



Nixu's Annual Report 2018

Financial Review



Contents

Report of the Board of Directors	3
Consolidated Financial Statement	
Consolidated Statement of Comprehensive Income	8
Consolidated Balance Sheet	9
Consolidated Statement of Cash Flows	10
Consolidated Statement of Changes in Equity	11
Notes to the Consolidated Financial Statements	12
Section 1: About the Financial Statements	12
Section 2: Result for the period	13
Section 3: Personnel	19
Section 4: Acquisitions and Group structure	21
Section 5: Interest-bearing net debt and equity	24
Section 6: Operating assets and liabilities	30
Section 7: Other notes	33
Parent Company Financial Statements	
Parent Company Income Statement	37
Parent Company Balance Sheet	38
Parent Company Cash Flow Statement	39
Notes to Parent Company Financial Statements	40
Signing of the Report of the Board of Directors and the Consolidated Financial Statements	44
Auditor's Report	45

Report of the Board of Directors

The development of Nixu Group in the accounting period of January 1, 2018 – December 31, 2018

Nixu Group's revenue stood at EUR 40,127 (32,279) thousand. Compared to the same review period during the previous year, revenue increased by 24%. The most significant factors contributing to the Group's increased revenue were the strong organic growth of 17% and growth of managed services (107%).

The development of revenue broken down by the type of service, was:

- Projects and assignments accounted for 58% (66%) of the revenue and increased 10% during the accounting period.
- All continuous services accounted for 39% (31%) of the revenue and increased 56% compared to the previous accounting period. All continuous services include:
 - Managed services, which accounted for 11% (7%) of revenue. Thanks to the success of the Nixu Cyber Defense Center –service, managed services were the fastest growth area, with their growth figure of 107% (168%).
 - Continuous services accounted for a 28% (24%) share of the revenue and increased 42% (108%) from the previous year.
- Licenses accounted for 3% (3%) of the revenue with a growth of 9%.

Other operating income amounted to EUR 345 (554) thousand. Other operating income decreased by –38%. This decrease is explained by a decrease in EU projects.

Nixu's EBITDA was EUR –254 (1,106) thousand. EBITDA was negatively affected by the loss of EUR 1,836 (1,107) thousand in international operations, and the non-recurring costs of EUR 373 (269) thousand, which during the review period consisted of the costs of the transition to the Official list of Nasdaq Helsinki Stock Exchange and in the comparison period from the costs of acquisitions and preparations of being listed. In addition, Nixu's EBITDA was burdened by a lower-than-usual invoicing rate in the company's operations in Finland, which was due to the future-oriented upfront recruitments.

With the non-recurring costs adjusted EBITDA was EUR 120 (1,375) thousand.

Nixu's EBIT was EUR –1,451 (492) thousand. In addition to the above, EBIT was affected by impairment charges and depreciations, totaling EUR 1,197 (614) thousand. The increase in impairment charges and depreciations is explained by a one-time impairment charge of EUR 372 thousand, entered into the ESSC B.V. customer relationships, as well as the increased depreciations.

Financial income and expenses were EUR –469 (–390) thousand. Financial expenses increased by 20% compared to the

previous year, due to increases in interest-bearing debt and changes in currency rates.

The result for the accounting period was EUR –1,967 (–172) thousand.

The Group's effective tax rate was increased due to loss-making operations in the Netherlands.

Group structure

The structure of the Nixu Group was simplified in both Sweden and the Netherlands during the financial year. In Sweden, Nixu Consulting AB, Bitsec AB and Bitsec Holding AB were merged with Nixu AB. In the Netherlands, Nixu B.V. merged with Expert Solution Support Center B.V. The name of the merged company was changed to Nixu B.V.

At the end of the financial year, the Group consisted of the following 100%-owned companies by the parent company: Nixu Certification Oy, Nixu B.V., NIXU AB and Nixu Inc. In addition, the Nixu Group consisted of Nixu B.V.'s wholly owned subsidiaries Expert Solution Support Center SRL and Expert Solution Support Center, Inc. as well as Swedish Forensic Technologies AB, a 56% owned subsidiary of Nixu AB.

Key indicators for the group

The financial period January 1, 2018 – December 31, 2018 was the company's 30th. The following key figures represent the company's financial status and its results:

EUR thousand	2018	2017	2016
Revenue	40,127	32,279	21,487
EBIT	–1,451	492	437
EBIT, % of net sales	–3.6 %	1.5 %	2.0 %
Equity ratio, %	50.5 %	51.4 %	47.5 %

Personnel

The Group's personnel amount at the end of the year 2018 was 355 (323).

As the demand for cybersecurity services has increased rapidly due to the increased digitalization of society, and the number of global security breaches has exploded, the competition for the top cybersecurity experts has become fierce. One of Nixu's main strategic development areas is cybersecurity talent community. Nixu's success as an expert organization depends on its ability to keep, recruit and train the best experts in the field. In addition, Nixu's international growth will rely heavily on its standing and reputation among the international information security community.

Nixu wants to offer the best workplace for cybersecurity professionals in the field by supporting their professional development through constantly providing them with opportunities for training and on-the-job learning. The 70-20-10 model is being used as the guideline for the development of expertise. This means that Nixu uses various forms of learning at work (70%), preparatory learning and self-study (20%), and training and coaching programs (10%).

During 2018, the emphasis on on-the-job learning was particularly evident at the Nixucon event. The presentations, demos and workshops of this internal conference were mainly produced by Nixu employees themselves. The two-day event gathered more than 300 Nixu employees together

from around the world, from beginners to technology gurus, –to learn together and share knowledge.

In order to continuously develop Nixu as an increasingly good workplace, the job satisfaction is measured, on a quarterly basis, with the Nixu Pulse questionnaire. When asked how likely it would be for the employees to recommend Nixu as a workplace to their network, the mean score was 8 (on a scale of 0-10, 10 being the highest). In the open answers, matters surfaced which Nixu employees particularly valued, such as a working culture which provides authority, helpful and skilled colleagues, interesting and challenging client assignments, flexibility and trust in the employees, as well as a good working atmosphere.

At Nixu, good leadership is seen as a significant background factor in work satisfaction, and as an enabling factor of being the best workplace. In support of good leadership, Nixu has piloted coaching management training during 2018. The positive feedback of those having participated in the coaching management training confirmed that the training had both supported the development of leadership skills, as well as increased the preparedness of managers for daily management work.

At Nixu, it is also firmly believed that well-implemented employee induction has a key role in the understanding and internalizing of corporate culture. For this reason, the Nixu corporate-wide induction was significantly developed by

adding the outlined ThisIsNixuDays package, which is organized three times per year. The goal of the two-day induction is to provide new Nixu employees with a comprehensive overview of, among other things, Nixu's vision and strategy, as well as clients and services. In addition, more in-depth overviews of the Nixu corporate culture i.e. the Nixu Code framework are gone over with employees at the events, and are comprised of Nixu's Ethical Code of Conduct, values and operating principles.

Nixu also develops its expertise by cooperating with a number of actors such as the EU, educational institutes, and the international cybersecurity community. By providing hacker competitions, Nixu wants to be an active influencer in the field, develop the cybersecurity community and offer employment opportunities for those that are interested in the field. In 2018, Nixu organized the Nixu Challenge competition for the fifth time, which offers an opportunity for employment at Nixu, and for developing into a cybersecurity expert based on performance.

Nixu promotes diversity and the company's values (professional, collaborative, passionate for cybersecurity and humane), create a solid base for the Nixu culture. In 2018, Nixu had representatives of 22 nationalities in the service of their workforce. The majority of employees (82%) were men. Since cybersecurity is a male-dominated field, Nixu constantly seeks to attract more women experts to the field, with the aim of having a more balanced gender distribution.

Key Figures for Personnel

	2018	2017	2016
Average number during the accounting period	346	282	191
Wages and salaries during the accounting period (EUR 1,000)	21,890	17,318	12,207
Average employment (years)	3.9	3.9	4.2
Average age (years)	40.0	39.4	40.3
Permanent employees	98%	95%	95%
Part-time employees	4%	8%	9%
Women's share of the group's personnel	18%	16%	18%

Management

During the accounting period, Nixu Oyj's Board of Directors consisted of Kimmo Rasila (Chairman), Marko Kauppi (Deputy Chairman), Kati Hagros, Juhani Kaskeala, and Tuija Soanjärvi and Teemu Tunkelo (from April 25, 2018).

Members of Nixu Group's Corporate Leadership Team during the accounting period were Chief Executive Officer Petri Kairinen, Chief Financial Officer Janne Kärkkäinen, Chief People Officer Katja Müller, Finnish Market Area Leader Valtteri Peltomäki, Chief Development Officer Kim Westerlund and (as of January 1, 2018) Chief Commercial Officer Jesper Svegby.

The company's auditor is PricewaterhouseCoopers Oy and the auditor in charge is Authorized Public Auditor Heikki Lassila.

Financing and investments

On December 31, 2018, Nixu Group's total balance sheet was EUR 33,327 (36,752) thousand.

The company's cash in hand on December 31, 2018 was EUR 9,286 (11,864) thousand. Net liabilities on December 31, 2018 amounted to EUR -2,112 (-3,384) thousand. The company has a strong financial position.

The net cash flow of operating activities was EUR -659 (-853) thousand, which was a result of a positive change in the company's working capital.

Shares issue decisions during the financial year:

The Annual General Meeting authorized the Board of Directors to buy back, at their own discretion, internally held company stock in one or several rounds as follows: Up to 120,000 shares can be acquired using the company's unrestricted equity. By way of derogation from the rules governing shareholder association and ownership, shares may be acquired according to the terms and conditions of the company's incentive schemes from the company and subsidiary employees and CEOs upon possible termination of their employment. The acquisition price of shares is the original subscription price paid to the company upon subscription, but no more than the price paid for the company shares in public trading on the day of acquisition.

The Board of Directors will decide upon the terms and conditions of buying back internally held company stock pursuant to the terms and conditions of the above incentive scheme. The authorization shall remain valid until the next Annual General Meeting.

It was decided that the Board of Directors would be authorized to issue new shares or special rights to shares pursuant to Chapter 10, section 1 of the Limited Liability Companies Act and/or dispose of internally held company stock at their own discretion pursuant to the following terms: The Board of Directors may, either in one or several rounds, issue new shares or special rights to shares pursuant to Chapter 10, section 1 of the Limited Liability Companies Act, and dispose of internally held company stock. By way of derogation from the shareholders' warrant, the number of shares issued pursuant to the authorization may be no more than 1,448,240, directed to company and subsidiary employees and CEOs. In addition, the authorization may be exercised by the arrangement of acquisitions or other arrangements or stock-based incentive schemes. The proposed maximum number of shares to be issued or disposed of corresponds to 20% of the company's registered number of shares. The Board of Directors shall decide on all other terms of shares issues and the issuance of special rights. The authorization will remain valid until the next Annual General Meeting, and it will terminate the authorizations granted to the Board of Directors in 2014 concerning directed issues and the disposal of internally held Nixu Corporation stock.

Shares and shareholders

NIXU	Shares traded	Total value (EUR)	High (EUR)	Low (EUR)	Average price (EUR)	Latest (EUR)
Jan-Jun 2018	651,850	7,701,466	14.00	10.05	11.90	13.50
Jul-Dec 2018	569,395	5,933,338	13.95	7.52	10.58	7.60
Jan-Dec 2018	1,221,245	13,634,804	14.00	7.52	11.24	7.60

	December 31, 2018	December 31, 2017
Market capitalization (EUR)	54,938,827	79,525,985
Number of shareholders	2,957	3,141
Total number of shares	7,241,198	7,241,198
Number of the company's own shares held by the company	12,405	11,563

Nixu has one share series. Each share entitles the holder to equal voting and dividend rights. Nixu's shares are listed on the Official List of Nasdaq in Helsinki Stock Exchange.

Research and Development

In 2018, Nixu continued to implement its digitalization strategy and explored new, more effective ways to support large organizations' digitalization projects. Most of Nixu's customers, service production and assignments benefited from the common One Nixu Platform, where both customers and Nixuers have the same up-to-date view. Nixu's goal is to provide tools for visualizing the client's cybersecurity status in a way that supports the client's decision-making and situation management and helps to establish Nixu's status as a comprehensive cybersecurity partner for its clients.

Nixu's service development got a new pace when Nixu introduced service design as a model for developing new user-driven service experiences in 2018.

The Sandbox of Trust pilot project, jointly run by Nixu, Suomen Tilajavastuu and Digital Living International, aims to establish a legally valid open community in Finland, which will create and maintain a common digital authentication solution for public administration and the private sector. With the mobile-based SisulD authentication application, citizens and foreigners can effortlessly log in to digital services that demand normal and strong authentication. The goal of the Sandbox of Trust initiative is to facilitate peoples' daily lives as society digitalizes as well to improve Finland's competitiveness in international markets.

Nixu developed new cloud-based services, of which the Nixu Multifactor Authentication (Nixu MFA) service was completed in 2018 for production. Nixu MFA enables secure two-phase authentication, both for network access control (VPN) and for Office365, as well as for other cloud-based services. In addition to product development, best practices were developed for cloud security.

Systematization and automation of cybersecurity work using machine learning is an inevitable trend. In 2018, Nixu implemented a research technology development project aimed at finding a new, more powerful tool for managing the attack surface of information systems. The project offered Nixu new perspectives and know-how but did not at the time lead to the development of a commercial service.

Nixu served as a leader company in an EU-organized EU-SEC research and development project, which aims at developing a framework for cloud security and for the auditing. Nixu has plans for participating in new joint EU research projects with its European partners.

In the financial year ended 31 December 2018, the Group recognized research and development costs amounting to EUR 988 thousand in its result (2017: EUR 623 thousand).

Risks and uncertainties

Nixu identifies and manages risks, as a part of its normal business activities. The identified risks in Nixu's risk management have been described below, which, if realized, could have a great impact on the company's result. The risks are in accordance with the situation at the end of the year.

- The majority of the Nixu revenue is comprised of time its personnel invoiced for client projects and services. The inefficient allocation of work of personnel could lead to diminished margins in consultancy commerce. If the company cannot adapt to a fluctuation in client requests as well as efficient allocation of personnel, it may have immediate effects on the company's ability to create results.
 - There are operational risks involved in Nixu's business activities, specifically in malfunctions in Nixu's IT systems and equipment, or an interruption in availability. Malfunctions in them may lead to the company not being able to produce its services as agreed.
 - In their activities, Nixu processes client data. A data breach into the company's systems could cause immediate direct or indirect damage to the company's activities.
 - In their activities, Nixu processes personal client data. In addition, the company is the register keeper of the personal information of its own personnel. The General Data Protection Regulation (GDPR) of the EU, which took effect in 2018, imposes significant liability on the data processor and register keeper. Eventual shortcomings in following the legislation in question, if realized, may result in substantial direct and indirect adverse consequences to Nixu.
 - Unexpected delays and extra work are typical for large projects, adding uncertainty factors which may cause Nixu to incur additional costs. Moreover, Nixu may not always be able to allocate personnel resources, schedule tasks for long-term projects or plan its operations as required based on its predictions.
- There may also be problems in providing constant services, which may accrue costs to Nixu. In its activities, additionally, the company has a usual risk of ending up in conflicts with its clients which pertain to the contents of agreements.
- Even though Nixu's strategy relies mainly on organic growth, the company is also constantly searching for growth opportunities from corporate mergers or acquisitions. Acquisition failures or integration difficulties could seriously disrupt the company's operations. Potential acquisitions can also present unexpected risks and latent responsibilities for which the company cannot prepare beforehand.
 - Nixu's business requires great trust from its clients. Information security attacks are aimed at our clients' systems and potential problems in Nixu's services may result in substantial direct and indirect adverse consequences to Nixu.
 - The financing agreements of the company include conventional covenant conditions, which, if breached, may complicate the company's financial position, especially in situations in which creditor would not consent to the renegotiation of said conditions, or providing their consent for the breaching of the covenant conditions.
 - Fluctuations in demand, problems with controlling commerce as well as changes in the financing market and in the national economy may lead to problems in financing day-to-day activities.
 - Nixu operates in a highly competitive market. If competition increases, Nixu may lose portions of its market share and see a decrease in its margins.
 - As part of its growth strategy, the company invests heavily in its continuous scalable services business. The business models, methods, and the promised service levels in the services business are different from those in the consultation business. Implementing these changes can be challenging, potentially causing substantial direct and indirect adverse consequences for Nixu.

Financial Guidance for 2019

Nixu's growth strategy is at a stage where the company sees it reasonable to seek strong growth in the rapidly developing cybersecurity market, at the expense of profitability. Its medium-term goal is to achieve an annual revenue growth rate above 15% and EBITDA margin above 10%. The company currently has significant ongoing investments in several developmental, sales and internationalization projects, in order to implement the growth strategy.

Financial guidance for 2019: Nixu continues to emphasize the importance of growth and continues to invest in growth projects. Supported by strong organic growth, Nixu estimates its revenue to grow over 20% from the previous financial year. The full year EBITDA is estimated to improve significantly from the previous financial year.

Events after the review period

There have been no material events concerning the company since the end of the year.

The Board of Directors' proposal for the distribution of profits

On December 31, 2018, the parent company's assets subject to profit distribution amounted to EUR 20,376,460.56 of which the profit for the year amounts to EUR 115,023.14. The Board of Directors proposes to the Annual General Meeting that no dividend be paid for 2018.

There have been no significant changes in Nixu's financial status after the close of the financial year.

Consolidated Statement of Comprehensive Income

EUR thousand	Note	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
Revenue	2.1	40,127	32,279
Other operating income	2.4	345	554
Materials and services	2.3	-4,304	-2,641
Employee benefit expenses	3.1, 3.2, 3.3	-27,115	-21,733
Other operating expenses	2.4	-9,306	-7,353
Depreciation and amortization		-825	-614
Impairment charges	4.2	-372	0
Operating result		-1,451	492
Finance income	5.2	26	0
Finance expenses	5.2	-495	-390
Finance income and expenses, net		-469	-390
Result before taxes		-1,920	102
Income tax expense	2.5	-47	-274
Result for the period		-1,967	-172
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Translation differences		-278	-184
Other comprehensive income for the period, net of tax		-278	-184
Total comprehensive income for the period		-2,245	-356
Result for the period attributable to:			
Owners of the parent		-1,967	-172
Result for the period		-1,967	-172
Total comprehensive income for the period attributable to:			
Owners of the parent		-2,245	-356
Total comprehensive income		-2,245	-356
Earnings per share for profit attributable to the owners of the parent during the year	2.6		
Basic and diluted earnings per share, EUR		-0.27	-0.03

Notes are an integral part of the Financial Statements.

Consolidated Statement of Financial Position

EUR thousand	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Goodwill	4.2	9,556	9,764
Other intangible assets	4.2	1,570	2,315
Tangible assets	6.1	1,022	902
Deferred tax assets	7.1	4	41
Total non-current assets		12,152	13,023
Current assets			
Trade receivables and other receivables	6.2	11,567	11,716
Current income tax receivables		322	149
Cash and cash equivalents		9,286	11,864
Total current assets		21,175	23,729
Total assets		33,327	36,752
EQUITY AND LIABILITIES			
Equity			
Share capital		95	95
Invested unrestricted equity reserve		17,285	17,125
Translation differences		-441	-163
Retained earnings		1,849	2,016
Result for the period		-1,967	-172
Total equity attributable to owners of the parent	3.2, 5.4	16,820	18,901
Liabilities			
Non-current liabilities			
Borrowings	5.1, 5.3	382	213
Deferred tax liabilities	7.1	132	310
Other non-current liabilities		2	16
Total non-current liabilities		516	539
Current liabilities			
Borrowings	5.1, 5.3	6,792	8,267
Trade payables and other payables	6.3	9,135	9,002
Current income tax liabilities		65	43
Total current liabilities		15,991	17,311
Total liabilities		16,507	17,851
Total equity and liabilities		33,327	36,752

Notes are an integral part of the Financial Statements.

Consolidated Statement of Cash Flows

EUR thousand	Note	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Cash flows from operating activities			
Result for the period		-1,967	-172
Adjustments for:			
Depreciation and amortization	4.2, 6.1	1,197	614
Other non-cash adjustments ¹⁾		42	51
Finance income and expenses, net	5.2	469	390
Income tax expense	2.5	47	274
Changes in working capital			
Change in trade receivables and other receivables		62	-3,407
Change in trade payables and other payables		142	1,986
Interests paid		-314	-171
Other finance income and expenses, net		-9	-3
Income taxes paid		-328	-416
Net cash flows generated from operating activities		-659	-853
Cash flows from investing activities			
Purchases of tangible assets	6.1	-84	-122
Purchases of intangible assets	4.2	-96	-64
Payments for business acquisitions, net of cash acquired	4.1	-168	-4,005
Proceeds from loans receivable		0	6
Net cash from investing activities		-348	-4,186
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities	3.2, 5.4	97	9,644
Proceeds from borrowings	5.1	0	5,850
Repayments of borrowings	5.1	-1,385	-1,027
Purchase of own shares	5.4	-4	-20
Finance lease payments		-278	-233
Net cash from financing activities		-1,570	14,214
Net decrease(-)/increase in cash and cash equivalents		-2,577	9,175
Cash and cash equivalents at the beginning of the period		11,864	2,718
Exchange gains/losses (-) on cash and cash equivalents		-1	-29
Cash and cash equivalents at the end of period		9,286	11,864

¹⁾ Primarily comprises the adjustment of personnel costs recognized for share-based compensation.

Notes are an integral part of the financial statements.

Statement of Changes in Equity

		Attributable to owners of the parent					
EUR thousand	Note	Share capital	Invested unrestricted equity reserve	Cumulative translation difference	Retained earnings	Total	Total equity
Equity at 1 Jan 2017 (IFRS)		95	6,151	21	1,939	8,206	8,206
Result for the period					-172	-172	-172
Other comprehensive income for the period:							
Translation differences				-184	0	-184	-184
Total comprehensive income for the period		0	0	-184	-172	-356	-356
Transactions with owners:							
Issue of shares as consideration for a business combination	4.1, 5.4		1,024			1,024	1,024
Share issue	5.4		9,540			9,540	9,540
Share issue related to 2016 share-based compensation	3.2, 5.4		410			410	410
Share based payments to employees	3.2				77	77	77
Total transactions with owners:		0	10,974	0	77	11,051	11,051
Equity at 31 Dec 2017		95	17,125	-163	1,844	18,901	18,901
Equity at 1 Jan 2018		95	17,125	-163	1,844	18,901	18,901
Adoption of IFRS 9					-5	-5	-5
Restated equity at 1 Jan 2018		95	17,125	-163	1,839	18,896	18,896
Result for the period					-1,967	-1,967	-1,967
Other comprehensive income for the period:							
Translation differences				-278		-278	-278
Total comprehensive income for the period		0	0	-278	-1,967	-2,245	-2,245
Transactions with owners:							
Share issue related to 2016 share-based compensation	3.2, 5.4		160			160	160
Share based payments to employees	3.2				9	9	9
Total transactions with owners:		0	160	0	9	169	169
Equity at 31 Dec 2018		95	17,285	-441	-119	16,820	16,820

Notes are an integral part of the Financial Statements.

Notes to the Consolidated Financial Statements

Section I: About the financial statements

These consolidated interim financial statements comprise of Nixu Corporation ("the Company") or ("the Parent Company") and its subsidiaries (together referred to as the "Group" or "Nixu").

Nixu is a cybersecurity services company on a mission to keep the digital society running. Our passion is to help organizations embrace digitalization securely. Partnering with our clients we provide practical solutions for ensuring business continuity, an easy access to digital services and data protection. We aim to provide the best workplace to our team of nearly 400 cybersecurity professionals with a hands-on attitude. With Nordic roots we serve enterprise clients worldwide. Nixu shares are listed on the Nasdaq Helsinki stock exchange. The Nixu Corporation shares are listed on the Official List of Nasdaq Helsinki stock exchange. The Parent Company domicile is in Espoo, and the registered address is Keilaranta 15, 02150 ESPOO. A copy of the financial statements is available on the Internet at www.nixu.com.

Nixu's Board of Directors has approved these financial statements in their meeting on February 27, 2019. According to the Finnish Companies Act, shareholders have the opportunity to approve or reject the financial statements at the General meeting of Shareholders held after publication. It is also possible to amend the financial statements at the General meeting of Shareholders.

The notes to the consolidated financial statements that follow present information relevant to understanding Nixu's:

- Result for the year;
- People;
- Acquisitions and group structure;
- Interest-bearing Net Debt and Equity and
- Other assets and liabilities

Other information that is required to be disclosed to comply with the accounting standards but are not considered to be significant to understand the financial performance or financial position of Nixu are provided at the end of the notes.

Basis of preparation

These consolidated financial statements of Nixu have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS as adopted by the European Union. The notes to the consolidated financial statements also comply with the Finnish accounting and corporate legislation complementing the IFRS standards.

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities (derivative instruments) which are measured at fair value.

The consolidated financial statements are presented in thousands of euros, which is the functional and presentation currency of the parent company. Items included in the financial statements of each subsidiary are measured using the currency of primary economic environment in which the subsidiary operates.

All amounts presented are in thousands of euros unless otherwise noted and are rounded. Accordingly, in certain instances, the sum of the numbers in a column or row may not conform exactly to the total amount given for that column or row.

Key accounting estimates

In preparing these financial statements, management are required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in the following notes:

- Revenue: Revenue recognition of large fixed-price projects (note 2.1.)
- Revenue: Recognition of license revenue - Nixu as an agent (note 2.1.)
- Segment information: aggregation of operating segments (note 2.2.)
- Acquisitions: Determination of the fair value of the net assets acquired (note 4.1.)
- Acquisitions: Management judgement relating to the determination of contingent consideration (note 4.1.)
- Intangible assets, including goodwill impairment testing: Allocation of goodwill and estimation of the carrying value (note 4.2.)
- Intangible assets, including goodwill impairment testing: The economic useful life of customer relationships (note 4.2.)
- Deferred taxes: Recognition of deferred tax assets and deferred tax liabilities (note 7.1.)

Section 2: Result for the period

This section contains information relevant to understanding the results and performance of the Group during the reporting period:

- Revenue
- Segment information
- Materials and services
- Other operating income and expenses
- Income taxes
- Earnings per share

2.1 Revenue

Nixu provides a wide range of cybersecurity services and continuous services and sells licenses for both business enterprises and the public sector. Nixu's solutions include the following service concepts: business digitalization, cyber defense, cybersecurity outsourcing, cloud transformation, safety and reliability, compliance and certification, and connected devices. Typically these service concepts and contracts with customers include several types of services as described below in more detail.

Projects and assignments area includes one-off assignments, whose duration and scope vary from extensive delivery projects to the single control and consulting assignments.

All continuous services include:

Managed security services, whose turnover mainly consists of Nixu Cyber Defense Center (Nixu CDC). Within these services, Nixu takes the management responsibility of the technology provided and a continuous operational role in supporting customer operations.

Continuous services area includes continuous services other than managed services. They differ from other assignments in that they are based on agreements that are valid until further notice or are based on self-renewing agreements.

License revenue includes resale of third party software and technology service licenses together with other services. License revenue includes also maintenance services.

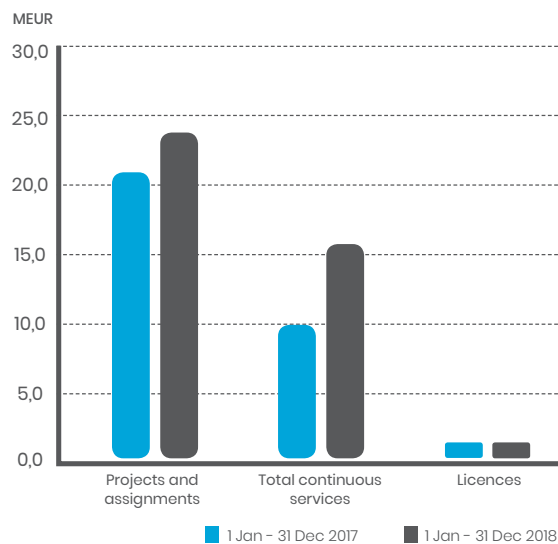
The Group's revenue from contracts with customers is accumulated over time and licenses at a point in time according to the following main service areas and geographical areas:

EUR thousand	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Service type:		
Projects and assignments	23,460	21,273
Total continuous services	15,560	9,988
Managed services	4,459	2,153
Continuous services	11,102	7,835
Licences	1,107	1,018
Total	40,127	32,279

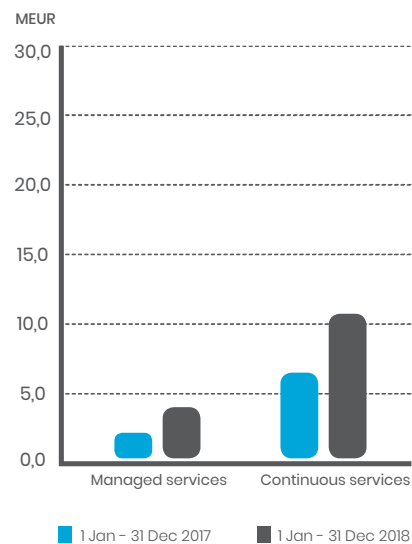
EUR thousand	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Finland	25,492	21,054
Sweden	8,100	7,125
The Netherlands	2,031	1,288
United States	1,422	1,155
Other	3,082	1,658
Total	40,127	32,279

The geographical breakdown of revenue is based on the customer location with which the contract for services has been made. Part of the services may have been delivered to other countries.

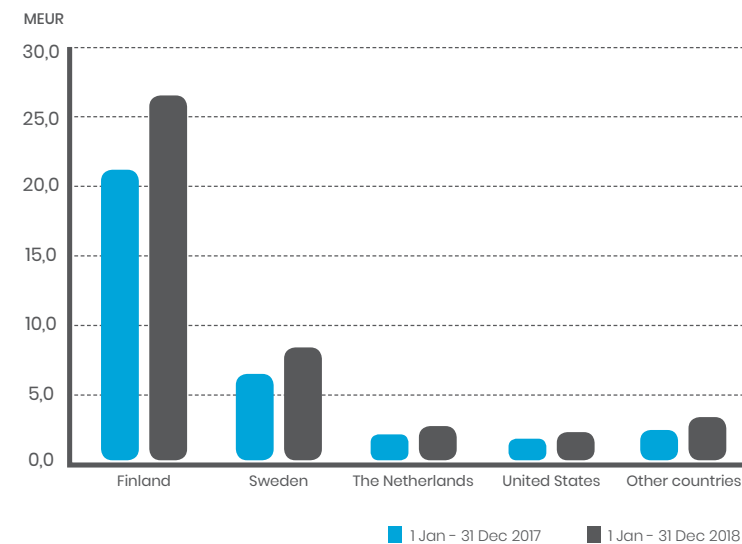
REVENUE BY TYPE OF SERVICE



TOTAL CONTINUOUS SERVICES IN DETAIL



REVENUE BY GEOGRAPHY



Contractual assets and liabilities

The Group's balance sheet includes the following contractual assets and liabilities:

EUR thousand	31 Dec 2018	31 Dec 2017
Contract assets - Projects and assignments	838	247
Receivables	9,156	9,671
Contract assets and receivables total	9,994	9,918
Costs to obtain contracts with customers¹⁾		
Managed services (CDC)	97	60
Licenses	112	485
Costs to obtain contracts with customers total	209	545
Contract liabilities		
Projects and assignments	91	292
Manager services	306	306
Continuous services	299	261
Licenses	740	540
Contract liabilities total	1,436	1,399

¹⁾ Included in accrued expenses, see Note 6.3. Trade payables and other liabilities.

Contract assets

Contract assets are recognized for provided services that have not yet been invoiced. For projects and assignments, invoicing is typically based on the performance agreed upon in the contract, which is invoiced monthly on an hourly basis in accordance with the work performed. The charge may also be based on a fixed price which is invoiced gradually. A separate hourly rate has been determined for additional work. The change in the contract assets is mainly due to a normal seasonal variation and to the fact that some of the projects were completed by the year end.

The Cyber Defence Center (CDC) service contracts include set-up costs relating to the implementation of the service, which are capitalized as costs to fulfill a contract and amor-

tized over the contract period. In 2018, the accrued amount of costs to fulfill a contract be amortized on later periods was EUR 82 thousand (2017: EUR 24 thousand). The CDC service launched in 2015 has grown significantly in a short period of time, which explains the change in the assets and liabilities. Also the contracts with customers relating to software acquired from third parties and provided as a service include costs that have been capitalized as costs to fulfill contract and amortized over the contract period. Costs to fulfill these contracts amortized as an expense in 2018 amounted to EUR 40 thousand (2017: EUR 291 thousand).

Contract liabilities

Contract liabilities are recognized for payments received from services that have not been provided. Revenue from CDC implementation services has been recognized by Nixu as a contract liability and amortized over the period during which continuous managed CDC services are provided. In all continuous services, i.e. managed cybersecurity services and continuous services the performance provided is typically based on a fixed monthly fee, and payment takes place monthly. Nixu Dedicated Support Services are an exception, where invoicing for some contracts with customers is front-loaded.

For some CDC contracts, CDC projects include service level agreements that are monitored on a monthly basis and, if necessary, recognized. Some customers have been granted volume discounts based on turnover which are recognized. Such volume discounts for 2018 are EUR 30 thousand (2017: 0).

For licenses, the time of payment for the performance provided is typically determined by the time of delivery. For license maintenance fees, the payment is often made in advance for the year to follow.

Payment terms for all contract types vary between 14 and 60 days.

Accounting policy

All revenue is recognized on a gross basis, because Nixu acts as a principal towards the customer. Revenues are reported after the deduction of indirect taxes and any discounts allowed.

Nixu accounts for each service and license as a separate performance obligation, because they are separately identifiable and customer can benefit from each service and product separately. Service contracts do not involve significant customization of the software.

Contracts with customers include some variable consideration, such as discounts, target prices, or sanctions related to the achievement of a service level in continuous services. Nixu estimates the amount of variable consideration based on expected value at the inception of the contract and at the end of each reporting period, and includes in the transaction price only the amount that meets criteria of being highly probable. The transaction price is allocated to the performance obligations based on their relative standalone selling prices. Nixu does not grant its customers payment terms exceeding one year, and the contracts do not include significant financing components.

Projects and assignments

Revenue from projects and assignments is recognized over time in the accounting period in which the services are rendered. The performance related to the projects does not create an asset with an alternative use, and Nixu has an enforceable right to payment for the performance completed.

For projects and assignments agreements which are invoiced on time incurred, revenue is recognized in the amount to which Nixu has a right to invoice on monthly basis. Revenue from fixed-price projects is recognized based on service provided by the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual labour hours spent in proportion to the total expected labour hours. If the services rendered by Nixu exceed the payment, a contract asset is recognized. The contract asset is transferred to receivables when entitlement to payment becomes unconditional. If the payments exceed the services rendered, a contract liability is recognized.

Managed services and continuous services

When Nixu's customer receives and consumes simultaneously the benefits from the services, Nixu recognizes revenue as managed services, other continuous services, software when provided as a service (SaaS), and maintenance services are provided. As a general rule, revenue is recognized in the amount to which Nixu has a right to invoice on monthly basis

Contracts on continuous services normally include only one performance obligation, which is a series of distinct services. Contractual penalties relating to service levels are recognized as an adjustment to revenue. The requirement for the allocation of variable consideration to a distinct service in a series is met in continuous services, where Nixu allocates and recognizes variable consideration in the period during which it has a contractual right to a fee.

License revenue

Revenue from software licenses is recognized at a point in time upon delivery of the software when the customer has obtained an access to software and the customer is able to benefit from the software. License revenue also includes maintenance services, for which revenue is recognized over time as the customer simultaneously receives and consumes the benefit from the service.

Contract costs

Where the criteria for capitalization are met, Nixu recognizes as an asset the incremental costs of obtaining a contract, such as sales bonuses, and the costs to fulfil a contract, such as set-up costs at the inception of the contract. The incremental costs of obtaining a contract and costs to fulfil a contract that meet the capitalization criteria are presented in the statement of financial position as part of the contract asset. Any incremental costs of obtaining a contract are recognized as an expense as incurred if the amortization period of such capitalized costs would be one year or less. Costs to fulfil a contract recognized as an asset are amortized in 1 to 3 years depending on the contract period.

Application of practical expedients

Nixu applies practical expedient permitted in IFRS 15 of recognizing incremental costs of obtaining contract and disclosing part of unrecognized revenue of projects and assignments and managed services and continuous services (transaction price allocated to performance obligations not satisfied) as contracts of these services have an expected duration of less than one year (contracts for managed services and continuous services are continued until further notice or can be terminated within a year as a general rule) or Nixu recognizes revenue based on invoicing.

Key judgements and estimates

Fixed-price projects

The fixed-price projects mainly consist of separate audit and consultation assignments with an average duration of [6] months. The deliveries of some more extensive fixed-price solutions may involve uncertainties, such as delays in projects or costs incurred in excess of initial estimates. For this types of projects, management uses judgement and assesses the amount recognized as revenue from the project. Estimates of revenues, costs or extent of progress toward completion of projects and assignments are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

License revenue – Nixu as principal

Nixu has used judgement to assess whether Nixu is a principal or an agent in sales of third party software and technology service licenses. As Nixu grants customer a right to use a license, Nixu is responsible for fulfilling contractual obligations related to licenses, Nixu sets prices and independently sells the licenses mainly as a part of Nixu's other services and the license owning party only provides limited support services to Nixu, Nixu has concluded to be a principal on the arrangement.

2.2 Segment information

Nixu has only one reportable segment. Nixu's CEO is the Group's chief operating decision maker (CODM) and operating segments are determined on the basis of information reviewed by the CEO for the purposes of allocating resources and assessing the operating segment's performance.

The CODM of Nixu has determined that in the fiscal year 2018 there are three operating segments: Finland, Sweden and Benelux. In the previous fiscal year, Benelux was separated in two distinct segments. In addition to the Benelux segment that was offering cybersecurity services, there was the Dedicated support segment which was specialized in support services for digital identity management and product support services. The previously mentioned services have been combined with other Benelux activities and therefore there was no need for a separate segment. All operating segments provide cyber security services consisting of projects and assignments, continuous services and license sales. Dedicated support services specializes in digital identity management support solutions and product support services. The management of Nixu has decided to aggregate these operating segments into one reportable segment that consists all Nixu's operations. Therefore separate segment information is not disclosed.

Key judgements and estimates

Nixu's management has used judgement when aggregating operating segments into one reportable segment.

All Nixu's operating segments provide either the same or similar type of cyber security services. The focus is on technology-based continuous services, which can be seamlessly integrated into the company's cyber security consultation business.

Based on "One Nixu" management philosophy Nixu has uniform operating model for its customers in each operating segment. Customers are provided with the most optimal set of skills, independent of where the security consultants are located, thus creating a model where one pool of security consultants and same methods of providing services is used for all operating segments' customers.

The customer base and regulatory environment are similar in all operating segments as those are located mainly in the EU area and their operations are not focused on a specific customer type with a distinctive regulatory environment. In addition the long-term growth and profitability trends are considered similar for all operating segments.

The geographical split of the revenue is disclosed in the Revenue section.

The non-current assets (excluding financial instruments and deferred tax assets) by geographical location are shown in the following table.

EUR thousand	31 Dec 2018	31 Dec 2017
Finland	3,677	3,896
Sweden	6,383	6,587
Benelux	2,088	2,498
Total	12,148	12,982

2.3 Materials and services

EUR thousand	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Subcontracting	2,257	1,167
Hosting and licence expenses	2,047	1,251
Other	0	223
Total	4,304	2,641

Materials and services provided include license fees, production costs related to managed services, and other direct costs associated with the provision of the services of the Group.

2.4 Other operating income and expense

Other operating income includes mainly grants received. The amount of grants for the financial year ended December 31, 2018 was EUR 206 thousand (2017: EUR 457 thousand).

Accounting policy

Government grants received as cash are recognized when there is a reasonable assurance that the grant will be received and the Group will comply with the attached conditions. Government grants are recognized in the income statement in the period necessary to match them with the costs they are intended to compensate.

The table below shows the other operating expenses of the company:

EUR thousand	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Marketing expenses	890	704
Personnel related expenses	2,936	2,283
ICT expenses	1,173	788
Facilities	1,133	957
External services	2,364	2,256
Other operating expenses	810	365
Total	9,306	7,353

Other operating expenses include general expenses such as marketing expenses, fees of experts and consultants, as well as costs related to telecommunications and information technology.

In the financial year ended December 31, 2018, the Group recognized EUR 988 thousand (2017: EUR 623 thousand) in research and development expenses through profit or loss.

Other operating expenses include the auditor's fees as per the attached specification. The share of other services has increased significantly compared to the previous year. The increase in expenses is explained by the increase in the number of employees and Nixu's move from First North to the Official List of Nasdaq Helsinki.

Auditors' fees (included in other operating expenses)

EUR thousand	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Statutory audit	103	108
Tax advisory services	14	0
Other services	232	102
Total	349	210

The increase of other auditors' services is explained by Nixu's move from First North to the Official List of Nasdaq Helsinki.

Accounting policy

Research and development costs are expensed as incurred, except for certain development costs, which are capitalized as they generate future economic benefits, and Nixu can measure the cost reliably. Nixu does not have any capitalized development costs in its financial statements.

2.5 Income taxes

EUR thousand	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
Current tax on result for the period	174	433
Adjustments in respect of prior years	3	-6
Total current income tax expense	177	427
Deferred tax		
Change in deferred tax assets	-30	-128
Change in deferred tax liabilities	-100	-26
Total deferred tax	-129	-153
Income tax expense	47	274

The following is a reconciliation between the tax expense and the tax payable:

EUR thousand	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
Result before taxes	-1,920	102
Tax calculated at Finnish tax rate 20%	-384	20
Tax effect of:		
Effect of other tax rates for foreign subsidiaries	-20	-21
Expenses not deductible for tax purposes ¹⁾	56	131
Utilization of previously unrecognized tax losses	0	-2
Unrecognized deferred tax assets on tax losses ²⁾	398	157
Change in income tax rates	-13	0
Other items	-2	-4
Adjustment in respect of prior years	12	-6
Income tax expense in income statement	47	274

¹⁾ Non-deductible expenses mainly include transaction costs for acquisitions, expenses treated as personnel expenses in connection with acquisitions, and expenses related to share rewards.

²⁾ The operations of the Group's subsidiaries Nixu B.V and ESSC B.V. have been unprofitable and the Group has not recognized any deferred tax assets for these losses. In 2018, the amount of losses for which no deferred tax asset was recognized is EUR 1,952 thousand (2017: EUR 676 thousand). This has a significant impact on the Group's effective tax rate. Further information on the Group's deferred taxes is presented in Note 7.1.

Accounting policy

The income tax expense or income for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group companies operate and generate taxable income. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.6 Earnings per share

	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
Result for the period attributable to the owners of the parent	-1,966,985	-171,625
Weighted average number of shares, undiluted	7,208,401	6,440,713
Earnings per share, basic (EUR)	-0.27	-0.03
Impact of shares related to share based incentive plan	20,562	110,073
Weighted average number of shares, fully diluted	7,228,964	6,550,786
Earnings per share, diluted (EUR)	-0.27	-0.03

Nixu's dilutive potential shares are linked to the Nixu share-based incentive plan, which is described in more detail in Section 3.2 Employee share-based incentive plan.

Accounting policy

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the reporting period (excluding any treasury shares).

Diluted earnings per share adjusts the figures used in the determination of the basic earnings per share to take into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Section 3: Personnel

This section includes information how Nixu rewards its employees and key management personnel. The section includes details of employee benefits, share-based incentive plans and related party information related to the remuneration of key management personnel as follows:

- Employee benefits
- Share-based payments
- Key management personnel disclosures

3.1 Employee benefit expenses

EUR thousand	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
Wages and salaries	21,890	17,318
Social security expenses	2,012	1,867
Share-based payments	9	77
Pension expenses – defined contribution plans	3,204	2,470
Total	27,115	21,733
	2018	2017
Number of employees at the end of period	355	323
Average number of employees during the period	346	282

Nixu has employees in Finland, Sweden, the Netherlands, the USA and Romania. The company's pension arrangements in all its countries of operation are defined contribution plans.

Group employees are included in the performance-based annual bonus scheme. The annual bonus is based on the financial ratios of the group, the unit and the team and the achievement of personal performance targets. In Finland, annual bonuses are transferred to the Personnel Fund if the person so wishes to increase the commitment of the personnel to long-term goals and promote its interest in the Group's financial success. The Personnel Fund is a personnel fund owned and managed by the employees in accordance with the Employees Fund Act, which owned 58,230 Nixu shares on December 31, 2018. The amount of annual bonuses transferred to the Personnel Fund in 2018 was EUR 277 thousand. The Personnel Fund was established in October 2016.

Accounting policy

Liabilities related to short-term employee benefits

Short-term employee benefits include salaries including fringe benefits and vacation pays payable within 12 months. Short-term employee benefits are recognized as other liabilities in respect of employee service up to the reporting date and measured at the amounts expected to be paid when the liabilities are settled.

A liability is recognized for the amount expected to be paid under short-term bonus plan if the criteria for paying such bonuses are met.

Defined contribution plans

For defined contribution plans, contributions are paid to pension insurance companies. Once the contributions have been paid, there are no further payment obligations. Contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

3.2 Employee share-based incentive plan

The 2016 share-based incentive plan

In November 2016, Nixu issued 120,000 new shares to its personnel at a subscription price of EUR 4.96 per share, which was below the fair value on the date of the subscription. In connection with the share issue, Nixu granted a loan of EUR 271 thousand to its personnel for payment of the new share subscription price. The loans were repaid in 20 monthly installments deducted directly from salary. The interest on the loan was tied to Euribor. The loan matured prematurely if the

employment relationship ended. EUR 324 thousand of the subscription price was paid in cash.

The Employee Incentive Plan included a vesting period of one to two years, based on an employment condition, during which employees were not entitled to transfer their shares. Under certain conditions, the company had the right to repurchase the restricted shares from the subscribers whose employment or CEO contract expired during the vesting period. The incentive plan was classified as an equity-settled share-based incentive plan. The fair value of the work performed on the issued shares was recognized as an expense. The share-based payment recognized as an expense was based on the difference between the fair value of the shares granted and the subscription price paid. The terms of the performance were taken into account in the assumed number of shares expected to be created. Total cost was recognized for the vesting period.

The plan had increased the company's employee benefit expenses and retained earnings by EUR 9 thousand, for year ended December 31, 2018 (2017: 77).

The former practice of Nixu has been to redeem the shares if the employment relationship ends before the end of the vesting period. Thus, the earned shares were recorded in equity only when the vesting period ended. For the year ended December 31, 2018, the company recorded EUR 160 thousand (in December 31, 2017: 410) to the invested unrestricted equity fund related to shares whose vesting period ended. In connection with these shares, Nixu did not have a loan receivable on December 31, 2018 (December 31, 2017: 54). The loans granted to employees for the subscription of shares were considered as part of a share-based payment transaction. The part of the subscription price paid in cash was recorded as a liability until the vested shares were transferred. The employment condition tied to the acquisition of shares expired on November 30, 2018, so the company had no liability related to the shares on December 31, 2018 (December 31, 2017: EUR 120 thousand).

On the date when the balance sheet was generated, there were no employee share-based incentive plans in force.

Accounting policy

Share-based incentive plans are accounted for either as equity or cash settled share-based payments. In Nixu's share-based incentive plan the employees (including senior executives) of the Group receive shares in exchange for employee services. Nixu may obtain the necessary shares by using its treasury shares or may purchase shares from the market.

3.3 Information on key management personnel disclosures

Key management personnel include Nixu's Board of Directors, CEO and Corporate Leadership Team.

The Remuneration of Board of Directors

EUR thousand	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Salaries, remuneration and benefits		
Kimmo Rasila	35	34
Marko Kauppi	26	25
Kati Hagros	18	17
Juhani Kaskeala	18	17
Tuija Soanjärvi	18	17
Teemu Tunkelo	12	0
Total	127	109

There are 6 members on the Board of Nixu. In 2018, Nixu's Annual General Meeting decided that the Board's remuneration will be increased. The Chairman of the Board receives a fee of EUR 3,000 (2017: 2,800), Deputy Chairman EUR 2,250 (2017: 2,100) and other members of the Board of Directors EUR 1,500 per month (2017: 1,400). Travel expenses will be reimbursed in accordance with Nixu's travel policy.

The audit committee members in 2018 are Tuija Soanjärvi (Chair), Juhani Kaskeala (member) and Teemu Tunkelo (member). For the work of the Audit Committee, the Chair of the Committee will be paid an annual remuneration of EUR 2,000 and each Member will be paid an annual remuneration of EUR 1,000.

Corporate Leadership Team salaries and fees

EUR thousand	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Management team remuneration (except CEO)		
Wages, salaries and benefits	655	391
Share-based payments	6	2
Pension expenses - defined contribution plans	149	68
Total	810	462

Members of the Nixu Corporate Leadership Team include Chief Executive Officer, the Chief Financial Officer, Chief Personnel Officer, Commercial Officer, Chief Development Officer and Chief Officer for the Finnish Market Area.

The remuneration of CEO

EUR thousand	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Wages, salaries and benefits	184	212
Share-based payments	2	1
Pension expenses - defined contribution plans	35	37
Total	220	250

CEO's term of notice has been specified as three months in case the CEO decides to withdraw, and six months should the contract be terminated by the Company. Upon termination of contract of the CEO by the Company, the CEO will receive normal compensation during the termination period. Or if the Company decides, the CEO will be paid a compensation corresponding to six months including holiday pay, without further employment obligation. The CEO does not have additional pension plans.

Board and management shareholdings

Below are the holdings of Nixu's Board of Directors, CEO, and the Corporate Leadership team's members in Nixu:

Name	Role	Shares
Kimmo Rasila	Chairman of the Board	157,132
Shares held by related parties		10,000
Marko Kauppi	Vice-Chairman of the Board	16,000
Through Tenendum Oy		248,800
Juhani Kaskeala	Member of the Board	8,000
Through Admiral Consulting Oy		12,000
Kati Hagros	Member of the Board	3,239
Tuija Soanjärvi	Member of the Board	0
Teemu Tunkelo	Member of the Board	0
Petri Kairinen	CEO	35,640
Janne Kärkkäinen	CFO, deputy CEO	5,455
Kim Westerlund	CDO	26,109
Valtteri Peltomäki	Finnish Market Area Leader	6,787
Katja Müller	CPO	0
Jesper Svegby	CCO	0

Section 4: Acquisitions and group structure

This section provides information on Nixu's group structure, the acquisitions done during the reporting period, the assets acquired and liabilities assumed as well as the goodwill and other intangible assets recognized related to the acquisitions.

- Acquisitions
- Intangible assets including goodwill impairment testing
- Group structure

4.1 Acquisitions

Nixu did not make any acquisitions during 2018. In 2017, Nixu realized two corporate acquisitions: the Expert Solution Support Center BV ("ESSC") acquisition, at the end of May, 2017 and the Bitsec AB ("Bitsec") acquisition, at the end of June, 2017.

4.2 Intangible assets, including goodwill impairment testing

EUR thousand	Goodwill	Customer relationships	Other intangible assets	Total
2018				
Cost at 1 January	9,764	2,141	385	12,290
Exchange differences	-208	-59	0	-267
Cost at 31 December	9,556	2,082	385	12,023
Accumulated amortization and impairment at 1 January	0	178	32	211
Amortization	0	192	128	320
Impairment charges	0	372	0	372
Exchange differences	0	-6	0	-6
Accumulated amortization and impairment at 31 December	0	737	160	897
Net book amount at 1 January	9,764	1,962	353	12,080
Net book amount at 31 December	9,556	1,345	225	11,126
2017				
Cost at 1 January	5,570	1,035	0	6,605
Acquisition of subsidiaries	4,328	1,146	0	5,474
Additions	0	0	385	385
Exchange differences	-133	-41	0	-174
Cost at 31 December	9,764	2,141	385	12,290
Accumulated amortization and impairment at 1 January	0	33	0	33
Amortization	0	148	32	181
Exchange differences	0	-3	0	-3
Accumulated amortization and impairment at 31 December	0	178	32	211
Net book amount at 1 January	5,570	1,002	0	6,572
Net book amount at 31 December	9,764	1,962	353	12,080

The Group's intangible assets comprise goodwill, customer relationships and other intangible assets such as licenses for computer software. Nixu utilizes in its cybersecurity services and continuous services mainly licensed technology and software provided by third parties. During the first half of the year, the prerequisites for activation were met for the product development project, but during the second half of the year the conditions for commercialization of the project deteriorated. Therefore the development project which was activated during the first half of the year, was booked as an expense, and Nixu did not have any development projects that would have fulfilled criteria for capitalization in 2018 and 2017.

Accounting policy

Goodwill represents the excess amount the Group has paid in acquiring a business over the fair value of the assets and liabilities acquired. Goodwill is carried at cost less any accumulated impairment losses and is considered as having an indefinite useful economic life. It is allocated to the cash generating unit of which the acquisition forms part. Goodwill is not amortized and is tested for impairment at least annually or when there is an indication of impairment.

Customer relationships, which are considered separately identifiable, are acquired assets obtained through business combinations and they are measured at fair value at the date of acquisition. Customer relationships are subsequently carried at cost less accumulated amortization and impairment losses. Customer relationships are amortized in 10 to 12 years. Amortization period of customer relationships is based on the Nixu's historical length of customer relationships and customer churn. All other intangible assets are carried at cost less any accumulated amortization and impairment losses. Other intangible assets are amortized in 3 to 5 years.

Key solutions and estimates based on judgment

Nixu's management has estimated the useful life of the customer relationships recognized on the acquisitions. Useful lives are estimated at each balance sheet date and adjusted when necessary.

Goodwill impairment testing

The following table shows the goodwill allocated to each cash-generating unit of Nixu:

EUR thousand	31 Dec 2018	31 Dec 2017
Finland	2,900	2,900
Sweden	4,979	5,187
Benelux	1,677	1,677
Total goodwill	9,556	9,764

The key assumptions used in determining the recoverable cash flow of cash-generating units are as follows:

- The long-term growth rate of 2% has been used for all CGUs and reported periods.
- The pre-tax discount rates are shown below:

	Finland	Sweden	Benelux
31 Dec 2018	9%	10%	9%
31 Dec 2017	11%	11%	10%

- The long-term EBITDA percentages are shown below:

	Finland	Sweden	Benelux
31 Dec 2018	10%	8%	8%
31 Dec 2017	10%	8%	12%

- Other key assumptions used in the periods presented were the average annual growth rate of net sales (12% -18%) and the average EBITDA margin (8% -10%).

As a result of the impairment tests conducted, an impairment charge of EUR 372 thousand was recognized for the valuation of the customer relationships of Expert Solution Support Center B.V. The recoverable cash flow based on value in use in 2018 exceeded the book value by EUR 49.4 million in Finland (2017: 23.3), EUR 6.8 million in Sweden (2017: 0.6) and EUR 2.4 million in Benelux (2017: 3.4).

Sensitivity

The recoverable amount of a cash-generating unit in Benelux would be equal to its book value as of December 31, 2018, if any of the key assumptions changed as follows (with the remaining assumptions remaining the same):

- The average annual growth rate of net sales would have dropped from 12% to -1% (2017: 19% to 7%); or
- The long-term EBITDA margin would have dropped from 8% to 5% (2017: 9% to 5%).

The Benelux goodwill arose from the acquisition in 2017, when assets and liabilities were recorded at fair value.

Key solutions and estimates based on judgment

Management makes significant estimates and judgements in determining the level at which the goodwill is allocated to and in assessing the carrying value of goodwill. Nixu tests goodwill annually and other intangible assets when there is an indication that the assets may be impaired (assessed at least each reporting date). The goodwill is allocated to groups of cash-generating units, which are the operating segments of Nixu, reflecting the lowest levels at which the goodwill is monitored for internal management purposes. The recoverable amount is the higher of CGU's fair value less costs of disposal and value in use. The value in use calculations are based on discounted cash flows expected to arise from the goodwill.

Key estimates and judgement related to value in use calculations is presented below:

- forecasting of future cash flows – these are based on the Nixu's latest approved internal five year forecasts and reflect expectations of revenue growth, operating expenses, EBITDA margin, capital expenditure and cash flows, based on past experience and management's expectation of future market changes.
- discount rates applied to those cash flows – pre-tax discount rates used are the weighted average expense of capital determined by current market inputs and adjusted for the risks specific to the CGU. The adjusted after-tax discount rate is translated to a pre-tax rate for each cash generating unit (CGU) based on the specific tax rate applicable to where the CGU operates.
- the expected long-term growth rates – cash flows beyond the five year period are extrapolated using estimated growth rates. The growth rates are based on the expected long-term performance of each CGU in their respective market and are consistent with the long-term average growth rates of the cyber security service market.

Estimates and judgements are subject to change as a result of changing economic and operational conditions. Actual cash flows may therefore differ from forecasts and could result in changes in the recognition of impairment charges in future periods.

Goodwill's carrying amount is written down to its recoverable amount if goodwill's carrying amount is greater than its estimated recoverable amount. An impairment loss rec-

ognized for goodwill is not reversed in a subsequent period. Any impairment charge is recognized in the income statement if the carrying amount of a CGU exceeds its recoverable amount.

Other intangible assets are tested by assessing the recoverable amount of each individual asset or, if this is not possible, then the recoverable amount of the cash generating unit (CGU) to which the asset belongs. CGUs are the lowest levels at which assets are grouped and generate separately identifiable cash flows.

4.3 Group structure

Consolidated companies in the Financial Statement

Subsidiaries:

Subsidiaries belonging to the Group as at December 31, 2018 have been presented in the table below:

	Parent Proportion, %	Group Proportion, %
Subsidiaries:		
Nixu Certification Oy	100%	100%
Nixu B.V	100%	100%
Expert Solution Support Center SRL	0%	100%
Expert Solution Support Center Inc.	0%	100%
Nixu AB	100%	100%
Swedish Forensic Technologies AB (SE)	0%	56%
Nixu Inc.	100%	100%

The structure of the Nixu Group was simplified in both Sweden and the Netherlands during the financial year. In Sweden, Nixu Consulting AB, Bitsec AB and Bitsec Holding AB were merged with Nixu AB. In the Netherlands, Nixu B.V. merged with Expert Solution Support Center B.V. The name of the merged company was changed to Nixu B.V.

Subsidiaries are all acquired in 2016 and 2017, excluding Nixu Certification Oy, Nixu B.V. and Nixu Inc., which are established by the Company itself.

Accounting policy

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed to, or has the rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and any unrealized gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Assets and liabilities in subsidiaries are translated into euro at the rate prevailing on the balance sheet date. Income and expenses in subsidiaries are translated into euro using an average rate. Translation differences that arise when translating the financial statements of subsidiaries are recognized in other comprehensive income and accumulated in a separate component of equity, called translation differences.

Foreign currency denominated transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or if items have been revalued, at the measurement dates exchange rates. Foreign exchange gains and losses arising in respect of business operations, such as sales and purchases, are recognized in operating result. Foreign exchange differences arising from financial instruments are recognized in finance expenses.

Non-controlling interests in the net assets of consolidated entities are allocated their share of net profit after tax in the income statement, and are identified separately from the Group's equity in those entities. Nixu has not separated the holding of non-controlling owners from Swedish Forensic Technologies AB because there is no agreement between the owners on the basis of which the non-controlling shareholder would be liable for losses exceeding its investment.

Section 5: Interest-bearing net debt and equity

This section provides information how the Group manages its capital structure and financing, including its exposure to risks:

- Borrowings
- Derivative financial instruments
- Cash and cash equivalents
- Finance income and expenses
- Financial risk and capital management
- Equity

5.1 Net interest-bearing debt

Nixu's net debt position:

EUR thousand	31 Dec 2018 Carrying value	31 Dec 2017 Carrying value
Non-current borrowings		
Finance lease liabilities	381	194
Other loans	1	19
Total non-current borrowings	382	213
Loans from financial institutions	6,526	7,900
Finance lease liabilities	266	191
Contingent consideration	0	175
Total current borrowings	6,792	8,267
Total borrowings	7,174	8,480
Less cash and cash equivalents	9,286	11,864
Net debt	-2,112	-3,384

Borrowings

On December 31, 2018, Nixu's loans from financial institutions included a EUR 4,000 thousand floating rate loan that was drawn down in 2014, and variable and fixed rate loans amounting to EUR 5,900 thousand, which were taken out in 2017 in conjunction with financing arrangements. Loan interest rates were between 3.00% and 3.80% (2017: 3.00% -3.80%) and for a EUR 1,835 thousand loan, recapitalizable interest rate of 3.8% for the year ended December 31, 2018.

On May 29, 2017, Nixu Oyj made a financing agreement with a total value of EUR 8,500 thousand for 5 to 6 years. In addition to this, the company has a credit facility of EUR 1,000 thousand. The credit facility was not in use at the end of the financial year December 31, 2018. By December 31, 2018, a total of EUR 5,900 thousand of loans under the financing agreement have been taken out to finance the acquisitions mentioned in Section 4.1 and strengthen the company's working capital. The loans were in part variable and fixed-rate loans.

The loan which was taken out in 2014 is being paid in monthly installments, and will mature on October 9, 2020. The remaining amount of the loan was EUR 1,313 thousand as of December 31, 2018 (December 31, 2017: EUR 2,030 thousand). Part of the loans taken out in 2017 will be settled upon their reaching maturity. On December 31, 2018, the monthly repayable loan, which matures on November 30, 2020, was EUR 1,115 thousand (December 31, 2017: EUR 1,765 thousand).

MFI loans are presented in full in current liabilities. For more information on short-term loans and covenants related to loan agreements, see Section 5.3 of the notes. Financial risk and capital management - liquidity risk.

The fair value of the loans does not materially differ from their book value because the interest rates on the loans are close to the current market rates (new bank loans have been taken out in 2017, while the margin on the loan taken out in 2014 has been revised). The company's risk premium has not changed significantly after taking out loans. The fair values of Nixu loans are based on cash flows discounted using the current loan rate. The different terms of the loans (maturity, seniority, collateral) are taken into account when determining the value. Loans are classified in Level 2 of the fair value hierarchy because the fair value measurement is mainly based on a market interest rate curve.

Accounting policy

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Contingent consideration

Contingent consideration has been paid as described in Section 4: Acquisitions and group structure. Contingent consideration is classified as level 3 in the fair value hierarchy because other than observables inputs are used in the measurement.

Finance lease liabilities

Information regarding finance lease liabilities is disclosed in Section 6: Other assets and liabilities.

Derivative financial instruments

As part of its normal business operations, the Group is a party to derivative contracts designed to hedge against exposure to interest rate fluctuations in accordance with the Group's financial risk management principles (see "Financial risk and capital management"). At the point of the Financial Statement, the Group has two interest rate swaps on December 31, 2018 (December 31, 2017: two interest rate swaps). On December 31, 2018, the fair value of the derivatives was negative EUR 41 thousand (December 31, 2017: negative EUR 35 thousand). Changes in the fair value of these derivatives

were recognized as financial expenses in the income statement. The nominal value of interest rate swaps on December 31, 2018 was EUR 2,722 thousand (31 December 2017: EUR 3,080 thousand). For each swap, the company receives a floating rate (EURIBOR 3 months and 6 months respectively) and pays a fixed coupon rate (0.44% and 0.81% respectively). The interest rate swaps will mature in 2020 and 2022.

These derivative financial instruments are classified as level 2 in the fair value hierarchy, and their fair value is calculated as the current value of estimated future cash flows based on observable yield curves.

Accounting policy

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Derivatives are classified as held for trading.

The fair value of interest rate swaps is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market rates at the measurement date.

Cash and cash equivalents

Nixu's cash and cash equivalents consist of cash on hand and deposits held at call with financial institutions. Nixu's cash and cash equivalents as of December 31, 2018 amounted to EUR 9,286 thousand (December 31, 2017: EUR 11,864 thousand).

Accounting policy

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Net Debt Reconciliation

Net debt reconciliation:

EUR thousand	Cash and cash equivalents	Other borrowings due within 1 year	Other borrowings due after 1 year	Finance leases due within 1 year	Finance leases due after 1 year	Contingent consideration due within 1 year	Contingent consideration due after 1 year	Other loans due after 1 year	Total net debt
1 Jan 2017	2,718	709	2,021	161	201	222	169	0	765
Cash flows	9,175	-50	4,814	-161	-72			-6	-4,650
Acquisition of subsidiaries						-220		25	-195
Foreign exchange adjustment	-29								29
Other non-cash movements		7,241	-6,835	191	65	173	-169		666
31 Dec 2017	11,864	7,900	0	191	194	175	0	19	-3,384
Cash flows	-2,577	-1,463	0	-191	-87	-168		-18	650
Acquisition of subsidiaries									0
Foreign exchange adjustment	-1					-11			-10
Other non-cash movements		88		266	274	3			632
31 Dec 2018	9,286	6,526	0	266	381	0	0	1	-2,112

5.2 Financial income and expenses

EUR thousand	31 Dec 2018	31 Dec 2017
Finance income		
Foreign exchange gains on financing activities	25	0
Interest income	1	0
Finance income total	26	0
Finance expenses		
Foreign exchange losses on financing activities	-41	-107
Interest on borrowings	-438	-269
Fair value losses on derivatives	-6	-6
Other finance costs	-10	-8
Finance expenses total	-495	-390
Finance income and expenses total	-469	-390

The Group's financial expenses include mainly interest expenses on loans, exchange rate losses and the cost effect of discounting the conditional purchase price liability and the change in the fair value of interest rate swaps.

5.3 Financial Risk and Capital Management

Nixu's activities expose it to foreign currency risk, interest rate risk, credit risk and liquidity risk. Nixu's financial team manages the risk by identifying, evaluating and hedging financial risk arising from financial markets, customer transactions and liquidity requirements.

The Board of Directors provides principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk and use of derivative financial instruments.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from primarily with respect to the Swedish krona and US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. Ex-

posure to foreign exchange risk has been limited and Nixu's finance team monitors the changes in the situation.

Group companies initiate sale and purchase transactions mainly in group companies' functional currencies. The Group's exposure to foreign exchange risk from commercial transactions has been limited. The Group is exposed to changes in the US dollar, in particular due to the operations of Nixu's subsidiary in the Netherlands and as a result of the US dollar-denominated sales of the parent company. The Group does not actively use derivative financial instruments to hedge foreign exchange risk.

If the euro had weakened / strengthened against the US dollar by 10% on December 31, 2018, with all other factors remaining unchanged, the recalculated net profit after taxes would have been EUR 35 thousand higher / lower, mainly due to USD trade receivables of 130 (December 31, 2017 150) thousand dollars and of a USD 230 in bank account balance (December 31, 2017 161) in the parent company.

On December 31, 2018, the parent company had SEK 3,000 (December 31, 2017: 6,200) thousand internal receivables.

The exchange rate difference arising from this internal receivable was offset by the euro-denominated liabilities of the Group's Swedish subsidiaries. Net exposure to exchange rate fluctuations in the Swedish krona was not significant on December 31, 2018.

Cash flow and fair value interest rate risk

Nixu's interest rate risk arises from variable rate long-term borrowings. Loans with variable interest rate exposes the Group to cash flow interest rate risk. Nixu manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps in which fixed interest rate is paid and variable interest rate is received. Read more on derivatives under note 5.1. On the balance sheet date December 31, 2018 the Group has two interest rate swap contracts outstanding (December 31, 2017: two interest rate swap contract) on which 49% (December 31, 2017: 47%) of the loan principal is hedged against cash flow risk. The figures presented in the table are contract-based, undiscounted figures.

Interest rate risk

EUR thousand	31 Dec 2018	31 Dec 2017
Variable interest rate borrowings	4,493	5,860
Fixed interest rate borrowings	2,059	1,770
Total	6,553	7,630

EUR thousand	31 Dec 2018	31 Dec 2017
Variable interest rate borrowings	4,493	5,860
Interest rate swaps (notional principal amount)	2,722	3,080
Net exposure to cash flow interest rate risk	1,771	2,780

Fixed-rate loans expose Nixu to fair value interest rate risk.

In the financial periods presented in the financial statements, the Group's loans were mainly denominated in Euros.

If interest rates on December 31, 2018 had been higher by 100 basis points, all other factors remaining unchanged, the result for the period after taxes would have been EUR 19 thousand lower as a result of higher interest expenses on floating rate loans (December 31, 2017: EUR 28 thousand lower). The interest rate sensitivity has been determined by shifting the interest rate curve by 100 basis points (no scenario based on decreased interest rate is presented due to the low market interest rates). In the sensitivity analysis, it has been noted that on December 31, 2018, interest rate swaps had a total nominal value of EUR 2,722 thousand (December 31, 2017: EUR 3,080 thousand) which reduced sensitivity to interest rate fluctuations. The interest rate position includes all external floating rate liabilities.

Credit risk

Credit risk arises mainly from cash and cash equivalents and credit exposures to customers from outstanding receivables. Credit risk on cash and cash equivalents is managed at group level. Cash and cash equivalents are held mainly in reputable Nordic banks. Each local entity is responsible for managing the credit risk for their accounts receivable balances. The local entities have the responsibility

to analyze the credit standing of clients with revenue less set limit before standard payment and delivery terms and conditions are offered.

Credit risk countering payment methods such as advance payments are used in high risk clients. Historically credit losses have been insignificant.

The maximum exposure to the credit risk at the reporting dates are the carrying values of each class of financial assets mentioned above.

For information regarding the credit losses recognized and the ageing of the trade receivables, refer to 6.2 Trade and other receivables.

Liquidity risk

Nixu monitors the Group's liquidity needs monthly to ensure that sufficient cash is available to meet the needs of the business and, at the same time, to constantly maintain a sufficient number of undrawn committed credit facilities. The amount of cash and cash equivalents on December 31, 2018 was EUR 9,286 thousand (31 December 2017: EUR 11,864 thousand). In addition, the Group has unutilized committed credit facilities totalling EUR 1,000 thousand as of December 31, 2018 (December 31, 2017: EUR 1,000 thousand). In terms of future payments, the most important source of financing is cash flows from operations and liquid assets, combined with potential new or equity financing.

The Group's additional cash reserves are not actively invested. Nixu's goal is both organic and structural growth, and cash is used for this purpose.

Nixu's loan agreements contain the following covenants: a minimum equity ratio of 35%, an EBITDA of a minimum of EUR 1.6 million on December 31, 2017 and a minimum of EUR 2 million on June 30, 2018, as well as a net debt to EBITDA ratio of 3.5 on December 31, 2018, 3.25 on June 30, 2019 and 3.0, starting from December 31, 2019. The covenants were calculated in accordance with the Finnish accounting principles (FAS), as previously utilized by Nixu. The Group did not meet the covenant requirement for EBITDA on December 31, 2018. In December 2018, providers of the financing gave Nixu a waiver from the compliance with EBITDA covenant, and the bank loans did not mature. Nixu met the other covenant terms. Long-term loans of EUR 5,108 thousand are classified as current on December 31, 2018, because the exemptions granted to covenants do not extend beyond at least 12 months from the end of the financial year. The next covenant review date is June 30, 2019.

The following table shows the Group's non-derivative financial liabilities and derivative liabilities broken down by relevant maturity groupings based on the amount of remaining contractual maturity at the balance sheet date. The figures presented in the table are contract-based, undiscounted figures.

EUR thousand	Under 1 year	1-2 years	2-5 years	Over 5 years	Contractual undiscounted cash flows	Carrying value
31 Dec 2018						
Non-derivatives						
Loans from financial institutions	6,553				6,553	6,526
Finance lease liabilities	281	249	143		673	647
Contingent consideration	0				0	0
Other loans	3				3	3
Trade payables and other payables*	9,093				9,093	9,093
Total	15,931	249	143	0	16,322	16,270
Derivatives						
Interest rate swaps	41					41
Total	41	0	0	0	0	41

*Excluding non-financial items

EUR thousand	Under 1 year	1-2 years	2-5 years	Over 5 years	Contractual undiscounted cash flows	Carrying value
31 Dec 2017						
Non-derivatives						
Loans from financial institutions	8,567				8,567	7,900
Finance lease liabilities	290	266	2		558	385
Contingent consideration	177				177	175
Other loans	36				36	36
Trade payables and other payables*	8,967				8,967	8,967
Total	18,036	266	2	0	18,304	17,463
Derivatives						
Interest rate swaps	35					35
Total	35	0	0	0	0	35

* Excluding non-financial items.

Capital management

The Group's objectives when managing capital are to finance the growth in line with Nixu's strategy, provide returns for shareholders and safeguard the Group's ability to continue as a going concern.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders and issue new shares.

The Group monitors capital on the basis of the equity ratio and net debt in relation to EBITDA. The equity ratio is calculated as shareholders' equity divided by total assets less advances received.

As at December 31, 2018 Nixu's equity ratio was 50.5% (December 31, 2017: 51.4%).

The capital structure shall secure Nixu's debt financing being in line with covenants. More information on covenant terms and their fulfillment is provided in the

liquidity risk section. Planned structure should take into account both current and future business needs, as well as ensure competitive cost of financing.

Cooperation with banks is based on long-term banking relationships. In the long term the goal is to service Nixu's loan obligations by operating cash flow. During the phase of rapid growth, capital may be acquired both equity and debt financing terms.

5.4 Equity

Nixu has one share series. Each share entitles the holder to equal voting and dividend rights. The company's shares are listed on the Official List of Nasdaq Helsinki.

The table below shows the number of outstanding shares during the reporting periods:

The table below shows the changes in the company's own shares:

	Number of shares
1 Jan 2017	6,364,835
Share issue	869,163
Purchase of treasury shares	- 4,363
31 Dec 2017	7,229,635
Purchase of treasury shares	- 842
31 Dec 2018	7,228,793

The company's own shares acquired during the periods presented are redeemed from the personnel.

The invested unrestricted equity fund

There were no shares issued during the 2018 financial period. The invested unrestricted equity fund grew by EUR 160 thousand, after the termination of the share reward-related vesting period.

During the financial year 2017 the following share issues were carried out and recorded in the invested unrestricted equity reserve:

- Directed share issue of 19 163 shares to pay the purchase consideration of ESSC. The fair value of the shares issued and recognized in the equity was based on the quoted share price of of Nixu share EUR 8.37 per share on May 30, 2017.
- Directed share issue of 100 000 shares to pay the purchase consideration of Bitsec. The fair value of the shares issued was based on quoted share price of the Nixu share of EUR 8.64 per share on June 30, 2017.
- To ensure the growth strategy, a directed share issue of 750 000 shares was carried out to institutional investors. The subscription price of the shares was EUR 13 per share. The subscription price of the shares issued was recognized as a whole to the invested unrestricted equity reserve.
- Invested unrestricted equity reserve increased by EUR 410 thousand due to the ending of the vesting period related to the employee share-based compensation.

Cumulative translation reserve

This reserve includes the foreign currency differences arising from the translation of foreign operations.

Accounting policy

Ordinary shares are classified as equity. Incremental expenses directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the parent company's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity attributable to the owners of the parent company until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the parent company.

Invested unrestricted equity fund includes, subject to the Companies Act, the subscription price of the investments made by the shareholders to the Company unless otherwise decided by the Company.

Provision is made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

Section 6: Operating Assets and Liabilities

This section provides information on the operating assets used and the operating liabilities incurred by the Group

- Tangible assets including depreciations and finance leases
- Trade and other receivables
- Trade and other payables

6.1 Tangible assets, including depreciation and finance leasing

EUR thousand	Machinery and equipment	Other tangible assets	Total
2018			
Cost at 1 January	2,287	525	2,812
Additions	636	17	653
Disposals	-26	0	-26
Exchange differences	-5	0	-5
Cost at 31 December	2,892	542	3,434
Accumulated depreciation and impairment at 1 January	1,473	437	1,910
Depreciation	451	54	505
Exchange differences	-2	0	-2
Accumulated depreciation and impairment at 31 December	1,921	491	2,412
Net book amount at 1 January	814	88	902
Net book amount at 31 December	971	51	1,022

EUR thousand	Machinery and equipment	Other tangible assets	Total
2017			
Cost at 1 January	1,855	493	2,348
Additions	323	32	355
Acquisition of subsidiaries	112	0	112
Exchange differences	-3	0	-3
Cost at 31 December	2,287	525	2,812
Accumulated depreciation and impairment at 1 January	1,124	355	1,480
Depreciation	352	82	433
Exchange differences	-3	0	-3
Accumulated depreciation and impairment at 31 December	1,473	437	1,910
Net book amount at 1 January	731	138	869
Net book amount at 31 December	814	88	902

Tangible assets include the following amounts where the group is a lessee under a finance lease:

EUR thousand	31 Dec 2018	31 Dec 2017
Net book amount 1.1	378	521
Additions	568	233
Disposals	-26	0
Exchange differences	-1	-1
Accumulated depreciation and impairment	-375	-375
Net book amount at 31 December	634	378

Accounting policy

Nixu's tangible assets mainly comprise of computers, laptops, other office equipment, cars and leasehold improvements. They are stated at cost less accumulated depreciation and impairment losses. Cost comprise of expenditure that is directly attributable to the acquisition of the item and subsequent expenses incurred to replace parts that are eligible for capitalization. The machinery and equipment are depreciated in five years. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset or in the case of leasehold improvements and leased assets (cars and laptops) over the period of the lease or useful life of the asset, whichever is the shorter. An item of machinery and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Gains and losses on disposals are determined by comparing disposal proceeds with the carrying amount of the disposed asset and are recognized within other operating income or other operating expenses in the income statement in the period the disposal occurs.

Finance leasing

EUR thousand	31 Dec 2018	31 Dec 2017
Gross finance lease liabilities - minimum lease payments		
Within 1 year	281	247
Later than 1 year and no later than 5 years	391	250
Total	673	497

Leased assets

Accounting policy

Nixu has classified lease contracts related to laptops and company cars as finance lease contracts. Leases are classified as a finance lease when the risks and rewards related to ownership are substantially held by Nixu. From finance lease agreements, Nixu recognizes the asset and related liability in the balance sheet at the lower of the leased asset's fair value or the present value of minimum lease payments. Minimum lease payments made under the finance lease are apportioned between finance cost and the reductions of the outstanding liability. The finance cost is allocated to each year during the lease term so as to produce a constant period rate of interest on the remaining balance of the liability. The lease asset is depreciated in accordance with Nixu's policy for tangible assets. Other leases are classified as operating leases. Operating leases are disclosed in note 7.3.

6.2 Accounts receivable and other receivables

Current receivables

EUR thousand	31 Dec 2018	31 Dec 2017
Trade receivables and other receivables		
Trade receivables	9,994	9,918
Prepaid expenses and accrued income	1,216	1,313
Rental deposits	164	170
Other receivables	193	314
Total	11,567	11,716
Prepaid expenses and accrued income		
Employer's statutory insurance premiums	20	67
Maintenance charges related to licenses	112	485
Grants receivable	173	113
Other items	910	647
Total	1,216	1,313

The age distribution of the Group's trade receivables as of December 31, 2018 and December 31, 2017 is shown below:

EUR thousand	31 Dec 2018	31 Dec 2017
Not due	7,020	7,620
Overdue by		
1-30 days	2,033	1,664
31-60 days	385	341
61-90 days	516	173
Over 90 days	41	121
Total	9,994	9,918

Write-down of trade receivables amounted to EUR 34 thousand (December 31, 2017: EUR 7 thousand).

Accounting policy

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 to 90 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. The amount of the impairment loss is recognized in profit or loss. Write-down is made if there is objective evidence that the receivable can not be collected for example due to customer's bankruptcy or debt restructuring. Subsequent recoveries of amounts previously written off are credited against expenses in profit or loss.

6.3 Accounts payable and other debts

EUR thousand	31 Dec 2018	31 Dec 2017
Trade payables and other payables		
Trade payables	1,135	1,879
Accrued expenses	5,405	4,753
Derivative financial instruments	41	35
Other current liabilities	2,554	2,334
Total	9,135	9,002
Material items under accrued expenses		
Accrued personnel expenses	3,491	2,920
Accrued interests	89	52
Contract liabilities	1,436	1,374
Other accruals	389	408
Total	5,405	4,753
Material items under current liabilities		
Value added tax	1,696	1,354
Withholding tax and social security expenses	684	725
Other current liabilities	174	256
Total	2,554	2,334

Accounting policy

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost. They represent liabilities for goods and services provided to the Group prior to the end of the reporting period that are unpaid. The amounts are unsecured and are paid in accordance with the Group's terms of trade. Trade and other payables are presented as current liabilities unless payment is not due within twelve months after the reporting period.

Section 7: Other notes

This section contains information that the Group needs to present in order to comply with accounting standards, but which are not considered significant for understanding the Group's financial position and performance:

- Deferred taxes
- Related party transactions
- Contingent items and commitments, including leases
- New standards
- Later events

7.1 Deferred taxes

Accounting policy

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses. Deferred tax liabilities

and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities

EUR thousand	At 1 Jan	Recognized in profit or loss	Recognized in equity	Acquisition of subsidiaries	Exchange rate differences	At 31 Dec
2018						
Deferred tax assets						
Borrowings	78	55			0	133
Tax losses	120	27			-2	146
Other items	63	-53	1	0	0	11
Total	261	30	1	0	-2	290
Netting of deferred taxes	-221					-285
Deferred tax assets, net	41					4

EUR thousand	At 1 Jan	Recognized in profit or loss	Recognized in equity	Acquisition of subsidiaries	Valuuttakurssien vaikutus	At 31 Dec
2018						
Deferred tax liabilities						
Intangible assets	432	-140			-12	280
Tangible assets	76	54			0	130
Borrowings	9	-4				5
Other items	12	-10				2
Total	530	-100	0	0	-12	418
Netting of deferred taxes	-221					-285
Deferred tax liabilities, net	310					132

EUR thousand	At 1 Jan	Recognized in profit or loss	Recognized in equity	Acquisition of subsidiaries	Exchange rate differences	At 31 Dec
2017						
Deferred tax assets						
Borrowings	73	5			0	78
Tax losses	13	108			-1	120
Other items	27	15		22	-1	63
Total	113	128	0	22	-2	261
Netting of deferred taxes	-87					-221
Deferred tax assets, net	26					41

EUR thousand	At 1 Jan	Recognized in profit or loss	Recognized in equity	Acquisition of subsidiaries	Exchange rate differences	At 31 Dec
2017						
Deferred tax liabilities						
Intangible assets	220	-33	0	252	-8	432
Tangible assets	72	5			0	76
Borrowings	3	6				9
Other items	7	-3		8	0	12
Total	303	-26	0	261	-8	530
Netting of deferred taxes	-87					-221
Deferred tax liabilities, net	216					310

The Group's operations in the Netherlands have been unprofitable. On 31 December 2018, realized losses amounted to EUR 3,447 thousand, of which unrecognized deferred tax assets amounted to EUR 689 thousand (31 December 2017: losses of EUR 1,445 thousand, of which unrecognized deferred tax assets were EUR 341 thousand). Losses expire during 2024-2027.

Key solutions and estimates based on judgment: recognition of deferred tax assets

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet. Deferred tax assets are recognized only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows that relate among others to the amount of future revenue, operating costs and finance costs. The Group's ability to generate taxable income depends also on factors related to general economy, finance, competitiveness and regulations that the Group is unable to control. These estimates and assumptions are subject to risk and uncertainty, hence it is possible that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the balance sheet and the amount of other tax losses and temporary differences not yet recognized.

7.2 Related Party Transactions

Related parties of the Group consist of the parent company and Group companies mentioned in note 4.3. Related parties are also key management personnel and their close family members as well as entities controlled by them. Key management personnel are the members of the Board of Directors, CEO and Management team. The remuneration of the key management personnel including their ownership in Nixu is presented in note 3.3. For information on loans granted to personnel in connection with a share issue 2016, see note 3.2 Employee share-based incentive plan.

Purchase of goods and services

EUR thousand	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Purchases of services	3	4

Nixu has purchased training services from a related party of a related party. Purchased services have been purchased at market price.

Loans receivables from related parties:

EUR thousand	31 Dec 2018	31 Dec 2017
Loan receivables from related party (management team)	0	13

Loan receivables relate to the Nixu's share-based incentive plan. Terms and repayment schedule of the loan receivables have been described in note 3.3.

7.3 Contingent items and commitments, including leases

Commitments

EUR thousand	31 Dec 2018	31 Dec 2017
Mortgages given on own behalf:		
Business mortgages	10,118	10,118
Loan amount ¹	6,526	7,900

Other commitments

EUR thousand	31 Dec 2018	31 Dec 2017
Rental deposits	164	170

¹Business mortgages and shares of Nixu AB were used as collateral for Nixu Corporation's MEUR 6.5 financial institution loan and MEUR 1.0 credit limit. At the end of the review period, the credit limit has remained unused.

Lease-based commitments: Group as lessee

Non-cancellable operating lessee

The Group leases a number of office, warehouse and factory facilities under operating leases. The leases run for a period from 1 to 12 years with the majority running for a period of 3 to 5 years, with options to renew the lease after that date. Lease payments are increased each renewal period to reflect market rentals. Some leases provide for additional rent payments that are based on changes in the consumer price index, local capital city consumer price indexes or a fixed percentage. The Group also leases motor vehicles and materials handling equipment under operating leases.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

EUR thousand	31 Dec 2018	31 Dec 2017
Commitments for minimum lease payments (Includes VAT)		
Within 1 year	1,246	1,200
Later than 1 year and no later than 5 years	1,330	1,758
Total	2,577	2,958

7.4 Adjusted financial information for the financial year 2018 following the introduction of the new IFRS 9 standard

Nixu has adopted IFRS 9, Financial Instruments, issued by the International Accounting Standards Board, which went into effect on January 1, 2018. The adoption of the IFRS 9 standard had no significant impact on Nixu's Financial Statements.

The IFRS 9 "Financial Instruments" takes into consideration the classification, valuation and derecognition of financial resources and liabilities, in addition to renewing the regulations related to hedge accounting, and introduces a new devaluation model to the financial resources. In addition, IFRS 9 includes extended disclosure and presentation requirements.

The main impact of the introduction of IFRS 9 to Nixu will be the application of the expected credit loss model to estimate impairment related to doubtful receivables. In accordance with the new write-off model, an allowance for the individual impairments which pertain to the devaluation must be entered. It is based on the expected credit write-offs, whereby the losses will be entered earlier, and in greater amounts. According to IAS 39, the recognition of the loss was based solely on actual credit losses. This change mainly affects accounts receivable at amortized cost. The Group applies the simplified method permitted by the standard, whereby expected credit losses are recorded into the matrix based on historical credit loss via future prospects adjustment.

7.5 New Standards

IFRS 16 was published in January 2016. As a result, almost all leases will be entered in the balance sheet as there is no separation between operating leases and finance leases. Under the new standard, a financial liability is recognized for the asset (the right to use the leased asset) and the lease payment. The only exceptions are short-term and low-value asset leases.

Nixu adopts IFRS 16 on January 1, 2019, applying a simplified approach, which is why the comparative information is not adjusted. The Corporation has decided not to enter usage rights installments and rental agreement debts pertaining to short-term leases, which have a maximum agreement term of 12 months. Additionally, contracts with low-value assets are not recorded.

The standard mainly affects the accounting treatment of Nixu's operating leases. At the end of the financial year, the Group has approximately EUR 2 million of undiscounted lease commitments based on operating (cars and business premises) leases.

As a result of the change, the company's EBITDA will improve by approximately 0.9 million in 2019 and an increase in depreciation and finance expenses by an equivalent amount. In addition, the change will increase the company's interest-bearing liabilities and intangible assets.

7.6 Events After the Accounting Period

There have been no material events concerning the company since the end of the accounting period.

Parent company's income statement

		1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
	Notes	EUR	EUR
REVENUE	1.	28,338,582.19	24,181,902.69
Other operating income	2.	241,035.27	521,636.87
Materials and services	3.		
Materials and services		-3,391,425.36	-2,659,165.92
Materials and services in total		-3,391,425.36	-2,659,165.92
Personnel costs	4.		
Wages and salaries		-14,745,622.66	-11,901,092.15
Social security costs			
Pension costs		-2,584,016.57	-2,082,793.63
Other social security costs		-493,649.08	-488,698.90
Personnel costs in total		-17,823,288.31	-14,472,584.68
Amortization and depreciation			
Amortization and depreciation according to plan		-587,733.33	-521,799.43
Amortization and depreciation in total		-587,733.33	-521,799.43
Other operating expenses	5.	-6,179,827.68	-5,167,686.55
OPERATING PROFIT		597,342.78	1,882,302.98
Financial income and expenses	6.		
From group companies		47,065.46	42,011.63
Receivables from non-group companies		795.40	69.05
Reduction in value of investments held as non-current assets			-772,000.00
Interest expenses and other financial expenses			
Payables to non-group companies		-406,712.25	-572,836.07
Financial income and expenses in total		-358,851.39	-1,302,755.39
PROFIT BEFORE APPROPRIATIONS AND TAXES		238,491.39	579,547.59
Income taxes	7.	-123,468.25	-333,397.93
PROFIT FOR THE ACCOUNTING PERIOD		115,023.14	246,149.66

Parent company's Balance Sheet

	Notes	31 Dec 2018 EUR	31 Dec 2017 EUR
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
	8.		
Intangible rights		224,841.81	352,916.68
Other long-term expenditure		1,979,590.39	2,338,979.40
Intangible assets in total		2,204,432.20	2,691,896.08
Tangible assets			
	9.		
Machinery and equipment		189,404.61	273,662.81
Tangible assets in total		189,404.61	273,662.81
Investments			
	10.		
Shares in group companies		11,902,361.95	11,492,153.79
Investments in total		11,902,361.95	11,492,153.79
NON-CURRENT ASSETS IN TOTAL		14,296,198.76	14,457,712.68
CURRENT ASSETS			
Receivables			
	11.		
Long-term receivables			
Intercompany receivables		1,912,414.93	696,543.65
Non-current receivables in total		1,912,414.93	696,543.65
Current receivables			
Accounts receivable		7,020,652.07	7,297,604.03
Intercompany receivables		1,316,610.50	691,236.33
Other receivables		175,681.82	266,766.12
Prepayments and accrued income		1,114,033.48	930,964.92
Current receivables in total		9,626,977.87	9,186,571.40
Receivables in total		11,539,392.80	9,883,115.05
Cash in hand and at bank		7,960,805.46	10,607,757.24
CURRENT ASSETS IN TOTAL		19,500,198.26	20,490,872.29
ASSETS IN TOTAL		33,796,397.02	34,948,584.97

	Notes	31 Dec 2018 EUR	31 Dec 2017 EUR
ASSETS			
SHAREHOLDERS' EQUITY			
	12.		
Share capital		94,821.20	94,821.20
Invested unrestricted equity reserve		17,424,580.01	17,424,580.01
Retained profit		2,836,857.41	2,594,884.07
Profit for the accounting period		115,023.14	246,149.66
SHAREHOLDERS' EQUITY		20,471,281.76	20,360,434.94
LIABILITIES			
	13.		
Current			
Loans from financial institutions		6,552,747.31	7,945,404.08
Accounts payable		848,583.46	1,501,734.20
Intercompany liabilities		164,053.95	103,035.17
Other liabilities		1,682,234.76	1,558,991.06
Accruals and deferred income		4,077,495.78	3,478,985.52
Current liabilities in total		13,325,115.26	14,588,150.03
LIABILITIES		13,325,115.26	14,588,150.03
EQUITY AND LIABILITIES IN TOTAL		33,796,397.02	34,948,584.97

Parent company's Cash Flow Statement

	EUR	EUR
	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Profit before appropriations	238,491	579,548
Amortization and depreciation	587,733	521,799
Taxes	-380,629	-333,666
Change in working capital	184,137	133,244
Cash flow from operations	629,733	900,925
Investments	-1,906,091	-7,872,329
Cash flow from investments	-1,906,091	-7,872,329
Proceeds from borrowings	0	5,850,000
Repayments of non-current loans	-1,366,418	-1,021,418
Increase in equity subject to a charge	0	10,710,632
Repurchase of own shares	-4,176	-20,004
Net cash flow from financing	-1,370,594	15,519,210
Change in liquid assets	-2,646,952	8,547,806
Liquid assets at the start of the accounting period	10,607,757	2,059,951
Liquid assets at the end of the accounting period	7,960,805	10,607,757

Parent company's accounting notes

Notes to the income statement

	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
1. REVENUE BY MARKET AREA		
Finland	24,952,739.95	21,522,186.52
Foreign markets	3,385,842.24	2,659,716.17
Total	28,338,582.19	24,181,902.69
2. OTHER OPERATING INCOME		
Grants from TEKES and EU	105,956.99	427,856.92
Other income	135,078.28	93,779.95
Total	241,035.27	521,636.87
3. MATERIALS AND SERVICES		
Externally sourced materials and services	-3,391,425.36	-2,659,165.92
Total	-3,391,425.36	-2,659,165.92
4. PERSONNEL COSTS		
MANAGEMENT WAGES AND SALARIES		
Members of the Board and CEOs	311,800.00	321,121.00
NUMBER OF PERSONNEL		
Average number of personnel	229	190
	229	190
5. OTHER OPERATING EXPENSES		
Rent payments	-546,122.29	-487,283.21
Purchased services	-1,371,474.80	-1,366,900.86
ICT-costs	-1,276,028.53	-993,845.23
Marketing costs	-614,662.66	-527,992.99
Other operating expenses	-2,371,539.40	-1,791,664.26
Total	-6,179,827.68	-5,167,686.55
Auditors' fees		
Audit fees billed by PWC	-83,340.22	-78,421.12
Consulting fees billed by PWC	-232,106.41	-101,668.15
Tax consulting by PWC	-13,677.00	0.00
Total	-329,123.63	-180,089.27

	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
6. FINANCIAL INCOME AND EXPENSES		
Reduction in value of non-current assets	0.00	-772,000.00
Other interest income and financial income from group companies	47,065.46	42,011.63
Other interest income and financial income from non-group companies	795.40	69.05
Other interest expenses	-406,712.25	-572,836.07
Total	-358,851.39	-1,302,755.39
7. INCOME TAXES		
Income taxes in the accounting period	-120,567.58	-339,380.85
Income taxes from previous accounting periods	-2,900.67	5,982.92
Total	-123,468.25	-333,397.93

Notes to the balance sheet

2018

8. INTANGIBLE ASSETS	Other long-term expenditure	Intangible rights	Total
Acquisition cost at the start of the accounting period	3,830,508.11	385,000.00	4,215,508.11
Acquisition cost at the end of the accounting period	3,830,508.11	385,000.00	4,215,508.11
Accumulated amortization and impairments at the start of the accounting period	-1,491,528.71	-32,083.32	-1,523,612.03
Amortization during the accounting period	-359,389.01	-128,074.87	-487,463.88
Accumulated amortization at the end of the period	-1,850,917.72	-160,158.19	-2,011,075.91
Book value at the end of the period	1,979,590.39	224,841.81	2,204,432.20

9. TANGIBLE ASSETS	Machinery and equipment	Total
Acquisition cost at the start of the accounting period	1,324,703.94	1,324,703.94
Increases	16,011.25	16,011.25
Acquisition cost at the end of the accounting period	1,340,715.19	1,340,715.19
Accumulated depreciation and impairments at the start of the accounting period	-1,051,041.13	-1,051,041.13
Depreciation during the accounting period	-100,269.45	-100,269.45
Accumulated depreciation at the end of the period	-1,151,310.58	-1,151,310.58
Book value at the end of the period	189,404.61	189,404.61

10. INVESTMENTS	Shares in subsidiaries	Total
Acquisition cost at the start of the accounting period	12,264,153.79	12,264,153.79
Increases	410,208.16	410,208.16
Acquisition cost at the end of the accounting period	12,674,361.95	12,674,361.95
Accumulated depreciation and impairments at the beginning of the accounting period	-772,000.00	-772,000.00
Accumulated depreciation and impairments at the end of the accounting period	-772,000.00	-772,000.00
Book value at the end of the period	11,902,361.95	11,902,361.95

11. RECEIVABLES	31 Dec 2018	31 Dec 2017	12. SHAREHOLDERS' EQUITY	31 Dec 2018	31 Dec 2017
INTERCOMPANY RECEIVABLES			Restricted shareholders' equity:		
Non-current			Share capital at the start of the accounting period	94,821.20	94,821.20
Loans receivable, non-current	1,912,414.93	696,543.65	Share capital at the end of the accounting period	94,821.20	94,821.20
Current			Restricted shareholders' equity in total	94,821.20	94,821.20
Accounts receivable	1,174,391.36	616,529.58	Unrestricted equity:		
Current prepayments and accrued income	142,219.14	74,706.75	Share capital at the start of the accounting period	17,424,580.01	6,713,948.50
Current receivables in total	1,316,610.50	691,236.33	Directed issue	0.00	10,710,631.51
KEY PREPAYMENT AND ACCRUED INCOME ITEMS			Share capital at the end of the accounting period	17,424,580.01	17,424,580.01
Receivables from employer's statutory insurance premiums	0.00	32,297.02	Retained profit at the start of the accounting period	2,841,033.73	2,616,524.55
License fee deferral	112,245.84	485,374.33	Purchase of own shares	-4,176.32	-21,640.48
Direct taxes	222,345.58	0.00	Retained profit at the end of the accounting period	2,836,857.41	2,594,884.07
Grants from TEKES and EU	44,810.00	86,573.74	Profit for the accounting period	115,023.14	246,149.66
Other prepayments and accrued income	734,632.06	326,719.83	Unrestricted equity in total	20,376,460.56	20,265,613.74
Total	1,114,033.48	930,964.92	Shareholders' equity in total	20,471,281.76	20,360,434.94
			Calculation of assets subject to profit distribution		
			Profit subject to profit distribution		
			Retained profit	2,836,857.41	2,594,884.07
			Profit for the accounting period	115,023.14	246,149.66
			Profit subject to profit distribution	2,951,880.55	2,841,033.73
			Other assets subject to profit distribution		
			Invested unrestricted equity reserve	17,424,580.01	17,424,580.01
			Other assets subject to profit distribution	17,424,580.01	17,424,580.01
			Assets subject to profit distribution in total	20,376,460.56	20,265,613.74

13. LIABILITIES	31 Dec 2018	31 Dec 2017
CURRENT LIABILITIES		
Loans from financial institutions		
Loans from financial institutions	6,552,747.31	7,945,404.08
Total	6,552,747.31	7,945,404.08
Other liabilities		
Purchase price liability from acquisition	0.00	178,792.74
Other current liabilities	1,640,974.76	1,380,198.32
Total	1,640,974.76	1,558,991.06
Material items included in accrued expenses		
Annual leave pay, including statutory social security contributions	2,131,914.37	1,670,901.95
Accrued payroll	417,824.41	537,610.57
Other accruals and deferred income	1,527,757.00	1,270,473.00
Total	4,077,495.78	3,478,985.52

14. COLLATERAL, CONTINGENT LIABILITIES AND OTHER COMMITMENTS	31 Dec 2018	31 Dec 2017
Leasing liabilities		
Amounts payable for leasing contracts (VAT included)		
Maturing within the next 12 months	339,260.05	356,091.12
Maturing in more than 12 months	416,473.05	280,315.97
Total	755,733.10	636,407.09
Other commitments		
Rent liabilities	1,093,148.10	1,370,498.00
Mortgages	10,118,644.29	10,118,644.29
Deposits and pledged funds	147,466.94	145,758.00
Total	11,359,259.33	11,634,900.29

Business mortgages and shares of Nixu AB (2,500 pieces) were used as collateral for Nixu Corporation's MEUR 6.5 financial institution loan and 1,0 MEUR credit limit. At the end of the review period, the credit limit has remained unused.

Company funding involves covenants related to EBITDA and net debt. The Group did not meet EBITDA covenant as at December 31, 2018. In December 2018 providers of the financing gave to Nixu a waiver from the compliance with the EBITDA covenant and bank loans did not mature. Nixu met other covenant terms.

15. HOLDINGS IN OTHER UNDERTAKINGS

Name	Domicile	Ownership interest
Nixu Certification Oy	Finland	100 %
Nixu B.V.	The Netherlands	100 %
Nixu AB	Sweden	100 %
Nixu Inc.	United States	100 %

Signing of the Report of the Board of Directors and the Consolidated Financial Statements

THE BOARD OF DIRECTORS AND CEO

In Espoo 27th of February 2019

Kimmo Rasila
Chairman of the Board

Marko Kauppi
Vice Chairman of the Board

Kati Hagros
Member of the Board

Juhani Kaskeala
Member of the Board

Tuija Soanjärvi
Member of the Board

Teemu Tunkelo
Member of the Board

Petri Kairinen
CEO

AUDITOR'S NOTE

Our auditors' report has been issued today.

In Espoo 28th of February 2019

PricewaterhouseCoopers Oy
Authorized Public Accountants

Heikki Lassila
Authorized Public Accountant

Auditor's Report

(Translation of the Finnish Original)

To the Annual General Meeting of Nixu Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

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

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

What we have audited

We have audited the financial statements of Nixu Oyj (business identity code 0721811-7) 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
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

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

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

Independence

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.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 2.4 to the Financial Statements.

Our Audit Approach

Overview

- Overall group materiality: € 280 000, which represents 0,7% of consolidated revenue
- Audit scope: We have audited companies in Finland and in Sweden, which comprise great majority of group's profit and loss statement and balance sheet. In addition, we have performed group level procedures over specific consolidated accounts and analytical procedures to assess unusual movements across all entities.
- Revenue recognition
- Valuation of goodwill

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality

€ 280 000

How we determined it

0,7% of revenue

Rationale for the materiality benchmark applied

The groups profitability has been volatile during the last years due to internationalisation, development of new services, business combinations related integration costs and amortisation. We chose revenue as the benchmark for calculating materiality because it is commonly used by readers of the financial statements when evaluating the performance of the group. In addition, revenue is a widely accepted benchmark. We chose 0.7% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

Group operates globally through several legal entities. Group's sales are mainly generated by the Finnish and Swedish companies and we have audited the Finnish and Swedish companies as part of our audit of the consolidated financial statements. We have considered that the remaining subsidiaries do not present a risk of material misstatement for consolidated financial statements and thus our procedures have been limited to targeted audit procedures over significant balances and analytical procedures performed at Group level.

By performing the procedures above at legal entities, combined with additional procedures at the Group level, we have obtained sufficient and appropriate evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group

Revenue recognition

Refer to note 2.1 to the consolidated financial statements for the related disclosures.

The Group's revenue consists of sale of projects and assignments, managed services, continuous services and licenses. Revenue from projects and assignments is recognised over time in the accounting period in which the services are rendered. Revenue from fixed-price projects is recognised based on service provided by the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual labour hours spent in proportion to the total expected labour hours. For managed and continuous services, revenue is recognised based on the amount Nixu is entitled to invoice on a monthly basis. Revenue from software licences is recognised at the point in time when the delivery of the software has occurred, the customer has obtained access to the software and is able to derive benefit from it.

Valuation of goodwill

Refer to note 4 to the consolidated financial statements for the related disclosures.

In recent years the Group has expanded its activities through the acquisition of companies. As a result, the consolidated balance sheet includes a significant amount of goodwill. Goodwill is not amortised but is tested at least annually for impairment. Determining the cash flow forecasts underlying the impairment tests requires the management make judgments over certain key inputs, for example revenue growth rate and profitability, discount rate and long-term growth rate. Due to the high level of judgement related to the forecasts used, and the significant carrying amounts involved, impairment of goodwill is considered a key audit matter.

How our audit addressed the key audit matter

We evaluated the design and tested the operating effectiveness of certain key controls over revenue recognition.

We tested sample of revenue recognised during the year. We assessed appropriateness of the company's revenue recognition policy and tested a sample of revenue agreements to ensure revenue recognised was based on contractual terms and company's revenue recognition policy. We have also tested deferred revenue on a sample basis to assess appropriateness of revenue recognition.

In addition, we tested sample of fixed priced agreements.

Our audit procedures included, among others, assessing key inputs in the impairment calculations such as revenue growth, profitability and discount rate, by reference to the Board approved budgets, data external to the Group and our own views. We assessed the historical accuracy of forecasts prepared by management by comparing actual results for the year with the original forecasts. Furthermore, we considered the appropriateness of the Group's disclosures in respect of goodwill and impairment testing.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Requirements

Appointment

We were first appointed as auditors by the annual general meeting on 5.7.1999. Our appointment represents a total period of uninterrupted engagement of 20 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

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. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- 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 other information, we are required to report that fact. We have nothing to report in this regard.


Helsinki 28 February 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Heikki Lassila
Authorised Public Accountant (KHT)

nixu
cybersecurity.

 nixuoy

 @nixutigerteam
@NixuHQ

 nixu-oy

 nixu.sales@nixu.com

 www.nixu.com