Valmet Automotive Group

Annual Report and Financial Statements 2018

VALMET AUTOMOTIVE

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23501 Uusikaupunki
Finland

Contents

Board of Directors' report

General

Valmet Automotive ("Group" or "Valmet Automotive") is an experienced provider of automotive engineering, vehicle manufacturing, battery systems and convertible roof and kinematic systems. Group's special areas of expertise are premium cars, electric vehicles, battery solutions and convertibles.

Group structure

Valmet Automotive's business is divided into four business lines – Vehicle Manufacturing, Engineering Services, Electric Vehicle Systems and Roof & Kinematic Systems. The Group's parent company is Valmet Automotive Oy and the Group consists of subsidiaries in Finland, Germany, Poland and Spain, fully owned either directly or indirectly by Valmet Automotive Oy.

Events within the financial year

The year 2018 was a year of continuing growth for Valmet Automotive and significant improvement in profitability. The most significant events of the year included the launch of the Mercedes-Benz A production, achievement of 100 000th manufactured Mercedes-Benz GLC, the transition of Valmet Automotive leadership and the celebration of 50th year of operation. Passenger cars have become one of Finland's leading export products thanks to Valmet Automotive, and as a result of strong demand, the number of personnel in the car manufacturing plant in Uusikaupunki exceeded 3 700 employees by year-end. In 2018, the total car production volume achieved all-time record of 110 000 cars.

On June 20, Valmet Automotive announced the 100 000th Mercedes-Benz GLC having rolled off the production line after less than 18 months of production. The Mercedes-Benz GLC project has been the most challenging in Valmet Automotive's history. It included engineering and constructing a Finland's largest body shop with more than 300 robots, investments of nearly 100 million euros, complete renewal of the production management system and recruitments of over 2 000 people in 2016 and 2017.

On July 10, Valmet-Automotive announced it had started the production of the new, 4th generation Mercedes-Benz A-Class at the Uusikaupunki, Finland, plant according to the production schedule. Previously, the new A-Class production had been started at Mercedes-Benz plants in Rastatt, Germany and Kecskemét, Hungary. Valmet Automotive manufactured also the previous A-Class generation, which limited the need of changes in the Uusikaupunki production facilities. Most changes were implemented in the body shop, where the number of body shop robots was increased to 223 and the automation level rose to 95%.

Effective July 15, Valmet Automotive's Board of Directors appointed Mr. Olaf Bongwald, 51, as CEO of Valmet Automotive. Mr. Bongwald's home office is in Bad Friedrichshall, Germany, allowing the CEO to spend a significant part of his time with the customers and to participate actively in business development activities in Central Europe as a reflection of the Group's updated strategy to expand its business portfolio into electrification of vehicles and battery solutions and in Central Europe in general.

Valmet Automotive celebrated its 50th anniversary in 2018 as a versatile expert in the automotive industry. Founded in 1968, the company has developed into a leading premium vehicle manufacturer, and expanded into engineering services, convertible roof and kinematic systems and solutions of future e-mobility.

Net sales and profit

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in force at January 1, 2018. The Group is applying IFRS 15 as of January 1, 2018 and the financial statements have been retroactively restated accordingly. The impacts of applying IFRS 15 are disclosed in the notes to the financial statements. The new standard has a significant impact on the consolidated financial statements, as in some cases revenue is deferred to later periods than under the prior practice, and the significant finance component in some of the contracts increases turnover, finance expense and interest liabilities significantly.

During the report year, Valmet Automotive's net sales were EUR 662.6 (550.2 restated) million, which was 20 % higher than the year earlier. The growth is driven by higher volume of car manufacturing than in the previous financial year.

The Group's operating profit was EUR 17.8 (-22.9 restated) million, or 3 % of net sales (-4 %). The increase in profitability was due to volume growth and improved operational performance in Vehicle Manufacturing. Roof & Kinematic Systems continued to perform on a stable and profitable level. Losses in Engineering Services were reduced, but negatively impacted by some product development expenses which were recognized into profit and loss. Electric Vehicle Systems are to commence operations during the 2019 financial year. There were no major non-recurring costs affecting comparability in the financial year (about EUR 10 million in 2017).

Cash flow and financing

The Group's cash flow after investments was EUR –34.4 (-5.9) million which was impacted by large investments made according to plan in vehicle manufacturing related to capacity increase, productivity improvement and new car program.

At the end of the financial year the shareholders were Pontos Group (38.46 %), Suomen Teollisuussijoitus Oy (38.46 %) and CATL (23.08 %).

During the financial year, the Group did not enter into any significant new debt financing agreements. At the end of the financial year, the Group had a EUR 20 million long-term loan from the European Investment Bank, of which EUR 9.2 million was outstanding at the end of the year. In addition, the Group has a receivable sale facility in the Roof & Kinematic Systems business line with a limit of EUR 10 million (not utilized at the end of the year) as well as finance leases totaling EUR 11.6 million, a large part of which was used to finance the acquisition of certain machinery and equipment for the Mercedes-Benz production.

Financial position and investments

The consolidated balance sheet totaled EUR 523.3 (508.2 restated) million. The Group's equity at the end of the financial year was EUR 20.1 (16.2 restated) million. The IFRS 15 negative impact of EUR -14.1 million to the 2018 beginning equity mainly relates to Vehicle Manufacturing and the negative impact will be recognized as net profit over the future financial years. The impacts of applying IFRS 15 are disclosed in the notes to the financial statements.

Gross investments in fixed assets totaled EUR 73.5 (74.4) million, consisting of replacement investments, development investments and investments in new production lines. Significant investments were made in the Mercedes Benz A production as well as to increase the overall capacity of the vehicle manufacturing plant.

Personnel

The total number of employees in the Group during the financial year was on average 4 792 (3 858 in 2017). The total amount of wages and salaries in this financial year was EUR 228.2 million (EUR 189.1 million in 2017).

Research and development

Valmet Automotive carries out only small-scale research activities, which does not form any significant part of the Group's cost structure. The development activities are an integral part of customer projects, and the technical development work is carried out as projects in close cooperation with customers. Valmet Automotive has an IPR portfolio that includes several hundred patent families.

Quality, Environment and Safety

All units are certified in compliance with the requirements of the vehicle industry's ISO 9001 quality standard.

In addition, all plants are certified according to the IATF 16949 quality standard, ISO 14001 environmental standard and ISO 45001 (former OHSAS 18001) occupational health and safety standard.

Corporate Responsibility

The values of Valmet Automotive and the operational principles derived from those values support sustainable development and success in all business operations.

The most important resource of Valmet Automotive is a highly skilled, innovative and flexible work force. Well-being at work, health and safety and the protection of the environment are key focus areas of Valmet Automotive’s work ethics. The principles of a continuously improving organization, operation, development and administration are bases for Valmet Automotive’s daily work.

Best practices are applied when planning new production processes. Production processes are developed together with stakeholders to improve energy and the efficient use of raw materials and to reduce emissions and waste. Valmet Automotive is committed to the principles of sustainable development by the International Chamber of Commerce.

Valmet Automotive supports local communities and non-profit projects that comply with its operational principles.

Component suppliers and service providers are expected to apply similar principles of sustainable development Valmet Automotive supports its partners by sharing its experiences and views.

The Board of Directors, Management and Auditors

Valmet Automotive Oy's annual general meeting of the shareholders was held on 21.5.2018. This meeting elected the following board members: Mr. Jarkko Sairanen (Chairman), Dr. Hans-Joachim Schöpf, Mr. Timo Kokkila, Dr. Ulrich Hackenberg, Mr. Matthias Zentgraf and Mr. Kari Heinistö. Mr. Matthias Zentgraf resigned from the Board effective on 30.9.2018 and in the extraordinary general meeting of shareholders held on 17.9.2018 Mr. Philip-Christian Eller was elected as a new member of the Board as of 1.10.2018.

Until 29.1.2018 the CEO of the company was Mr. Ilpo Korhonen. During the period 29.1.2018 - 14.7.2018 Group Legal Counsel Ms. Minna Huhtaniska acted as interim managing director of Valmet Automotive Inc. As of 15.7.2018 the CEO of the company has been Mr. Olaf Bongwald.

The company's auditor is the authorized public accounting firm Ernst & Young Oy and Mr. Mikko Rytilahti acts as the auditor with the principal responsibility.

Shares and profit distribution proposal

Valmet Automotive Oy has one class of shares. The company has a total of 136 887 shares. Each share entitles to equal voting and dividend rights. Valmet Automotive Oy owns 5 288 of its own shares.

Valmet Automotive Oy's distributable funds are EUR 27 276 592,43. The Board of Directors proposes to the Annual General Meeting to distribute EUR 1 412 000 from the reserve of invested unrestricted equity, and not to distribute any dividends and to carry the net profit of the financial year forward.

Key figures

	Group 2018	Parent Company 2018	Group restated 2017	Parent Company 2017
Economic indicators				
Operating profit (loss), MEUR	17,8	21,6	-22,9	-5,0
Net income (loss), MEUR	4,2	15,7	-22,6	-22,5
Net income (loss), % of turnover	0,6	3,0	-4,1	-5,7
Return on investments (ROI), %	50,7	47,2	-107,7	-60,2
Return on equity (ROE), %	23,3	41,8	-186,1	-85,9
Return on capital employed (ROCE), %	11,3	39,6	-25,1	-12,4
Operating cash flow, MEUR	39,1	37,0	84,9	40,0
Equity ratio, %	5,2	12,3	4,6	9,3

Estimate about the short-term prospects, the main risks and uncertainties

Valmet Automotive's Vehicle Manufacturing business in the coming years is largely dependent on the demand trend of its largest customer Daimler AG. In the beginning of 2017, the serial production of Mercedes-Benz GLC started and during 2018 the serial production of Mercedes-Benz A ramped-up. The most significant near-term risks are related to the execution of these car models on a high volume level while maintaining the delivery and quality performance, as well as securing the supply chain. Typically in contract manufacturing the changes in customer demand can result in a need to adjust resources. Customers regularly submit demand forecasts, which will enable Valmet Automotive to respond timely to these changes. In some cases, customers also have the contractual obligation of compensation for lower than agreed production amounts.

Roof & Kinematic Systems and Engineering Services have a broader customer base than Manufacturing Services, and along with that the risk associated with the demand for single customer is smaller from Valmet Automotive's point of view. The market for convertible roofs as a whole is not expected to increase. The most significant risks in the Roof System are thus related to the demand for convertibles as well as to Valmet Automotive's ability to win new roof and kinematic systems engineering and manufacturing projects. The market for engineering business is expected to increase over the next few years and the main risks in Engineering Services relate to Valmet Automotive capability to sell and execute profitable projects. In electric vehicle systems there is some risk associated to product liabilities in case Valmet Automotive would act as a tier-1 or system supplier.

Valmet Automotive's credit loss risk related to the receivables has been managed with credit policy and advance payments, when needed.

In some projects, part of the project sales price is received from the customer only during the production phase. Valmet Automotive's financial resources are assumed to be sufficient to cover a part of the financing needs of this type of project, but at the same time Valmet Automotive will actively influence the fact that the financial needs of the project shall be tailored between the customers and Valmet Automotive in proportion to resources and risk-taking capacity.

Significant subsequent events

On February 28, Valmet Automotive announced that it is planning to launch large scale production of battery packs in Salo, Finland. The Group is actively expanding its operations and service offering in electric mobility solutions, based on the company strategy. The Salo plant is intended as a major step in strategy implementation, producing large volumes of battery packs for the needs of automotive industry.

Vantaa 27.3.2019

Valmet Automotive Oy

Board of Directors

Consolidated financial statements (IFRS)

Consolidated statement of profit or loss

	Notes	1 Jan - 31 Dec 2018 €000	Restated 1 Jan - 31 Dec 2017 €000
Net sales	4	**662 572**	**550 173**
Other operating income	5	13 944	4 778
Changes in inventories of finished goods and work in progress		-3 284	8 212
Raw materials and consumables used		-249 014	-225 443
Depreciations	12	-39 113	-42 958
Personnel expenses	6	-228 218	-189 146
Other operating expenses	5	-139 127	-128 503
Total expenses		-658 755	-577 838
Operating profit		**17 761**	**-22 887**
Finance income	7	10	84
Finance costs	7	-7 394	-6 710
Share of profit of an associate	3.3	11	16
Profit before taxes		**10 388**	**-29 497**
Income tax expense	8.1	-6 153	6 914
Profit for the period		**4 236**	**-22 583**
Attributable to:			
Equity holders of the parent		4 236	-22 583
Non-controlling interests		-	-
		4 236	**-22 583**

The notes are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

	Notes	1 Jan - 31 Dec 2018 €000	Restated 1 Jan - 31 Dec 2017 €000
Profit (loss) for the period		**4 236**	**-22 583**
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		-566	878
		-566	878
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**-566**	**878**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gains (losses) on defined benefit plans	18	224	959
Income tax effect	8	-52	-185
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**172**	**774**
Other comprehensive income for the period, net of tax		**-394**	**1 651**
Total comprehensive income for the period, net of tax		**3 842**	**-20 932**
Attributable to:			
Equity holders of the parent		3 842	-20 932
Non-controlling interests		-	-
		3 842	**-20 932**

The notes are an integral part of the consolidated financial statements.

Consolidated balance sheet, assets

Assets	Notes	31 December 2018 €000	Restated December 31 2017 €000
Non-current assets			
Intangible assets	10	25 695	23 217
Property, plant and equipment	9	227 874	193 412
Investment in an associate	3.3	92	81
Non-current financial assets	13	75	75
Net contract assets	4, 13	4 396	4 285
Net employee defined benefit assets	18	550	-
Deferred tax assets	8.2	14 893	17 638
		273 577	**238 709**
Current assets			
Inventories	14	93 966	104 496
Trade and other receivables	13	124 467	95 239
Net contract assets	4, 13	10 937	11 440
Cash and cash equivalents	13	20 339	58 328
		249 710	**269 504**
Total assets		**523 286**	**508 213**

The notes are an integral part of the consolidated financial statements.

Consolidated balance sheet, shareholders' equity and liabilities

Equity and liabilities	Notes	31 December 2018 €000	Restated December 31 2017 €000
Issued/share capital	15	10 932	10 932
Other capital reserves	15	7 086	7 086
Translation differences	15	-1 802	-1 236
Fund for invested unrestricted equity	15	89 845	89 843
Retained Earnings		-85 974	-90 393
		20 087	**16 232**
Equity attributable to equity non-controlling holders		**-**	**-**
Total equity		**20 087**	**16 232**
Non-current liabilities			
Interest bearing loans and borrowings	13	15 810	18 046
Net employee defined benefit liabilities	18	10 546	12 602
Provisions	17	4 282	4 484
Net contract liabilities	4, 13	97 966	105 454
Deferred tax liabilities	8.2	3 920	4 515
		132 525	**145 100**
Current liabilities			
Interest bearing loans and borrowings	13	5 007	3 567
Trade payables	13	127 438	149 262
Provisions	17	4 405	8 972
Net contract liabilities	4	41 610	45 069
Other current liabilities and accruals	13.5	189 532	138 176
Income tax payable		2 683	1 835
		370 674	**346 880**
Total liabilities		**503 200**	**491 980**
Total shareholders' equity and liabilities		**523 286**	**508 213**

The notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December, 2018

€000	Issued capital (Note 15)	Fund for invested unrestricted equity (Note 15)	Other capital reserves (Note 15)	Retained earnings	Foreign currency translation reserve (Note 15)	Total	Non-controlling interests	Total equity
	Attributable to the equity holders of the parent							
At 1 January 2018	**10 932**	**89 843**	**7 086**	**-90 380**	**-1 249**	**16 233**	**-**	**16 233**
Profit for the period	-	-	-	4 236	-	4 236	-	4 236
Other compehensive income	-	-	-	172	-554	-382	-	-382
Total comprehensive income	-	-	-	4 408	-554	3 855	-	3 855
At 31 December 2018	**10 932**	**89 843**	**7 086**	**-85 973**	**-1 803**	**20 087**	-	**20 087**

For the year ended 31 December, 2017

€000	Issued capital (Note 15)	Fund for invested unrestricted equity (Note 15)	Other capital reserves (Note 15)	Retained earnings	Foreign currency translation reserve (Note 15)	Total	Non-controlling interests	Total equity
	Attributable to the equity holders of the parent							
At 1 January 2017	**10 932**	**60 791**	**7 086**	**-61 013**	**-2 120**	**15 676**	**-**	**15 676**
Effect of adaption of IFRS15	-	-	-	-7 626	-7	-7 633	-	-7 633
At 1 January 2017 restated	**10 932**	**60 791**	**7 086**	**-68 639**	**-2 127**	**8 043**	**-**	**8 043**
Profit for the period	-	-	-	-22 583	-	-22 583	-	-22 583
Other compehensive income	-	-	-	774	878	1 652	-	1 652
Total comprehensive income	-	-	-	-21 809	878	-20 931	-	-20 931
Distribution of reserves	-	-634	-	-	-	-634	-	-634
Share issue	-	29 686	-	67	-	29 753	-	29 753
At 31 December 2017	**10 932**	**89 843**	**7 086**	**-90 380**	**-1 249**	**16 232**	-	**16 232**

The notes are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

	Notes	1 Jan - 31 Dec 2018	Restated 1 Jan - 31 Dec 2017
Operating activities			
Profit before tax		10 388	-29 497
Adjustments to reconcile profit before tax to net cash flows:			
Amortization and impairment of intangible assets		2 306	3 790
Depreciation and impairment of property, plant and equipment		36 804	39 169
Other non-cash items		-28 505	-12 347
Finance income		-10	-84
Finance costs		7 394	6 710
Change in working capital:			
Change in trade and other receivables (+/–)		-33 159	-31 340
Change in inventories (+/–)		10 253	-71 742
Change in trade and other payables (+/–)		42 054	186 222
Change in provisions (+/–)		-5 237	-3 241
Interest paid (–)		-1 465	-1 576
Interest received		33	77
Income tax paid (–)		-1 804	-1 249
Net cash flows from/ (used in) operating activities		**39 053**	**84 893**
Investing activities			
Acquired of subsidiaries reduced by cash or cash equivalents		-	-16 607
Investments for tangible and intangible assets (–)		-73 489	-74 380
Proceeds from sale of financial investments		-	200
Net cash flows from/ (used in) investing activities		**-73 489**	**-90 787**
Financing activities			
Proceeds received from share issues		-	29 684
Loans withdrawal		-	10 000
Loans repayments (–)		-833	-11 601
Finance lease payments (–)		-2 720	-2 686
Distribution of reserves		-	-634
Net cash flow from/ (used in) financing activities		**-3 553**	**24 763**
Net increase in cash and cash equivalents		-37 989	18 869
Net foreign exchange difference		7	185
Cash and cash equivalents at 1 January	13	58 328	39 460
Cash and cash equivalents at 31 December	13	**20 339**	**58 328**

The notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements (IFRS)

1 Accounting principles for the consolidated financial statements

1.1 General

General Information

The consolidated financial statements of Valmet Automotive Oy and its subsidiaries (collectively, the Group) for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 27.3.2019, after which, in accordance with Finnish Company Law, the financial statements are either approved, amended or rejected in the Annual General Meeting.

The Group is engaged in engineering and manufacturing services in the automotive industry. Its business is divided into four business lines - Vehicle Manufacturing, Engineering Services, Roof & Kinematic Systems and Electric Vehicle Systems. Business is conducted via the Group's parent company, Valmet Automotive Oy and its subsidiaries in Finland, Poland, Germany and Spain. The subsidiaries are fully owned either directly or indirectly by Valmet Automotive Oy.

General accounting principles are described in this section. Principles that apply to specific accounting items are presented as part of the relevant notes.

Basis of preparation and changes in accounting policies

The consolidated financial statements, prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU include the financial statements of Valmet Automotive Oy and its subsidiaries. There are no differences between IFRS standards and interpretations as adopted by the EU, as applied in Valmet Automotive, and IFRS as written by the International Accounting Standards Board ("IASB").

The financial statements are prepared under the historical cost convention, except for financial assets and liabilities and post-employment defined benefit plan that are measured at fair value through profit and loss, and funds invested in a post-employment defined benefit plan that are measured at fair value.

The Group has elected to report expenses by nature within the statement of profit or loss, and to present two statements, a statement of profit or loss and a statement of other comprehensive income, rather than a single statement of comprehensive income combining the two elements.

The consolidated financial statements are presented in euro, which is the functional and reporting currency of the parent company. Financial information is presented in thousands of euro (€000), except when otherwise indicated.

Consolidation principles

The consolidated financial statements comprise the financial statements of the Group as of 31 December 2018.

Subsidiaries are companies in which the Group owns, directly or indirectly through subsidiaries, over 50 per cent of the voting rights or in which it is in a position to govern the financial and operating policies of the entity. Subsidiaries have been listed in Note 3.

All intercompany transactions, balances and gains or losses on transactions between subsidiaries are eliminated as part of the consolidation process.

If the Group loses control over a subsidiary, it derecognizes the related assets, liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in the consolidated profit or loss statement. Any investment retained is recognized at fair value.

Associated companies are consolidated by the equity method. Under the equity method, the share of profits and losses of associated companies is presented separately in the consolidated statements of income.

Foreign currency transactions and translation

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction. Open receivables and liabilities denominated in foreign currency at the end of the financial period are translated using the exchange rate of the balance sheet date and the resulting foreign exchange gains and losses are recognized in the income statement.

The income statements of subsidiaries with a functional currency different from the reporting currency are translated into euro at the average exchange rates for the financial year and the balance sheets are translated at the exchange rate of the balance sheet date. This exchange rate difference is recorded through Other Comprehensive Income/Expense (OCI) in the cumulative translation adjustment line item in equity. The translation differences arising from subsidiary net investments and long-term subsidiary loans without agreed settlement dates are recognized through the OCI to the cumulative translation adjustments under equity.

Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities.

Assumptions, estimates and judgements are based on management's historical experience, best knowledge about the events and other factors, such as expectations on future events, which can be considered feasible. The actual amounts may differ significantly from the estimates used in the financial statements. Possible changes in estimates and assumptions are recognized in the financial period the estimate or assumption is changed.

Significant accounting judgments, estimates and assumptions made by management are described in the relevant notes.

1.2 Changes in IFRS standards

The Group has implemented the new standards IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from contracts with customers" on 1 January 2018. As a result, the Group has changed its accounting policy for revenue recognition and for the accounting of financial instruments, as detailed below.

IFRS 15 implementation

General

IFRS 15 was effective from 1 January 2018, and it replaced earlier revenue recognition guidance in IAS 18 'Revenue', IAS 11 'Construction contracts' and related interpretations. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service, either over time or at a point in time.

The Group adopted the new standard on 1 January 2018, applying the full retrospective transition method. Accordingly, the Group restated the comparative 2017 results included in the 2018 Consolidated Financial Statements. The opening equity was restated as of 1 January 2017.

The most significant changes compared to the earlier presentation are related to industrialization work revenue recognition and recognition of the influence of a significant finance component. In addition to these changes, IFRS 15 introduced a new class of assets and liabilities "contract assets" and "contract liabilities".

Implementation impact in 2017

The new standard has significant impact on the consolidated financial statements, as in some cases revenue is deferred to later periods than under the prior practice, and the significant finance component in some of the contracts increases turnover, finance expense and interest liabilities significantly.

In some Vehicle Manufacturing and Roof & Kinematic Systems contracts industrialization work was recognized separately applying the POC ("Percentage of Completion") method. Under IFRS15, industrialization is considered as pre-production activity and not a separate performance obligation. The related revenue and costs are recognized as part of product sales at a point in time with product delivery.

Some manufacturing contracts are negotiated with significant advance payments to finance the investments necessary for the vehicle production. Consequently, both the income of those contracts as well as interest expense increase. The net result over the contract lifetime will remain constant, i.e., the amount of interest expense will equal the amount of increase of turnover. However, revenue and interest amounts are not equal within the same accounting period, because interest accrues already before the start of production and revenue recognition, and the interest revenue is recognized only from the start of production.

The following tables show the impacts on the comparative information resulting from the changes in revenue recognition principles.

Assets	1 January 2017 €000	IFRS 15 adjustments €000	Restated 1.January 2017 €000
Non-current assets			
Intangible assets	6 120	-	6 120
Property, plant and equipment	142 602	-	142 602
Investment in an associate	65	-	65
Non-current financial assets	591	-	591
Net contract assets	-	17 351	17 351
Deferred tax assets	6 462	2 426	8 888
	155 841	**19 777**	**175 618**
Current assets			
Inventories	36 463	-	36 463
Trade and other receivables	33 952	-3 951	30 001
Net contract asset	-	17 888	17 888
Cash and cash equivalents	39 460	-	39 460
	109 876	**13 937**	**123 812**
Total assets	**265 717**	**33 714**	**299 430**

Equity and liabilities	1 January 2017 €000	IFRS 15 adjustments €000	Restated 1.January 2017 €000
Issued/share capital	10 932	-	10 932
Other capital reserves	7 086	-	7 086
Translation differences	-2 120	-	-2 120
Fund for invested unrestricted equity	60 791	-	60 791
Retained Earnings	-61 013	-7 628	-68 641
Total equity	**15 676**	**-7 628**	**8 048**
Non-current liabilities			
Interest bearing loans and borrowings	162	-	162
Net employee defined benefit liabilities	5 140	-	5 140
Provisions	2 549	-	2 549
Net contract liabilities	-	98 534	98 534
Deferred tax liabilities	2 342	489	2 831
	10 193	**99 023**	**109 216**
Current liabilities			
Interest bearing loans and borrowings	11 155	-	11 155
Trade payables	60 245	-	60 245
Provisions	2 837	-	2 837
Net contract liabilities	-	45 315	45 315
Advances received	92 125	-92 125	-
Other current liabilities and accruals	72 886	-10 871	62 015
Income tax payable	600	-	600
	239 848	**-57 681**	**182 168**
Total liabilities	**250 041**	**41 342**	**291 384**
Total shareholders' equity and liabilities	**265 717**	**33 714**	**299 430**

	2017	IFRS 15 adjustments	Restated 2017
	€000	€000	€000
Net sales	**542 076**	**8 098**	**550 173**
Other operating income	4 781	-3	4 778
Changes in inventories of finished goods and work in progress	8 100	112	8 212
Raw materials and consumables used	-214 559	-10 885	-225 443
Depreciation	-42 958	-	-42 958
Personnel expenses	-189 146	-	-189 146
Other operating expenses	-128 505	2	-128 503
Total expenses	-567 067	-10 771	-577 838
Operating profit	**-20 210**	**-2 676**	**-22 887**
Finance income	84	-	84
Finance costs	-1 295	-5 415	-6 710
Share of profit of an associate	16	-	16
Profit before taxes	**-21 405**	**-8 092**	**-29 497**
Income tax expense	5 313	1 601	6 914
Profit for the period	**-16 092**	**-6 491**	**-22 583**

	31 December 2017	IFRS 15 adjustments	Restated 31 December 2017
Assets	**€000**	**€000**	**€000**
Non-current assets			
Intangible assets	23 217	-	23 217
Property, plant and equipment	193 412	-	193 412
Investment in an associate	81	-	81
Non-current financial assets	75	-	75
Net contract assets	0	4 285	4 285
Deferred tax assets	13 791	3 848	17 638
	230 577	**8 132**	**238 709**
Current assets			
Inventories	109 414	-4 919	104 496
Trade and other receivables	104 556	-9 317	95 239
Net contract asset	0	11 440	11 440
Cash and cash equivalents	58 328	-	58 328
	272 298	**-2 794**	**269 504**
Total assets	**502 874**	**5 338**	**508 213**

	31 December 2017 €000	IFRS 15 adjustments €000	Restated 31 December 2017 €000
Equity and liabilities			
Issued/share capital	10 932	-	10 932
Other capital reserves	7 086	-	7 086
Translation differences	-1 228	-8	-1 236
Fund for invested unrestricted equity	89 843	-	89 843
Retained Earnings	-76 275	-14 117	-90 392
Total equity	**30 359**	**-14 126**	**16 233**
Non-current liabilities			
Interest bearing loans and borrowings	18 046	-	18 046
Net employee defined benefit liabilities	12 602	-	12 602
Provisions	4 484	-	4 484
Net contract liabilites	0	105 454	105 454
Deferred tax liabilities	4 206	309	4 515
	39 337	**105 763**	**145 100**
Current liabilities			
Interest bearing loans and borrowings	3 567	-	3 567
Trade payables	149 262	-	149 262
Provisions	8 972	-	8 972
Net contract liabilites	0	45 069	45 069
Advances received	122 246	-122 246	0
Other current liabilities and accruals	147 297	-9 122	138 175
Income tax payable	1 834	-	1 835
	433 177	**-86 298**	**346 879**
Total liabilities	**472 514**	**19 465**	**491 979**
Total shareholders' equity and liabilities	**502 874**	**5 338**	**508 213**

At transition 1.1.2017, the equity has declined because of the deferral of industrialization sales in Vehicle Manufacturing and Roof & Kinematic Systems business lines. At the same time, unfinished work done (contract asset), as well as the balance of advance payments received from customers (contract liability) have increased. Changes in sales and costs and related unfinished work (contract asset) and advance payments (contract liability) are timing differences, which will reverse over the contract lifetimes, transferring revenue to future periods.

Accrued interest liability has been reported because of the significant financing component from the advance payments in Vehicle Manufacturing. The advance payments have been received from the customer during the pre-production preparation phase. Because of the accrued interest liability during the pre-production phase, the interest expense is higher than the corresponding impact in sales in the early production years of a contract, reversing the balance towards the end of production. These changes have also resulted in some current liabilities to be reclassified as non-current, as the period of settlement has changed.

There is a change in classification of work done for the customers and payments received before the performance obligations have been met. Unfinished revenue, or the right to consideration in exchange for goods or services that has been transferred to the customer when that right is conditioned by something other than the passage of time, such as the performance recognized over time, is now reported as Contract asset instead of net POC receivables. Consideration paid as advances or milestone payments before delivery is now reported as Contract liability instead of Advance payments.

For any individual contract, either a net contract asset or a net contract liability is presented depending of the amounts of revenue recognised and payments received from the customer. Changing presentation of advance payments received to net contract liabilities has an impact to the cash flow statement presentation.

Implementation of IFRS 9

General

IFRS 9, effective from 1 January 2018, replaced the existing guidance in IAS 39, 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. IFRS 9 also introduces expanded disclosure requirements and changes in presentation. The main impact of the IFRS 9 application comes from the new expected credit loss model applied to assess impairment loss for the accounts receivable.

The Group adopted the new standard on 1 January 2018 and has elected to apply the limited exemption in IFRS 9 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application.

IFRS 9 introduced new measurement categories for financial assets: those measured at amortized cost and those measured at fair value through profit and loss or through other comprehensive income (OCI). The IFRS 9 asset categories are shown below.

	IAS 39	IFRS 9
Assets		
Equity investments	Available for sale	Fair value through profit and loss
Trade and other receivables	Loans and receivables	Amortised cost
Net contract assets	Loans and receivables	Amortised cost
Cash and cash equivalents	Fair value through profit and loss	Fair value through profit and loss

IFRS 9 also introduces the Expected Credit Loss (ECL) impairment requirements, which replace the IAS 39 incurred loss model for all financial assets carried at amortized cost and fair value through OCI. The model requires recognizing an allowance for either 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The measurement of ECLs requires assessment of a probability-weighted outcome, time value of money and best available forward-looking information.

IFRS 9 implementation impact in 2017 and 2018

The key IFRS 9 implementation changes are in changing the classification of Group financial assets from IAS 39 to IFRS 9. Applying IFRS 9 does not have any material impact on the valuation, transactions or balances of the Group financial assets or liabilities.

Trade and other receivables and contract assets expected credit losses are measured using the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from the initial recognition of the receivables. Under IFRS 9 expected credit loss are recognized earlier than under previous methods, however, the impact is minor, because of the good credit history of the Group's customers. The Group has assessed credit risk in relation to its' large OEM customers and other customers and believes it be extremely low, therefore the expected credit loss provision is very low and not material. Consequently the Group has not restated the financial statements comparative periods in the year of initial application. The expected credit loss impairment recorded in the consolidated financial statements was 202 kEUR on 31 December 2018.

Under IFRS 9 all shares and non-current financial assets, which were classified as available-for-sale investments and measured at cost, are classified as equity investments. There is no material impact of this valuation change.

1.3 Application of new standards

IFRS as at 1 January 2018

The financial statements do not early adopt standards or amendments before their effective date. The standards applied in these financial statements are those that were effective for annual periods beginning on or after 1 January 2018.

IFRS 16, Leases

IFRS 16, effective from 1 January 2019, will replace the current guidance of IAS 17. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard removes the distinction between operating and finance leases and introduces a single lessee accounting model resulting in almost all leases being recognized on the balance sheet. According to IFRS 16, a lessee is required to recognise a lease liability in financial liabilities, reflecting future lease payments, and a 'right-of-use asset' under plant, property and equipment, for almost all lease contracts. Lessor accounting remains more or less similar to current practice.

Majority of the Group lease arrangements consist of operating lease contracts for property, vehicles, and machinery and equipment located primarily on Group company premises. Under IFRS 16 the Group will recognize within the balance sheet a right-of-use asset and a lease liability for future lease payments in respect of all leases, unless the underlying assets are of low value or the lease term is 12 months or less. Within the income statement, rental expense on the leases will be replaced with depreciation on the right-of-use asset and interest expense on the lease liability. Incremental borrowing rates reflecting entity-specific factors, country and lease term are applied to all lease contracts when calculating the present value of lease liability and interest expense. Further, the Group does not separate non-lease component from lease components for asset classes in which the amount of non-lease components is assessed as immaterial.

The Group will adopt the new standard on 1 January 2019. The Group has assessed the impact on the consolidated financial statements and estimates that the balance sheet assets and lease liabilities will increase by approximately 19 MEUR at inception, with no retained earnings impact. During the first year of application it is estimated that there will be a reduction in rental expenses and increase in depreciation and interest cost of approximately 7 MEUR.

2 Financial risk management

Financial risks are managed centrally by the Group Treasury under annually reviewed written policies approved by the Board of Directors. Group Treasury evaluates and hedges or otherwise manages financial risks in close co-operation with business lines and legal units. Group Treasury manages centrally external funding and is responsible for the management of financial assets and liabilities and appropriate hedging measures. The objective of financial risk management is to minimize potential adverse effects on Valmet Automotive financial performance.

The table below summarises the maturity profile of the Group's financial liabilities and trade payables based on contractual undiscounted payments (see Note 13).

Year ended 31 December 2018	On demand €000	Less than 3 months €000	3 to 12 months €000	1 to 5 years €000	> 5 years €000	Total €000
Interest-bearing loans and borrowings	-	1 066	1 000	7 729	836	10 631
Financial lease liabilities	-	-	3 577	8 913	-	12 490
Trade payables	-	127 438	-	-	-	127 438
Derivatives	-	20	44	-	-	64
	-	**128 524**	**4 621**	**16 642**	**836**	**150 622**

Year ended 31 December 2017	On demand €000	Less than 3 months €000	3 to 12 months €000	1 to 5 years €000	> 5 years €000	Total €000
Interest-bearing loans and borrowings *	-	201	1 032	7 729	2 602	11 564
Financial lease liabilities	-	-	2 964	9 196	-	12 160
Trade payables		149 262	-	-	-	149 262
	0	**149 463**	**3 996**	**16 925**	**2 602**	**172 987**

** Interest impact has been added to comparison year data*

Liquidity and refinancing risk

The Group safeguards its liquidity with constant monitoring of receivables, keeping sufficient financial assets in cash and liquid assets and considering its financial counterparties based on their creditworthiness. Group Treasury maintains bank account structures and monitors cash balances and forecasts of the operating units and manages their liquidity position.

Interest rate risk

Interest rate risk arises when changes in market interest rates and interest margins influence finance costs, returns on financial investments and valuation of interest bearing balance sheet items. Interest rate risks are reduced through fixed interest rate loans and interest rate derivatives.

Foreign exchange risk

Valmet Automotive operates mainly in the euro zone and has limited exposure on changes in foreign exchange rates. Nearly all of the financial risk arising from the changing currency rates is mitigated either contractually or by the use of financial derivatives. The most relevant currency pair in terms of revaluation differences is EUR/PLN.

Translation or equity exposure

Foreign exchange translation exposure arises when the equity of a subsidiary is denominated in currency other than the functional currency of the parent company. The major translation exposure of the Group is in PLN. The Group does not hedge any of its equity exposure.

Commodity risk

The Group is affected by the price volatility of certain raw materials and components and supplies including energy. Car manufacturing parts and materials are covered by the customer agreements, and the Group does not carry the commodity or logistics price risk. Roof & Kinematic business supplies do not have any significant commodity price risk. The Group may also enter into fixed price commodity agreements based on business considerations to limit the effects of fluctuating commodity prices.

Credit and counterparty risk

Credit risk is the risk that a customer, supplier or financial counterparty would not meet its obligations under a financial instrument or customer or supplier contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. Customer credit risk is assessed low, as practically all major customers are large automotive groups with good credit ratings. Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy.

The maximum credit risk equals the carrying value of trade and other receivables, and contract assets of revenue recognized but not yet billed. The credit quality is evaluated both on the basis of aging of the trade receivables and also on the basis of customer specific analysis. The aging structure of trade receivables is presented in Note 13. The Group's maximum exposure relating to financial guarantees is presented in Note 19.2.

Capital structure management

The objectives of capital structure management are to maintain the long-term capital structure in a level that safeguards the ongoing business operations and optimizes the cost of capital. Due to nature of its business, the Group may have significant investment programs, which can have a temporary effect on the capital structure because of increased loan or customer advance payment funding needs.

Equity ratio has been identified as a measurement figure.

The adoption of the new IFRS 15 revenue recognition standard changed the presentation of advance payments received from customers, which are now presented as contract liabilities and netted against related contract assets. In some cases customer advances are considered as significant financing components where interest is calculated at the incremental borrowing rate. See Note 1.2.

The capital structure is assessed on a regular basis by the Board of Directors.

3 Subsidiaries and associates

3.1 Information about subsidiaries

The consolidated financial statements of the Group include the following companies:

Name	Principal activities	Country of incorporation	% equity interest as of 31.12.2018 Group	Parent
Parent company				
Valmet Automotive Oy	Vehicle Manufacturing and Engineering	Finland		
Subsidiaries				
Valmet Automotive GmbH	Roof & Kinematic Systems	Germany	100 %	100 %
Valmet Automotive Sp. Z o.o	Roof & Kinematic Systems	Poland	100 %	100 %
Valmet Automotive Beteiligungs-GmbH	Engineering Services	Germany	100 %	100 %
Valmet Automotive Verwaltungs-GmbH	Engineering Services	Germany	100 %	
Valmet Automotive Holding GmbH & Co. KG	Engineering Services	Germany	100 %	
Valmet Automotive Engineering GmbH	Engineering Services	Germany	100 %	
Valmet Automotive Spain S.L.	Engineering Services	Spain	100 %	
BAUR Karosserie- und Fahrzeugbau GmbH		Germany	100 %	
Valmet Automotive EV Oy	Electric Vehicle Systems	Finland	100 %	100 %
Valmet Automotive EV Sp. Z o.o	Electric Vehicle Systems	Poland	100 %	
Valmet Automotive Solutions GmbH	Electric Vehicle Systems	Germany	100 %	
Associate company				
Kiinteistö Oy Pietolankatu 13		Finland	40 %	40 %

3.2 Acquisitions

During 2018 the Group did not acquire any operative companies.

In 2017 the acquisition of Engineering Germany operations amounted to 17.6 MEUR with a net cash outflow of 16.6 MEUR. The assets and liabilities recognized as a result of the acquisition were as follows.

	2018	**2017**
	€ 000	**€ 000**
Intangible assets	-	6 937
Property, plant and equipment	-	6 275
Other financial assets	-	1
Inventories	-	560
Trade receivables	-	5 941
Other non-interest bearing S-T receivables	-	6 567
Other S-T interest bearing assets	-	673
Deferred tax assets	-	1 372
Cash and cash equivalents	-	996
Deferred tax liabilities	-	-2 878
Trade and other payables	-	-8 555
Provisions	-	-597
Net employee defined benefit liabilities	-	-8 430
Total net assets acquired	-	**8 862**
Goodwill on acquisition	-	8 741
Consideration price, satisfied in cash	-	**17 603**

3.3 Investment in an associate

Accounting principles

An associate company is an entity in which the investment provides the Group the ability to exercise significant influence using power to participate in the financial and operating policy decisions of the company. Such influence is presumed to exist when the direct or indirect shareholding is between 20 and 50 per cent of the voting rights, or if the Group is able to otherwise exercise significant influence.

Investments in associated companies are initially recognized at cost after which the share of post-acquisition retained profits and losses is included as part of investments in associated companies in the consolidated balance sheets.

Associated companies are consolidated by the equity method. Under the equity method, the share of profits and losses of associated companies is presented separately in the consolidated statements of income. The share of profit of an associate is presented in one line item.

At each reporting date, the Group determines whether there is objective evidence that the investment is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

The Group has a 40% non-operative interest in a real estate company (Kiinteistö Oy Pietolankatu 13). The carrying amount of the investment and the Group's share of the associate's results are presented below.

	2018	2017
	€ 000	**€ 000**
Current assets	134	104
Non-current assets	1186	1176
Current liabilities	-96	-75
Non-current liabilities	-996	-1003
Equity	**228**	**202**
Proportion of the Group's ownership	40 %	40 %
Carrying amount of the investment	**91**	**81**

	2018	2017
	€ 000	**€ 000**
Revenue	**169**	**159**
Other operational charges	-103	-78
Depreciation	-24	-25
Finance cost	-8	-6
Profit before tax	**33**	**49**
Income tax expense	-7	-10
Profit for the year	**27**	**39**
Group's share of the profit for the year	**11**	**16**

4 Revenue from contracts with customers

Accounting principles

The Group recognizes revenue when it has satisfied a performance obligation by transferring the control of the promised goods and services to the customer. The transfer of control takes place when the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the goods or services. The Group identifies the contract with the customer, various performance obligations of the contract and allocates the transaction price to these performance obligations.

Revenue is recognized in two categories, depicting the timing of revenue recognition: over time and at point of time.

When the control of the produced good and rendered services is transferred over time to the customer, revenue is recognized over time. The Group transfers control over time when:

. it produces goods with no alternative use and the Group has an irrevocable right to payment (including a reasonable margin) for the work completed to date (e.g. long engineering and testing contracts); or
. it creates goods which is controlled by the customer as the goods are created or enhanced (e.g. work done on customer held vehicles); or
. the customer simultaneously receives and consumes the benefits provided by the Group (e.g. work done at the customer or in customer design systems).

When none of the criteria stated above have been met, revenue is recognized at a point in time, which is when the control passes to the customer and the business has the right to payment, for example, on delivery.

For each performance obligation recognized over time, the Group recognizes revenue using an input method, based on costs incurred. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs. Changes to total estimated contract costs and losses, if any, are recognized in the period in which they are determined. Expected loss is expensed immediately when it becomes evident.

Unfinished contracts are presented in the balance sheet as contract assets and received payments as contract liabilities. The contract assets and liabilities are offset by individual contract, and the net difference is presented either as an asset or a liability in the balance sheet.

Significant management estimates and judgment

The management has made judgments about determining distinct goods and services to define the promised performance obligations, and which contracts form a single commercial objective in complex contract packages. These judgments significantly affect determination of amount and timing of revenue.

Revenue recognition over time requires determination of a completion stage, which is based on actual cost incurred in proportion of the total estimated cost of the project (cost-to-cost basis). Total project cost estimates are based on project forecasts, which take into account changes in the estimated revenue, costs and profit, together with the planned delivery schedule. Project forecasts are updated and approved regularly.

Total project cost estimates might change e.g. because of changes in the underlying project cost structures, which may ultimately affect the revenue recognized. Therefore, the over time recognition method is not applied for recognizing sales commitments before a defined threshold is achieved or where the final outcome of the project and related cost structure cannot be established reliably.

Revenue recognized by timing category in 2018 and 2017 is summarized in the table below.

	1 Jan - 31 Dec 2018 €000	Restated 1 Jan - 31 Dec 2017 €000
Performance obligations satisfied at point in time	598 781	473 756
Performance obligations satisfied over time	61 175	73 908
Interest revenue from significant financing component	2 616	2 510
Total revenues	**662 572**	**550 173**

The net contract assets and liabilities on 31 December 2018 and 31 December 2017 are presented below.

	31 December 2018	Restated December 31 2017
Contract assets and liabilities		
Net contract assets		
Contract assets	29 560	32 742
Contract liabilities	-14 227	-17 018
Net contract assets	**15 333**	**15 725**
Non-current	4 396	4 285
Current	10 937	11 440
	15 333	**15 725**
Net contract liabilities		
Contract liabilites	205 557	204 000
Contract assets	-76 407	-60 529
Net contract liabilities	**129 151**	**143 472**
Non-current	89 203	101 778
Current	39 948	41 694
	129 151	**143 472**
Contract liabilities from significant financing component		
Non-current interest liability	8 763	3 676
Current interest liability	1 662	3 375
	10 425	**7 051**
Net contract liability including significant financing component		
Non-current	97 966	105 454
Current	41 610	45 069
	139 576	**150 523**

IFRS 15 revenue streams

The Group has identified several revenue streams within the categories of over time and at point of time satisfied performance obligations. These revenue streams reflect the performance obligations and timing of satisfaction of such performance obligations, and the allocation of related transaction price.

The Group's revenue streams and comparison to the prior standards are summarized below:

Revenue stream	Description	Significant change to earlier method	Business line	Revenue recognized IFRS 15	Revenue recognized IAS11, IAS 18
Engineering services	Design and development work, concept work, testing services, supplier tooling procurement, work done on customer owned goods	No	Engineering Services, Roof&Kinematic Systems	Over time	POC
Industrialisation (not recognized separately)	Services related to subsequent contract manufacturing or production	Yes	Roof &Kinematic Systems, Vehicle Manufacturing	Part of contract manufacturing or product sales	POC
Contract manufacturing	Manufacturing assembly services and logistics	Yes	Vehicle Manufacturing	At a point in time	At delivery
Product sales	Roof, batteries, spare parts, production parts and other	No	Roof&Kinematic Systems, Electric Vehicle Systems	At a point in time	At delivery
Short and/or small contracts	Small or short engineering or other projects	No	All	At a point in time	At delivery

The revenue recognition method will vary depending on terms and conditions agreed with each customer. Many contracts are framework agreements, which cover the entire chain of activities performed for the customer. For example, contract manufacturing agreements typically cover the preparation phase for production, called industrialisation, as well as the assembly work and logistics. In Roof & Kinematic Systems, the contracts may have several parts, starting from design and development engineering of the product, and moving to industrialisation work, model specific tooling procurement for the customer, product and spare parts sales. If the customer has given firm commitment to part of the frame agreement deliveries only, the contract revenues will be recognized separately for that firm commitment part only. When the customer commitment covers the entire framework agreement, or large parts of it, it may be that such contracts are considered as one contract entity, even if the customer would place purchase orders in stages.

Revenue stream engineering services covers engineering work provided by Engineering Services and Roof & Kinematic Systems business lines. In these contracts the customer receives simultaneously the benefits provided and the Group the right to payment for the performance completed, and the corresponding revenue will be recognized over time. The progress will be measured by the input method, which is in line with the earlier POC- and cost-to-cost method. The contract payment schedules are paid either at delivery or by milestones during the service performance and they typically follow the transfer of control of performance obligations to be satisfied.

Industrialisation, which is not an independent revenue stream, includes pre-production activities and manufacturing engineering work required to get the production lines and facilities ready for production. Such work is typically sold as part of contract manufacturing or roof systems supplier contracts. Industrialization cannot be considered as a separate deliverable i.e., distinct performance obligation, under IFRS 15 but is part of the product sale or contract manufacturing. Revenue recognition commences at start of production and revenue is recognized with roof and vehicle deliveries at a point in time.

Contract manufacturing revenues are recognized when control for the assembly service done is transferred, which takes place at the delivery of the vehicles. Product sales revenue from sale of products such as roofs, batteries and spare parts is recognized when control for the goods is transferred at the delivery of goods. When there is pre-production industrialisation required, it will be recognized with the product. Contract manufacturing and product sales are paid after each delivery,

Large contract manufacturing agreements may include significant advance payments to prepare production and supply the necessary product specific equipment and tools. These advance payments agreed with the principal may be considered to generate a significant time value of money and as such may be considered to contain a significant financing component. In such cases, financing cost is accounted for as interest expense and financing component liability has to be presented. The influence of the significant finance component is recorded in turnover. The net result over the lifetime will remain constant.

5 Other operating income and expenses

Accounting principles

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions are complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the period during which the costs related to the grant are incurred and expensed. When a grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

Research costs are expensed as incurred. However, development expenditures are capitalized when certain criteria related to economic and technical conditions are met and it is expected that the asset will generate future economic benefits.

Other operating income

	2018	**2017**
	€000	**€000**
Insurance income	3	1 440
Rental income	803	600
Goverment grants	806	1 185
Compensation from related parties (Note 20)	5 170	-
Claim settlements	895	-
Other income	6 268	1 553
Total	**13 944**	**4 778**

Government grants are mainly related to employment subsidies. There are no unfulfilled conditions or contingencies attached to these grants.

Other operating expenses

	2018	2017
	€000	€000
Property, operating and maintenance costs	-26 201	-24 111
Research and development expenses	-575	-388
External services	-57 338	-63 011
ICT expenses	-16 129	-11 023
Expenses on equipment and leasing	-16 337	-14 389
Sales and marketing	-513	-261
Travel expenses	-3 448	-3 174
Other personnel expenses	-8 011	-5 662
Other expenses	-10 575	-6 484
Total other operating expenses	**-139 127**	**-128 503**

Total research and development costs including personnel costs amounted to 1 410 kEUR in 2018 (1 045 kEUR in 2017).

Services rendered by statutory auditors

	2018	2017
	€000	€000
Auditing	-571	-502
Tax advisory	-215	-288
Other services	-24	-95
Total	**-809**	**-885**

6 Employee benefits and number of personnel

Accounting principles

Personnel benefits and related social security costs and pension contributions are expensed on the period the work performance has been performed. The pension and other defined benefit plans are detailed in Note 18.

	2018	2017
	€000	**€000**
Wages and salaries	-190 045	-154 781
Long term employee benefits	757	-738
Social security costs*	-12 300	-11 081
Pension costs defined contribution*	-26 147	-22 129
Pension costs defined benefit	-482	-417
Total employee benefits expense	**-228 218**	**-189 146**

** 2017 social security and defined contribution pension cost split has been corrected*

	2018	2017
Number of employees, average	4 792	3 858

7 Finance income and costs

Accounting principles

Financing costs are charged to the income statement during the financial period in which they incur. As an exception, any borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Losses from sales of shareholdings are recorded in financing costs, and gains from such sales are recorded in financing income.

The Group has elected to classify interest received and paid as cash flows from operating activities.

The new revenue recognition method under IFRS 15 also had an impact in financing costs, which have been restated (refer to Note 1.2).

Finance income

	2018	2017
	€000	**€000**
Dividend received	5	54
Other interest income	5	30
Total finance income	**10**	**84**

Finance cost

	2018	Restated 2017
	€000	**€000**
Interest on debts and borrowings	-390	-532
Finance charges payable under finance leases	-287	-295
Interest on significant financing component *	-5 991	-5 415
Total interest expense	**-6 668**	**-6 242**
Net loss on financial instruments at fair value through profit or loss**	-64	-318
Other interest and financial expense	-662	-150
Total finance costs	**-7 394**	**-6 710**

**) Restated due to adaption of IFRS15*

***) Reclassified due to adaption of IFRS9*

8 Income taxes

8.1 Income tax expense

Accounting principles

Income taxes in the consolidated statement of profit and loss consist of taxes on the taxable income of the companies for the current period and changes in deferred taxes. The statement of comprehensive income includes taxes on items presented in the statement of comprehensive income.

Current taxes include estimated taxes corresponding to the Group companies' taxable results for the financial year, and adjustments to taxes for previous years. Income tax receivables and payables are recognized at the expected amounts to be recovered from or paid to the tax authorities.

Deferred taxes are calculated based on temporary differences between financial reporting and the taxation calculated with enacted tax rates effective for the future years.

The major components of income tax expense for the years ended 31 December 2018 and 2017 are as follows:

	2018	Restated 2017
Consolidated statement of profit or loss	**€000**	**€000**
Current year income tax expense	-3 740	-1 547
Adjustments in respect of current income tax of previous year	-351	-187
Current income tax expenses	**-4 091**	**-1 734**
Deferred tax expense		
Losses available for offsetting against future taxable income	-720	5 474
Other temporary differences deferred tax assets	-1 498	2 318
Other temporary differences deferred tax liabilities	157	857
Total deferred taxes	**-2 061**	**8 649**
Income tax expense reported in the statement of profit or loss	**-6 153**	**6 914**
Deferred tax related to items recognised in OCI during the year:		
Actuarial gains (+)/losses (-) from defined benefit plan	-52	-185
Income tax charged to other comprehensive income	**-52**	**-185**

Reconciliation of tax expense and the accounting profit or loss multiplied by Finland's 2018 statutory tax rate:

	2018	Restated 2017
	€000	€000
Accounting profit before income tax	**10 388**	**-29 497**
At Finland's statutory income tax rate of 20%	-2 078	5 899
Tax exempt income	439	-42
Non-deductible expenses	-1 980	-647
Deferred taxes for previously unrecognised temporal differences	217	706
Adjustments in respect of current income tax of previous year	-291	-187
Temporary differences from group consolidation	-	175
Unrecognised tax losses	-3 248	-161
Difference between Finnish and foreign tax rates	787	1 171
At the effective income tax rate of 59% (2018)	**-6 153**	**6 914**
Income tax expense reported in the statement of profit or loss	**-6 153**	**6 914**

8.2 Deferred tax assets and liabilities

Accounting principles

Deferred tax liabilities or assets are calculated based on temporary differences between financial reporting and the taxation calculated with enacted tax rates effective for the future years. The deferred tax liabilities are recognized in the balance sheet in full, and the deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Significant management estimates and judgments

The Group estimates income tax in each country it operates. This process involves estimating the actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue and cost reserves, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which may be recorded in the consolidated balance sheet. The likelihood for the recovery of deferred tax assets from future taxable income is assessed, and to the extent the recovery is not considered likely the deferred asset is not recorded.

Significant management judgement is required to determine the provisions for deferred tax assets that can be recognized, taking into account the likely timing and the level of future taxable profits together with future tax management strategies. In the event that actual results differ from these estimates, the deferred tax assets need to be adjusted in coming financial years. The final outcome may also be affected by future changes in tax laws applicable in the jurisdictions where the Group operates.

Deferred tax assets and liabilities are presented in the tables below.

2018 Deferred tax assets

	1.1.2018	Recognised in the consolidated Income statement	Recognized in OCI	Recognized in Equity	Reclassification	Translation differences	31.12.2018
Employment related	2 239	-500	0	0	0	0	1 739
Property, plant and equipment	3 492	-1 824	0	0	0	0	1 668
Confirmed losses	5 408	-720	0	0	0	0	4 688
Financial leasing	0	0	0	0	0	0	0
Provisions	1 783	-331	0	0	0	-26	1 426
Other temporary differences	4 716	905	0	0	-228	-22	5 372
Total	17 639	-2 470	0	0	-228	-48	14 893

2018 Deferred tax liabilities

	1.1.2018	Recognised in the consolidated income statement	Recognized in OCI	Recognized in Equity	Reclassification	Translation differences	31.12.2018
Property, plant and equipment	1 341	-119	0	0	0	0	1 222
Fair value adjustment	2 540	-240	0	0	0	0	2 300
Financing cost	0	0	0	0	0	0	0
Financial leasing	8	-7	0	0	0	0	0
Other temporary differences	627	-43	52	0	-228	-9	399
Total	4 515	-409	52	0	-228	-10	3 921

2017 Deferred tax assets

	Restated 1.1.2017	Recognised in the consolidated income statement	Recognized in OCI	Recognized in Equity	Business combination	Reclassification	Translation differences	Restated 31.12.2017
Employment related	1 028	197	-182	0	1 372	-176		2 239
Property, plant and equipment	4 062	-570	0	0	0	0		3 492
Confirmed losses	215	5 193	0	0	0	0	0	5 408
Financial leasing	0	0	0	0	0	0	0	0
Provisions	560	1 013	0	0	0	176	34	1 783
Other temporary differences	2 775	1 959	0	0			-18	4 716
Total	8 640	7 792	-182	0	1 372	0	16	17 638

2017 Deferred tax liabilities

	Restated 1.1.2017	Recognised in the consolidated income statement	Recognized in OCI	Recognized in Equity	Business combination	Translation differences	Restated 31.12.2017
Property, plant and equipment	1 870	-471	0	0	0	-58	1 341
Fair value adjustment	0	-336	0	0	2 878	0	2 542
Financing cost	0	62	0	-62	0	0	0
Financial leasing	14	-7	0	0	0	0	8
Other temporary differences	826	-105	0	0		-97	624
Total	2 710	-857	0	-62	2 878	-155	4 515

Management has assessed all subsidiary losses carried forward for deferred asset recognition. Analysis was done by subsidiary. At 31 December 2018, the Group had approximately EUR 21 million of tax losses carried forward for which no deferred tax assets were recognized.

9 Property, plant and equipment

Accounting principles

Construction in progress and property, plant and equipment are stated on the balance sheet at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Improvement costs related to an asset are included in the carrying value of such asset or recognized as a separate asset, as appropriate, only when the future economic benefits associated with the costs are probable and the related costs can be separated from normal maintenance costs. All other repair and maintenance costs are recognized in profit or loss as incurred.

Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments.

	Land and water areas	Buildings and constructions	Machinery and equipment	Fixed assets under construction	Total
	€000	€000	€000	€000	€000
Cost					
At 1 January 2018	4 902	79 204	295 912	44 602	424 620
Additions	324	0	1 408	69 798	71 530
Disposals	0	0	-3 315	0	-3 315
Reclassifications	0	16 263	90 160	-106 284	140
Exchange differences	-5	-218	-378	-21	-622
At 31 December 2018	**5 221**	**95 250**	**383 786**	**8 095**	**492 352**
Depreciation and impairment					
At 1 January 2018	0	-45 065	-186 144	0	-231 210
Business combinations	0	0		0	0
Depreciation charge for the year	0	-1 888	-34 915	0	-36 804
Disposals	0	0	3 107	0	3 107
Exchange differences	0	87	343	0	430
At 31 December 2018	**-**	**-46 867**	**-217 610**	**-**	**-264 476**
Net book value 1 January 2018	**4 902**	**34 139**	**109 767**	**44 602**	**193 410**
Net book value 31 December 2018	**5 221**	**48 383**	**166 177**	**8 095**	**227 875**
Cost					
At 1 January 2017*	4 895	74 154	213 838	65 401	358 287
Business combinations*			19 220		19 220
Additions	-	85	1 635	81 938	83 659
Disposals	-	-5 455	-32 267	-2	-37 724
Reclassifications	-	10 022	92 857	-102 714	165
Exchange differences	8	398	630	-20	1 016
At 31 December 2017	**4 902**	**79 204**	**295 912**	**44 602**	**424 622**
Depreciation and impairment					
At 1 January 2017 *	0	-49 156	-166 489	0	-215 646
Business combinations*			-13 048		-13 048
Depreciation charge for the year	-	-1 303	-37 866	-	-39 169
Disposals	-	5 470	31 721	-	37 191
Exchange differences	-	-75	-462	-	-537
At 31 December 2017	**0**	**-45 064**	**-186 144**	**0**	**-231 210**
Net book value 1 January 2017	**4 895**	**24 998**	**47 347**	**65 401**	**142 641**
Net book value 31 December 2017	**4 902**	**34 140**	**109 766**	**44 602**	**193 410**

** Beginning balances (cost and depreciation) corrected, no net impact*

Property and equipment on financial leasing:

	As at 31 December 2018		As at 31 December 2017	
€000	**Buildings and constructions**	**Machinery and equipment**	**Buildings and constructions**	**Machinery and equipment**
Cost	-	17 339	-	14 485
Depreciation	-	-6 193	-	-3 001
Net book value	**-**	**11 145**	**-**	**11 484**

Finance lease contracts include production machinery and equipment as well as company cars.

10 Intangible assets

10.1 Intangible assets, total

Accounting principles

The Group's intangible assets comprise mainly of goodwill, customer relations, patents, licenses and software. They are stated at historical cost less accumulated amortization and impairment losses, if any.

Development activities are an integral part of customer projects where technical development is carried out in close co-operation with customers. The related expenditures are typically expensed. However, development expenditures are capitalized when certain criteria related to economic and technical conditions are met and it is expected that the asset will generate future economic benefits. Capitalized development costs are included in intangible assets and carried at cost less any accumulated amortization and accumulated impairment losses. Amortization over the period of expected future benefits of the asset is started when the development is complete and the asset is available for use.

	Goodwill	Development costs	Customer relationships	Other intangible rights	Intangible asset under constuction	Total
	€000	€000		€000	€000	€000
At 1 January 2018	8 741	4 653	6 581	20 302	4 539	44 816
Additions	-	-	-	42	4 729	4 772
Disposals	-	-4 653	-	-703	-18	-5 374
Reclassifications	-	-	-	6 011	-5 974	37
Exchange differences	-	-	-	-6	-	-6
At 31 December 2018	**8 741**	**0**	**6 581**	**25 647**	**3 276**	**44 245**
Amortization and impairment						
At 1 January 2018	0	-4 653	-548	-16 397		-21 598
Business combinations	0	0				0
Amortization charge for the year	0	0	-620	-1 686		-2 306
Disposals	0	4 653		697		5 350
Exchange differences	0	0		4		4
At 31 December 2018	**0**	**0**	**-1 169**	**-17 381**	**0**	**-18 550**
Net book value 1 January 2018	**8 741**	**0**	**6 032**	**3 905**	**4 539**	**23 218**
Net book value 31 December 2018	**8 741**	**0**	**5 412**	**8 266**	**3 276**	**25 695**

	Goodwill	Development costs	Customer relationships	Other intangible rights	Intangible asset under constuction	Total
	€000	€000	€000	€000	€000	€000
Cost						
At 1 January 2017	0	4 680		17 332	854	22 866
Business combinations*	8 741		6 581	2 252		17 574
Additions	-	-		42	4 460	4 503
Disposals	-	-		59	-4	55
Reclassifications	-	-		580	-772	-192
Exchange differences		-27		36	-	9
At 31 December 2017	**8 741**	**4 653**	**6 581**	**20 302**	**4 539**	**44 816**
Amortization and impairment						
At 1 January 2017	0	-4 680		-12 067	0	-16 747
Business combinations				-1 794		-1 794
Amortization charge for the year	0	0	-548	-3 239		-3 787
Disposals	-	-		697		697
Exchange differences	-	27		7		34
At 31 December 2017	**0**	**-4 653**	**-548**	**-16 396**	**0**	**-21 598**
Net book value 1 January 2017	**0**	**0**	**0**	**5 265**	**854**	**6 119**
Net book value 31 December 2017	**8 741**	**0**	**6 032**	**3 906**	**4 539**	**23 218**

** Beginning balances (cost and depreciation) corrected to show gross amounts, no net impact*

10.2 Goodwill

Accounting principles

Acquisitions are accounted for using the acquisition method. Goodwill represents the excess of acquisition cost over the fair values of identified acquired assets and liabilities of acquired companies.

Goodwill represents typically the value of the acquired market share, business knowledge and the synergies obtained in connection with the acquisition. The carrying amount of goodwill is tested for impairment at least annually.

Goodwill is allocated to cash-generating units (CGUs). Initial goodwill calculation is prepared at the acquisition date book values with fair value adjustments of acquired assets and related deferred tax adjustments.

Goodwill is allocated to CGUs, which are identified as business lines of the Group. On 31.12.2018 the carrying amount of goodwill is allocated solely to Engineering Germany business line.

Goodwill per Cash-generating unit (CGU) 000 EUR	**31.12.2018**	**31.12.2017**
Vehicle Manufacturing	-	-
Roof & Kinematic Systems	-	-
Engineering Finland	-	-
Engineering Germany	8 741	8 741
EV Systems	-	-
Group Management	-	-
Total	**8 741**	**8 741**

Goodwill,reconciliation 000 EUR	**31.12.2018**	**31.12.2017**
Opening net book value	**8 741**	**-**
Increase	-	-
Decrease	-	-
Companies acquired	-	8 741
Closing net book value	**8 741**	**8 741**

Refer to Note 11.2 for goodwill impairment testing.

11 Impairment testing

11.1 Testing of non-financial assets

Accounting principles

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account.

When there is an indication that previously recognized impairment losses no longer exist or have decreased, the Group estimates the asset's recoverable amount, and previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

Significant management estimates and judgments

The carrying values of property, plant and equipment and intangible assets, subject to depreciation and amortization are reviewed for impairment whenever there are indications that their carrying values could exceed their value in use or disposal value if disposal is considered as a possible option.

The valuation is inherently judgmental and highly susceptible to change from period to period because it requires the Group to make assumptions about future supply and demand related to its individual business units, future sales prices and achievable cost savings. The value of the benefits and savings expected from the efficiency improvement programs are inherently subjective. The cash flows are derived from the budget for the foreseeable future and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The fair value of is determined using a derived weighted average cost of capital as the rate to discount estimated future cash flows. This rate may not be indicative of actual rates obtained in the market.

The Group had no impaired non-financial assets as of December 31, 2018 or December 31, 2017. As such, no impairment losses on non-financial assets have been recognized.

11.2 Testing of goodwill

Accounting principles

The Group assesses the carrying amount of goodwill annually or more frequently if any indication of impairment exists. Goodwill is allocated to the cash generating units (CGUs) of the Group, which are identified according to business unit level at which goodwill is monitored for internal purposes. The carrying value of goodwill is tested with the CGU's value in use or CGU's fair value less costs of disposal, when appropriate. In assessing the value in use amount, estimated future cash flows are discounted to their present value. Cash flow estimates are based on operative managerial estimates. The discount rate is a nominal rate, which is based on the weighted average cost of capital (WACC) for the main currency area in the location of the CGU. The nominal discount rate reflects the market assessment for the time-value of money and for the risk specific in the business.

Upon initial acquisition the Group applies available market values to determine the fair values of acquired net assets. However, when this is not possible, the valuation is based on past performance of such an asset and expected future cash generating capacity, which requires management to make estimates and assumptions of the future performance and use of such assets.

The value in use calculations for the CGU specific cash flow projections are based on financial estimates prepared by the management. The cash flows are derived from the current year's last quarter estimate, the following year's budget and the approved strategy for the following five years, beyond which cash flows are calculated using the terminal value method. The terminal growth rate used is based on management's judgment regarding the average long-term growth. Cash flows include only normal maintenance investments and exclude any potential investments that enhance the CGUs performance and acquisitions.

Any impairment loss of goodwill is recognized immediately as an expense and is not subsequently reversed.

Significant management estimates and judgement

The business growth, price and cost development assumptions embedded in the CGU specific cash flow projections are based on management assessments of the market demand and environment, which are examined against external information sources. Value in use calculations are sensitive to changes between periods, as they require management to make assumptions about future supply and demand related to its individual business units, future sales prices, margins and achievable cost savings over time. Such assumptions are subjective by nature, and require management judgment.

The Group conducted impairment testing of the goodwill during Q1 2019.

Key assumptions	**Engineering Germany**
Discount interest rate used (pre-tax WACC)	11.6 %
Terminal growth	2.0 %

The key parameters used in sensitivity testing include EBITDA margin, discount rate and terminal growth. Were the EBITDA margin 1.3%-points lower, the discount rate 1.9%-points higher or terminal growth 5.4%-points lower, there would be no impairment losses recognized in goodwill.

No goodwill impairment losses were recognized during the accounting period based on the impairment tests. According to the sensitivity tests conducted, there was no indication of risks for the carrying amount exceeding the recoverable amount, which would result in impairment losses.

12 Depreciation and amortization

Accounting principles

Tangible assets are stated at historical cost, less accumulated depreciation and impairment loss, if any. Tangible assets of acquisitions are measured at fair value on acquisition date.

Depreciation is calculated on a straight-line basis over the expected useful lives of the assets as follows:

Improvements to land areas:	10 years
Buildings and structures:	5-40 years
Machinery and equipment:	3-10 years

Property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset or over the lease period, if shorter.

Land areas are not depreciated.

The Group reviews residual values and useful lives of property, plant and equipment for impairment whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment of property, plant and equipment and capital gains and losses on their disposal are included in other operating income and expenses.

Amortization of intangible assets with a definite useful life is calculated over the expected economic lives of the assets, which is 3-10 years.

Any intangible assets with indefinite useful lives are not amortized, but tested annually for impairment. See Note 11 for impairment testing.

	2018	2017
Depreciation and amortization according to plan	**€000**	**€000**
Goodwill	-	-
Intangible assets	-2 350	-3 790
Buildings and constructions	-1 888	-1 303
Machinery and equipment	-34 875	-37 866
Total	**-39 113**	**-42 958**

The consolidated depreciation and amortization charges include the impact from the assets acquired in business combinations and measured at fair value.

13 Financial instruments

Accounting principles

The Group classifies its financial assets into the following categories: At amortized cost and at fair value through profit or loss. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows and is determined at the time of the acquisition depending on the intended purpose. Financial assets are derecognized when the contractual rights to cash flows have expired, or the rights to cash flows together with substantially all risks and rewards of ownership, have transferred.

Financial liabilities are classified either at amortized cost or at fair value through profit or loss. Financial liabilities are derecognized when they are extinguished, that is when the obligation specified in the contract is discharged, cancelled or expires.

13.1 Summary

	At amortized cost	At fair value through P&L	Total
2018			
Non-current financial assets			
Equity investments	-	75	**75**
Net contract assets	4 396	-	**4 396**
Total	**4 396**	**75**	**4 471**
Current financial assets			
Trade and other receivables*	122 230		**122 230**
Net contract assets	10 937		**10 937**
Cash and cash equivalents	20 339		**20 339**
Total	**153 507**		**153 507**
Non-current financial liabilities			
Interest bearing loans and borrowings	15 810		**15 810**
Net contract liabilities	97 966		**97 966**
Total	**113 777**		**113 777**
Current financial liabilities			
Interest bearing loans and borrowings	5 007		**5 007**
Net contract liabilities	41 610		**41 610**
Trade paybles	127 438		**127 438**
Other payables	8 295		**8 295**
Derivative instruments		64	**64**
Total	**182 350**	**64**	**182 414**

** Excluding prepayments and deferred income*

Restated 2017	**At amortized cost**	**At fair value through P&L**	**Total**
Non-current financial assets			
Equity investments	-	75	**75**
Net contract assets	4 285	-	**4 285**
Total	**4 285**	**75**	**4 360**
Current financial assets			
Trade and other receivables*	92 426		**92 426**
Net contract assets	11 440		**11 440**
Cash and cash equivalents	58 328		**58 328**
Total	**162 195**		**162 195**
Non-current financial liabilities			
Interest bearing loans and borrowings	18 046		**18 046**
Net contract liabilities	105 454		**105 454**
Total	**123 500**		**123 500**
Current financial liabilities			
Interest bearing loans and borrowings	3 567		**3 567**
Net contract liabilities	45 069		**45 069**
Trade payables	149 262		**149 262**
Other payables	4 300		**4 300**
Total	**202 198**		**202 198**

** Excluding prepayments and deferred income*

13.2 Financial assets at amortized cost

This category comprises assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. It includes trade receivables and net contract assets, other receivables as well as loan receivables.

Trade receivables are subject to expected credit loss impairment allowance adjustments, while the net contract assets and loan receivables are considered not having any such credit default risk, which would create a credit loss allowance.

Details of trade and other receivables are presented in the table below.

	2018	Restated 2017
	€000	**€000**
Current		
Trade receivables	110 934	79 814
Prepayment and accrued income	2 237	2 066
VAT-receivables	4 230	10 253
Other S-T receivables	1 883	2 359
Receivables from related parties (Note 20)	5 183	-
Total	**124 467**	**94 492**

Trade receivables are recognized at original invoice amount to customers and reported in the balance sheet, net of impairment allowance.

Trade receivables are assessed at each reporting date to determine whether there is evidence of impairment. In assessing impairment, the Group uses both historical information on credit losses and forward-looking information that is available without undue cost or effort. The Group considers evidence of impairment for trade receivables at a collective level by customer group. The customer groups are determined by grouping customers that have similar risk characteristics. For trade receivables and contract assets arising from customer contracts for which revenue is recognized over time, simplified impairment model is applied and valuation of allowance is based on lifetime expected credit losses which are recognized at the time of the initial recognition of an asset.

Significant increases in credit risk are reflected in the impairment allowance, and are recognized in profit and loss. If the estimated credit risk subsequently decreases, the previously recognized increase in impairment allowance is recognized in profit and loss.

When the Group considers that it has no reasonable expectations of recovering a trade receivable, the relevant amounts are written off.

Impairment allowance is recognized in the statement of financial position as part of the carrying amount of trade receivables. Changes in allowance together with final bad debts are reported under other operating income and expenses.

Trade receivables are non-interest bearing. Applied payment terms are customary in the industry and market area and are generally on terms of 10 to 45 days.

The aging analysis of trade receivables is as follows:

	2018	Impaired	Net	**2017**	Impaired	Net
	€000			**€000**		
Not past due	90 339	-152	90 197	56 086	0	56 086
Past due						
< 30 days	16 813	-21	16 792	20 091	0	20 091
30-60 days	2 111	-5	2 106	2 163	0	2 163
61-90 days	312	-1	311	89	0	89
> 90 days	1 551	-23	1 528	1 476	-91	1 386
Total	**111 126**	**-202**	**110 934**	**79 904**	**-91**	**79 814**

Impairment allowance for trade receivables (KEUR) has been established as follows:

Balance at 31 December 2017	-91
Impairment loss recognized	-202
Amounts written off	91
Balance at 31 December 2018	-202

13.3 Financial assets and liabilities at fair value through profit and loss

This category comprises of equity investments and derivative instruments that are to be measured at fair value through profit and loss. The Group has not elected to present changes of equity investments in fair value in other comprehensive income.

Equity investments consist of mainly shares not quoted on an active market and which are carried at cost as the fair value of these assets cannot be measured reliably or the fair value would not significantly differ from the acquisition cost.

	2018	2017
Non-current equity investments	**€000**	**€000**
At 1 January	**75**	**591**
Disposals	-	-516
At 31 December	**75**	**75**
Total current	**-**	**-**
Total non-current	**75**	**75**

The disposal of equity investments during 2017 consists of the sale of the RLE Global Operations Ltd shares.

The Group may use derivative financial instruments, such as forward currency contracts, to reduce its foreign currency risks. Such instruments are initially recognized at fair value and are subsequently measured at their fair value at each reporting date. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Hedge accounting is not applied.

13.4 Cash and restricted cash accounts

Cash and cash equivalents consist of cash in banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of statement of cash flows, cash and cash equivalents consist of the following as of December 31.

	2018	2017
	€000	€000
Cash at banks and on hand	20 339	18 322
Treasury instruments	-	40 006
Cash at banks and on hand in Cash Flow	**20 339**	**58 328**

	2018	2017
	€000	€000
Restricted cash accounts	**209**	**374**

The Group has cash deposits relating to rental contracts.

13.5 Financial liabilities at amortized cost

The Group's financial liabilities include interest bearing loans, net contract liabilities and finance leases. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest rate (EIR) method.

Details of trade payables and other current liabilities are presented in the table below.

	2018	Restated 2017
	€000	€000
Trade payables		
Related parties	-	-
Other trade payables	127 438	149 262
Total trade payables	**127 438**	**149 262**
Other current liabilities		
VAT liabilities	1 545	941
Other current liabilities	6 751	3 359
	8 295	4 300
Accruals		
Employment benefit related	27 926	23 858
Other accruals	153 247	110 019
	181 172	133 877
Derivatives	64	-
Total other current liabilities and accruals	**189 532**	**138 176**

Details of interest-bearing liabilities are presented in the table below.

	2018	2017
	€000	€000
Current interest-bearing loans and borrowings		
Obligations under finance leases contracts	3 339	2 734
Bank loans	1 667	833
Total current interest-bearing loans and borrowings	**5 005**	**3 567**
Non-current interest-bearing loans and borrowings		
Obligations under finance leases contracts	8 308	8 879
Bank loans	7 500	9 167
Total non-current interest-bearing loans and borrowings	**15 808**	**18 046**
Total interest-bearing loans and borrowings	**20 813**	**21 612**

13.6 Fair value estimation

Accounting principles

The Group measures financial instruments such as derivatives at fair value at each balance sheet date.

For those financial assets and liabilities, which have been recognized at fair value in the balance sheet, the following measurement hierarchy and valuation methods have been applied:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3; Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities. There have been no transfers between level 1, level 2 and level 3 during the period. There were no differences between fair values and carrying amounts of other financial assets and liabilities.

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2018:

	Total	**Level 1**	**Level 2**	**Level 3**
	€000	**€000**	**€000**	**€000**
Assets measured at fair value:				
Financial assets at fair value through profit and loss	75	-	-	75
Total	**75**	**-**	**-**	**75**

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2017:

	Total	**Level 1**	**Level 2**	**Level 3**
	€000	**€000**	**€000**	**€000**
Assets measured at fair value:				
Financial assets at fair value through profit and loss	75	-	-	75
Total	**75**	**-**	**-**	**75**

14 Inventories

Accounting principles

Inventories are valued at the lower of cost and net realisable value. Purchase, transport and processing costs incurred in bringing each product to its present location and condition are included in inventory costs. The costs of finished goods and work-in-progress include direct materials and labour and allocable proportion of production and overheads based on the normal operating capacity, but excluding borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Inventories are shown net of a provision for obsolete and slow-moving inventories. A provision is established and a corresponding charge is taken to profit and loss in the period in which the loss occurs, when obsolescence and related factors are assessed.

Significant management estimates and judgments

The Group policy maintains a provision for slow-moving and obsolete inventory based on the best estimate of such amounts at the balance sheet date. The estimates are made in consideration of the composition and age of the inventory compared to anticipated future needs. Given the typically short turnover times, typically only minor allowances are considered necessary.

	2018	Restated 2017
	€000	€000
Raw materials (at cost)	79 455	38 697
Work in process (at cost)	11 560	11 150
Finished goods (at cost or net realisable value)	2 951	54 648
Total inventories at the lower of cost and net realisable value	**93 966**	**104 496**

15 Issued capital and reserves

	Number of shares	Issued capital	Share premium	Funds invested for unrestricted equity	Other capital reserves	Total
		€000	€000	€000	€000	€000
At 1 January 2017	**106 518**	**10 932**	**1 704**	**60 791**	**5 382**	**78 809**
Share issue	30 369	-	-	29 686	-	**29 686**
Distribution of reserves				-634		**-634**
At 31 December 2017	**136 887**	**10 932**	**1 704**	**89 843**	**5 382**	**107 861**
At 31 December 2018	**136 887**	**10 932**	**1 704**	**89 843**	**5 382**	**107 861**

The Group holds 5 288 own shares. Other capital reserves consist of Valmet Automotive Oy restricted reserves.

16 Finance leases

Accounting principles

Leases for property, plant and equipment, where the Group is the lessee and has substantially all risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset or over the lease period, if shorter. Each lease payment is allocated between repayment of the lease liability and finance charges, in such a way that a constant interest rate on the outstanding balance is achieved. Lease obligations, net of finance charges, are included in interest bearing liabilities, divided to short-term and long-term liabilities, as appropriate. Interest element is charged to profit and loss over the lease period.

Accounting for leases will change as the new IFRS 16 will become effective 1.1.2019. Refer to Note 1.3.

Obligations under finance lease contracts are presented in the table below.

	2018	2017
	€000	**€000**
Gross finance lease liabilities		
Within one year	3 577	2 964
After one year but no more than five years	8 913	9 196
Total	12 490	12 161
Future finance charges on finance leases	-843	-548
Present value of finance lease liabilities	**11 647**	**11 612**

The present value of finance lease liabilities is as follows:

	2018	2017
	€000	**€000**
Within one year	3 339	2 734
After one year but no more than five years	8 308	8 879
Total	**11 647**	**11 612**

17 Provisions

Accounting principles

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources is required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions, for which settlement is expected to occur more than one year after the initial recognition, are discounted to their present value and adjusted in subsequent closings for the time effect.

A provision for restructuring costs is recognized only after management has developed and approved a detailed plan and started the implementation of the plan or communicated the plan. Employee termination benefits are recognized after the representatives of employees or individual employees have been informed of the intended measures in detail and the related compensation packages can be reliably measured. Restructuring costs are booked to the expense group to which they by nature belong, e.g., termination payments are booked in personnel expenses.

Provisions for warranties cover the estimated costs to repair or replace products still under warranty on the balance sheet date. The Group provides warranty usually for 3 to 5 years, in line with the industry practice. Provision for warranty is calculated based on historical experience. A liability is recognized at the time the product is sold.

Provisions for loss-making contracts are recognized in the period in which they are determined.

Provisions for onerous lease contracts are recognized when it becomes probable that the contracts cannot be renegotiated, or when income for sub-leased space is below the lease payments.

Significant management estimates and judgments

Provision amounts to be recorded are based on management judgement and are the best estimate of the cost required to settle the obligations at the reporting date. Provisions are reviewed on a regular basis, and when necessary, adjusted to reflect the current best estimate. The actual costs may differ from the estimated costs.

The most significant provisions based on estimates are warranty provisions. Warranty provisions include estimated costs for repair work during warranty periods.

	Warranty provision	**Restructuring provision**	**Loss contracts**	**Onerous lease contracts**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
At 1 January 2017	**5 318**	**69**	**0**	**0**	**5 387**
Business combinations	0	136	204	257	**597**
Arising during the year	3 040	4 785	1 205	847	**9 877**
Utilised	-1 706	-401	-204	-257	**-2 568**
FX rate	161	-	-		**161**
At 31 December 2017	**6 813**	**4 589**	**1 205**	**847**	**13 454**
Arising during the year	2 738	218	0	6	**2 962**
Utilised	-1 313	-3 435	-157	-331	**-5 237**
Released	-917	-315	-669	-476	**-2 377**
FX rate	-111	-3	0	0	**-114**
At 31 December 2018	**7 210**	**1 054**	**379**	**46**	**8 687**
Current	2 975	1 013	379	38	**4 405**
Non-current	4 234	41	0	8	**4 282**

18 Pension and other defined benefit plans

Accounting principles

Pension plans are classified as defined contribution and defined benefit plans. Under a defined contribution scheme, the Group makes payments to separate units. The Group has no legal or constructive obligation to make further payments if the payment recipient does not have sufficient assets to pay the post-employment benefits. All arrangements not meeting these conditions are defined benefit schemes.

Most schemes, including the Finnish TyEL scheme, are defined contribution plans where the Group makes payments to separate entities managing the assets. Payments made to defined contribution pension schemes are recorded through profit or loss in the accounting period the charge applies to.

The defined benefit plan pension cost is determined by external actuaries who analyse the plan applying the projected unit credit method. The cost of providing any defined retirement benefits is charged to profit and loss concurrently with the service rendered by the personnel. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized through OCI into shareholders' equity in the period in which they arise. Past service costs are recognized immediately in income statement. The liability of defined benefit pension plan is the present value of the defined benefit obligation less the fair value of plan assets.

In Finland, employees earn an additional benefit after a certain number of service years is completed, following the rules of the long-service benefit plan. The cost of providing the long-service benefits is charged to profit and loss concurrently with the service rendered by the personnel. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the income statement.

Significant management estimates and judgments

Defined benefit pension plan cost is determined from the advice of qualified actuaries who carry out valuation of the plan annually, calculating the obligation, using several assumptions such as the discount rate and expected return on assets, salary and pension increases and other actuarial factors. Many of these assumptions require also management judgment. As a result, the liability recorded on the balance sheet and cash contributions to funded arrangements are sensitive to changes.

Long-service benefit plan, in which the benefits are based on the promised amount of money after ten-year service time, require management judgment of the total number of people employed, and the turnover of the personnel.

18.1 Summary of defined benefit plans

Defined benefit obligations relate to a benefit granted to long-service employees in Finland, and voluntary defined benefit pension plans in Germany and Finland. The defined pension plans are closed for new members. A summary of the net plan assets and liabilities is presented below.

Net employee defined benefit assets	**2018**	**2017**
	€000	**€000**
Defined pension plan	550	-
Total	**550**	**-**

Net employee defined benefit liabilities	**2018**	**2017**
	€000	**€000**
Long service benefit plan	3 140	4 953
Defined pension plan	7 405	7 650
Total	**10 545**	**12 603**

18.2 Long-service benefit plan

In Finland, employees earn an additional benefit after a certain number of service years is completed, following the rules of the long-service benefit plan. The cost of providing the long-service benefits is charged to profit and loss concurrently with the service rendered by the personnel. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the income statement. The employer has promised a certain amount of benefit after given years of service time according to the rules of the long-service benefit plan. The benefits are based on the promised amount of money after ten year service time. The promised benefit increases when the employment has lasted 15, 20 and 25 years. Benefit payments continue until retirement or resignation and are paid to the employees once a year or monthly.

	2018	**2017**
	€000	**€000**
1 January	**4 953**	**4 727**
Service cost	594	272
Net interest	30	18
Curtailments	-2	-9
Actuarial changes arising from changes in financial assumptions	-1 379	457
Experience adjustments	0	-
Other changes	-403	44
Sub-total included in profit or loss	**-1 160**	**782**
Contributions	-653	-556
31 December	**3 140**	**4 953**

The discount rate has been determined using iBoxx Corporate indices. The estimated duration of the benefit obligation has been taken into consideration. The discount rate was 1.0% and 0.8% for the years ended 31 December 2018 and 2017, respectively.

18.3 Defined pension benefit plans

Defined pension plan, Finland

The voluntary plan's benefits are based on a certain level of benefit after retirement to a defined group of employees within the plan. In addition to statutory benefit, the employer has arranged a voluntary plan in an insurance company to fulfil its promise. The promised benefit is a defined percentage of the base salary, which is an average of ten last year's salaries, indexed with common salary index to the current year. The benefits of this plan are old age, disability and survivor's benefits, topping the statutory benefits. The pension plan premiums are calculated so that the promised old age benefit will be fully funded by the retirement age to purchase an annuity pension. The employer funding risk ceases at retirement. After retirement the payable benefits are indexed yearly with insurance company index.

	2018			2017		
	Defined benefit obligation	Fair value of plan assets	**Benefit liability**	Defined benefit obligation	Fair value of plan assets	**Benefit liability**
1 January	1 827	-1 565	**263**	1 523	-1 111	**413**
Current service cost	103		**103**	109		**109**
Past service cost			**-**			**-**
Net interest	27	-25	**2**	20	-15	**5**
Sub-total included in profit or loss	**130**	**-25**	**105**	**129**	**-15**	**114**
Actuarial changes arising from changes in financial assumptions	-11	-17	**-28**	-10	-189	**-199**
Experience adjustments	-234		**-234**	185		**185**
Sub-total included in OCI	**-245**	**-17**	**-262**	**175**	**-189**	**-15**
Benefits paid	-672	672	**-**	-	-	**-**
Contributions	-	-656	**-656**	-	-250	**-250**
31 December	**1 040**	**-1 591**	**-550**	**1 827**	**-1 565**	**263**

The discount rate has been determined using iBoxx Corporate indices. The estimated duration of the benefit obligation has been taken into consideration. The main assumptions are described in the table below.

	2018	**2017**
	%	%
Discount rate	1,6	1,5
Future salary increases	1,7	1,7
Future pension increases	0,0	1,6

A sensitivity analysis for assumptions as at 31 December 2018 was performed. The impact of changes in the discount rate is shown below:

	Discount rate	
	+0,50%	**-0,50%**
	€000	**€000**
Impact on defined benefit obligation	-49	54
Impact on fair value of plan assets	-47	67
Net liability	-2	13
Service cost (reduction -, increase +)	-1	1

Defined pension plans, Germany

Engineering Germany has granted defined benefit plans to some of its employees. The voluntary plans' benefits are based on a certain level of benefit after retirement to an employee or a defined group of employees within the plans. For many years these plans have been closed for new participants. The liabilities have been calculated by an actuary. The assets of the plans are in the form of liability insurance policies, which are partly pledged. The interest rate for 2018 relating to these policies amounted to 0.3%.

	2018			2017		
	Defined benefit obligation	Fair value of plan assets	**Benefit liability**	Defined benefit obligation	Fair value of plan assets	**Benefit liability**
1 January	9 165	-1 779	**7 387**			
Business combination	-	-	-	10 191	-1 761	**8 430**
Current service cost	201	-	**201**	97		**97**
Past service cost	-	-	-	-	-	-
Net interest	174	-30	**144**	196	-34	**163**
Sub-total included in profit or loss	**375**	**-30**	**345**	**293**	**-34**	**260**
Actuarial changes arising from changes in demographic assumptions	183	-	**183**	-	-	-
Actuarial changes arising from changes in financial assumptions	-	-	-	-	-	**-**
Experience adjustments	-146		**-146**	-927	-	**-927**
Sub-total included in OCI	**37**	**0**	**37**	**-927**	**-**	**-927**
Benefits paid	-405	42	**-363**	-393	16	**-377**
Contributions	-	-	**0**	-	-	**-**
31 December	**9 172**	**-1 767**	**7 406**	**9 165**	**-1 779**	**7 387**

The main assumptions are described in the table below.

	2018	**2017**
	%	%
Discount rate	1,90	1,95
Future salary increases	3,00	3,00
Future pension increases	1,50	1,50

A sensitivity analysis for assumptions as at 31 December 2018 was performed. The impact of changes in the discount rate is shown below:

	Discount rate	
	+0,50%	**-0,50%**
	€000	**€000**
Impact on defined benefit obligation	-586	652
Service cost (reduction -, increase +)	-8	9

19 Commitments and contingencies

There are no commitments or contingent liabilities recorded in the accounts.

The Group has common fixed price supply agreements for electricity and other supplies, which do not require recognition in the accounts.

19.1 Operating lease commitments

Accounting principles

Leases of property, plant and equipment, where the Group is a lessee and the lessor retains a significant portion of the risks and rewards, are classified as operating leases. Payments under operating leases are expensed as incurred.

The Group companies have operating leases for offices, manufacturing and warehouse facilities, batteries, company cars and IT equipment and software. Some contracts contain renewal options for various periods of time.

In certain cases, the Group rents out property as lessor under operating leases. Such leases are mainly concluded with subcontractors serving the Group operations, or to earn income on temporarily idle owned or leased spaces.

The new IFRS 16, Leases, will change the treatment of operating leases in 2019.

As of 31 December, future rentals payable under non-cancellable operating leases, where the Group is a lessee, are as follows:

	2018	**2017**
	€000	**€000**
Within one year	5 757	5 801
After one year but no more than five years	10 393	13 989
More than five years	2 798	3 792
	18 948	**23 583**

The Group's finance lease obligations are detailed in Note 16.

19.2 Other commitments

	2018	**2017**
	€000	**€000**
Mortgages and pledges	1 832	1 894
Guarantees	1 473	3 230
Other commitments	4 869	-
Total	**8 174**	**5 124**

Additionally, the Group has guaranteed the employees of Valmet Automotive GmbH a redundancy program, in case they are laid off for financial reasons. This guarantee is valid until 31 December, 2020.

20 Related party transactions

Accounting principles

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, a person or entity, regardless of whether a price is charged.

Intragroup related party transactions and outstanding balances are eliminated in the consolidated financial statements.

Transactions

The Group's transactions with related parties are detailed below. Receivables from related parties also shown.

		Revenue	Receivables	Purchases	Payables
		€000	€000	€000	€000
Key management personnel of the group	31.12.2018			41	-
	31.12.2017			70	-
Entity with significant influence over the group	31.12.2018	5 316	5 183	26	-
	31.12.2017	-	-	-	-

Key management compensation

The key management includes the Board of Directors and the Group Management Board. The remuneration paid or payable based on the work performed consists of the following:

	2018	2017
	€000	€000
Salaries and other short-term employee benefits	-2 523	-1 600
Termination benefits	-120	-
Total compensation to key management personnel	**-2 643**	**-1 600**

The composition of the Group Management Board has changed during 2018 and 2017. The remuneration to the Group Management Board members includes the period during which they were board members.

The Board of Directors' compensation amounted to 290 kEUR in 2018 and 297 kEUR in 2017, respectively.

21 Events after the reporting period

On February 28, 2019, Valmet Automotive announced that it is planning to launch large scale production of battery packs in Salo, Finland. The Group is actively expanding its operations and service offering in electric mobility solutions, based on the company strategy. The Salo plant is intended as a major step in strategy implementation, producing large volumes of battery packs for the needs of automotive industry.

Financial statements of the parent company (FAS)

INCOME STATEMENT	1.1.-31.12.2018	1.1.-31.12.2017
	EUR	*EUR*
NET SALES	**517 088 735,47**	**396 740 478,38**
Change in inventories of finished goods and in work in progress	-5 171 810,84	8 595 161,40
Other operating income	5 120 818,60	2 205 578,72
Materials and services	-231 068 705,20	-195 846 105,20
Personnel expenses	-161 660 780,09	-126 736 110,72
Depreciation and write-downs	-32 514 475,93	-34 793 148,06
Other operating expenses	-70 157 453,32	-55 123 962,64
OPERATING PROFIT (LOSS)	**21 636 328,69**	**-4 958 108,12**
Financing income and expenses	-657 174,10	-18 040 651,49
PROFIT (LOSS) BEFORE TAXES	**20 979 154,59**	**-22 998 759,61**
Change in depreciation difference	0,00	292 285,23
Change in deferred taxes	-2 919 974,18	340 631,58
Income taxes	-2 399 924,10	-159 851,47
NET INCOME (LOSS)	**15 659 256,31**	**-22 525 694,27**

BALANCE SHEET

ASSETS	31.12.2018	31.12.2017
FIXED ASSETS		
Intangible assets		
Intangible assets	572 153,31	937 493,23
Other capitalized long term expenditure	7 201 755,07	2 298 551,63
Assets under construction	3 276 294,58	4 511 007,68
Intangible assets total	**11 050 202,96**	**7 747 052,54**
Tangible assets		
Land and water areas	4 759 290,81	4 759 290,81
Buildings	42 640 246,44	28 107 377,20
Machinery and equipment	145 242 875,61	89 438 414,05
Other tangible assets	1 177 857,15	117 056,02
Assets under construction	6 211 822,08	44 083 778,90
Tangible assets total	**200 032 092,09**	**166 505 916,98**
Investments		
Shares in group companies	30 792 278,29	23 788 925,49
Other shares and participations	74 532,75	73 911,75
Investments total	**30 866 811,04**	**23 862 837,24**
TOTAL FIXED ASSETS	**241 949 106,09**	**198 115 806,76**
CURRENT ASSETS		
Inventories		
Materials and supplies	72 765 822,15	31 283 169,61
Work in progress	9 895 439,01	9 674 003,81
Finished products	1 937 878,01	53 611 952,11
Inventories total	**84 599 139,17**	**94 569 125,53**
Long-term receivables		
Loan receivables from group companies	25 500 000,00	19 000 000,00
Pension plan receivables	550 387,00	0,00
Deferred tax asset	2 935 701,70	5 855 675,88
Long-term receivables total	**28 986 088,70**	**24 855 675,88**
Short-term receivables		
Accounts receivable	96 327 178,08	62 231 886,65
Receivables from group companies	3 443 401,33	762 384,35
Other receivables	4 099 852,63	11 081 338,81
Accruals	1 448 089,05	1 122 818,79
Short-term receivables total	**105 318 521,09**	**75 198 428,60**
Short-term investments		
Financial investments	0,00	40 005 913,26
Short-term investments total	**0,00**	**40 005 913,26**
Bank and cash	**14 768 336,03**	**10 917 592,16**
TOTAL CURRENT ASSETS	**233 672 084,99**	**245 546 735,43**
TOTAL ASSETS	**475 621 191,08**	**443 662 542,19**

SHAREHOLDERS' EQUITY AND LIABILITIES	31.12.2018	31.12.2017
SHAREHOLDERS' EQUITY		
Share capital	10 932 215,22	10 932 215,22
Share premium reserve	1 704 135,55	1 704 135,55
Revaluation reserve	5 382 013,65	5 382 013,65
Invested non-restricted equity fund	90 252 723,18	90 252 723,18
Retained earnings	-78 635 387,06	-56 109 692,79
Net income for the year	15 659 256,31	-22 525 694,27
TOTAL SHAREHOLDERS' EQUITY	**45 294 956,85**	**29 635 700,54**
PROVISIONS		
Other provisions	6 789 079,30	8 118 616,66
TOTAL PROVISIONS	**6 789 079,30**	**8 118 616,66**
LIABILITIES		
Long-term liabilities		
Loans from financial institutions	7 500 000,01	9 166 666,67
Deferred tax liability	1 345 503,41	1 345 503,41
Long-term liabilities total	**8 845 503,42**	**10 512 170,08**
Short-term liabilities		
S-T loans from financial institutions	1 666 666,66	833 333,33
Advances received	108 721 378,86	124 423 883,11
Trade payables	119 960 659,55	140 025 169,02
Liabilities to group companies	9 175 245,95	536 860,19
Other expenses	3 661 853,50	2 874 695,00
Accrued expenses	171 505 846,99	126 702 114,26
Short-term liabilities total	**414 691 651,51**	**395 396 054,91**
LIABILITIES TOTAL	**423 537 154,93**	**405 908 224,99**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**475 621 191,08**	**443 662 542,19**

CASH FLOW STATEMENT	1.1.-31.12.2018	1.1.-31.12.2017
OPERATING PROFIT (LOSS)	**21 636 329**	**-4 958 108**
Adjustments		
Depreciation and write-downs	32 514 476	34 500 863
Other non-cash adjustments	-24 739 082	-27 252 337
Adjustments total	**7 775 394**	**7 248 526**
Change in net working capital		
Inventory, increase (-) / decrease (+)	9 969 986	-73 297 378
Short term receivables, increase (-) / decrease (+)	-29 674 335	-44 617 625
Short term liabilities, increase (+) / decrease (-)	28 975 071	157 568 931
Change in net working capital total	**9 270 722**	**39 653 928**
Financing income and expenses, taxes		
Financing income and expenses, taxes	-1 681 185	-1 968 400
Financing income and expenses and taxes, net	**-1 681 185**	**-1 968 400**
OPERATING CASH FLOW	**37 001 260**	**39 975 946**
Investments		
Acquisitions of fixed assets, net	-69 343 801	-71 221 680
Fixed assets sales	0	200 000
Shares and participations, net	-7 003 353	-17 603 000
Advances received, investments	10 524 058	55 720 667
Investments, net	**-65 823 096**	**-32 904 013**
CASH FLOW BEFORE FINANCING ACTIVITIES	**-28 821 836**	**7 071 933**
Financing activities		
Distribution of reserves	0	-634 000
Increase (-) / decrease (+) in L-T loans	-1 666 667	9 166 667
Increase (-) / decrease (+) in S-T loans	833 333	-10 209 126
Share issue	0	30 000 000
Increase (+) / decrease (-) in other receivables	-6 500 000	-13 000 000
Net cash from financing activities	**-7 333 333**	**15 323 541**
CASH FLOW AFTER FINANCING ACTIVITIES	**-36 155 169**	**22 395 474**
Cash and cash equivalents at beginning of year	50 923 505	28 528 031
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**14 768 336**	**50 923 505**

Notes to the parent company financial statements (FAS)

1. Accounting principles

Basis of preparation

The domicile of the parent company is Uusikaupunki, Finland. The parent company financial statements have been prepared in accordance with the Finnish Accounting Standards (FAS).

Foreign currency translation

Receivables and payables in foreign currency are converted into Euros at the exchange rates of the European Central Bank for the balance sheet date. Exchange gains and losses related to fixed assets are treated as adjustments to the acquisition cost of fixed assets.

Fixed assets and depreciation

Fixed assets are mainly stated at original purchase prices. Depreciation and amortization are made on a straightline basis. The buildings and land areas include also revaluations.

Depreciation time according to expected useful lives of the assets:

Intangible assets	5 - 10 years
Improvements of land areas	10 years
Buildings and structures	20 years
Machinery and equipment	3 - 10 years

Inventories

Inventories are valued at the original purchase price or at the lower of cost or market. Indirect production costs are also included to the work in progress inventory value.

Receivables

Receivables are booked at nominal value or at their estimated realizable value.

Revenue recognition based on the percentage of completion

Revenue on long-term contracts is recognized based on the Percentage of Completion (POC) Method.
A project lasting more than one year is considered a long-term contract. Percentage of completion is calculated based on costs incurred to date in relation to total estimated project costs (cost-to-cost method).

Material purchases

Pass-through material for Mercedes-Benz manufacturing is handled completely in materials and services costs in the income statement; the pass-through sales price is booked as a correction to purchase cost. All the material is included in inventory and accounts payable and accounts receivable in the balance sheet.

2. Notes to the income statement

	2018	2017
Net sales	***EUR***	***EUR***
By Business line		
Vehicle Manufacturing	494 472 925,60	381 839 294,26
Engineering Services	22 403 099,13	14 515 024,12
Other sales (mostly intra-group sales)	212 710,74	386 160,00
Total net sales	**517 088 735,47**	**396 740 478,38**
By market area		
Finland	3 234 269,94	1 823 797,55
Germany	509 316 904,19	392 672 394,32
Others	4 537 561,34	2 244 286,51
Total net sales	**517 088 735,47**	**396 740 478,38**
Specification of net sales		
POC sales	11 496 932,80	9 961 323,96
Other sales	505 591 802,67	386 779 154,42
Total net sales	**517 088 735,47**	**396 740 478,38**

Other operating income

Royalties from group companies	519 710,33	591 046,80
Subsidies received	613 674,39	746 877,20
Other operating income	3 987 433,88	867 654,72
Total	**5 120 818,60**	**2 205 578,72**

Materials and services

Materials	208 429 367,11	162 811 703,14
External services	22 639 338,10	33 034 402,06
Total	**231 068 705,21**	**195 846 105,20**

Personnel expenses

Wages & Salaries	133 553 381,07	103 454 977,03
Pension insurances	21 398 247,20	17 723 996,92
Other indirect employee costs	6 709 151,82	5 557 136,77
Personnel expenses	**161 660 780,09**	**126 736 110,72**
The average number of personnel	3 641	2 693

Pension liabilities

The pension responsibility for personnel is covered by a pension insurance agreement with an external insurance company.

Depreciation and write-down of fixed assets	**2018** ***EUR***	**2017** ***EUR***
Intangible rights	300 842,31	1 077 893,50
Other capitalized long-term expenditure	1 107 199,03	1 336 724,45
Improvements of land areas	77 897,77	24 359,93
Buildings	1 717 994,68	1 156 137,69
Machinery and equipment	29 310 542,14	31 198 032,49
Total depreciation	**32 514 475,93**	**34 793 148,06**
Total depreciation and write-down	**32 514 475,93**	**34 793 148,06**

Other operating expenses

Facility, maintenance and operating cost	12 609 236,91	10 879 848,70
Research and development expenses	918 667,07	800 326,66
External services	13 895 663,87	10 633 997,17
ICT expenses	11 958 396,14	9 216 144,41
Machinery and equipment expenses and leases	18 824 245,50	14 359 514,85
Sales and marketing	321 913,86	180 969,60
Other operating expenses	11 629 329,97	9 053 161,25
Total	**70 157 453,32**	**55 123 962,64**

Services rendered by statutory auditors

Audit services	247 251,00	175 349,00
Tax advisory services	126 468,75	84 400,00
Other audit related services	24 415,54	94 588,50
Total	**398 135,29**	**354 337,50**

Financing income and expenses	**2018** *EUR*	**2017** *EUR*
Dividend income	4 905,00	54 284,00
Gains from foreign exchange	0,00	25 962,51
Interest income	535,86	16 622,55
Interest income from group companies	569 623,14	370 934,29
Financing income total	**575 064,00**	**467 803,35**
Loss from foreign exchange	251 041,62	0,00
Interest expenses	959 579,86	859 106,35
Other financing expenses	21 616,62	46 348,49
Financing expenses total	**1 232 238,10**	**905 454,84**
Write-down on investments in fixed assets	0,00	17 603 000,00
Financing income and expenses total	**-657 174,10**	**-18 040 651,49**

Write-down of investment in fixed assets of EUR 17,6 million relates to the value of investment in Valmet Automotive Engineering GmbH.

Income taxes

	2018	2017
Income taxes	-2 399 924,10	-159 851,47
Change in deferred taxes	-2 919 974,18	340 631,58
Income taxes total	**-5 319 898,28**	**180 780,11**

3. Notes on balance sheet

	2018	2017
Fixed assets	***EUR***	***EUR***
Intangible assets		
Intangible rights		
Historical purchase price 1.1	10 987 679,74	10 396 011,86
Increase	3 684,84	618 359,97
Decrease	-68 182,45	0,00
Reclassifications	0,00	-26 692,09
Total cost 31.12.	**10 923 182,13**	**10 987 679,74**
Accumulated depreciation 1.1	10 050 186,51	8 972 293,01
Depreciation of the accounting period	300 842,31	1 077 893,50
Accumulated depreciation 31.12.	**10 351 028,82**	**10 050 186,51**
Book value 31.12.	**572 153,31**	**937 493,23**
Other capitalised long-term expenditure		
Historical purchase price 1.1	13 305 677,31	13 973 850,48
Increase	2 852 216,91	67 353,17
Reclassifications	3 158 185,56	-735 526,34
Total cost 31.12.	**19 316 079,78**	**13 305 677,31**
Accumulated depreciation 1.1	11 007 125,68	9 670 401,23
Depreciation of the accounting period	1 107 199,03	1 336 724,45
Accumulated depreciation 31.12.	**12 114 324,71**	**11 007 125,68**
Book value 31.12.	**7 201 755,07**	**2 298 551,63**
Assets under construction		
Historical purchase price 1.1	4 511 007,68	0,00
Increase	1 923 472,46	3 748 789,25
Reclassifications	-3 158 185,56	762 218,43
Total cost 31.12.	**3 276 294,58**	**4 511 007,68**
Book value 31.12.	**3 276 294,58**	**4 511 007,68**

Tangible assets	**2018** *EUR*	**2017** *EUR*
Land- and water areas		
Historical purchase price 1.1	4 591 102,88	4 591 102,88
Total cost 31.12.	**4 591 102,88**	**4 591 102,88**
Accumulated depreciation/ revaluation 1.1.	168 187,93	168 187,93
Accumulated depreciation 31.12.	**168 187,93**	**168 187,93**
Book value 31.12	**4 759 290,81**	**4 759 290,81**
Buildings and constructions		
Historical purchase price 1.1	69 555 489,87	59 604 342,72
Increase	12 883 319,27	9 951 147,15
Reclassifications	3 367 544,65	0,00
Total cost 31.12.	**85 806 353,79**	**69 555 489,87**
Revaluation 1.1	6 559 329,13	6 559 329,13
Revaluation 31.12.	**6 559 329,13**	**6 559 329,13**
Accumulated depreciation 1.1	48 007 441,80	46 851 304,11
Depreciation of the accounting period	1 717 994,68	1 156 137,69
Accumulated depreciation 31.12.	**49 725 436,48**	**48 007 441,80**
Book value 31.12.	**42 640 246,44**	**28 107 377,20**

Machinery and equipment	2018 EUR	2017 EUR
Historical purchase price 1.1	266 560 518,22	189 125 527,30
Increase	47 008 236,49	77 434 990,92
Reclassifications	38 106 767,21	0,00
Total cost 31.12.	**351 675 521,92**	**266 560 518,22**
Accumulated depreciation and write-downs 1.1.	177 122 104,17	145 924 071,68
Depreciation of the accounting period	29 310 542,14	31 198 032,49
Accumulated depreciation 31.12.	**206 432 646,31**	**177 122 104,17**
Book value 31.12	**145 242 875,61**	**89 438 414,05**

Other tangible assets

Historical purchase price 1.1	3 009 530,14	3 009 530,14
Increase	351 802,36	0,00
Reclassifications	786 896,54	0,00
Total cost 31.12.	**4 148 229,04**	**3 009 530,14**
Accumulated depreciation 1.1	2 892 474,12	2 868 114,19
Depreciation of the accounting period	77 897,77	24 359,93
Accumulated depreciation 31.12.	**2 970 371,89**	**2 892 474,12**
Book value 31.12.	**1 177 857,15**	**117 056,02**

Assets under construction

Historical purchase price 1.1	44 083 778,90	64 682 739,73
Increase	4 389 251,58	40 226 974,24
Reclassifications	-42 261 208,40	-60 825 935,07
Total cost 31.12.	**6 211 822,08**	**44 083 778,90**
Book value 31.12.	**6 211 822,08**	**44 083 778,90**

Shares and participations	Share-%	2018 EUR	2017 EUR
Group companies			
Valmet Automotive GmbH	100	14 200 000,00	14 200 000,00
Valmet Automotive Engineering GmbH	100	7 000 000,00	0,00
Valmet Automotive EV Oy	100	3 352,80	0,00
Valmet Automotive Sp. z o.o.	100	9 588 925,49	9 588 925,49
Total Group companies		**30 792 278,29**	**23 788 925,49**
Associated companies			
Kiint. Oy Pietolankatu 13,U:ki	40	0,17	0,17
V-A Group's share of shareholder's equity 58.193,41 EUR			
Other shareholdings total		74 532,75	73 911,75
Total		**30 866 811,04**	**23 862 837,24**

	2018	2017
	EUR	***EUR***
Accounts receivables	**96 327 178,08**	**62 231 886,65**
Other short-term receivables		
Tax receivables	3 708 584,74	10 880 624,83
Other receivables	391 267,89	200 713,98
Total	**4 099 852,63**	**11 081 338,81**
Accrued income and prepaid expenses		
Accrued sales revenue	1 015 001,80	1 122 818,79
Other prepaid expenses	433 087,25	0,00
Total	**1 448 089,05**	**1 122 818,79**
Receivables from group companies		
Short-term receivables	0,00	0,00
Accounts receivables	217 753,98	509 967,87
Accrued income	3 225 647,35	252 416,48
Total	**3 443 401,33**	**762 384,35**

Shareholders' equity	2018 EUR	2017 EUR
Equity		
Shareholders' equity 1.1.	10 932 215,22	10 932 215,22
Shareholders' equity 31.12.	10 932 215,22	10 932 215,22
Additional paid-in capital 1.1.	1 704 135,55	1 704 135,55
Additional paid-in capital 31.12.	1 704 135,55	1 704 135,55
Revaluation reserve 1.1.	5 382 013,65	5 382 013,65
Revaluation reserve 31.12.	5 382 013,65	5 382 013,65
Total equity	**18 018 364,42**	**18 018 364,42**
Free equity		
Reserve of invested non-restricted equity 1.1.	90 252 723,18	60 886 723,18
Distribution of reserves	0,00	-634 000,00
Increase	0,00	30 000 000,00
Reserve of invested non-restricted equity 31.12.	90 252 723,18	90 252 723,18
Retained earnings 1.1.	-78 635 387,06	-56 124 300,79
Defined benefit plan changes	0,00	14 608,00
Retained earnings 31.12.	-78 635 387,06	-56 109 692,79
Net income for the year	15 659 256,31	-22 525 694,27
Total free equity	**27 276 592,43**	**11 617 336,12**
Total shareholders' equity	**45 294 956,85**	**29 635 700,54**
Provisions		
Provision for restructuring, personnel	139 321,58	15 156,32
Long-service benefit and defined pension plans	3 140 014,00	5 215 147,00
Warranty reserves	3 509 743,72	2 888 313,34
Total	**6 789 079,30**	**8 118 616,66**

Advances received	**2018** ***EUR***	**2017** ***EUR***
Advances received, POC projects	0,00	2 177 515,12
Other advances	108 721 378,86	122 246 367,99
Total	**108 721 378,86**	**124 423 883,11**

Specification of accrued income, combined asset and liability amounts

Long-term contracts, combined amounts		
Accrued receivables related to POC revenues	0,00	-7 658 680,88
Advances received from customers	0,00	9 836 196,00
Project receivables on the balance sheet, current assets	**0,00**	**2 177 515,12**

Liabilities to group companies

Short-term liabilities		
Accounts payable	1 308 448,78	536 860,19
Other short-term liabilities	7 866 797,17	0,00
Total	**9 175 245,95**	**536 860,19**

Other short-term liabilities

Withholding taxes and social security expenses	2 477 514,24	2 358 501,27
Other short-term liabilities	1 184 339,26	516 193,73
Total	**3 661 853,50**	**2 874 695,00**

Accruals

Wages and salaries including social security expenses	23 455 324,17	21 005 977,35
Accrual on manufacturing materials	125 678 564,11	66 811 754,12
Other accruals	22 371 958,71	38 884 382,79
Total	**171 505 846,99**	**126 702 114,26**

4. Other notes

	2018	2017
Revenue recognition on long-term contracts based on POC	***EUR***	***EUR***
POC revenue booked on long-term contracts not yet delivered to customers, total amount booked in the financial year and in earlier financial years, as of 31.12.	**0,00**	**7 658 702,00**
Not recognized as revenue 31.12.(order backlog)	**0,00**	**10 601 298,00**
Deferred taxes		
Deferred tax liabilities		
Revaluations of fixed assets	1 345 503,41	1 345 503,41
Total	**1 345 503,41**	**1 345 503,41**
Deferred tax asset		
Fixed assets (depreciation)	1 687 963,24	3 511 891,44
Accruals	1 247 738,46	1 623 723,33
From tax losses	0,00	720 061,11
Total	**2 935 701,70**	**5 855 675,88**
Total deferred taxes	**1 590 198,29**	**4 510 172,47**
Mortgages and lease contracts		
Lease contracts (VAT 0%)		
Year 2019, due in < 12 months	5 256 363,06	3 988 750,34
Year 2020, due in 12-24 months	5 036 357,75	3 410 935,47
Year 2021, due in 24-36 months	4 784 700,53	3 099 684,68
After year 2022, due in 36 months and later	3 746 531,12	3 707 950,67
Total	**18 823 952,46**	**14 207 321,16**
Other mortgages and pledges		
Mortgages and pledges	1 831 878,00	1 894 076,40
Other guarantees on behalf of group companies*	1 472 613,64	3 230 174,88
Total	**3 304 491,64**	**5 124 251,28**

*Additionally Valmet Automotive Inc. has guaranteed the employees of the German subsidiary a replacement programme, in case they are laid off for financial reasons. The guarantee is valid until 31.12.2020.

Signatures for Board of Directors' report and financial statements

Vantaa, 27.3.2019

Jarkko Sairanen Chairman	Timo Kokkila Member
Hans-Joachim Schöpf Member	Ulrich Hackenberg Member
Philip-Christian Eller Member	Kari Heinistö Member
Olaf Bongwald Chief Executive Officer	

The Auditor's report has been given today

Ernst & Young Oy
Authorized Public Accountant Firm

Place, date

EY
Building a better working world

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AUDITOR'S REPORT (Translation of the Finnish original)

To the Annual General Meeting of Valmet Automotive Oy

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Valmet Automotive Oy (business identity code 0143991-2) for the year ended 31 December, 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- The consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

- The financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of Financial Statements

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

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

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

Other Reporting Requirements

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.

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 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. 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, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Vantaa 27.3.2019

Ernst & Young Oy
Authorized Public Accountant Firm

MIKKO RYTILAHTI
Mikko Rytilahti
Authorized Public Accountant