense. Remeasurements of the fund are recognized in equity.

### Share-based payments

The share-based incentive programmes are recognized at fair value on the grant date and expensed on a straight-line basis over the vesting period with corresponding entry in retained earnings in equity. The effect on profit or loss is included in employee benefit expenses in the personnel expenses line. The expense determined on the grant date is based on an estimate of the number of options to be vested at the end of the vesting period. The fair value is determined using the Black-Scholes option-pricing model. The estimate of the final number of options is revised at each balance sheet date. The effect of changes in estimates is recognized in profit or loss. The assumptions and estimates made when determining the fair value relate to expected dividend yield, volatility and maturity of the options among other conditions. Non-market conditions such as profitability and certain targets for profit growth are not taken into account when estimating the fair value of an option, but they do affect the estimates of the final number of options.

When option rights are exercised, the subscription-based payments, adjusted by possible transaction costs, are recognized in equity. Payments received for subscriptions of shares, based on options granted prior to the new Limited Liability Companies Act in force since September 1, 2006, have been recognized according to the terms of the programme in share capital and share premium account. The Board of Directors of Efore Plc issued a new stock option plan on 17 June 2014. Each stock option entitles the holder to subscribe for one (1) new share in Efore Plc. The share subscription periods for the stock options issued are the following: Option A: 1 August 2016 - 31 July 2018 (500,000 options), Option B: 1 August 2017 - 31 July 2019 (500,000 options), Option C: 1 August 2018 - 31 July 2020 (500,000 options). The shares subscribed for with the stock options equals to a maximum of 2.69 per cent of the total number of shares in the company.

The Board of Directors of Efore Plc resolved on March 30, 2016 to issue new stock options. The maximum number of shares to be subscribed based on the stock option plan was 1,500,000. Each stock option entitles the subscription one (1) share in Efore Plc. The subscription period for the stock options ended on December 31, 2016. The subscription period for the shares related to the stock options is April 1, 2017 to March 31, 2018. No stock options were granted in 2016. The shares subscribed for with stock options equals to a maximum of 2.7 per cent of the total number of shares in the company.

Further information concerning the programs is presented in Note 20 in the consolidated financial statements.

## FINANCIAL ASSETS AND LIABILITIES

The financial assets are classified into the following categories: financial assets at fair value through profit or loss as well as loans and receivables. Financial assets are classified when initially acquired on the basis of the intended use. Acquisitions and sales of financial assets are recognized at the trade date. In the case of financial assets not held at fair value through profit or loss, the transaction cost is included in the cost. When a financial asset no longer generates income or when all the risks and rewards of the item are transferred substantially to an external party it is derecognized.

### Financial assets at fair value through profit or loss

In Efore financial assets held for trading are classified into this category. Financial assets held for trading com-

prise quoted shares and funds acquired primarily for profit making from the short-term fluctuations in market prices. Derivative financial instruments that neither are financial guarantees contracts nor qualify for hedge accounting are classified as held for trading. Both realized and unrealized gains and losses arising from fluctuations in market value are recognized in profit or loss as incurred. Financial assets held for trading are included in the current assets.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments. These are not quoted in an active market and the Group does not hold them for trading. Loans and receivables are valued at amortized cost. They are included in current or non-current financial assets depending on their maturity. At each balance sheet date the Group reviews objective evidence for the need for impairment recognition regarding both individual receivables and groups of receivables. The unrecoverable amount is assessed primarily on the basis of the risk involved in each item. An impairment loss is recognized as expense in profit or loss.

The Group uses a factoring arrangement concerning trade receivables. To the extent that the liquidity risk is Efore's liability the trade receivables are recognised in the balance sheet at their original invoicing value and stated less any credit losses. The assessment of the amount of unrecoverable receivables and any need for impairment is based on the risk involved in each item. Trade receivables are recognised at their fair value at the highest. An impairment loss on trade receivables is recognized if there is objective evidence that the Group will not recover the receivables on original terms. The group recognizes impairment from trade receivables, when there is objective evidence that the receivable cannot be collected to full amount. Significant economic difficulties, probability of liquidation, default in payments or delays in payments over 90 days are evidence of impairment in trade receivables. The impairment loss is recognized in income statement amounting to difference between the carrying amount of the receivable and the present value of the estimated future cash discounted at the effective interest rate. Credit losses recognized as an expense are included in other operating expenses.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, call deposits and other highly liquid current investments convertible to known amounts of cash, without significant risk of changes in value. Items qualifying as cash and cash equivalents have initial maturities of three months or less. Bank overdrafts relating to the cash pool accounts in the Group are included in current liabilities.

**Financial liabilities**

Efore's financial liabilities are classified into the following categories: financial liabilities at fair value through profit or loss and financial liabilities valuated at amortized cost. The first-mentioned category includes derivative financial liabilities and the latter loans from credit institutions. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial cost of the financial liabilities valuated at amortized cost. Financial liabilities are included in both non-current and current liabilities and can be either interest-bearing or non-interest-bearing. Financial liabilities are classified as current if the Group does not have an unconditional right to defer the settlement of the liability for at least twelve months after the balance sheet date.

Both realized and unrealised exchange gains and losses are recognized in profit or loss in financial income and expenses as incurred. Financial costs concerning liabilities are expensed as incurred.

**Derivative financial instruments**

Derivative financial instruments are recognised both initially and subsequently at fair value. Derivatives are used in the group as hedges of risks related to the currency positions in the balance sheet. The Group does not, however, apply hedge accounting as specified in IAS 39. All gains and losses, both realised and unrealised, arising from the fair value changes of derivatives are recognised in profit or loss as incurred regardless of the fact that the hedged item has not an effect on profit or loss until in the future period. Changes in the fair value are reported in financial items in the income statement. Derivatives used for hedging against exchange rate risks are recorded as current receivables or liabilities in the balance sheet.

**TRADE PAYABLES**

Trade payables are recognized to the initial invoiced amount, which reflects their fair value due to the short maturity of these payables.

**PROVISIONS**

Provisions are recognized in the balance sheet when the Group has, as a result of a past event, a present legal or constructive obligation and the settlement is expected to occur and the amount of the obligation can be estimated reliably. Provisions may relate to restructuring costs, onerous contracts, legal cases and warranty costs, among other costs. A reimbursement from a third party relating to a part of the provision is recognised as a separate asset only when the reimbursement is virtually certain.

A warranty provision is recognized when the underlying product is sold. The amount of the provision is based on historical warranty information. Warranty provisions are expected to be used within two years. A restructuring provision is recognized when the Group has drawn up a detailed restructuring plan and the implementation of the plan has started or the plan is announced. A provision for onerous contracts is recognised when the minimum costs for meeting the contract obligation exceeds the expected income from the income from the contract.

**CONTINGENT ASSETS AND LIABILITIES**

Contingent liabilities are potential obligations arising from past events where the existence will be confirmed at the occurrence of an uncertain event uncontrolled by the Group. Contingent liabilities are also present obligations that due to past events even if a settlement will not probably be required, or the amount of the obligation cannot be estimated with sufficient certainty. Contingent liabilities are presented in the notes to the financial statement.

A contingent asset is a potential asset arising from past events where the existence of the asset will be confirmed at the occurrence of an uncertain uncontrolled by the Group. A contingent asset is presented in the notes to the financial statements, if the settled income can be estimated with sufficient certainty.

**INCOME TAXES**

Accrual-based taxes based on the taxable income are calculated in accordance with the local tax legislation and present tax rate in force for each company. Tax adjustments for prior years and changes in deferred taxes are recognized as income taxes in the consolidated income statement. Income tax relating to items charged or credited directly in equity is recognised in equity, respectively.

Deferred tax liabilities and assets are recognized due to the temporary differences between the carrying amounts in the balance sheet and tax bases of assets and liabilities of the Group companies and on the differences arising from Group eliminations. The tax rate used for determining the deferred tax liabilities and assets is the prevailing tax rate at the balance sheet date for the following year in the country in question.

The most significant part of the total deferred tax receivable in the Group consists of the tax losses in two subsidiaries. No deferred taxes are recognized for the undistributed profits in the subsidiaries, as this will unlikely affect group accounts in the foreseeable future.

Deferred tax liabilities are recognized at the full amount. Deferred tax assets are recognised only to the extent they are estimated to generate taxable income in future periods, and can be utilized against the temporary difference.

**PRINCIPLES FOR REVENUE RECOGNITION**

Revenue from product sales is recognized when the significant risks and rewards of ownership are transferred to the buyer and the Group is no longer in possession of the products or has no control over them. Revenue is mainly recognised upon delivery in accordance with the terms of delivery of the products. Revenue from services is recognized in the financial period the services are rendered to the customer. Net sales is the revenue from sales deducted by discounts granted, indirect taxes and exchange rate differences on the sales..

Interest income is recognized using effective interest rate method and dividend income is recorded when the right to receive dividend is appropriately authorized.

**NON-RECURRING ITEMS**

Non-recurring items are highly infrequent and extraordinary income or expenses with material effect on the financial statements. Revaluations and reassessments are not treated as non-recurring items. Reassessments are for instance changes in depreciation plans or principles.

**OPERATING PROFIT**

The Presentation of Financial Statements in IAS 1 does not define Operating Profit. The Group has the following definition: The operating profit is total net sales and other operating income deducted by expenses for materials and services adjusted by change in work in progress, manufacturing for own use, personnel costs, depreciation and amortization, impairment losses charges on non-current assets and other operating expenses. Exchange rate differences relating to working capital items are included in the operating profit, whereas other exchange rate differences are included in financial items.

**CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES**

The Management of the group makes decisions concerning the adoption and application of accounting principles. This concerns specially cases, where applicable IFRS standards allow alternative recognition, valuation or presentation. Decisions made by the management that relate to e.g. Impairment of capitalized development expenditure, impairment of inventories, sufficiency of financing, deferred tax assets and credit losses are based on generally applied models and case by case estimates. Historical information and present management views of the markets are used in the models. Assessments of

individual events are based on the best available information when the financial statements are prepared.

Estimates made in the preparation of financial statements are based on the best view of the management at the balance sheet date. The estimates are based on experience and assumptions at the balance sheet date that relate to e.g. expected development of sales and cost levels in the group's economic environment. The group follows the actual outcome of estimates and assumptions as well as changes in factors on a regular basis together with the business using several internal and external information sources. Potential adjustments in estimates and assumptions are recognized during the period of re-assumption as well as in the following periods.

The major judgments and estimates relating to the uncertainties at the balance sheet date and have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are presented below. The management of the Group has assessed that the following areas are most important concerning the accounting principles as the applicable accounting principles concerning these are the most complex and the application requires use of significant estimates and assessments, e.g. valuation of assets. Additionally, the effects of the estimates and assessments concerning these items are expected to be the most significant:

- Valuation of capitalized development expenditure
- Future business estimates and other elements of impairment testing
- Net realizable value of inventories
- Sufficiency of financing
- Probability of future taxable profits against which tax deductible temporary differences can be utilized
- Fair value (collectable amount) of trade receivables

**ADOPTION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS APPLICABLE IN FUTURE FINANCIAL YEARS**

Efore has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

* = Not yet endorsed for use by the European Union as of December 31, 2018.

- IFRS 16 *Leases** (effective for financial years beginning on or after January 1, 2019): The new standard replaces the current IAS 17 –standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as right-of-use assets and lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contacts in which the lease term is 12 months or less, or to low value items i.e. assets of value USD 5 000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting. The group is currently assessing the impact of the standard.
- IFRS 17 *Insurance Contracts** (effective for financial years beginning on or after 1 January 2021). The new standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. This standard replaces IFRS 4-standard. The standard has no impact on Efore's consolidated financial statements.
- Amendments to IFRS 2 - *Clarification and Measurement of Share-based Payment Transactions** (effective for financial years beginning on or after 1 January 2018). The amendments clarify the accounting for certain types of arrangements. Three accounting areas are covered: measurement of cash-settled share-based payments; classification of share-based payments settled net of tax withholdings; and accounting for a modification of a share-based payment from cash-settled to equity-settled. The amendments have no impact on Efore's consolidated financial statements.
- Amendments to IFRS 4 - *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (effective for financial years beginning on or after 1 January 2018). The amendments respond to industry concerns about the impact of differing effective dates by allowing two optional solutions to alleviate temporary accounting mismatches and volatility. The amendments have no impact on Efore's consolidated financial statements.
- IFRIC 22 *Interpretation Foreign Currency Transactions and Advance Consideration** (effective for financial years beginning on or after 1 January 2018). When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange Rates -standard is not clear on how to determine the transaction date for translating the related item. The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment

or receipt gives rise to a separate transaction date. The interpretation has no impact on Efore's consolidated financial statements.

- Amendments to IAS 40 - *Transfers of Investment Property** (effective for financial years beginning on or after 1 January 2018). When making transfers of an investment property, the amendments clarify that a change in management's intentions, in isolation, provides no evidence of a change in use. The examples of evidences of a change in use are also amended so that they refer to property under construction or development as well as to completed property. The amendments have no impact on Efore's consolidated financial statements.
- IFRIC 23 *Uncertainty over Income Tax Treatments** (effective for financial years beginning on or after 1 January 2019). The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company's chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The interpretation has no impact on Efore's consolidated financial statements.
- Amendments to IFRS 9: *Prepayment Features with Negative Compensation** (effective for financial years beginning on or after 1 January 2019). The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The amendments have no impact on Efore's consolidated financial statements.
- Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures** (effective for financial years beginning on or after 1 January 2019). The amendments clarify that a company applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments have no impact on Efore's consolidated financial statements.
- *Annual Improvements to IFRSs* (2014–2016 cycle)* (effective for financial years beginning on or after 1 January 2018). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 1 and IAS 28. The amendments have no impact on Efore's consolidated financial statements.
- *Annual Improvements to IFRSs* (2015–2017 cycle)* (effective for financial years beginning on or after 1 January 2019). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23. The amendments have no impact on Efore's consolidated financial statements.

Other new or amended standards or interpretations will not have an impact on the consolidated financial statements of Efore.

## 1. SEGMENT INFORMATION (EUR 1,000)

The Efore Group reports according to one business segment, and therefore the business segment information below refers to the consolidated figures of whole Efore Group. The products and services sold by Efore are based on a single technology platform. The President and CEO and the Executive Management Team are the highest operational decisionmakers, who monitor the operating profit as a basis for profitability analysis and resource allocation in the Group.

The geographical areas are divided into four groups: The Americas (North, Central and South America), EMEA (Europe, Middle East and Africa), Finland and APAC (Asia and the Pacific Region). The geographical segments are based on net sales according to the location i.e. the market areas of the customers. Assets and investments are reported according to the location of the items in question. Non-allocated assets contain cash and cash equivalents, interest receivables and tax receivables.

| Geographical areas 2018 | Americas | EMEA | APAC | Non-allocated | Group |
|---|---|---|---|---|---|
| Net sales | **10,778** | **31,302** | **10,321** | | **52,401** |
| Assets | **24** | **28,120** | **4,007** | **13,539** | **45,690** |

| Geographical areas 2017 | Americas | EMEA | APAC | Non-allocated | Group |
|---|---|---|---|---|---|
| Net sales | 10,098 | 49,222 | 10,552 | | 69,872 |
| Assets | 0 | 26,202 | 3,853 | 9,295 | 39,350 |

In 2018 approx. 31% (40) percent of net sales in the Group consisted of income from the two major customers. From customer A EUR 7,656 (16,551) thousand and customer B EUR 8,741 (11,643) thousand, totalling EUR 16,398 (28,194) thousand.

Net sales consist of sales of goods EUR 52,150 (69,073) thousand and sale of services EUR 251 (799) thousand.

## 2. BUSINESS COMBINATION (EUR 1,000)

Efore plc acquired the entire share capital of Powernet International Oy in cash on December 31, 2018. The Powernet group consists of two companies: the operative company Powernet Oy and its parent Powernet International Oy ('Powernet International'). Powernet International is a Finnish company founded in 1992.

Powernet International develops and manufactures customer specific power supplies and systems, such as customised power supply and power distribution packages as well as turnkey project deliveries e.g. to the train industry. Powernet International has also been a forerunner in the development of IoT enabled condition monitoring of power supply and power distribution packages utilized in e.g. smart battery chargers. Powernet International is well recognized especially in Northern and Central Europe.

The acquisition further shifts Efore's focus towards higher value-added products and solutions. It also further strengthens Efore's excellent technical know-how and broadens and internationalizes its customer base.

From the beginning of 2019 Efore's former Systems business and Powernet International form a new business line in the Industrial business. It forms a strong platform on which Efore can build a new and growing business. Powernet International's current CEO Heikki Viika has been nominated as the executive vice president of the new business line and as a member of the Efore Group management team.

Details of the purchase consideration, the net assets acquired and goodwill:

| Purchase consideration | 2018 |
|---|---|
| | |
| Cash paid | 2,500 |
| Contingent consideration | 731 |
| Total purchase consideration | 3,231 |

Maximum amount of contingent consideration is EUR 1.5 million and may be paid based on Powernet product sales margin for the fiscal year of 2019. The contingent consideration is measured at fair value based on management's best estimate. The contingent consideration has not been discounted, since the payment term is 15 months from the acquisition date.

The assets and liabilities as well as goodwill recognised in fair values as a result of the acquisition are:

| Net assets acquired | 2018 |
|---|---|
| | |
| Intangible assets: customer contracts | 1,285 |
| Intangible assets: other | 788 |
| Tangible assets | 209 |
| Inventories | 544 |
| Trade receivables and other receivables | 1,421 |
| Cash | 0 |
| Total assets | 4,247 |
| Deferred tax liability | 257 |
| Interest-bearing liabilities | 1,857 |
| Trade payables and other liabilities | 2,063 |
| Total liabilities | 4,177 |
| Net identifiable assets acquired | 70 |
| Goodwill | 3,161 |
| Net assets acquired | 3,231 |

Intangible assets arising from business combinations have been recognized separately form goodwill at fair value at the time of acquisition. The Group has allocated EUR 1.3 million to intangible assets related to customer contracts to be depreciated in five years with EUR 0.2 million deferred tax liabilities. Adjustment in inventory fair value amounts to EUR 0.1 million. Other receivables include an indemnification asset value of EUR 0.2 million based on the Share Purchase Agreement.

Goodwill from the acquisition amounted to EUR 3.2 million and is primarily attributable to synergies described above arising from the significant economies of scale that Efore Group is expecting to benefit.

The transaction costs related to the acquisition are EUR 0.3 million and costs are included in other operating costs. Cash flows related to the acquisition are included in investing activities.

If the acquisition had occurred on 1 January 2018, the consolidated revenue and operating loss for the year ended 31 December 2018 would have been EUR 61.4 million and EUR 8.1 million respectively. Efore Group had no business acquisitions during the financial year of 1.1.2017–31.12.2017

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## 3. OTHER OPERATING INCOME (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Grants for product development | 7 | 48 |
| Gain on disposal of non-current assets, tangibles | 0 | 7 |
| Other income | 188 | 475 |
| Total | 195 | 530 |

## 4. MATERIALS AND SERVICES (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Materials | 35,980 | 46,321 |
| Change in inventories | -364 | 692 |
| Services | 1,002 | 943 |
| Total | 36,618 | 47,956 |

## 5. PERSONNEL EXPENSES (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Salaries and wages *) | 7,924 | 8,204 |
| Pension expenses, defined contibution plans | 2,308 | 2,310 |
| Pension expenses, defined benefit obligations (TFR in Italy) | 127 | 44 |
| Other social security expenses | 399 | 464 |
| Total | 10,758 | 11,022 |

*) Information about management compensation, other employment benefits and shareholdings are shown in Note 31, Related party transactions.

| Average number of personnel | 2018 | 2017 |
|---|---|---|
| Average number of personnel during fiscal year | 406 | 432 |
| Average number of personnel at the end of year | 442 | 406 |

The number of own personnel includes temporary personnel. December 31 2018 amount of the personnel increased due Powernet consolidation with 27.

## 6. DEPRECIATION, AMORTIZATION AND IMPAIRMENTS (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Depreciation and amortization by asset class | | |
| Development costs | 2,363 | 2,205 |
| Intangible rights | 340 | 343 |
| Intangible assets, finance lease | 0 | 200 |
| Other intangible assets | 134 | 244 |
| Machinery and equipment | 627 | 624 |
| Machinery and equipment, finance lease | 20 | 34 |
| Other tangible assets | 84 | 64 |
| Total | 3,568 | 3,713 |
| | | |
| Impairment on development costs | 779 | 63 |
| Impairment on other tangible assets | 0 | 22 |

## 7. OTHER OPERATING EXPENSES (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Rental costs | **1,121** | 796 |
| Non-statutory employee benefits | **368** | 371 |
| Professional fees | **1,724** | 957 |
| Office and administration expenses | **400** | 631 |
| Maintenance and operational expenses | **649** | 751 |
| Travel expenses | **626** | 701 |
| Increase in allowance recognised in profit and loss | **141** | 72 |
| Entertainment expenses | **37** | 36 |
| Insurance expenses | **195** | 233 |
| Marketing expenses | **135** | 108 |
| Car expenses | **128** | 128 |
| Expenses related to the outsourcing of manufacturing in China | | -39 |
| Other fixed expenses | **1,452** | 761 |
| Credit losses | **9** | 35 |
| Sales services | **629** | 455 |
| Losses on sales of fixed assets | **1** | 39 |
| Total | **7,615** | 6,032 |

| Audit fees: | 2018 | 2017 |
|---|---|---|
| KPMG Oy Ab | | |
| Audit | **104** | 21 |
| Tax services | **14** | 0 |
| Other services *) | **111** | 29 |
| Total | **229** | 50 |
| | | |
| KPMG | | |
| Audit | **45** | 33 |
| Tax services | **2** | 1 |
| Other services | | |
| Total | **47** | 34 |
| | | |
| **OTHER AUTHORISED AUDITING FIRMS** | | |
| Audit | **7** | 12 |
| Tax services | | |
| Other services | | |
| Total | **7** | 12 |
| | | |
| **TOTAL** | | |
| Audit | **157** | 67 |
| Tax services | **16** | 1 |
| Other services | **111** | 29 |
| Total | **283** | 97 |

*) Services except audit services provided by KPMG Oy Ab to Efore Oyj group companies in 2018 were in total 111 keuros. Mainly related to share issue.

## 8. FINANCIAL INCOME (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Interest income from loans and other receivables | **78** | 50 |
| Exchange rate gains from loans and other receivables | **1,449** | 2,565 |
| Other financial income | **66** | 19 |
| Total | **1,592** | 2,634 |

## 9. FINANCIAL EXPENSES (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Interest expenses for financial liabilities valued at aquisition cost | **863** | 707 |
| Exchange rate losses | **1,647** | 2,430 |
| Other financial expenses | **388** | 361 |
| Total | **2,898** | 3,499 |

## 10. EXCHANGE RATE DIFFERENCES (EUR 1,000)

| | | 2018 | 2017 |
|---|---|---|---|
| Net amounts of Exchange rate gains (+) and losses (-) according to Financial Statement items. | | | |
| | | | |
| Total | Gains | **1,449** | 2,565 |
| | Losses | **-1,647** | -2,430 |
| | Net | **-199** | 135 |
| | | | |
| Sales | Gains | **206** | 538 |
| | Losses | **-159** | -835 |
| | Net | **47** | -297 |
| | | | |
| Purchases | Gains | **143** | 701 |
| | Losses | **-324** | -209 |
| | Net | **-181** | 492 |
| | | | |
| Financial items | Gains | **317** | 366 |
| | Losses | **-362** | -469 |
| | Net | **-45** | -103 |
| | | | |
| Intra-group receivables and liabilities | Gains | **783** | 960 |
| | Losses | **-802** | -917 |
| | Net | **-20** | 43 |

## 11. INCOME TAXES (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Income taxes in statement of income | | |
| | | |
| Income tax for fiscal year | **-139** | -177 |
| Income tax on investments | **0** | 0 |
| Deferred taxes | **826** | 629 |
| Total | **687** | 452 |
| | | |
| The differences between income tax expense calculated at Finnish tax rate in Parent company and tax expense in income statement are : | | |
| | | |
| Result before taxes | **-8,513** | -1,030 |
| | | |
| Taxes calculated at tax rate in parent company (20.0%) | **1,703** | 206 |
| Difference due to other tax rates in subsidiaries | **1,802** | -203 |
| Non-deductible expenses | **450** | 441 |
| Deferred tax assests changes of loss from previous year | **32** | 650 |
| Tax-exempt income | **-1,890** | -505 |
| Use of previously unrecognized tax on losses | | -1 |
| Unrecognized tax on losses | **-1,410** | -136 |
| Other items | **0** | 0 |
| Tax expense in consolidated statement of income | **687** | 452 |

## 12. EARNINGS PER SHARE (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Result for fiscal year attributable to shareholders in parent company | **-7,827** | -579 |
| | | |
| Weighted average number of shares (in thousands) | **56,278** | 52,271 |
| | | |
| Effect of adjustment for potential shares in the share-based incentive plans | **0** | 0 |
| Weighted average number of diluted shares | **56,278** | 52,271 |
| | | |
| **Earnings per share, EUR** | | |
| Basic | **-0.14** | -0.01 |
| Diluted | **-0.14** | -0.01 |

### BASIC

Diluted earnings per share are calculated by dividing the profit or loss attributable to the shareholders of the parent company by the average number of shares during the fiscal year.

### DILUTED

Diluted earnings per share is calulated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential shares. These payments are treated as share opitons in the calculation for diluted earnings per share even though they remain contingent. Options have a diluting effect, as the exercise prici is lower than the market value of the company share. Not yet recognised opiton expenses are accounted for in the exercise price. The diluting effect is the number of shares that the company has to issue without compensation as the funds received from the exercised from the exercised options do not cover a share issue at the fair value of the shares. The fair value of the company's share is determined as the average market price of the share during the period.

## 13. INTANGIBLE ASSETS (EUR 1,000)

| Intangible assets 2017 | Development costs | Immaterial rights | Intangible assets, finance lease | Other intangible assets | Advance payments for intangible assets | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| Cost Jan. 1, 2017 | 15,796 | 3,436 | 1,674 | 3,004 | 0 | 1,115 | 25,026 |
| Translation differences | -16 | -3 | 0 | -1 | 0 | 0 | -20 |
| Additions | 3,497 | 6 | 0 | 277 | 301 | 0 | 4,081 |
| Disposals | -948 | -243 | 0 | -3 | 0 | 0 | -1,194 |
| Reclassifications | -497 | 168 | 0 | 217 | -218 | 0 | -329 |
| Cost Dec. 12, 2017 | 17,832 | 3,365 | 1,674 | 3,495 | 83 | 1,115 | 27,564 |
| | | | | | | | |
| Cumulative amortisation and impairment Jan. 1, 2017 | -8,178 | -2,305 | -1,474 | -2,757 | | -1 | -14,715 |
| Translation differences | 12 | 3 | 0 | 1 | | 0 | 16 |
| Cumulative amortisation on disposals and reclassifications | 948 | 100 | 0 | 3 | | 0 | 1,051 |
| Reclassificatios | 497 | 0 | 0 | 0 | | 0 | 497 |
| Amortisation | -2,205 | -343 | -200 | -244 | | 0 | -2,992 |
| Impairment | -63 | 0 | 0 | 0 | | 0 | -63 |
| Cumulative amortisation and impairment Dec. 12, 2017 | -8,990 | -2,544 | -1,674 | -2,997 | | -1 | -16,206 |
| | | | | | | | |
| Carrying amount Jan. 1, 2017 | 7,617 | 1,132 | 200 | 248 | 0 | 1,114 | 10,311 |
| **Carrying amount Dec. 12, 2017** | 8,842 | 820 | 0 | 499 | 83 | 1,114 | 11,358 |

| Intangible assets 2018 | Development costs | Immaterial rights | Intangible assets, finance lease | Other intangible assets | Advance payments for intangible assets | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| Cost Jan. 1, 2018 | 17,832 | 3,365 | 1,674 | 3,495 | 83 | 1,115 | 27,564 |
| Translation differences | -4 | -4 | 0 | 0 | 0 | 0 | -8 |
| Acquisitions | 1,820 | 0 | 0 | 1,285 | 0 | 3,161 | 6,266 |
| Additions | 2,942 | 27 | 0 | 41 | 26 | 0 | 3,036 |
| Disposals | -912 | 0 | 0 | -157 | 0 | 0 | -1,069 |
| Cost Dec. 12, 2018 | 21,678 | 3,387 | 1,674 | 4,664 | 109 | 4,277 | 35,789 |
| | | | | | | | |
| Cumulative amortisation and impairment Jan. 1, 2018 | -8,990 | -2,544 | -1,674 | -2,997 | | -1 | -16,206 |
| Translation differences | 2 | 4 | 0 | 0 | | 0 | 6 |
| Cumulative amortisation on business combinations | -1,055 | | | | | | -1,055 |
| Cumulative amortisation on disposals and reclassifications | 912 | | | | | | 912 |
| Reclassificatios | | -15 | 0 | 177 | | 0 | 162 |
| Amortisation | -2,363 | -340 | 0 | -134 | | 0 | -2,837 |
| Impairment | -779 | 0 | 0 | 0 | | 0 | -779 |
| Cumulative amortisation and impairment Dec. 12, 2018 | -12,273 | -2,895 | -1,674 | -2,954 | | -1 | -19,797 |
| | | | | | | | |
| Carrying amount Jan. 1, 2018 | 8,842 | 820 | 0 | 499 | 83 | 1,114 | 11,358 |
| **Carrying amount Dec. 12, 2018** | 9,404 | 492 | 0 | 1,710 | 109 | 4,275 | 15,990 |

**DEVELOPMENT COSTS**

* Due to weaker than forecasted demand, impairment of EUR 779 thousand (63 thousand) in the value of development expenditure was recognized in 2018.

** On December 31, 2018 the carrying amount of unfinished development expenditure was 3,561 (4,850) thousand euros. Development costs are tested for impairment annually. The test is a comparison between the carrying amount of the development cost and the recoverable amount, which is defined as the present value of the future cash flows expected to be derived from the asset.

**IMPAIRMENT TESTING**

For impairment testing the goodwill of EUR 1,114 thousand is allocated to the cash-generating unit, Efore Italy. The recoverable amount has been determined by value-in-use calculations. Cash flow forecasts are based on five-year plans approved by management. As Powernet Oy was acquired on December 31, 2018, impairment testing has not been done on the corresponding goodwill.

**CENTRAL ASSUMPTIONS USED IN IMPAIRMENT TESTING:**

1. The development of EBITDA was based on long term forecasts by the management.
2. The discount rate has been determined by means of weighted average cost of capital (WACC). The discount rate of 13.32% (2017: 11.63%) is a pre tax rate.
3. The long-term growth factor is 1.0% ( 2017: 2.0%)

Based on the impairment testing done 31.12.2018 fair value exceeds carrying amount 93%.

According to sensitivity analysis the net present value of the discounted cash flows would equal the carrying amount, if EBITDA would be 24% (13%) lower during the years 2019–2024 or if the discount rate would be 8.03% (2017 3.35%) -units higher.

## 14. TANGIBLE ASSETS (EUR 1,000)

| Tangible assets 2017 | Buildings and structures | Machinery and equipment | Machinery and equipment, finance lease | Other tangible assets | Advance payments and work in progress | Total |
|---|---|---|---|---|---|---|
| Cost Jan. 1, 2017 | 6 | 24,617 | 773 | 5,268 | 57 | 30,721 |
| Translation differences | 0 | -282 | 0 | -254 | 0 | -536 |
| Additions | 17 | 796 | 0 | 313 | 204 | 1,330 |
| Disposals | -6 | -7,415 | 0 | -651 | 0 | -8,071 |
| Reclassifications | 0 | 201 | 0 | 29 | -256 | -25 |
| Cost | 17 | 17,917 | 773 | 4,706 | 5 | 23,419 |
| | | | | | | |
| Cumulative amortisation and impairment Jan. 1, 2017 | -6 | -22,033 | -714 | -5,145 | | -27,899 |
| Translation differences | 0 | 228 | 0 | 249 | | 477 |
| Cumulative amortisation on disposals and reclassifications | 6 | 6,945 | 0 | 649 | | 7,600 |
| Amortisation | 0 | -624 | -34 | -64 | | -722 |
| Impairment | 0 | 0 | 0 | -22 | | -22 |
| Cumulative amortisation and impairment | 0 | -15,484 | -748 | -4,333 | | -20,565 |
| | | | | | | |
| Carrying amount Jan. 1, 2017 | 0 | 2,584 | 59 | 123 | 57 | 2,822 |
| **Carrying amount Dec. 31, 2017** | 17 | 2,433 | 25 | 373 | 5 | 2,853 |

| Tangible assets 2018 | Buildings and structures | Machinery and equipment | Machinery and equipment, finance lease | Other tangible assets | Advance payments and work in progress | Total |
|---|---|---|---|---|---|---|
| Cost Jan. 1, 2018 | 17 | 17,917 | 773 | 4,706 | 5 | 23,419 |
| Translation differences | 0 | -43 | 0 | -32 | 0 | -75 |
| Acquisitions | 0 | 535 | 0 | 0 | 0 | 170 |
| Additions | 3 | 981 | 0 | 1 | 129 | 1,114 |
| Disposals | 0 | -470 | 0 | -1 | -27 | -498 |
| Cost | 20 | 18,556 | 773 | 4,674 | 106 | 24,495 |
| | | | | | | |
| Cumulative amortisation and impairment Jan. 1, 2018 | 0 | -15,484 | -748 | -4,333 | | -20,565 |
| Translation differences | 0 | 37 | 0 | 31 | | 68 |
| Cumulative amortisation on disposals and reclassifications | 0 | 7 | 0 | 1 | | 8 |
| Amortisation | -1 | -627 | -20 | -83 | | -731 |
| Cumulative amortisation and impairment | -1 | -16,066 | -769 | -4,384 | 0 | -21,220 |
| | | | | | | |
| Carrying amount Jan. 1, 2018 | 17 | 2,433 | 25 | 373 | 5 | 2,853 |
| **Carrying amount Dec. 31, 2018** | 19 | 2,854 | 4 | 290 | 106 | 3,275 |

## 15. OTHER SHARES AND HOLDINGS (EUR 1,000)

| | Investments for Sale | Held to maturity Investments | Internal receivables | Receivables from associates | Other receivables (non-current loan receivables) | Other receivables | Non-current Loan Receivables | Total |
|---|---|---|---|---|---|---|---|---|
| Cost Jan. 1, 2017 | 0 | 91 | 0 | 0 | 0 | 0 | 0 | 91 |
| Revaluation | 0 | -5 | 0 | 0 | 0 | 0 | 0 | -5 |
| Cost | 0 | 86 | 0 | 0 | 0 | 0 | 0 | 86 |
| Carrying amount Jan. 1, 2017 | 0 | 91 | 0 | 0 | 0 | 0 | 0 | 91 |
| **Carrying amount Dec. 31, 2017** | 0 | 86 | 0 | 0 | 0 | 0 | 0 | 86 |

| Aineelliset hyödykkeet 2018 | Investments for Sale | Held to maturity Investments | Internal receivables | Receivables from associates | Other receivables (non-current loan receivables) | Other receivables | Non-current Loan Receivables | Total |
|---|---|---|---|---|---|---|---|---|
| Cost Jan. 1, 2018 | 0 | 86 | 0 | 0 | 0 | 0 | 0 | 86 |
| Revaluation | 0 | 37 | 0 | 0 | 0 | 0 | 0 | 37 |
| Cost | 0 | 124 | 0 | 0 | 0 | 1 | 1 | 125 |
| Carrying amount Jan. 1, 2018 | 0 | 86 | 0 | 0 | 0 | 0 | 0 | 86 |
| **Carrying amount Dec. 31, 2018** | 0 | 124 | 0 | 0 | 0 | 1 | 1 | 125 |

## 16. DEFERRED TAX ASSETS AND LIABILITIES (EUR 1,000)

| | Jan. 1, 2017 | Translation differences +/- | Changes through income statement | Recorded directly into equity | Other movements | Changes through business arrangements | Dec. 31, 2017 |
|---|---|---|---|---|---|---|---|
| **Deferred tax asset** | | | | | | | |
| Unused tax losses | 2,471 | -45 | 524 | 0 | -5 | 0 | 2,945 |
| Total | 2,471 | -45 | 524 | 0 | -5 | 0 | 2,945 |
| | | | | | | | |
| **Deferred tax liability** | | | | | | | |
| Fair value evaluation of intangible assets in business combinations | 313 | 0 | -90 | 0 | 0 | 0 | 223 |
| Other items | 19 | 0 | -19 | 0 | -5 | 0 | -5 |
| Total | 331 | 0 | -109 | 0 | -5 | 0 | 218 |

| | Jan. 1, 2018 | Translation differences +/- | Changes through income statement | Recorded directly into equity | Other movements | Changes through business arrangements | Dec. 31, 2018 |
|---|---|---|---|---|---|---|---|
| **Deferred tax asset** | | | | | | | |
| Unused tax losses | **2,945** | **-12** | **735** | **0** | **0** | **0** | **3,667** |
| Total | **2,945** | **-12** | **735** | **0** | **0** | **0** | **3,667** |
| | | | | | | | |
| **Deferred tax liability** | | | | | | | |
| Fair value evaluation of intangible assets in business combinations | **218** | | **-91** | | | **257** | **384** |
| Total | **218** | **0** | **-91** | **0** | **0** | **257** | **384** |

The group companies in Finland, China and USA had tax losses totalling EUR 35.4 (34.3) million on December 31, 2018. A deferred tax asset was not recognized on these losses as they are unlikely to be used in the foreseeable future. EUR 4.1 million of the unrecognized deferred tax assets is allocated to Finland, EUR 3.9 millions to USA and EUR 0.9 millions to China. The losses will expire in the years 2019–2038.

A deferred tax liability on the undistributed earnings in the subsidiaries has not been recorded in the consolidated accounts as the tax is not expected to be realized in the foreseeable future.

Parent company had deferred depreciation in 2018 MEUR 9.5 (MEUR 8.7), out of which no deferred tax asset has been booked.

## 17. INVENTORIES (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Materials and supplies | **4,634** | 4,074 |
| Work in progress | **1,053** | 1,025 |
| Finished goods | **3,350** | 3,637 |
| Total | **9,036** | 8,736 |

During 2018 the write-downs on inventory in order to decrease the value from historical to the lower net realizable value were EUR 0.6 million (0.3 million).

## 18. TRADE RECEIVABLES AND OTHER RECEIVABLES (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Long-term other receivables | **501** | 82 |
| Trade receivables | **8,207** | 7,400 |
| Provision for bad debt | **-583** | -317 |
| Other receivables | **1,208** | 895 |
| Prepayments and accrued income | **499** | 474 |
| Total | **9,833** | 8,535 |

The book value of the receivables does not significantly differ from their fair value..

During the fiscal year the Group recognized of EUR 275 thousand (212 thousand) on trade receivables. Write-offs include both the increase in provision for bad debt and credit losses.

IFRS 9 model is based on the expected credit losses. Efore has determined a model to book credit losses based on due dates of trade receivables and management consideration. A credit loss reserve has been made case by case on receivables clearly overdue. Based on history, this has proven to give a good view of expected credit losses. Management, however, uses consideration in implementing this modelling.

| | 2018 | 2017 |
|---|---|---|
| Provision for bad debt Jan.1 | **317** | 413 |
| Additions | **275** | 95 |
| Deductions | **-9** | -191 |
| Provision for bad debt Dec.31 | **583** | 317 |
| | | |
| Analysis of trade receivables past due: | | |
| Neither past due nor impaired | **5,501** | 5,279 |
| Due not more than 30 days | **1,608** | 976 |
| Due 31 to 60 days | **197** | 261 |
| Due 61 to 90 days | **78** | 110 |
| Due 91 to 120 days | **1** | 7 |
| Due more than 120 days | **822** | 766 |
| Total | **8,207** | 7,400 |
| | | |
| Trade and other receivables by currency: | | |
| EUR | **5,131** | 5,226 |
| RMB | **1,696** | 1,564 |
| USD | **2,910** | 1,634 |
| SEK | **30** | 23 |
| Others currencies | **66** | 88 |
| Total | **9,833** | 8,535 |
| | | |
| Material items in prepayments and accrued income: | | |
| Prepaid expenses | **231** | 122 |
| Other items | **268** | 352 |
| Total | **499** | 474 |

## 19. CASH AND CASH EQUIVALENTS (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Cash and bank | **3,653** | 4,513 |

**Change of cash and non cash borrowings borne in financing activities.**

| | | | Non-cash changes | | | |
|---|---|---|---|---|---|---|
| | 2017 | Cashflows | Classification | Foreign exchange movements | Fair value changes | 2018 |
| Long term borrowings | 871 | 1,800 | 2,567 | | 158 | **5,396** |
| Short term borrowings | 11,747 | 759 | -6,504 *) | | 1,699 | **7,702** |
| Lease liabilities | 26 | -21 | | | | **5** |
| Total | 12,644 | | | | | **13,102** |

## 20. SHARE CAPITAL (EUR 1,000)

| | Osakemäärä, kpl | Osakepääoma | Omat osakkeet | SVOP-rahasto | Yhteensä |
|---|---|---|---|---|---|
| Jan. 1, 2018 | **52,270,896** | **15,000** | **-2,427** | **27,972** | **40,545** |
| Shares outstanding per December 31, 2018 | **418,130,168** | **15,000** | **-2,427** | **38,187** | **50,761** |
| Total number of shares | **421,636,788** | | | | |
| Own shares held by the group per December 31, 2018 | **3,506,620** | | | | |
| Jan. 1, 2017 | 52,270,896 | 15,000 | -2,427 | 27,972 | 40,545 |
| Shares outstanding per December 31, 2017 | 52,270,896 | 15,000 | -2,427 | 27,972 | 40,545 |
| Total number of shares | 55,772,891 | | | | |
| Own shares held by the group per December 31, 2017 | 3,501,995 | | | | |

On December 31, 2018 the number of shares was 421,636,788 pcs and the share capital was EUR 15,000,000 in Efore plc. The Articles of association for Efore Plc do not state the highest amount of share or share capital. The issued shares have all been fully paid. The shares have no nominal value. The company has one type of shares. The voting right for each share is one vote per share.

## DESCRIPTION OF THE RESERVES WITHIN EQUITY:

### OTHER RESERVES

**Reserve for invested unrestricted equity**
The total value EUR 1,400,000 of the new shares issued in the directed share issue to Efore Management was recognised in the reserve for invested unrestricted equity. On February 9th, 2010 the Annual General Meeting decided to decrease the share capital of the Efore Plc by EUR 19,450,000. The decreased amount was transferred to the reserve for unrestricted equity. The sales of own shares in the parent company amounted to EUR 14,547.36 was entered in the reserve for unrestricted equity. (Year 2010). According to the decision made by the Annual General Meeting on February 9th 2012, in the fiscal period distribution of assets from the reserve of invested unrestricted equity was made, amounting 2,097,097.75 EUR. The distribution of assets was EUR 0.05 per share. The share issue of EUR 9,399,999.82 and the issue-related transaction costs of EUR -195,887.84 have been recognised in the reserve for invested unrestricted equity in the fiscal year 2013. In financial year 2018, a share issue of EUR 10,975,916.91 has been recorded to unrestricted equity. Additionally transaction costs of EUR –760,201.84 have been booked to unrestricted equity.

**Legal reserve**
The legal reserve includes the proportion transferred to restricted equity in accordance with the Articles of Association or a decision by a meeting of shareholders.

**Other reserves**
Other reserves include amounts included in the restricted equity of consolidated subsidiaries.

**Reserve for own shares**
The reserve for own shares consists of the cost of own shares. On December 31, 2018 the parent company held 3,506,620 own shares. The acquistions cost for this treasury stock was EUR 2,426.516.86, and this amount is reported as a reduction in the equity of the Group. The shares of Efore Plc are recognized in the balance sheet as aquisition of own shares.

**Translation reserve**
The translation reserve contains translation adjustments arising from the translation of the financial statements of foreign operations.

**Dividends**
No dividend was distributed for the fiscal period.

## 21. INTEREST-BEARING LIABILITIES (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| **Non-current** | | |
| Loans from financial institutions | **5,396** | 866 |
| Finance lease liabilities | | 5 |
| Total | **5,396** | 871 |
| | | |
| **Current** | | |
| Finance lease liabilities | **5** | 21 |
| Other liabilities | **289** | 534 |
| Loans from credit institutions | **6,265** | 9,988 |
| Factoring | **1,148** | 1,204 |
| Total | **7,706** | 11,747 |
| | | |
| **Total interest-bearing finance liabilities** | **13,102** | 12,623 |

The interest-bearing liabilities are valued at initial value less installments, and the values do not differ materially from the fair values. The derivatives are valued at fair value according to cuotations from the counter-party.

Factors concerning the uncertainty of financing are disclosed in Note 26, including the presentation of the maturities of financial liabilities.

## 22. MATURITY OF FINANCE LEASE LIABILITIES (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Minimum lease payments concerning financial lease liabilities | | |
| | | |
| Less than 1 year | **5** | 21 |
| 1–5 years | **0** | 5 |
| | **5** | 26 |
| | | |
| Finance lease liabilities - present value of minimum lease payments | | |
| | | |
| Less than 1 year | **5** | 21 |
| 1–5 years | **0** | 5 |
| | **5** | 26 |
| | | |
| Finance expenses accumulating in the future | **0** | 0 |
| Total amount of finance lease liabilities | **5** | 26 |

The finance lease liabilities consist mainly of lease agreements for IT software.

## 23. TRADE PAYABLES AND OTHER LIABILITIES (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Current | | |
| Advances received | **88** | 247 |
| Trade payables | **16,923** | 14,056 |
| Other payables | **1,158** | 1,495 |
| Accruals and deferred income | **1,655** | 1,510 |
| Total | **19,824** | 17,309 |

The book values of trade payables do not differ materially from their fair value.

| Material items included in accruals and deferred income | 2018 | 2017 |
|---|---|---|
| | | |
| Accrued personnel expenses | **1,607** | 1,323 |
| Taxes, other than income taxes | **0** | 61 |
| Current interest payable | **0** | 66 |
| Other items | **48** | 61 |
| Total | **1,655** | 1,510 |

## 24. PENSION OBLIGATIONS (EUR 1,000)

The Group has a post-employment defined benefit obligation in Italy, where IAS standard 19 is applicable. The Italian legislation provides that, at employment contract termination, each employee receives a severance indemnity (Trattamento Fine Rapporto, TRF), which is paid from a fund held in the company or held in an external institution. The amount of each annual contribution equals approximately 6,9% of the gross annual salary which is accrued monthly to the personnel expenses. The contributions to the fund are recognized as personnel expenses in the income statement and the interest from the fund as financial items. The remeasurement of the fund is recognized in equity. The liability represents the accumulated benefit payment obligation at employment contract termination. The value of this liability is a fair value index-adjusted annually. This value is is based on actuarial calculations taking into account demographic assumptions in the future concerning current and future employees and financial assumptions based on market expectations.

| | 2018 | 2017 |
|---|---|---|
| Pension obligations on Jan. 1 | **1,316** | 1,412 |
| | | |
| Changes recognised in income statement | | |
| Interest expense | **19** | 17 |
| Benefits paid | **-127** | -44 |
| | | |
| Remeasurements recognised in equity: | | |
| Actuarial Gains (+)/ Losses (-) for experience | **0** | 0 |
| Actuarial Gains (+)/ Losses (-) for demographic assumptions | **0** | 0 |
| Actuarial Gains (+)/ Losses (-) for financial assumptions | **-26** | -69 |
| | | |
| Pension obligations on Dec. 31 | **1,183** | 1,316 |

The benefits expected to be paid to employees leaving indemnities during 2018 is EUR 87 (70) thousand. During 2020–2023 the annual estimated benefits to be paid are approximately 59 (64) thousand.

| Actuarial assumptions | 2018 | 2017 |
|---|---|---|
| Discount rate | **1.64%** | 1.47% |
| Salary rate | **1.50%** | 1.50% |
| Pension rate | **2.63%** | 2.63% |

The following table is a sensitivity analysis for the actuarial assumptions, showing the estimated value of the obligation if the actuarial assumptions change:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Change +0.25% | Change -0.25% | Change +0.25% | Change -0.25% |
| Discount rate | **1,173** | **1,229** | 1,279 | 1,348 |
| Salary rate | **1,218** | **1,183** | 1,335 | 1,292 |
| | | | | |
| | Change +1% | Change -1% | Change +1% | Change -1% |
| Pension rate | **1,196** | **1,205** | 1,306 | 1,321 |

## 25. PROVISIONS (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Non-current provisions | **634** | 251 |
| | | |
| Warranty provision Jan. 1 | **0** | 0 |
| Increase of provisions from Powernet International acquisition | **247** | 0 |
| Provisions used | **86** | 0 |
| Warranty provision Dec. 31 | **333** | 0 |
| | | |
| Other provisions Jan. 1 | **251** | 250 |
| Additions | **50** | 1 |
| Other provisions Dec. 31 | **301** | 251 |
| | | |
| Current provisions | **165** | 349 |
| | | |
| Warranty provision Jan. 1 | **219** | 146 |
| Additions | **0** | 86 |
| Provisions used | **-53** | -14 |
| Warranty provision Dec. 31 | **165** | 219 |
| | | |
| Restructuring provision Jan.1. | **130** | 3,884 |
| Provisions used | **-130** | -3,754 |
| Restructuring provision Dec 31. | **0** | 130 |
| | | |
| Provisions total Dec. 31 | **799** | 600 |

Efore strengthened its industrial solutions business by acquiring the share capital of Powernet International in December 2018. Powernet develops and manufactures power supplies and systems. The Powernet group has a warranty reserve of EUR 247 thousand corresponding to a compensation agreed with third parties if the guarantees are realised. In December 2017, the reorganisation reserve was EUR 130 thousand, which was made to realise business operative changes in group structure. During 2018, the reserve was fully used.

Products sold by the company normally have a warranty time from 12 to 24 months. Warranty reserves are booked based on expected warranty costs. Realised warranty costs are booked to P/L on the financial year they are realised.

## 26. FINANCIAL RISK MANAGEMENT

The principles and objectives of the Group's financial risk management are determined in the financing risk policy, which is updated when necessary, and approved by the Board of Directors. The financial risk management aims at avoiding risks and providing cost-effective arrangements for protecting the Group from factors that may affect its performance and cash flows in a negative way.

Financial risks are managed by foreign exchange and interest rate hedging using only financial instruments with a market value and risk profile that can be reliably monitored.

Approximately 31% of Group Net Sales comes from the two major customers. The total amount of trade receivables from these two key customers was EUR 1.3 million, from which EUR 0.0 million was overdue. Key customers are included in a factoring facility. The maturity analysis of trade receivables and currency exposure of trade and other receivables are presented in note 18, Trade and other receivables.

### FOREIGN EXCHANGE RISK

Foreign exchange risks refer to the risks caused by changes in foreign exchange rates, which can affect business performance or Group solvency. Most of the Group's sales are denominated in EUR, RMB and USD. The operating expenses are generated in EUR, USD, SEK, RMD and TND.

In 2018 the primary hedging method has been matching of foreign currency income and expense flows. According to the Group currency risk hedging policy no currency derivatives will be used to protect cash flows. In the financial statements the equity of foreign subsidiaries is translated at the European Central Bank's closing fixing rate on the balance sheet date. Exchange rate differences are presented in the consolidated financial statements as translation differences. The net investments in foreign operations have not been hedged. The instruments used for hedging against exchange rate risks have ended in fiscal year 2017 and they have not been renewed.

### INTEREST RATE RISK

Interest rate risks are caused by fluctuations in interest rates affecting the income, loan portfolio and cash reserves in the Group. Interest rate risks are also dependent on whether financing is made by fixed rate or variable rate agreements. Interest rate risks are managed by making correct decisions concerning the interest periods of the liabilities and by using different types of derivative financial instruments to hedge interest rate risks. On the balance sheet date, the Group had no interest rate derivatives.

### LIQUIDITY RISK

According to the financing policy, liquidity risk management, funding and efficient cash management of the Group are responsibilities of the parent company. The liquidity risk is managed by adequate cash assets, partial sale of trade receivables, credit limits and by monitoring the maturities of loans. On December 31, 2018 the gearing was 100.6% (115.6%) and solvency ratio was 20.6% (17.9%).

At the end of the fiscal year the Group's liquid assets totalled EUR 3.7 million (EUR 4.5 million). The Group's interest-bearing liabilities totalled EUR 13.1 million (EUR 12.6 million). Credit limits in use were EUR 2.0 million on December 31, 2018, as on December 31, 2017 they were EUR 3.5 million. The financial reserves in the Group comprised unused credit limits totalling EUR 1.5 (3.4) million on December 31, 2017, from which EUR 0.4 (2.1) million will expire within one year and EUR 1.1 (1.3) million are valid for an unspecified term.

Guarantee of EUR 4 million issued by Jussi Capital Oy in 2016 for third party financier is still valid. As a counter guarantee for the guarantee granted by Jussi Capital Oy, the Board of Directors resolved to pledge 3,501,995 own shares in accordance with the authorization granted by the Annual General Meeting of Shareholders. The pledge is still valid. Arrangements have been conducted on market equivalent terms and in line with the interests of the business perspectives of the company.

The Company has agreed with its main financier bank on a reorganisation of its loans. A new payment programme for the next five years has been negotiated for the repayment of the EUR 6.0 million in loans from the main financier bank maturing on 31 December 2018. The bank also waived it's right for early expiration of the loans. Efore has amortized the loan by EUR 0.2 million in the end of the year and as at 31 December 2018 Efore had loans with its main financier bank totaling to EUR 5.8 million. As a result of a successfully completed rights issue, Efore has pledged to set off loans from the main financier bank by additional EUR 0.6 million in the beginning of the year 2019.

Efore Plc's rights issue was successfully completed in December 2018 to strengthen its capital structure and working capital. As a result of the rights issue the Company raised the targeted gross proceeds of approximately EUR 11 million.

The Management believes that the negotiated solutions in financial position and the completed Offering will assure sufficient finance and will assure the going concern as well.

| Maturities of financial liabilities, 2018 | Carrying amount | Contractual cash flows | 6 months or less | 6–12 months | Later |
|---|---|---|---|---|---|
| Trade payables | 17,011 | 17,011 | 17,011 | 0 | 0 |
| Loans from credit institutions | 11,660 | 11,660 | 5,448 | 817 | 5,396 |
| Finance lease liabilities | 5 | 5 | 5 | 0 | 0 |
| Other liabiliities | 1,020 | 1,020 | 289 | 0 | 731 |
| Factoring (Efore's liquidity risk) | 1,148 | 1,148 | 1,148 | 0 | 0 |

| Maturities of financial liabilities, 2017 | Carrying amount | Contractual cash flows | 6 months or less | 6–12 months | Later |
|---|---|---|---|---|---|
| Trade payables | 14,303 | 14,303 | 14,303 | 0 | 0 |
| Loans from credit institutions | 9,988 | 9,988 | 5,771 | 3,351 | 866 |
| Finance lease liabilities | 26 | 26 | 11 | 11 | 5 |
| Other liabiliities | 534 | 1,209 | 755 | 0 | 454 |
| Factoring (Efore's liquidity risk) | 1,204 | 1,204 | 1,204 | 0 | 0 |

## 27. FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS (EUR 1,000)

No derivatives was used in 2018.

## 28. OPERATING LEASE COMMITMENTS (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Group as lessee | | |
| Noncancellable minimum operating lease payments: | | |
| Within 1 year | **1,018** | 874 |
| 1–5 years | **1,562** | 2,017 |
| | **2,580** | 2,891 |

## 29. OTHER CONTRACTS

The Group has certain significant customer contracts that include a condition normal for the branch of industry, where one of the contracting parties may terminate the agreement, if the control in the group is transferred to a party which is a competitor of the customer.

The company has a significant financial contract that include a condition normal for the branch of industry, according to which the contract may be terminated if a control is transferred to another company.

## 30. CONTINGENT LIABILITIES (EUR 1,000)

| | 2018 | 2017 |
|---|---|---|
| Security given on own behalf | | |
| Business mortgages | **6,520** | 5,000 |
| Other contingent liabilities | **78** | 78 |
| | | |
| Pledged parent company shares, pcs* | **3,501,955** | 3,501,955 |
| | | |
| Liabilities guaranteed by business mortgages | | |
| Loans from credit institutions | **5,800** | 6,534 |
| Factoring in use | **4,022** | 4,947 |
| Total | **9,822** | 11,481 |
| | | |
| Credit insurance liability according to factoring contract. The liability has not been realized. | **201** | 247 |

* The Parent Company has pledged 12,515,001 pcs of Powernet International Oy's shares for the benefit of the main financier.

## 31. RELATED PARTY TRANSACTIONS (EUR 1,000)

The Group has related party relationships with subsidiaries and with the key employees, that consists of the members of the Board of Directors, the President the CEO as well as the Efore management team.

| The parent and subsidiary relationships in the Group are: | Registered office | Home country | Group ownership % | Share of voting rights % | Parent company ownership % |
|---|---|---|---|---|---|
| **Parent company** | | | | | |
| Efore Oyj | Espoo | Finland | | | |
| **Shares in subsidiaries owned by the parent company Efore Plc:** | | | | | |
| FI-Systems Oy | Espoo | Finland | 100 | 100 | 100 |
| Efore (USA), Inc. | Dallas TX | USA | 100 | 100 | 100 |
| Efore AB | Tukholma | Sweden | 100 | 100 | 100 |
| Efore (Hongkong) Co., Limited | Kowloon | China | 100 | 100 | 100 |
| Efore (Suzhou) Automotive Technology | Suzhou | China | 100 | 100 | 100 |
| Efore SpA | Castelfidardo | Italy | 100 | 100 | 100 |
| Powernet International Oy | Vantaa | Finland | 100 | 100 | 100 |
| **Shares in subsidiaries owned by Powernet International Oy:** | | | | | |
| Powernet Oy | Vantaa | Finland | 100 | 100 | |
| **Shares in subsidiaries owned by FI-Systems Oy:** | | | | | |
| Efore (Suzhou) Electronics Co., Ltd | Suzhou | China | 100 | 100 | |
| Efore OU | Pärnu | Estonia | 100 | 100 | |
| **Shares in subsidiaries owned by Efore SpA:** | | | | | |
| Efore Sarl | Charguia | Tunisia | 99.72 | 100 | |
| Efore Inc | Pennsylvania | USA | 100 | 100 | |
| **Shares in subsidiaries owned by Efore (Suzhou) Electronics Co., Ltd** | | | | | |
| Efore Telecom oy | Espoo | Finland | 100 | 100 | |

| | | 2018 | 2017 |
|---|---|---|---|
| **Presidents and CEO, compensation** | | | |
| Wiitakorpi Jorma | | **263** | 240 |
| | | | |
| **Members of Board of Directors, compensation** | | | |
| Lähdesmäki Tuomo | Jan. 1, 2018–Dec. 31, 2018 | **42** | 39 |
| Miettinen Marjo | Jan. 1, 2018–Dec. 31, 2018 | **21** | 21 |
| Sivula Antti | Jan. 1, 2018–Dec. 31, 2018 | **21** | 21 |
| Miettunen Matti | Apr. 12, 2018–Dec. 31, 2018 | **15** | |
| Narvanmaa Taru | Apr. 12, 2018–Dec. 31, 2018 | **15** | |
| Simola Jarmo | Jan. 1, 2018–Mar. 28, 2018 | **5** | 21 |
| Heikkilä Olli | Until Jan. 31, 2017 | | 2 |
| Marttila Päivi | Until Jan. 31, 2017 | | 4 |
| Takanen Jarkko | Until Jan. 31, 2017 | | 2 |
| | | **120** | 109 |
| | | | |
| **Other key management, compensation*** | | **699** | 627 |
| including fees | | **0** | 0 |
| | | | |
| **Key management** | | | |
| Salaries and other short-term employment benefits | | **1,082** | 976 |
| Benefits after termination of employment | | | 0 |
| Total | | **1,082** | 976 |

* A member of the management team, Vesa Leino, has not been a Company employee from January 1, 2018 to December 31, 2018.

**RELATED PARTY TRANSACTIONS**

No pension commitments with special terms have been granted nor have any other securities been granted on behalf of the related parties in 2018. On December 31, 2018 no stock option rights were granted to the Board of Directors, management or CEO.

The compensations to the Board Members were paid in cash in 2018 and 2017.

## 32. EVENTS AFTER THE END OF THE FINANCIAL PERIOD

The following board members were nominated to Efore Oy Shareholders' nomination board on January 14, 2019.

- Jussi Capital Oy: Jarkko Takanen
- Rausanne Group: Jarmo Malin
- Jaakko Heininen & related party: Jaakko Heininen

In addition Tuomo Lähdesmäki, the Chairman of Efore's Board of Directors, will act as a member. The nomination board elected Jarkko Takanen as its chairman in its first meeting.

Efore's Shareholders' nomination board prepared propositions related to board members and remunerations for the Annual general meeting held in April 11, 2019. The proposed persons were announced on January 16, 2019.

# INCOME STATEMENT FOR THE PARENT COMPANY, EUR 1,000

| | Notes | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|---|---|---|---|
| NET SALES | 1 | 16,532 | 25,560 |
| Change in inventories of finished goods and work in progress | | -849 | -1,069 |
| Other operating income | 2 | 7 | 49 |
| | | | |
| Materials and services | | | |
| Materials and consumables | | | |
| Purchases during the financial year | 3 | 11,843 | 18,378 |
| External services | 3 | 214 | 192 |
| | | 12,057 | 18,570 |
| Personnel expenses | | | |
| Wages, salaries and fees | 4 | 2,429 | 2,148 |
| Social security expenses | | | |
| Pension expenses | 4 | 412 | 361 |
| Other social security expenses | 4 | 23 | 44 |
| | | 2,865 | 2,553 |
| Depreciation, amortization and impairments | | | |
| Depreciation and amortization according to plan | 5 | 1,047 | 925 |
| Impairment on non-current assets | 5 | 437 | 0 |
| | | 1,484 | 925 |
| | | | |
| Other operating expenses | 6 | 4,060 | 3,788 |
| | | | |
| OPERATING PROFIT (LOSS) | | -4,775 | -1,297 |
| | | | |
| Financial income and expenses | | | |
| Income from group companies | 7 | 72 | 1,376 |
| Other interest and financial income | 7, 9 | 152 | 1,088 |
| Interest expenses from group companies | 8 | -209 | -228 |
| Impairment on fixed assets from group companies | 8 | -2,000 | 0 |
| Impairment on long-term loan receivables from group companies | 8 | -3,000 | 0 |
| Interest and other financial expenses | 8, 9 | -2,034 | -1,609 |
| | | -7,020 | 627 |
| | | | |
| PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES | | -11,795 | -669 |
| Income taxes | | | |
| Income taxes for the period | 10 | -87 | -57 |
| | | | |
| PROFIT (LOSS) FOR THE PERIOD | | -11,882 | -726 |

# BALANCE SHEET FOR THE PARENT COMPANY, EUR 1,000

| ASSETS | Notes | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| | | | |
| NON-CURRENT ASSETS | | | |
| **Intangible assets** | | | |
| Development expenditure | 11 | **4,032** | 4,223 |
| Intangible rights | 11 | **50** | 81 |
| Other intangible assets | 11 | **26** | 41 |
| Advance payments | 11 | **7** | 7 |
| | | **4,116** | 4,352 |
| **Tangible assets** | | | |
| Machinery and equipment | 11 | **182** | 216 |
| Other tangible assets | 11 | **12** | 16 |
| | | **194** | 232 |
| **Investments** | | | |
| Holdings in group companies | 12, 13 | **14,442** | 12,908 |
| Other shares and holdings | 12, 13 | **2** | 2 |
| | | **14,443** | 12,910 |
| CURRENT ASSETS | | | |
| **Inventories** | | | |
| Work in progress | | **36** | 90 |
| Finished goods | | **456** | 1,251 |
| | | **491** | 1,341 |
| **Non-current receivables** | | | |
| Receivables from group companies | 14 | **23,933** | 26,933 |
| | | **23,933** | 26,933 |
| **Current receivables** | | | |
| Trade receivables | 14 | **943** | 1,124 |
| Receivables from group companies | 14 | **2,876** | 3,663 |
| Other receivables | 14 | **151** | 56 |
| Prepayments and accrued income | 14 | **229** | 175 |
| | | **4,199** | 5,018 |
| | | | |
| **Cash and cash equivalents** | | **2,627** | 776 |
| | | | |
| TOTAL ASSETS | | **50,004** | 51,562 |

# BALANCE SHEET FOR THE PARENT COMPANY, EUR 1,000

| EQUITY AND LIABILITIES | Notes | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| **EQUITY** | | | |
| Share capital | 15 | **15,000** | 15,000 |
| Other reserves | 15 | **39,176** | 28,201 |
| Retained earnings | 15 | **-14,157** | -13,431 |
| Profit (loss) for the period | 15 | **-11,882** | -726 |
| | | **28,137** | 29,043 |
| **MANDATORY PROVISIONS** | 16 | **86** | 0 |
| Other mandatory provisions | | **86** | 0 |
| **LIABILITIES** | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Loans from credit institutions | 17 | **4,805** | 0 |
| Liabilities to group companies | 17 | **2,876** | 2,821 |
| Other liabilities | 17 | **731** | 0 |
| | | **8,412** | 2,821 |
| **CURRENT LIABILITIES** | | | |
| Loans from credit institutions | 17 | **995** | 6,534 |
| Advances received | 17 | **41** | 247 |
| Trade payables | 17 | **1,546** | 395 |
| Liabilities to group companies | 17 | **10,067** | 11,859 |
| Other liabilities | 17 | **90** | 89 |
| Accruals and deferred income | 17 | **629** | 574 |
| | | **13,369** | 19,697 |
| **TOTAL EQUITY AND LIABILITIES** | | **50,004** | 51,562 |

# PARENT COMPANY CASH FLOW STATEMENTS, EUR 1,000

| | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash receipts from customers | **16,598** | 24,893 |
| Cash paid to suppliers and employees | **-18,242** | -25,109 |
| Cash generated from operations | **-1,645** | -216 |
| Interest paid | **-286** | 234 |
| Dividends received | **0** | 732 |
| Interest received | **114** | 690 |
| Other financial items | **-845** | -226 |
| Income taxes paid | **-87** | 0 |
| **Net cash provided by operating activities (A)** | **-2,748** | 1,215 |
| | | |
| **Cash flows from investing activities:** | | |
| Purchase of tangible and intangible assets | **-1,210** | -1,945 |
| Acquisition of subsidiaries | **-3,534** | 0 |
| Increase in loans receivable | **-1,600** | 0 |
| Decrease in loans receivable | **1,600** | 129 |
| **Net cash used in investing activities (B)** | **-4,743** | -1,816 |
| | | |
| **Cash flows from financing activities:** | | |
| Proceeds from issue of share capital | **6,176** | 0 |
| Proceeds from short-term borrowings | **4,607** | 2,534 |
| Repayment of short-term borrowings | **-3,241** | -2,193 |
| Proceeds from long-term borrowings | **1,800** | 0 |
| **Net cash used in financing activities (C)** | **9,341** | 342 |
| | | |
| **Net decrease/increase in cash and cash equivalents (A+B+C)** | **1,850** | -259 |
| | | |
| Cash and cash equivalents at beginning of period | **776** | 1,036 |
| Net increase/decrease in cash and cash equivalents | **1,850** | -259 |
| Cash and equivalents at the end of period | **2,627** | 776 |

# ACCOUNTING POLICIES FOR THE FINANCIAL STATEMENTS OF PARENT COMPANY

## GENERAL

The financial statements of Efore Plc (registered office in Espoo, Finland), are prepared and presented in accordance with the Finnish Accounting Act and other applicable laws and regulations in effect in Finland (Finnish Accounting Standards, FAS).

## FOREIGN CURRENCY ITEMS

Transactions in foreign currencies are recognized at the exchange rate valid on the date of transaction. Foreign currency receivables and liabilities on the balance sheet date are valued at the exchange rates on the balance sheet date. Exchange rate differences arising from the translation of balance sheet items in foreign currency and sales, purchases, expenses and financial items as well as from receivables and liabilities are recognised as exchange rate gains and losses in financial income and expenses. The presentation in the parent corresponds with the presentation in the consolidated financial statements.

Derivatives for hedging currency positions in balance sheet items are recognized at fair value and the change in fair value changes is recorded in financial items.

## EVALUATION OF NON-CURRENT ASSETS

Intangible and tangible assets are stated at historical cost less accumulated amortization, depreciation and impairment. Planned depreciation on intangible and tangible assets is made on a straight-line basis over their estimated useful lives. Gains and losses on sale of intangible and tangible assets are included in the operating result.

The estimated useful lives for different groups of assets are as follows:

| | |
|---|---|
| Development expenditure | 3–5 years |
| Intangible rights | 3–5 years |
| Other intangible assets | 5–10 years |
| Machinery and equipment | 3–10 years |
| Other tangible assets | 5 years |

An impairment is recognized on the book value of an item in intangible and tangible assets, if it is evident that earnings expectations do not cover the book value of the asset.

Development expenditure relating to the largest projects is capitalized as intangible assets. The capitalized development expenditure is amortized over the financial periods in which income is generated.

## HOLDINGS IN GROUP COMPANIES AND NON-CURRENT RECEIVABLES FROM GROUP COMPANIES

The carrying values of holdings in group companies and loans granted to group companies are tested annually on the balance sheet date to identify any impairment. The need for impairment is considered at the cash generating unit level of the group companies.

For impairment testing the recoverable amount of the unit is the value in use. The value in use represents the discounted future net cash flows expected to be derived from a cash-generating unit. The discount rate is a pretax discount rate that is reflecting current market assessments and the risks specific to the asset.

Impairment is recognized when the carrying amount of an asset exceeds its recoverable amount. An impairment is recorded in profit or loss. An impairment recognized is subsequently reversed if there are changes in the estimates concerning the recoverable amount of the asset.

## INVENTORIES

Inventories are stated at the lowest of historical cost, net realizable value. Variable purchasing costs are included in the the cost of inventories. The cost of inventories is calculated on the weighted average cost basis.

## PROVISIONS

Future expenditure and losses that the company is committed to cover but which have not yet realized are presented as provisions in the balance sheet. The provision includes costs for warranty repairs and reorganizations among other things costs. Changes in the provisions are recognized in the corresponding expenses in the income statement.

## NET SALES

Net sales is calculated by deducting from revenue discounts granted, indirect taxes and exchange rate differences from trade receivables.

## LEASING

All leasing charges are treated as rental expenses. The unpaid leasing commitments related to future financial periods are presented as lease obligations in the notes to the financial statements.

## PENSIONS

The pension cover of the company's employees is arranged through insurance policies in pension insurance companies. Pension costs are expensed as incurred.

## INCOME TAXES

The deductible and non-deductible taxes at source are recognized as income taxes in the profit and loss statement.

# NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY, EUR 1,000

## 1. NET SALES

| | 2018 | 2017 |
|---|---|---|
| EMEA | **15,875** | 23,785 |
| Americas | **46** | 1,183 |
| APAC | **611** | 593 |
| Total | **16,532** | 25,560 |

## 2. OTHER OPERATING INCOME

| | 2018 | 2017 |
|---|---|---|
| Product development subsidies | **7** | 48 |
| Other income | **0** | 0 |
| Total | **7** | 49 |

## 3. MATERIALS AND SERVICES

| | 2018 | 2017 |
|---|---|---|
| Materials and consumables | | |
| Purchases during the financial year | **11,843** | 18,378 |
| External services | **214** | 192 |
| Materials and services in total | **12,057** | 18,570 |

## 4. PERSONNEL EXPENSES

| | 2018 | 2017 |
|---|---|---|
| Wages, salaries and fees | **2,429** | 2,148 |
| Pension costs | **412** | 361 |
| Other social security expenses | **23** | 44 |
| Total | **2,865** | 2,553 |
| | | |
| Management salaries and fees | | |
| President and CEO, Members of the Board of Directors | **383** | 349 |
| | | |
| Total personnel, average | | |
| Salaried employees | **57** | 63 |

## 5. DEPRECIATION, AMORTIZATION AND IMPAIRMENTS

| | 2018 | 2017 |
|---|---|---|
| Depreciation and amortization according to plan: | | |
| Development costs | **929** | 795 |
| Intangible rights | **43** | 45 |
| Other intangible assets | **14** | 12 |
| Machinery and equipment | **57** | 69 |
| Other tangible assets | **4** | 4 |
| Total | **1,047** | 925 |
| | | |
| Impairment on development costs | **437** | 0 |
| Total | **437** | 0 |

## 6. OTHER OPERATING EXPENSES

| | 2018 | 2017 |
|---|---|---|
| Other operating expenses are normal expenses. | | |
| | | |
| Audit fees: | | |
| KPMG | | |
| Audit | **44** | 21 |
| Other services | **188** | 26 |
| Total | **232** | 47 |

## 7. FINANCIAL INCOME

| | 2018 | 2017 |
|---|---|---|
| Dividend income from Group companies | **0** | 732 |
| Interest income from Group companies | **72** | 645 |
| Interest income from others | **43** | 46 |
| Exchange rate gains | **109** | 1,042 |
| Total | **224** | 2,465 |

## 8. FINANCIAL EXPENSES

| | 2018 | 2017 |
|---|---|---|
| Interest expenses to Group companies | **209** | 228 |
| Impairment on investments in Group companies | **2,000** | 0 |
| Impairment on loan receivable from Group company | **3,000** | 0 |
| Interest expenses to others | **331** | 220 |
| Exchange rate losses | **400** | 911 |
| Cost of Share issue | **760** | 0 |
| Other financial expenses | **543** | 478 |
| Total | **7,244** | 1,837 |

## 9. EXCHANGE RATE DIFFERENCIES

| | | 2018 | 2017 |
|---|---|---|---|
| Specification of net exchange rate gains (+) and losses (-) according to financial statement items | | | |
| | | | |
| Sales | Gains | **28** | 312 |
| | Losses | **-30** | -346 |
| | Net | **-2** | -34 |
| | | | |
| Purchases | Gains | **0** | 0 |
| | Losses | **-1** | 0 |
| | Net | **0** | 0 |
| | | | |
| Financial items | Gains | **32** | 142 |
| | Losses | **-49** | -202 |
| | Net | **-16** | -60 |
| | | | |
| Group receivables and liabilities | Gains | **48** | 588 |
| | Losses | **-321** | -363 |
| | Net | **-272** | 225 |
| | | | |
| Total | Gains | **109** | 1,042 |
| | Losses | **-400** | -911 |
| | Net | **-291** | 132 |

## 10. INCOME TAXES

| | 2018 | 2017 |
|---|---|---|
| Deductible and non-deductible taxes at source | **87** | 57 |
| Total | **87** | 57 |

## 11. NON-CURRENT ASSETS

| | 2018 | 2017 |
|---|---|---|
| **Intangible assets** | | |
| Development expenditure | | |
| Acquisition Cost on Jan. 1 | **7,154** | 6,131 |
| Additions | **1,175** | 1,851 |
| Disposals | **0** | -828 |
| Cost on Dec.31 | **8,329** | 7,154 |
| Accumulated amortization and impairment on Jan. 1 | **2,931** | 2,964 |
| Acc. amortizations on disposed assets | **0** | -828 |
| Amortization | **929** | 795 |
| Impairment | **437** | 0 |
| Accumulated amortization and impairment on Dec. 31 | **4,297** | 2,931 |
| Book value on Dec.31 | **4,032** | 4,223 |
| | | |
| Intangible rights | | |
| Acquisition Cost on Jan. 1 | **379** | 590 |
| Additions | **12** | 6 |
| Disposals | **0** | -243 |
| Reclassifications | **0** | 26 |
| Cost on Dec. 31 | **391** | 379 |
| Accumulated amortization on Jan. 1 | **298** | 496 |
| Acc. amortizations on disposed assets | **0** | -243 |
| Amortization | **43** | 45 |
| Accumulated amortization on Dec. 31 | **341** | 298 |
| Book value on Dec. 31 | **50** | 81 |
| | | |
| Other intangible assets | | |
| Acquisition Cost on Jan. 1 | **72** | 34 |
| Additions | **0** | 3 |
| Disposals | **0** | -3 |
| Reclassifications | **0** | 38 |
| Cost on Dec.31 | **72** | 72 |
| Accumulated amortization on Jan. 1 | **32** | 22 |
| Acc. amortizations on disposed assets | **0** | -3 |
| Amortization | **14** | 12 |
| Accumulated amortization on Dec. 31 | **46** | 32 |
| Book value on Dec. 31 | **26** | 41 |

| | 2018 | 2017 |
|---|---|---|
| Advance payments | | |
| Acquisition Cost on Jan. 1 | **7** | 0 |
| Reclassification | **0** | 7 |
| Cost on Dec. 31 | **7** | 7 |
| Book value on Dec. 31 | **7** | 7 |

| | 2018 | 2017 |
|---|---|---|
| **Tangible assets** | | |
| Machinery and equipment | | |
| Acquisition Cost on Jan. 1 | **989** | 3,396 |
| Additions | **23** | 66 |
| Disposals | **0** | -2,472 |
| Cost on Dec. 31 | **1,012** | 989 |
| Accumulated depreciation on Jan. 1 | **773** | 3,176 |
| Acc. depreciation on disposed assets | **0** | -2,472 |
| Depreciation | **57** | 69 |
| Accumulated depreciation on Dec. 31 | **829** | 773 |
| Book value on Dec. 31 | **182** | 216 |
| | | |
| Other tangible assets | | |
| Acquisition Cost on Jan. 1 | **20** | 383 |
| Disposals | **0** | -362 |
| Cost on Dec. 31 | **20** | 20 |
| Accumulated depreciation on Jan. 1 | **4** | 362 |
| Acc. depreciation on disposed assets | **0** | -362 |
| Depreciation | **4** | 4 |
| Accumulated depreciation on Dec. 31 | **8** | 4 |
| Book value on Dec. 31 | **12** | 16 |
| | | |
| Advance payments and construction in progress | | |
| Acquisition Cost on Jan. 1 | **0** | 51 |
| Change Jan. 1 - Dec. 31 | **0** | 20 |
| Reclassification | **0** | -71 |
| Cost on Dec. 31 | **0** | 0 |
| Book value on Dec. 31 | **0** | 0 |

## 12. INVESTMENTS

| | 2018 | 2017 |
|---|---|---|
| Holdings in group companies | | |
| Book value on Jan. 1 | **12,908** | 12,908 |
| Additions | **3,534** | 0 |
| Impairment | **-2,000** | 0 |
| Book value on Dec. 31 | **14,442** | 12,908 |

| | 2018 | 2017 |
|---|---|---|
| Other shares and similar rights of ownership | | |
| Shares on Jan. 1 | **2** | 2 |
| Book value on Dec. 31 | **2** | 2 |

## 13. HOLDINGS IN GROUP COMPANIES

| | | 2018 | 2017 |
|---|---|---|---|
| | | Book value | Book value |
| FI-Systems Oy, Espoo | Finland | **3** | 3 |
| Efore (USA), Inc., Dallas TX | USA | **0** | 0 |
| Efore AB, Tukholma | Sweden | **107** | 107 |
| Efore (Hongkong) Co. Limited, Kowloon | China | **1** | 1 |
| Efore (Suzhou) Automotive Power Technology Co., Ltd., Suzhou | China | **0** | 0 |
| Efore S.p.A, Osimo | Italy | **10,796** | 12,796 |
| Powernet International Oy, Vantaa | Finland | **3,534** | - |
| | | **14,442** | 12,908 |
| | | | |
| Other shares | | **2** | 2 |

## 14. RECEIVABLES

| | 2018 | 2017 |
|---|---|---|
| Non-current receivables from Group companies | | |
| Subordinated loans on Jan. 1 | **32,000** | 32,000 |
| Impairment of subordinated loan on Jan. 1 | **-5,067** | -5,067 |
| Impairment of subordinated loan in fiscal period | **-3,000** | 0 |
| Non-current receivables from Group companies in total | **23,933** | 26,933 |

The company has given Fi-Systems Oy a subordinated loan of EUR 32,000,000.00. The interest rate is 5%. In the event of liquidation on bankruptcy, the principal and interest payable to Efore Plc would have lower priority than other credits. Interest is payable only when, at the time of payment, the amount of the non-restricted equity and all subordinated loans of Fi-Systems Oy exceeds the amount of loss recorded in the balance sheet included in the financial statements of the latest completed fiscal period or in later financial statements. If interest cannot be paid, the interest accumulated during such a fiscal period will be payable later. The loan has no security. The accumulated unbooked interest is EUR 15,084,272.09.

The impairment EUR 3,000,000.00 of subordinated loan was recorded on June 30, 2018. The impairment was caused of Fi-Systems Oy's subsidiary Efore (Suzhou) Electronics Co. Ltd, whose cash generating ability had declined.

| | 2018 | 2017 |
|---|---|---|
| Current receivables | | |
| Trade receivables | **943** | 1,124 |
| Other receivables | **151** | 56 |
| Prepayments and accrued income | **229** | 175 |
| | **1,323** | 1,354 |
| Current receivables from group companies | | |
| Trade receivables | **1,563** | 2,372 |
| Loan receivables | **1,280** | 1,259 |
| Interest receivables | **33** | 33 |
| | **2,876** | 3,663 |
| | | |
| Current receivables in total | **4,199** | 5,018 |
| | | |
| Prepayments and accrued income | | |
| Prepayments and accrued income include the following items: | | |
| Accrued personnel expenses | **7** | 63 |
| Product development subsidies | **19** | 18 |
| Prepayments | **177** | 61 |
| Unbilled revenue | **4** | 10 |
| Other items | **22** | 23 |
| | **229** | 175 |

## 15. EQUITY

| | 2018 | 2017 |
|---|---|---|
| Share capital on Jan. 1 | **15,000** | 15,000 |
| Share capital on Dec. 31 | **15,000** | 15,000 |
| | | |
| Own shares on Jan. 1 | **-2,427** | -2,427 |
| Own shares on Dec. 31 | **-2,427** | -2,427 |
| | | |
| Other reserves | | |
| Unrestricted equity reserve on Jan. 1 | **28,201** | 28,201 |
| Share Issue | **10,976** | 0 |
| Unrestricted equity reserve on Dec. 31. | **39,176** | 28,201 |
| | | |
| Retained earnings | **-11,731** | -11,004 |
| | | |
| Result for the period | **-11,882** | -726 |
| Equity total | **28,137** | 29,043 |

### THE COMPANY'S DISTRIBUTABLE FUNDS

| | 2018 | 2017 |
|---|---|---|
| Retained earnings | **-11,731** | -11,004 |
| Result for the period | **-11,882** | -726 |
| Reserve for invested unrestricted equity | **39,176** | 28,201 |
| Own shares | **-2,427** | -2,427 |
| Deferred development costs | **-4,032** | -4,223 |
| Distributable funds | **9,106** | 9,821 |
| | | |
| Parent company share capital | | |
| one type of shares | | |
| | **pcs** | pcs |
| Outstanding shares on Jan. 1 | **52,270,896** | 52,270,896 |
| Purchase of own shares | **-4,625** | 0 |
| Share issue | **365,863,897** | 0 |
| Outstanding shares on Dec. 31 | **418,130,168** | 52,270,896 |
| | | |
| Share capital in Parent company | **pcs** | pcs |
| one type of shares | **421,636,788** | 55,772,891 |

## 16. MANDATORY PROVISIONS

| | 2018 | 2017 |
|---|---|---|
| Other mandatory provisions on Jan. 1 | **0** | 260 |
| Other mandatory provisions, change | **86** | -260 |
| Other mandatory provisions on Dec. 31 | **86** | 0 |

## 17. LIABILITIES

| | 2018 | 2017 |
|---|---|---|
| Non-current liabilities | | |
| Liabilities from credit institutions | **4,805** | 0 |
| Other liabilities | **731** | 0 |
| | **5,536** | 0 |
| | | |
| Non-current Intercompany liabilities | | |
| Other liabilities | **2,656** | 2,656 |
| Accruals | **220** | 165 |
| | **2,876** | 2,821 |
| | | |
| Non-current liabilities Total | **8,412** | 2,821 |
| | | |
| Current liabilities | | |
| Loans from credit institutions | **995** | 6,534 |
| Advances received | **41** | 247 |
| Trade payables | **1,546** | 395 |
| Other liabilities | **90** | 89 |
| Accruals and deferred income | **629** | 574 |
| | **3,302** | 7,839 |

The Company has agreed with its main financier bank on a reorganisation of its loans. A new payment programme for the next five years has been negotiated for the repayment of the EUR 6.0 million in loans from the main financier bank maturing on 31 December 2018. Bank also waived it's right for early expiration of the loans. Efore has amortized loan by EUR 0.2 million in the end of the year and as at 31 December 2018 Efore had loans with its main financier bank totaling to EUR 5.8 million. As a result of succesfully completed rights issue Efore has pledged to set off loans from main financier bank by additional EUR 0.6 million in the beginning of the year 2019.

The total loan amount consists of loans, factoring limits and bank limits as follows:

| | 2018 | 2017 |
|---|---|---|
| Loans | **5,800** | 6,000 |
| Factoring limits in use | **4,022** | 4,947 |
| Limit from financial institutions | **0** | 534 |
| Total | **9,822** | 11,481 |

| | 2018 | 2017 |
|---|---|---|
| Current liabilities to group companies | | |
| Trade payables | **5,714** | 7,239 |
| Other liabilities | **3,500** | 3,500 |
| Accruals and deferred income | **853** | 1,119 |
| | **10,067** | 11,859 |
| | | |
| Current liabilities total | **13,369** | 19,697 |
| | | |
| Accruals and deferred income | | |
| External accruals and deferred income include the following items: | | |
| Accrued holiday pay | **528** | 505 |
| Accrued other personnel expenses | **78** | 0 |
| Accrued financial items | **0** | 66 |
| Other items | **23** | 4 |
| | **629** | 574 |

## 18. CONTINGENT LIABILITIES

| | 2018 | 2017 |
|---|---|---|
| **Security given** | | |
| Security given on own behalf | | |
| Business mortgages | **5,000** | 5,000 |
| Other contingent liabilities | **78** | 78 |
| | | |
| | **Pcs** | Pcs |
| Pledged parent company shares, pcs | **3,501,955** | 3,501,955 |
| Pledged Powernet International Oy shares, pcs | **12,515,001** | - |
| | | |
| Liabilities guaranteed by business mortgages. Liabilities include covenant terms. | | |
| Loans from credit institutions | **5,800** | 6,534 |
| Factoring limits in use on Dec 31 | **4,022** | 4,947 |
| | **9,822** | 11,481 |
| | | |
| **Liability engagements and other contingent liabilities** | | |
| Rent and leasing commitments on own behalf | | |
| Payable in the following financial year | **372** | 369 |
| Payable later | **644** | 959 |
| | | |
| Credit insurance liability according to factoring contract. The liability has not been realized. | **201** | 247 |

## 19. RELATED PARTY TRANSACTIONS

Efore has pledged 3,501,995 own shares as a counter guarantee for the guarantee granted by Jussi Capital. Arrangements have been conducted on market equivalent terms and in line with the interests of the business perspectives of the company.

## 20. PROPOSAL BY THE BOARD OF DIRECTORS FOR USE OF THE DISTRIBUTABLE FUNDS AND THE RESULT OF THE PARENT COMPANY

The Board of Directors will propose to the Annual General Meeting on April 11, 2019 that no dividend will be distributed and the loss will be transferred to the company's retained earnings accounts.

# SIGNATURES FOR THE FINANCIAL STATEMENTS AND THE REPORT BY THE BOARD OF DIRECTORS

Espoo, March 13, 2019

Tuomo Lähdesmäki
Chairman

Antti Sivula

Marjo Miettinen

Matti Miettunen

Taru Narvanmaa

Vesa Leino
President and CEO

# AUDITORS REPORT

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

**To the Annual General Meeting of Efore Plc**

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### OPINION

We have audited the financial statements of Efore Plc (business identity code 0195681-3) for the year ended 31 December 2018. 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, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

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

### 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 |
|---|---|
| **Recognition and impairment of capitalised development costs (Accounting principles for the consolidated financial statements, note 13)** | |
| — The Research and Development function is a significant part of operations in the Efore Group's industry. The development expenditures are capitalised in the consolidated balance sheet to the extent that they meet the capitalisation criteria set out in the relevant accounting standard (IAS 38) and are assessed to contribute future economic benefits. The assessment may change even in a rather short term, e.g. as a result of technical development.<br>— The capitalised development costs in the consolidated balance sheet totalled EUR 9.4 million as of 31 December 2018.<br>— Efore estimates the recoverable amount based on the present value of the future cash flows expected to be derived from the capitalised development costs.<br>— In applying the impairment model management makes several estimates relating to the assumptions used. The future cash flow projections also involve uncertainty, therefore affecting the valuation. | Our audit procedures included, among others:<br>— We assessed the appropriateness of the capitalisation process of development expenditures and considered whether the development costs capitalised during the financial year had met the capitalisation criteria under the relevant IFRS.<br>— We involved KPMG valuation specialists to consider the appropriate valuation of the capitalised development costs. The performed audit procedures included, for example:<br>  — challenging the key assumptions used in impairment testing<br>  — evaluating the reasonableness of Efore's cash flow projections for future financial years and assessing the key elements in impairment tests, such as discount rates<br>  — testing the mathematical accuracy of the impairment model used, and<br>  — assessing the adequacy and appropriateness of the disclosures presented. |

| THE KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN THE AUDIT |
|---|---|
| **Monitoring and valuation of inventories (Accounting principles for the consolidated financial statements, note 17)** | |
| — Efore Group operates in competitive markets and the lifecycle of its products is typically rather short, especially in the Telecom sector.<br>— The carrying amount of inventories in the consolidated balance sheet totalled EUR 9.0 million as of 31 December 2018.<br>— Valuation of inventories involves management judgement. Such judgements include management's estimates of future sales of inventory items, among others. Consequently, the write-downs recognised on inventories may subsequently prove insufficient.<br>— The Group's IT systems and monitoring routines for inventory are non-concentrated and partly rely on manual work phases. | Our audit procedures included, among others:<br>— We assessed the appropriateness of the inventory valuation principles applied and the adequacy of the write-downs recognised.<br>— We attended inventory counts at the significant inventory locations.<br>— We assessed the appropriateness of the inventory monitoring process to consider the accuracy of financial reporting.<br>— We tested the accuracy of inventory pricing on a sample basis. |

| THE KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN THE AUDIT |
|---|---|
| **Sufficiency of financing (Consolidated balance sheet, Accounting principles for the consolidated financial statements, note 21 and 26)** | |
| — The consolidated operating loss for the year was EUR 7.2 million.<br>— The Group's interest-bearing liabilities exceeded cash and cash equivalents by EUR 9.4 million at year-end 2018.<br>— Efore has agreed with its main financier bank on the refinancing of its borrowings in December 2018. In addition, Efore has two loans from financial institutions for which the loan covenants were breached at 31 December 2018. Efore is in the process of renegotiating the loan agreement terms during the first half of 2019.<br>— The rights issue for improving the capital structure and strengthening the working capital was completed in December 2018, enhancing the financial position of the company.<br>— The preparation of financial statements on a going concern basis requires that the Group's financing be secured for at least a 12 month period from the balance sheet date. The company assesses that the financing is secured for a 12 month period from the balance sheet date. | We assessed:<br>— effects of the terms and conditions of the financing arrangements to classification and recognition by reference to relevant accounting policies for the consolidated financial statements and applicable financial reporting framework,<br>— the appropriateness of the disclosures provided on the financing arrangements and interest-bearing liabilities in the consolidated financial statements, and<br>— management's view on the applicability of the going concern principle. |

| THE KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN THE AUDIT |
|---|---|
| **IT systems and control environment** | |
| — Efore Group's IT systems for the key business processes and the financial reporting are complex.<br>— In the current IT systems in place the system-based controls are rather limited. Thus, there is a need for significant amount of manual controls and work phases.<br>— Due to the small size of the organisation, the segregation of duties is not always fulfilled. | Our audit procedures included, among others:<br>— We assessed whether the Group has implemented appropriate system-based and manual controls to ensure the accuracy of financial reporting.<br>— In respect of Efore's key IT systems related to financial reporting, we evaluated the associated control environments.<br>— We performed extended detailed audit procedures including:<br>  — analytical procedures<br>  — sample testing on single significant items both in the balance sheet and profit or loss<br>— In addition, we tested journal entries on a sample basis to assess the accuracy of financial reporting. |

| THE KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN THE AUDIT |
|---|---|
| **Valuation of parent company's holdings in group companies (Accounting policies for the financial statements of parent company, note 12, 13 and 14)** | |
| — The parent company's holdings in the group companies (subsidiaries) comprise a significant part of the parent company's assets. The valuation of these holdings is dependent on the subsidiaries' financial performance.<br>— Efore applies an impairment model to assess the valuation of the aforementioned holdings. The Group determines the present value of the future cash flows expected to be derived from a subsidiary's business. In applying the impairment model the management makes several estimates relating to the assumptions used. The future cash flow projections also involve uncertainty, therefore affecting the valuation.<br>— In 2018 the parent company recognized write downs in total EUR 5 million related to holdings in group companies. | — We involved KPMG valuation specialists to consider the appropriate valuation of the holdings in the group companies. The performed audit procedures included, among others:<br>— challenging the key assumptions used in impairment testing<br>— assessing the reasonableness of the subsidiaries' cash flow projections for future financial years and comparing the key elements in impairment tests, such as the discount rates and growth rates, to the budgets approved by the parent company's Board, market data derived from external sources as well as to the subsidiaries' historical data and performance<br>— testing the mathematical accuracy of the impairment model used, and<br>— assessing the adequacy and appropriateness of the disclosures presented. |
| **Acquisition of Powernet International Oy (Accounting principles for the consolidated financial statements, notes 2 and 13)** | |
| — At the balance sheet date 31 December 2018 Efore Plc acquired the entire share capital of Powernet International Oy.<br>— Of the acquisition, EUR 1.3 million was allocated to intangible assets and the goodwill arisen amounted to EUR 3.2 million.<br>— The acquisition involves a contingent consideration, amounting to EUR 0.7 million based on management estimate. | — We evaluated the appropriateness of the measurement of intangible assets and the contingent consideration related to the acquisition of Powernet International Oy by inspecting the calculations prepared and assessing the underlying assumptions.<br>— Furthemore, we considered the appropriateness of the disclosures provided on the acquisition in the consolidated financial statements. |

## 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 scepticism 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 col-

lusion, 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 in 2007 and our appointment represents a total period of uninterrupted engagement of 12 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 the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

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

Helsinki, 15 March 2019
KPMG OY AB

HENRIK HOLMBOM
Authorised Public Accountant, KHT

# GROUP KEY FIGURES

| KEY FIGURES | | IFRS 2018 | IFRS 2017 | IFRS 2016 |
|---|---|---|---|---|
| **Income statement** | | | | |
| Net sales | MEUR | **52.4** | 69.9 | 75.4 |
| Adjusted EBITDA | MEUR | **-2.3** | 3.6 | -0.9 |
| EBITDA | MEUR | **-2.9** | 3.6 | -5.7 |
| Adjusted operating profit/loss | MEUR | **-6.7** | -0.2 | -4.8 |
| Operating profit/loss | MEUR | **-7.2** | -0.2 | -9.7 |
| Profit/loss before taxes | MEUR | **-8.5** | -1.0 | -10.4 |
| Profit/loss for the period | MEUR | **-7.8** | -0.6 | -11.4 |
| Gross investments | MEUR | **4.0** | 5.2 | 3.3 |
| | | | | |
| **Profitability** | | | | |
| Return on equity (ROE) | % | **-95.4** | -7.9 | -85.5 |
| Return on investment (ROI) | % | **-35.4** | -2.2 | -38.0 |
| | | | | |
| **Finance and financial position** | | | | |
| Net interest-bearing liabilities | MEUR | **9.4** | 8.1 | 7.5 |
| Gearing | % | **100.6** | 115.6 | 99.5 |
| Current ratio | | **0.8** | 0.7 | 0.8 |
| Solvency ratio | % | **20.6** | 17.9 | 15.7 |
| Cash flow from operating activities | | **-2.8** | 4.7 | -1.1 |
| | | | | |
| **Other key figures** | | | | |
| Personnel, average | | **406** | 432 | 679 |
| Salaries and wages | MEUR | **10.8** | 11.0 | 19.7 |
| | | | | |
| Product development costs (expensed) | MEUR | **6.0** | 5.8 | 7.1 |
| Product development costs (capitalized in balance sheet) | MEUR | **2.9** | 3.4 | 2.5 |
| Product development costs total | MEUR | **9.0** | 9.2 | 9.7 |

| KEY FINANCIAL INDICATORS PER SHARE | | IFRS 2018 | IFRS 2017 | IFRS 2016 |
|---|---|---|---|---|
| Earnings per share | EUR | **-0.14** | -0.01 | -0.22 |
| Diluted earnings per share | EUR | **-0.14** | -0.01 | -0.22 |
| Dividend/share | EUR | **-** | 0.00 | 0.00 |
| Dividend payout ratio | % | **-** | 0.00 | 0.00 |
| Effective dividend yield | % | **-** | 0.00 | 0.00 |
| Distribution of assets from the reserve of invested unrestricted equity | EUR | **-** | 0.00 | 0.00 |
| | | | | |
| Equity per share, adjusted | EUR | **0.02** | 0.13 | 0.14 |
| At the end of fiscal year | EUR | **0.04** | 0.43 | 0.55 |
| P/E ratio | | **-0.29** | -43.00 | -2.50 |
| | | | | |
| **Market value** | | | | |
| Market capitalization | MEUR | **16.9** | 22.5 | 28.5 |
| | | | | |
| **Trading** | | | | |
| Shares traded | 1,000 pcs | **39.0** | 9.4 | 2.9 |
| Trading, % | % | **9.3** | 16.9 | 5.1 |
| | | | | |
| **Number of outstanding shares** | | | | |
| - average on December 31 | 1,000 pcs | **56,278** | 52,271 | 52,271 |
| - diluted number of shares on December 31 | 1,000 pcs | **56,278** | 52,271 | 52,271 |
| - actual number of shares on December 31 | 1,000 pcs | **418,130** | 52,271 | 52,271 |
| | | | | |
| **Share prices** | | | | |
| lowest | EUR | **0.03** | 0.42 | 0.45 |
| highest | EUR | **0.22** | 0.70 | 0.83 |
| at the end of fiscal year | EUR | **0.04** | 0.43 | 0.55 |
| average | EUR | **0.10** | 0.56 | 0.61 |

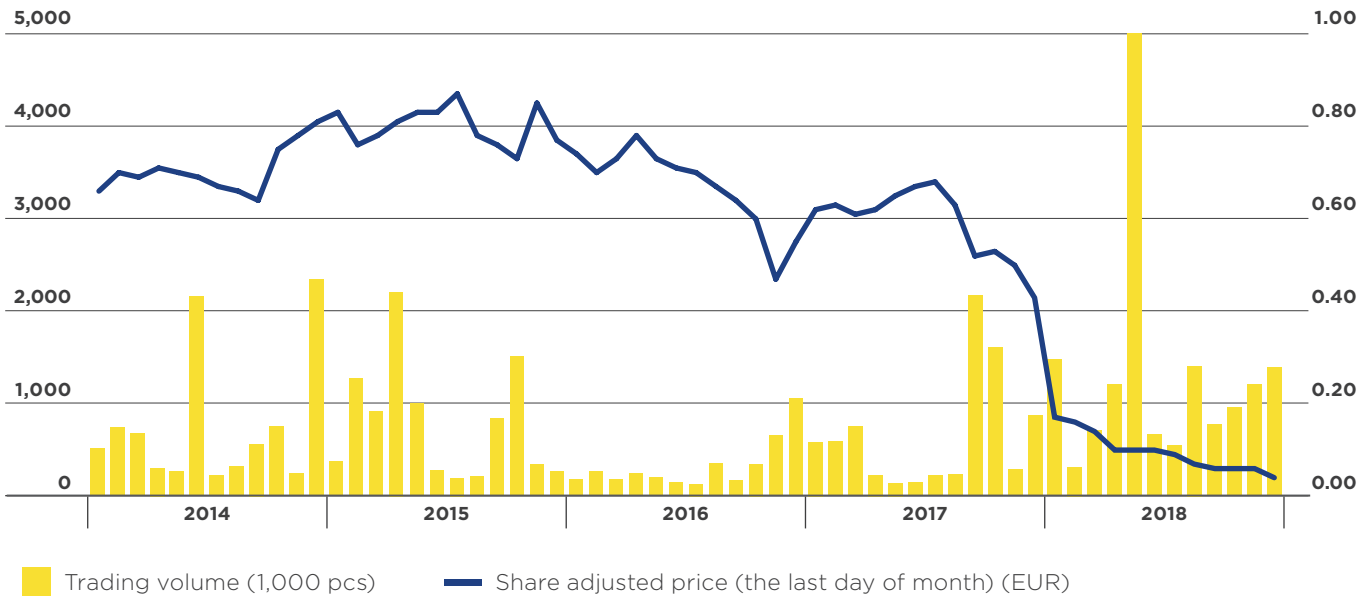
# CALCULATION OF KEY FIGURES AND RATIOS

| | | | |
|---|---|---|---|
| Return on investment (ROI), % | = | Profit before taxes + interest and other financing expenses / Equity + interest-bearing liabilities (average) | x 100 |
| Return on Equity (ROE), % | = | Profit/loss for the period / Equity (average) | x 100 |
| Current ratio | = | Current assets / Current liabilities | |
| Solvency ratio, % | = | Equity / Total assets - advance payments received - own shares * | x 100 |
| Net interest-bearing liabilities | = | Interest-bearing liabilities - financial assets at fair value through profit or loss - cash and cash equivalents | |
| Gearing, % | = | Net interest-bearing liabilities / Equity | x 100 |
| Earnings per share | = | Profit or loss attributable to ordinary equity holders of the parent entity / The weighted average number of ordinary shares | |
| Earnings per share (diluted) | = | Profit or loss attributable to ordinary equity holders of the parent entity / The weighted average number of dilited shares | |
| Dividend per share | = | Dividend for the financial year / Number of shares - own shares* | |
| Dividend payout ratio, % | = | Dividend per share / Earnings per share | x 100 |
| Effective dividend yield, % | = | Dividend per share / Adjusted share price at balance sheet date | x 100 |
| Equity per share | = | Equity - own shares* / Number of shares at balance sheet date | |
| P/E-ratio | = | Share price at balance sheet date / Earnings per share | |
| Market capitalization | = | Adjusted share price at balance sheet date x number of shares at balance sheet date | |
| Average personnel | = | The average number of employees at the end of each calendar month during the accounting period | |

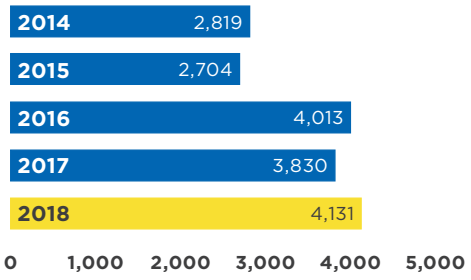
All share-specific figures are based on the issue-adjusted number of shares.
Equity is the equity attributable to the shareholders of the parent company. Result for the period is the result attributable to the shareholders of the parent company.
* There were own shares held by company at the end of the period under review.

# SHARES AND SHAREHOLDERS

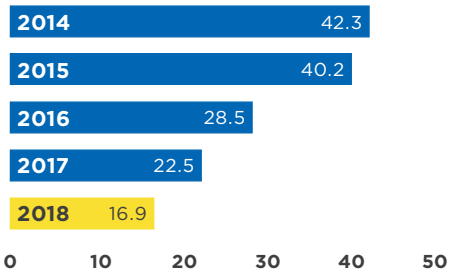
**EFORE PLC'S SHARE PRICES AND TRADING VOLUME IN 2014–2018**




**NUMBER OF REGISTERED SHAREHOLDERS**




**MARKET CAPITALIZATION, (MEUR)**



# SHARES AND SHAREHOLDERS

## CHANGES IN SHARE CAPITAL 2004–2018

| Share capital Nov. 1, 2003 | | | | 8,135,104 pcs | | 13,830 (EUR 1,000) | |
|---|---|---|---|---|---|---|---|
| Year | Subscription-share-relationship | Subscription- /registering time | Subscription-price EUR | New shares pcs | Change EUR 1,000 | New share capital, EUR 1,000 | Dividend right |
| 2004 | On basis of options | Jan. 23, 2004 | 7.79 | 600 | 1 | 13,831 | 2004 |
| 2004 | Exchangend and targeted issue for K-shareholders, 1K:1,5A | Feb. 27,2004 | 0.85 | 529,616 | 450 | 14,281 | 2004 |
| 2004 | Split 1:1, gratuitous | Feb. 27,2004 | | 8,135,704 | | 14,281 | 2004 |
| 2004 | On basis of options | Apr. 21, 2004 | 3.71 | 2,400 | 2 | 14,283 | 2004 |
| 2004 | Targeted share issue | Apr. 30, 2004 | 6.95 | 3,240,000 | 2,754 | 17,037 | 2004 |
| 2004 | On basis of options | Jun. 22, 2004 | 3.71 | 47,200 | 40 | 17,077 | 2004 |
| 2004 | On basis of options | Aug. 27, 2004 | 3.71 | 11,000 | 9 | 17,086 | 2004 |
| 2004 | On basis of options | Oct. 28, 2004 | 3.71 | 47,400 | 40 | 17,127 | 2004 |
| 2004 | On basis of options | Dec. 2, 2004 | 3.71 | 46,000 | 39 | 17,165 | 2004 |
| 2004 | Annulment of shares | Dec. 21, 2004 | | -238,400 | -203 | 16,963 | |
| 2004 | Bonus issue 1:1 | Dec. 21, 2004 | | 19,956,624 | 16,963 | 33,926 | 2005 |
| 2005 | On basis of options | Feb. 10, 2005 | 1.70 | 616,400 | 523 | 34,450 | 2005 |
| 2010 | Decreasing of share capital | Jul. 19, 2010 | | | | –19,450 | |
| 2010 | Targeted share issue | Oct. 18, 2010 | 0.70 | 2,000,000 | 0 | 0 | 2010 |
| 2013 | Targeted share issue | Jul. 12, 2013 | 0.74 | 5,243,243 | 0 | 0 | 2013 |
| 2013 | Share issue | Oct. 18, 2013 | 0.69 | 8,000,000 | 0 | 0 | 2013 |
| 2018 | Share issue | Dec. 19, 2018 | 0.03 | 365,863,897 | 0 | 0 | 2018 |
| Share capital 31.12.2018 | | | | 421,636,788 pcs | | 15,000 (EUR 1,000) | |

| | | |
|---|---|---|
| Share capital 31.12.2018 | 421,636,788 pcs | 15,000 (EUR 1,000) |
| Own shares 31.12.2018 | 3,506,620 pcs | |
| Shares outstanding per December 31, 2018 | 418,130,168 pcs | |

# SHARES AND SHAREHOLDERS

## DISTRIBUTION OF SHAREHOLDINGS BY SIZE OF HOLDING, DECEMBER 31, 2018

| Shares | Number of shareholders pcs | Proportion of shareholders % | Total number of shares and votes pcs | Proportion of shares and votes % |
|---|---|---|---|---|
| 1–100 | 709 | 17.16 | 31,437 | 0.01 |
| 101–500 | 650 | 15.74 | 191,494 | 0.05 |
| 501–1,000 | 371 | 8.98 | 304,659 | 0.07 |
| 1,001–5,000 | 926 | 22.42 | 2,435,488 | 0.58 |
| 5,001–10,000 | 426 | 10.31 | 3,301,739 | 0.78 |
| 10,001–50,000 | 636 | 15.40 | 15,685,089 | 3.72 |
| 50,001–100,000 | 147 | 3.56 | 10,728,833 | 2.55 |
| 100,001–500,000 | 183 | 4.43 | 38,178,995 | 9.06 |
| 500,001– | 83 | 2.01 | 350,779,054 | 83.20 |
| Total | 4,131 | 100.00 | 421,636,788 | 100.00 |
| of which nominee registered | 10 | | 40,449,515 | 9.59 |
| | | | | |
| In joint account | | | 0 | 0.00 |
| In special account | | | 0 | 0.00 |
| Total | | | 421,636,788 | 100.00 |

## DISTIBUTION OF SHAREHOLDINGS BY SHAREHOLDER CATEGORY, DECEMBER 31, 2018

| | Shares, pcs | Proportion of shares and votes % |
|---|---|---|
| Enterprises | 218,214,231 | 51.75 |
| Financial- and insurance institutions | 68,244,909 | 16.19 |
| Public entities | 0 | 0.00 |
| Households | 119,153,629 | 28.26 |
| Non-profit organizations | 15,243,667 | 3.62 |
| Outside Finland | 780,352 | 0.19 |
| Total | 421,636,788 | 100.00 |
| of which nominee registered | 40,449,515 | 9.59 |
| | | |
| In joint account | 0 | 0.00 |
| In special accounts | 0 | 0.00 |
| Total | 421,636,788 | 100.00 |

# SHARES AND SHAREHOLDERS

## EFORE PLC'S 20 LARGEST SHAREHOLDERS, DECEMBER 31, 2018

| | Shares, pcs | Proportion of shares and votes % |
|---|---|---|
| | | |
| Jussi Capital Oy | 64,150,048 | 15.21 |
| Rausanne Oy | 43,425,404 | 10.30 |
| Soinitilat Oy | 25,346,952 | 6.01 |
| EVLI Pankki Oyj | 21,515,114 | 5.10 |
| 4capes Oy | 18,175,000 | 4.31 |
| Yleinen Työttömyyskassa YTK | 13,477,600 | 3.20 |
| Danske Bank A/S, Helsingin sivukonttori | 13,208,223 | 3.13 |
| Umo Capital Oy | 12,000,000 | 2.85 |
| Adafor Oy | 10,582,406 | 2.51 |
| EVLI Pankki Oyj | 8,574,218 | 2.03 |
| Nordea Bank Abp | 7,737,829 | 1.84 |
| Heininen Invest Oy | 7,018,064 | 1.66 |
| Laakkosen Arvopaperi Oy | 6,857,624 | 1.63 |
| Arvojyvä Oy | 6,728,216 | 1.60 |
| Laakkonen Mikko | 6,000,400 | 1.42 |
| Heininen Jaakko | 5,371,184 | 1.27 |
| SEB AB (publ) Helsingin sivukonttori | 5,356,773 | 1.27 |
| Heininen Pekka | 5,356,328 | 1.27 |
| Efore Oyj | 3,506,620 | 0.83 |
| Lago Kapital Oy | 3,042,007 | 0.72 |
| Total | 287,430,010 | 68.17 |
| | | |
| Nominee registered | | |
| EVLI Pankki Oyj | 21,515,114 | 5.10 |
| Danske Bank | 13,208,223 | 3.13 |
| Nordea Bank | 5,356,773 | 1.27 |
| | | |
| Efore Plc's shares on company's posession | 3,506,620 | 0.83 |

# EFORE PLC'S CORPORATE GOVERNANCE STATEMENT 2018

The obligations of Efore's decision-making bodies are defined in accordance with Finnish legislation and the principles established by the Board of Directors. Efore's corporate governance complies with the provisions of the Companies Act. In addition, Efore complies with the Insider Guidelines issued by Nasdaq Helsinki Ltd and the Finnish Corporate Governance Code 2015 issued by the Securities Market Association. This Corporate Governance Statement has been prepared in accordance with the Finnish Corporate Governance Code 2015. This statement has been issued separately from the report by the Board of Directors. The Corporate Governance Code is publicly available at www.cgfinland.fi. This statement was approved for publication by the Board of Directors of Efore Plc on February 13, 2019. It is included in the Annual Report and also available on the company website at www.efore.com.

## COMPOSITION AND OPERATIONS OF THE BOARD OF DIRECTORS

As set out in Efore's Articles of Association, the Board of Directors shall have no fewer than three and no more than ten ordinary members. The company's President and CEO is not a member of the Board of Directors. The composition shall take into account the company's operational needs and stage of development. A person to be elected to the Board shall have the qualifications required by the duties as well as sufficient knowledge of financial matters and business operations. A person to be elected to the Board shall have the possibility to devote a sufficient amount of time to the work.

The majority of the members of the Board shall be independent of the company. In addition, at least two of the members representing this majority shall be independent of the company's significant shareholders.

The Annual General Meeting held on April 12, 2018, re-elected Marjo Miettinen, Antti Sivula and Tuomo Lähdesmäki to the Board of Directors and elected Taru Narvanmaa and Matti Miettunen as new members. Jarmo Simola served as a Board member until March 28, 2018.

### Composition of the Board of Directors on December 31, 2018:

**Tuomo Lähdesmäki, b. 1957**
- Education: M.Sc. (Eng.), MBA
- Board member and Chairman since January 31, 2017
- Primary occupation: Board professional
- Independent of the company and its significant shareholders
- Share ownership: 4,828 Efore shares*

**Marjo Miettinen, b. 1957**
- Education: M.A. (Education)
- Board member since 2013
- Vice Chairman of the Board since 2015
- Primary occupation: Board professional
- Independent of the company and its significant shareholders
- Share ownership: 99,720 Efore shares*

**Matti Miettunen, b. 1963**
- Education: M.Sc. (Econ.)
- Board member since April 12, 2018
- Primary occupation: Professional investor, management consultant
- Independent of the company and its significant shareholders
- Share ownership: 460,005 Efore shares, including shares held by a company controlled by him*

**Taru Narvanmaa, p. 1963**
- Education: M.Sc. (Econ.)
- Board member since April 12, 2018
- Primary occupation: Board professional
- Independent of the company and its significant shareholders
- Share ownership: no Efore shares*

**Antti Sivula, b. 1961**
- Education: M.Sc. (Eng.)
- Board member since 2016
- Primary occupation: Mekitec Group, Managing Director
- Independent of the company and its significant shareholders
- Share ownership: no Efore shares*

*Share ownership information as of December 31, 2018

### Remuneration of the Board of Directors in 2018

The Chairman of the Board was paid a fee of EUR 3,500 per month and the members EUR 1,750 per month.

## DUTIES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors has general decision-making authority in all company matters that are not stipulated (by law or under the Articles of Association) to be decided or acted on by another party. The Board is responsible for the governance of the company and for duly organizing its operations. It also approves the corporate strategy, the risk management principles, the Group's corporate values, the operating plan and related annual budget, and decides on major investments.

The main duties and operating principles of the Board of Directors are laid out in a separate Charter, which covers the declaration of a quorum at Board meetings, the writing and approval of minutes, and the preparations needed on matters for decision.

More specifically, the Board:

- approves the company's values and strategy
- approves annually the company's main targets of business operations and monitors the Group's profit performance
- decides on the Group's major investments and reorganization measures
- reviews and approves interim reports and financial statements
- appoints and discharges the President and CEO and decides on the conditions of the President and CEO's service contract and remuneration principles
- decides on the compensation scheme of the management and personnel
- monitors the major risks and their management as well as approves the principles of risk management

The Board of Directors reviews its own working procedures by means of an annual self-evaluation process or in co-operation with an external party.

## BOARD MEMBERS' ELECTION PROCEDURES AND THE BOARD'S DIVERSITY PRINCIPLES

The Annual General Meeting elects the members of the Board of Directors by a simple majority vote for a term of office that ends at the close of the next Annual General Meeting following their election. The Board of Directors elects a Chairman and a Vice Chairman from among its members.

The composition of the Board of Directors must take into account the company's operational objectives and stage of development. The diversity of the Board of Directors supports the development of the business. When preparing the composition of the Board of Directors, the way in which the members' skills, education and experience complement each other is also assessed. The objective is that both genders are represented on the Board as well as the members at different ages and with a different educational background and experience. As of December 2018, two of the five members of Efore's Board of Directors were women.

## BOARD COMMITTEES

The Board of Directors decides on establishing committees as necessary and appoints the members and chairmen of committees from among its members. The committees regularly report to the Board of Directors on their work.

### Audit Committee 2018

The Audit Committee shall consist of at least three Board members who are independent of the company. In addition, at least one member shall be independent of the company's significant shareholders. The members shall have the qualifications required for the performance of the responsibilities of the committee, and at least one member shall have special expertise in accounting, bookkeeping or auditing.

During the financial year 2018, the Audit Committee consisted of the entire Board of Directors until April 12, 2018. In its constitutive meeting held after the Annual General Meeting on April 12, 2018, the Board of Directors decided to establish a separate Audit Committee and appointed Taru Narvanmaa (Chairman), Tuomo Lähdesmäki and Matti Miettunen as its members.

The Audit Committee assists the Board of Directors by preparing the tasks assigned to the Board of Directors. The Committee regularly reports to the Board of Directors on the matters it has discussed and the measures it has taken. The Committee submits decisions proposals to the Board of Directors when appropriate. The primary tasks of the Audit Committee are to review the company's financial reporting and supervise compliance with laws and regulations.

- monitor the financial statements reporting process
- supervise the financial reporting process
- monitor the effectiveness of the company's internal control, internal auditing and risk management systems
- review the description of the main features of the internal control and risk management systems related to the financial reporting process, which is included in the company's Corporate Governance Statement
- monitor the statutory audit of the financial statements and consolidated financial statements
- evaluate the independence of the statutory audit or auditing firm and, in particular, the auditor's provision of supplementary services to the company
- prepare a draft resolution regarding the election of the auditor
- evaluate compliance with laws and regulations as well as the company's operating procedures and monitor significant legal processes involving Group companies, and
- exercise other duties as authorized by the Board of Directors.

In its first meeting following the Annual General Meeting, the Board of Directors shall appoint the members of the Audit Committee from among its members and appoint one of them to be the Chairman of the Audit Committee. The members' term of office shall be one year, ending at the conclusion of the Annual General Meeting following their appointment.

**Attendance in Board and Audit Committee meetings in 2018**

A total of 33 Board meetings and 7 Audit Committee meetings were held during the financial year 2018.

| | Board meetings | Audit Committee meetings |
|---|---|---|
| Tuomo Lähdesmäki | 33/33 | 7/7 |
| Marjo Miettinen | 33/33 | 2/2 |
| Matti Miettunen (member of the Board of Directors and the Audit Committee since April 12, 2018) | 23/23 | 5/5 |
| Taru Narvanmaa (member of the Board of Directors and the Audit Committee since April 12, 2018) | 22/23 | 5/5 |
| Jarmo Simola (member of the Board until March 28, 2018) | 7/7 | 2/2 |
| Antti Sivula | 33/33 | 2/2 |

## SHAREHOLDERS' NOMINATION BOARD

**Shareholders' Nomination Board 2018**

The Annual General Meeting 2017 decided to establish a permanent Shareholders' Nomination Board to prepare proposals concerning the election and remuneration of the members of the Board of Directors to the General Meetings. The Annual General Meeting 2017 also adopted the charter of the Shareholders' Nomination Board.

The Nomination Board consists of four (4) members, with the company's three (3) largest shareholders each having the right to nominate one member. The Chairman of the Board of Directors of the company shall serve as the fourth member. The company itself cannot be a member of the Shareholders' Nomination Board.

On September 22, 2017, the following shareholders of Efore Plc appointed the following members to the Nomination Board that submitted proposals to the Annual General Meeting 2018:

- Jussi Capital Oy: Jarkko Takanen
- Rausanne Group: Jari Suominen
- Jaakko Heininen and related parties: Jaakko Heininen
- Tuomo Lähdesmäki, Chairman of the Board of Directors, served as the fourth member.

The Nomination Board submitted its proposal regarding the composition and remuneration of the Board of Directors on January 12, 2018, and amended the proposal on March 29, 2018, following Jarmo Simola's notice of resignation.

The Nomination Board convened twice in 2018, with all of the members attending both meetings.

**Shareholders' Nomination Board 2019**

The following persons were appointed as members of Efore Plc's Shareholders' Nomination Board on January 14, 2019:

- Jussi Capital Oy: Jarkko Takanen
- Rausanne Group: Jarmo Malin
- Jaakko Heininen and related parties: Jaakko Heininen
- In addition, Tuomo Lähdesmäki, Chairman of the Board of Directors of Efore Plc, serves as a member of the Nomination Board.

In its constitutive meeting, the Nomination Board elected Jarkko Takanen as its Chairman.

### THE PRESIDENT AND CEO AND HIS DUTIES

The Board of Directors appoints the company's President and CEO and supervises his actions. The main terms and conditions governing the President and CEO's appointment are detailed in a written contract approved by the Board of Directors. The President and CEO manages and supervises the Group's business operations within the guidelines and directives issued by the Board of Directors, and ensures that the company's accounting accords with the law and that the financial management system is reliable.

Jorma Wiitakorpi served as Efore Plc's President and CEO until December 31, 2018. Vesa Leino, who had previously served as the Group CFO since summer 2017, was appointed as Efore Plc's new President and CEO effective from January 1, 2019.

### OTHER MANAGEMENT

Efore's corporate management consists of the Chief Executive Officer (CEO), the members of the Efore's Executive Management Team, as well as managers and experts from the global functions who assist the CEO and members of the Management Team.

The Executive Management Team has no powers based on law or the Articles of Association. The Executive Management Team assists the CEO in the development of Efore's business. The Executive Management Team's duty is to prepare strategy proposals for the Board and execute the approved strategy. The Executive Management Team members are accountable for the performance and development of their respective areas of responsibility and they supervise the operations of the units belonging to their areas.

Members of the Executive Management Team and their areas of responsibility on December 31, 2018:

Jorma Wiitakorpi, b. 1957, M. Sc. (Eng.)
- President and CEO
- No Efore shareholdings or stock options*

Vesa Leino, b. 1969, M.Sc. (Econ.)
- CFO
- No Efore shareholdings or stock options*

Ari Kemppainen, b. 1964, Lic. Sc. (Tech.)
- Executive Vice President, Telecom Business Line
- No Efore shareholdings or stock options*

Carlo Rosati, b. 1966, M. Degree in Business and Economics
- Executive Vice President, Digital Power and Light Business Line
- No Efore shareholdings or stock options*

Samuli Räisänen, b. 1968, M. Sc. (Eng.)
- Executive Vice President, Systems Business Line
- No Efore shareholdings or stock options*

Ruben Tomassoni, b. 1974, LL.M.
- Vice President, Operations
- No Efore shareholdings or stock options*

Alessandro Leopardi, Executive Vice President of Efore's Digital Light and Digital Power business lines, left the company on October 26, 2018.

* shareholding information as of December 31, 2018

### AUDITORS

The principal auditor of Efore Plc is responsible for the Group's audit and the related directions and coordination. The principal auditor prepares an annual audit plan and presents it to the Board of Directors. The plan specifies the focus areas of the audit and is subject to approval by the Audit Committee. The auditor issues an auditor's report on the consolidated financial statements and the report of the Board of Directors to the company's shareholders as required by law. Furthermore, the auditor reports their findings to the Audit Committee.

The Annual General Meeting held on April 12, 2018 re-elected KPMG Oy Ab as the company's auditor. Authorized Public Accountant Henrik Holmbom served as the responsible auditor during the financial year 2018.

The fees for auditing the official financial statements amounted to EUR 26,500 in 2018. The auditing company charged Efore Plc a total of EUR 115,800 for other services during the financial year.

### THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

#### Internal control systems

The Board of Directors is responsible for ensuring that the internal control and risk management are adequately and effectively arranged. In addition, it is the responsibility of the Board to ensure that the internal control of the company's accounting and financial management is appropriately arranged. The Audit Committee is responsible for the control of the financial reporting process. The financial management function communicates its findings to the relevant members of the management.

The Group has financial reporting systems for monitoring business operations, financial management and risks. The Board of Directors has approved the management organization and principles, decision-making authorizations and approval procedures, operating policies of the various areas of the company's administration, financial planning and reporting as well as remuneration principles.

The Group does not have a separate internal audit function. Instead, the internal audit is part of the Group's financial administration. Representatives of the Group's financial administration perform certain control functions when they visit the subsidiaries. The financial management reports the findings to the President and CEO and the Audit Committee which, in turn, report to the Board.

The Group's financial management, together with the other management, prepares a monthly financial report. The report contains a summary of the net sales, gross profit, costs level, results, net working capital, cash flow and personnel development for the previous month, the year to date and a forecast for the remainder of the year. The report also includes the company's key risks and opportunities. The report is delivered to the Board of Directors, Executive Management Team and the financial management of the largest subsidiaries. It is also delivered to the auditors when it concerns interim reports. In addition to the monthly reporting, the management follows certain items more actively in weekly meetings. Efore aims to further simplify its financial processes and main business processes as well as reduce risks related to maintaining several parallel systems.

The Group's financial management oversees the centralized interpretation and application of accounting standards (IFRS). The Group's financing and hedging against currency risks are centralized in the head office in Finland. The Board's Audit Committee evaluates the financial statements and interim statements as well as certain other areas that are of significance to the result of the Group's business operations. The Audit Committee reports its findings to the Board, which monitors that the necessary measures are taken.

### Risk management

The aim of Efore's risk management system is to identify the Group's strategic, operational and financing risks as well as any conventional risks of loss. In its operations, the Group takes risks related to the pursuit of its strategy and goals. Risk management seeks to control these risks in a proactive and comprehensive manner. The measures taken can include risk avoidance, risk reduction or risk transfer by insurance or agreement.

Risk management forms an integral part of the Group's business processes in all of its operational units. In this way, the risk management process is tied to internal controls. The Group and its operational units assess the risks of their operations, prepare risk management plans and report risks in accordance with the organizational structure.

The Group CFO oversees that risk management is arranged efficiently and that the effectiveness of its performance is ensured. The CFO is responsible for the general development of Efore's risk management. The CFO reports the Group's risk status to the Audit Committee and acts as a representative of the Executive Management Team in Audit Committee meetings.

The Audit Committee and the Board of Directors address risks in connection with addressing other business operations. Risk management is taken into consideration in the Group's quality systems, which also include contingency plans. A more detailed statement on the Group's risks and their management is available in the Investors section of the Efore website.

## RELATED PARTY TRANSACTIONS

Efore maintains a list of its related parties. The company evaluates and monitors transactions carried out between the company and its related parties and ensures that it identifies, decides on, approves, reports, and monitors related party transactions in accordance with appropriate procedures. Related party transactions are reported in accordance with the Finnish Limited Liability Companies Act and regulations concerning the drawing up of financial statements and published, when certain conditions are satisfied, in accordance with the rules of the Helsinki Stock Exchange.

In decision-making pertaining to potential related party transactions, the company ensures that decisions are based on exceptionally careful preparatory work and appropriate reports, opinions and/or assessments. In arranging preparatory work, decision-making, and the evaluation and approval of individual transactions, the company takes into account all relevant disqualification provisions and the appropriate decision-making body in each individual matter to ensure that a representative of a related party does not participate in the decision-making.

An absolute guarantee issued for a loan in 2016 by Jussi Capital Oy is still valid. As a counter guarantee for the absolute guarantee issued by Jussi Capital Oy, the company has pledged its own shares. The guarantee arrangement was conducted on market equivalent terms.

During the financial year 2018, the company agreed on short-term financing of EUR 4.4 million with several of the company's shareholders. Jussi Capital Oy and the Rausanne Group granted part of the loans. The loan arrangement was conducted on market equivalent terms. The loan was fully repaid as part of the rights issue carried out in December 2018.

## INSIDER ADMINISTRATION

Efore has drawn up Group-level Insider Guidelines, which cover topics including the prohibition on unlawful disclosure and the abuse of inside information, insider lists, notification requirements and trading restrictions. The Insider Guidelines have been confirmed by Efore's Board of Directors. The Group

CFO is responsible for insider administration.

Efore does not maintain a list of permanent insiders. A project-specific insider list according to the Nasdaq Helsinki Guidelines for Insiders is prepared when Efore has an ongoing project.

The persons discharging managerial responsibilities at Efore are the members of the Board of Directors, the President and CEO and the CFO. The persons discharging managerial responsibilities at Efore and persons closely associated with them have an obligation to notify Efore and the FIN-FSA about transactions relating to Efore's financial instruments. Efore then discloses the information as a separate stock exchange release.

Efore has organized regular supervision of the trading and the notification requirement concerning persons included in insider lists as well as persons discharging managerial responsibilities and persons closely associated with them in such a way that the company annually checks the information to be notified with the persons discharging managerial responsibilities and the persons closely associated with them. Efore's duty of supervision also extends to any external advisors registered in the insider list who have taken on the duty of drawing up and maintaining the insider list. It is therefore recommended that the company agree in writing (e.g. by e-mail) with such external advisors on the maintenance of the insider list and assure that such parties are aware of the obligations and duties under MAR and Efore's Insider Guidelines.

The persons discharging managerial responsibilities at Efore are not allowed to trade in Efore's financial instruments for their own account or for the account of a third party during the closed period, which begins 30 days before the disclosure of financial statement releases and half-year financial reports and ends on the day following the disclosure of such information. In the exceptional event that the financial statements release does not include all of the relevant information regarding the financial position of the company, in which case the closed period also applies during the 30 days prior to the publication of the financial statements, the company will separately inform the parties concerned.

Trading in Efore's financial instruments is allowed outside closed periods, provided that the person in question is not entered into a project-specific insider list and they do not otherwise possess inside information at the time. Prior to trading, the person in question also needs to have received a statement, in writing by e-mail, from the person responsible for insider administration at Efore, indicating that there is no obstacle to trading.

Persons in the service of Efore Plc may, via an independent channel, report any suspected infringements of rules and regulations concerning the financial market, including violations of the company's Insider Guidelines and the Nasdaq Helsinki Guidelines for Insiders. Such reports are made by a free-form letter (anonymously, if necessary) addressed to the President and CEO.

# EFORE GROUP REMUNERATION STATEMENT 2018

Efore's remuneration report has been drawn up in accordance with the Finnish Corporate Governance Code 2015 (www.cgfinland.fi) issued by the Securities Market Association. The remuneration report discloses the remuneration and other financial benefits paid to the members of the Board of Directors as well as the CEO and the members of the Executive Management Team during the financial year January 1–December 31, 2018.

## BOARD OF DIRECTORS

The Annual General Meeting decides on the Board of Directors' monthly fees. The Annual General Meeting on April 5, 2017 decided to establish a permanent Shareholders' Nomination Board to prepare future proposals concerning the election and remuneration of the members of the Board of Directors to the General Meetings.

At the end of the financial year, on December 31, 2018, the members of the Board of Directors were Tuomo Lähdesmäki, Marjo Miettinen, Matti Miettunen (since April 12, 2018), Taru Narvanmaa (since April 12, 2018) and Antti Sivula. Jarmo Simola resigned from the Board of Directors on March 28, 2018.

The following monthly remuneration was paid to the members of the Board of Directors:

- the Chairman of the Board of Directors: EUR 3,500 per month
- the other members of the Board of Directors: EUR 1,750 per month
- travel and other accommodation expenses are payable against receipt

| Board members | Period | Total remuneration, EUR 1,000 |
|---|---|---|
| Lähdesmäki Tuomo | Jan. 1, 2018–Dec. 31, 2018 | 42 |
| Miettinen Marjo | Jan. 1, 2018–Dec. 31, 2018 | 21 |
| Sivula Antti | Jan. 1, 2018–Dec. 31, 2018 | 21 |
| Miettunen Matti | Apr. 12, 2018–Dec. 31, 2018 | 15 |
| Narvanmaa Taru | Apr. 12, 2018–Dec. 31, 2018 | 15 |
| Simola Jarmo | Jan. 1, 2018–Mar. 28, 2018 | 5 |

## CEO AND EXECUTIVE MANAGEMENT TEAM

The Board of Directors decides on the terms of service and the performance-based pay system for the CEO and the members of the Executive Management Team.

Efore CEO Jorma Wiitakorpi's remuneration consists of a fixed monthly salary and a performance bonus. Previously, starting from December 1, 2016, the CEO's fixed monthly salary was EUR 20,000. Starting from January 1, 2018, the CEO's fixed monthly salary has been EUR 23,000. The CEO also has a mobile phone benefit. The CEO was not paid a signing fee. Wiitakorpi's service contract as CEO ended on December 31, 2018. No performance bonus was paid to the CEO in 2018.

At the end of 2018, Efore's Executive Management Team consisted of the CEO and the following executives: Vesa Leino (CFO), Ari Kemppainen (EVP, Telecom Business), Carlo Rosati (EVP, Digital Power and Light), Samuli Räisänen (EVP, Systems Business) and Ruben Tomassoni (VP, Operations). Group CFO Vesa Leino was employed by Greenstep Oy during the period January 1, 2018–December 31, 2018.

The Executive Management Team did not have a separate incentive scheme in 2018.

The retirement age of the members of the Executive Management Team is determined by local legislation.

The notice period stipulated by the service contracts of the members of the Executive Management Team is, as a rule, six months for both the company and the employee.

Remuneration of the CEO and the Executive Management Team:

| | Period | Salaries, EUR 1,000 |
|---|---|---|
| Jorma Wiitakorpi | Jan. 1, 2018–Dec. 31, 2018 | 263 |
| Executive Management Team* | Jan. 1, 2018–Dec. 31, 2018 | 699 |

* Excluding the CEO. Vesa Leino (CFO) was not the company's own employee in 2018.

## STOCK OPTION PLAN

Efore does not have any stock option plans currently in effect.

# EFORE PLC BOARD OF DIRECTORS ON JANUARY 1, 2019

**Tuomo Lähdesmäki**
b. 1957, M. Sc. (Eng.), MBA

Board member since 2017
Chairman of the Board

**Primary occupation:**
Boardman Oy, Founding Partner since 2002

**Primary work experience:**
Elcoteq Network Plc, President & CEO, 1997–2001
Leiras Ltd, President & CEO, 1991–1997
Swatch Group, VP & General Manager, 1990–1991
Nokia Mobile Phones, VP & General Manager, 1986–1989

**Primary positions of trust:**
Fondia, Vice Chairman of the Board since 2017
Kitron ASA, Chairman of the Board since 2014
Yliopiston Apteekki, Board member since 2010
Meconet Oy, Board member since 2006
Turku University Foundation, Chairman of the Board since 1995, Board member since 1992

Independent of the company or its significant shareholders
Share ownership: 4,828 Efore shares*

**Marjo Miettinen**
b. 1957, M.A. (Education)

Board member since 2013
Vice Chairman of the Board

**Primary occupation:**
Board professional

**Primary work experience:**
Boardman Oy, Partner since 2016
EM Group Oy, CEO, 2006–2014
Ensto Oy, several executive positions, 1988–2001

**Primary positions of trust:**
Ensto Invest Oy, Chairman of the Board since 2016
Ensto Oy, Board member since 1999, Chairman of the Board 2002–2006 and since 2016
Solidium Oy, Board member since 2016
EM Group Oy, Board member since 2005
Finnish Foundation for Technology Promotion, Board member since 2013, Chairman of the Board since 2015
Federation of Finnish Technology Industries, Board member since 2017, Chairman of the Board since 2019
Finnish Business and Policy Forum EVA and the Research Institute of the Finnish Economy ETLA, Delegate since 2005

Independent of the company or its significant shareholders
Share ownership: 99,720 Efore shares*

**Matti Miettunen**
b. 1963, M.Sc. (Econ.)

Board member since 2018

**Primary occupation:**
Professional investor, management consultant

**Primary work experience:**
Delta Freight Oy, Managing Director, Consultant, since 1990
Mandatum Life, Director of Sales, 2011–2015
RH Freight Oy, Managing Director, 2007–2008
Frans Maas Finland Oy, Managing Director, 2001–2006
GT-Trans Oy, Managing Director, 1987–2001

**Primary positions of trust:**
-

Independent of the company and its significant shareholders
Share ownership: 460,005 Efore shares, including shares held by a company controlled by him*

**Taru Narvanmaa**
b. 1963, M.Sc. (Econ.)

Board member since 2018

**Primary occupation:**
Board professional

**Primary work experience:**
Aktia Plc, Senior Vice President and Deputy Managing Director 2011–2017 (2014–2017)
Aktia/Veritas Life Insurance, Managing Director, 2007–2011
Raisio Plc, EVP, Communications and IR, 2001–2007
Sampo Plc, several expert and management positions, 1989–2001

**Primary positions of trust:**
Pohjantähti Mutual Insurance Company, Board member since 2018
Puutarhaliike Helle, Chairman of the Board since 2015
Åbo Akademi, Vice Chairman of the Board since 2015
Veritas Pension Insurance, member of Supervisory Board since 2013
Stiftelsen Eschnerska Frilasaretten, member of Supervisory Board since 2013

Independent of the company and its significant shareholders
Share ownership: no Efore shares*

**Antti Sivula**
b. 1961, M. Sc. (Eng.)

Board member since 2016

**Primary occupation:**
Mekitec Group, CEO since 2015

**Primary work experience:**
Bluegiga Technologies Oy, CEO, 2011–2015
Elektrobit Corporate, EVP, Global Sales and Marketing, 2007–2011
Orbis Group, Finland/Orbis International Technologies, USA, VP of Sales and Marketing, 2004–2007

**Primary positions of trust:**
-

Independent of the company and its significant shareholders
Share ownership: no Efore shares*

* Shareholding information as of December 31, 2018

# EXECUTIVE MANAGEMENT TEAM AS OF JANUARY 1, 2019

**Vesa Leino**
b. 1969, M.Sc. (Econ.)

President and CEO of Efore Group

Employed by Efore since 2017

Vesa Leino joined Efore from Microsoft, where he was Head of Finance in the Phones business. He previously held several management positions at Nokia, with responsibilities related to product management, Symbian smartphones, product development and maintenance as well as R&D planning. While employed by Nokia and Microsoft, he spent several years working abroad in locations including Hong Kong, the UK and China.

Does not hold any Efore shares or stock options. *

**Jorma Wiitakorpi**
b. 1957, M. Sc. (Eng.)

Executive Vice President, Business Development

Employed by Efore since 2016

Jorma Wiitakorpi has held various management positions in the manufacturing sector since 1984. Prior to joining Efore, he worked as an interim manager and board professional. He has also previously served as the chief executive of Patria Oyj, Reka Kaapeli Oy, Asko Appliances Oy, Uporef Oy and Isora Oy, among others. He has been a Chairman or member of the Board of Directors in more than 20 companies.

Does not hold any Efore shares or stock options. *

**Olli Mustonen**
b. 1985, M.Sc. (Econ.)

CFO

Employed by Efore since 2018

Olli Mustonen was previously Efore's Group Controller. Prior to joining Efore, he worked as a Financial Director in Raisio Group and as a Finance Director in the Raisio Branding division.

Does not hold any Efore shares or stock options. *

**Ari Kemppainen**
b. 1964, Lic. Sc. (Tech.)

Executive Vice President, Telecom Business Line

Employed by Efore since 2011

Ari Kemppainen was previously Efore's Head of Key Account Management and Customer Service for the telecommunications sector. He has more than 20 years of experience in product management and product development in the telecommunications sector, including prior positions with Ericsson Energy Systems and Emerson Network Power.

Does not hold any Efore shares or stock options. *

**Carlo Rosati**
b. 1966, M. Degree in Business and Economics

Executive Vice President, Digital Power and Light

Employed by Efore since 2018

Carlo Rosati was previously the Finance Director and interim CEO of Efore SpA. Prior to joining Efore, he served in various senior management positions in the Alitalia Group, in charge of duties related to financial reporting, among other things. Before Alitalia, he was the CFO of Seat Pagine Gialle SpA and a Senior Advisor at Arthur Andersen.

**Ruben Tomassoni**
b. 1974, LL.M.

Vice President, Operations

Employed by Efore since 2013

Ruben Tomassoni was previously Efore's Head of Sourcing. Prior to joining Efore, he was employed by ROAL Electronics SpA, in charge of areas including supply chain management and the EMEA business development.

Does not hold any Efore shares or stock options. *

**Heikki Viika**
b. 1963, M. Sc. (Eng.)

Executive Vice President, Digital Power Systems

Employed by Efore since 2019

Heikki Viika was previously the CEO of Powernet International Oy. Before joining Powernet, he served as President and CEO at Efore and held various international management positions at Bombardier Transportation, including Head of Asia-Pacific, Head of Quality and Safety and Head of Global Sales, Business Development and Strategy. Prior to his time at Bombardier, he served as Vice President, R&D at ABB Daimler Benz Transportation, among other positions.

Does not hold any Efore shares or stock options. *

* Information on shares and stock options held as of December 31, 2018

# INFORMATION FOR SHAREHOLDERS

Efore Plc's registered office is in Espoo, Finland. The company's Business ID is 0195681-3.

**ANNUAL GENERAL MEETING**
The Annual General Meeting of Efore Plc will be held on Thursday, April 11, 2019, at 10:00 a.m. in the Alto building at Quartetto Business Park, Linnoitustie 4 B, 02600 Espoo. The notice of the General Meeting and registration instructions are available on the company website at www.efore.fi.

**THE BOARD OF DIRECTORS' PROPOSAL TO THE ANNUAL GENERAL MEETING**
The Board of Directors proposes to the Annual General Meeting of April 11, 2019 that no dividend be distributed.

**CHANGES OF ADDRESS**
Shareholders are advised to report any changes of their address to their book-entry securities account provider.

**FINANCIAL REPORTS IN 2019**
Each year, Efore publishes a financial statements release, an annual report and a half-year report. Stock exchange releases are made available on the company website after their publication. The annual report is published only in PDF format on the company website.

**ANNUAL REPORT 2018**
Week 12/2019

**HALF-YEAR REPORT 2019**
(January 1–June 30, 2019) August 15, 2019

**BASIC INFORMATION ABOUT THE EFORE SHARE**
**Exchange listing:**
Nasdaq OMX Helsinki, The Nordic Exchange (Small Cap)
Trading code EFO1V
Trading lot 1 share
Number of shares on December 31, 2018: 421,636,788 shares
Number of treasury shares on December 31, 2018: 3,506,620 shares
Number of outstanding shares on December 31, 2018: 418,130,168 shares
Share capital: EUR 15,000,000

**ANALYSTS MONITORING EFORE**
Information on analysts monitoring Efore is available on the company website at https://www.efore.com/investors/analysts. The list may be incomplete and Efore Plc accepts no responsibility for evaluations or recommendations published by analysts.

**INVESTOR RELATIONS**
The objective of Efore's investor relations is to provide accurate and up-to-date information on the Efore Group's business operations and financial development. Efore publishes all investor information on its website in Finnish and English. Efore observes a 30-day silent period before the publication of financial results, during which time the company does not issue any comments on its financial position or business development.

**CONTACT INFORMATION FOR INVESTOR RELATIONS**
Vesa Leino
President and CEO,
tel. +358 9 478 466

e-mail:
firstname.lastname@efore.com

# EFORE GROUP CONTACT DETAILS

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