Affecto

2016

Financial Statements

Contents

REPORT OF THE BOARD OF DIRECTORS

AFFECTO FINANCIALS

ORDER INTAKE

Affecto's order intake was at the same level as in the prior year and was 117.3 MEUR (117.1 MEUR). Order intake increased significantly in Sweden and slightly increased in Denmark. The order intake in Finland remained on the same level as last year. Order intake decreased slightly in Baltic and decreased in Norway.

ORDER BACKLOG

The order backlog increased significantly by 9% and was 55.0 MEUR (50.7 MEUR) at the end of the reporting period. Order backlog increased significantly in Sweden and Baltic and increased in Norway. Order backlog decreased in Finland and decreased significantly in Denmark.

REVENUE

Revenue, MEUR	2016	2015
Finland	48.1	49.5
Norway	21.8	21.1
Sweden	19.1	18.2
Denmark	13.0	11.3
Baltic	16.6	20.1
Other	-6.1	-4.2
Group total	112.5	116.0

Affecto's revenue decreased by 3% to 112.5 MEUR (116.0 MEUR). Revenue increased significantly in Denmark and increased in Norway and Sweden. Revenue decreased in Finland and decreased significantly in Baltic.

PROFITABILITY

Operational segment result by reportable segments:

Operational segment result, MEUR	2016	2015
Finland	2.6	3.5
Norway	1.3	1.5
Sweden	1.7	0.7
Denmark	1.3	0.4
Baltic	1.2	3.9
Other	-1.4	-2.5
Operational segment result	6.7	7.5
Operating profit	6.7	7.5

Affecto's operating profit decreased to 5.9% and was 6.7 MEUR (7.5 MEUR). The profitability increased significantly in Denmark and increased in Sweden. The profitability decreased slightly in Finland and Norway and decreased significantly in Baltic. Net profit for the period was 4.7 MEUR while it was 5.9 MEUR last year. The Company had two non-recurring items that impacted the profitability negatively by approximately 1.9 MEUR in total during FY2015: A restructuring provision of approximately 0.9 MEUR was booked in Finland and a non-recurring item of 1.0 MEUR related to the fraud incident impacted the Other segment. Finally, profitability was also impacted by first phase evolution activities carried out during 2016. These activities have represented essential incremental investments into Affecto's people, building improved collaboration in our PowerGrid, and building capabilities for competitiveness in the transforming market place.

Taxes corresponding to the profit have been entered as tax expense.

BUSINESS PERFORMANCE BY SEGMENT

The group's business is managed through five reportable segments: Finland, Norway, Sweden, Denmark and Baltic.

Finland

During the year, the Finnish market displayed a continued demand for solutions with respect to the Traditional IT & Analytics market, especially in the areas of managed services and custom software development. Development and piloting demand in the Business Technology & Analytics market progressed positively.

Finland progressed in renewing its portfolio through transitioning into new demand areas and continued its decided investments into its people and capabilities to drive improvements in business performance. This was further contributed by steering the leadership practices, driving the new, more customer industry focused go-to-market model for improved sales and by a liquid and transparent internal job market for improved consultant utilization. The launch of Weave and the acquisition of BIGDATAPUMP are also seen as contributing to growth going forward.

Order intake remained on the same level as last year. Revenue decreased slightly to 48.1 MEUR (49.5 MEUR). Operational segment result was 2.6 MEUR (3.5 MEUR) or 5% (7%) of revenue.

Decline in order intake of Karttakeskus geographical information system ("GIS") was offset by an increase in order intake in the area of Business Technology and Analytics market which resulted the order intake to be on the same level as the year before. Decline in order backlog is mainly attributable to an essential multi-year contract secured in 2015 for the geographical information systems business, delivered during years 2016–2018. Revenue decrease was mainly driven by two large lost contracts during 2015 in the geographical information system business area. During the year, the Company also experienced a decrease in certain traditional areas of the business which was partially offset by increases across new business areas. Professional Services revenue remained on the same level as previous year. Operational segment result was impacted especially in Q1–3 by Finland transitioning with larger contracts and into new demand areas and recruitment and onboarding of new technology-business hybrid roles.

Revenue of Karttakeskus geographical information system ("GIS") business, reported as part of Finland, decreased by 14% to 10.5 MEUR (12.2 MEUR). Business development actions for strengthening the Company's capabilities in digital content and services to complement the traditional cartographic offerings were continued.

Norway

The Norwegian economy was marked by uncertainty. In the Traditional IT & Analytics market, Affecto continued to experience a shift in demand towards improving the performance of existing solutions, combined with a willingness to explore managed services and nearshoring opportunities. In the Business Technology & Analytics market, buyers continued to be interested in Self-Service Analytics in order to increase their organizations' broader use of data and analytics. Managed services and digitalization initiatives continued to increase potential deal sizes.

Affecto continued to build its capabilities to sell and deliver solutions within Managed Services, Customer and Product Master Data Management (MDM) as well as big data and unstructured information. The go to market model was changed at the end of the year to strengthen focus on developing the customer segments Business to Consumer (B2C), Financial Services and Public to Citizen.

The order intake decreased slightly. Revenue increased by 4% to 21.8 MEUR (21.1 MEUR). Operational segment result decreased slightly to 1.3 MEUR (1.5 MEUR) or 6% (7%) of revenue.

Year-over-year order intake comparison is influenced negatively by large multi-year managed services deal won in Q2 2015. Order backlog is up due to increasing recurring software revenue, new and existing managed services contracts. Revenue increased based on a shift from traditional license sales to recurring models, particularly connected to Self-Service Analytics and other modern software solutions. Profitability was low as consultant utilization continued to be challenged by the transformation of the Company's delivery capabilities to meet changing market requirements and more complex delivery models through the year.

Sweden

The activity in the Swedish economy was high, and the demand for Affecto's skills and solutions within both the Traditional IT and Analytics and Business Technology and Analytics market likewise. The high demand led to strong competition for talent, but the Company was able to attract new talent and grow its number of local consultants during the year, in addition to increasing usage of near-shoring and resources from the rest of Affecto's network.

The Company strengthened its efforts to recruit consultants to meet market demand, and managed to increase the number of consultants. Use of near-shoring of resources from the rest of the Affecto network grew. The close co-operation between the offices in Malmö, Copenhagen and Århus is ongoing with positive results as the Company now has more scalable operation in the region, and the possibility to deliver a broader set of competencies to local customers.

Order intake increased significantly. Revenue increased by 5% and was 19.1 MEUR (18.2 MEUR). Operational segment result increased to 1.7 MEUR (0.7 MEUR) or 9% (4%) of revenue.

Order intake increased significantly due to new and existing managed services contracts being won and extended. Also, important new contracts were signed expanding the Company's customer base for Digital Workplace solutions, adding new healthcare customers, and new contracts opening Self-Service Analytics and big data opportunities. The Company's Malmö office have been working in close cooperation with the Company's offices in Copenhagen and Århus to open up new customers within both Financial Sector and Industrial, bringing in new capabilities in areas such as anti-money laundering and Internet of Things. Revenue increased from high utilization of consultants, while software sales were down as the Company is transforming to meet the changing software market demand in Sweden. The growing revenue from high consultant utilization throughout the year ensured a positive development of profitability.

Denmark

The Company's industry oriented focus and improved account management practices has created positive development within the selected Industries where key customers have grown and the Company's capabilities have been better tailored to meet the changing demands and growth opportunities within both the Traditional IT and Analytics and the Business Technology and Analytics markets.

The Company has strengthened its focus and account management practices towards the Financial Services and Industrial customer segments. This has increased the ability to understand and target customer segment specific demands, and bringing in advanced analytics and big data. Continued close cooperation with the Company's office in Malmö have boosted capabilities to meet customer demands in the region, and contributed to the positive development.

Order intake increased slightly and order backlog decreased significantly. Revenue increased significantly by 15% and was

13.0 MEUR (11.3 MEUR). Operational segment result increased significantly to 1.3 MEUR (0.4 MEUR) or 10% (3%) of revenue.

Order intake increased slightly from a combination of increased orders from key customers, growth in software orders and orders of smaller pilots within emerging areas. Self-Service Analytics contributed to the positive development of software orders. The high activity level at key customers contributed to growing revenue from professional services and growth in software revenue, also ensuring improved profitability.

Baltic

The Company invested into meeting new demand areas such as asset management solutions in Lithuania, as the Lithuanian public sector continued to invested modestly into new IT solutions. In Estonia the public sector investments have been modest causing increased price competition. Across the segment, the private sector was mainly interested in investing into Traditional IT & Analytics, renewal projects and solutions while the impact for Affecto was minor in 2016. The Company also saw that the decisiveness within insurance customers for systems upgrades remained low. On the other hand, the Company saw towards the end of the year a growing interest for renewal of insurance core systems. The demand for nearshoring is increasing as Nordic companies are increasingly investing into managed services.

Order intake decreased slightly. Revenue decreased significantly by 18% and was 16.6 MEUR (20.1 MEUR). Operational segment result was 1.2 MEUR (3.9 MEUR) or 7% (20%) of revenue.

Order intake was on a lower level during the first nine months of the year compared with the previous year. In the last quarter the order intake was significantly better than the during the previous quarters resulting into an order backlog that is almost on the same level as the year before. The Company signed during the year two multi-year agreements for implementation of Enterprise Asset Management solution (Ab LitGrid and AB AmberGrid) and one major agreement for implementation of insurance core system (Codan Norway). The revenue decline was due to modest investments into IT solutions and services by the public sector customers in Estonia and Lithuania and insurance customers postponing their investments into systems upgrades. The revenue development y-o-y was also unfavorably impacted by the successful completion of key insurance sector projects in 2015. The same drivers impacted profitability. The Company continued to focus on local business development in Baltic, especially towards telecommunications, retail and industrial customers, on nearshoring boost for all Affecto countries, and on strong co-operation with its partners within the insurance sector.

AFFECTO EVOLUTION

Affecto has traditionally operated with a holding company model that consists of independent and heterogeneous business segments. As the Company's market has shifted, Affecto has responded by defining its Strategic Direction and Choices in February 2015 and in May 2016, as part of its Capital Markets Day ("CMD").

During 2016, the Company progressed a lot with its business portfolio, people capabilities and co-operation. Affecto grew a new business platform out of e.g. self-service analytics and analytics as a service to offset the decrease in demand in select traditional areas. 200 new Affectones joined the company during the year, reflecting a substantial investment into its people, building on the 159 new Affectones who joined in 2015. At the same time, the Company boosted skill building and collaboration within its PowerGrid by organizing around key customers, industries and technologies within its offices. During the year, Affecto also signed essential new Analytics As a Service contracts which further contribute to its recurring revenue base which is now estimated to be approximately 45% of the Company's revenue.

During Q1 2017 Affecto will launch the second phase of its evolution. Within this phase Affecto will: Boost cooperation in its PowerGrid and unite its purposes together with its people and customers, continue to develop its approach and leadership towards the transforming market, step up and scale its growth initiatives with customers, and Begin the implementation of new IT platforms to integrate its operating model.

GROWTH PROGRAMS

Industry growth topics: Focus industries and selected industry growth programs

With the Industry growth topics, Affecto sees a growing market to connect physical world with the digital world in real-time, enabling data driven business models for the customer companies. The Company aligned most of its offices by selected focus industries and focus clients resulting larger deal sizes in focus expertise areas. With industry growth programs (B2C and Industrial) The Company worked with customers such as Empower Group's Industry division, City of Tampere Electricity Utility (TKS), Grundfos, Expert ASA and Nokian Tyres with Vianor and Futurice. The total revenue from the industry growth programs in 2016 has been relatively low because of the piloting approach, still growing towards the end of the year.

Expertise growth topics:

In October 2016 Affecto launched Weave BCE, its independent and agile business unit to capture the fast growing market of service design and modern software development. During the first quarter of its existence Weave managed to establish its independent, yet Affecto connected business and increased its headcount by 20%. In December Affecto formed a joint cloud analytics business by acquiring BIGDATAPUMP to seize the fast growing Microsoft Cloud Analytics market and ecosystem across the Nordics. During the year Affecto formed cross-office expertise teams resulting in many key wins in areas like Managed Services and Self-Service Analytics.

FINANCIAL POSITION AND CASH FLOW

At the end of 2016 Affecto's balance sheet totaled 117.5 MEUR (12/2015: 118.3 MEUR). Equity ratio was 59.6% (12/2015: 58.5%) and net gearing was -6.7% (12/2015: -6.2%).

The financial loans were 16.5 MEUR (12/2015: 18.5 MEUR) at the end of the year. The Company's cash and liquid assets were 20.8 MEUR (12/2015: 22.4 MEUR). The interest-bearing net debt was -4.3 MEUR (12/2015: -3.9 MEUR). On 17 June 2016, Affecto announced that it has entered into a new 18.5 MEUR term loan agreement. The new loan replaced the previous loan of 18.5 MEUR that expired in the end of June 2016. Affecto will repay the loan in semi-annual instalments of 2.0 MEUR starting in December 2016.

In 1–12/2016, the cash flow from operating activities was 3.6 MEUR (9.3 MEUR) and cash flow from investing activities was 0.0 MEUR (-0.6 MEUR). Investments in tangible and intangible assets were -1.0 MEUR (-0.6 MEUR). The weakened cash flow from operating activities was driven by the negative change in working capital in Norway and Sweden and lower profitability for the period.

MERGERS & ACQUISITIONS

On 8 December 2016, the Company announced that it has agreed to sell its subsidiary business in Estonia (Affecto Estonia OÜ) to the subsidiary's acting members of staff. The transaction was a mutually beneficial decision and is in line with Affecto' s strategic direction. The selling price was 1.8 MEUR. The transaction positively affected cash flow by 1.0 MEUR and operating profit by 0.3 MEUR in 2016. The Company announced on 21 December 2016 that it has finalized the transaction. Affecto continues to partner with the entity in Estonia which enables joint local delivery solutions to continue for Affecto's international customers.

On 20 December 2016, the Company announced that it has agreed to purchase BIGDATAPUMP, a privately held cloud analytics company based in Finland. The purchase price consists of a 3.5 MEUR cash payment upon closing of the transaction and an earn-out element worth a maximum of 3.0 MEUR. The earn-out element is also paid in cash, subject to the achievement of defined financial targets in 3 years, at the latest in 5 years. This overall purchase price is on a net debt free basis. The transaction will result in the establishment of a joint business with a suite of cloud data analytics offerings with managed service capabilities, including nearshore delivery, as well as service design capabilities. The business will drive a plan of expansion across Finland & Scandinavia in 2017. This acquisition represents the joining of Affecto's existing Northern European office network with BIGDATAPUMP's growing international business footprint. BIGDATAPUMP will retain its brand and focus, while its personnel, customers, and partners will belong to newly formed BIGDATAPUMP under the Affecto Group. Revenue of BIGDATAPUMP was 1.8 MEUR in 2015 and 3.4 MEUR in 2016. BIGDATAPUMP will be its own reportable segment on a going forward basis.

PERSONNEL

The number of employees was 930 (985) persons at the end of the reporting period. 428 (398) employees were based in Finland, 92 (102) in Norway, 108 (106) in Sweden, 70 (64) in Denmark and 232 (315) in the Baltic countries. The average number of employees during the period was 987 (1010). The decrease in employees in Affecto and the Baltic segment between 2016 and 2015 was due to the sale of its subsidiary business in Estonia in December 2016. The comparable numbers that take into account the sale of the Estonian subsidiary was 930 (910) for the Affecto level and 232 (240) for the Baltic segment.

CORPORATE GOVERNANCE

Affecto's corporate governance practices comply with Finnish laws and regulations, Affecto's Articles of Association, the rules of NASDAQ Helsinki and the Finnish Corporate Governance Code issued by the Securities Market Association of Finland in 2015. The code is publicly available at http://cgfinland.fi/en/. Affecto has published its corporate governance statement for 2016 in the Financial Statements 2016 and on the Company website www.affecto.com.

THE ANNUAL GENERAL MEETING

Annual General Meeting of Affecto Plc ("AGM") was held on 8 April 2016. The AGM adopted the financial statements and discharged the members of the Board of Directors and the CEO from liability for the financial year 2015. The meeting approved the Board of Directors' proposal to pay a dividend of EUR 0.16 per share and the dividend was paid on 19 April 2016.

Aaro Cantell, Magdalena Persson, Jukka Ruuska, Olof Sand, Tuija Soanjärvi and Lars Wahlström were re-elected to the Board. The Board of Directors elected from among its members Aaro Cantell as its Chairman and Olof Sand as Vice-Chairman and the following members to the Committees:

- Audit Committee: Tuija Soanjärvi (chairman), Lars Wahlström and Jukka Ruuska
- People, Nomination and Compensation Committee: Magdalena Persson (chairman) Aaro Cantell and Olof Sand

The AGM approved all proposals made by the Board as described in the invitation published on 11 March 2016. The resolutions of the AGM were published as a stock exchange release on 8 April

2016 and can be found on the Company's website www.affecto.com.

Additionally, the AGM established the Shareholders' Nomination Board that consists of the representatives of the three largest shareholders of Affecto at 31 October 2016 and the Chairman of the Board of Directors if he is not appointed as a representative of a shareholder. On 16 November 2016, the Company announced that Cantell Oy, Säästöpankki Kotimaa Fund and Ilmarinen have appointed Aaro Cantell, Chairman of Affecto's Board of Directors, Petteri Vaarnanen, Head of Asset Management in SP-Rahastoyhtiö and Mikko Mursula, CIO of Ilmarinen, as members of the Nomination Board. Lombard International Assurance S.A. did not use its right to appoint a member.

SHARES AND SHAREHOLDERS

The Company has one share series and all shares have similar rights. At the end of the review period Affecto Plc's share capital consisted of 22 450 745 shares and the Company owned 821 974 treasury shares, approximately 3.7% of the total amount of the shares. Additional information with respect to the shares, shareholding and trading can be found on the Company's website www.affecto.com.

The company has a total of 4 585 shareholders on 31 December 2016 and the foreign ownership was 13 percent. The list of the largest shareholders can be viewed on the company's website www.affecto.com. Information about the ownership structure and option programs is included as a separate section in the financial statements. The shareholding of the board members, CEO and their controlled corporations totaled approximately 10.8%.

On 25 August 2016, Affecto announced that it has conveyed 24 261 treasury shares to the members of the Affecto Board of Directors as a part of the Board members' annual remuneration in accordance with the decision of the Annual General Meeting on 8 April 2016. The amount of shares is based on the monthly remuneration decided by the Annual General Meeting and Affecto's average share price between 18 August 2016 and 19 August 2016.

RISKS AND UNCERTAINTIES

The markets where Affecto operates are going through change. Historically, Affecto has concentrated on the traditional IT market solutions for a broad customer space and mainly on moderate deal sizes and shapes. Affecto's demand is growing within larger and more complex deal sizes and shapes as well as within the emerging business technology & analytics market. There is a risk as well as an opportunity with respect to the speed of which Affecto is able to develop and build capability in the new emerging areas in proportion to the traditional areas.

Affecto's success depends also on good customer relationships. Affecto has a diverse customer base. In 2016, the largest customer generated approximately 3% and the 10 largest customers together approximately 20% of Affecto's revenue. Although none of the customers is critically large for the whole group, there are large customers in various countries that are significant for local business in the relevant country. On the other hand, the diverse customer base may decrease the effectiveness of the sales & delivery efforts and overall agility of the Company.

Affecto also needs to be seen as an interesting employer in order to recruit and retain skilled employees. It is important for Affecto to be seen as an employer our employees can be proud of. High people churn may create inefficiencies in the business and temporarily decrease the utilization rate.

Affecto executed its first acquisition since 2007 at the end of 2016. The Company recognizes the risk with regards to its ability to complete an effective post-merger integration to achieve the anticipated benefits while maintaining the continuity of the growth track of the acquired company.

The changes in the general economic conditions and the operating environment of customers have direct impact on Affecto's markets. Recently, the US elections and the Brexit have increased global uncertainty. If the macroeconomic environment remains weak, some countries may introduce new regulations. The uncertain economic outlook may affect Affecto's customers negatively. Slower IT investment decision making and uncertainty on new investments with respect to new business technology solutions may have negative impact on Affecto, especially in the public sector. Affecto's order backlog has traditionally been only a few months long. Slower decision making of the customers decreases the predictability of the business and may decrease the utilization rate. Specifically, the insurance sector has been impacted by slower than expected investments, mainly due to product cycle related issues, which may continue to have an effect on the Company in Baltic. While the Company sees revitalizing demand for traditional IT system investments in Lithuania especially in energy sector, the Lithuanian public sector investments into IT remains modest which may have an effect on the Company's business.

Affecto sells third party software licenses and maintenance as part of its solutions. Typically, the license sales have the highest impact on the last month of each quarter and especially in the fourth quarter. This increases the fluctuation in revenue between quarters and increases the difficulty of accurately forecasting the quarters. Additionally, the increase of cloud services and other similar market trends may affect the license revenue negatively. Affecto had license revenue of approximately 7 MEUR in 2016.

The Company recognizes that the risks of frauds and cyber security threats have increased. The Company aims to mitigate the increased risks with internal controls, IT-security, training, awareness and security minded culture.

The Company recognizes the disintegration of its IT systems and process. Given the number of separate systems, there is low group wide transparency and risk of suboptimal management of the respective businesses.

Approximately 36% of Affecto's revenue is generated in Sweden and Norway, thus the development of the currencies of these countries (SEK and NOK) may have an impact on Affecto's profitability. The main part of the companies' income and costs are within the same currency, which decreases the risks. In addition, the Company also has business in South Africa and therefore the development of the South African Rand (ZAR) may also affect the business environment in South Africa and thus the Company's business.

Affecto's balance sheet includes a material amount of goodwill. Goodwill has been allocated to cash generating units. Cash generating units, to which goodwill has been allocated, are tested for impairment both annually and whenever there is an indication that the unit may be impaired. Potential impairment losses may have material effect on the reported profit and value of assets.

EVENTS AFTER THE REVIEW PERIOD

On 27 January 2017, the Company announced the proposals of the Shareholder's Nomination Board. It was proposed that Aaro Cantell, Magdalena Persson, Olof Sand and Tuija Soanjärvi shall be re-elected and Mikko Kuitunen and Timo Vaajoensuu shall be elected as new members to the Board. Jukka Ruuska and Lars Wahlström have announced that they are no longer available for re-election. The monthly remuneration of the Chairman of the Board was proposed to be increased from EUR 3 500 to EUR 4 000 and the monthly remuneration of the Chairman of the Audit Committee was proposed to be increased to EUR 2 750 from EUR 2 000. The monthly remuneration of the Deputy Chairman and the other Board members was proposed to remain unchanged at EUR 2 750 and EUR 2 000, respectively. In addition, a fee of EUR 300 was proposed to be paid for participation in each committee meeting and participation in person in Board meetings that are outside the country of residence of the relevant Board member. The Shareholders' Nomination Board proposed that 40% of the Board remuneration is paid in Affecto's shares.

On 2 February 2017, the Company completed its acquisition of BIGDATAPUMP. BIGDATAPUMP will be its own reportable segment on a going forward basis. The purchase price consists of a 3.5 MEUR cash payment upon closing of the transaction and an earn-out element worth a maximum of 3.0 MEUR. The earn-out element is also paid in cash, subject to the achievement of defined financial targets in 3 years, at the latest 5 years. The overall purchase price is on a net debt free basis. The purchase price allocation has not yet been prepared. The preliminary purchase price allocation will be prepared during the first quarter of 2017.

DIVIDEND PROPOSAL

Distributable funds of the group parent company on 31 December 2016 are 58 676 860.61 euros, of which the distributable profit is 15 163 635.13 euros. Board of Directors proposes that from the financial year 2016 a dividend of 0.16 euros per share will be paid, a total of 3 460 603 euros with the outstanding number of shares at the end of the financial period, and the rest is carried forward to the retained earnings account. No material changes have taken place in respect of the Company's financial position after the balance sheet date. The liquidity of the Company is good and in the opinion of the Board of Directors the proposed distribution of profit does not risk the liquidity of the Company.

2017 OUTLOOK

Affecto expects its FY'17 revenue to be at the same level or above the previous year, and its FY'17 operating profit to be at the same level or below the previous year.

The Company is going through a transformation period.

In 2016, Affecto divested its Estonian business and acquired a Finnish cloud analytics company BIGDATAPUMP. The divested Estonian business had a revenue of EUR 4.5 million and EUR 0.4 million operating profit in 2016 in addition to the EUR 0.3 million gain from the divestment. BIGDATAPUMP will be its own reportable segment in 2017 and the earn out element of the acquisition will be treated as an IFRS3 cost that will affect the Company's operating profit.

KEY FIGURES

Figures in 1 000 euro except for percentages	2012	2013	2014	2015	**2016**
Net sales	133 400	132 896	122 693	116 026	**112 505**
EBITDA	13 808	11 481	11 227	8 565	**7 528**
EBITDA, % of net sales	10.4	8.6	9.2	7.4	**6.7**
Operating profit	10 451	8 262	833	7 475	**6 667**
Operating profit, % of net sales	7.8	6.2	0.7	6.4	**5.9**
Profit before income taxes	10 042	7 973	270	7 479	**6 081**
Profit before income taxes,% of net sales	7.5	6.0	0.2	6.4	**5.4**
Profit attributable to owners of the parent company	7 552	5 493	-1 591	5 894	**4 721**
Profit attributable to owners of the parent company, % of net sales	5.7	4.1	-1.3	5.1	**4.2**
Return on equity, %	11.9	8.3	-2.5	9.6	**7.5**
Return on capital employed, %	9.1	6.4	-1.1	7.6	**6.6**
Equity ratio, %	50.6	53.0	54.6	58.5	**59.6**
Gross investment in non-current assets	1 008	1 566	740	566	**1 043**
Gross investment, % of net sales	0.8	1.2	0.6	0.5	**0.9**
Order backlog	61 359	48 682	49 645	50 672	**55 033**
Number of employees, average during the year	1 089	1 081	1 041	1 010	**987**
Gearing, %	15.8	7.4	1.8	-6.2	**-6.7**
Interest-bearing net debt	10 621	4 950	1 071	-3 891	**-4 273**
KEY RATIOS PER SHARE					
Earnings per share (EPS), basic	0.37	0.26	-0.07	0.27	**0.22**
Earnings per share, diluted	0.36	0.26	-0.07	0.27	**0.22**
Equity per share	3.24	3.14	2.80	2.88	**2.96**
Dividend per share	0.16	0.16	0.16	0.16	**0.16***
Dividend per earnings, %	43.7	60.9	neg.	58.6	**73.2**
Effective yield, %	5.4	3.5	5.5	5.4	**5.7**
P/E ratio	8.1	17.4	neg.	10.8	**13.0**
Market capitalization	63 321	101 701	63 240	63 733	**61 209**
Share value, EUR					
Lowest price	2.39	2.98	2.80	2.64	**2.60**
Highest price	3.00	4.80	4.62	3.84	**3.15**
Average price	2.73	4.01	3.12	3.14	**2.84**
Closing price	2.95	4.57	2.93	2.95	**2.83**
Trading volume					
1 000 shares	4 859	6 225	5 839	4 304	**6 204**
%	24	29	27	20	**28**
Weighted average numbers of shares	20 641 763	20 905 671	21 519 037	21 591 632	**21 613 061**
Number of shares at end of year	20 641 641	21 431 052	21 583 526	21 604 510	**21 628 771**

*Board's proposal on 16.2.2017

CONSOLIDATED INCOME STATEMENT

1 000 EUR	Note	1.1.–31.12.2016	1.1.–31.12.2015
Net sales	18	**112 505**	116 026
Other operating income	19	**347**	22
Changes in inventories of finished goods and work in progress		**86**	-195
Materials and services	20	**-26 271**	-23 978
Personnel expenses	21	**-62 612**	-64 957
Depreciation and amortization	22	**-861**	-1 089
Other operating expenses	23	**-16 528**	-18 352
Operating profit		**6 667**	7 475
Financial income		**55**	341
Financial expenses		**-641**	-337
Net financial expenses	24	**-586**	4
Profit before income tax		**6 081**	7 479
Income tax expense	25	**-1 359**	-1 585
Profit for the year		**4 721**	5 894
Attributable to:			
Owners of the parent company		**4 721**	5 894
Earnings per share for profit attributable to the owners of the parent company (euro per share)			
Basic	26	**0.22**	0.27
Diluted	26	**0.22**	0.27

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Profit for the year	**4 721**	5 894
Other comprehensive income		
Items that may be reclassified subsequently to the statement of income:		
Translation difference	**466**	-649
Total comprehensive income for the year	**5 187**	5 245
Total comprehensive income attributable to		
Owners of the parent company	**5 187**	5 245

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

CONSOLIDATED BALANCE SHEET

1 000 EUR	Note	31.12.2016	31.12.2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1 295**	1 095
Goodwill	7	**62 215**	62 367
Other intangible assets	7	**63**	132
Deferred tax assets	15	**552**	976
Trade and other receivables	10	**93**	242
		64 218	64 813
Current assets			
Inventories	9	**390**	300
Trade and other receivables	10	**31 305**	29 992
Current income tax receivables		**787**	778
Cash and cash equivalents	11	**20 756**	22 375
		53 239	53 445
Total assets		**117 456**	118 258
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent company			
Share capital	12	**5 105**	5 105
Reserve of invested non-restricted equity	12	**47 737**	47 731
Other reserves	12	**858**	858
Treasury shares	12	**-1 993**	-2 056
Translation differences	12	**-4 452**	-4 919
Retained earnings		**16 864**	15 599
Total equity		**64 118**	62 319
Non-current liabilities			
Loans and borrowings	14	**12 483**	-
Deferred tax liabilities	15	**4**	177
		12 487	177
Current liabilities			
Loans and borrowings	14	**4 000**	18 484
Trade and other payables	16	**36 104**	36 401
Current income tax liabilities		**529**	420
Provisions	17	**218**	456
		40 851	55 761
Total liabilities		**53 338**	55 938
Equity and liabilities		**117 456**	118 258

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

CONSOLIDATED CASH FLOW STATEMENT

1 000 EUR	Note	1.1.–31.12.2016	1.1.–31.12.2015
Cash flows from operating activities			
Profit for the year		**4 721**	5 894
Adjustments for:			
Taxes	25	**1 359**	1 585
Depreciation, amortisation and impairment charges	22	**861**	1 089
Other non-cash income and expenses		**277**	-105
Gain on disposal of business		**-320**	-
Financial income	24	**-55**	-50
Financial expense	24	**248**	337
Gain/loss on the sale of property, plant and equipment and intangible assets		**-6**	-6
		7 085	8 744
Change in working capital			
Decrease (+)/ increase (-) in trade and other receivables		**-3**	6 244
Decrease (+)/ increase (-) in inventories		**-91**	193
Decrease (-)/ increase (+) in trade and other payables		**-2 189**	-3 488
Change in working capital		**-2 283**	2 949
Interest and other financial cost paid		**-225**	-305
Interest and other financial income received		**55**	50
Income taxes paid		**-1 026**	-2 107
Net cash from operating activities		**3 606**	9 332
Cash flows from investing activities			
Acquisition of property, plant and equipment	6	**-992**	-522
Acquisition of intangible assets	7	**-52**	-44
Proceeds from sale of property, plant and equipment and intangible assets		**6**	6
Proceeds from disposal of business		**1 029**	-
Net cash from investing activities		**-8**	-561
Cash flows from financing activities			
Repayments of current borrowings	14	**-20 500**	-
Repayments of non-current borrowings	14	**-**	-4 000
Proceeds from non-current borrowings	14	**18 482**	-
Dividends paid to the owners of the parent company	27	**-3 457**	-3 453
Net cash from financing activities		**-5 475**	-7 453
Change in cash and cash equivalents		**-1 878**	1 318
Cash and cash equivalents at beginning of the year	11	**22 375**	21 380
Exchange rate differences		**259**	-324
Cash and cash equivalents at end of the year	11	**20 756**	22 375

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 000 EUR	Note	Share capital	Other reserves	Reserve of invested non-restricted equity	Treasury shares	Translation difference	Retained earning	Total equity
		Equity attributable to owners of the parent company						
Equity at 1.1.2016		**5 105**	**858**	**47 731**	**-2 056**	**-4 919**	**15 599**	**62 319**
Profit for the year							4 721	4 721
Translation differences						466		466
Total comprehensive income for the year						**466**	**4 721**	**5 187**
Treasury shares as compensation to the Board of Directors	12			6	63			68
Dividends paid	27						-3 457	-3 457
Equity at 31.12.2016		**5 105**	**858**	**47 737**	**-1 993**	**-4 452**	**16 864**	**64 118**

1 000 EUR	Note	Share capital	Other reserves	Reserve of invested non-restricted equity	Treasury shares	Translation difference	Retained earning	Total equity
		Equity attributable to owners of the parent company						
Equity at 1.1.2015		**5 105**	**835**	**47 718**	**-2 111**	**-4 269**	**13 159**	**60 437**
Profit for the year							5 894	5 894
Translation differences						-649		-649
Total comprehensive income for the year						**-649**	**5 894**	**5 245**
Share-based payments	13		23					23
Treasury shares as compensation to the Board of Directors	12			14	55			68
Dividends paid	27						-3 453	-3 453
Equity at 31.12.2015		**5 105**	**858**	**47 731**	**-2 056**	**-4 919**	**15 599**	**62 319**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Affecto Plc is a Finnish limited liability company organised under the laws of Republic of Finland. The shares of the company are listed on Nasdaq OMX Helsinki. The company is domiciled in Helsinki and the address of its head office is Keilaranta 17 C, FI-02150 Espoo, Finland.

Affecto creates business values for its customers by combining information, technology and insight. We leverage the full data set surrounding contemporary organisations and our services range from information technologies to advanced digital business solutions. We have approximately 1 000 experts in Finland, Sweden, Norway, Denmark, Lithuania, Latvia, Poland and South Africa.

A copy of the consolidated financial statements is available on the internet at www.affecto.com or can be obtained at the parent company's head office, at the address Keilaranta 17 C, FI-02150 Espoo, Finland.

These consolidated financial statements have been approved for issue by the Board of Directors on 16 February 2017. According to the Finnish Limited Liability 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BASIS OF PREPARATION

The consolidated financial statements of the group have been prepared in accordance with the International Financial Reporting Standards (IFRS) and with the IFRS and IAS standards and their SIC and IFRIC interpretations effective at 31 December 2016. The term "IFRS" refers to the standards and their interpretations, which have been adopted for application in the EU in accordance with the procedures stipulated in the EU's regulation (EC) No.1606/2002 and embodied in the Finnish accounting legislation and the statutes enacted under it. The notes to the consolidated financial statements also comply with the Finnish accounting and company legislation.

The consolidated financial statements have been prepared under the historical cost convention, except for derivatives, which have been measured at fair value. The financial statements are presented in thousands of euros unless otherwise stated.

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions. Estimates and assumptions having the most significant effect on the amounts presented in the financial statements are disclosed under "Accounting policies requiring management judgements and sources of estimation uncertainty" (see note 4.)

CONSOLIDATION PRINCIPLES

Subsidiaries

Subsidiaries are entities controlled by the group. The group controls an entity when the group is exposed to, or has rights to variable returns from its involvement with the entity. Furthermore, the group has the ability to affect the return through its power over entity. Subsidiaries are consolidated from the date on which control is transferred to the group and sold subsidiaries are deconsolidated from the date that control ceases.

Acquisitions of subsidiaries are accounted for using the acquisition method whereby all the identifiable assets and liabilities assumed of the acquired company together with the consideration transferred are measured at fair value at the acquisition date. Acquisitions occurred before 1 January 2010 have been accounted for in accordance with the regulation effective at the time. After 1 January 2010 acquisition-related costs other than those associated with the issue of debt or equity securities are expensed as incurred. Identifiable assets and liabilities and contingent liabilities of the acquiree are measured at their fair value at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of the acquisition over the fair value of the group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. In 2016 and 2015 there were no acquisitions according to the revised IFRS 3 standard.

All inter-company transactions, receivables and liabilities, unrealized gains and inter-company distribution of profit are eliminated when preparing the consolidated financial statements. Unrealized losses are not eliminated, if they are caused by impairment of assets. The distribution of the financial year's profit or losses to the owners of the parent company and the non-controlling interest is presented in a separate income statement, and the distribution of the comprehensive income to the owners of the parent company and the non-controlling interest is presented with the statement of comprehensive income, The non-controlling interest's equity is presented in the balance sheet as a separate items as part of the shareholders' equity. Changes in the group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Foreign currency translation

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the parent company.

Transactions in foreign currencies are recorded in functional currency at the exchange rates prevailing at the transaction date. In practise, it is often necessary to use a rate that is close to the rate of the transaction date. Monetary items denominated in foreign currency are translated into the functional currency at the exchange rates prevailing on the balance sheet date. Non-monetary items measured at fair value are translated into functional currency at the exchange rates prevailing at the valuation date. Other non-monetary items are measured at the exchange rates prevailing at the transaction date. Gains and losses resulting from foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement under net sales, materials and services or under financial income and expenses based on the nature of transaction.

Income statements, statements of comprehensive incomes and cash flow statements of foreign entities are translated into the group's presentation currency at the weighted average exchange rates for the financial year and balance sheets are translated at the exchange rates on the balance sheet date. Different exchange rates used to translate the profit for the financial year in the income statement and in the balance sheet results in an exchange rate difference that is recognised in other comprehensive income.

Exchange rate differences arising from the translation of the net investment in foreign entity are recognised in other comprehensive income. When a foreign operation is sold, the accumulated exchange rate differences are recycled to the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments to the carrying amounts of the assets and liabilities arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the exchange rates on the balance sheet date.

Property, plant and equipment

Items of property, plant and equipment are stated at historical cost, less depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset when it is probable that future economic benefits associated with the item will flow to the group and the cost can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Other tangible assets comprise capitalized cost relating to premises and artwork. Artwork is not depreciated.

Depreciation is calculated using the straight-line method during the estimated useful lives, as follows

Machinery and equipment	3 to 5 years
Other tangible assets	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date to reflect changes in the estimates of economic benefits.

An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in other operating income or expenses.

INTANGIBLE ASSETS

Goodwill

Any goodwill arising on business combinations is recognised as the excess of the aggregate of the consideration transferred, any non-controlling interest in the acquiree and the acquirer's previous equity interest in the acquired company over the group's share in net assets acquired. The acquisitions between 1 January 2004 and 31 December 2009 have been accounted for in accordance with the previous IFRS 3 (2004). For the goodwill, arising from the acquisitions before 1 January 2004, the carrying amount of goodwill under previous GAAP is used as the deemed cost of goodwill at the date of transition to IFRS.

Goodwill is not amortized but tested at least annually for impairment and whenever there are indicators that goodwill might be impaired. Goodwill is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. (Details in note 7 Goodwill and other intangible assets). Impairment losses on goodwill are not reversed.

Research and development

Research expenditure is recognised as an expense as incurred. Development expenditure is capitalized when an entity can demonstrate the technological and commercial feasibility of a product and the cost can be measured reliably. After initial recognition, the capitalized development expenditure is measured at its cost less accumulated amortization and accumulated impairment losses. Other development expenditure is recognised as an expense when incurred. Expenditure that has been initially recognised as an expense will not be capitalized at a later date. Intangible assets not yet available for use are tested for impairment annually. Currently the development work the group is performing is of such a nature that it does not fulfil the criteria of capitalisation and thus the development expenditure is recognised as expense as incurred.

Other intangible assets

An intangible asset is recorded in the balance sheet initially at cost if the cost can be reliably measured and if it is probable that the estimated future economic benefit resulting from the asset will benefit the group. Those intangible assets with a finite useful life are amortized through profit and loss on a straight-line basis over their known or expected useful lives. Intangible assets with indefinite useful lives are not amortized but tested annually for impairment.

Intangible assets (including mainly computer software), are carried at cost less amortization and any impairment losses. These are amortized over their estimated useful lives (3 to 5 years).

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Goodwill and intangible assets that have an indefinite useful life are tested at least annually for impairment and whenever there are indicators that they might be impaired. Also intangible assets not yet available for use are tested for impairment annually.

With regard to all property, plant and equipment and intangible assets, the group assesses at each balance sheet date, whether there are indications that the carrying amount may be impaired. If such indications exist, the recoverable amount of the asset in question will be measured. If the carrying amount exceeds the recoverable amount, the difference is recognised in the income statement as an impairment loss. The recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use. The value in use is determined by reference to the discounted future net cash flows expected to be generated by the asset or the cash-generating unit. The discount rate used is determined pre-tax, which reflects the market assessment of the time value of money and asset-specific risks.

For the purposes of assessing impairment, assets are grouped at the lowest levels which are mainly independent of other units and for which there are separately identifiable cash flows (cash-generating units), largely independent from those of corresponding units. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. A previously recognised impairment loss is reversed, if there has been a change in the estimates used to determine the recoverable amount. The increased carrying amount must not, however, exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. However, previously recognised impairment loss on goodwill is not reversed.

FINANCIAL ASSETS

The group classifies its financial assets in the following categories: Financial assets at fair value through profit or loss, Loans and receivables and Available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

For financial assets not carried at fair value through profit or loss, transaction costs are included in the initial carrying amount. Purchases and sales of all financial assets are recognised on the trade date.

Financial assets are derecognised when the group loses the rights to receive the contractual cash flows on the financial asset or the group has transferred substantially all risks and rewards of ownership outside the group.

Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired for trading purposes (held for trading) i.e. principally for the purposes of short-term profit-taking. Derivatives are classified as held for trading if they do not meet the hedge accounting criteria. The assets in this category are carried at fair value. Changes in fair value, both realized and unrealized, are recognised in the income statement in the period in which they arise. The group does not have financial assets at fair value through profit or loss at the balance sheet date 2016 and 2015.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading purposes. They are measured at amortized cost and included in current financial assets, except for maturities greater than 12 months after the balance sheet date.

IMPAIRMENT OF FINANCIAL ASSETS

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Impairment on receivables is recognised when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, entering into business restructuring proceedings or probability that the debtor will enter bankruptcy are regarded as objective evidence when the probability of an impairment loss is being considered. Subsequent recoveries of the amounts previously written off are credited against other operating expenses in the income statement.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash at hand, call deposits and other short-term highly liquid investments with original maturities of three months or less.

LOANS AND BORROWINGS

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, loans and borrowings are stated at amortized cost using the effective interest method; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. Loans and borrowings are classified as non-current liabilities except for maturities less than 12 months after the balance sheet date.

DERIVATE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The group does not apply the hedge accounting and thus the changes in fair value of derivative financial instruments are recognised in financial items in the income statement. The group does not have derivate financial instruments at the balance sheet date 2016 and 2015.

LEASES, GROUP AS A LESSEE

Leases where substantially all the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Leases, where the lessee has substantially all the risks and rewards of ownership, are classified as finance leases.

The group has entered into various operating leases, the payments under which are treated as rentals and charged to the income statement on a straight-line basis over the lease term.

INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less selling costs. Self-manufactured products are measured at manufacturing cost including raw materials, direct labor, other direct costs and related purchase and production overheads based on normal operating capacity. Cost is determined using the weighted average cost method.

EQUITY

Share capital consists solely of ordinary shares. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's shares (treasury shares), the consideration paid and any directly attributable incremental costs (net of taxes) is deducted from equity until the shares are cancelled or sold. Where such shares are subsequently sold, any consideration deducted with the directly attributable incremental transaction costs and the related income tax effect, is included in equity.

In the share option programs, the proceeds gained from share subscriptions, adjusted by possible transaction costs, are recorded according to the conditions of the programs into the reserve of invested non-restricted equity.

INCOME TAXES

The tax expense for the period comprises current and deferred tax. For transactions and other events recognised in profit or loss, any related tax effects are also recognized in profit or loss.

For transactions and other events recognised in other comprehensive income or directly in equity, any related tax effects are also recognised in the said items. Current tax is calculated on the taxable profit in accordance with the local tax laws applied to each group company. The tax is adjusted by any relevant tax amounts for previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to be applied when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is recognised on all temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

The most material temporary differences arise from the depreciation of property, plant and equipment and intangible assets, appropriations, accumulated unused tax losses and fair value adjustments made to assets and liabilities in business combinations.

EMPLOYEE BENEFITS

Pension plans

The group companies have various pension plans in accordance with the local conditions and practices in the countries in which they operate. The plans are generally funded through payments to insurance companies. The group's pension plans are classified as defined contribution plans.

A defined contribution plan is a post-employment benefit plan under which the group pays fixed contributions into separate funds. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a deduction in the future payments is available.

Share-based payments

The group has option compensation plans, which will be settled in equity instruments. The compensation plans, which will be settled in equity instruments, are measured at fair value at the grant date and recognised as an expense over the vesting period under personnel expenses. The expense determined at the grant date is based on the group's estimate of the number of options that will be vested at the end of vesting period. The fair values of the options granted are determined using the Black-Scholes valuation model. At each balance sheet date, the group revises its estimates of the number of options that are expected to vest. The impact of the revision to original estimates, if any, will be recognised in the income statement. The proceeds received from share subscriptions, net of any direct transaction costs will be credited to the reserve of invested non-restricted equity when the options are exercised.

GOVERNMENT GRANTS

Grants from government are recognised at their fair value when there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Research and development grants are credited against the research and development expenses in the income statement. Government grants relating to the purchase of property, plant and equipment are recorded as a reduction of the carrying amounts of the assets and are recognised in the income statement in the form of lower depreciation over the useful lives of the related assets. Other government grants are credited against the expenses during the period when the expenses have incurred.

PROVISIONS

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The amount to be recognised as a provision is the best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect of the time value of money is material, the amount recognised as a provision is the present value of the expected expenditures. Changes in provisions are recorded in the income statement in the same item in which the provision was originally recognised.

A guarantee provision is recognized once a product or service subject to guarantee terms has been sold and the amount of potential guarantee costs can be estimated with sufficient accuracy.

The group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

REVENUE RECOGNITION

Revenue is measured at fair value of the consideration received or receivables for the sale of goods or services, net of value-added tax, rebates and discounts.

Sales of goods/licenses

Revenue from sales of goods/licenses are recognised when a group entity has delivered the products/licenses to the customer, collectability of the related receivables is reasonably assured, the selling entity has no significant risks and rewards of ownership and the selling entity retains neither managerial commitment nor control of the sold goods/licenses.

Long-term contracts

In long-term projects, contract revenue recognition principles are applied. Long-term projects include consulting sales. Modification and customization of software plays an important part in the projects.

Contract revenue and cost are recognised based on the stage of completion. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of the total estimated costs for each contract.

Contract costs are recognised when incurred. When the outcome of a long-term contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

The group presents as an asset the gross amount due from customers of contract work for all contracts in progress for which costs incurred plus recognised profits exceed progress billings. Progress billings not yet paid by customers are included within trade receivables. If costs incurred plus recognised profit is less than billings, the difference is presented as a liability.

Other services

Sales of services (support, maintenance, consulting and training) are recognised in the financial year in which the services are rendered. Progress billing for maintenance services not due to be paid by customers for services to be rendered in the future are not included in trade receivables. The 2015 consolidated balance sheet has been restated to reflect this change in consolidation principle, total of 2.075 million euro.

Interest and dividend income

Interest income is recognised on a time-proportion basis using the effective interest method. Dividend income is recognised when the right to receive payment is established.

OPERATING PROFIT

The group has defined "operating profit" as follows: operating profit is the net sum obtained after adding other operating income to the net sales and then deducting purchasing costs, adjusted by the change in inventory of finished products and work in progress and the expenses of products manufactured for the group's own use; personnel expenses; depreciation, amortization and any impairment losses; and other operating expenses. All other income statement items are presented below the operating profit. Foreign currency translation differences are included in the operating profit if they arise from items related to business operations; otherwise, they are recognised in financial items.

SEGMENT INFORMATION

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the segments, has been identified as the Board of Directors of the group's parent company.

APPLICATION OF NEW AND AMENDED IFRS STANDARDS AND IFRIC INTERPRETATIONS

The IASB has published the following new and amended standards and interpretations whose application will be mandatory in 2017 or later. The group has not early adopted these standards. The group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

- IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018): New standard includes a five-step guidance for revenue recognition arising from contracts with customers and replaces existing IAS 18 Revenue, IAS 11 Construction Contracts standards and interpretations. The group is still assessing the overall impact and materiality of IFRS 15 to its revenue recognition related to licenses and long-term contracts. The group's IFRS15 implementation project, which is in three phases, has been progressing for over a year. The group has completed the first phase of the project and is now completing the second phase. The final phase, in which the group assesses and determines the overall impact between the new standard and previous accounting standards for its consolidated financial statements and fully implements IFRS 15 will begin in the spring of 2017.
- IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018): New standard replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets. The group has assessed the standard will not have a significant impact effect on the groups consolidated financial statements.
- IFRS 16 *Leases* (effective for financial years beginning on or after 1 January 2019): IFRS 16 replaces the existing guidance in IAS 17 Leases. IFRS 16 requires lessees to recognise most leases on their balance sheet. The group assess that the standard will have a significant effect on the group's consolidated financial statements. The standard has not yet been endorsed for use by the European Union.

3. FINANCIAL RISK MANAGEMENT

FINANCIAL RISKS

The group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates. The focus of group's overall risk management policy is to minimize the impact of unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance of the group.

Foreign exchange risk

Affecto operates internationally and is exposed to currency risks arising from exchange rate fluctuations, including both transaction risk and translation risk.

Transaction risk

Transaction risk arises from cash flows that are denominated in currency that is not the entity's functional currency. The group is exposed to exchange risks through intra-company trade as well as through the funding of foreign subsidiaries. Due to the nature of operations in Affecto, most of the sales and purchases are denominated in functional currencies and thus the transaction risk is not considered material.

Translation risk

Translation risk arises from investments in foreign subsidiaries. Translation risks are realized when income statement and balance sheet items of foreign subsidiaries are translated into euro. The group has not hedged the exchange risk associated with the equity of foreign subsidiaries at the reporting date.

Sensitivity analyses on the most significant translation risk arising from translation of the income statements and balance sheets of the foreign subsidiaries into euro have been disclosed in the table below. The reasonable possible change in exchange rates has been estimated to +/- 20 percentage points compared to the rates used in the reporting period. The impact on the income statement and the statement of comprehensive income and equity is presented post-tax. The most material translation risk exposures are disclosed in the table below.

1 000 EUR	2016				
		Change in exchange rate +20%		Change in exchange rate -20%	
	Net investment exposed to translation risk*	Impact on profit/loss	Impact on comprehensive income and equity	Impact on profit/loss	Impact on comprehensive income and equity
NOK/EUR	14 857	259	3 714	-172	-2 476
SEK/EUR	12 347	304	3 087	-203	-2 058

1 000 EUR	2015				
		Change in exchange rate +20%		Change in exchange rate -20%	
	Net investment exposed to translation risk*	Impact on profit/loss	Impact on comprehensive income and equity	Impact on profit/loss	Impact on comprehensive income and equity
NOK/EUR	13 056	90	3 264	-60	-2 176
SEK/EUR	11 580	113	2 895	-75	-1 930

* presented in euro by using the exchange rate on the balance sheet date

Interest rate risk

As the group has no significant interest-bearing assets, the group's income and operating profit are substantially independent of changes in market interest rates.

The group's cash flow interest rate risk arises mainly from non-current and current loans as borrowing is issued at floating interest rate. The borrowing of the group, with a remaining nominal value of 16.5 million euro, has a floating interest rate. An increase of 1 percentage point in the reference interest rate of the loan agreement would have increased the annual interest payment by 183 thousand euro (pre-tax) in 2016. A respective decrease of 1 percentage point in the reference rate would have decreased the annual interest payment by 183 thousand euro (pre-tax) in 2016.

Credit risk

The group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Inspections are selectively made to customers' credit history. Also advance payments relating to projects are used to decrease the credit risk. The group does not have material trade receivables from one customer. The credit losses and reversals of previously recognised bad debts have been recognised as expense of 6 thousand euro (expense of 136 thousand euro) during the financial year. The maximum credit risk exposure is equivalent to the carrying amount of financial assets at the balance sheet date. The aging of trade receivables is disclosed in note 10.

Liquidity risk

In order to ensure sufficient amount of liquid funds to finance working capital and loan repayments, the liquidity is monitored continuously. Group monitors regularly the compliance with the loan covenants and the result of loan covenants are reported to finance company quarterly. The adequacy and flexibility of liquid funds is managed by using credit facilities. The group's liquidity remained good during the year 2016. As at 31 December 2016 the group had cash and cash equivalents amounting to 20.8 million euro and undrawn credit facility amounting to 2.0 million euro. The group applies prudent liquidity risk management, as there are fluctuations in cash flows based on the nature of business. With relation to long-term projects the liquidity risk management involves the amount and timing of advance payments on the projects.

MATURITIES OF FINANCIAL LIABILITIES AS AT 31.12.2016

1 000 EUR	1.1.–31.3. 2017	1.4.–31.12. 2017	2018	2019	After 2019
Loans from financial institutions (incl. interest)	-	4 139	4 103	4 067	4 534
Trade and other payables	14 831	-	-	-	-
	14 831	4 139	4 103	4 067	4 534

MATURITIES OF FINANCIAL LIABILITIES AS AT 31.12.2015

1 000 EUR	1.1.–31.3. 2016	1.4.–31.12. 2016	2017	2018	After 2018
Loans from financial institutions (incl. interest)	46	18 546	-	-	-
Trade and other payables	13 849	-	-	-	-
	13 895	18 546	-	-	-

CAPITAL MANAGEMENT

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Tools to manage the capital structure of the group, among other things, are dividend payments and issues of new shares. The group can also decide to sell assets to reduce debt.

CAPITAL OF THE GROUP CONSISTS OF EQUITY AND NET DEBT

1 000 EUR	Note	2016	2015
Loans and borrowings	14	16 483	18 484
Cash and cash equivalents	11	20 756	22 375
Net debt		-4 273	-3 891
Equity total		64 118	62 319
Total capital		59 845	58 428

The capital risk management of the group is not based on any single key figure. The management and the Board of Directors monitor the capital structure and liquidity of the company. Purpose of the monitoring is to ensure the sufficient liquidity and flexibility of the capital structure to put growth strategy and published dividend policy into effect.

The credit facility agreement of the group includes financial covenants, breach of which might lead to an increase in cost of debt or cancellation of the facility agreement. The covenants are based on total net debt to earnings before interest, taxes, depreciation and amortization and total net debt to total equity. The covenants are measured quarterly, and these terms and conditions of covenants were met at the end of the reporting period.

4. ACCOUNTING POLICIES REQUIRING MANAGEMENT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain estimates and assumptions about the future that affect the reported amounts of assets and liabilities, contingent liabilities, and income and expenses. Estimates and judgements are based on historical experience and other factors, including expectations of future events. Estimates and judgements are regularly evaluated. Possible changes to estimates and assumptions are recorded in the reporting period during which the estimate or the assumption is adjusted and in all consecutive years. The most critical accounting estimates and judgements are discussed below.

IMPAIRMENT TESTING

The group tests annually whether goodwill or other intangible assets with indefinite useful lives have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Tests have shown that the profitability and the discount rate are the most sensitive parameters in the value-in-use calculations. Although the management believes that the assumptions used are appropriate, the estimated recoverable amounts can differ materially from what will actually occur in the future.

Additional information on sensitivity of the recoverable amount to changes on key assumptions is disclosed in note 7. Goodwill and other intangible assets.

REVENUE RECOGNITION

The group uses the percentage-of-completion method for long-term contracts, when the outcome of a project can be estimated reliably. The percentage-of-completion method relies on estimates of total expected contract revenue and costs, as well as on dependable measurement of the progress made towards completing the particular project. Recognised revenues and profit are subject to revisions during the project in the event that the assumptions regarding the overall project outcome are revised. The cumulative impact of a revision in estimates is recorded in the period when such revisions become likely and reliably estimable. Additional information on long-term contracts is disclosed in note 18. Net sales. Due to the multitude and variety of contractual terms with customers, significant management judgement is needed to account for the revenue streams.

DEFERRED TAXES

Deferred tax assets are recognised to the extent that management estimates it is probable that future taxable profit will be available against which the temporary differences can be utilized. Management estimates on future taxable profit is based on the strategy of the group and on the budgets prepared for next years. Additional information on deferred taxes for accumulated losses is disclosed in note 15. Deferred tax assets and liabilities.

PROVISIONS

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The amount to be recognised as a provision is the best estimate of the expenditure required to settle the obligation at the balance sheet date. The warranty provision is based on knowledge gained in the past from similar projects. Losses on long-term projects are recognised immediately when it is probable that total contract costs will exceed total contract revenue. Additional information on provisions is disclosed in note 17. Provisions.

5. SEGMENT INFORMATION

Operating segments have been determined based on the reports that are used by the Board of Directors of Affecto Plc to make decisions. The Board of Directors considers the business from the geographic perspective. The group has not combined operating segments to form the reportable segments mentioned above. Operating segments are based on country units, except for the Baltic segment that includes Latvia, Lithuania, Estonia, Poland and South Africa. The reportable segments of Affecto are based on the country units Finland, Norway, Sweden, Denmark and Baltic. The reportable segments derive their revenue primarily from the sales of IT –solutions and -services.

THE SEGMENT INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2016

1 000 EUR	Finland	Norway	Sweden	Denmark	Baltic	Other	Total
Segment revenue	48 061	21 816	19 098	12 998	16 596	4 147	**122 718**
Inter-segment revenue	931	479	991	1 242	2 422	4 147	**10 213**
Revenue from external customers	47 130	21 337	18 107	11 757	14 174	-	**112 505**
Depreciation and amortization	-293	-73	-15	-76	-121	-283	**-861**
Operational segment result	**2 561**	**1 330**	**1 652**	**1 301**	**1 233**	**-1 411**	**6 667**
Operating profit							**6 667**
Total assets	37 357	19 673	18 438	14 256	5 618	19	**95 361**
Total assets include:							
Trade receivables from external customers	8 620	4 516	3 278	1 941	871	-	**19 225**
Cash and cash equivalents	6 189	3 453	2 406	2 849	3 101	2 758	**20 756**
Additions to non-current assets (other than financial instruments and deferred assets)	776	7	-	40	150	70	**1 043**

THE SEGMENT INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2015

1 000 EUR	Finland	Norway	Sweden	Denmark	Baltic	Other	Total
Segment revenue	49 539	21 068	18 219	11 297	20 128	4 070	**124 322**
Inter-segment revenue	916	474	271	958	1 608	4 070	**8 296**
Revenue from external customers	48 624	20 593	17 948	10 340	18 520	-	**116 026**
Depreciation and amortization	-274	-66	-18	-94	-189	-449	**-1 089**
Operational segment result	**3 528**	**1 451**	**718**	**355**	**3 930**	**-2 507**	**7 475**
Operating profit							**7 475**
Total assets	37 292	17 164	18 115	14 147	6 908	503	**94 128**
Total assets include:							
Trade receivables from external customers	9 334	2 977	2 441	2 201	2 023	-	**18 975**
Cash and cash equivalents	7 306	4 407	2 960	1 692	5 347	664	**22 375**
Additions to non-current assets (other than financial instruments and deferred assets)	218	54	-	46	102	146	**566**

Sales between segments are carried out at arm's length. The revenue from external customers reported to the Board of Directors is measured in a manner consistent with that in the income statement. The Board of Directors assesses the performance of the segments based on a key figure of operational segment result. Interest income and expenses are not allocated to segments, as cash management of the group has been centralized to the group finance department.

RECONCILIATION OF OPERATING SEGMENT RESULT TO PROFIT BEFORE INCOME TAX

1 000 EUR	2016	2015
Operational segment result	6 667	7 475
Finance costs - net	-586	4
Profit before income tax	6 081	7 479

The total assets allocated to the reportable segments are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical locations of the assets.

RECONCILIATION OF REPORTABLE SEGMENTS' ASSETS TO TOTAL ASSETS

1 000 EUR	2016	2015
Segment assets for reportable segments	95 341	93 625
Other segments assets	19	503
Unallocated:		
Deferred tax	552	976
Current income tax receivable	787	778
Cash and cash equivalents	20 756	22 375
Total assets in the balance sheet	117 456	118 258

The revenue from external customers is primarily derived from the sales of IT –solutions and -services. The revenue has been divided into two categories based on the nature of solutions; Information Management Solutions and Karttakeskus GIS business. The reportable business lines are in line with the management model of Affecto Group. In addition to IT –solutions, Karttakeskus GIS business include revenue from GIS consultancy, management of geographic information data and map publishing.

NET SALES BY BUSINESS LINES

1 000 EUR	2016	2015
Information Management Solutions	107 293	107 887
Karttakeskus GIS business	10 449	12 201
Other	-5 237	-4 062
Total	112 505	116 026

6. PROPERTY, PLANT AND EQUIPMENT

1 000 EUR	Machinery and equipment	Other tangible assets	Total
Cost at 1 January 2016	8 784	109	8 893
Translation differences	128	1	128
Additions	988	20	1 008
Disposals	-850	-	-850
Cost at 31 December 2016	9 050	129	9 179
Accumulated depreciation and impairment at 1 January 2016	7 689	108	7 797
Translation differences	126	1	126
Disposals	-780	-	-780
Depreciation for the period	733	8	741
Accumulated depreciation and impairment at 31 December 2016	7 768	117	7 885
Carrying amount at 1 January 2016	1 095	0	1 095
Carrying amount at 31 December 2016	1 282	12	1 295

1 000 EUR	Machinery and equipment	Other tangible assets	Total
Cost at 1 January 2015	8 942	109	9 051
Translation differences	-156	0	-157
Additions	522	-	522
Disposals	-524	-	-524
Cost at 31 December 2015	8 784	109	8 893
Accumulated depreciation and impairment at 1 January 2015	7 458	88	7 546
Translation differences	-149	0	-150
Disposals	-523	-	-523
Depreciation for the period	903	21	924
Accumulated depreciation and impairment at 31 December 2015	7 689	108	7 797
Carrying amount at 1 January 2015	1 484	21	1 505
Carrying amount at 31 December 2015	1 095	0	1 095

7. GOODWILL AND INTANGIBLE ASSETS

1 000 EUR	Goodwill	Customer relationship	Trademark	Cartographic content	Other	Total other intangible assets
Cost at 1 January 2016	75 923	12 189	554	1 532	1 431	15 706
Translation differences	-89	0	-	-	0	0
Additions	-	-	-	-	52	52
Disposals	-342	-	-	-	-1	-1
Cost at 31 December 2016	75 492	12 189	554	1 532	1 481	15 757
Accumulated amortization and impairment at 1 January 2016	13 556	12 189	554	1 532	1 299	15 574
Translation differences	-279	0	-	-	0	0
Disposals	-	-	-	-	-1	-1
Amortization for the period	-	-	-	-	121	121
Accumulated amortization and impairment at 31 December 2016	13 277	12 189	554	1 532	1 419	15 694
Carrying amount at 1 January 2016	62 367	-	-	-	132	132
Carrying amount at 31 December 2016	62 215	-	-	-	63	63
Goodwill	62 215					
Other intangible assets	63					
Total intangible assets at 31 December 2016	62 278					

1 000 EUR	Goodwill	Customer relationship	Trademark	Cartographic content	Other	Total other intangible assets
Cost at 1 January 2015	76 211	12 297	554	1 532	1 537	15 921
Translation differences	-288	-109	-	-	0	-109
Additions	-	-	-	-	44	44
Disposals	-	-	-	-	-150	-150
Cost at 31 December 2015	75 923	12 189	554	1 532	1 431	15 706
Accumulated amortization and impairment at 1 January 2015	13 397	12 297	554	1 532	1 283	15 667
Translation differences	159	-109	-	-	0	-109
Disposals	-	-	-	-	-150	-150
Amortization for the period	0	-	-	-	166	166
Accumulated amortization and impairment at 31 December 2015	13 556	12 189	554	1 532	1 299	15 574
Carrying amount at 1 January 2015	62 814	-	-	-	254	254
Carrying amount at 31 December 2015	62 367	-	-	-	132	132
Goodwill	62 367					
Other intangible assets	132					
Total intangible assets at 31 December 2015	62 499					

ALLOCATION OF GOODWILL

Goodwill has been allocated to the cash-generating units (CGUs) which are considered to generate cash inflows independent of each other. The cash-generating units are: Finland Information Management Solutions, Finland Karttakeskus GIS business, Norway Information Management Solutions, Sweden Information Management Solutions, Denmark Information Management Solutions and Baltic Information Management Solutions.

THE CASH-GENERATING UNITS OF AFFECTO GROUP AND THE ALLOCATION OF GOODWILL

1 000 EUR	Goodwill	
	2016	2015
Finland		
Information Management Solutions	18 286	18 286
Karttakeskus GIS business	5 807	5 807
Baltic		
Information Management Solutions	3 078	3 420
Sweden		
Information Management Solutions	12 553	13 049
Norway		
Information Management Solutions	12 020	11 374
Denmark		
Information Management Solutions	10 471	10 432
	62 215	62 367

RECOGNISED IMPAIRMENT LOSSES

During 2016 and 2015 no impairment losses were recognised on goodwill or intangible assets.

IMPAIRMENT TEST OF GOODWILL

At each balance sheet date, the group assesses whether there are indications that the carrying amount of goodwill may not be recoverable. If there are any indications of impairment, the recoverable amount is compared with the carrying amount. The need for impairment is assessed at the level of cash-generating units (CGU), which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of a CGU is determined based on value-in-use calculations. The key assumptions when calculating the value-in-use are as follows: 1. profitability and 2. discount rate. The cash flow projections used in the calculations are based on the forecasts for the subsequent five years prepared by the business management and handled by the Board of Directors. The management has based its cash flow projections for the period covered by the most recent forecasts on the assumption of the market performance of the business. The assumptions used reflect past experience and future expectations, and are consistent with external sources of information. Cash flows beyond the five-year-period are based on a 2 per cent fixed annual growth rate. Used growth rates correspond to the expected long-term inflation. The growth rates do not exceed the long-term average actual growth rate within the business sector.

The goodwill impairment test results are evaluated by comparing the recoverable amount with the carrying amount of the cash-generating unit as follows:

Recoverable amount/Carrying amount	Test result
Less than 1.0	Impairment
1.0–1.2	Slightly above
Over 1.2–1.5	Clearly above
Over 1.5	Substantially above

THE CASH-GENERATING UNITS OF AFFECTO GROUP AND TEST RESULTS AT 30 SEPTEMBER 2016

1 000 EUR	Recoverable amount/Carrying amount	Test result
Finland		
Information Management Solutions	2.9	Substantially above
Karttakeskus GIS business	2.2	Substantially above
Baltic		
Information Management Solutions	3.5	Substantially above
Sweden		
Information Management Solutions	1.4	Clearly above
Norway		
Information Management Solutions	2.4	Substantially above
Denmark		
Information Management Solutions	1.5	Clearly above

THE CASH-GENERATING UNITS OF AFFECTO GROUP AND TEST RESULTS AT 30 SEPTEMBER 2015 (EXCEPT SWEDEN 31 DECEMBER 2015 AND DENMARK 31 DECEMBER 2015)

1 000 EUR	Recoverable amount/Carrying amount	Test result
Finland		
Information Management Solutions	2.6	Substantially above
Karttakeskus GIS business	2.1	Substantially above
Baltic		
Information Management Solutions	5.5	Substantially above
Sweden		
Information Management Solutions	1.3	Test result 31 Dec 2015, Clearly above
Norway		
Information Management Solutions	2.2	Substantially above
Denmark		
Information Management Solutions	1.2	Test result 31 Dec 2015, Clearly above

The discount rates used in the calculations are shown in the table below at 30 September 2016 and at 30 September 2015 (except Sweden 31 December 2015 and Denmark 31 December 2015).

Cash-generating unit %	Discount rate (pre-tax) 30.9.2016	 30.9.2015
Finland		
Information Management Solutions	8.6	10.0
Karttakeskus GIS business	8.4	10.1
Baltic		
Information Management Solutions	12.3	12.0
Sweden		
Information Management Solutions	9.3	10.3
Norway		
Information Management Solutions	9.8	11.9
Denmark		
Information Management Solutions	8.6	10.7

The discount rate used is the WACC (weighted average cost of capital), specified for each operating segment (post-tax), which is adjusted by tax effects in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, capital structure, cost of debt and company-specific risk premium.

SENSITIVITY ANALYSIS

Tests have shown that the profitability and the discount rates are the most sensitive parameters in the value-in-use calculations.

The most sensitive to movements in assumptions have been Information Management Solutions Sweden and Denmark. In these cash-generating units a reasonable possible change in a key assumption results in a situation where the carrying amount of the cash-generating unit exceeds its recoverable amount. When assessing the magnitude of the required change in a key assumption, possible multiplicative effects on other assumptions affecting the recoverable amount or simultaneous changes in other assumptions have not been taken into account.

Cash-generating unit	Recoverable amount/ Carrying value	Key assumption	Required change in order for carrying amount to exceed the recoverable amount
Information Management Solutions, Sweden	1.4	- Discount rate (9.3%) - Long-term profitability will not be materially lower than the estimated level	- Discount rate 4.5 percentage points higher - Average long-term profitability in relation to the revenue 1.8 percentage points lower than forecast.
Information Management Solutions. Denmark	1.5	- Discount rate (8.5%) - Long-term profitability will not be materially lower than the estimated level	- Discount rate 4.2 percentage points higher - Average long-term profitability in relation to the revenue 2.0 percentage points lower than forecast

8. VALUES OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

1 000 EUR	Note	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
31.12.2016					
Financial assets					
Trade receivables and other receivables	10	19 613	-	19 613	19 613
Cash and cash equivalents	11	20 756	-	20 756	20 756
Total financial assets		40 369	-	40 369	40 369
Financial liabilities					
Loans from financial institutions	14	-	16 483	16 483	16 483
Trade payables and other payables	16	-	14 831	14 831	14 831
Total financial liabilities		-	31 314	31 314	31 314

1 000 EUR	Note	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
31.12.2015					
Financial assets					
Trade receivables and other receivables	10	19 248	-	19 248	19 248
Cash and cash equivalents	11	22 375	-	22 375	22 375
Total financial assets		41 623	-	41 623	41 623
Financial liabilities					
Loans from financial institutions	14	-	18 484	18 484	18 484
Trade payables and other payables	16	-	13 849	13 849	13 849
Total financial liabilities		-	32 333	32 333	32 333

FAIR VALUE ESTIMATION

FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

The carrying amounts of the group's current financial instruments, which include cash and cash equivalents, trade receivables, other receivables, trade payables and other payables approximate their fair values due to their short maturities. Current borrowings from financial institutions have a floating reference interest rate, thus their carrying amounts approximate their fair values.

The financial assets and liabilities have been presented according to the following fair value measurement hierarchy if there will be such items:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data and rely as little as possible on entity specific estimates.
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

9. INVENTORIES

1 000 EUR	2016	2015
Materials and supplies	37	29
Work in progress	22	17
Finished goods	330	254
Total	390	300

In 2016, the group recognised 21 thousand euro as a write-down on inventories (19 thousand euro).

10. TRADE AND OTHER RECEIVABLES

1 000 EUR	2016	2015
Non-current		
Trade receivables	-	152
Other receivables	93	90
Total non-current	93	242
Current		
Trade receivables	19 225	18 823
Gross amount due from customers for contracts in progress	1 090	1 425
Prepayments	10 063	8 908
Accrued income	632	653
Other receivables	295	183
Total current	31 305	29 992
Total trade and other receivables	31 398	30 234

The carrying amounts of trade and other receivables approximate their fair values. Credit risk is described in more detail in note 3.

AGEING OF TRADE RECEIVABLES

1 000 EUR	2016	2015
Not past due	13 963	15 370
Overdue between 1 and 30 days	4 594	3 368
Overdue between 31 and 120 days	641	218
Overdue more than 120 days	27	19
Total	19 225	18 975

11. CASH AND CASH EQUIVALENTS

1 000 EUR	2016	2015
Cash and cash equivalents	20 756	22 375
Total	20 756	22 375

The effective interest rate in cash and cash equivalents is 0.14% (0.3%).

12. NOTES TO EQUITY

	Number of shares	Share capital EUR 1 000	Number of treasury shares	Treasury shares EUR 1 000	Reserve of invested non-restricted equity EUR 1 000
1 January 2016	22 450 745	5 105	846 235	-2 056	47 731
Treasury shares as compensation to the Board of Directors	-	-	-24 261	63	6
31 December 2016	22 450 745	5 105	821 974	-1 993	47 737
1 January 2015	22 450 745	5 105	867 219	-2 111	47 718
Treasury shares as compensation to the Board of Directors	-	-	-20 984	55	14
31 December 2015	22 450 745	5 105	846 235	-2 056	47 731

There are no set limits for the maximum or minimum number of the issued shares in the Articles of Association. All issued shares are fully paid. The shares don't have a nominal value.

CAPITAL

During the years 2016 and 2015 no changes occurred in the share capital.

RESERVE OF INVESTED NON-RESTRICTED EQUITY

The reserve of invested non-restricted equity includes the premium paid for shares in the share issue in 2006, the total subscription price paid for shares in the share issue in 2007, the received sales price (net of taxes) from sold treasury shares and the funds transferred from the share premium reserve. The payments received from the exercise of options granted under option programs are recorded in full in the reserve of invested non-restricted equity.

During the financial year 2016 and 2015 the disposal of own shares as a part of Board members remuneration is recorded in the reserve of invested non-restricted equity.

During the financial year 2016 and 2015 no share subscriptions made with the options.

TREASURY SHARES

In 2016 and 2015 the company did not acquire any own shares. Based on the authorization of the Annual General Meeting 8 April 2016, the company has used 24 261 shares for the payment of Board members remuneration (2015: 20 984 shares). Treasury shares total 821 974 correspond to 3.7% of the total amount of the shares.

TRANSLATION DIFFERENCES

Translation differences arise from the consolidation of the financial statements of the subsidiaries outside the Euro zone.

13. SHARE-BASED PAYMENTS

During financial year Affecto Plc had one share option program 2013, which ended on 31 May 2016.

Option program	Period for determination of the share subscription price	Initial share subscription price	Share subscription period	Vesting schedule
2013	30.4.–7.5.2013	3.77	10.5.2015–31.5.2016	10.5.2015

No subscriptions were made under the option program.

THE IMPACT OF SHARE-BASED PAYMENTS ON THE FINANCIAL PERFORMANCE OF THE GROUP

1 000 EUR	2016	2015
Share options	-	23
Other share-based payments	-	-
Total expense	-	23

THE MOVEMENTS IN THE NUMBER OF GRANTED OPTIONS

	2013	Total
Options outstanding 1 January 2016	206 500	206 500
Granted during the period	-	-
Forfeited during the period	-	-
Exercised during the period	-	-
Expired during the period	206 500	206 500
Options outstanding 31 December 2016	-	-
Options held by the company	-	-
Total number of options	-	-
Options exercisable 31 December 2016	-	-

Options outstanding 1 January 2015	219 000	219 000
Granted during the period	-	-
Forfeited during the period	12 500	12 500
Exercised during the period	-	-
Expired during the period	-	-
Options outstanding 31 December 2015	206 500	206 500
Options held by the company	193 500	193 500
Total number of options	400 000	400 000
Options exercisable 31 December 2015	206 500	206 500

The Black-Scholes valuation model, has been used in the calculation of fair value of the granted share options. The following table shows the assumptions used in determining the fair value.

	2013:1	2013:2
Fair value of option at grant date	0.62	0.95
Grant date	6.8.2013	27.1.2014
Number of outstanding options at 31 December, 2016	0	0
Exercise price	3.45	3.45
Share price at grant date	3.90	4.50
Expected volatility, % (1)	25.0	25.0
Assumed forfeiture, %	5.0	5.0
Expected option life (years)	3.0	2.5
Risk-free interest rate, %	2.0	2.0

* The expected volatility used in valuation model is based on historical market rates of shares in parent company.

14. LOANS AND BORROWINGS

1 000 EUR	2016	2015
Loans and borrowings		
Loans from financial institutions, non-current portion	12 483	-
Loans from financial institutions, current portion	4 000	18 484
Total	16 483	18 484

On 17 June 2016, the group entered into a new 18.5 million euro term loan agreement. The new loan replaced the previous loan of 18.5 million euro that expired in the end of June 2016. Affecto will repay the loan in semi-annual instalments of 2.0 million euro starting in December 2016.

The facility agreement of the group includes financial covenants, breach of which might lead to an increase in cost of debt or cancellation of the facility agreement. The covenants are based on total net debt to earnings before interest, taxes, depreciation and amortization and total net debt to total equity. The covenants are measured quarterly, and these terms and conditions of covenants were met at the end of the reporting period.

THE MATURITY OF NON-CURRENT INTEREST-BEARING LIABILITIES

1 000 EUR	2016	2015
2016	-	18 484
2017	4 000	0
2018	4 000	-
2019	4 000	-
2020	4 000	-
After 2020	483	-
Total	16 483	18 484

THE WEIGHTED AVERAGE EFFECTIVE INTEREST RATES OF INTEREST-BEARING LIABILITIES (INCLUDING CURRENT INTEREST-BEARING LIABILITIES)

%	2016	2015
Loans from financial institutions	1.00	1.26

The interest-bearing liability of the group is denominated in euro and has floating interest rates.

15. DEFERRED TAX ASSETS AND LIABILITIES

THE MOVEMENT IN DEFERRED TAX ASSETS AND LIABILITIES DURING THE PERIOD, WITHOUT TAKING INTO CONSIDERATION THE OFFSETTING OF BALANCES

1 000 EUR	1 January 2016	Charged to income statement	Translation difference	31 December 2016
Deferred tax assets				
Differences in tax and accounting depreciation differences	119	5	2	126
Tax losses carried forward	795	-329	-7	459
Other timing differences	62	-94	-	-32
Total deferred tax assets	976	-418	-6	552
Deferred tax liabilities				
Expected profit distribution	169	-169	-	-
Other timing differences	8	-4	-	4
Total deferred tax liabilities	177	-173	-	4

1 000 EUR	1 January 2015	Charged to income statement	Translation difference	31 December 2015
Deferred tax assets				
Differences in tax and accounting depreciation differences	89	32	-2	119
Tax losses carried forward	1 068	-279	6	795
Other timing differences	114	-52	0	62
Total deferred tax assets	1 271	-299	4	976
Deferred tax liabilities				
Fair value measurement (business combinations)	8	-8	-	0
Expected profit distribution	140	29	-	169
Other timing differences	50	-42	0	8
Total deferred tax liabilities	198	-21	0	177

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

1 000 EUR	2016	2015
Total deferred tax assets	552	976
Deferred tax assets on the balance sheet	552	976
Total deferred tax liabilities	4	177
Deferred tax liabilities on the balance sheet	4	177

Deferred tax assets are recognised for tax losses carry forward (Lithuania) to the extent that realization of the related tax benefit through the future taxable profits is probable. Based on the estimates for future years, management assumes that the future taxable profits will correspond at least to the amount of deferred tax assets recognized in the financial statement.

ACCUMULATED LOSSES FOR WHICH DEFERRED TAX ASSET IS NOT RECOGNISED

1 000 EUR	2016	2015
Accumulated losses	242	515

Losses have incurred during 2012–2015 and mainly need to be utilized during the next five years (2017–2021).

16. TRADE AND OTHER PAYABLES

1 000 EUR	2016	2015
Current		
Financial liabilities carried at amortised acquisition cost		
Trade payables	9 519	8 583
Gross amount due to customers for contracts in progress	730	1 281
Advances received	9 176	10 379
Accrued expenses	11 368	10 892
Other liabilities	5 311	5 267
Total current	36 104	36 401
Total trade and other payables	36 104	36 401

The carrying amounts of trade and other payables approximate their fair values.

17. PROVISIONS

1 000 EUR	Provisions
31 December 2015	456
Additions	313
Used during the year	-503
Reversed during the year	-48
31 December 2016	218

Provisions comprise customer contract related provisions, including warranty provisions and expected losses on long-term projects. The warranty provision is based on knowledge gained in the past from similar projects. Losses on long-term projects are recognised immediately when it is probable that total contract costs will exceed total contract revenue. The time value of money is not considered to be material on the recognised provisions.

18. NET SALES

1 000 EUR	2016	2015
Contract revenue	12 087	13 515
Service revenue*	98 906	99 931
Revenue from sale of goods	1 512	2 580
Total	112 505	116 026

* includes software revenue

For all contracts in progress at the end of financial year, the aggregate amount of costs incurred and recognised profits were 13.6 million euro (12.9 million euro). For all contracts in progress at the end of financial year, the advance payments were 13.1 million euro (12.8 million euro).

If costs incurred together with recognised profits exceed progress billings, the amount is reported in note 10. on line Gross amount due from customers for contracts in progress. Progress billings exceeding costs incurred plus recognised profits are reported in note 16. on line Gross amount due to customers for contracts in progress.

19. OTHER OPERATING INCOME

1 000 EUR	2016	2015
Gains on disposal of non-current assets	7	6
Other	340	16
Total	347	22

Other operating income was impacted by the net gain on sale of Affecto Estonia OÜ of 320 thousand euro. The sales price of the shares was 1.8 million euro and the net cash received was 1.0 million euros. Assets amounting to 2.2 million euros and liabilities of 780 thousand euros were transferred as a part of the sale. Assets included portion of goodwill amounting to 342 thousand euros, that was previously allocated to the Baltic CGU. There were no single material items in other operating income in 2015.

20. MATERIALS AND SERVICES

1 000 EUR	2016	2015
Materials and services		
Purchases	6 021	5 990
Change in inventories	-7	-4
External services	20 256	17 992
Total	26 271	23 978

External services comprise purchases from subcontractors and maintenance purchases.

21. PERSONNEL EXPENSES

1 000 EUR	2016	2015
Wages and salaries	50 161	52 141
Social security expenses	6 863	6 846
Pension expenses – Defined contribution plans	5 588	5 947
Share-based payments	-	23
Total	62 612	64 957

The remuneration of the management has been specified in the note 28. and the share-based compensations in the note 13. The pension expenses of the management include statutory pension arrangements.

AVERAGE NUMBER OF GROUP EMPLOYEES

	2016	2015
Finland	399	413
Norway	97	92
Sweden	104	115
Denmark	66	65
Baltic	309	316
Other	12	9
Total	987	1 010

22. DEPRECIATION, AMORTIZATION AND IMPAIRMENT CHANGES

1 000 EUR	2016	2015
Depreciation of property, plant and equipment		
Machinery and equipment	733	903
Other tangible assets	8	21
	741	924
Amortization of intangible assets		
Other intangible assets	121	166
	121	166
Total depreciation and amortization	861	1 089

During the financial year 2016 and 2015 no impairment losses were recognised.

23. OTHER OPERATING EXPENSES

1 000 EUR	2016	2015
Other personnel related expenses	5 741	6 315
Premises	5 145	5 195
IT	2 175	1 811
Professional services	1 710	2 038
Marketing	1 108	1 207
Other	649	1 786
Total	16 528	18 352

Research and development expenses of 733 thousand euro (502 thousand euro) are charged to the income statement.

During the financial year 2016, the group has received government grants from the EU amounting to 45 thousand euro (101 thousand euro). The grants have been received for support for inventions/development of new products/services. The received grants have been netted with the incurred costs.

24. FINANCIAL INCOME AND EXPENSES

1 000 EUR	2016	2015
Financial income		
Interest income	55	50
Exchange gains	-	290
	55	341
Financial expenses		
Interest expenses on bank borrowings	183	270
Other financial expense	65	67
Exchange losses	393	-
	641	337
Net financial expenses	586	-4

THE AGGREGATE EXCHANGE RATE DIFFERENCES CHARGED/CREDITED TO THE INCOME STATEMENT

1 000 EUR	2016	2015
Net sales	-1	15
Materials and services	-39	-140
Other operating expenses	-22	-21
Financial items	-393	290
Total	-455	146

25. INCOME TAX EXPENSE

COMPONENTS OF TAX EXPENSES

1 000 EUR	2016	2015
Current tax expense	1 609	1 344
Adjustments recognised for current tax of prior periods	-5	-38
Change in deferred taxes	-245	278
Total	1 359	1 585

RECONCILIATION OF TAX EXPENSE

1 000 EUR	2016	2015
Profit before taxes	6 081	7 479
Tax calculated at 20%	1 216	1 496
Differences in tax rates in other countries	18	-68
Income not subject to tax	1	-
Expense not deductible for tax purposes	72	49
Taxes paid on dividends	92	168
Recognition of tax effect previously unrecognised tax losses	-34	-47
Change in deferred taxes, expected profit distribution	-	29
Effect of changes in tax rates	-	-4
Prior year tax expense	-5	-38
Income tax expense	1 359	1 585

26. EARNINGS PER SHARE

BASIC

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the company.

1 000 EUR	2016	2015
Profit attributable to owners of the parent company	4 721	5 894
Weighted average number of ordinary shares in issue during financial year (thousands)	21 613	21 592
Basic earnings per share (euro per share)	0.22	0.27

DILUTED

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. At the end of 2015 the only dilutive instrument, which may increase the number of the potential ordinary shares, was share options. The share options will dilute the earnings per share, if the subscription price of these share options is less than the fair value of the share. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

1 000 EUR	2016	2015
Profit attributable to owners of the parent company	4 721	5 894
Diluted weighted average number of ordinary shares in issue during financial year (thousands)	21 613	21 592
Diluted earnings per share (euro per share)	0.22	0.27

27. DIVIDEND DISTRIBUTION

The dividends paid in 2016 were 3 457 thousand euro (0.16 euro per share). The dividends paid in 2015 were 3 453 thousand euro (0.16 euro per share).

28. RELATED PARTY TRANSACTIONS

The key management of the group is considered as related parties which mainly include the members of the Board of Directors of the parent company and the management team of the group.

THE FOLLOWING TRANSACTIONS WERE CARRIED OUT WITH RELATED PARTIES:

KEY MANAGEMENT COMPENSATION

1 000 EUR	2016	2015
Salaries and other short-term employee benefits	1 995	2 219
Post-employment benefits	246	268
Termination benefits	112	275
Share-based payments	-	1
Total	2 353	2 763

OPTIONS HELD BY THE KEY MANAGEMENT AT THE END OF FINANCIAL YEAR:

Number of options	2016	2015
2013	-	-

The terms and conditions of the options have been described in the note 13.

THE CEO'S AND THE BOARD MEMBERS REMUNERATION HAS BEEN RECOGNISED AS AN EXPENSE DURING THE FINANCIAL YEAR AS FOLLOWS:

1 000 EUR	2016	2015
CEOs:		
Hakala Juko, CEO	315	297
Board of Directors:		
Cantell Aaro, Chairman of the Board	43	43
Persson Magdalena, Member of the Board	25	25
Ruuska Jukka, Member of the Board	25	25
Sand Olof, Member of the Board	33	34
Soanjärvi Tuija, Member of the Board	25	25
Wahlström Lars, Member of the Board	25	25
CEO and the Board of Directors	491	474

STATUTORY PENSION ARRANGEMENT

The CEO is subject to statutory pension arrangements, no supplementary pension arrangements. According to Employees Pension Act (TyEL, 395/2006), the pension expenses of CEO have been recognised on accrual basis 58 thousand euro in year 2016 (2015: 55 thousand euro).

RELATED PARTY TRANSACTIONS

1 000 EUR	2016	2015
Purchases from the entity that are controlled by key management personnel of the group	13	289
Outstanding balance of purchases from the entity that are controlled by key management personnel of the group	-	36

29. AUDIT FEES

1 000 EUR	2016	2015
Ernst & Young		
Audit	129	127
Tax advisory	32	3
Other services	73	31
Total	234	160
KPMG		
Audit	0	24
Tax advisory	0	10
Other services	41	10
Total	41	44

Audit fees have been reported on an accrual basis.

30. SUBSIDIARIES AS AT 31 DECEMBER 2016

Name of the subsidiary	Ownership of group (%)	Country of incorporation
Affecto Finland Oy	100	Finland
Karttakeskus Oy	100	Finland
Affecto Securities Oy	100	Finland
Affecto Lietuva UAB	100	Lithuania
Affecto Poland Sp. z o.o.	100	Poland
Affecto Estonia Oü	100	Estonia
Affecto Latvia SIA	100	Latvia
Mebius IT Vilnius UAB	100	Lithuania
Affecto Sweden AB	100	Sweden
Affecto Norway AS	100	Norway
Affecto Denmark A/S	100	Denmark
Information Technology Solutions Affecto (Pty) Ltd	100	South Africa

31. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS GIVEN

OPERATING LEASE COMMITMENTS – WHERE THE GROUP IS THE LESSEE

The group leases office premises, machinery and cars under non-cancellable operating leases. The operating leases of office premises mature on average in 3 to 5 years, and normally contain an option to extend the lease term after the lease expires. The income statement for 2016 includes office premise expenses of 3.5 million euro (3.5 million euro).

THE FUTURE AGGREGATE MINIMUM LEASE PAYMENTS UNDER NON-CANCELLABLE OPERATING LEASES:

1 000 EUR	2016	2015
Not later than 1 year	2 807	3 167
Over 1 year and not later than 5 years	4 410	1 911
Over 5 years	484	-
Total	7 701	5 078

GUARANTEES GIVEN

1 000 EUR	2016	2015
Liabilities secured by a mortgage	-	-
Bank borrowings	-	18 500

OTHER SECURITIES GIVEN ON OWN BEHALF

1 000 EUR	2016	2015
Pledges	31	36
Other guarantees	1 000	1 925

Other guarantees are mostly securities issued for customer projects. These guarantees include both bank guarantees secured by parent company of the group and guarantees issued by the parent company and subsidiaries directly to the customer.

32. EVENTS AFTER THE BALANCE SHEET DATE

The group has completed its acquisition of BIGDATAPUMP, a cloud analytics company, on February 2, 2017. BIGDATAPUMP will be its own reportable segment on a going forward basis. The purchase price consists of a 3.5 million euro cash payment upon closing of the transaction and an earn-out element worth a maximum of 3.0 million euro. The earn-out element is also paid in cash, subject to the achievement of defined financial targets in 3 years, at the latest 5 years. The overall purchase price is on a net debt free basis. The purchase price allocation has not yet been prepared. The preliminary purchase price allocation will be prepared during the first quarter of 2017.

33. PROPOSAL OF PROFIT DISTRIBUTION

Distributable funds of the group parent company on 31 December 2016 are 58 676 860.81 euros, of which the distributable profit is 15 163 635.13 euros. Board of Directors proposes to the Annual General Meeting that from the financial year 2016 a dividend of 0.16 euros per share will be paid, a total of 3 460 603.36 euros with the outstanding number of shares at the end of the financial period, and the rest is carried forward to the retained earnings account. No material changes have taken place in respect of the company's financial position after the balance sheet date. The liquidity of the company is good and in the opinion of the Board of Directors proposed distribution of profit does not risk the liquidity of the company.

34. CALCULATION OF KEY FIGURES

EBITDA	=	Earnings before interest, taxes, depreciation, amortization and impairment losses	
EBITDA, % of net sales	=	$\frac{\text{Earnings before interest, taxes, depreciation, amortization and impairment losses}}{\text{Net sales}}$	x 100
Operational segment result	=	Operating profit before amortizations on fair value adjustments due to business combinations (IFRS 3) and goodwill impairments	
Operating profit, % of net sales	=	$\frac{\text{Operating profit}}{\text{Net sales}}$	x 100
Profit before income taxes, % of net sales	=	$\frac{\text{Profit before income taxes}}{\text{Net sales}}$	x 100
Profit attributable to owners of the parent company, % of net sales	=	$\frac{\text{Profit attributable to owners of the parent company}}{\text{Net sales}}$	x 100
Return on equity, %	=	$\frac{\text{Profit}}{\text{Total equity}}$	x 100
Return on capital employed, %	=	$\frac{\text{Profit + interest expenses and other financial expenses}}{\text{Total assets – non-interest-bearing liabilities}}$	x 100
Equity ratio, %	=	$\frac{\text{Total equity}}{\text{Total assets – advance payments}}$	x 100
Gross investment in non-current assets	=	Cost of property, plant and equipment and intangible assets and investments included under non-current assets, comprising loan receivables recognised in non-current assets	
Gross investment, % of net sales	=	$\frac{\text{Gross investment}}{\text{Net sales}}$	x 100
Gearing, %	=	$\frac{\text{Interest-bearing liabilities – cash and cash equivalents}}{\text{Total equity}}$	x 100
Interest-bearing net debt	=	Interest-bearing liabilities – cash and cash equivalents	
Earnings per share (EPS)	=	$\frac{\text{Profit attributable to owners of the parent company}}{\text{Weighted average number of ordinary shares in issue during the financial year}}$	
Equity per share	=	$\frac{\text{Total equity}}{\text{Adjusted number of the shares at the end of the financial year}}$	
Dividend per share	=	$\frac{\text{Dividend for the financial year}}{\text{Adjusted number of the shares at the end of the financial year}}$	
Dividend per earnings, %	=	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$	x 100
Effective yield, %	=	$\frac{\text{Adjusted dividend per share}}{\text{Adjusted share price at balance sheet date}}$	x 100
P/E ratio	=	$\frac{\text{Adjusted share price at balance sheet date}}{\text{Earnings per share}}$	
Market capitalization	=	Number of shares at year end (excluding company's own shares held by the company) x share price at balance sheet date	

PARENT COMPANY INCOME STATEMENT

1 000 EUR	Note	1.1.–31.12.2016	1.1.–31.12.2015
Net sales	5	**4 857**	5 856
Other operating income		**0**	1
Material and services			
External services		**856**	1 768
		856	1 768
Personnel expenses			
Wages and salaries		**1 522**	1 270
Social security expenses			
Pension expenses		**259**	213
Other social security expenses		**69**	96
		1 850	1 579
Depreciation, amortization and impairment changes			
Depreciation and amortization according to plan	10	**283**	449
Other operating expenses		**4 351**	3 427
Operating loss		**-2 484**	-1 367
Financial income and expenses			
Dividend income		**2 581**	3 334
Interest income and other financial income		**218**	530
Interest expenses and other financial expenses		**-809**	-814
		1 989	3 050
Loss/Profit before appropriations and income tax		**-495**	1 683
Appropriations			
Group contribution	9	**2 600**	1 300
Income taxes	12	**-107**	34
Profit for the financial year		**1 998**	3 017

PARENT COMPANY BALANCE SHEET

1 000 EUR	Note	31.12.2016	31.12.2015
ASSETS			
Non-current assets			
Intangible assets			
Intangible rights	13	**3**	78
Property, plant and equipment			
Machinery and equipment	13	**110**	249
Investments			
Shares in subsidiaries	14	**87 293**	89 897
Total non-current assets		**87 407**	90 224
Current assets			
Receivables			
Long-term			
Receivables from group companies, non-current		**2 162**	2 162
Deferred taxes		**65**	91
	15	**2 227**	2 252
Short-term			
Receivables from group companies	16	**3 325**	3 802
Other receivables		**0**	31
Prepaid expenses and accrued income	17	**654**	892
		3 979	4 725
Cash and cash equivalents		**2 758**	664
Total current assets		**8 963**	7 641
Total assets		**96 370**	97 865
EQUITY AND LIABILITIES			
Equity			
Share capital		**5 105**	5 105
Reserve of invested non-restricted equity		**43 513**	43 508
Retained earnings		**13 166**	13 542
Profit for the year		**1 998**	3 017
Total equity	18	**63 782**	65 172
Liabilities			
Non-current liabilities			
Loans from credit institutions	21	**12 500**	0
Current liabilities			
Loans from credit institutions	21	**4 000**	18 500
Trade payables		**197**	187
Payables to group companies	22	**15 229**	13 660
Other liabilities		**75**	35
Accrued expenses	23	**588**	311
		20 089	32 693
Total liabilities		**32 589**	32 693
Total shareholders' equity and liabilities		**96 370**	97 865

PARENT COMPANY CASH FLOW STATEMENT

1 000 EUR	1.1.–31.12.2016	1.1.–31.12.2015
Cash flows from operating activities		
Loss/profit before appropriations	**-495**	1 683
Adjustments:		
Depreciation and amortisation	**283**	449
Unrealised foreign exchange gains and losses	**159**	-141
Financial income and expenses	**-2 148**	-2 909
Other adjustments	**862**	68
Cash flow before change in working capital	**-1 339**	-850
Change in working capital:		
Increase (-) / decrease (+) in current non interest-bearing receivables	**-108**	212
Increase (+) / decrease (-) in current non interest-bearing liabilities	**360**	-201
Cash flows from operating activities before financial items and taxes	**-1 087**	-839
Interest paid and payments for other financial expenses, related to operations	**-606**	-553
Dividends received from operations	**2 544**	3 169
Interest received from operations	**0**	0
Income taxes received / paid	**294**	-663
Net cash generated from operating activities	**1 145**	1 114
Cash flows from investing activities		
Investments in intangible assets and property, plant and equipment	**-70**	-147
Proceeds from sale of tangible assets	**0**	1
Purchase of investments	**-3**	-
Proceeds from sale of investments	**1 814**	-
Net cash generated from investing activities	**1 741**	-146
Cash flows from financing activities		
Dividends paid	**-3 457**	-3 453
Repayment of current loan borrowings	**-21 350**	-2 873
Proceeds from current borrowings	**6 215**	5 212
Repayment of non-current borrowings	**-2 000**	-2 000
Proceeds of non-current borrowings	**18 500**	-
Group contribution	**1 300**	1 800
Net cash generated from financing activities	**-792**	-1 314
Change in cash and cash equivalents	**2 094**	-346
Cash and cash equivalents at beginning of year	**664**	1 010
Cash and cash equivalents at end of year	**2 758**	664

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

The financial statements of the parent company of the group, Affecto Plc, have been prepared in accordance with the Finnish Accounting Standards (FAS).

1. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets and property, plant and equipment are shown at historical cost less accumulated depreciation and amortisation according to plan. Depreciation/amortisation is calculated over the useful lives of the assets as follows.

Intangible rights	3 to 5 years
Machinery and equipment	3 years

2. FINANCIAL ASSETS

Financial assets (securities) are measured at cost.

3. PENSION EXPENSES

Retirement benefits for personnel have been arranged with insurance companies. Pension costs are expensed when incurred.

4. FOREIGN CURRENCY ITEMS

Foreign currency receivables and payables are translated into euro by using the closing rate at the balance sheet date.

NOTES TO THE INCOME STATEMENT AND BALANCE SHEET OF PARENT COMPANY

5. NET SALES BY BUSINESS AREA

1 000 EUR	2016	2015
Information Management Solutions, group companies	606	1 679
Intra group revenue	4 251	4 176
Total	4 857	5 856

6. AVERAGE NUMBER OF EMPLOYEES

	2016	2015
Full-time employees	11	9
Part-time employees	1	-
Total	12	9

7. NUMBER OF EMPLOYEES AT THE END OF YEAR

	2016	2015
Full-time employees	14	9
Part-time employees	2	-
Total	16	9

8. KEY MANAGEMENT COMPENSATION

The CEO's and the Board members remuneration has been recognised as an expense during the financial year as follows:

1 000 EUR	2016	2015
CEO	315	297
Members of the Board	176	177
CEO and the Board of Directors	491	474

The remuneration of the members of the Board and the CEO has been specified in the note 28. to the consolidated financial statements.

Statutory pension arrangement

The CEO is subject to statutory pension arrangements, no supplementary pension arrangements. According to Employees Pension Act (TyEL, 395/2006), the pension expenses of CEO have been recognised on accrual basis 58 thousand euro in year 2016 (2015: 55 thousand euro).

9. GROUP CONTRIBUTION

A group contribution of 2 600 thousand euro (1 300 thousand euro) received from Affecto Finland Oy and Karttakeskus Oy is included in the appropriations.

10. DEPRECIATION AND AMORTIZATION ACCORDING TO PLAN

1 000 EUR	2016	2015
Intangible rights	81	123
Machinery and equipment	203	326
Total	283	449

Depreciation and amortisation according to plan have been calculated on the historical cost based on the useful lives of the assets.

11. AUDIT FEES

1 000 EUR	2016	2015
ERNST & YOUNG OY		
Audit fee	38	19
Tax advisory	16	0
Other fees	64	31
Total	119	50

1 000 EUR	2016	2015
KPMG OY		
Audit fee	0	10
Tax advisory	0	2
Other fees	41	9
Total	41	21

Audit fees have been reported on an accrual basis.

12. INCOME TAXES

1 000 EUR	2016	2015
Tax on group contribution	520	260
Current tax	-472	-260
Adjustment to prior year taxes	-2	4
Change in untaxed reserves	26	-68
Tax at source from foreign dividend	36	30
Total	107	-34

Tax losses carried forward, 187 thousand euro, has been utilized in 2016. In 2016 and 2015 tax losses have been recognized as a deferred tax asset.

13. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

1 000 EUR	2016	2015
Software		
Cost at 1 January	943	915
Additions	6	34
Disposals	0	-6
Cost at 31 December	949	943
Accumulated amortisation at 1 January	865	748
Disposals	0	-6
Amortisation for the year	81	123
Accumulated amortisation at 31 December	945	865
Carrying amount at 31 December	3	78

1 000 EUR	2016	2015
Machinery and equipment		
Cost at 1 January	1 270	1 211
Additions	64	113
Disposals	-18	-54
Cost at 31 December	1 316	1 270
Accumulated amortisation at 1 January	1 021	749
Disposals	-18	-54
Amortisation for the year	203	326
Accumulated amortisation at 31 December	1 206	1 021
Carrying amount at 31 December	110	249

14. SHARES IN SUBSIDIARIES

1 000 EUR	Ownership	2016	2015	Country
Affecto Finland Oy, Helsinki	100	23 845	23 845	Finland
Karttakeskus Oy, Helsinki	100	7 332	7 332	Finland
Affecto Lietuva UAB	100	5 340	5 340	Lithuania
Affecto Securities Oy, Helsinki	100	3	3	Finland
Affecto Sweden AB	100	10 317	10 317	Sweden
Affecto Norway AS	100	26 972	26 972	Norway
Affecto Denmark A/S	100	12 087	12 087	Denmark
Affecto Poland Sp. z o.o.	90.47	600	600	Poland
Information Technology Solutions Affecto (PTY) Ltd	100	0	0	South Africa
Affecto Latvia SIA	100	796	796	Latvia
Affecto Estonia OÜ (divested subsidiary)	100	0	2 606	Estonia
Affecto Estonia OÜ (new subsidiary)	100	3	0	Estonia
Shares in subsidiaries total		87 293	89 897	

In December 2016, Affecto Plc sold its subsidiary company Affecto Estonia OÜ (divested subsidiary) to the subsidiary's acting members of staff. The difference between the book value of shares of the subsidiary and the selling price has been recognized as other operating expense

The new subsidiary has been registered with the same company name Affecto Estonia OÜ (new subsidiary) in December 2016.

In 2015 no changes occurred in shares in subsidiaries.

15. NON-CURRENT RECEIVABLES

1 000 EUR	2016	2015
Loan receivables from group companies	2 162	2 162
Deferred taxes	65	91
Total	2 227	2 252

16. RECEIVABLES FROM GROUP COMPANIES

1 000 EUR	2016	2015
Trade receivables	210	174
Other receivables	3 115	3 628
Total	3 325	3 802

17. PREPAID EXPENSES AND ACCRUED INCOME

1 000 EUR	2016	2015
Receivables on personnel costs	6	2
Current income tax receivables	407	747
Advances on purchase invoices	241	142
Total	654	892

18. CHANGES IN EQUITY

1 000 EUR	2016	2015
Restricted equity		
Share capital at 1 January	5 105	5 105
Share capital at 31 December	5 105	5 105
Restricted equity at 31 December	5 105	5 105
Non-restricted equity		
Reserve of invested non-restricted equity at 1 January	43 508	43 494
Treasury shares as compensation to the Board of Directors	6	14
Reserve of invested non-restricted equity at 31 December	43 513	43 508
Retained earnings at 1 January	16 560	16 941
Dividends paid	-3 457	-3 453
Treasury shares as compensation to the Board of Directors	63	55
Retained earnings at 31 December	13 166	13 542
Profit / loss for the year	1 998	3 017
Non-restricted equity at 31 December	58 677	60 067
Total equity at 31 December	63 782	65 172

	Number of shares
1.1.2016	22 450 745
31.12.2016	22 450 745

In 2016 and 2015 the company did not acquire any own shares.

Based on the authorization of the Annual General Meeting the company has used 24 261 shares for the payment of Board members remuneration in 2016 (2015: 20 984 shares). At the end of 2016 the company had 821 974 own shares. At the end of 2015 the company had 846 235 own shares.

During the years 2016 and 2015 no share subscriptions were made with the options.

19. THE AUTHORISATION GIVEN TO THE BOARD OF DIRECTORS

The Annual General Meeting held on 8 April 2016 authorised the Board of Directors to decide upon the issuing of new shares and upon the conveying of the company's own shares held by the company in one or more tranches. The share issue may be carried out as a share issue against payment or without consideration on terms to be determined by the Board of Directors.

The authorisation includes the right to decide upon a share issue for no consideration to the company itself and to deviate from the shareholders' pre-emptive subscription right. A maximum of 4 200 000 shares may be issued, of which a maximum of 2 100 000 can be treasury shares.

The authorisation replaces the authorisation resolved on by the Annual General Meeting on 8 April 2015 and the authorisation shall be valid until the next Annual General Meeting, however, no longer than until 30 June 2017.

20. CALCULATION OF DISTRIBUTABLE FUNDS

Parent company's distributable funds are:

1 000 EUR	2016	2015
Retained earnings	13 166	13 542
Profit / loss for the year	1 998	3 017
Reserve of invested non-restricted equity	43 513	43 508
Total distributable funds	58 677	60 067

21. LOANS FROM CREDIT INSTITUTIONS

1 000 EUR	2016	2015
Loans from credit institutions at 1 January	18 500	22 500
Changes during the year:		
Repayment of loans	-2 000	-4 000
Loans frorm credit institutions at 31 December	16 500	18 500
Repayment schedule:		
Year 2016	-	18 500
Year 2017	4 000	-
Year 2018	4 000	-
Year 2019	4 000	-
Years 2020–2021	4 500	-
Total	16 500	18 500

Affecto Plc signed a new term loan agreement of 18.5 million euros in June 2016. The new loan replaced the previous loan of 18.5 million euros which expired in the end of June 2016.

22. PAYABLES TO GROUP COMPANIES

1 000 EUR	2016	2015
Trade payables	275	236
Other payables	14 954	13 424
Total	15 229	13 660

23. ACCRUED EXPENSES

1 000 EUR	2016	2015
Personnel costs	437	246
Interest payable	5	-
Other	147	65
Total	588	311

24. CONTINGENCIES AND COMMITMENTS

LEASE COMMITMENTS – WHERE THE COMPANY IS THE LESSEE

The company leases machinery and cars under non-cancellable lease agreements.

THE FUTURE AGGREGATE LEASE PAYMENTS UNDER NON-CANCELLABLE LEASES

1 000 EUR	2016	2015
Not later than 1 year	70	65
Later than 1 year and not later than 5 years	21	48
Total	91	113

GUARANTEES

1 000 EUR	2016	2015
Liabilities secured by a mortgage:		
Loans from financial institutions	-	18 500
Credit facility (2 000 000 euro), not used	-	-
Bank guarantees	236	144
The value of securities given:		
Mortgages	-	52 500
Shares given as a security (carrying amount)	-	50 816

COMMITMENTS ON BEHALF OF OTHER GROUP COMPANIES

Affecto Oyj has given the following guarantees on behalf of Affecto Finland Oy and Affecto Sweden AB:

1 000 EUR	
Lessor	Max. commitment
Internationales Immobilien-Institut GmbH	Personal security
Helsingin Atomitie A-C Oy	Personal security
Ektornet Finland II Oy	57
Kiinteistö Oy Tourulan Kivääritehdas	17
Vasakronan Fastigheter AB	52
LeasePlan Sverige AB	6

SHARES AND SHAREHOLDERS

CORPORATE FORM AND COMPANY NAME

The company is a public limited company and its name is Affecto Plc.

SHARE CAPITAL AND SHARES

As at 31 December 2016 the company's share capital was 5 104 956.30 euros and the share capital consisted of 22 450 745 shares. The shares have no nominal value.

The company owns 821 974 treasury shares.

OPTION PROGRAM 2013

The Annual General Meeting decided in 2013 to issue stock options. The details of the option rights are explained in the decision notice of the AGM dated 9 April 2013. The maximum total number of stock options issued was 400 000.

The subscription period commenced 10 May 2015 and expired 31 May 2016. No subscriptions were made under the option program.

THE AUTHORISATIONS GIVEN TO THE BOARD OF DIRECTORS

The Annual General Meeting 2016 authorised the Board of Directors to decide upon the issuing of new shares and upon the conveying of the company's own shares held by the company in one or more tranches. The share issue may be carried out as a share issue against payment or without consideration on terms to be determined by the Board of Directors. The authorisation includes the right to decide upon a share issue for no consideration to the company itself and to deviate from the shareholders' pre-emptive subscription right. A maximum of 4 200 000 shares may be issued, of which a maximum of 2 100 000 can be treasury shares. The authorisation replaces the authorisation resolved on by the Annual General Meeting on 8 April 2015 and the authorisation shall be valid until the next Annual General Meeting, however, no longer than until 30 June 2017.

The Annual General Meeting 2016 authorised the Board of Directors was authorised to resolve to repurchase a maximum of 2 100 000 shares. The authorisation replaces the authorisation resolved on by the Annual General Meeting on 8 April 2015 and the authorisation shall be valid until the next Annual General Meeting, however, no longer than until 30 June 2017.

INFORMATION ABOUT SHARE TRADING

Trading with the company's shares in the Nasdaq Helsinki commenced in May 2005. The company is classified to the Computer services subsector of the Technology industry and to the Small Cap segment of the Nordic list. The trading id is AFE1V.

SHAREHOLDERS

The company has total of 4 585 shareholders on 31 December 2016 and the foreign ownership was 13 percent. The list of the largest shareholders can be viewed on the company's web site www.affecto.com/. The shareholder register can be reviewed at Euroclear Finland Ltd, Urho Kekkosen katu 5 C, Helsinki.

FLAGGING ANNOUNCEMENTS

On 28 July 2016, the company announced that it has on 27 July 2016 received a disclosure under Chapter 9, Section 5 of the Finnish Securities Market Act according to which the total combined holdings of Danske Bank A/S and its controlled entities has decreased below 5 percent. According to the disclosure, the total combined ownership of Danske Bank A/S and its controlled entities was 1 113 334 shares on 26 July 2016, which corresponded to 4.96 percent of the total amount of shares and votes in Affecto.

Trading code (ticker)	AFE1V	
ISN-code	FI0009013312	
Highest price in 2016	3.15	eur
Lowest price in 2016	2.60	eur
Closing price at 31 Dec 2016	2.83	eur
Market capitalization 31 Dec 2016	61 209 422	eur
Trading volume 1 Jan–31 Dec 2016	6 203 913	shares
Average price 1 Jan–31 Dec 2016	2.83	eur
Trading volume, % of shares	28	%
Number of shares 31 Dec 2016	22 450 745	shares
Number of shares excl. the treasury shares	21 628 771	shares

Share price 2014–2016, eur

Largest registered shareholders 31 December 2016

		Shares	%
1	Cantell Oy	2 283 176	10.2
2	Lombard International Assurance S.A.	1 453 400	6.5
3	Säästöpankki Kotimaa Fund	1 305 500	5.8
4	Ilmarinen Mutual Pension	1 088 461	4.8
5	OP-Suomi Arvo Fund	961 884	4.3
6	OP-Suomi Pienyhtiöt Fund	934 257	4.2
7	Evli Suomi Pienyhtiöt Fund	905 287	4.0
8	SR Danske Invest Suomen Pienyhtiöt	800 000	3.6
9	State Pension Fund	600 000	2.7
10	4capes Oy	450 000	2.7
11	Nordea Bank AB	416 088	2.0
12	Taaleritehdas Fund	400 000	1.9
13	Säästöpankki Pienyhtiöt Fund	352 327	1.8
14	Varma Mutual Pension	310 000	1.6
15	Central Church Fund	273 440	1.4
16	EQ Pohjoismaat Pienyhtiöt Fund	220 000	1.2
17	Sandberg Stig-Göran	150 358	1.0
18	Oy Chemec Ab	148 000	0.7
19	Nieminen Jorma	100 000	0.7
20	I.A. Von Julins STB	87 000	0.7
	Top 20 together	13 239 178	59.0
	Nominee registered	1 196 388	5.3
	Treasury shares	821 974	3.7
	Other shareholders	7 193 205	32.0
	Total number of shares	22 450 745	100.0

Distribution of shares 31 December 2016

	Owners		shares	
	No.	%	No.	%
1–100	658	14	40 322	0
101–500	1 726	38	538 588	2
501–1 000	928	20	771 751	3
1 001–5 000	1 010	22	2 302 793	10
5 001–10 000	141	3	1 051 072	5
10 001–50 000	90	2	1 949 425	9
50 001–100 000	10	0	741 546	3
100 001–500 000	11	0	3 109 089	14
500 001–1 000 000	11	0	11 946 159	53
1 000 001–	0	0	0	0
Total	4 585	100	22 450 745	100

Owners by sectors 31 December 2016

	Owners		shares	
	No.	%	No.	%
Non-financial corp. and housing corp.	220	5	7 079 963	32
Financial and insurance corporations	13	0	4 176 351	19
General government	5	0	2 303 401	10
Households	4 300	94	5 706 442	25
Non-profit institutions	13	0	188 488	1
Foreign owners (registered)	28	1	1 799 712	8
Nominee registered	6	0	1 196 388	5
Total	4 585	100	22 450 745	100

BOARD’S DIVIDEND PROPOSAL

Distributable funds of the group parent company on 31 December 2016 are 58 676 860.81 euros, of which the distributable profit is 15 163 635.13 euros. Board of Directors proposes to the Annual General Meeting that from the financial year 2016 a dividend of 0.16 euros per share will be paid, a total of 3 460 603 euros with the outstanding number of shares at the end of the financial period, and the rest is carried forward to the retained earnings account. No material changes have taken place in respect of the company’s financial position after the balance sheet date. The liquidity of the company is good and in the opinion of the Board of Directors proposed distribution of profit does not risk the liquidity of the company.

In Helsinki, 16. February 2017

Aaro Cantell
Chairman of the Board

Magdalena Persson

Jukka Ruuska

Olof Sand

Tuija Soanjärvi

Lars Wahlström

Juko Hakala
CEO

AUDITOR'S REPORT

To the Annual General Meeting of Affecto Plc

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Affecto Plc (business identity code 1069622–4) for the year ended 31 December, 2016. The financial statements comprise the consolidated income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes, including a summary of significant accounting policies, as well as the parent company's income statement, balance sheet, cash flow statement and notes.

In our opinion

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

Basis for Opinion

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

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

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

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.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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

Revenue recognition

We refer to the summary of significant accounting policies and the notes 4 and 18.

The Group has a number of revenue streams, including licenses, service contracts and long-term projects. The Group uses the percentage of completion method for long-term contracts, when the outcome of a project can be estimated reliably. The percentage of completion method relies on estimates of total expected contract revenue and costs, as well on measurement of the progress made towards completing the particular project. Due to the multitude and variety of contractual terms with customers, significant management judgement is needed to account for the revenue streams, and therefore, revenue could be subject to misstatement, whether due to fraud or error.

Our audit procedures to address the risk of material misstatement relating to revenue recognition included, among others:

- Assessing the compliance of the Group's accounting policies over revenue recognition with applicable accounting standards.
- Analyzing the contractual language and revenue recognition criteria in a sample of new sales contracts.
- Testing a sample of sales transactions for timing of revenue recognition, including evaluation of percentage of completion calculations of long term projects.
- Considering the appropriateness of the Group's disclosures in respect of revenues.

Goodwill impairment testing

We refer to the summary of significant accounting policies and the notes 4 and 7.

At the balance sheet date, the value of goodwill amounted to 62 215 k€ representing 53% of the total assets and 97% of the total equity. Procedures over management's annual impairment test for goodwill were significant to our audit because the test involves estimates. The Group management applies significant judgment in determining assumptions in respect of future market and economic conditions such as economic growth, revenue and margin developments.

Our audit procedures to address the risk of material misstatement relating to the impairment testing included, among others:

- Involving valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group in the testing, in particular those related to the determination of weighted average cost of capital.
- Evaluating key assumptions included in the impairment testing with a focus on the projected financial information and testing the allocation of the assets, liabilities, revenues and expenses to each of the cash generating units.
- Assessing retrospectively the outcome of the management's prior year estimates.
- Considering the appropriateness of the Group's disclosures in respect of impairment testing.

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

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

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

Auditor's Responsibilities for the Audit of Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether

a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

OTHER REPORTING REQUIREMENTS

Other information

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

Our opinion on the financial statements does not cover the other information.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Helsinki, 16 February 2017

Ernst & Young Oy
Authorized Public Accountant Firm

Mikko Järventausta
Authorized Public Accountant

AFFECTO PLC'S CORPORATE GOVERNANCE STATEMENT 2016

CORPORATE GOVERNANCE STATEMENT

I. INTRODUCTION

Affecto's corporate governance is based on, and it complies with, the laws of Finland, the Articles of Association of the Company, the rules and regulations of NASDAQ Helsinki and the Finnish Corporate Governance Code prepared by the Finnish Securities Market Association in 2015 (the "Code"). The Code is available at http://www.cgfinland.fi/.

This Corporate Governance Statement of Affecto Plc has been prepared in accordance with recommendations of the Code. The corporate governance statement has been prepared as a separate report distinct from the Report of the Board of Directors and it is available on the Company's website www.affecto.com. Affecto's Board of Directors has reviewed this corporate governance statement. The Company's external auditor has reviewed that the statement has been issued and that the description of the main features of the internal control and risk management systems pertaining to the financial reporting process is consistent with the financial statements.

DEPARTURES FROM INDIVIDUAL RECOMMENDATIONS
Affecto complies with all the recommendations of the Code.

II. DESCRIPTIONS CONCERNING CORPORATE GOVERNANCE

Affecto is a Finnish limited liability company with headquarters in Espoo, Finland. Affecto and its subsidiaries have in total approximately 1 000 employees and operations in 9 countries and 20 different offices. The group's business is managed by the five reportable segments: Finland, Norway, Sweden, Denmark and Baltic. Affecto is listed on the Nasdaq Helsinki stock exchange.

Affecto uses a single-tier governance model. The responsibility of Affecto's management lies with Shareholders' General Meeting, the Board of Directors and the CEO. Their duties are mainly defined in the Finnish Companies Act.

The General Meeting elects the Board of Directors and the Company's auditor. The Board of Directors appoints the CEO, appoints the Leadership Team members based on the CEO's proposal, and is responsible for strategic management of the Company. The CEO is responsible for the management of the Company's operations and governance in accordance with the instructions given by the Board. The CEO is assisted in his work by Affecto Leadership Team which in addition to the CEO consists of the Deputy CEO, the CFO, Managing Directors of Scandinavia, Baltic, Finland, and B2C Industries, Brand & Market.

1. GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the highest decision-making body of the Company. The General Meeting resolves on matters as defined in the Finnish Companies Act and the Articles of Association of the Company. These matters include confirming the Company's financial statements and deciding on the distribution of dividend, electing the Board of Directors and the auditor and determining their remuneration.

Annual General Meeting of the Company is held within six months of the end of the financial period. Additionally, extraordinary General Meetings may be held during the year, if required. Affecto publishes the meeting invitations as a stock exchange release and on its website www.affecto.com.

Shareholders have the right to add items falling within the scope of the Annual General Meeting to the meeting's agenda. The request to add an item to the agenda must be submitted to the Board of Directors in advance. Affecto publishes the details of how and when to submit the requests to the Board on its website.

ANNUAL GENERAL MEETING IN 2016
The Annual General Meeting of Affecto Plc was held in Helsinki, Finland on 8 April 2016. A total of 55 shareholders attended the meeting either in person or through a legal or proxy representative, representing a total of 41.8% of the Company's registered number of shares and voting rights at the time of the meeting. The CEO and all the Board members were present at the meeting. The Annual General Meeting adopted the financial statements and discharged the members of the Board of Directors and the CEO from liability for the financial year 2015. The meeting approved the Board of Directors' proposal to pay a dividend of EUR 0.16 per share. The dividend was paid on 19 April 2016.

2. SHAREHOLDERS' NOMINATION BOARD

The Shareholders' Nomination Board prepares the proposals for the General Meeting of Shareholders regarding the election of the Board members and their remuneration. The proposal of the committee is included in the notice of the Annual General Meeting.

The Nomination Board consists of the representatives of the three largest shareholders and the Chairman of the Board of Directors, acting as an expert member, if he is not appointed a representative of a shareholder. The members representing the shareholders are appointed by the three largest shareholders of the Company at 31 October preceding the Annual General Meeting. Should a shareholder wish not to use its right to nominate a member to the Nomination Board, the right will be passed on to the next largest shareholder who does not already have a right to nominate a representative. The largest shareholders are determined on the basis of the ownership information registered in the book-entry system. However, the holdings of a shareholder, who under the Finnish Securities Markets Act has the obligation to disclose changes in shareholdings as a major shareholder notification, may be combined provided that the owner presents a written request to that effect to the Board of Directors of the Company no later than three business days prior to 31 October preceding the Annual General Meeting.

The Nomination Board will be convened by the Chairman of the Board of Directors, and the Committee will appoint a chairman among its members. The Nomination Board is to give its proposal to the Board of Directors of the Company by 20 January preceding the Annual General Meeting.

In spite the Company has a Shareholders' Nomination Board, shareholders are entitled to make separate proposals concerning the composition or remuneration of the Board.

NOMINATION BOARD IN 2016

In 2016, Cantell Oy, Säästöpankki Kotimaa Fund and Ilmarinen mutual pension insurance company appointed Aaro Cantell, Chairman of Affecto's Board of Directors, Petteri Vaarnanen, Head of asset management in SP-Rahastoyhtiö and Mikko Mursula, CIO of Ilmarinen, as members of the Nomination Board. The 2nd largest shareholder Lombard International Assurance S.A. did not appoint a member.

3. COMPOSITION AND OPERATIONS OF THE BOARD OF DIRECTORS

The Board of Directors is vested with powers and duties to manage and supervise the operations of the Company as set forth in the Finnish Companies Act, the Articles of Association of the Company and other applicable regulations.

The Affecto Board of Directors consists of three to seven members that are appointed by the General Meeting of Shareholders. The term of office of the Board members ends at the conclusion of the first Annual General Meeting which is convened after the election. The Board elects a chairman and a deputy chairman from among its members after the Board has been appointed by the General Meeting. The Board steers and supervises the Company's operations and decides on policies, goals, and strategies of major importance. In addition, the Board has a written charter that governs the board work.

The Board meets regularly, 10 times a year on average, according to a schedule decided in advance. Additional Board meetings shall be held if so requested by a Board member or the CEO.

DIVERSITY PRINCIPLES

Affecto recognizes that diversity of the Board of Directors in the context of e.g. gender, age, occupational, educational, and international background supports the Company's business operations and development and also contributes to good corporate governance of the Company.

Consequently, the Board of Directors has recommended to the Shareholders' Nomination Board to take into account diversity factors when making proposals to the general meeting of shareholders and to ensure that at the minimum both genders are represented in the proposal to the Shareholders' General Meeting with regards to the composition of the Board of Directors. Furthermore, the Board of Directors is committed to take also diversity issues into account when assessing the composition of committees of the Board of Directors.

In 2016, Affecto implemented diversity principles as a part of the charter of the Board of Directors and included a recommendation to the Shareholders' Nomination Board to take into account also the diversity matters when considering Board member candidates. During the year Affecto's Board of Directors included two female Board members out of six members in total. In addition, all the Committee chairmen were females in 2016. In terms of citizenships of the Board members, 3 Board members were Swedes and 3 were Finns while the birth years of the Board members ranged from 1955 to 1971.

BOARD INDEPENDENCE

All the members of the Affecto Board of Directors but Chairman Aaro Cantell are independent of both the Company and its major shareholders. As Aaro Cantell has been a non-executive Board member for more than 10 consecutive years he is considered to be dependent of the Company, and, in addition, he is considered dependent of major shareholders due to the combined ownership of his controlled entities exceeding 10% of the total shares and votes in the Company. Magdalena Persson, Jukka Ruuska, Olof Sand, Tuija Soanjärvi and Lars Wahlström are all independent from both the Company and its major shareholders. Lars Wahlström acted as the as interim CEO from 1 January to 7 September 2014 but due to the interim status of the position, he is nevertheless considered independent of the Company in accordance with the Code.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is vested with powers and duties to manage and supervise the operations of the Company as set forth in the Finnish Companies Act, the Articles of Association of the Company and other applicable regulations. As a publicly listed company, the rules of Nasdaq Helsinki apply to the Company. Further, the Company complies with the Finnish Corporate Governance Code 2015. The Board of Directors of Affecto is one-tier Board.

The Board of Directors has overall responsibility for the appropriate administrative and operational organization of the Company. The Board of Directors' main duty is to direct and guide Affecto's strategy in a way that it maximizes shareholder value and creates a long-term successful business for Affecto while simultaneously taking into account the expectations of other key stakeholders. The Board has a written charter that further elaborates the responsibilities in the following fashion:

AFFECTO BOARD OF DIRECTORS – RESPONSIBILITIES

Strategy and portfolio	Approval of the main strategies for Affecto developed under leadership of the CEO
	Affecto's entry by means of direct investment into or exit from any country or any business.
Structural and Constitutional Matters	Any proposal to the general meeting of shareholders to amend the Company's Articles of Association
	any alteration in the share capital or the number of shares of Affecto Plc including the purchase, disposal, allotment, re-issue, share split or cancellation and in any event subject to the authorities given by the general meetings of shareholders of the Company.
Governance	Approval of the dividend policy and proposing the dividend to the shareholders' meeting;
	approval of the Annual Financial Statements for publication and adoption by the shareholders
	approval of the interim reports and financial statements for publication
	convening the General Meeting of shareholders'
	approval of code of conduct
	the review of the functioning of the Board and its committees
	approval of the persons authorized as signatories of Affecto Plc
	approval and monitoring transactions with related parties
	appointment and supervision of Board Committees
	approval of the internal audit, internal control and risk management procedures and validation of their implementation
	approval of the main principles of incentive systems
	approval of the Company´s management system as proposed by the CEO
	approval of annual and three-year business plans
	validation of the Company's announced future outlook on continuous basis
	review and oversight of critical risks in the business and assessment of the risk management
	overall responsibility for compliance with all relevant legislation and regulations
Personnel	Appointment and dismissal of the CEO and monitoring his performance
	CEO succession planning;
	confirmation of the appointments of the Affecto Leadership Team
	approval on the terms of employment of the Affecto Leadership Team
Mergers, Acquisitions, Joint Ventures and Disposals	Any merger, acquisition, joint venture or disposal where the value of consideration paid or received, or of the assets contributed by Affecto or by other parties, exceeds a certain amount
	any merger, acquisition or joint venture or disposal where the total sum of liabilities assumed by Affecto exceeds a certain amount
Capital Expenditure	Any capital expenditure project which has a value exceeding certain amount including land and property agreements.
Contracts	Any contract for acquisition of goods or services (other than land or property contract) which has a value exceeding certain amount
	any contract for acquisition of goods or services other than land or property contract) which exceeds 5 years in duration and has a total value that exceeds a certain amount
	any outsourcing contract where the Company overtakes personnel or assets and where the annual cost impact exceeds a certain amount
Litigation	The initiation or settlement of any litigation or claim with a value exceeding a certain amount
Financing	Approval of any external single long-term borrowing in each case with a maturity of more than one year, where the total value exceeds a certain amount
	approval of any financials guarantees given, where the total value exceeds a certain amount

ATTENDANCE IN THE MEETINGS

As per the applicable regulation, the Board of Directors is authorized to make decisions provided that over 50% of the Board members are present in the meeting. Other than that, Affecto has not set any additional requirements for the attendance in the meeting as the general assumption is that Board members attend all meetings unless there is a valid reason for the non-attendance. In 2016, the Board held 17 meetings. In 2016, the average attendance at the meetings was 95% (FY 2015: 96%). Individual attendance is presented in the table below.

Board member	Position	Attendance/meetings	Attendance %
Aaro Cantell	chairman	17	100
Olof Sand	vice chairman	13	76
Magdalena Persson	member	17	100
Jukka Ruuska	member	16	94
Tuija Soanjärvi	member	17	100
Lars Wahlström	member	17	100

BOARD OF DIRECTORS IN 2016

At the end of 2016, the Board of Directors comprised the following members: Aaro Cantell (chairman), Olof Sand (vice chairman), Magdalena Persson, Jukka Ruuska, Tuija Soanjärvi and Lars Wahlström.

Aaro Cantell, born 1964

- Dependent of the Company, dependent of significant shareholders
- Finnish citizen
- M.Sc. (Tech.)
- Chairman of the Board of Directors
- Member of the People, Nomination and Compensation Committee

Key professional experience:

- Chairman of the Board, entrepreneur, Normet Group Oy 2005–
- Managing Partner and owner, Fenno Management Oy 1997–2007
- Investment Director, Finnish Innovation Fund Sitra 1993–1997

Positions of trust:

- Chairman of the Board, VTT Technical Research Centre of Finland Ltd
- Member of the board Executive Committee, Federation of Finnish Technology Industries
- Solidium Oy, Board Member
- Valmet Plc, Board Member

Aaro Cantell has served in the Affecto Board of Directors since 2000.

Olof Sand, born 1963

- Independent of the Company and significant shareholders
- Swedish citizen
- MBA, AMP
- Vice Chairman of the Board of Directors
- Member of the People, Nomination and Compensation Committee

Key professional experience:

- CEO, Quant AB 2016–
- CEO & President, Anticimex AB, 2011–2015
- CEO & President, Proact AB, 2005–2011
- Founder & EVP, Acando AB, 1999–2005

Positions of trust:

- Board member, Pricer AB
- Board member, Quant AB

Olof Sand has served in the Affecto Board of Directors since 2013.

Magdalena Persson, born 1971
- Independent of the Company and significant shareholders
- Swedish citizen
- L.Sc. (Econ.)
- Chairman of the People, Nomination and Compensation Committee

Key professional experience:
- CEO, Interflora AB, 2015–
- various positions, Microsoft 2010–2014
- CEO, SamSari AB, 2005–2009
- Enterprise and Partner Group Director, Microsoft, 2003–2005
- various positions, WM-Data Business Partner, 1999–2003

Positions of trust:
- Board member, Aditro Ab
- Board member, Fortnox Ab

Magdalena Persson has served in the Affecto Board of Directors since 2013.

Jukka Ruuska, born 1961
- Independent of the Company and significant shareholders
- Finnish citizen
- LLM, MBA
- Member of the Audit Committee

Key professional experience:
- CEO, Asiakastieto Group Oyj, 2012–
- Deputy CEO, Asiakastieto Group Oyj, 2011–2012
- Senior Advisor, Sitra, 2011–2011
- Senior Partner, CapMan, 2008–2013
- EVP, NasdaqOMX, 2007–2008
- President, OMX Nordic, 2003–2007
- CEO, HEX Plc, 2000–2003
- Director, Helsinki Telephone Company, 1996–1999
- Deputy CEO, Prospectus, 1994–1996
- SVP, Kansallis-Osake-Pankki, 1990–1994

Positions of trust:
- Board member, Suomen Kansallisteatterin Osakeyhtiö
- Board member, Nordic Morning Oyj

Jukka Ruuska has served in the Affecto Board of Directors since 2010.

Tuija Soanjärvi, born 1955
- Independent of the Company and significant shareholders
- Finnish citizen
- M.Sc. (Econ.)
- Chairman of the Audit Committee

Key professional experience:
- Senior vice president and chief financial officer, Itella Corporation, 2005–2011
- Executive vice president and chief financial officer, Elisa Corporation, 2003–2005
- Senior vice president and chief financial officer, TietoEnator Oyj, 1990–2003
- Finance manager, Tietotehdas Corporation, 1987–1990
- Internal auditor, Tietotehdas Corporation, 1986–1987

Positions of trust:
- Board member and chairman of the audit committee, Basware Plc
- Board member and chairman of the audit committee, Metsähallitus
- Board member, Metsätalous Oy
- Board member, Nixu Oyj
- Board member, Silta Group Oy
- Board member and audit committee member, VR-Group Ltd
- Chairman of the Board, The Finnish Orienteering Federation

Tuija Soanjärvi has served in the Affecto Board of Directors since 2011.

Lars Wahlström, born 1959
- Independent of the Company and significant shareholders
- Swedish citizen
- BBA
- Member of the Audit Committee

Key professional experience:
- Interim CEO, Affecto Plc, 2013–2014
- CEO, Telepro, 2009–2012
- various positions, Oracle, 2000–2009
- VP, EVP, EHPT, 1996–2000
- Managing Director, Allgon Mobile AB, 1993–1995

Positions of trust:
- Board member, Datscha AB
- Chairman, Edimia Education Ab
- Chairman, Oniva Online Group Europe AB
- Board member, Intellecta AB

Lars Wahlström has served in the Affecto Board of Directors since 2011.

4. COMPOSITION AND OPERATIONS OF THE COMMITTEES OF THE BOARD OF DIRECTORS

Board of Directors appoints annually two committees, an Audit Committee and a People, Nomination and Compensation Committee. In addition, the Board may nominate additional committees in case it so deems necessary.

The Board is responsible for the performance of any duties assigned to the committees. The committees do not have any independent decision-making power. Chairman of each committee informs the Board of Directors on the work of the committee. The minutes of committee meetings are distributed to Board of Directors for information purposes.

Committee	Member	Attendance/meetings	Attendance %
Audit Committee	Tuija Soanjärvi (Chairman)	4/4	100
	Jukka Ruuska	4/4	100
	Lars Wahlström	2/4	50
People, Nomination and Compensation Committee	Magdalena Persson (Chairman)	3/3	100
	Aaro Cantell	3/3	100
	Olof Sand	1/3	33

AUDIT COMMITTEE

The Board of Directors appoints annually the Audit Committee to supervise the efficiency of the Company's accounting and financial reporting system as well as to monitor the Company's audit functions. The committee assists the Board of Directors with the supervision of the Company´s financial reporting, statutory audit, corporate governance, internal control, internal audit and risk management.

The Audit Committee consists of three to five Board members. The members are nominated annually. The members of the Audit Committee shall be independent of the Company and at least one member shall be independent of significant shareholders. The members shall have the qualifications necessary to perform the responsibilities of the Audit Committee, and at least one member shall have expertise specifically in accounting, bookkeeping or auditing.

Specifically, the duties stated in the charter of the Audit Committee are:

- Monitoring the company´s financial position;
- Monitoring the process of financial reporting;
- Evaluating and developing the sufficiency, efficiency and appropriateness of internal control and risk management systems;
- Evaluating compliance with laws and regulations;
- Preparing the proposal for resolution on the election of the auditor and to evaluate the independence of the statutory auditor;
- Communicating with the auditor and to reviewing the reports that the auditor prepares for the Audit Committee;
- Evaluating advisory services provided by the auditor;
- Monitoring the statutory audit of the financial statements and consolidated financial statements; and
- Monitoring the description of the main features of the internal control and risk management systems pertaining to the financial reporting process.

AUDIT COMMITTEE IN 2016

In 2016, the Committee members were Tuija Soanjärvi (Chairman), Jukka Ruuska and Lars Wahlström. The Committee convened 4 times in 2016 and the attendance level was 83%. All of the Committee members were independent of both the Company and its major shareholders.

PEOPLE, NOMINATION AND COMPENSATION COMMITTEE

The Board of Directors appoints annually the People, Nomination and Compensation Committee which is responsible for reviewing the remuneration matters and management appointment matters. The committee also reviews and recommends relevant strategies and procedures in relation to the employment, leadership and remuneration practices of the Company to the Board for approval.

In according to the charter of the Committee, the duties include:

Nomination and Compensation:

- Preparation of matters pertaining to the appointment of the CEO and the other executives as well as the identification of their possible successors
- Preparation of matters pertaining to the remuneration and other financial benefits of the CEO and other executives
- Preparation of matters pertaining to the remuneration schemes of the Company
- Evaluation of the remuneration of the CEO and the other executives as well as seeing to it that the remuneration schemes are appropriate
- Answering questions related to the remuneration statement at the General Meeting

People, Careers and Culture:

- Review the development of key strategies aimed at developing the organisation's culture, people development, career growth and talent management practices
- Review the employee value proposition of the company to ensure the organisation attracts and retains appropriate people for specific roles at particular times
- Ensure the organisation has appropriate employee wellbeing strategies
- Review other strategic initiatives associated with people, careers and culture.

THE PEOPLE, NOMINATION AND COMPENSATION COMMITTEE IN 2016

In 2016, the Committee members were Magdalena Persson (Chairman), Aaro Cantell and Olof Sand. The Committee convened 3 times in 2016 and attendance percentage was 78%.

5. CEO AND HIS DUTIES

The Board of Directors appoints the Chief Executive Officer ("CEO"). The CEO is responsible for the management of the Company's operations and governance in accordance with the Articles of Association, the Finnish Companies Act, other applicable legislation and in accordance with the instructions given by the Board of Directors. The CEO's service terms are specified in writing in his written service contract. Juko Hakala has been Affecto's CEO since 8 September 2014. The Deputy CEO is Iikka Lindroos as of October 2016.

6. AFFECTO LEADERSHIP TEAM

The Leadership Team assists the CEO in the management of the group. The members of the Affecto Leadership Team are appointed by Board of Directors, which also approves their terms of employment.

At the end of December 2016 the Leadership Team comprised the following 7 members with the following responsibilities:

- Juko Hakala, Chief Executive Officer
- Iikka Lindroos, Deputy Chief Executive Officer
- Martti Nurminen, Chief Financial Officer
- Mikko Eerola, Managing Director, B2C Industries, Brand & Market
- Håvard Ellefsen, Managing Director, Scandinavia & Partners
- Henri Engström, Managing Director, Affecto Industrial and Interim Managing Director, Finland
- Stig-Göran Sandberg, Managing Director, Eastern Europe, South Africa & Delivery

BIOGRAPHICAL DETAILS OF THE CEO AND THE LEADERSHIP TEAM

Juko Hakala, b.1970, M.Sc.(Econ.).

Hakala has been Affecto's CEO since 8 September 2014. He has previously served in various management positions at Accenture since 1998, latest as managing director at Accenture Digital in the Nordic countries. Earlier he has been responsible for Accenture Technology Strategy and Accenture Infrastructure Outsourcing units in the Nordic countries, and he has also built the Strategic IT unit in Finland.

Iikka Lindroos, b.1974, B.Sc.(Business IT)

Lindroos has been the Deputy CEO since October 2016. He has an extensive experience working with multinational companies in different leadership positions. In addition, he has led the implementation of various developments brought by both globalization and technology. As his latest responsibilities, Lindroos has been the Managing Director for ManpowerGroup Finland and Baltics and the Vice Chair of the Board of Finnish Private Employment Agencies Association (HPL).

Martti Nurminen, b.1979, M.Sc.(Econ.)

Martti Nurminen was appointed as the Chief Financial Officer of Affecto on 28 October 2015. Nurminen has a wide international experience in various financial management positions of major international companies such as Johnson Controls and IBM.

Mikko Eerola, b.1975, M.Sc.(Econ.)

Eerola is Managing Director, B2C Industries, Brand & Market since 2015. Before joining Affecto, he served as Chief Sales and Marketing Officer at Idean Ltd.

Håvard Ellefsen, b.1971, B.Sc. Honours(Comp.Sci.)

Ellefsen is Managing Director, Scandinavia & Partners since 2007. Earlier he served as the Consulting manager for Component Software Norway.

Henri Engström, b.1975

Engström is Managing Director, Affecto Industrial and Acting Managing Director, Finland. Engström has served in various positions at Affecto since year 2000.

Stig-Göran Sandberg, b.1957, M.Sc.(Comp.Sci.)

Sandberg is Managing Director, Eastern Europe, South Africa & Delivery since 2008. Previously he has also been the country director for Finland. Mr. Sandberg has been associated with Affecto and its predecessor entities since 1977, and has served in several specialist and managerial positions.

III. DESCRIPTIONS OF INTERNAL CONTROL PROCEDURES AND THE MAIN FEATURES OF RISK MANAGEMENT SYSTEMS

Affecto prepares consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards, as adopted by the EU, the Finnish Securities Markets Acts as well as the appropriate Finnish Financial Supervision Authority Standards and Nasdaq Helsinki Ltd's rules. The Report of the Board of Directors of Affecto and parent company financial statements are prepared in accordance with Finnish Accounting Act and the recommendations and guidelines of the Finnish Accounting Board.

Affecto's financial reporting process consists of external accounting. Internal control and risk management systems and practices as described below are designed to ensure that the financial reports as disclosed by the company give correct information about the company finances in all material respect.

Affecto group has reporting manual which includes an overview of financial reporting process, key outputs, and roles and responsibilities within the process. Essential group policies are part of the guidelines. The up-to-date versions of reporting manual and other internal guidelines for financial reporting can be found at group intranet.

Affecto's subsidiaries in each country have separate finance organization and also business activities are local. Proper arrangement and monitoring of internal control is the responsibility of the local management in accordance with the group framework.

Affecto group uses a common chart of account and consolidation and reporting application. Subsidiaries submit external financial reporting to the group finance on a monthly basis.

The group finance has defined the significant processes relevant to internal control over financial reporting, e.g. revenue, purchasing, payroll expenses, project management, finance, and related IT systems. Within this process framework, financial reporting risks and control objectives have been defined and group wide common control points have been designed to mitigate financial reporting risks. Common control points include for example authorizations, key accounting reconciliations, project management procedures, segregation of key financial duties and analysis of financial performance and figures in order to identify any irregularities or errors.

Group finance supports subsidiaries by regular monitoring and by providing additional guidance. The subsidiaries together with the group finance conduct annually a self-evaluation of the internal control points, which is then presented to the Audit committee.

Financial reports prepared by the subsidiaries are analyzed by Affecto group finance. Group management and operative segment management have monthly meetings including a review of business operations and financial position for which the segment management prepares a report.

Segment-based financial reports are prepared for the Affecto Board on a monthly basis. According its charter, the Board reviews and approves interim financial reports, financial statement releases and the financial statements.

The group finance and finance managers of the subsidiaries meet semi-annually to evaluate and adjust the procedures related to financial reporting and internal controls.

1. OVERVIEW OF THE RISK MANAGEMENT SYSTEMS

In Affecto's risk management process, operative segments and the Leadership Team identify, assess and manage business risks on an on-going basis. The most significant risks are reported to the Board of Directors.

The Board informs the market about the most significant risks and uncertainties in the financial statements and in the interim reports.

2. OVERVIEW OF THE INTERNAL CONTROL

Internal control aims to ensure that Affecto's business activities are efficient and proficient, financial reporting is reliable and that applicable laws, regulations and company's internal policies are followed.

The Board of Directors and the Audit Committee, which is appointed by the Board, supervise internal control and the risk management pertaining to the financial reporting. The Group CEO and CFO are together responsible for implementing the internal control and risk management together with the Leadership Team, subsidiary management teams and finance directors.

Affecto does not have separate internal audit function. The function is generally carried out by group finance department staff. Any audit results are reported by the CFO to the Board's Audit Committee and to the CEO. If necessary, reports can also be addressed directly to the entire Board of Directors.

IV. OTHER INFORMATION

1. RELATED PARTY TRANSACTIONS

Affecto's has identified related parties that include e.g. the Board of Directors, the CEO, the Affecto Leadership Team members and associated companies. In case the Company conducts transactions with any of its related parties, the transactions are conducted as part of normal business operations and in market equivalent terms and practices. The finance function of the Company monitors and evaluates any transactions concluded between the Company and its related parties as part of the Company's standard reporting and control procedures. Information regarding the Company's related party transactions is disclosed in the notes to the Company's consolidated financial statements.

2. INSIDER ADMINISTRATION

Affecto complies with the EU regulation (especially the Market Abuse Regulation, (MAR)) and Finnish legislation, the insider guidelines of Nasdaq Helsinki Ltd and the regulations and guidelines of the European Securities Markets Authority and the Finnish Financial Supervisory Authority. The regulation is supplemented by the Company's own insider guidelines. The compliance is monitored by the Company's own insider administration.

The Company has defined Persons Discharging Managerial Responsibility of the Company (the "PDMRs") to include the members of the Affecto Board of Directors and Affecto Leadership Team. In addition, the Company maintains a list of persons participate in the financial reporting of the Company (the "Financial Reporting Group").

PDMR Declarations

As per the Company's insider guidelines, both the PDMRs and their related parties must report any transactions with respect to financial instruments of the Company within two business days from the transaction. The Company announces the transactions of PDMRs and their related parties through stock exchange release.

Trading Restrictions

The PDMRs and the Financial Reporting Group are not allowed to trade 30 days before the publication of the Company's financial statement bulletin and interim reports, and on the day of the publication.

Further, in case the Company assesses and resolves to delay a disclosure of a major project or other matter, the Company establishes a project specific insider list. A person entered in the project-specific insider list is not allowed conduct any trading.

3. EXTERNAL AUDITOR

The Annual General Meeting of shareholders elects the auditor for a period of one year until the next subsequent Annual General Meeting. The auditor is responsible for auditing the consolidated and parent company financial statements and the administration of the parent company.

External Auditor in 2016

On 8 April 2016, the Annual General Meeting reappointed Ernst & Young Oy as the Company's external auditor for a one-year term with Mikko Järventausta as the lead audit partner. Ernst & Young has served as the auditor since 8 April 2015 prior to which the auditor was KPMG Oy.

1 000 EUR	2016	2015	2014
Audit fee	129	151	135
Consulting	105	54	72

B. REMUNERATION STATEMENT

This Remuneration Statement has been prepared according to the remuneration reporting section of the Finnish Corporate Governance Code 2015.

1. DECISION-MAKING PROCEDURE CONCERNING THE REMUNERATION

The Annual General Meeting resolves on the remuneration of the Board of Directors. The resolution is made based on the proposals of the Shareholder's Nomination Board which gives its proposal by 20 January of each year. The proposal is announced as a stock exchange release and is included in the invitation to the Annual General Meeting.

The Board of Directors resolves on the remuneration of the CEO taking into account the views of the People, Nomination and Compensation Committee.

The Board of Director also resolves on the remuneration of the Affecto Leadership Team based on the proposal of the CEO.

The Annual General Meeting 2016 authorized the Board of Directors to issue up to 4.2 million shares and to repurchase up to 2.1 million shares. The authorizations enable the Board of Directors to use the shares as a part of the Company's incentive plans. Based on the authorizations, Affecto has conveyed 24 261 treasury shares to the members of the Affecto Board of Directors as a part of the Board members' annual remuneration in 2016.

2. MAIN PRINCIPLES OF REMUNERATION

BOARD OF DIRECTORS

Based on the proposal by the Nomination Board that was approved by the Annual General Meeting, the Board of Directors receives a monthly remuneration that is paid for the entire term in August. Approximately 60% of the remuneration is paid in cash and 40% in the Company's shares. The share based remuneration that the Board members receive is not subject to any lock-up arrangements and none of the Board members have a service contract with the Company. The Board members do not receive any other financial benefits for their Board or membership in addition to the monthly fees. In addition, the Board members receive a fee of EUR 300 for participating the committee meetings.

CEO AND AFFECTO LEADERSHIP TEAM

The Board of Directors and the People, Nominations and Compensation Committee resolve on the remuneration of the Chief Executive Officer and the Leadership Team.

The remuneration of the CEO and the Leadership Team consists of non-variable base salary and half-yearly additional incentive. The additional incentive is based on metrics related to the financial performance of the Company such as order intake, revenue or profitability and, on the other hand, individual specific qualitative targets. The maximum additional incentive amount of the CEO is EUR 300 000 while the maximums of the Leadership Team vary between EUR 160 000 and EUR 200 000.

The CEO and the other members of the Affecto Leadership Team are subject to statutory pension arrangements with respect to both retirement age and pension amounts. The Company does not have supplementary pension agreements. The CEO's service contract prescribes a six-month period of notice which applies to both parties. The CEO's service contract does not contain any separate conditions relating to the payment of salary during the period of notice. The termination periods of the Affecto Leadership Team members range between 1 and 6 months and the service contracts do not contain any separate conditions relating to the payment of salary during the period of notice.

SHORT TERM INCENTIVES

Affecto uses short term incentives for the CEO, the Affecto Leadership Team and other key personnel. The amount of the incentive is based on the attainment of half-yearly set targets and the base salary, duties and status of the key person. The incentives are paid in cash. Financial targets relate to order intake, revenue, operating profit and operating profit margin of the Company and the Company unit of the individual concerned. In addition to the financial targets, the scheme also includes personalized qualitative targets, the attainment of which is assessed separately from the financial targets. The achievements of targets are reviewed half-yearly. The targets of the Leadership Team are set by the CEO based on the guidelines of the Board of Directors while the Board sets the targets of the CEO.

The maximum short term incentive levels are EUR 300 000 for the CEO and vary between EUR 160 000 and EUR 200 000 for the Affecto Leadership Team members.

LONG TERM INCENTIVES

At the end of December 2016, the Company had no long term incentive programs in use.

The previous incentive scheme expired in May 2016. However, the CEO, the Affecto Leadership Team members or other Affecto employees have not received any share based remuneration during 2016 and, consequently, none of the shares owned by the CEO or the Affecto Leadership Team are subject to lock-up arrangements.

C. REMUNERATION REPORT

BOARD OF DIRECTORS

The Annual General Meeting 2016 decided that the monthly fees of the members of the Board of Directors shall be as follows: Chairman EUR 3 500, Vice-Chairman EUR 2 750 and members EUR 2 000. In addition, a fee of EUR 300 is paid for participation in Committee meetings. The monthly remuneration for the entire term was paid in August 2016. 60% of the remuneration was paid in cash and 40% in the Company's shares. The Board remuneration for the year is paid in full in every August. The decision is based on proposal of the Shareholders' Nomination Board.

The Board members' annual fees and the number of received shares by the Board members are presented below. The numbers reflect the total remuneration received from all group companies.

	2016			2015	
Board Member	**Total Remuneration**	**Number of shares received***	**Total shareholding at 31 December 2016****	**Total Remuneration**	**Number of shares received***
Aaro Cantell, Chairman	43	5 959	2 318 027	43	5 154
Olof Sand, Vice Chairman	33	4 682	13 505	34	4 050
Magdalena Persson, member	25	3 405	11 123	25	2 945
Jukka Ruuska, member	25	3 405	26 161	25	2 945
Tuija Soanjärvi, member	25	3 405	14 133	25	2 945
Lars Wahlström, member	25	3 405	22 494	25	2 945
Total	176	24 261	2 405 443	177	20 984

* The Euro amounts corresponding to the shares are included in the total compensation.
** The total shareholding includes the shareholding of the related parties.

CEO

The CEO's annual salary and other financial benefits are presented below. The numbers reflect the total remuneration received from all group companies.

Type (1 000 EUR)	2016	2015
Base salary	243	270
Additional Incentives	51	13
Fringe benefits	21	14
Share based remuneration	-	-
Supplementary pension contribution	-	-
Other benefits such as signing bonus	-	-
Severance packages	-	-
Other compensation payable upon termination	-	-
Total	315	297

AFFECTO LEADERSHIP TEAM

The combined annual salaries and other financial benefits of the Affecto Leadership Team excluding the CEO are presented below. The numbers reflect the total combined remuneration of the Affecto Leadership Team received from all group companies.

Type (1 000 EUR)	2016	2015
Base salary	779	962
Additional Incentives	139	236
Fringe benefits	68	47
Share based remuneration	-	-
Supplementary pension contribution	-	-
Other benefits such as signing bonus	-	75
Severance packages	112	149
Other compensation payable upon termination	-	-
Total	1 099	1 469

The 2015 the total remuneration includes the remuneration paid to the following Leadership Team members: Mikko Eerola, Håvard Ellefsen, Satu Kankare, Claus Kruse, René Lykkeskov, Julius Manni, Stig-Göran Sandberg and Hellen Wohlin Lidgard. René Lykkeskov left the Company in April 2015, Hellen Wohlin Lidgard in July 2015 and Satu Kankare in August 2015. Claus Kruse left the Leadership Team in October 2015 but continued in Affecto.

The 2016 the total paid remuneration includes the remuneration paid to the following Leadership Team members: Mikko Eerola, Håvard Ellefsen, Henri Engström, Iikka Lindroos, Julius Manni, Martti Nurminen and Stig-Göran Sandberg. Julius Manni left the Company 14 March 2016 and Henri Engström started in the Leadership Team on the same date. Iikka Lindroos was appointed to the Leadership Team 11 August 2016.

The shareholding of Affecto Leadership Team at 31 December 2016 is shown below:

Name	Title	31 Dec 2016	31 Dec 2015
Juko Hakala	Chief Executive Officer	20 250	20 250
Iikka Lindroos	Deputy Chief Executive Officer	0	0
Martti Nurminen	Chief Financial Officer	0	0
Mikko Eerola	Managing Director, B2C Industries, Brand & Market	0	0
Håvard Ellefsen	Managing Director, Scandinavia & Partners	37 183	37 183
Henri Engström	Managing Director, Affecto Industrial and Interim Managing Director, Finland	10 000	10 000
Stig-Göran Sandberg	Managing Director, Eastern Europe, South Africa & Delivery	150 962	150 962
Total		218 395	218 395

INFORMATION FOR SHAREHOLDERS

ANNUAL GENERAL MEETING
The Annual General Meeting of Affecto Plc is scheduled to be held 7 April 2017.

DIVIDEND
The Board of Directors proposes that a dividend of EUR 0.16 per share is distributed from the year 2016.

DIVIDEND POLICY
The dividend policy is to pay approximately half of the profit as dividend. The Company may deviate from this policy due to the needs of business development and growth.

FINANCIAL INFORMATION 2017
Interim reports will be published as follows:
Interim Report January–March 2017: 11 May 2017
Interim Report January–June 2017: 22 August 2017
Interim Report January–September 2017: 7 November 2017

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