

Digia Plc
Half Year Financial Report
9 August 2019 at 8:00 am

Digia Plc's Half Year Financial Report 2019

Profitable growth continues – net sales grew by 16% and operating profit improved by 37.5% in the first half of the year

April-June 2019

- Net sales: EUR 32.8 (28.9) million, up 13.5 per cent
- Operating profit: EUR 2.9 (1.9) million, up 47.6 per cent; 8.8 (6.7) per cent of net sales
- Earnings per share: EUR 0.08 (0.06)

January-June 2019

- Net sales: EUR 64.6 (55.7) million, up 16.0 per cent
- Operating profit: EUR 4.9 (3.5) million, up 37.5 per cent; 7.5 (6.3) per cent of net sales
- Earnings per share: EUR 0.14 (0.10)
- Return on investment: 14.8 (11.8) per cent
- Equity ratio: 49.8 (52.5) per cent
- Acquisition of Starcut Oy, which specialises in mobile apps and cloud services
- Profit guidance for 2019 remains unchanged: Digia's net sales will continue to grow and operating profit will improve compared to 2018.

After the end of the review period, Digia acquired the entire share capital of Accountor Enterprise Solutions Oy (AES) in a transaction that was carried out on 1 August 2019. AES specialises in Microsoft Dynamics 365 and Oracle NetSuite solutions. AES posted net sales of EUR 12.7 million in 2018 and the company had 101 employees at the end of the year.

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

GROUP KEY FIGURES

EUR 1,000	4-6/ 2019	4-6/ 2018	Change %	1-6/ 2019	1-6/ 2018	Change %	2018
Net sales	32,750	28,860	13.5%	64,648	55,741	16.0%	112,122
Operating profit	2,867	1,943	47.6%	4,856	3,531	37.5%	6,494
- as a % of net sales	8.8%	6.7%		7.5%	6.3%		5.8%
Result for the period	2,244	1,490	50.5%	3,733	2,593	44.0%	4,704
- as a % of net sales	6.9%	5.2%		5.8%	4.7%		4.2%
Return on equity, %				15.3%	11.6%		10.2%
Return on investment, %				14.8%	11.8%		10.6%
Cash flow from operations				8,374	-1,186		3,602
Interest-bearing net liabilities				16,762	14,337	16.9%	12,707
Gearing, %				33.8%	31.4%		26.6%
Equity ratio, %				49.8%	52.5%		54.9%
Number of personnel at period-end				1,144	1,074	6.5%	1,091

EUR 1,000	4-6/ 2019	4-6/ 2018	Change %	1-6/ 2019	1-6/ 2018	Change %	2018
Average personnel	1,135	1,072	5.8%	1,124	1,054	6.7%	1,069
Shareholders' equity				49,651	45,627	8.8%	47,782
Balance sheet total				100,394	87,315	15.0%	88,104
Earnings per share	0.08	0.06	51.1%	0.14	0.10	44.5%	0.18

Digia has adopted IFRS 16 Leases retrospectively as from 1 January 2019; comparative information has not been restated, but the impacts of the adoption of IFRS 16 have been recorded as adjustments in the opening balance sheet for 2019. The adoption of IFRS 16 has impacted, for instance, on certain key figures calculated from the balance sheet and the cash flow statement. IFRS 16 does not have a material impact on the operating profit or result for the review period.

PRESIDENT & CEO TIMO LEVORANTA:

“Digia’s net sales growth continued in the second quarter in line with our expectations. Second-quarter net sales amounted to EUR 32.8 (28.9) million, year-on-year growth of 13.5 per cent. First-half net sales increased by 16.0 per cent year-on-year to EUR 64.6 (55.7) million. Organic growth in the second quarter amounted to 8.0 per cent and in the first half to 8.9 per cent. After the end of the review period, we acquired the entire share capital of Accountor Enterprise Solutions Oy (AES) on 1 August 2019. AES specialises in Microsoft Dynamics 365 and Oracle NetSuite solutions. AES posted net sales of EUR 12.7 million in 2018 and the company had 101 employees at the end of the year.

Our profitability continued to improve. Operating profit was EUR 2.9 (1.9) million in the second quarter and EUR 4.9 (3.5) million in January-June. Operating profit was 8.8 (6.7) per cent of net sales in the second quarter and 7.5 (6.3) per cent in January-June. Our profitability has been improved by our determined efforts to develop our service offering, organisation and operating methods. I am especially pleased that, as our customer projects move into the maintenance phase, we can offer our customers an even wider range of services for the continuous development of the solutions we provide and expansion of customer cooperation. We have substantially bolstered our ability to serve as an end-to-end solution provider to our customers in recent years. With respect to the first part of the year, I am also pleased that our cash flow from operations improved to EUR 8.4 (-1.2) million.

Net sales in the review period were increased especially by good demand for online business, integrations and software interface (API) services as well as for Microsoft ERP systems and business analytics. Data utilisation is playing a greater role in business, boosting demand for analytics, integrations and core business systems. In networked business, the seamless compatibility of systems and service packages is vital. The organisational change we implemented in the first months of the review period and the development of our operating models bolstered our ability to implement such end-to-end solutions. In line with plans, we have harnessed the expertise of Starcut Oy, a specialist in mobile app development and cloud services that we acquired in the first quarter, and demand for these services has been as strong as expected.

Demand in the financial sector has remained good. Changes in its operating environment create demand for technological solutions that enable new services and operating models as well as boost efficiency in the automation of functions. New technical solutions are also needed to respond to changing regulatory requirements.

The service and maintenance business grew by 13 per cent in January-June and accounted for 49.2 (50.4) per cent of net sales. In the service and maintenance business, we focused on both expertise and monitoring technologies. Development focused on creating a more comprehensive operational overview of customer environments and utilisation of data from them. By analysing data, we can anticipate the maintenance needs of platforms and systems even more effectively, for instance. The project business accounted for 50.8 (49.6) per cent of net sales.

Our R&D expenditure amounted to EUR 2.8 million during the review period. The most important development focuses were our ERP system, mobile communications and monitoring products.

Skilled personnel who are committed to the objectives of our customers are the cornerstone of all our operations. We want to be a team of top professionals who are always learning and are both highly skilled and flexible. During the review period, our number of personnel grew by 53 and was 1,124 on average. We proactively develop our culture and employee experience to provide our experts with the best possible framework to succeed in their work. During the review period, we put our heads together to define the four core principles of our culture: learning, sharing, courage and professional pride. Professional skill and passion for continuous learning are the basis on which we build our future. At the same time, we see our work as meaningful for society as a whole. At Digia, we believe in a world in which value is created in ecosystems through smart data management.”

PROFIT GUIDANCE FOR 2019

The profit guidance for 2019 remains unchanged: “Digia’s net sales will continue to grow and operating profit will improve compared to 2018.”

BRIEFING INVITATION

Digia will hold a briefing for analysts on Friday 9 August 2019 at 11 am at the Business Meeting Park, Helsinki (Forum, Mannerheimintie 20 B). Welcome.

The material and presentation for the event will be available from 11 am on 9 August 2019 on the company’s website: www.digia.com/en/investors/reports-and-presentations.

FURTHER INFORMATION

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DISTRIBUTION

Nasdaq Helsinki
Key media
digia.com

Digia is a software and service company that helps its customers renew themselves in the networked world. There are more than 1,200 of us working at Digia. Our roots are in Finland and we operate with our customers in Finland and abroad. We are building a world in which digitalisation makes a difference – together with our customers and partners. Digia net sales were EUR 112.1 million in 2018. The company is listed on Nasdaq Helsinki (DIGIA). digia.com

Digia Plc's Half Year Financial Report 2019

Digia is a Finnish software and service company that helps its customers renew themselves in the networked world. We implement platform solutions and help our customers harness data and design the best possible digital customer experience. Digia's overall offering comprises service design and business consulting, digital services, data and analytics, integration and API solutions, and business systems such as ERP. The overall offering is rounded out with service and maintenance business.

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

MARKETS AND BUSINESS ENVIRONMENT

Digia mainly operates in the Finnish IT services and software market. Despite the uncertainty in the economy, Digia estimates that the market will see further growth of about four per cent in 2019. In our view, growth is strong in modern application development, integration and implementation services as well as in cloud solutions, which are gaining further ground from traditional data centre solutions. In these areas, market growth clearly outpaces the total market growth. Data utilisation in networked business is driving market growth. This creates demand for both the development of new services and the modernisation of the underlying business systems.

Operating in business ecosystems and utilising data entail, among other things, combining, analysing, processing and reporting information from an ever-increasing number of different sources to direct business operations. Companies want to source information not only from their own databases and systems, but also exchange it between organisations. This increases the need for integration expertise, particularly Application Programming Interface (API) solutions.

Business that harnesses digital platforms requires both a company and its IT service supplier to comprehend extensive solution packages. In order to utilise technologies effectively, one must be experienced in services, how to enhance their smart functionalities and integrate them into the company's business systems. In our view, demand will focus even more on the development of end-to-end systems for customers instead of separate individual projects.

Digia sees a market trend in which customers need the support of a partner with sufficiently extensive delivery capabilities. Solutions are not completed in one go – but are developed over their entire life cycle using agile operating models. The need for continuous support (24/7) for services is emphasised, as they are an increasingly critical part of companies' business processes.

NET SALES

April-June 2019

Digia's second-quarter net sales totalled EUR 32.8 (28.9) million, up 13.5 per cent on the corresponding period of the previous year. Organic growth accounted for 8.0 per cent of the net sales growth.

Net sales grew particularly in the case of Microsoft ERP systems, integration and API services, e-commerce solutions and business analytics. Net sales growth has been boosted by improvement in invoicing rates, higher actual hourly prices, greater demand from existing customers and new customers.

The service and maintenance business accounted for 48.6 (49.2) per cent and the project business for 51.4 (50.8) per cent of the company's net sales in the second quarter of 2019. The net sales of both the project and service and maintenance business include the product business, which accounted for 14.4 (16.2) per cent of the entire company's net sales. The product business comprises the sale and maintenance of licences of Digia and its partners. As purchasing behaviour has changed in the business, part of the net sales of the product business now fall within the scope of service contracts and are reported on as net sales for the service business.

January-June 2019

Digia's net sales for the January–June period totalled EUR 64.6 (55.7) million, representing a year-on-year increase of 16.0 per cent. Organic growth of net sales was 8.9 per cent. Net sales either grew or remained on par with the comparison period in almost all service areas. Net sales decreased as expected in the Incomes Register project that is implemented with the Tax Administration. Net sales of the Finance business unit and the Tempus product remained on par with the comparison period. Growth in the net sales of Microsoft ERP systems and business analytics was stronger than we expected. Demand for our own ERP systems has remained consistently good. Corporate acquisitions made during the year also contributed to year-on-year net sales growth.

The service and maintenance business grew by 13 per cent and accounted for 49.2 (50.4) per cent of net sales. The project business accounted for 50.8 (49.6) per cent of net sales. Digia's long-term goal is to increase the service business's share of net sales through service contracts that follow the project phases. The product business accounted for 15.0 (17.7) per cent of the company's net sales.

PROFIT AND PROFITABILITY

April-June 2019

In the second quarter of 2019, Digia's operating profit totalled EUR 2.9 (1.9) million with an operating margin (EBIT%) of 8.8 (6.7) per cent. The company's earnings before taxes were EUR 2.8 (1.8) million, with earnings after taxes totalling EUR 2.2 (1.5) million. Earnings per share were EUR 0.08 (0.06). Net financial expenses amounted to EUR 0.0 (-0.1) million.

January-June 2019

Digia's operating profit for January-June was EUR 4.9 (3.5) million with an operating margin (EBIT %) of 7.5 (6.3) per cent. Profitability improved in almost all of our service areas. The operating profit of the Incomes Register project was about EUR 2 million less than in the previous year, as the project has partly shifted from the development phase to the maintenance phase.

Earnings before taxes were EUR 4.7 (3.2) million and earnings after taxes EUR 3.7 (2.6) million. Earnings per share were EUR 0.14 (0.10). Net financial expenses amounted to EUR -0.2 (-0.3) million.

RESEARCH AND DEVELOPMENT

Digia continuously makes outlays on its research and development. Operations have been targeted to better meet market demand. In January-June 2019, research and development expenditure totalled EUR 2.8 (3.5) million, 4.3 (6.2) per cent of net sales. The main focus of R&D is on our own ERP systems (Digia Enterprise, financial sector ERP and logistics ERP). We also develop monitoring and control technologies, AI-based analytics solutions and a mobile communications product that provides strong encryption for speech and other communication on phones, tablets and workstations.

FINANCING, CASH FLOW AND EXPENDITURE

At the end of June 2019, Digia's balance sheet total stood at EUR 100.4 (87.3) million and its equity ratio at 49.8 (52.5) per cent. Net gearing was 33.8 (31.4) per cent. The balance sheet and net gearing grew because lease contracts have been recognised as right-of-use assets and lease liabilities according to IFRS 16 as from 1 January 2019. In January-June, the company repaid a total of EUR 5 million in interest-bearing loans, which reduced net gearing.

At the end of June 2019, Digia had EUR 20.5 (15.5) million in interest-bearing liabilities. These consisted of EUR 7.3 million in long-term and EUR 2.6 million in short-term loans from financial institutions, and EUR 10.6 million in lease liabilities.

Cash flow from operating activities in January–June 2019 totalled EUR 8.4 (-1.2) million. Cash flow from investments came to EUR -1.0 (-7.3) million. The Starcut Oy acquisition is included in the cash flow from investments. Cash flow from financing was EUR -5.4 (-2.2) million. Digia has a long-term financing agreement with Danske Bank Plc.

Total investments in fixed assets amounted to EUR 0.2 (0.5) million during January–June 2019. Return on investment (ROI) stood at 14.8 (11.8) per cent. Return on equity (ROE) was 15.3 (11.6) per cent.

HUMAN RESOURCES

The number of Digia employees totalled 1,144 at the end of June 2019, showing an increase of 53 employees, or 4.9 per cent, on year-end 2018 (31 Dec 2018: 1,091). Recruitment focused on the second quarter. During the review period, the number of employees averaged 1,124, an increase of 55 employees, or 5.2 per cent, on the 2018 average (2018: 1,069).

Nineteen people transferred into Digia's employ when the Starcut Oy acquisition entered into force on 1 February 2019.

CHANGES IN THE GROUP STRUCTURE

In early 2019, to clarify its group structure, Digia started the merger process of its subsidiary Avarea Oy into Digia Finland Oy. The Avarea merger came into effect on 31 May 2019.

At the end of the review period, the Digia Group includes the parent company Digia Plc and its subsidiaries Digia Finland Oy, Mavisystems Oy, Mirosys Oy, Starcut Oy and Digia Sweden AB.

SHARE CAPITAL AND SHARES

On 30 June 2019, the number of Digia Plc shares totalled 26,823,723 and the company had a total of 6,302 shareholders.

Digia Plc held a total of 57,372 treasury shares at the end of 30 June 2019. The accounting counter value of these treasury shares is EUR 0.10 per share. The company held about 0.2 per cent of its capital stock.

At the end of the period, a total of 164,468 company shares, previously funded by Digia for use in the incentive system for key personnel and under the management of Evli Awards Management Ltd, remained undistributed.

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

REPORTED SHARE PERFORMANCE ON THE HELSINKI STOCK EXCHANGE

Digia Plc's shares are listed on NASDAQ Helsinki under IT, IT Consulting & Other Services. The company's short name is DIGIA. The lowest reported share quotation in January–June 2019 was EUR 2.53 and the highest EUR 3.39. The share officially closed at EUR 3.34 on 30 June 2019. The share's trade weighted average price amounted to EUR 2.92. The company's market capitalisation totalled EUR 89,591,235 on 30 June 2019.

FLAGGING NOTIFICATIONS

On 3 January 2019, Digia Plc was notified of a change in the company's ownership, in accordance with Chapter 9 section 10 of the Finnish Securities Market Act. Erkki Etola informed Digia that the combined holding of Tiiviste-Group Oy and Etola Oy, two companies under his control, exceeded the flagging limit of 10 per cent of Digia's shares and votes. After the change in shareholdings, companies controlled by Erkki Etola held a total of 2,930,495 Digia Plc shares, corresponding to 10.93 per cent of all Digia shares and votes. At the same time, Etola Oy's ownership exceeded the five per cent flagging limit. After the change in shareholdings, Etola Oy's holding in Digia Plc amounted to 1,605,495 shares, corresponding to 5.99 per cent of all Digia shares and votes. The holdings changed on 3 January 2019.

On 13 May 2019, Digia Plc was notified of a change in the company's ownership, in accordance with Chapter 9 section 10 of the Finnish Securities Market Act. Ingman Development Oy Ab informed Digia that its holding of Digia's shares and votes exceeded the flagging limit of 25 per cent. After the change in holdings, Ingman Development Oy Ab owned 7,000,000 Digia Plc shares, corresponding to 26.10 per cent of all Digia shares and votes. The holdings changed on 13 May 2019.

DECISIONS OF THE ANNUAL GENERAL MEETING AND THE ORGANISATION OF THE BOARD OF DIRECTORS

Digia Plc's Annual General Meeting (AGM), held on 15 March 2019, adopted the company's annual accounts, including the consolidated annual accounts for 1 January-31 December 2018, and discharged the members of the Board and the President and CEO from liability.

Dividends

In accordance with the proposal of the Board of Directors, the Annual General Meeting decided that a dividend of EUR 0.07 per share be paid according to the confirmed balance sheet for the financial year ending 31 December 2018. It was decided that the dividend would be paid on 26 March 2019 to shareholders registered in the Register of Shareholders maintained by Euroclear Finland Oy on the record date of 19 March 2019.

Composition of the Board of Directors

The AGM decided to elect six members to the Board. Re-elected as Board members were: Martti Ala-Härkönen, Santtu Elsinen, Päivi Hokkanen, Robert Ingman, Seppo Ruotsalainen and Outi Taivainen. Robert Ingman was elected as Chairman of the Board and Seppo Ruotsalainen as Vice Chairman of the Board.

The Board decided on the composition of the Board's committees as follows:

Audit Committee: Seppo Ruotsalainen (Chairman), Martti Ala-Härkönen and Santtu Elsinen

Compensation Committee: Päivi Hokkanen (Chairman), Robert Ingman and Outi Taivainen

Nomination Committee: Seppo Ruotsalainen (Chairman), Martti Ala-Härkönen and Robert Ingman.

Remuneration of the members of the Board and the auditor

The AGM decided that the monthly remuneration payable to the Board Members shall be EUR 3,000, to the Vice Chairman of the Board EUR 4,000 and to the Chairman of the Board EUR 5,500. In addition, remunerations of EUR 1,000 to the Chairman and EUR 500 to other members are paid per each Board and Board Committee meeting. It was decided that Board members will be reimbursed for ordinary and reasonable expenses resulting from Board work against an invoice.

The AGM decided that the company's auditor will be paid according to the auditor's reasonable invoice approved by the company.

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

The AGM authorised the Board of Directors to decide on the buyback and/or acceptance as collateral of no more than 2,000,000 company shares using the company's unrestricted equity. The Board will decide on how these shares are to be acquired. Treasury shares may be bought back in disproportion to shareholders' holdings. This authorisation also includes the acquisition of shares through public trading on Nasdaq OMX Helsinki in accordance with the rules and instructions of Nasdaq OMX Helsinki and Euroclear Finland Ltd, or through offers made to shareholders. Shares may be acquired in order to improve the company's capital structure, to fund or complete acquisitions or other business transactions, to offer share-based incentive schemes, to sell on, or to be annulled. The shares must be acquired at the market price in public trading. This authorisation supersedes that granted by the AGM of 15 March 2018 and is valid for 18 months, that is, until 15 September 2020.

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

The AGM authorised the Board to decide on an ordinary or bonus issue of shares and the granting of special rights (as defined in Section 1, Chapter 10 of the Limited Liability Companies Act) in one or more instalments, as follows: The issue may total, at a maximum, 4,000,000 shares. The authorisation applies both to new shares and to treasury shares held by the company. By virtue of the authorisation, the Board also has the right to decide on share issues and the granting of special rights, in deviation from the preemptive subscription rights of the shareholders (a directed issue); however, the issue may total 2,000,000 shares at a maximum. The authorisation may be used to fund or complete acquisitions or other business transactions, for offering share-based incentive schemes, to develop the company's capital structure, or for other purposes decided by the Board. The Board was authorised to decide on all terms relating to the share issue or special rights, including the subscription price, its payment and its recognition in the company's balance sheet. This authorisation supersedes that granted by the AGM of 15 March 2018 and is valid for 18 months, that is, until 15 September 2020.

More information about the AGM's decisions is available at www.digia.com/en/investors/governance/annual-general-meeting/agm-2019.

COMPANY ACQUISITIONS

On 31 January 2019, Digia Plc and the owners of Starcut Oy signed an agreement whereby Digia Plc acquired Starcut Oy's entire share capital. With this acquisition, Digia bolsters its Digia Digital service area, which comprises service design, analytics, e-commerce and agile application development. Following the acquisition, Starcut's 19 employees transferred into Digia's employ.

On 27 June 2019, Digia announced that it had signed an agreement with Accountor Holding Oy whereby Digia will buy the entire share capital of Accountor Enterprise Solutions Oy (AES). The acquisition was carried out on 1 August 2019.

EVENTS AFTER THE REVIEW PERIOD

Digia Plc and Accountor Holding Oy signed an agreement on 27 June 2019 whereby Digia Plc acquired on 1 August 2019 the entire share capital of Accountor Enterprise Solutions Oy (AES). AES specialises in Microsoft Dynamics 365 and Oracle NetSuite solutions, including projects and continuous services. AES posted net sales of EUR 12.7 million in 2018 and the company had 101 employees at the end of the year. The net debt-free purchase price was EUR 9.4 million, reconciled using the net cash on the transaction date, 1 August 2019. The transaction was financed with a bank loan. A preliminary calculation of the allocation of the purchase price will be drafted after the completion of the transaction. The transaction is part of Digia's growth strategy, which is focused on the development of customers' digital business. ERP systems are core elements in digitalisation. CRM is part of this solution.

RISKS AND UNCERTAINTIES

According to the company's estimate, there have been no substantial changes in Digia's major risks or operating environment in 2019.

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

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

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

Digia has not performed human rights-related assessments, but in the company's opinion there are no significant risks of human rights violations inherent in our own operations. Digia's supply chain does not, in the main, extend outside Finland. Digia has not performed an environmental assessment, but in the company's opinion our operations have a minor impact on the environment and do not involve any significant environmental risk factors.

Major customer projects involve both business opportunities and risks. As customer projects increase in size, the risks associated with profitability management also grow, and there is a greater need to manage extensive contract and delivery packages. Large customer projects also typically include delivery-related penalties, which are always a risk. Large customer projects also involve greater risks related to customer receivables.

OUTLOOK FOR 2019

The profit guidance for 2019 remains unchanged: "Digia's net sales will continue to grow and operating profit will improve compared to 2018."

Helsinki, 9 August 2019

Digia Plc

Board of Directors

TABLES SECTION

ACCOUNTING POLICIES

The half-year report was prepared in compliance with IFRS and the IAS 34 Interim Financial Reporting standard. The half-year report has not been audited. With the exception of the changes in accounting policies described below, the half-year report has been drafted in accordance with the accounting policies used in the financial statements for 31 December 2018.

Changes in accounting policies:

IFRS 16:

Digia has adopted IFRS 16 Leases retrospectively as from 1 January 2019; comparative information has not been restated, but the impacts of the adoption of IFRS 16 have been recorded as adjustments in the opening balance sheet for 2019. Calculations of the right-of-use asset and corresponding lease liability are based on the company's estimate of the duration of current lease contracts and potential use of options to extend them.

IFRS 16 sets out requirements for the recognition, measurement, and disclosure of leases. Under the standard, the lessee shall recognise lease contracts in the balance sheet as a lease liability and related right-of-use asset. At the commencement date of the contract, the lessee recognises a liability for its obligation to make lease payments and an asset for its right to use the leased asset. Interest expenses must be recognised for the liability in the balance sheet and planned depreciation for the asset.

Digia leases its business premises, company cars and multifunction devices, and thus the adoption of the standard impacts on the accounting treatment of these items. The bulk of the lease liability and right-of-use asset in the balance sheet, about 85 per cent, comprises lease contracts for offices. Digia has applied exemptions permitted under IFRS 16 for short-term lease contracts. Such lease contracts with a term of less than 12 months have not been recognised in the balance sheet. In addition, Digia does not recognise a liability in the balance sheet for leases of low value assets.

The impacts of the adoption of IFRS 16 on the opening balance sheet dated 1 January 2019 are:

Assets:

Right-of-use assets: plus EUR 11,223 thousand.

Liabilities:

Long-term lease liability, interest-bearing: plus EUR 7,635 thousand

Short-term lease liability, interest-bearing: plus EUR 3,612 thousand

In addition, IFRS 16 affects the comparability of the following financial information:

- Depreciation according to plan has increased and lease expenses declined. Depreciation of right-of-use assets during the review period totalled EUR 1,606 thousand.
- The lease principal is presented in the cash flow from financing in the cash flow statement. During the review period, repayments of the lease liability totalled EUR 1,784 thousand.
- Interest on lease liabilities during the review period totalled EUR 83 thousand.
- IFRS 16 impacts on key figures that have been calculated on the basis of the balance sheet total or interest-bearing liabilities.
- The change of standard has a significant effect on off-balance sheet commitments.

Right-of-use assets, 30 June 2019	EUR 1,000
Business premises	9,223
Cars	634
IT equipment	526
Equipment	164
Right-of-use assets, total	10,547
Lease liabilities, 30 June 2019	EUR 1,000
Long-term	7,252
Short-term	3,350
Lease liabilities, total	10,602

CONDENSED CONSOLIDATED INCOME STATEMENT

EUR 1,000	4-6/ 2019	4-6/ 2018	Change %	1-6/ 2019	1-6/ 2018	Change %	2018
NET SALES	32,750	28,860	13.5%	64,648	55,741	16.0%	112,122
Other operating income	44	11	318.1%	58	81	-28.2%	240
Materials and services	-3,773	-3,010	25.3%	-7,468	-6,330	18.0%	-12,595
Depreciation, amortisation and impairment*	-1,290	-648	99.0%	-2,566	-1,177	118.0%	-2,595
Other operating expenses *	-24,864	-23,269	6.9%	-49,816	-44,784	11.2%	-90,677
Operating result	2,867	1,943	47.6%	4,856	3,531	37.5%	6,494
Financial expenses (net)	-45	-127	-64.5%	-157	-288	-45.6%	-526
Profit before taxes	2,822	1,816	55.4%	4,699	3,244	44.9%	5,968
Income taxes	-578	-325	77.7%	-966	-651	48.5%	-1,264
RESULT FOR THE PERIOD	2,244	1,490	50.5%	3,733	2,593	44.0%	4,704
Other comprehensive income							
Items that may later be reclassified as profit or loss							
Exchange differences on the translation of foreign currency	32	34	-6.4%	60	128	-52.9%	88
COMPREHENSIVE INCOME FOR THE PERIOD TOTAL	2,275	1,524	49.3%	3,793	2,721	39.4%	4,792

EUR 1,000	4-6/ 2019	4-6/ 2018	Change %	1-6/ 2019	1-6/ 2018	Change %	2018
Distribution of net profit for the period							
Parent-company shareholders	2,244	1,490	50.5%	3,733	2,593	44.0%	4,704
Distribution of comprehensive income for the period							
Parent-company shareholders	2,275	1,524	49.3%	3,793	2,721	39.4%	4,792
Earnings per share, EUR (diluted and undiluted EPS)							
	0.08	0.06	51.1%	0.14	0.10	44.5%	0.18

* Adoption of IFRS 16 had an impact of negative EUR 1,606 thousand on depreciation and positive EUR 1,523 thousand on other operating expenses.

CONDENSED CONSOLIDATED BALANCE SHEET

EUR 1,000	30 Jun 2019	30 Jun 2018	31 Dec 2018
Assets			
Non-current assets			
Goodwill	51,118	49,924	50,462
Other intangible assets	3,219	3,572	3,592
Tangible assets	11,411	3,534	3,804
Investments	484	484	484
Non-current receivables	57	91	537
Deferred tax assets	328	191	209
Total non-current assets	66,617	57,797	59,088
Current assets			
Current receivables	30,057	28,327	27,282
Available-for-sale financial assets	334	331	334
Cash and cash equivalents	3,385	860	1,399
Total current assets	33,776	29,519	29,015
Total assets	100,394	87,315	88,104
Shareholders' equity and liabilities			
Share capital			
Share capital	2,088	2,088	2,088
Other reserves			
Other reserves	5,204	5,204	5,204
Unrestricted shareholders' equity reserve			
Unrestricted shareholders' equity reserve	42,081	42,081	42,081
Translation difference			
Translation difference	-444	-424	-384
Retained earnings			
Retained earnings	-3,010	-5,914	-5,910

EUR 1,000	30 Jun 2019	30 Jun 2018	31 Dec 2018
Result for the period	3,733	2,593	4,704
Equity attributable to parent-company shareholders	49,651	45,627	47,782
Total shareholders' equity	49,651	45,627	47,782
Liabilities			
Non-current interest-bearing liabilities	14,505	6,777	6,479
Non-current advances received	41	50	54
Other non-current liabilities	126	621	726
Deferred tax liabilities	580	628	640
Total non-current liabilities	15,251	8,077	7,899
Current interest-bearing liabilities	5,976	8,750	7,961
Other current liabilities	29,515	24,861	24,462
Total current liabilities	35,491	33,611	32,422
Total liabilities	50,743	41,688	40,322
Shareholders' equity and liabilities	100,394	87,315	88,104

CONSOLIDATED CASH FLOW STATEMENT

EUR 1,000	1 Jan 2019–30 Jun 2019	1 Jan 2018–30 Jun 2018
Cash flow from operations:		
Profit for the period	3,733	2,593
Adjustments to net profit	2,266	-893
Change in working capital	3,517	-2,800
Interest paid	-164	-120
Interest income	1	1
Taxes paid	-980	33
Cash flow from operations	8,374	-1,186
Cash flow from investments:		
Purchases of tangible and intangible assets	-196	-490
Shares acquired in subsidiaries, net of cash and cash equivalents at the time of acquisition	-817	-6,760
Cash flow from investments	-1,013	-7,250
Cash flow from financing:		
Repayment of lease liabilities	-1,784	-
Change in financial leasing liabilities	-	-1
Repayment of current loans	-7,926	1,300
Withdrawals of current loans	-	-
Repayments of non-current loans	-4,800	-

EUR 1,000	1 Jan 2019–30 Jun 2019	1 Jan 2018–30 Jun 2018
Withdrawals of non-current loans	11,100	198
Acquisition of treasury shares	-90	-
Dividends paid	-1,864	-1,069
Cash flow from financing	-5,365	-2,171
Change in cash and cash equivalents	1,995	-10,606
Cash and cash equivalents at beginning of period	1,733	11,858
Effects of changes in foreign exchange rates	-9	-60
Change in cash and cash equivalents	1,995	-10,346
Cash and cash equivalents at end of period	3,719	1,191

CHANGES IN SHAREHOLDERS' EQUITY

EUR 1,000	a	b	c	d	e	f	g
Shareholders' equity, 1 Jan 2018	2,088	0	42,081	5,204	-296	-4,910	44,166
Net profit						2,593	2,593
Other comprehensive income					-128		-128
Share-based payments recognised against equity						65	65
Transactions with shareholders							
Dividends paid						-1,069	-1,069
Shareholders' equity, 30 Jun 2018	2,088	0	42,081	5,204	-424	-3,321	45,627
Shareholders' equity, 1 Jan 2019	2,088	0	42,081	5,204	-384	-1,206	47,782
Net profit						3,733	3,733
Other comprehensive income					-60		-60
Share-based payments recognised against equity						151	151
Transactions with shareholders							
Dividends						-1,864	-1,864
Redemption of own shares						-90	-90
Shareholders' equity, 30 Jun 2019	2,088	0	42,081	5,204	-444	723	49,651

a = share capital
b = share premium fund
c = unrestricted shareholders' equity reserve
d = other reserves
e = currency translation differences
f = retained earnings
g = total shareholders' equity

PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

30 Jun 2019 EUR 1,000	Tangible assets	Goodwill	Other intangible assets
Acquisition cost, 1 Jan 2019	26,085	101,856	34,438
IFRS 16 adoption	8,324	0	0
Acquisition cost, 1 Jan 2019	34,409	101,856	34,438
Transferred in acquisitions of business operations	3	0	2
Increases	1,708	656	275
Disposals	-511	0	0
Acquisition cost, 30 Jun 2019	35,609	102,512	34,714
Accumulated depreciation and amortisation, 1 Jan	-22,281	-51,394	-30,846
Depreciation (in income statement)	-1,917	0	-649
Accumulated depreciation and amortisation, 30 Jun 2019	-24,198	-51,394	-31,495
Book value, 1 Jan 2019	3,804	50,462	3,592
Book value, 30 Jun 2019	11,411	51,118	3,219
30 Jun 2018			
Acquisition cost, 1 Jan 2018	24,087	97,110	31,982
Transferred in acquisitions of business operations	4	0	1,821
Increases	943	4,209	0
Disposals	-13	0	-10
Acquisition cost, 30 Jun 2018	25,021	101,319	33,792
Accumulated depreciation and amortisation, 1 Jan 2018	-20,793	-51,394	-29,738
Depreciation (in income statement)	-695	0	-482
Accumulated depreciation and amortisation, 30 Jun 2018	-21,487	-51,394	-30,220
Book value, 1 Jan 2018	3,293	45,715	2,243
Book value, 30 Jun 2018	3,534	49,924	3,572

CONDENSED INCOME STATEMENT BY QUARTER

EUR 1,000	4-6/2019	1-3/2019	10-12/2018	7-9/2018	4-6/2018
Net sales	32,750	31,897	31,181	25,200	28,860
Other operating income	44	14	103	55	11
Materials and services	-3,773	-3,695	-3,613	-2,653	-3,010
Depreciation, amortisation and impairment	-1,290	-1,276	-718	-700	-648
Other operating expenses	-24,864	-24,951	-25,534	-20,359	-23,269
Operating result	2,867	1,989	1,419	1,544	1,943
Financial expenses (net)	-45	-111	-17	-222	-127
Profit before taxes	2,822	1,878	1,402	1,322	1,816
Income taxes	-578	-388	-246	-368	-325
Result for the period	2,244	1,489	1,157	954	1,490
Distribution of net profit for the period					
Parent-company shareholders	2,244	1,489	1,157	954	1,490
Earnings/share, EUR (basic and diluted EPS)	0.08	0.06	0.04	0.04	0.06

GROUP KEY FIGURES

EUR 1,000	1-6/2019	1-6/2018
Extent of business		
Net sales	64,648	55,741
Average capital invested	66,618	61,933
Number of personnel	1,144	1,074
Average personnel	1,124	1,054
Profitability		
Operating result	4,856	3,531
- as a % of net sales	7.5%	6.3%
Profit before taxes	4,699	3,244
- as a % of net sales	7.3%	5.8%
Result for the period	3,733	2,593
- as a % of net sales	5.8%	4.7%
Return on equity, %	15.3%	11.6%
Return on investment, %	14.8%	11.8%
Financing and financial standing *		
Interest-bearing net liabilities	16,762	14,337
Net gearing	33.8%	31.4%
Equity ratio	49.8%	52.5%

EUR 1,000	1-6/2019	1-6/2018
Cash flow from operations	8,374	-1,186
Earnings per share, EUR, undiluted	0.14	0.10
Earnings per share, EUR, diluted	0.14	0.10
Equity/share, EUR	1.85	1.70
Lowest share trading price, EUR	2.53	2.10
Highest share trading price, EUR	3.39	2.75
Average share price, EUR	2.92	2.45
Market capitalisation	89,591	71,351

* Adoption of IFRS 16 has impacted on the key figures.

FORMULAS

Return on investment (ROI),%:

$$\frac{(\text{Profit or loss before taxes} + \text{interest and other financing costs}) \times 100}{\text{Balance sheet total} - \text{non-interest bearing liabilities (average)}}$$

Return on equity (ROE),%:

$$\frac{(\text{Profit or loss before taxes} - \text{taxes}) \times 100}{\text{Shareholders' equity}}$$

Equity ratio (%):

$$\frac{(\text{Shareholders' equity} + \text{minority interest}) \times 100}{\text{Balance sheet total} - \text{advances received}}$$

Earnings per share:

$$\frac{\text{Profit before taxes} - \text{taxes} \pm \text{minority interest}}{\text{Average number of shares during the period, adjusted for share issues}}$$

Dividend per share:

$$\frac{\text{Total dividend}}{\text{Number of shares at the end of the period, adjusted for share issues}}$$

Dividend payout ratio, %:

$$\frac{\text{Dividend per share}}{\text{Earnings per share}}$$

Net gearing:

$$\frac{(\text{Interest-bearing liabilities} - \text{cash and cash equivalents}) \times 100}{\text{Shareholders' equity}}$$

Effective dividend yield,%:

Dividend per share x 100

Last trading price for the period, adjusted for share issues

Price/earnings (P/E):

Last trading price for the period, adjusted for share issues

Earnings per share

LARGEST SHAREHOLDERS, 30 JUN 2019

	Shareholders	Shares and votes	%
1.	Ingman Development Oy Ab	7,000,000	26.10
2.	Ilmarinen Mutual Pension Insurance Company	3,912,774	14.59
3.	Etola Oy	1,605,495	5.99
4.	Tiiviste-Group Oy	1,325,000	4.94
5.	Varma Mutual Pension Insurance Company	1,247,142	4.65
6.	Savolainen Matti	935,899	3.49
7.	OP-Suomi Pienyhtiöt investment fund	350,015	1.30
8.	OP-Suomi Mikroyhtiöt special investment fund	330,165	1.23
9.	Rausanne Oy	321,416	1.20
10.	Skandinaviska Enskilda Banken AB (Publ), Helsinki branch office	304,677	1.14
	Total	17,332,583	64.62