SCANFIL

Annual Report 2019

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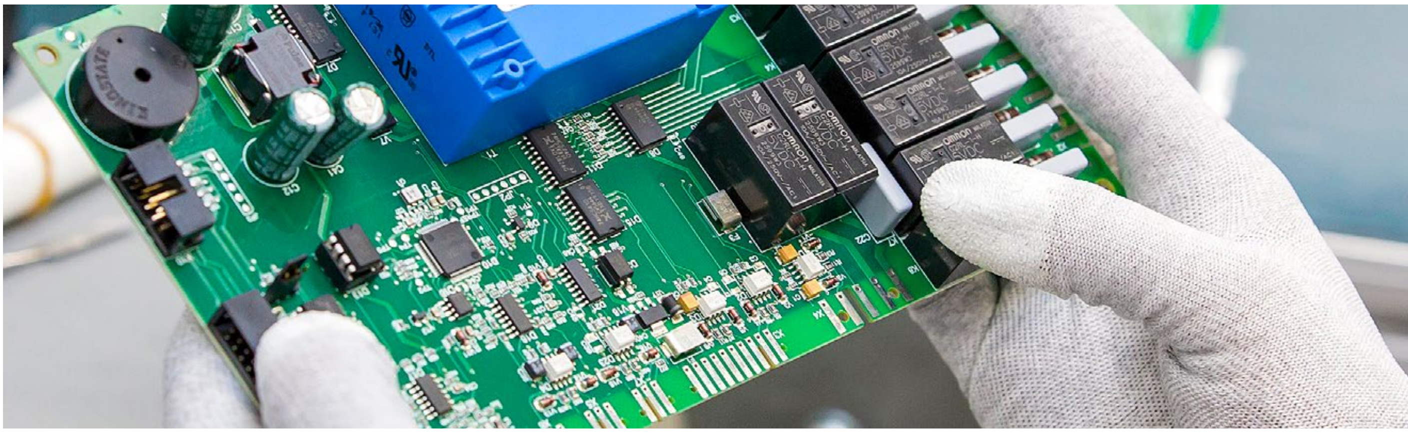
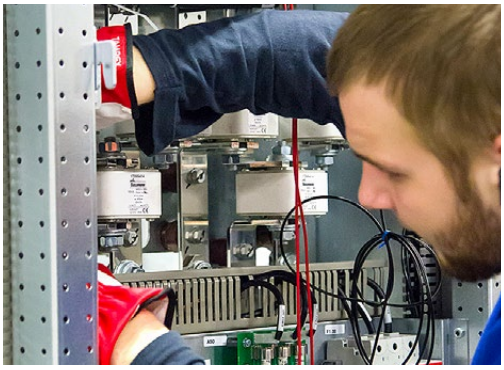
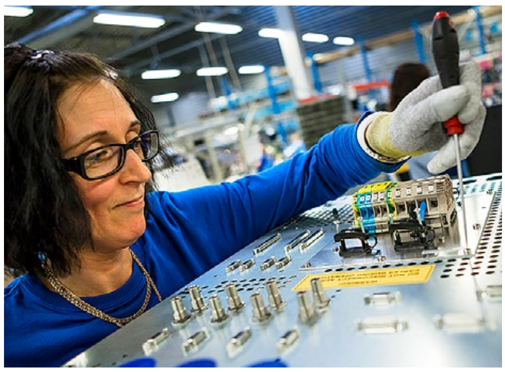


Scanfil is a global contract manufacturer for the electronics industry





Scanfil plc is an international contract manufacturer and system supplier for the electronics industry. Its customers include international operators in the automation, energy, data transmission and health technology sectors, among other industries, and companies operating in fields related to urbanisation including products used by consumers e.g. self-service vending machines. Scanfil has a total of 11 factories in seven countries on three continents. Its factories in Finland, Sweden and Germany are located close to the R&D units of its customers, whereas its factories in Estonia, Poland, China and the USA are close to customer markets.

Scanfil provides its customers with an extensive array of services, ranging from product design which is done with cooperation partners to product manufacturing, material procurement and logistics solutions. The key elements of Scanfil's operations include a vertically integrated production system, including services and supply chain management over the entire lifecycle of customers' products. These provide a solid foundation for Scanfil's competitive advantages: speed, flexibility and reliability. Scanfil has over 40 years of experience from demanding customer-driven contract manufacturing.

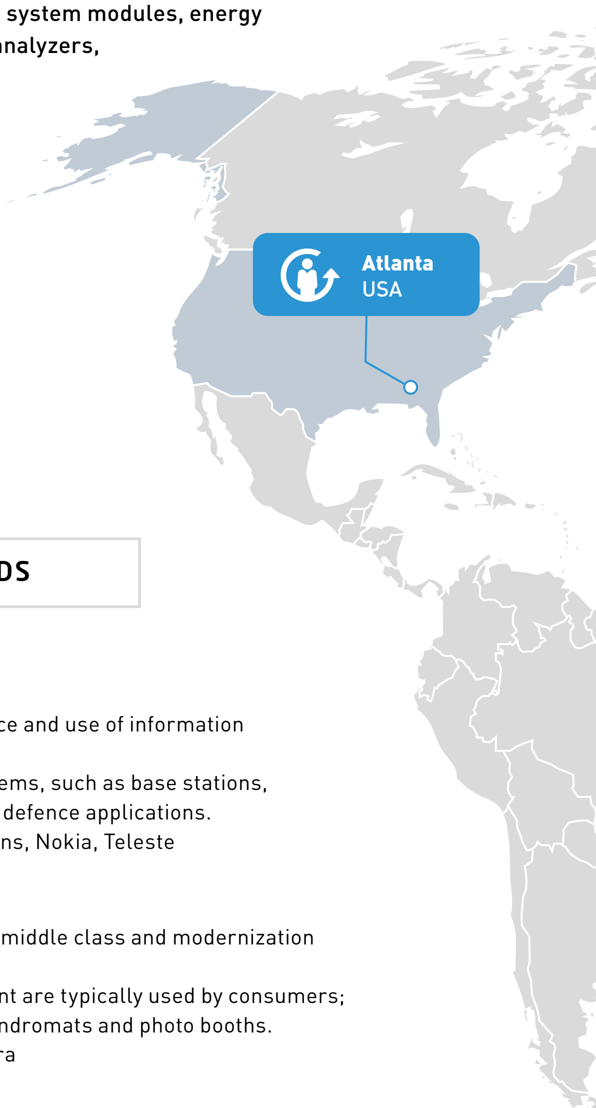
Scanfil's shares are listed on the Nasdaq Helsinki stock exchange (SCANFL).

Scanfil

Scanfil's services range from product design and design for manufacturability to prototype and pre-serial production, the volume manufacturing of products and after-sales services, such as maintenance and spare parts services.

Typical products manufactured by Scanfil include broadband, communications and mobile network devices, health technology devices and systems, electricity production and distribution systems, automation system modules, energy efficiency systems, frequency converters, elevator and forklift control systems, analyzers, various self-service automats and meteorological instruments.

14% Communication
19% Consumer Applications
19% Energy & Automation
30% Industrial
19% Medtec & Life Science



CUSTOMER SEGMENTS & MEGA TRENDS

Communication

- Key market trends include digitalisation and the increasing significance and use of information in society, 5G, wireless solutions and the Industrial Internet.
- Broadband, communications and mobile network equipment and systems, such as base stations, exchanges and amplifiers, surveillance systems as well as difference defence applications.
- Examples of customers: Airbus, Axis, Ericsson, Invisio Communications, Nokia, Teleste

Consumer Applications

- Key market trends include urbanisation, an increase in the size of the middle class and modernization of households.
- Products of customers included in the Consumer Applications segment are typically used by consumers; for example reverse vending machines, machines for self-service laundromats and photo booths.
- Examples of customers: Gunnebo, Photo-Me (KIS), Strong Point, Tomra

Energy and Automation

- Key market trends include energy efficiency, the production of renewable energy, urbanisation – particularly in emerging markets – and the general increase in industrial automation to improve productivity.
- Electricity production and distribution systems, process control systems, energy efficiency systems, such as frequency converters, inverters, switches and automation systems.
- Examples of customers: ABB, Bobst, Danfoss, Metso, Nibe, The Switch (Yaskawa), Valmet

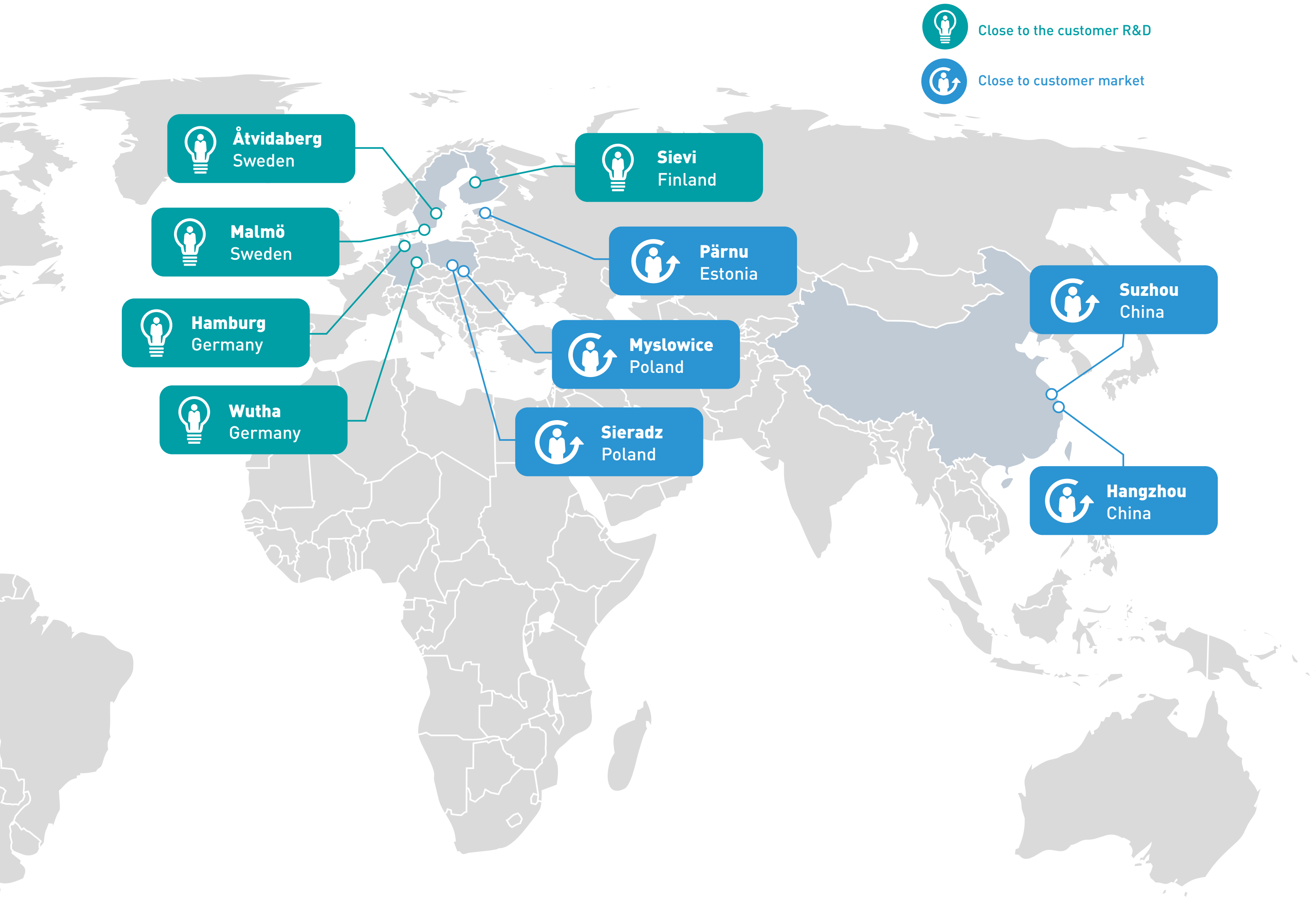
Industrial

- Key market trends include urbanisation, increasing e-commerce, needs to reserve natural resources and industrial automation.
- Products of customers included in the Industrial segment are used in industrial applications, such as forklift control systems, smart lighting systems, elevators, entrance access systems and water cleaning systems.
- Examples of customers: Alfa Laval, Assa Abloy, Diebold Nixdorf, Kone, Toyota Material Handling

Medtech & Life Science

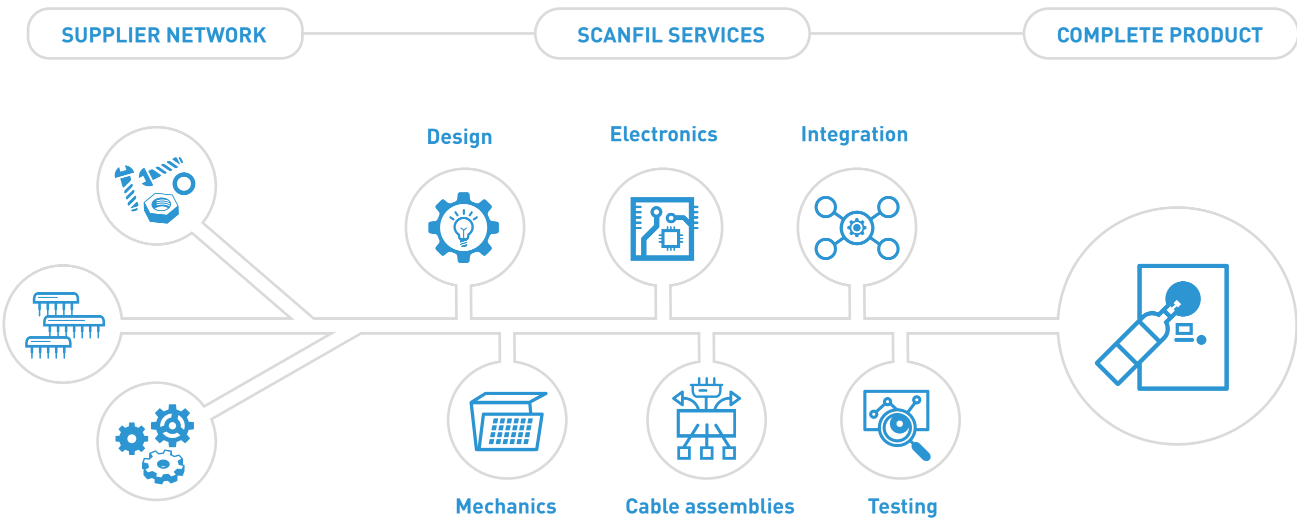
- Key market trends include population ageing, the increasing needs for healthcare and technology in emerging markets, the monitoring of food, water and air quality, as well as the need to forecast weather phenomena.
- Equipment associated with medical technology, research, climate and environmental monitoring, such as dental chairs, analysers, mass spectrometers and cloud height indicators.
- Examples of customers: Biotage, Getinge, Jolife, Planmeca, Thermo Fisher Scientific, Vaisala

SCANFIL FACTORY NETWORK



SERVICE RANGE

Scanfil's vertically integrated production




2019 in brief

2019 was a successful year, both operatively and strategically. 2019 turnover stood at EUR 579 million, showing an increase of 3% from the year before. Our operations in Central Europe were expanded with a corporate acquisition.

Corporate acquisition

Scanfil's strategic aim is to enhance its position in Germany and elsewhere in Central Europe. On May 22, 2019, Scanfil plc signed an agreement on the acquisition of the entire share capital of HASEC-Elektronik GmbH, a German electronics contract manufacturer. The company has a production plant in Wutha-Farnroda near Eisenach in Central Germany. HASEC has a large number of long-term customer relationships and a strong position as a high-mix, low-volume manufacturer and system integrator.

Customers

The acquisition of HASEC-Elektronik GmbH expanded and strengthened Scanfil's customer base in Germany and Central Europe in general. In addition, Scanfil started cooperation with more than ten new customers. Cooperation and offering of manufacturing services were expanded with several long-term key customers. A global supplier agreement was signed with Danfoss, for example, allowing mutual benefits through long-term cooperation.

The customer satisfaction measurement process was further developed during the year. The actions taken on the basis of survey results produced good results, and customer satisfaction developed favorably. During the year, Scanfil received supplier awards from three of its key customers for quality, price competitiveness and delivery capability.

Investments and technology

Implementation of the Smart Operations project initiated in 2018 continued in 2019 as planned. During the year, the vision and strategy of the project were further specified, and new projects were started regarding e.g. material handling, autonomous intelligent vehicles (AIVs), collaborative robots (Cobots), robotic process automation (RPA) and the digitalization of production with MES. In 2020, the concrete benefits from above measures and projects will be achieved through the deployment of selected technologies throughout the factory network. The new projects to be initiated include the Big Data and Business Intelligence Tools programs.

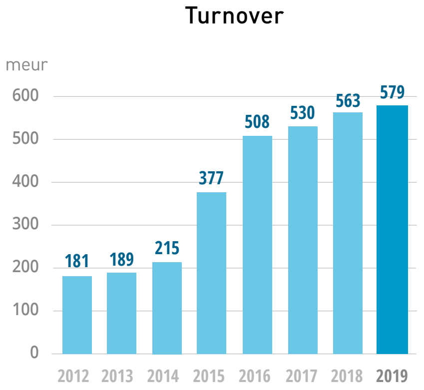
During the year, investments were made in equipment and the automation of electronics manufacturing lines, e.g. in Malmö and Pärnu, mechanical manufacture in Myslowice, as well as in cobots, AIVs and storage automation in several plants. At the Suzhu and Sieradz plants, investments concerned the digitalization of production using a manufacturing execution system (MES).

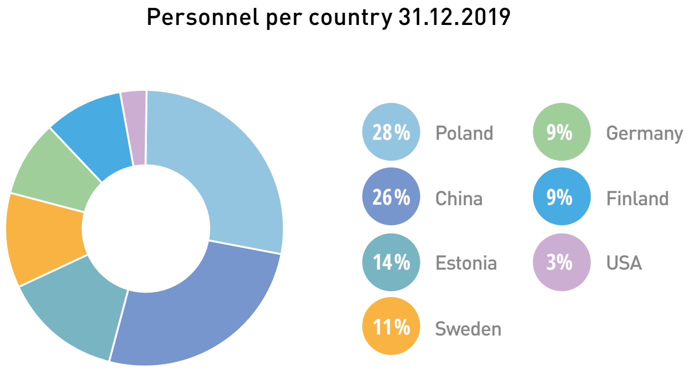
Personnel

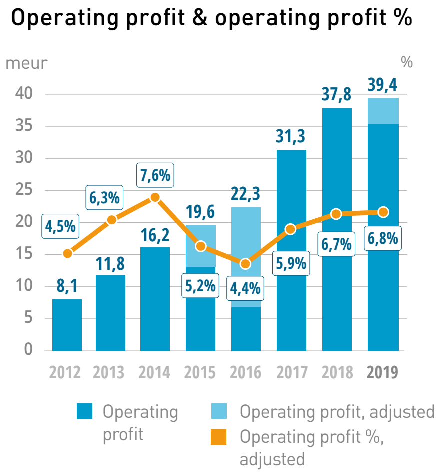
A Talent Program covering the entire group was initiated at the beginning of the year to secure the company's growth through competence development and continuity planning. Twelve persons from different plants and functions were selected for the program. This is a one-year program divided into four modules covering different subjects. The new Talent program will be launched in 2020.

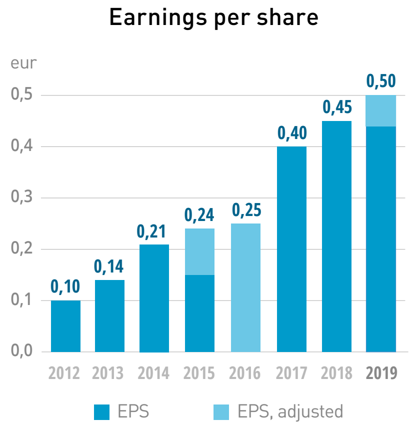
In addition, the company's own learning environment, Scanfil Academy, was introduced. The website allows employees to take their own initiative in extensive learning opportunities covering many different subjects.

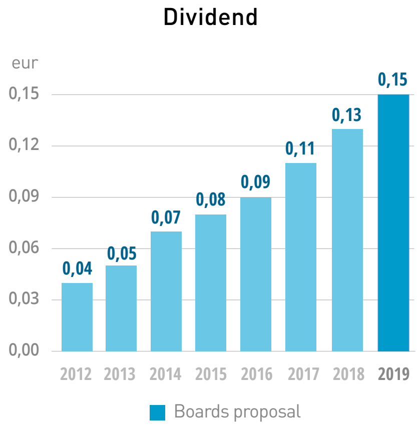
Key figures 2019

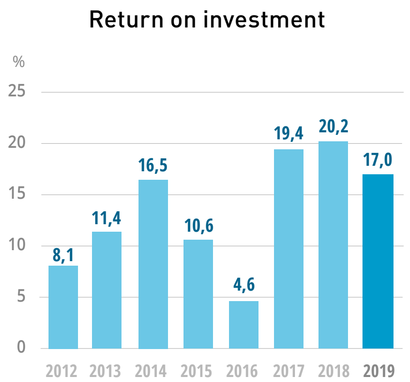


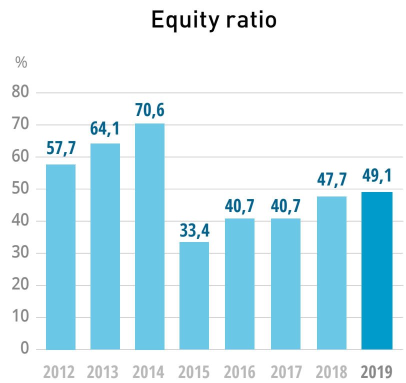


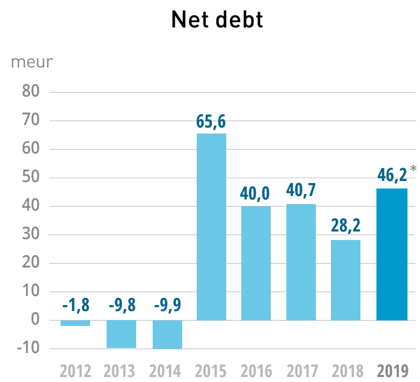












* The increase in net debt is due to the adaption of IFRS16.

Review by the CEO

In 2019, we made positive progress both operationally and strategically. Our 2019 turnover stood at EUR 579 million, showing an increase of 3% from the previous year. The first half of the year was particularly challenging in terms of sales, due to lower demand among a few major customers. We were able to return to a growth track during the second half, both through the HASEC acquisition and organically. We were particularly happy with the organic growth of Industrial and Medtech customer segments during the year.

The adjusted operating profit for the year was EUR 39.4 million, comprising 6.8% of turnover. Profitability developed positively during the year, and the operating margin was close to our target level of 7%. Net cash flow from operations increased by 23%, and return on equity was strong at 18%. At the end of 2019, the equity ratio was 49%. The continuing strong profitability and solid balance sheet provide an excellent foundation for the continued implementation of Scanfil's growth strategy.

Other key performance indicators, particularly customer satisfaction and employee satisfaction, also developed positively. As particular highlights, I want to mention the supplier awards and recognitions received from our four global customers. As well, the results of our employee satisfaction survey improved again in 2019, for the fourth consecutive year. Customer and employee satisfaction will also continue to be key performance indicators in developing Scanfil's competitive edge in the future.

We invested in production equipment and systems as planned, at approximately 2% of our turnover. The most significant investments concerned electronics manufacturing lines for the Sieradz, Malmö, and Pärnu plants, as well as a manufacturing execution system

(MES) for the Suzhou and Sieradz plants. The MES will facilitate real-time production control and monitoring by integrating Scanfil's ERP, manufacturing processes, and production lines.

We also made significant investments in new manufacturing technology, including cobots (collaborative robots, intended to interact with humans in a shared space) autonomous intelligent vehicles (AIVs) enhancing plants' internal logistics, and automatic storage solutions.

Strategically, besides the Nordic countries, we aim to grow in Germany and more broadly in Central Europe. Central Europe has highly attractive contract manufacturing markets that offer great growth potential for Scanfil. For example, the German EMS markets alone are roughly four times larger than the Nordic markets, and manufacturing services still have a low outsourcing rate. The acquisition of HASEC-Elektronik GmbH in the province of Thüringen in Germany in June is at the strategic core of Scanfil and significantly improved Scanfil's positioning and access to the market potential of Central Europe.

We have already received positive feedback from HASEC's customers: HASEC's operations in Germany, close to its customer's research and development units, combined with volume-based production at Scanfil's plants, close to markets in Poland, China and the USA, provide excellent responses to customer demand. We have projects in progress with a number of HASEC's customers resulting in increased production and turnover, and I expect new sales to materialize from this potential in the near future.

We are in an excellent position to start 2020. For the time being, our customers' forecasts and outlooks promise growth, we are making good progress in acquiring new customers, and we have ongoing projects to gain more market share from our current customers.

Currently, the threats caused by the coronavirus epidemic, are bringing particular uncertainty to the year. It is obvious that there are still unknown risks associated with the spread of the coronavirus which may affect the demand of our customers and the operation of supply chains, even in the longer term. We are seeking to avert the risks caused by the coronavirus by concentrating on matters that we can control, such as focusing on our personnel safety and active management of the supply chain as well as utilization of our global network of plants and constant overall optimization of the situation with our customers.

Our long-term target for 2020 is to achieve a turnover of EUR 600 million and an operating profit rate of 7%. We have now updated our long-term target for 2023 when we aim to have a turnover of EUR 700 million and an operating profit rate of 7%. We are also actively exploring possibilities for acquisitions, especially in the Nordic countries and Central Europe.

Overall, I am satisfied with our performance in 2019. Our operations are making good progress, and our strategic position in Central Europe strengthened through the acquisition of HASEC. I would like to thank our committed personnel, our customers, and other stakeholders for your trust.

Petteri Jokitalo
CEO

Core messages

Our vision

We are a trusted partner.

Our mission

Scanfil enables customers to succeed by providing effective and innovative solutions that bring products to life and to market.

Our strategy and goals

Scanfil's goal is to help its customers in product design, in industrial and manufacturing processes, and in the launch of finished products within an optimal time. Our excellent performance, continuous improvement and demanding goals are visible in everything we do.

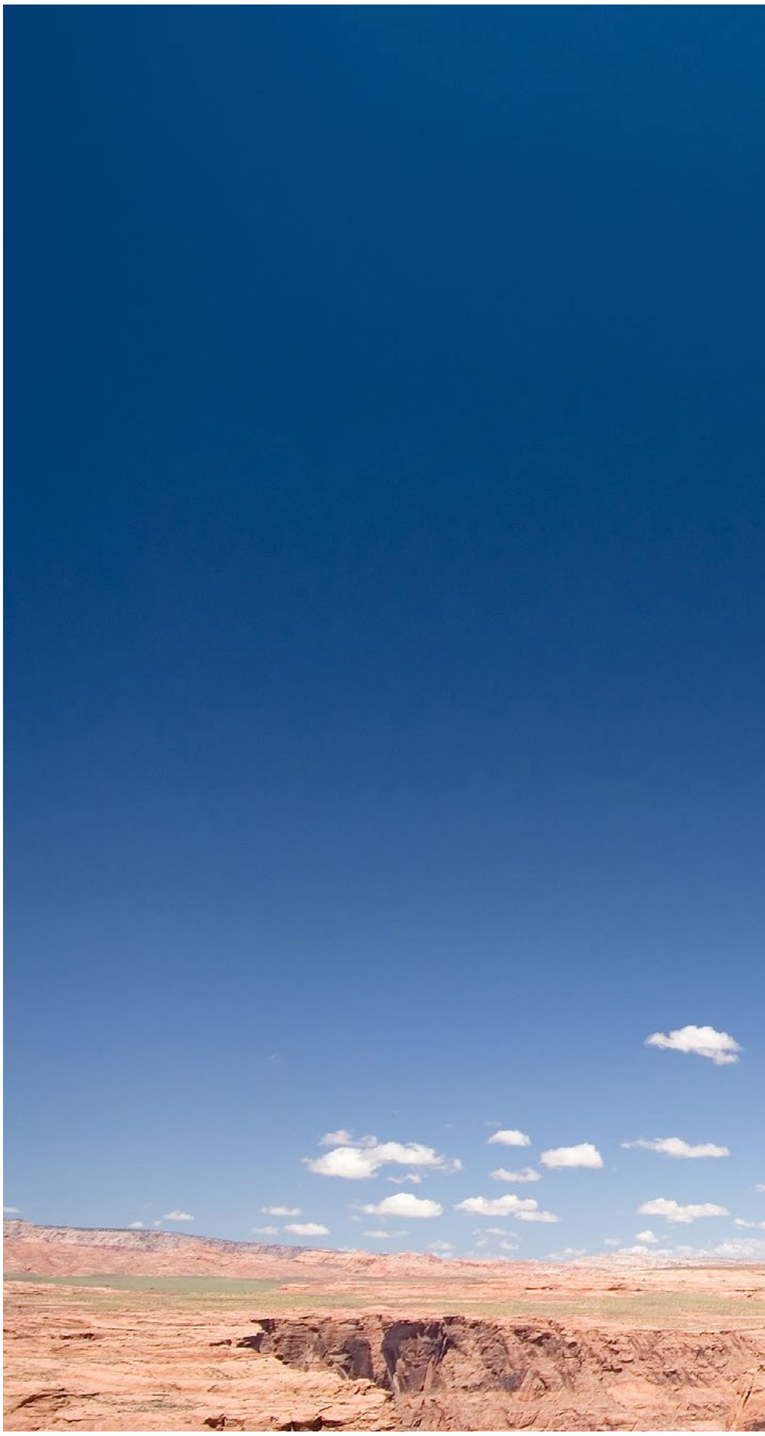
Scanfil mainly serves its global customers from factories that are located close to customer markets. These factories are located in Poland, Estonia, China and the USA. In Finland, Sweden and Germany, Scanfil serves customers whose R&D units are close to our factories.

Our new customer acquisition focuses on the Nordic countries and the German-speaking Central Europe. Our goal is to be the market leader in the Nordic countries and gain a significant market share in the German-speaking Central Europe.

The goal is to pay one third of our annual results to our shareholders in dividends.

Long term target

In 2023, Scanfil is organically aiming for EUR 700 million turnover and 7% operating profit level.



Our competitive factors

Scanfil's strengths are agile operating culture, fast decision making and implementation, global factory network and broad service offering. Scanfil's high-quality and cost-efficient vertically integrated production is one of its key competitive factors. Effective and measurable processes offer standardized operating methods for Scanfil's global plant network.

Our values

- Customer focused
- Achieving together
- Proactive
- Engaged to perform

Responsibility at Scanfil

Management

The Board of Directors and members of the management of Scanfil are responsible for the management of corporate responsibility. The practical work is guided by the group's Code of Conduct and policies.

Key themes in corporate responsibility

Scanfil has further specified key themes of its corporate responsibility and divided them into responsible offering, as well as responsibility for partners, the community, personnel and the environment.

Scanfil manufactures products based on product details and needs specified by the customer. The focus areas of **environmental responsibility** in improving productivity and efficiency are the efficient use of raw materials, control of energy and water consumption, as well as the management and reduction of waste, and the reduction of the carbon footprint. All the company's plants are ISO 14001-certified.

In responsible offering, attention is paid to the development of customer satisfaction, observance of laws and ethical principles throughout the supply chain, prevention of corruption and bribery, product quality, delivery reliability and continuous development. All the company's plants operate a quality control system observing the ISO 9001 criteria.

Social responsibility focuses on competence development, occupational safety and health, and the development of the personnel's motivation and work satisfaction. Both Chinese plants observe the ISO 45001 standard for the management of occupational health and safety, and the plan is to adopt is at other plants as well in 2020. Scanfil's target is to be an excellent place to work.

Responsibility toward partners and the community places an emphasis on the added value produced, profitability, and the transparency and ethicalness of operations. Scanfil's target is to be an excellent corporate citizen.


SCANFIL

Environmental responsibility

Scanfil produces extensive services for its customers, ranging from product design and development to product manufacturing, material procurement and logistics solutions. The products are designed and manufactured based on customer's requirements, which means that the design work starts with the product data provided by the customer. Accurate data and careful design allow a more efficient manufacturing process and a reduction in the environmental impacts of production. Environmental impacts are taken into account throughout Scanfil's value chain, ranging from the procurement of raw materials to production, distribution and recycling.

Scanfil is continuously developing its production, while taking the environment into account. All plants operate in compliance with a common environmental certificate and meet the local requirements prescribed in the laws of their operating country. Environmental goals have been set for the plants, and their materialization is regularly monitored at all plants. Each plant analyzes, based on its particular circumstances, which actions will be the most important for mitigating environmental impacts.

High resource efficiency

The most significant environmental impacts of production are caused by raw materials, energy and water consumption and waste materials.

In its production, Scanfil uses mainly metals and different components. It prefers recyclable materials and eco-friendly products. Part of the materials used are chosen by the customer. The company optimizes the use of all raw materials to ensure the efficient use of resources and decrease the amount of waste created. Waste materials are recycled if they cannot be re-used in the company's own production.

The risks associated with chemicals are analyzed before their deployment, and they are handled following precise instructions and precautions. In addition, proper training and drills are arranged to prepare for any accidents. Scanfil looks for replacement products for hazardous chemicals.

Production and distribution processes consume energy. Scanfil aims to reduce the amount of energy, for example, by utilizing modern control systems, by deploying more energy-efficient equipment and by steering material flows and logistics efficiently.

Mitigating the environmental impacts

In 2019, Scanfil carried out several actions to reduce various environmental impacts.

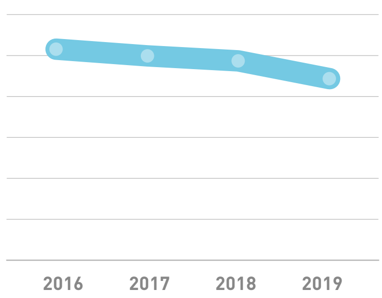
Energy consumption in relation to the added value produced decreased by 8.5 percent year-on-year. This was achieved by renewal of the machinery and equipment, the development of ventilation systems, utilization frequency converters and by switching to energy efficient LED lights, among other things.

Water consumption in relation to the added value produced decreased by 22.9 percent when the air cooling and humidification systems in electronic production were renewed, and water-saving water fittings were installed, for example.

The volume of waste materials in relation to the added value produced was reduced by 9.4 percent, among other things by improving production processes and enhancing reuse and recycling.

The most significant results were achieved at the Sieradz plant, where they managed to reduce energy consumption by 13 percent by renewing and improving the use of production equipment as production volumes increased. Energy-saving measures were implemented at the Pärnu plant by installing LED lamps and

Energy consumption, kWh/value added



equipment for compensating reactive power. These measures reduced the energy consumption of the Pärnu plant by six percent.

Different development projects will be continued at the plant level. A key factor in risk management and the reduction of environmental loads is to increase the knowledge of employees by means of training and information sharing.

Environmental certificate at all plants

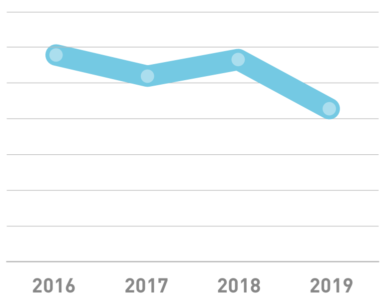
All Scanfil's plants have a certified ISO 14001:2005-compliant environmental management system that verifies the measurement and improvement of environmental impacts on the company's management and employees, as well as on its external stakeholders. The company's management monitors the implementation of environmental practices, as well as the development of key indicators and the goals set, both locally and at group level. The employees are provided with the necessary knowledge and training to ensure they can work in accordance with the objectives of our environmental practices.

Smaller carbon footprint

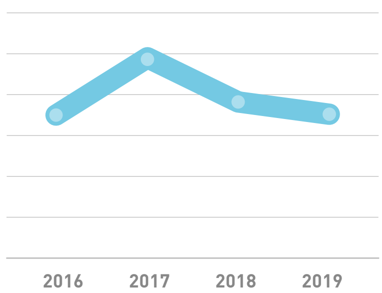
Scanfil also seeks to reduce its carbon footprint in other activities, such as travel and mobility. As an internationally operating company, employees' business travel is necessary, but the company is reducing it, e.g. by utilizing the possibilities of modern technology and by favoring virtual meetings. The travel practice always guides the employees to choose the most environmentally friendly alternative for travel and meetings.

The emissions from daily commuting have been reduced by organizing bus transport for personnel at several Scanfil plants. The company's vehicle policy favors low-emission cars, such as hybrid models. In addition, charging stations for employees' electrically-powered mopeds have been installed at both our plants in China.

Water consumption, m^3 / value added



Amount of waste, kg/value added



Added value = turnover – purchases

Amount of waste, kg = electronic waste + cardboard/paper waste + wood waste + general waste

The above graphs do not include figures from Wutha factory acquired in June 2019.

Responsibility of offering

Customer satisfaction is one of the company's core values, and everybody at Scanfil understands that success depends on satisfied and loyal customers. Maintaining active contacts regarding the customer's requirements and Scanfil's plans is an essential element of cooperation. It allows the correct business decisions to be made. and the competitiveness and responsibility of production services to be developed. Continuous development of operations, i.e. the development of processes, capacity and technologies in cooperation with customers, is in both parties' best interest.

Continuous contact with customers is based on the key account management model. It includes a plan on cooperation, systematic and regular meetings at several levels, and a standardized reporting model presenting the most important KPIs (Key Performance Indicators). Development projects are also implemented on the basis of customer feedback. They may be related to quality matters or the expansion of the service offering, for example. High-quality and cost-effective production is one of Scanfil's key competitive factors. The continuous development of production processes, utilization of the right technologies and verified quality of the materials used are key factors in the continuous improvement of competitiveness.

High level of customer satisfaction

Customer satisfaction is regularly measured by various customer satisfaction measurements and surveys, such as customer-specific feedback reports and customer satisfaction surveys.

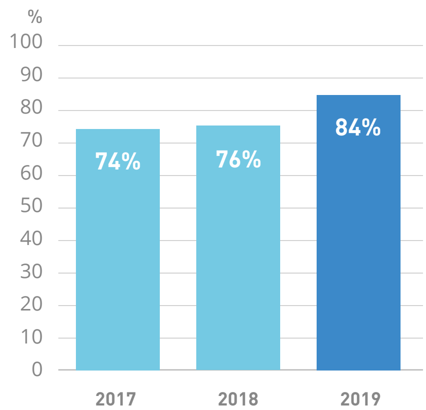
The feedback reports are used to monitor operative performance and flexibility, the organization's ability to react and its technological capabilities. Carried out twice a year, the customer satisfaction survey collects information regarding quality, punctuality of deliveries, the company's service and proactivity, its contact with customers and other service requirements. Scanfil's customer satisfaction improved further in 2019.

The Net Promoter Score, which shows the probability of our customer recommending Scanfil as a contract manufacturer, increased by 10% from the previous year. Scanfil received the best ratings for quality of service (including speed of response), continuous development and problem-solving ability. The parties responding to the survey felt that positive development had taken place in proactivity, test planning and in how Scanfil supported its customers regarding new business opportunities. Although there has been a marked improvement both in proactivity and product design, investment in these areas will continue.

Quality and performance measured

All Scanfil's 11 plants operate a quality management system observing the ISO 9001 criteria. In addition, certain plants have other certified quality management systems applicable to certain industries.

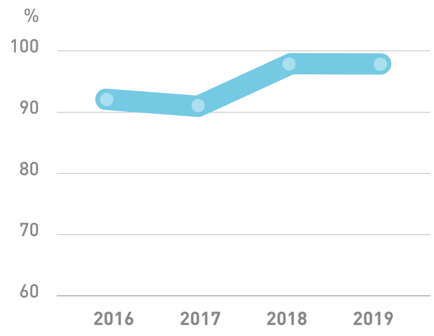
The customer satisfaction



All Scanfil's plants observe the Lean Six Sigma process development methodology and analysis (FMEA) that identifies the risks in the supply chain and production. The objective is to identify the deficiencies and risks in processes and production at an early stage, continuously make improvements, and carry out preventive measures. Performance is measured by KPIs (Key Performance Indicators), the most important being delivery punctuality and customer quality, measured as DPPM (Defective Parts Per Million).

During 2019, the KPIs describing delivery punctuality and customer quality improved significantly. The figure describing quality deviations was almost halved from the previous year, as efficiency of processes improved and reliability of delivery was maintained at 98 percent.

Delivery accuracy

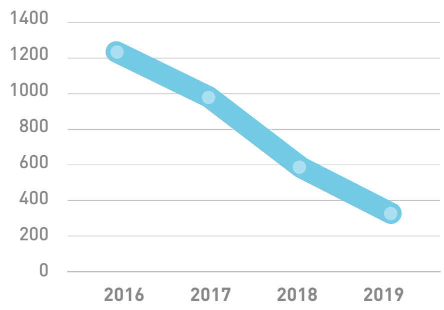


In compliance with laws

Scanfil has operations in seven countries, and it cooperates with suppliers and subcontractors around the world. Scanfil is committed to being a good corporate citizen both internationally and locally, which is why all its functions must respect different cultures and cultural heritages, as well as local methods of operations compliant with laws.

Scanfil's Code of Conduct defines the ethical principles and commitment to anti-bribery, honesty and fair methods of operation, as well as the behavior expected of Scanfil's employees business partners and other stakeholders. Human rights and equal treatment are basic values in Scanfil's operations, and they cannot be compromised. People must be treated with dignity and respect in the manner approved by the international community.

Development of customer quality/DPPM
(Defective Parts Per Million Delivered)



Certificates of Scanfil's plants in 2019

Plant	**ISO 9001:2015** Quality management system	**ISO14001:2015** Environmental management system	**ISO13485:2016** Medical equipment	**OHSAS-18001:2007/45001** Occupational health and safety assessment system	**IATF16949:2016** Quality system standard for the automobile industry, conformity document
Sievi	●	●	●	will be introduced in 2020	
Åtvidaberg	●	●	●	will be introduced in 2020	
Malmö	●	●	●	will be introduced in 2020	
Pärnu	●	●		will be introduced in 2020	
Hamburg	●	●		will be introduced in 2020	
Wutha	●	●	●	will be introduced in 2020	●
Myslowice	●	●	●	will be introduced in 2020	
Sieradz	●	●	●	●	will be introduced in 2021
Atlanta	●	●	will be introduced in 2020	will be introduced in 2020	
Hangzhou	●	●		●	
Suzhou	●	●	●	●	●

Social responsibility

At Scanfil, social responsibility focuses on employees' competence development, occupational safety and health, and the development of the personnel's motivation and work satisfaction. A skilled and committed personnel is one of the cornerstones of Scanfil's success. Scanfil's aim is to be a great place to work and an encouraging working community in which employees can develop their personal skills and abilities. A high standard of occupational safety and pleasant working conditions are also a significant factor, particularly in production that involves physically strenuous and risky work phases. Productive and close cooperation within the company and with all stakeholders is the key to profitable and continuously developing operations.

Scanfil's key competence areas are the order and supply chain management and control, as well as the use of digitalization and automation. These competence areas are developed continuously both at corporate and individual levels. A significant part of training takes place through internal and external training, job rotation, on-the-job training and different development programs.

A reliable employer

At the end of 2019, Scanfil had 3,470 employees (up from 3,348 employees in 2018). The increase was due to the acquisition of German contract manufacturer HASEC Elektronik GmbH, which increased the number of employees by more than two hundred.

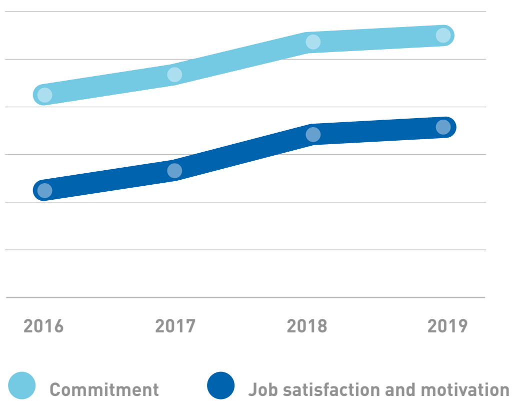
Of its personnel, 71% worked in Europe, approximately 3% in the USA and 26% in China. The average age of Scanfil's employees was 40 years. Of all employees, 45% were women and 55% were men. The average duration of employment at Scanfil is 8 years, and as much as 15 years in some units.

Work satisfaction on the increase

Scanfil measures work satisfaction by annual surveys covering the entire personnel. Employees answer the survey questions anonymously, and the results are analyzed by an external partner. In 2019, 90% of employees answered the survey questions (89% in 2018). This shows that employees see the survey as an opportunity to influence the development of corporate culture and processes. The employees' opinions are listened to and valued. The results are discussed in teams and form the basis of action plans, the progress of which is closely monitored.

In 2019, the assessments of Scanfil's employees regarding work satisfaction and commitment were also better than in previous years. The answers indicated that the content of jobs and work conditions had developed favorably. In 2019, the focus was on competence development. The measures supported the employees in their daily duties. Clarity of processes between plants and balanced workloads improved work conditions. Three group-level main themes were defined on the basis of the survey results: the work of immediate managers, zero tolerance for bullying at work and a good employer image.

Development of job satisfaction results



The reputation and management of the company were also assessed to have improved. Communications addressed to employees describing the company's values and long-term strategy, as well as its current situation, ongoing development projects and benefits available to employees were found to be of particular value. By the end of the year, approximately 600 new local development programs had been initiated.

A range of training programs

In 2019 Scanfil started a global training program as part of its competence development drive to secure the company's growth. Twelve people representing the global functions at different plants participated in the program. The purpose of the program is to identify the most talented team members and give them an opportunity to develop their potential in the company. New program will start during year 2020.

Competence development also continued in local units in different programs. External partners are used for assistance in the training, but a significant part of the programs is implemented internally so that Scanfil's own experts act as trainers and share their knowledge. A total of 74,300 working hours was used in the group for training in 2019.

Scanfil also supports wellbeing at work by organizing various events for employees and their families in its different places of business. Furthermore, open doors days are organized at many plants, allowing the neighboring community to see Scanfil's operations. Scanfil's plants are actively involved in charitable activities, and Scanfil supports UNICEF at group level.

Certificates for occupational safety

Scanfil improves occupational safety by continuous active measures. The work environment must always be safe and healthy. Some Scanfil plants hold ISO45001 Occupational Safety and Health certificates, and the intention is to have all plants certified during 2020. In 2019, the Safety Book was created. Details of all accidents taking place during the year are collected in this file. Most are related to the handing of materials at the production areas and the use of tools at workstations. Scanfil addresses each of these situations with appropriate actions designed to prevent them from recurring. In addition, the Lean Manufacturing and Process Engineering teams participate in the work to ensure the safety and efficiency of production areas.

Stakeholders

Sales to customers		Purchases from suppliers		Added value produced
579 MEUR (563)	−	446 MEUR (439)	=	133 MEUR (124)

Scanfil value add creation year 2019 (2018)

Scanfil's sales to customers totaled EUR 579 million, while the purchases from external suppliers totaled EUR 446 million. The difference, EUR 133 million, was the added value produced by Scanfil. The added value produced increased by almost EUR 10 million (7%) from the previous year.

Scanfil creates added value to employees, creditors and shareholders, and for the company's further development.

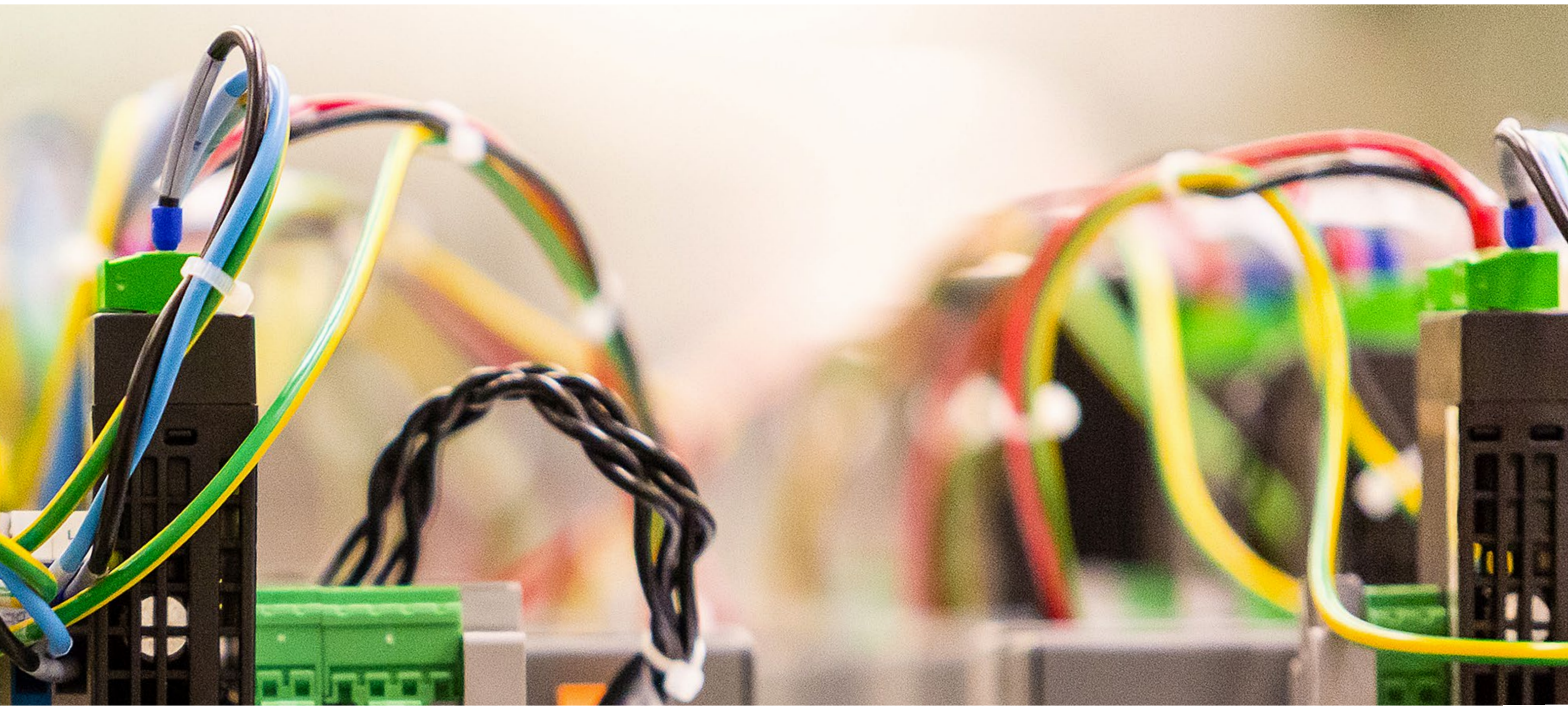
Most of the added value was produced by the employees. During the year, Scanfil had an average of 3,530 employees and paid them EUR 74 million in salaries and wages. Salaries and wages increased by EUR 6 million, or 9%, year-on-year.

Scanfil paid a total of EUR 27 million in other statutory staff costs and income taxes. The company's subsidiaries are located in seven different countries. The location of these companies is based purely on business-related factors, such as the customers' market areas or their research and development centers.

Scanfil totally objective in taxation matters. The company is committed to paying taxes and other statutory expenses in each of its countries of operation, because it is its legal obligation.

Scanfil has good financing partners. The company's financial position is strong. The company's credit expenses and financial expenses totaled one million euros, slightly less than in the previous year.

The company aims to pay a third of its net result as annual dividends. In keeping with this principle, Scanfil paid EUR 10 million in dividends in 2019. The dividend per share paid by the company has increased every year for the last 7 years.



Distribution of added value 2019 (2018) MEUR

Salaries and wages	74 (68)
Other staff costs and taxes	27 (26)
Creditors	1 (2)
Shareholders	10 (8)
Funds reserved for investments	21 (21)

Correspondingly, the company aims to use two-thirds of its result for investments, future growth and the general development of business. The return on equity was 18.7% in 2019, which clearly shows that the investments made in the company have repaid themselves well.

Broad supplier network

Procurement makes up approximately two-thirds of the turnover, which is why efficient procurement is a significant competition factor for Scanfil. Scanfil has a broad network of local, regional and international suppliers and partners, which it develops to ensure good quality and cost-effectiveness.

Careful selection of suppliers

Scanfil requires that all its partners comply with laws and agreements, and that they operate in accordance with Scanfil's Code of Conduct. The Supplier Code of Conduct constitutes part of the purchase agreements signed with major suppliers. In addition, the Code of Conduct is signed with all suppliers in the Asian market, and particular attention was paid to this method of operations during 2019. The Supplier Basic Requirements were also updated and supplemented with the Supplier Code of Conduct.

Scanfil selects its suppliers carefully, and cooperation with its key suppliers is long term. Scanfil only uses approved suppliers that fulfil Scanfil's strict criteria in terms of quality, delivery reliability and cost-efficiency. Scanfil audits its suppliers systematically and monitors their compliance with the terms and conditions of agreements. It also prevents any misconduct through the verification of orders and training.

Once cooperation has started, quality assurance is carried out continuously. This means that incoming material is inspected, any non-conformities are kept under control, any errors in quality are corrected and the general performance of suppliers is evaluated. When new components or materials enter in production, Scanfil always uses a separate inspection process to ensure quality. Making use of Scanfil's global position and volume in procurement processes helps to maintain competitive prices and control the supplier network. This is why Scanfil aims to focus its purchases on a few selected suppliers.

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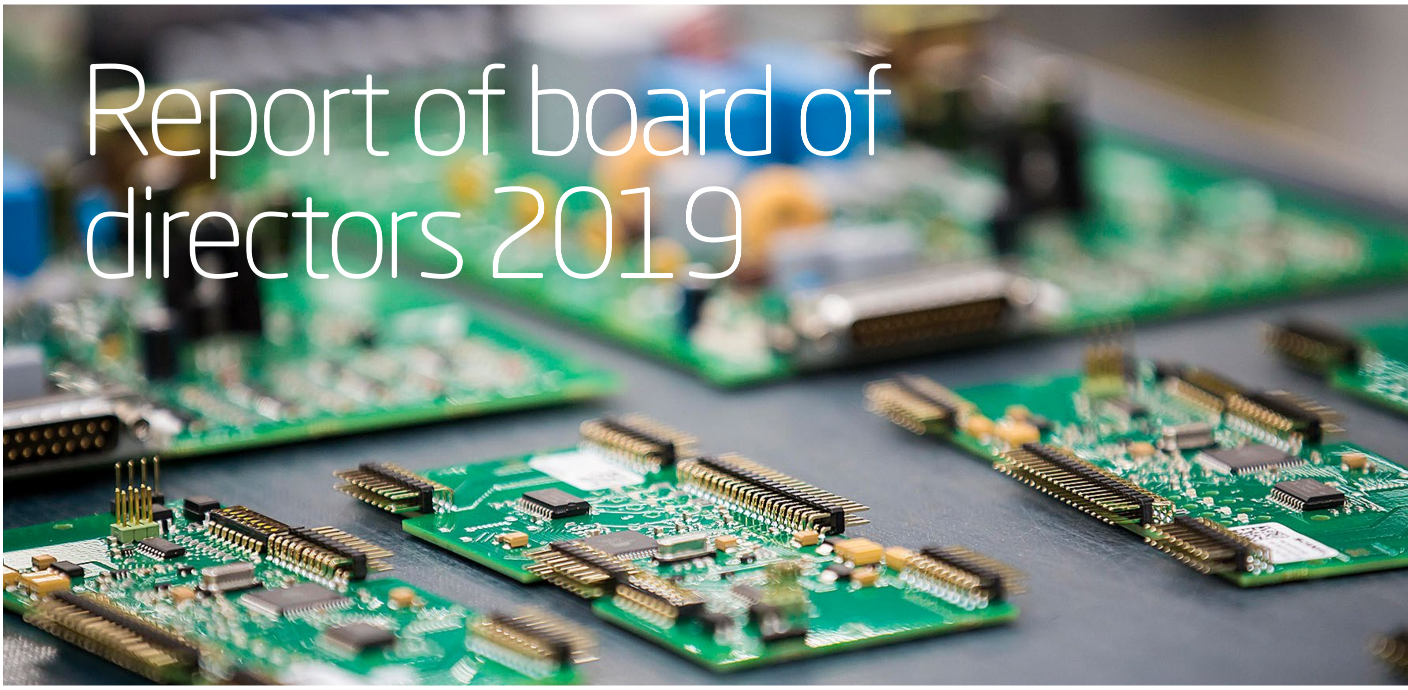
Report of board of directors 2019



Scanfil plc is an international listed (NASDAQ Helsinki, SCANFL) contract manufacturer and system supplier for the electronics industry with over 40 years of experience in demanding contract manufacturing. The strength of the Group is it's comprehensive service offering covering product design and production planning to prototype and pre-serial production, the volume manufacturing of products and after-sales services, such as maintenance and spare parts services. Scanfil employed approximately 3,500 people at the end of 2019. Scanfil's network of factories at the end of the year consists of 11 production units in seven different countries on three different continents.

The key elements of Scanfil's operations include a vertically integrated production system and the provision of services and supply chain management to customers over the entire life cycle of the product. These provide a solid foundation for Scanfil's competitive advantages: speed, flexibility and reliability. The company's customers include international operators in the automation, energy, data transmission and health technology sectors and companies operating in fields related to urbanisation.

Year 2019

Scanfil's strategy is to strengthen its position in Germany and more broadly in Central Europe. In accordance with its strategy, Scanfil plc signed an agreement on May 22, 2019 to acquire the entire share capital of HASEC-Elektronik GmbH, a German electronics contract manufacturer. Company has a production plant in Wutha-Farnroda near Eisenach in Central Germany. HASEC has a large number of long-term customer relationships and a strong position as a high-mix, low-volume manufacturer and system integrator.

The turnover of the Industrial customer segment increased by EUR 38.7 million. Nearly half of this increase came from the acquisition of the business operations of HASEC, while more than half of this growth was organic. In addition, the turnover of the Medtec & Life Science segment increased by EUR 10.2 million. Slightly more than one third of this growth came from the acquisition of HASEC, while the rest was organic. The Energy and Automation segment showed an increase of EUR 3.9 million. The turnover of the Consumer Applications segment decreased by EUR 18.4 million. This decrease was mainly attributable to the discontinued manufacturing of a significant customer's single product during the year. The decrease of EUR 18.0 million in the Communication customer segment mainly resulted from a decrease in demand by a single customer.

During the year, equipment and automation investments were made for electronics production lines e.g., in Malmö and Pärnu, for mechanical production in Myslowice, as well as for Cobots, AIV (Autonomous Intelligent Vehicle), and warehouse automation in several factories. In Suzhou and Sieradz, the investments concerned the digitalization of production through the MES system.

Financial development

The Group's turnover for January – December was EUR 579.4 (563.0) million, increase of 2.9% compared to the previous year. The Group's operating profit for January – December was EUR 35.3 (37.8) million, 6.1% (6.7%) of turnover. The operating profit includes adjustment items of EUR 4.0 million, which consists of expenses related to the acquisition of Scanfil Electronics GmbH(former HASEC-Elektronik GmbH) (EUR 0.4 million) and a write-down of goodwill (EUR 3.6 million) related to Scanfil GmbH's business operations. The business operations of Scanfil GmbH, a German subsidiary acquired in 2014, have not developed as expected, which is why the company has recognised a write-down based on impairment testing.

The adjusted operating profit was EUR 39.4 million, or 6.8% of turnover. The adjusted operating profit increased by 4.2% year-on-year. The increase in operating profit mainly came from

the increase in turnover. The net profit for the review period was EUR 28.1 (28.9) million.

Earnings per share for the review period were EUR 0.44 (0.45). Return on investment was 17.0% (20.2%) and the return on equity was 18.0% (21.5%). The weaker key figures are mainly due to the adjustment items mentioned above.

The Group's key figures for the six years are presented in the Group Key Figures section of the financial statements.

Financing and capital expenditure

The Group has a stable financing position. The consolidated balance sheet total was EUR 340.0 (303.8) million at the end of the review period. The increase is due to the adoption of IFRS 16 Leases and the acquisition of Scanfil Electronics GmbH.

From the beginning of 2019, nearly all of the Group's lease agreements have been recognised on the balance sheet as lease liabilities and related asset items. At the end of year 2019, fixed assets included EUR 21.0 million in fixed asset items related to lease liabilities in accordance with IFRS 16 and the corresponding liability items. The balance sheet total of Scanfil Electronics GmbH stood at EUR 20.9 million on December 31, 2019.

Cash assets totalled EUR 20.4 (19.2) million. Liabilities amounted to EUR 173.3 (159.1) million, of which non-interest-bearing liabilities totalled EUR 106.7 (111.7) million and interest-bearing liabilities totalled EUR 66.6 (47.3.) million. Interest-bearing liabilities included EUR 22.3 million in leasing liabilities in accordance with IFRS 16.

The equity ratio was 49.1% (47.7%), and net gearing was 27.7% (19.5%). The adoption of IFRS 16 reduced the Group's equity ratio by -2.9 percentage points and net gearing by -11.6 percentage points. Equity per share was EUR 2.58 (2.26).

Scanfil has withdrawn a new long-term loan of EUR 30 million in December 2019, while the final installment of the previous loan of EUR 13.3 million was paid. Group's financial arrangement includes dismissal covenants related to equity ratio and interest bearing net debt/EBITDA ratio. The terms of the covenants are reviewed quarterly. At the end of the period under review the terms have been clearly complied.

Net cash flow from operating activities for the review period January - December was EUR 35.9 (29.0) million. The change in net working capital during the period amounted to EUR -7.6 (-9.5) million. The change in working capital in January – December 2019 compared to the turn of the previous year consists of the following items: short-term non-interest-bearing receivables increased by EUR 3.9 million, inventories decreased by EUR 5.5 million and short-term non-interest-bearing liabilities decreased by EUR 9.2 million.

Net cash flow from investing activities was EUR -17.6 (-9.7) million, which includes a cash flow effect of EUR -7.5 million related to the acquisition of Scanfil Electronics GmbH.

Cash flow from financing activities was EUR -17.1 (-20.7) million. A new long-term loan of EUR 30 million was withdrawn, while the final installment of the previous loan of EUR 13.3 million was paid. A total of EUR 8.3 million was paid in dividends. The use of the credit facility decreased by EUR 9.0 million in comparison with the turn of the previous year.

Gross investments in January – December totalled EUR 21.1 (10.1) million, which was 3.6% (1.8%) of the turnover. The investments include EUR 10.3 million in acquisition expenses related to the share capital of HASEC-Elektronik GmbH, now Scanfil Electronics GmbH, with the rest being mainly related to the acquisition of machinery and equipment. Depreciation excluding impairment was EUR 14.1 (9.5) million. EUR 3.2 million increase in depreciation is caused by a change in accounting principles due to the adoption of the IFRS 16 Leases standard.

Board of directors' authorisation

The Annual General Meeting authorized the Board of Directors to decide on the acquisition of the company's own shares with distributable assets and to decide on share issues through one or more issues and the issue of other special rights entitling their holders to shares.

The Board of Directors' proposals to the General Meeting are available on the company website at www.scanfil.com.

Option schemes

The Group has two option programs. The Annual General Meeting on 12 April 2016 approved Scanfil plc's stock option program 2016 (A) - (C) and on 24 April 2019, the Annual General Meeting approved the 2019 (A) - (C) stock option program. Based on the 2016 stock option program, a maximum of 900,000 stock options may be issued and a maximum of 900,000 stock options based on the 2019 stock option program. Each stock option entitles its holder to subscribe for one Scanfil plc share. The 2013 stock option scheme ended during the reporting period when a total of 90,000 shares were subscribed for with the remaining 2013 (C) stock options.

During the review period a total of 90,000 Scanfil Plc's new shares have been subscribed for with the Company's stock options 2013(C) and 30,000 with stock options 2016(A). The entire subscription price for subscriptions made with the stock options 2013(C) and 2016(A) of EUR 363,300 has been entered in the Company's reserve for invested unrestricted equity.

The shares subscribed for under the stock options have been registered in the Trade Register. The new shares will establish shareholder rights as of the registration date. As a result of registering the new shares, the number of Scanfil shares is 64,669,993 in total. The shares are traded on the main list of Nasdaq Helsinki Ltd.

Share

Scanfil plc has a total of 64,699,993 shares. The company's registered share capital is EUR 2,000,000. The company has one series of shares, and each share entitles the holder to one vote and an equal right to receive dividends.

Scanfil plc's shares are quoted on NASDAQ Helsinki Ltd. The shares have been publicly traded since 2 January 2012. The trading code of the shares is SCANFL. The shares are included in the book-entry securities system maintained by Euroclear Finland Ltd.

Members of the Board of Directors of Scanfil plc, the CEO and the Management Group held a total of 18,916,450 shares on 31 December 2019, which accounts for 29.2% of the company's shares and votes.

The highest trading price during the review period was EUR 4.96 and the lowest EUR 3.73, the closing price for the period standing at EUR 4.89. A total of 3,526,080 shares were traded during the period, corresponding to 5.4% of the total number of shares. The market value of the shares on 31 December 2019 was EUR 316.4 million.

More detailed information on the shareholding distribution, shareholders and share price development can be found in the section "Shares and Shareholders" of the financial statements.

Own shares

On 31 December 2019 company owns 300 000 its own shares, representing 0.5% of all shares.

Personnel

At the end of the period under review, the Group employed 3,474 (3,348) people, of whom 3,163 (3,030) worked outside Finland and 311 (318) in Finland. The average number of Group employees during the review period was 3,530 (3,414) people.

Personnel by country on 31 December 2019:
China 902, Estonia 490, Finland 311, Germany 315, Hungary 2, Poland 957, Sweden 379 and USA 118.

Personel on average	2019	2018	2017
Parent company	13	13	12
The Group	3 530	3 414	3 254

Salaries, wages and fees, EUR million	2019	2018	2017
Parent company	1,6	1,8	1,8
The Group	74,1	67,4	67,4

The Board of Directors and CEO

Scanfil plc's Annual General Meeting held on 24 April 2019 re-elected Harri Takanen, Jarkko Takanen, Christer Härkönen, Bengt Engström and Christina Lindstedt as members of the Board of Directors. At its organizing meeting held on 24 April 2019 the new Board of Directors elected Harri Takanen as the Chairman of the Board of Directors.

The Board further resolved to organize the Board committees as follows: the members of the Audit Committee are Harri Takanen, Jarkko Takanen and Christina Lindstedt and the members of the Nomination and Compensation Committee are Harri Takanen, Jarkko Takanen and Bengt Engström.

M.Sc. (Eng) Petteri Jokitalo (1963) has acted as the company's CEO during 1 January – 31 December 2019.

Risk management

The Board of Directors of Scanfil plc is responsible for ensuring the appropriate organisation of the Group's risk management and internal control and audit.

The goal of Group's risk management is to recognize and analyze the factors that have a negative effect on achieving the company's goals in the short and long term, and to start procedures to minimize risks and to postpone or to remove them completely. Risk-management is part of business processes and management systems that are controlled by the board's inspection committee.

STRATEGIC RISKS

A weakening of the global economy and a decrease in the international demand for capital goods could have a negative effect on the development of the business operations of Scanfil's customers and could subsequently reduce demand in the contract manufacturing market.

In particular, changes in international trade agreements and increased international trade restrictions could increase uncertainty in the development of the world economy.

OPERATIVE RISKS

Many of the components used in the supply chain are sourced from external suppliers or subcontractors. This exposes the company to risks related to the availability and cost of components and subcontracted products, as well as the continuity of partnerships. Possible difficulties in obtaining these components or potential quality problems with them could cause business disruption and increase costs.

CURRENCY RISKS

The Group's currency risks consist of transaction risks related to trade receivables and payables, translation risks related to foreign subsidiaries and financial risks related to exchange rate changes. Currency risks can be hedged with forward exchange contracts. The parent company is responsible for all hedging measures. The investments in foreign subsidiaries have not been hedged.

INTEREST RISKS

Interest-bearing liabilities and return on financial investments carry an interest rate risk. The changes in interest rate will affect the Group's result. The interest rate risk of loans can be controlled with the proportion between variable rate and fixed-interest loans.

CREDIT RISKS

Credit risks relate to trade receivables from customers. The company has no significant risk of credit loss.

SHORT TERM RISKS

At present, uncertainty in the current year is caused by the yet unknown negative effects of the spread of the coronavirus epidemic. No essential changes have taken place in the Scanfil's other business risks during the review period.

For a description of financial risk management in the Scanfil Group, please refer to note 4.7 to the consolidated financial statements.

The company's risks and risk management are described on the company's website under Corporate Governance and in the notes to the consolidated financial statements.

Changes in Group's structure

Through a transaction signed on May 22, 2019, Scanfil plc acquired all shares in HASEC-Elektronik GmbH, a German contract manufacturer of electronics (currently Scanfil Electronics GmbH).

During the review period, Scanfil plc established Scanfil Holding Germany GmbH, a wholly-owned holding company, in Germany. It holds all shares in Scanfil GmbH (Hamburg) and Scanfil Electronics GmbH:n (Wutha-Farnroda), Scanfil's subsidiaries in Germany. After the arrangement, Scanfil plc has three wholly-owned sub-groups: Scanfil EMS Oy (Finland), Scanfil Sweden AB (Sweden) and Scanfil Holding Germany GmbH (Germany). The parent companies of these sub-groups wholly own their subsidiaries.

The operations of Hasec-Electronik Sp. z.o.o., a Polish subsidiary of Scanfil Electronics GmbH, was discontinued during the review period. Preparations to dissolve the company through a voluntary liquidation procedure are underway. The dissolution of two discontinued companies was completed through a voluntary liquidation procedure during the financial period.

Research and development

Owing to the nature of the company's business, product development was mainly in cooperation with customers and Scanfil's in-house product development program was not a significant part of the company's cost structure.

REPORT ON NON-FINANCIAL INFORMATION

DESCRIPTION OF BUSINESS OPERATIONS

Scanfil is a contract manufacturer and system supplier for the electronics industry. It manufactures products based on product details and requirements specified by the customer.

The company produces extensive services for its customers, ranging from product design and development to product manufacture, material procurement and logistics solutions. The key elements of the company's operations include a vertically integrated production system and the provision of services and supply chain management for customers over the entire lifecycle of the product. The company's customers include international operators in the automation, energy, data transmission and health technology sectors, among other industries, and companies operating in fields related to urbanization.

Scanfil has factories in Hangzhou and Suzhou, China, in Sieraz and Myslowice, Poland, in Malmö and Åtvidaberg, Sweden, in Hamburg and Wutha-Farnroda, Germany, in Sievi, Finland, in Atlanta USA, and in Pärnu, Estonia. On December 31, 2019, the division of employees by country was as follows: China 902, Poland 957, Sweden 379, Germany 315, Finland 311, Hungary 2, USA 118 and Estonia 490.

PRINCIPLES OF CORPORATE RESPONSIBILITY

Ensuring and developing the responsibility of operations is vitally important for Scanfil's success. The monitoring of corporate responsibility and continuous development serve the requirements of all Scanfil's stakeholders. Scanfil has defined the key factors for its corporate responsibility and divided them into responsible offering, responsibility towards partners and the community, social responsibility and responsibility for the environment.

In responsible offering, attention is paid to the development of customer satisfaction, observance of laws and ethical principles throughout the supply chain, prevention of corruption and bribery, product quality, delivery reliability and continuous development. In responsibility towards partners and the community, the focus is on profitability, ethical values and transparency of operations. The focus areas for environmental responsibility are the efficient use of raw materials, control and reduction of energy and water consumption, as well as the management and reduction of waste and the reduction of the carbon footprint. Social responsibility focuses on competence development, occupational safety and health, and the development of the motivation and work satisfaction of personnel.

The Board of Directors and members of the management of Scanfil are responsible for the management of corporate responsibility. In terms of its governance, Scanfil complies with Finnish laws and regulations, its Articles of Association, Nasdaq Helsinki's rules and guidelines, and the Finnish Corporate Governance Code. In practical work, their responsibility perspectives are guided by the group's Code of Conduct. In addition, the policies and ethical operating principles approved by the Board of Directors or the Management Team guide the operations.

Scanfil also requires that all its partners comply with laws and agreements, and that they operate in accordance with Scanfil's Code of Conduct. The Supplier Code of Conduct constitutes part of the purchase agreements signed with major suppliers. In addition, the Code of Conduct is signed with all suppliers in the Asian market, and particular attention was paid to this method of operations during 2019. The Supplier Basic Requirements were also updated and supplemented with the Supplier Code of Conduct.

The development of Scanfil's operations and Scanfil's achievements in the area of corporate responsibility are discussed in more detail in the first sections of the annual report.

THE ENVIRONMENT

Scanfil promotes sustainable development by identifying, measuring and reporting the environmental impact caused by its activities, and by attempting to minimize such impact. The aim is to consider environmental impact throughout the value chain, ranging from the procurement of raw materials to production, distribution and recycling possibilities. All Scanfil's plants have a certified ISO 14001-compliant environmental management system. In its production, Scanfil uses mainly metals, components and chemicals. It prefers recyclable materials and eco-friendly products. Part of the materials to be used are chosen by the customer. The utilization rate of all raw materials is optimized to ensure the efficient use of resources and decrease the amount of waste created. Waste materials are recycled if they cannot be re-used in the company's own production. Steel is the most important raw material used by Scanfil. Its effective use is closely monitored in the production process.

The risks associated with chemicals are analyzed before their deployment, and they are handled following precise instructions and precautions. In addition, proper training and drills are arranged to prepare for any accidents. Scanfil's total energy consumption was 28.7 million kWh, having been 30.2 million kWh the previous year. Energy consumption decreased by 4.8% year-on-year. This was achieved among other things by improvements to manufacturing equipment, optimization of ventilation systems and utilizing frequency converters. In 2019, Scanfil carried out several plant-specific actions to reduce various environmental impacts. The most significant results were achieved at the Sieradz plant, where production energy consumption decreased by 13 percent, while production volume increased. Energy-saving measures were implemented at the Pärnu plant by installing LED lamps and equipment for compensating reactive power. These measures reduced the energy consumption of the Pärnu plant by six percent.

Water is used in facility maintenance, production and sanitary facilities. Water consumption totaled 56,000 m^3. Water consumption decreased by 20 percent when the air humidification systems in electronic production were renewed, and automatic taps were installed, for example. The volume of waste materials was reduced by 5.8 percent, among other things by improving production processes and by enhancing re-use and recycling.

Scanfil also seeks to reduce its carbon footprint in other activities, such as travel and mobility. As an internationally operating company, employees' business travel is necessary, but the company seeks to reduce it, e.g. by utilizing the possibilities of modern technology and by favoring virtual meetings. The travel practice always guides the employees to choose the most environmentally friendly alternative for travel and meetings. The emissions from daily commuting have been reduced by organizing bus transport for personnel at several Scanfil plants. The company's updated vehicle policy favors low-emission cars, such as hybrid models.

SOCIAL AND EMPLOYEE-RELATED MATTERS

At Scanfil, social responsibility focuses on competence development, occupational safety and health, and the development of the personnel's motivation and work satisfaction.

Scanfil's aim is to be a reliable employer and an encouraging working community where every individual has the opportunity to develop their personal skills and abilities. Personnel and the associated key indicators, as well as the wages and salaries paid to the personnel of the parent company and the Group, are described in the Personnel section of the Board of Directors' Report.

Among other things, Scanfil has produced HR and working environment policies, as well as the Code of Conduct, which guides the daily work of management and other employees. The Code of Conduct describes in detail the ethical and sustainable methods of operation compliant with Scanfil's values through discussion of the Code of Conduct is part of the induction training process.

An annual job satisfaction survey is conducted among the personnel. Its results are used when defining development activities. In 2019, the response rate increased to 90% (in 2018: 89%). Work satisfaction and commitment were also assessed to be better than in previous years. The answers indicated that the content of jobs and work conditions had developed favorably. The reputation and management of the company were also assessed to have improved. In 2019, the focus was on competence development. The measures supported the employees in their daily duties. Clarity of processes between plants and balanced workloads improved work conditions. Three group-level main themes were defined on the basis of the survey results: the work of immediate managers, zero tolerance for bullying at work and a good employer image. The survey also resulted in the initiation of approximately 600 local development programs.

The Group's HR functions were reorganized during the year. In addition, Group-level development programs were initiated, including leadership training covering the entire Group, the definition of the main areas of competence and planning of training, the internal learning environment "Scanfil Academy" and the improvement of the employer image. Competence development continued at the global level and in local units in different programs. A total of 74,300 working hours was used in the Group for training in 2019.

Scanfil monitors any changes in the key indicators for occupational safety and health. The amount of sick leaves is at a good level, as is the number of occupational accidents, even though there is variation between countries. In 2019, the percentage of sick absences in the Group was 3.2, while the target was less than 4 percent. There were 41 accidents; the number in 2018 was 31.

Some Scanfil plants hold ISO45001 Occupational Safety and Health certificates, and the intention is to have all plants certified during 2020. In 2019, the Safety Book was created. Details of all accidents taking place during the year are collected in this file. Most are related to the handing of materials at the production areas and the use of tools at workstations. In addition, Scanfil has established the Safety Council, with the HR managers of different plants as its members. The Safety Council convenes quarterly. In assembly and office work, posture and work undertaken in a sedentary position present a challenge. Their negative impact is avoided by means of high ergonomics. Among other things, all the old desks at the head office were replaced with electric ones.

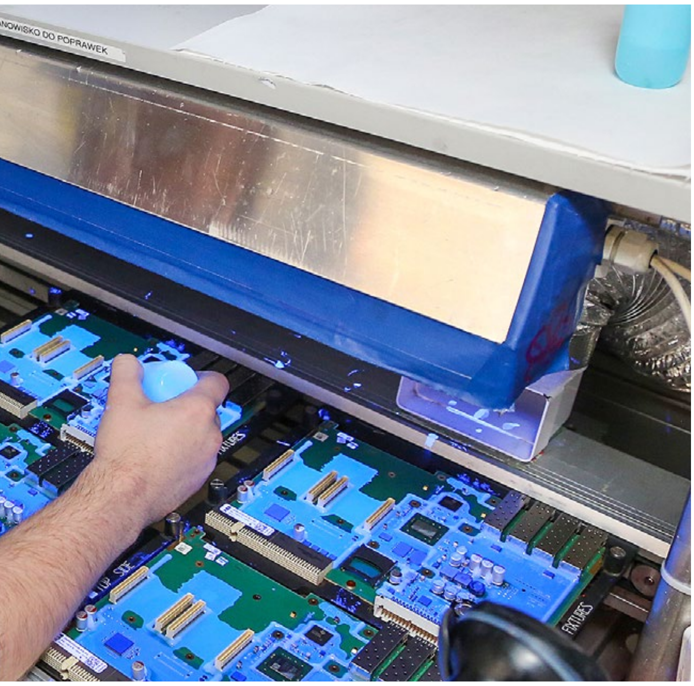
Scanfil addresses all accidents and near misses with appropriate actions designed to prevent them recurring. In addition, the Lean Manufacturing and Process Engineering teams participate in the work to ensure the safety and efficiency of production areas.

HUMAN RIGHTS

In terms of its social responsibility, Scanfil focuses on competence development, occupational safety and health, and the development of employees' motivation and work satisfaction. The company ensures the fulfillment of its social responsibility through its ethical principles, fair working conditions and practices. Human rights and equal treatment are basic values in Scanfil's operations, and here no compromises can ever be made. Besides the personnel, they concern all partners, and they define, among other things, the principles of respecting individuals, as well as those of preventing forced labor, child labor and human trafficking.

The ethical principles also contain instructions for reporting possible or suspected unethical or illegal actions. Scanfil's personnel survey also includes questions about any unwelcome behavior. Scanfil has a Whistleblowing channel to which the company's personnel and partners can anonymously report any misconduct or suspected misconduct regarding human rights, corruption, bribery or the Code of Conduct.

The company aims to ensure observance of the Code of Conduct in supply chain management by carrying out audits.



The observance of law and ethical principles is also monitored in internal control and audits. No deviations were observed in 2019.

ANTI-CORRUPTION AND ANTI-BRIBERY MEASURES

Compliance with corporate responsibility is raised more often than previously in talks with customers. Scanfil has defined responsible operating guidelines that cover, for example, the equal treatment of people, and prohibit corruption and bribery. The Group's operating methods, such as transparent and cost-based pricing, reduce the possibility of non-compliant activities.

Scanfil selects its suppliers carefully and aims to engage in long-term cooperation with its key suppliers. Scanfil only uses approved suppliers that fulfil Scanfil's strict criteria in terms of quality, delivery reliability and cost-efficiency. In addition to these factors, Scanfil ensures that its suppliers fulfill their financial and administrative obligations. Scanfil audits its suppliers systematically and monitors their compliance with the terms and conditions of agreements and the Code of Conduct. It aims to prevent any misuse through the verification of orders, training and work rotation. No deviations from these methods of operation were observed in 2019. As part of its corporate responsibility management, Scanfil is also developing its activities to fight corruption and bribery.

RISKS

Scanfil has determined the most significant risks in its operations, and they are described in more detail in the Board of Directors' report under "Business risks and uncertainties in the near future." The risks associated with corporate responsibility have not been separately specified. Scanfil observes and monitors all potential risks. The most significant risks are associated with the order-supply chain and the suppliers' ability to be responsible for the actions of their own suppliers, for example, with respect to honoring human rights, fair pay and provision of appropriate working conditions, as well as to anti-corruption and anti-bribery activities. The most significant risks in Scanfil's own operations are associated with occupational safety, for example, in the handling of hazardous materials, and in the use of machines and tools. Furthermore, unethical conduct by Scanfil's employees, such as corruption or bribery, may harm Scanfil's reputation, in addition to which it may also have financial implications.

Board of Director's proposals to the Annual General Meeting

Scanfil plc's Annual General Meeting will be held on 23 April 2020 at the company's head office in Sievi, Finland.

DIVIDEND FOR 2019

The parent company's distributable funds are EUR 43,485,669.92 including retained earnings EUR 12,168,378.38. The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.15 (0.13) per share be paid for a total of EUR 9,704,998.95 for the financial year ending on 31 December 2019. The dividend matching day is 27 April 2020. The dividend will be paid to those shareholders who, on the matching day, are entered in the Company's Register of Shareholders, kept by Euroclear Finland Ltd. The dividend payment day is 5 May 2020.

No significant changes have taken place in the company's financial position since the end of the financial year. In the view of the Board of Directors, the proposed dividend pay-out will not put the company's liquidity at risk.

The proposal of Scanfil plc's nomination committee to the General Meeting for the composition of Scanfil plc's Board of Directors will be published in connection with the invitation to the General Meeting.

The company publishes a notice of the Annual General Meeting later separately.

Future outlook

Scanfil estimates that its turnover for 2020 will be EUR 590 – 640 million and adjusted operating profit will amount to EUR 39 – 43 million. The estimation is based on our existing understanding of impact of Coronavirus. The 2020 guidance is subject to exceptional uncertainty due to the potential negative impact of the Coronavirus epidemic on customer demand and, in particular, the situation in China.

Long-term Target

Scanfil has updated its long-term target: In 2023, Scanfil is organically aiming for EUR 700 million turnover and 7% operating profit. In addition, Scanfil is actively exploring acquisitions, especially in the Nordic countries and Central Europe.

Corporate Governance Statement

The Corporate Governance Statement is provided as a separate report and published at the same time with the financial statement.

Shares and share capital

Scanfil plc has a total of 64,699,93 shares. The company's registered share capital is EUR 2,000,000. The company has one series of shares, and each share entitles the holder to one vote and an equal right to receive dividends.

Scanfil plc's shares are quoted on NASDAQ Helsinki Ltd. The shares have been publicly traded since 2 January 2012. The trading code of the shares is SCANFL. The shares are included in the book-entry securities system maintained by Euroclear Finland Ltd.

Board's authorisations in force

Board of Directors of Scanfil plc does not have any authorisations to issue convertible bonds or bonds with warrants.

Scanfil plc's Annual General Meeting on 24 April 2019 authorized the Board of Directors to decide on the acquisition of maximum of 5.000.000 Company's own shares. The authorization will remain in force for 18 months after it is issued.

The Annual General Meeting on 24 April 2019 decided to authorize the Board of Directors to decide on share issues and the issue of other special rights entitling their holders to shares. The number of shares to be issued based on the authorisation can be no more than 13,000,000 shares. The Board shall decide on the terms and conditions of share issues and the issue of special rights entitling their holders to shares. The authorisation concerns both the issue of new shares and the transfer of treasury shares. Shares and special rights entitling their holders to shares can be issued in deviation from the shareholders' pre-emptive rights (directed issue). The authorisation shall be valid until 30 June 2020.

The Annual General Meeting on 24 April 2019 decided to authorize the Board of Directors to decide on granting option rights to specific key people of Scanfil Group. The total number of option rights is 900,000 and they entitle the key personnel to subscribe for a combined total of 900,000 of the company's new shares or shares in its possession.

Own shares

The company owns 300,000 its own shares.

Dividend distribution policy

The company aims to pay a dividend annually. The level of dividends paid and the date of payment are affected, inter alia, by the Group's result, financial position, need for capital and other possible factors. The aim is to distribute approximately one-third of the Group's annual profit as dividend to shareholders.

Dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.15 per share be paid for a total of EUR 9,704,998.95 for the financial year ending on 31 December 2019.

Share price development, trading and market value

In 2019, the number of Scanfil plc shares traded on NASDAQ Helsinki Ltd was 3,526,080, which accounts for 5.4% of all shares. The value of shares traded was EUR 14.7 million and the average price EUR 4.16. Market capitalisation was EUR 316.4 million at the end of 2019. The highest trading price was EUR 4.96 and the lowest EUR 3.73. The closing price was EUR 4.89.

Share price performance in 2019 compared to the general index.

Information on shareholders

On 31 December 2019, Scanfil plc had a total of 5,796 shareholders, 78.1% of whom owned a maximum of 1,000 shares in the company. The ten major shareholders owned 72.2% of the shares. Nominee-registered shares accounted for 3.0% of the shares.

Shares held by management

Members of the Board of Directors of Scanfil plc and the CEO held a total of 18,916,450 shares on 31 December 2019, which accounts for 29.2% of the company's shares and votes.

Breakdown of share ownership

BREAKDOWN OF SHARE OWNERSHIP BY NUMBER OF SHARES HELD AT 31 DEC. 2019

Number of shares	Number of shares pcs	Percentage of owners %	Total number of shares and votes pcs	Percentage of shares and votes %
1 - 200	2 323	40,08	282 448	0,44
201 - 1000	2 205	38,04	1 211 862	1,87
1001 - 10000	1 106	19,08	3 109 679	4,81
10001 - 50000	104	1,79	2 394 885	3,70
50001 - 9999999	58	1,00	57 701 119	89,18
	5 796	**100,00**	**64 699 993**	**100,00**

BREAKDOWN OF SHARE OWNERSHIP BY OWNER CATEGORY AT 31 DEC. 2019

	Number of shareholders	Share %	Number of shares	Share %
Corporations	235	4,05	9 810 524	15,16
Financial and insurance institutions	22	0,38	4 416 961	6,83
Public entities	5	0,09	1 810 383	2,80
Non-profit-making organisations	22	0,38	2 171 002	3,36
Households	5 493	94,77	45 907 218	70,95
Non-Finnish owners	19	0,33	583 905	0,90
Total	**5 796**	**100,00**	**64 699 993**	**100,00**
of which nominee-registered	10		1 951 250	3,02

Information on shareholders

MAJOR SHAREHOLDERS AT 31 DEC. 2019

	pcs	Share % of shares and votes
1. Takanen Harri	9 858 146	15,24
2. Takanen Jarkko	8 541 169	13,20
3. Varikot Oy	7 606 442	11,76
4. Takanen Jorma Jussi	6 129 305	9,47
5. Tolonen Jonna	3 351 950	5,18
6. Pöllä Reijo	3 328 745	5,14
7. Laakkonen Mikko	2 531 187	3,91
8. Takanen Martti	1 947 018	3,01
9. Foundation of Riitta ja Jorma J. Takanen	1 900 000	2,94
10. Sijoitusrahasto Aktia Capital	1 528 000	2,36

	2019	2018	2017	2016	2015	2014
Financial key ratios						
Turnover, EUR m	579,4	563,0	529,9	508,0	377,3	214,5
Turnover, growth from previous year, %	2,9	6,3	4,3	34,6	75,9	13,8
Operating profit, EUR m	35,3	37,8	31,3	7,2	14,4	16,2
Operating profit, % of turnover	6,1	6,7	5,9	1,4	3,8	7,6
Profit/loss for the period, EUR m	28,1	28,9	25,8	0,1	8,4	12,3
Profit/loss for the period, % of turnover	4,8	5,1	4,9	0,0	2,2	5,7
Return on equity, %	18,0	21,5	22,2	0,1	8,6	14,0
Return on investment, %	17,0	20,2	19,4	4,6	10,6	16,5
Interest-bearing liabilities, EUR m	66,6	47,3	61,3	60,1	87,8	9,3
Gearing, %	27,7	19,5	32,6	36,9	65,4	-10,5
Equity ratio, %	49,1	47,7	40,7	40,7	33,4	70,6
Gross investments in fixed assets, EUR m	21,1	10,1	18,6	5,5	54,3	8,2
Gross investments in fixed assets, % of turnover	3,6	1,8	3,5	1,1	14,4	3,8
Average number of employees for the period	3 530	3 414	3 254	3 483	2 690	1 773
Key indicators per share						
Earnings per share, EUR	0,44	0,45	0,40	0,00	0,15	0,21
Shareholders' equity per share, EUR	2,58	2,26	1,95	1,70	1,74	1,64
Dividend per share, EUR	0,15	0,13	0,11	0,09	0,08	0,07
Dividend per earnings, %	34,3	28,7	27,2	6118,9	55,2	32,9
Effective dividend yield, %	3,07	3,47	2,59	2,58	2,10	2,85
Price-to-earnings ratio (P/E)	11,2	8,3	10,5	2 372,8	26,3	11,5
Share trading						
No. of shares traded, thousands	3 526	3 341	3 296	9 424	5 202	5 131
Percentage of total shares, %	5,4	5,2	5,2	14,8	9,01	8,88
Share performance						
Lowest price for year, EUR	3,73	3,45	3,42	2,86	2,36	1,30
Highest price for year, EUR	4,96	5,16	4,53	3,80	4,06	2,74
Average price for year, EUR	4,16	4,44	3,92	3,41	2,92	1,95
Price at the end of year, EUR	4,89	3,75	4,25	3,49	3,81	2,46
Market value of share capital at 31 Dec.2019, EUR m	316,4	240,1	271,6	222,2	220,0	142,0
Share-issue adjusted number of shares						
At the end of the period, thousands	64 700	64 035	63 895	63 670	57 730	57 730
On average during the period, thousands	64 296	63 945	63 757	62 423	57 730	57 730

The adoption of IFRS 16 in 2019 has affected the comparability of some key figures. For more information, see note 3.4.1.

Key ratio	Numerator	Denominator
Return on equity, %	Net profit for the period x 100	Shareholders' equity (average)
Adjusted return on equity %	Adjusted net profit for the period x 100	Adjusted shareholders' equity (average)
Return on investment, %	(Profit before taxes + interest and other financial expenses) x 100	Balance sheet total - non-interest-bearing liabilities (average)
Gearing (%)	(Interest-bearing liabilities - cash and other liquid financial assets) x 100	Shareholders' equity
Equity ratio (%)	Shareholders' equity x 100	Balance sheet total - advance payments received
Earnings per share	Net profit for the period	Average adjusted number of shares during the year
Shareholders' equity per share	Shareholders' equity	Adjusted number of shares at the end of the financial period
Dividend per share	Dividend to be distributed for the period (Board's proposal)	Number of shares at the end of year
Dividend per earnings (%)	Dividend per share x 100	Earnings per share
Effective dividend yield (%)	Effective dividend yield (%)	Share price at the end of year
Price-to-earnings ratio (P/E)	Share price at the end of year	Earnings per share
Average share price	Total share turnover	Number of shares traded
Market capitalisation	Number of shares x last trading price of the financial period	

CONSOLIDATED INCOME STATEMENT, IFRS

1000 EUR	Note	1.1.-31.12.2019	1.1.-31.12.2018
Turnover	1.1	579 416	563 032
Other operating income	1.2	995	786
Changes in inventories of finished goods and work in progress		810	-323
Manufacturing for own use		34	
Use of materials and supplies	1.3	-389 776	-382 741
Employee benefit expenses	1.4	-94 021	-86 336
Depreciation and amortization	3.6	-17 734	-9 527
Other operating expenses	1.5	-44 378	-47 114
Operating profit		**35 346**	**37 776**
Financial income	4.2	5 418	9 529
Financial expense	4.2	-6 724	-11 273
Profit before tax		**34 039**	**36 032**
Income tax	1.6	-5 950	-7 143
Net profit for the period		**28 090**	**28 890**
Attributable to:			
The parent company owners		28 090	28 890
Earnings per share calculated on the profit attributable to shareholders of the parent company:			
undiluted earnings per share	1.7	0,44	0,45
diluted earnings per share	1.7	0,43	0,45

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

Net profit for the period		**28 090**	**28 890**
Other comprehensive income			
Items that may later be recognized in profit or loss			
Translation differences	4.9	344	-2 435
Cash flow hedges	4.9	394	-158
Other comprehensive income, net of tax		738	-2 592
Total comprehensive income		**28 827**	**26 297**
Total comprehensive income attributable to:			
The parent company owners		28 827	26 297

CONSOLIDATED BALANCE SHEET, IFRS

1000 EUR	Note	31.12.2019	31.12.2018
ASSETS			
Non-current assets			
Property, plant and equipment	3.3	50 677	49 111
Right-of-use-assets	3.4	20 959	
Goodwill	3.1	8 046	10 117
Other intangible assets	3.2	16 792	12 246
Other investments	4.6	534	33
Deferred tax assets	1.6	5 714	4 433
		102 722	75 940
Current assets			
Inventories	2.2	101 897	99 196
Trade and other receivables	2.3	112 056	107 558
Advance payments		532	325
Current tax		2 441	1 630
Cash and cash equivalents	4.1	20 353	19 153
		237 279	227 861
Total assets		**340 000**	**303 801**
EQUITY AND LIABILITIES			
Shareholders' equity	4.8		
Share capital		2 000	2 000
Reserve for invested unrestricted equity fund		30 974	28 443
Fair Value Reserve		168	-225
Other reserves		6 910	6 706
Translation differences		4 600	4 257
Retained earnings		122 035	103 564
		166 688	144 744
Total equity		**166 688**	**144 744**
Non-current liabilities			
Provisions	5.1	427	292
Interest bearing liabilities	4.3	24 704	16 577
Lease liabilities	4.3	18 803	
Deferred tax liabilities	1.6	6 958	5 970
		50 892	22 839
Current liabilities			
Trade and other liabilities	2.4	96 127	103 500
Current tax		3 031	1 837
Provisions	5.1	179	120
Interest bearing liabilities	4.3	19 548	30 761
Lease liabilities	4.3	3 534	
		122 420	136 218
Total liabilities		**173 313**	**159 057**
Total shareholder's equity and liabilities		**340 000**	**303 801**

CONSOLIDATED CASH FLOW STATEMENT, IFRS

1000 EUR	Note	1.1.-31.12.2019	1.1.-31.12.2018
Cash flow from operating activities			
Net profit		28 090	28 890
Adjustments for the net profit			
Transactions without payment:			
Change in provisions		190	-36
Capital gain / loss for fixed assets		-137	-115
Exchange rate differences		467	-93
Other adjustments		123	26
Depreciation and amortization		17 734	9 527
Financial income		-5 418	-9 529
Financial expenses		6 724	11 273
Taxes		5 907	7 151
Change in net working capital:			
Change in accounts receivable and other receivables		-3 942	-1 845
Change in inventories		5 498	-98
Change in accounts payable and other liabilities		-9 157	-7 587
Change in net working capital total		-7 601	-9 530
Paid interests and other financial expenses		-2 327	-1 673
Interest received		266	91
Taxes paid		-8 168	-6 936
Net cash from operating activities		**35 851**	**29 047**
Cash flow from investing activities			
Acquisition of subsidiary less cash and cash equivalents at the time of acquisition	3.7	-7 456	
Investments in tangible and intangible assets	3.2, 3.3	-10 648	-10 089
Sale of tangible and intangible assets		472	386
Net cash from investing activities		**-17 631**	**-9 703**
Cash flow from financing activities			
Share issue	1.4	363	407
Purchase of own shares		-1 239	
Drawdown of short-term loans		5 250	
Repayment of short-term loans		-16 094	-3 532
Drawdown of long-term loans		30 000	
Repayment of long-term loans		-23 750	-10 500
Repayment of lease liabilities		-3 347	
Paid dividends		-8 325	-7 028
Net cash from financing activities		**-17 142**	**-20 653**
Net increase/decrease in cash and cash equivalents		**1 079**	**-1 310**
Cash and cash equivalents at beginning of period		19 153	20 635
Changes in exchange rates		122	-173
Cash and cash equivalents at end of period		**20 353**	**19 153**

EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

1000 EUR	Share capital	Reserve for invested unrestricted equity fund	Fair value reserve	Other reserves	Translation differences	Retained earnings	Equity total
Equity 1.1.2019	**2 000**	**28 443**	**-225**	**6 706**	**4 257**	**103 564**	**144 744**
Comprehensive income							
Net profit for the period						28 090	28 090
Other comprehensive income (net of tax)							
Translation differences					344		344
Cash flow hedges			394				394
Total comprehensive income			**394**		**344**	**28 090**	**28 827**
Transactions with owners							
Fund transfer				204		-204	0
Purchase of own shares						-1 239	-1 239
Option scheme						149	149
Paid dividends						-8 325	-8 325
Share issue		2 167					2 167
Share options exercised		363					363
Equity 31.12.2019	**2 000**	**30 974**	**168**	**6 910**	**4 600**	**122 035**	**166 688**

EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

1000 EUR	Share capital	Reserve for invested unrestricted equity fund	Fair value reserve	Other reserves	Translation differences	Retained earnings	Equity total
Equity 1.1.2018	**2 000**	**28 036**	**-68**	**6 706**	**6 691**	**81 318**	**124 683**
Adjustment in accordance with IFRS 15						**151**	**151**
Adjusted equity 1.1.2018	**2 000**	**28 036**	**-68**	**6 706**	**6 691**	**81 469**	**124 834**
Comprehensive income							
Net profit for the period						28 890	28 890
Other comprehensive income (net of tax)							
Translation differences					-2 435		-2 435
Cash flow hedges			-158				-158
Total comprehensive income			**-158**		**-2 435**	**28 890**	**26 297**
Transactions with owners							
Option scheme						234	234
Paid dividends						-7 028	-7 028
Share options exercised		407					407
Equity 31.12.2018	**2 000**	**28 443**	**-225**	**6 706**	**4 257**	**103 564**	**144 744**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BASIC DETAILS OF THE GROUP

Scanfil plc is a Finland-based public limited company domiciled in Sievi. The parent company Scanfil plc and the subgroups Scanfil EMS Oy, Scanfil Sweden AB and Scanfil Holding Germany GmbH make up Scanfil Group (hereinafter 'Scanfil' or 'the group'). The shares of parent company Scanfil plc have been quoted on the Main List of Nasdaq Helsinki Ltd since January 2, 2012.

Scanfil is an international contract manufacturer and system supplier for the electronics industry with over 40 years of experience in demanding contract manufacturing. Scanfil provides its customers with an extensive array of services, ranging from product design to product manufacturing, material procurement and logistics solutions. Typical Scanfil products include mobile and communications network devices, automation system modules, frequency converters, elevator control systems, analyzers, various slot and vending machines, and devices related to medical technology and meteorology. Scanfil's network of factories consists of 11 production units in Europe, Asia and North America. The total number of employees is approximately 3,500.

ACCOUNTING PRINCIPLES

Scanfil's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), applying the IAS and IFRS effective on December 31, 2019, as well as the SIC and IFRIC interpretations. "IFRS" refers to the standards and their interpretations in the Finnish Accounting Act and the provisions issued thereunder in accordance with the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards within the Community. The notes to the consolidated financial statements are also in compliance with Finnish accounting and corporate legislation. The consolidated financial statements have been prepared for the period January 1 – December 31, 2019. In its meeting held on February 19, 2020, the Board of Directors of Scanfil plc approved the consolidated financial statements for publication. According to the Finnish Limited Liability Companies Act, the ordinary general meeting has the right to adopt, reject or amend the financial statements after their publication.

Unless otherwise stated, the financial statements are presented in thousands of euros, and the information is based on historical costs of transactions, unless otherwise stated in the accounting principles.

All individual figures and totals presented in the financial statements have been rounded, due to which the total sum of single figures may differ from the sum presented. The key figures were calculated using precise values.

ACCOUNTING PRINCIPLES FOR CONSOLIDATED FINANCIAL STATEMENTS

The general accounting principles used for consolidated financial statements are described in this section. More detailed accounting principles are shown below in connection with each item.

The table below shows the accounting principles used for the consolidated financial statements of Scanfil plc, the associated notes and references to the most important IFRS regulating the financial statement items.

COMBINATION PRINCIPLES

Subsidiaries

Subsidiaries are companies controlled by the group. Control emerges when the group controls more than one half of the votes or otherwise has control. The group has controlling interest in an entity when it has the right and ability to control significant operations in the entity and when it is exposed to or has the right to variable returns from the entity through its power over the entity. The existence of potential voting rights is also taken

ACCOUNTING PRINCIPLES FOR CONSOLIDATED FINANCIAL STATEMENTS

Accounting principle	Note	IFRS-standard
Net sales and details of business segments	1.1	IFRS 15, IFRS 8, IAS 18
Employee benefit expenses	1.4	IAS 19, IFRS 2
Income taxes and deferred taxes	1.6	IAS 12
Inventories	2.2	IAS 2
Goodwill and impairment testing	3.1	IAS 36
Intangible assets	3.2	IAS 38, IFRS 3
Property, plant and equipment	3.3	IAS 16, IAS 23
Right-of-use-assets	3.4	IFRS 16
Acquired business	3.7	IFRS 3
Finance leases and other leases	3.5, 5.2	IAS 17
Financial income and expenses	4.2	IFRS 9, IAS 32, IAS 39, IFRS 7
Financial liabilities and Cash and cash equivalents	4.1, 4.3	IFRS 9, IAS 32, IAS 39, IFRS 7, IFRS 13
Provisions	5.1	IAS 37

into account when estimating the criteria for control when the instruments entitling to potential voting rights can be realized at the time of the assessment. In Scanfil Group, all subsidiaries are wholly-owned, and control is created by the voting powers.

Intra-group shareholdings have been eliminated using the acquisition cost method. Consideration transferred and the identifiable assets and assumed liabilities of the acquired company are measured at fair value at the time of the acquisition. Acquisition-related expenses, apart from expenses related to the issue of debt or equity securities, have been recorded as expenses. Consideration transferred does not include business operations handled separately from the acquisition. Their impact has been taken into account in connection with the acquisition through profit or loss. Any conditional additional purchase price is measured at fair value at the time of the acquisition and classified as either debt or equity. Additional purchase price classified as debt is measured at fair value at the balance sheet date of each reporting period, and the resulting profit or loss is recognized through profit or loss. Additional purchase price classified as equity is not re-valued.

Acquired subsidiaries are consolidated from the moment the group has gained control, and divested subsidiaries until control ceases to exist. All intra-group transactions, receivables, liabilities and unrealized gains and internal profit distribution are eliminated upon preparing the consolidated financial statements. Unrealized losses are not eliminated when the loss is due to impairment. Shareholders' equity attributable to non-controlling interest is presented as a separate item under shareholders' equity in the balance sheet. There were no non-controlling interests during the financial periods 2018 and 2019. Should the group lose control of a subsidiary, the remaining holding is measured at fair value on the date of losing control, and the resulting difference is recognized through profit or loss. Acquisitions made prior to January 1, 2010 are handled in accordance with the regulations effective at the time.

Conversion of items in foreign currency

The figures concerning the result and financial position of group units are measured in the currency that is the currency of each unit's main operating environment (the operating currency). The consolidated financial statements are presented in euros, which is the operating and reporting currency of the group's parent company.

Foreign currency-denominated transactions are recorded in the operating currency using the foreign exchange rates on the transaction date. In practice, a rate that is sufficiently close to the rate of the transaction date is often used. The resulting exchange rate differences are recognized through profit or loss. Foreign exchange gains and losses related to business operations are recognized as adjusted sales and purchase items. Rate differences in financing are presented under financial income and expenses.

In the consolidated financial statements, the income statements of foreign group companies are translated into euros using the average annual rates published by the European Central Bank. The companies' balance sheets are translated into euros using the rates in force on the balance sheet date. Translation differences owing to the different exchange rates used in the income statement and balance sheet as well as translation differences attributable to the use of the acquisition method and equity balances accrued after the acquisition have been recorded in group equity, and the change in translation difference are presented in the statement of comprehensive income.

Non-current assets classified as held for sale and discontinued operations

The assets and liabilities of major operations that are classified as held for sale or to be discontinued are presented separately in the balance sheet. The net operating result for discontinued operations and the net result arising from their sale or discontinuation are shown in the income statement separately from the profit or loss for continued operations. Non-current assets classified as held for sale or groups of assets to be disposed of are measured at the lower of carrying amount and fair value less costs to sell. The group did not have such items for the financial periods 2018 and 2019.

Operating profit

IAS 1 *Presentation of Financial Statements* does not specify the concept of operating profit. The group has defined it as follows: operating profit is the net sum of turnover plus other operating income less acquisition costs adjusted for the change in inventories of finished goods and work in progress as well as costs arising from production for own use, less employee benefit expenses, depreciation and any impairment losses and other operating expenses. All of the items in the income statement apart from those specified above are presented under operating profit. Exchange rate differences are included in the operating profit if they arise from operations-related items; otherwise, they are recognized in financial items.

Dividend

The dividend proposed to the Annual General Meeting by the Board of Directors has not been deducted from distributable equity prior to the AGM's approval.

Accounting principles requiring the discretion of management and major uncertainty factors associated with the estimates

The preparation of financial statements in accordance with international accounting standards requires the company's management to make estimates and assumptions that affect the contents of the financial statements. The estimates and assumptions made are based on previous experience and assumptions, which in turn are based on the circumstances prevailing at the time the financial statements are prepared and future prospects. Even though the estimates are based on the most recent information available and the management's best judgment, the actual outcome may differ from the estimates. The following lists the most significant items that require the management's assessment.

The group annually performs testing for impairment of goodwill and other intangible rights. The recoverable amounts for cash-generating units have been determined with calculations based on value in use. These calculations require the use of estimates from the management. More information on impairment testing of goodwill is available in Note 3.1, "Goodwill".

Potential obsolescence included in the value of inventories is regularly examined and, if necessary, the value of inventories is depreciated to match their net realizable value. These examinations require estimates on the future demand for products. Inventories are presented in Note 2.2, "Inventories".

Estimates are also required when assessing the amount of provisions associated with business operations. Note 5.1, "Provisions", presents the provisions made within the group.

Estimates by the management are also included in the assessment of possible credit loss risks included in trade receivables.

Furthermore, the management also uses its discretion when recognizing and measuring deferred tax assets.

NEW AND AMENDED STANDARDS APPLIED DURING THE FINANCIAL YEAR

Scanfil Group has applied the following new and amended standards from the beginning of 2019:

- IFRS 16 *Leases* (effective for the financial periods beginning on or after January 1, 2019). The new standard replaces the current IAS 17 and related interpretations. IFRS 16 requires lessees to recognize lease agreements on the balance sheet as a right-of-use asset and as a lease liability. The accounting model is similar to the financial lease accounting in accordance with the earlier IAS 17. Lessor accounting remained mostly similar to the earlier IAS 17.
  Six of the group's eleven production plants operate in leased premises. In addition, the group has lease agreements on cars and other equipment (mainly forklifts). Scanfil has used the simplified approach in the transition and exceptions at the time of transition that concern short-term lease agreements of at most 12 months and assets at a maximum value of EUR 5,000, apart from leasing cars, for example, to which the 12-month exception does not apply. Therefore, nearly all lease agreements were recognized on the balance sheet at the time of the transition. The interest rate applied to the group's loans in Finland, Sweden, Germany and Estonia was used as the discount rate. Discount rates applied in other countries have been defined separately for each country.
  Lease agreement liabilities and the asset item regarding the right of use on January 1, 2019, recognized on the balance sheet, total EUR 14.8 million. Adoption of the standard has affected key indicators; the equity ratio has weakened by 2.9 percentage points and net gearing has increased by 11.6 percentage points in 2019. The adoption is only expected to have a minor impact on net results. Adoption of IFRS 16 is discussed in closer detail in Note 3.4.

- IFRIC 23 *Uncertainty over Income Tax Treatments* (effective for the financial periods beginning on or after January 1, 2019). The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The accounting treatment will be affected by whether the tax authorities will accept the entity's chosen tax treatment or not. When considering this, the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The amendment has no impact on Scanfil plc's consolidated financial statements.

- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (effective for the financial periods beginning on or after January 1, 2019). The amendments clarify that IFRS 9 is applied to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendment has no impact on Scanfil plc's consolidated financial statements.

- *Annual Improvements to IFRS, 2015–2017 cycle* (effective for financial years beginning on or after January 1, 2019). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRS to be grouped together and issued in one package annually. The amendments concern IFRS 3, IFRS 11, IAS 12 and IAS 23. The amendments have no impact on Scanfil plc's consolidated financial statements.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS TO BE APPLIED IN FUTURE FINANCIAL PERIODS

Scanfil has not yet applied the following new or revised standards and interpretations already published by the IASB. The group will adopt them as of the effective date of each standard and interpretation, or if the effective date is not the first day of the financial period, as of the beginning of the first financial period after the effective date.

** = not yet endorsed for use by the European Union as of December 31, 2019.*

Amendments to References to *Conceptual Framework in IFRS Standards* (effective for financial years beginning on or after 1 January 2020)

The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs.

Amendments to IFRS 3 – *Definition of a Business* (effective for financial years beginning on or after 1 January 2020)

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set is a group of assets rather than a business.

Amendments to IAS 1 and IAS 8 – *Definition of Material* (effective for financial years beginning on or after 1 January 2020) The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) (effective for financial years beginning on or after 1 January 2020)

Amendments have been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.

1. ITEMS AFFECTING THE RESULT

1.1 TURNOVER AND DETAILS OF BUSINESS SEGMENTS

ACCOUNTING PRINCIPLE

Revenue recognition

The group's turnover mainly consists of customer agreements that only include the sale of goods. Typical products manufactured by Scanfil include video surveillance systems and equipment, communications network device, audio communications products, health technology devices and systems, electricity and automation system modules, renewable energy production converters and inverters, frequency converters, lift control systems, analyzers, various slot and vending machines, defense industry devices and meteorological instruments.

IFRS 15 has replaced IAS 18 and IAS 11 and related interpretations for the financial period beginning on January 1, 2018. Revenue is recognized when a company transfers control of goods or services to a customer either over time or at a point in time.

The group mainly fulfils the performance obligation at a certain point in time when control of an asset item is transferred to the customer. Typically, control is transferred when goods are delivered in compliance with the terms of delivery. Revenue arising from the sale of products is recognized when the significant risks and rewards of ownership, right of possession and actual control of the products sold have been transferred to the buyer. A small part of the group's turnover comes from service sales. Service sales include prototype manufacturing, productization, component, storage and logistics services, as well as after-sales services, including repair and updating services for products. Some revenue from services is recognized over time in accordance with the completion of the services.

With regard to customers' consignment stocks, revenue is recognized when control is transferred to the customer, i.e. when goods are transferred to the consignment stock.

Variable considerations include cash and quantity discounts and consequences of delayed deliveries. Variable considerations are included in the performance obligation sales price of the receivable.

Scanfil provides a product warranty on the basis of customer contracts. The warranty period typically ranges from 12 to 24 months, and it can be at most 36 months. The warranty is not a separate performance obligation. Payment terms are customer-specific, ranging from 30 to 90 days.
Scanfil reports single business segment.

Turnover

The company's customers include international operators in the automation, energy, data transmission and health technology sectors, among other industries, and companies operating in fields related to urbanization.

Markets and customer segments

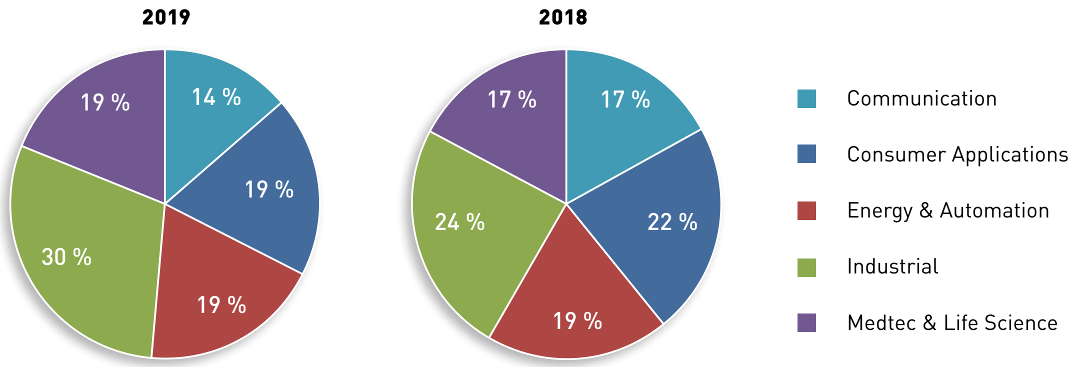
Scanfil has divided its customers into segments on the basis of their respective fields of activity and monitors the development of sales by customer segment. Scanfil changed its customer segments from the beginning of 2019 to better correspond to its current customer structure and to the general customer segment structure used in the contract manufacturing markets. The figures for 2018 have been restated to be comparable, and therefore the data presented for the breakdown of turnover and grouping of revenue are not equivalent to those set out in the 2018 financial statements.

The customers are divided into the following segments:

- Communication
- Consumer Applications
- Energy & Automation
- Industrial
- Medtech & Life Science

Typical products of the customers in the Communication segment include base stations, exchanges and amplifiers, as well as different camera and radio systems. Products of the customers in the Consumer Applications segments are typically used by consumers. These include reverse vending machines, slot machines, machines for self-service laundromats and photo booths, for example. Products of the customers in the Energy & Automation segment include frequency converters, inverters, switches and automation systems. Products of the customers in the Industrial segment are used in industrial applications, such as forklift guidance systems and smart lighting systems. Products of the customers in the Medtec & Life Science segment include dental chairs, analyzers, mass spectrometers and cloud height indicators.

Breakdown of turnover by customer segment in 2019 and 2018



Turnover by customer segment and quarter

EUR million	2018	Q1/2019	Q2 /2019	Q3/2019	Q4/2019	2019	% of turnover 2019
Communications	**97,5**	17,9	19,4	21,4	20,7	**79,4**	13,7 %
Consumer Application	**125,6**	23,5	27,6	27,8	28,3	**107,3**	18,5 %
Energy & Automation	**107,5**	25,7	28,3	27,9	29,4	**111,3**	19,2 %
Industrials	**134,6**	35,9	41,5	49,0	46,8	**173,3**	29,9 %
Medical & Life Science	**97,9**	26,9	25,7	26,1	29,4	**108,1**	18,7 %
Total	**563,0**	129,9	142,6	152,3	154,7	**579,4**	100,0 %

In 2019, the group's turnover increased by EUR 16.4 million, 2.9% compared to the previous year.

The turnover of the Industrial customer segment increased by EUR 38.7 million. Nearly half of this increase came from the acquisition of the business operations of HASEC, now Scanfil Electronics GmbH, during the second quarter. In addition, the turnover of the Medtec & Life Science segment increased by EUR 10.2 million. Slightly more than one third of this growth came from the acquisition of HASEC. Energy and Automation segment showed an increase of EUR 3.9 million. The turnover of the Consumer Applications segment decreased by EUR 18.4 million. This decrease was mainly attributable to the discontinued manufacturing of a significant customer's single product during the year. The decrease of EUR 18.0 million in the Communication customer segment mainly resulted from a decrease in demand by a single customer.

In 2019 the largest customer accounted for about 14% (12%) of turnover and the top ten customers accounted for about 56% (60%) of turnover.

Grouping of revenue

Revenue is grouped into product and service sales by customer segment. The majority, more than 90%, of the company's revenue comes from sales of manufactured products.

		2019			2018	
EUR million	Goods	Services	Total	Goods	Services	Total
Customer Segments						
Communication	66,9	12,5	79,4	86,8	10,7	97,5
Consumer Applications	103,2	4,1	107,3	121,6	4,1	125,6
Energy & Automation	105,7	5,7	111,3	101,8	5,7	107,5
Industrial	161,9	11,3	173,3	127,3	7,2	134,6
Medtec & Life Science	100,9	7,2	108,1	89,4	8,6	97,9
Total	**538,6**	**40,8**	**579,4**	**526,8**	**36,2**	**563,0**
Timing of revenue recognition						
Goods and services transferred at a point of time	538,6	37,3	575,9	526,8	33,3	560,1
Services transferred over time		3,5	3,5		2,9	2,9
Total	**538,6**	**40,8**	**579,4**	**526,8**	**36,2**	**563,0**

Contractual amounts recognized on the balance sheet

The table below presents contractual receivables, assets and liabilities recognized on the balance sheet.

1000 EUR	2019	2018
Trade receivables, which are included in "Trade and other receivables"	102 297	97 257
Contract assets	582	2 048
Contract liabilities	172	269

Trade and other receivables

Non-current	126	217
Current	102 753	99 088
Total	**102 879**	**99 306**

Significant changes in the contract assets and the contract liabilities balances during the period are as follows.

1000 EUR	2019 Contract assets	2019 Contract liabilities
Transferred to trade receivables	-383	
Increase in contract assets	231	
Transferred to trade receivables		-269
Increase in advances received from customer		172

Major customers

1000 EUR	2019	% of turnover	2018	% of turnover
Customer 1	82 614	14 %	68 899	12 %
Customer 2	60 443	10 %	57 863	10 %
Customer 3	41 689	7 %	42 960	8 %
Total	**184 745**		**169 722**	

The same customers are not necessarily shown in the table above for the reporting period and for the comparison period.

INFORMATION ABOUT THE WHOLE ENTITY

Of the segment information, the assets are shown by their location and distribution of sales is shown by the location of customers.

Distribution of segment assets
The segment assets mainly consist of goodwill, intangible and tangible assets, inventories, trade receivables as well as cash and cash equivalents.

Assets on geographical areas

1000 EUR	2019	2018
Domicile		
Finland	24 359	22 485
Sweden	58 885	42 964
Poland	92 292	87 235
China	76 769	85 853
Germany	31 063	15 798
Other	50 707	45 034
Total	**334 075**	**299 368**

With the introduction of IFRS 16, the leased right-of-use asset is recognized in the assets of the balance sheet and the distribution of assets between 2019 and 2018 is therefore not comparable.

Turnover by location of customers (delivery address)

1000 EUR	2019	2018
Finland	107 467	106 101
Sweden	131 061	108 532
Germany	66 193	54 203
Poland	15 585	13 238
Rest of Europe	123 679	120 692
Asia	87 988	110 078
USA	45 559	47 337
Other	1 884	2 851
Total	**579 416**	**563 032**

1.2. OTHER OPERATING INCOME

ACCOUNTING PRINCIPLE
Income other than that associated with actual business operations is recognized under other operating income. Such items include capital gains from the sales of tangible fixed assets, rental income, insurance compensation payments and public subsidies. Rental income mainly consists of rents from business premises in China.

Government grants related to tangible and intangible assets are deducted from an asset's acquisition cost, and the net acquisition cost is capitalized on the balance sheet. Other financial contributions are recognized in other operating income through profit or loss.

Other operating income, 1000 EUR	2019	2018
Proceeds from sale of property, plant and equipment	150	155
Allowances and compensations	484	371
Rental income	85	85
Other	276	175
Total	**995**	**786**

1.3. USE OF MATERIALS AND SUPPLIES

Use of materials and supplies, 1000 EUR	2019	2018
Materials, supplies and goods		
Purchases during the period	382 587	382 944
Change in inventories	7 189	-203
Total	**389 776**	**382 741**

1.4. EMPLOYEE BENEFIT EXPENSES

Employee benefits
Employee benefits include short-term employee benefits, post-employment benefits and share-based payments. Short-term employee benefits are posted as expense for the financial period during which the work was performed.

ACCOUNTING PRINCIPLE
Short-term employee benefits
Short-term employee benefits include salaries and fringe benefits, annual holidays and performance bonuses.

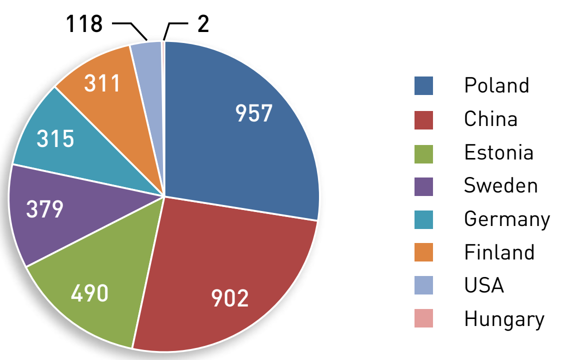
Post-employment benefits
Pension arrangements related to post-employment benefits are classified as defined benefit or defined contribution plans. The group does not have significant defined benefit pension plans. Most of Scanfil's obligations towards its employees are comprised of various defined contribution pension plans. The pension contributions for defined contribution pension plans are posted as expense for the financial period during which they were accrued. In Finland, the defined contribution pension plans are based on the Employees Pensions Act, according to which the pension contributions are based directly on the beneficiary's earnings.
There is a multi-employer supplementary defined benefit pension plan for employees in industry and commerce secured by Alecta in Sweden. Because Alecta is unable to furnish Scanfil with information that would enable the plan to be reported as a defined benefit plan in accordance with IAS 19 Employee Benefits, it is reported as a defined contribution plan.

Personnel expenses, 1000 EUR	2019	2018
Salaries, wages and fees	74 118	67 436
Options implemented and paid in shares	124	179
Pension costs – defined-contribution schemes	11 256	10 645
Other indirect employee expenses	8 523	8 075
Total	**94 021**	**86 336**

Management's employee benefits are reported in note 5.4, "Details of related parties and Group structure".

Average number of Group employees during the period	2019	2018
Finland	335	341
Abroad	3 195	3 073
Total	**3 530**	**3 414**

Personnel by country on December 31, 2019, in all 3 474 employees.



Share-based payments

ACCOUNTING PRINCIPLE

The group has two option schemes in place. Option rights are valued at their fair value at the time they were granted and recognized as an expense in the income statement under employee benefits in equal portions during the vesting period. The expense defined at the time the options were granted is based on the group's estimate of the amount of options assumed to be vested at the end of the vesting period The fair value of options has been defined based on the Black-Scholes pricing model. Assumptions concerning the final amount of options are updated on each reporting date. Changes in the estimates are recognized in profit or loss. When option rights are exercised, proceeds from share subscriptions, adjusted with potential transaction costs, are entered under equity.

Option schemes

On April 18, 2013, the Annual General Meeting accepted Scanfil plc's 2013 option scheme (A) – (C), on April 12, 2016, the Annual General Meeting accepted the 2016 option scheme (A) – (C) and on April 24, 2019, Annual General Meeting accepted the 2019 option scheme (A) – (C). On the basis of the 2013 option scheme, a maximum of 750,000 option rights can be granted, while on the basis of the 2016 and 2019 option schemes, maximum of 900,000 option rights per option scheme can be granted. Each option right enables its holder to subscribe one Scanfil plc share. The start of the option rights subscription period requires that the group's production and financial goals and conditions specifically determined by the Board for exercising the option rights are met. The subscription price of shares is determined on the basis of the Company's trading volume -weighted average share price in Nasdaq Helsinki Ltd during the period March 1 to March 31 three years before start of the option rights subscription period.

On the basis of the authorization granted by the Annual General Meeting, the Board of Directors decides on providing option rights to the group's President and to the members of the Management Team.

In 2019, the expense recognition of the option scheme was EUR 149,226 (EUR 233,721 in 2018).

In 2019, a total of 30,000 new shares were subscribed under option rights 2016A. The subscription price of EUR 101,400 of subscriptions made under the option rights has been recognized in the invested unrestricted equity fund, and the shares subscribed under the option rights were entered in the trade register on December 12, 2019.

In 2019, a total of 90,000 new shares were subscribed under option rights 2013C. The subscription price of EUR 261,900 of subscriptions made under the option rights has been recognized in the invested unrestricted equity fund, and the shares subscribed under the option rights were entered in the trade register on July 4, 2019.

In 2018, a total of 140,000 new shares were subscribed under option rights 2013C. The subscription price of EUR 407,400 of subscriptions made under the option rights has been recognized in the invested unrestricted equity fund, and the shares subscribed under the option rights were entered in the trade register on June 19, 2018 and December 18, 2018. All shares related to the 2013C option schemes have been subscribed.

Option arrangement	2019A	2016C	2016B	2016A	2013C
Grant date	27.11.2019	26.6.2019	21.11.2017	8.12.2016	28.10.2015
Amount of granted instruments (pcs)	210 000	210 000	250 000	250 000	250 000
Subscription price (EUR)	4,04	4,48	3,57	3,38	2,91
Fair value (EUR)	1,08	0,54	1,12	0,74	1,57
Share price at time of granting (EUR)	4,42	3,88	4,15	3,36	3,08
Term of validity (years)	4,4	3,9	4,4	4,4	4,5
Subscription period	1.5.2022-30.4.2024	1.5.2021-30.4.2023	1.5.2020-30.4.2022	1.5.2019-30.4.2021	1.5.2018-30.4.2020
Excercised options, pcs				30 000	230 000
Returned options to company, pcs			20 000	40 000	20 000
Number of options outstanding	**210 000**	**210 000**	**230 000**	**180 000**	**0**

1.5. OTHER OPERATING EXPENSES

Other operating expenses include the following significant items:

Other operating expenses, 1000 EUR	2019	2018
Hired labour	11 808	12 229
Subcontracting	1 906	1 827
Sales freight	3 511	3 771
Energy	3 378	3 439
Tools & repair and maintenance of tools	5 697	6 054
Rent, premises	367	2 981
Maintenance expenses	3 397	3 625
Travel, marketing and vehicle expenses	2 706	2 805
Other employee expenses	3 028	2 974
Bought services	3 813	3 216
IT and telecommunications expenses	1 687	1 790
Other operating expenses	3 079	2 403
Total	**44 378**	**47 114**

Lease costs are lower than in the previous year due to the introduction of IFRS 16 on January 1, 2019.

In 2016, the Annual General Meeting of Scanfil Plc selected KPMG Oy Ab, a firm of Authorized Public Accountants, as the group's' auditor.

Auditor's remuneration, 1000 EUR	2019 Fees to KPMG	2019 Fees to other auditors	2018 Fees to KPMG	2018 Fees to other auditors
Audit fees	319	1	308	1
Tax consulting	42		75	
Other services	169		27	
Total	**530**	**1**	**410**	**1**

Services other than auditing services carried out by KPMG Oy Ab, the statutory auditor, totaled EUR 211 thousand during the 2019 financial period.

1.6. INCOME TAXES

ACCOUNTING PRINCIPLE

Income taxes

The taxes of the consolidated income statement include taxes based on the results of the group companies and calculated in accordance with local tax laws and tax rates. The taxes in the income statement also include the change in deferred tax assets and liabilities.

Deferred tax assets or liabilities are calculated on temporary differences between taxation and financial statements and differences due to group eliminations based on tax rates for the following year confirmed by the reporting date. Temporary differences arise from intercompany profits on inventories, depreciation differences and provisions, among others.

Deferred tax liabilities are recognized in full. Deferred tax assets are recognized only when it is probable that receivables can be utilized against the taxable income of future financial periods.

The purpose of the company's management assessment is to identify the company's tax positions for which the related tax legislation is open to interpretation. An adjustment is recorded on uncertain tax positions identified on the basis of the estimate if it is expected that the tax authorities will challenge the management's interpretation. The amount of the reservation is based on the estimated final tax cost.

Use of estimates

The management uses its discretion in determining the amount of income taxes and in recognizing deferred tax assets. Deferred tax assets are recognized for taxable losses and for the temporary differences between the taxation values and book values of assets and liabilities. Deferred tax assets are recognized to the extent that the group probably accumulates, according to the assessment by the management, enough taxable income against which the deferred tax assets can be utilized.

Income taxes, 1000 EUR	2019	2018
Current tax	4 621	6 220
Tax expense of previous years	-177	-8
Deferred taxes	1 505	931
Total	**5 950**	**7 143**

Reconciliation of tax expense in the income statement and taxes calculated at the domestic tax rate of 20 % (year 2018 20%):

Earnings before taxes	**34 039**	**36 032**
Taxes calculated at domestic tax rate	6 808	7 206
Different tax rates of foreign subsidiaries	-11	-77
Tax at source on dividends paid in China	418	278
Tax at source on dividends paid in Estonia	625	
Witholding tax of unpaid dividends	110	452
Unrecorded deferred tax assets from tax losses	53	63
Use of unrecognised losses in previous years	-2 137	-882
Tax benefit of investment in Polish subsidiary	-520	-343
Impairment of goodwill	720	
Other	61	452
Taxes from previous years	-177	-8
Taxes in income statement	**5 950**	**7 143**

Scanfil Kft, Scanfil EMS Oy's subsidiary in Hungary, merged into its parent company Scanfil EMS Oy through a cross-border subsidiary merger in 2018. Scanfil Kft has confirmed losses of EUR 8.1 million, from which Scanfil EMS Oy deducted EUR 4.4 million using its taxable income for 2018, and the remaining EUR 3.7 million from its taxable income for 2019.

Scanfil Sweden AB's English subsidiary Scanfil Ltd discontinued operations in 2016 and has been dissolved by voluntary clearing procedure. The company had losses of EUR 6.6 million, which Scanfil Sweden AB deducted from its taxable income for 2019.

Deferred tax assets and liabilities

1000 EUR	1.1.2019	Recognised through profit and loss	Recognised under other comprehensive income	Business combinations	Translation differences	31.12.2019
Deferred tax assets:						
Investment grant to Poland	2 866	526			35	3 427
Related to inventories	614	64			13	691
Provisions	112	81			3	196
Other	842	531			29	1 401
Total	**4 433**	**1 201**			**80**	**5 714**
Deferred tax liabilities:						
Long-term customer relationships	-1 800	483		-1 134	84	-2 367
Unpaid dividends	-2 492	-110				-2 602
Accumulated depreciation	-519	-193			-12	-724
Other	-1 159	166	-43	-231	1	-1 265
Total	**-5 970**	**346**	**-43**	**-1 365**	**74**	**-6 958**

On December 31, 2019, the group had confirmed losses of EUR 12.0 million from the Norwegian company PartnerTech AS, of which no deferred tax receivables have been recognized. The company was discontinued in 2016. The group is investigating opportunities to use these taxable losses in the taxation of Scanfil Sweden AB, the Swedish parent company.

Other items include EUR 0.4 million for deferred tax assets related to Polish non-deductible intra-group charges. Scanfil Poland Sp. z o. o has submitted an application for an Advance Pricing Agreement (APA) to the Polish Ministry of the Finance. The company considers that the costs can be reduced for tax purposes over the coming financial periods.

1000 EUR	1.1.2018	Recognised through profit and loss	Recognised under other comprehensive income	Translation differences	31.12.2018
Deferred tax assets:					
Confirmed losses	5	-5			0
Investment grant to Poland	2 601	343		-78	2 866
Related to inventories	606	13		-5	614
Provisions	138	-15		-11	112
Other	821	9	-11	22	842
Total	**4 171**	**345**	**-11**	**-72**	**4 433**
Deferred tax liabilities:					
Long-term customer relationships	-2 164	277		87	-1 800
Unpaid dividends	-2 040	-452			-2 492
Accumulated depreciation	-463	-45		-11	-519
Leasing	-11	10		0	0
Other	-147	-1 066	57	-3	-1 159
Total	**-4 825**	**-1 276**	**57**	**73**	**-5 970**

1.7. EARNINGS PER SHARE

ACCOUNTING PRINCIPLE

Earnings per share

Earnings per share are calculated by dividing the profit for the period attributable to equity holders of the parent company with the weighted average number of outstanding shares during the financial period. For the earnings per share adjusted for the dilution effect, the impact of possible share-based incentive schemes and option rights is taken into account. The exercise of options is not considered when calculating earnings per share if the share subscription price using the option exceeds the average market price of the share during the period.

Earnings per share, 1000 EUR	2019	2018
Net profit for the period attributable to equity holders of the parent company	28 090	28 890
Number of shares, undiluted (1,000 pcs)	64 296	63 945
Earnings per share, undiluted, EUR	**0,44**	**0,45**
Dilution effect of stock options (1,000 pcs)	830	530
Number of shares, diluted (1,000 pcs)	65 126	64 475
Earnings per share, diluted, EUR	**0,43**	**0,45**

2. NET WORKING CAPITAL

2.1. NET WORKING CAPITAL

The company includes the following items in its net working capital: of current assets, inventories, trade receivables and other receivables, advance payments as well as deferred tax assets based on the taxable income for the financial period, and of current liabilities, trade payables and other liabilities as well as deferred tax liabilities based on the taxable income for the financial period.

The group monitors on a monthly basis the ratio of net working capital to the turnover for the previous 12 months. The net working capital was 20.3% of net sales, compared to 18.4% at the end of last year. The increase in net working capital was due to a decrease in trade payables compared to the situation at the end of last year.

Net working capital, 1000 EUR	2019	2018
Net working capital		
Inventories	101 912	99 196
Trade receivables	102 297	97 257
Accrued income, other receivables and income tax receivables	12 041	11 930
Advance payments	532	325
Trade payables	-72 897	-81 189
Accrued expenses, other liabilities and income tax liabilities	-26 269	-23 999
Total	**117 616**	**103 520**
Net working capital, % of turnover	**20,3 %**	**18,4 %**

2.2. INVENTORIES

ACCOUNTING PRINCIPLE

Inventories

Inventories are measured at the acquisition cost and net realizable value, whichever is lower. The acquisition cost is determined on a weighted-average basis. The cost of raw materials includes the expenses incurred for purchasing and putting them into storage. The cost of finished goods and work in progress includes raw materials, direct labor costs and other direct expenditure as well as a proportion of fixed costs. The impairment due to obsolescence, based on the management's estimate of probable net realizable value, is taken into account when determining the value of inventories. The net realizable value is the estimated selling price less sale-related costs.

Use of estimates

Potential obsolescence included in the value of inventories is regularly examined and, if necessary, the value of inventories is depreciated to match their net realizable value. These examinations require estimates on the future demand for products.

Inventories, 1000 EUR	2019	2018
Materials and supplies	79 603	80 728
Work in progress	11 515	8 641
Finished goods	10 779	9 827
Total	**101 897**	**99 196**

Impairment losses on inventories during the financial year totaled EUR 2.7 (3.2) million.

2.3. TRADE AND OTHER RECEIVABLES

ACCOUNTING PRINCIPLE

Trade receivables

Trade receivables are created when Scanfil invoices products and services delivered to customers. Trade receivables are measured at the original invoiced amount. For uncertain receivables, impairment is recognized on the basis of case-specific risk assessments.

According to the impairment model, impairment provisions must be recognized on the basis of expected credit losses. A simplified model must be applied to trade receivables, in which the estimated amount of credit losses is based on percentages defined on the basis of the age distribution of the receivables. These percentages are based on the estimated probability of credit losses and historical information.

Use of estimates

Estimates by the management are included in the assessment of possible credit loss risks included in the trade receivables. According to the view of the group's management, the company has no significant credit loss risks.

Trade and other receivables, 1000 EUR	2019	2018
Trade receivables	102 297	97 257
Accrued income	8 569	5 713
Value-added tax receivables	849	2 591
Other receivables	340	1 996
Total	**112 056**	**107 558**

Age distribution of trade receivables, 1000 EUR		2019	2018
Unmatured		88 893	87 603
Matured			
	1 - 30 days	12 380	8 271
	31 - 90 days	979	1 149
	91 - 180 days	51	206
	181 - 365 days	31	65
	over 1 year	6	86
	Provision for bad debt	-42	-123
Total		**102 297**	**97 257**

Expected credit losses, December 31, 2019

2019	Book value (gross)	Estimated credit losses	Provision for bad debt
Unmatured	88 893	0,01 %	10
Matured			
1 - 30 days	12 380	0,02 %	2
31 - 90 days	979	0,50 %	5
91 - 180 days	51	12,5 %	6
181 - 365 days	31	37,5 %	12
over 365 days	6	100,0 %	6
Total	**102 339**		**42**

2018	Book value (gross)	Estimated credit losses	Provision for bad debt
Unmatured	87 603	0,01 %	9
Matured			
1 - 30 days	8 271	0,02 %	2
31 - 90 days	1 149	0,50 %	6
91 - 180 days	206	2,00 %	4
181 - 365 days	65	50,3 %	33
over 365 days	86	81,3 %	70
Total	**97 381**		**123**

At the end of the financial period, the credit loss provision recognized for covering uncertain receivables stood at EUR 42 (123) thousand. During the financial period, credit losses recognized from trade receivables were EUR 2 (15) thousand.

2.4. TRADE AND OTHER PAYABLE

Trade and other payable, 1000 EUR	2019	2018
Trade payables	72 897	81 189
Accrued liabilities	17 428	16 595
Advance payments received	172	269
Other creditors	5 630	5 447
Total	**96 127**	**103 500**
The most significant items included in accrued liabilities:		
Employee expenses	12 749	12 786
Interests	9	39
Financial derivatives		301
Other accrued liabilities	4 671	3 469
Total	**17 428**	**16 595**

3. NON-CURRENT ASSETS

3.1. GOODWILL

ACCOUNTING PRINCIPLE

Goodwill

Business combinations are treated using the acquisition method. Goodwill is recognized at the amount by which the acquisition cost exceeds the group's share of the value of acquired assets and liabilities at the time of acquisition. Goodwill is created in corporate transactions, and it reflects the value of the acquired business, market share and synergies. The book value of goodwill is tested by impairment testing. The group's goodwill mainly consists of the acquisition of PartnerTech AB in 2015. The acquisition of HASEC-Elektronik GmbH in Germany generated goodwill of EUR 1.6 million in the financial year 2019. The preliminary acquisition calculation is presented in Note 3.7. "Acquired Business".

Impairment testing

No depreciation is made of goodwill; instead, goodwill is tested at least annually for possible impairment. For that, goodwill is allocated to cash generating units (CGUs). The recoverable amount of the CGU is calculated with value in use calculations. An impairment loss is recognized when the book value of an asset exceeds its recoverable amount. Impairment losses are immediately recognized as expenses in the income statement. Impairment losses recognized for goodwill cannot be later reversed.

The business operations of Scanfil GmbH, a German subsidiary acquired in 2014, did not develop predictably, and as a consequence, based on impairment testing, the group recorded a decrease of EUR 3.6 million in the goodwill related to the acquisition.

The introduction of IFRS 16 has had an impact on the impairment testing. As a result of the change, the leasable right-of-use assets and the corresponding lease liability are taken into account in the cash flows, WACC and in the carrying amounts under test. Therefore, different principles have been used for impairment testing in 2018 and 2019, and the years are not fully comparable. However, the introduction of IFRS 16 has no significant impact on the outcome of testing.

Goodwill, 1000 EUR	2019	2018
Cost at 1 Jan.	10 117	10 384
Business combinations	1 649	
Impairment	-3 602	
Exchange rate differences	-118	-267
Carrying amount at 31 Dec.	**8 046**	**10 117**

Allocation of goodwill and goodwill on consolidation to cash-generating units		
Scanfil Oü	111	111
Scanfil GmbH		3 602
Scanfil Poland Sp. z o.o.	3 331	3 394
Scanfil Vellinge AB	1 257	1 281
Scanfil Åtvidaberg AB	1 697	1 729
Scanfil Electronics GmbH	1 649	
Total	**8 046**	**10 117**

Discount rate of cash flows before taxes	2019	2018
Scanfil GmbH	12,0 %	11,7 %
Scanfil Poland Sp. z o.o.	12,1 %	11,6 %
Scanfil Vellinge AB	11,2 %	10,9 %
Scanfil Åtvidaberg AB	11,2 %	10,9 %

The recoverable amount of a CGU is based on the value in use of a cash-generating unit, which is the present value of the future cash flows the CGU is expected to accumulate. Determination of the value in use is based on the conditions and expectations in force at the time of testing. Future cash flows are determined for a five-year forecast period, and for the period following that, a growth rate of 2% has been assumed for cash flows.

Preparing impairment testing calculations requires estimates of future cash flows. The turnover and profitability assumptions used for the forecasts are based on customer-specific forecasts and the management's estimates of the development of demand and markets.

The weighted average cost of capital (WACC) for the CGU has been used as the discount rate for cash flows. The risk-free interest rate, risk factor (beta) and risk premium parameters used for determining the discount rate of interest are based on information obtained from the market.

No need for impairment of goodwill was detected based on the impermanent testing. The recoverable amounts of all CGUs exceed their book values.

Sensitivity analysis

A sensitivity analysis was performed for CGUs by changing calculation assumptions. The table below shows the change in assumption that would be required to make the recoverable amount equal to its book value.

Impairment testing	2019 Change % -units	2018 Change % -units
Discount rate before taxes		
Scanfil GmbH		+ 0,6
Scanfil Poland Sp. z o.o.	+ 8,0	+ 4,9
Scanfil Vellinge AB	+14,2	+18,1
Scanfil Åtvidaberg AB	+19,8	+31,3
Scanfil Electronics GmbH	+2,3	
Profitability (EBITDA %)		
Scanfil GmbH		- 0,4
Scanfil Poland Sp. z o.o.	- 2,9	- 2,0
Scanfil Vellinge AB	- 4,9	- 5,7
Scanfil Åtvidaberg AB	- 6,0	- 6,2
Scanfil Electronics GmbH	- 1,4	
Terminal growth rate		
Scanfil GmbH		-0,2
Scanfil Poland Sp. z o.o.	N/A	N/A
Scanfil Vellinge AB	N/A	N/A
Scanfil Åtvidaberg AB	N/A	N/A
Scanfil Electronics GmbH	- 5,3	

As regards Scanfil Poland Sp. z.o.o., Scanfil Vellinge AB and Scanfil Åtvidaberg AB, changes in terminal growth are not significant (N/A).

3.2. OTHER INTANGIBLE ASSETS

ACCOUNTING PRINCIPLE

Other intangible assets

Intangible assets are recognized at historical cost in the balance sheet, if the cost can be reliably determined and it is likely that the financial benefit from the asset benefits the group. Intangible assets are recognized in the income statement using straight-line depreciation within their expected useful life.

Other intangible assets include long-term customer relationships, software suites and right to land use of Chinese subsidiaries.

The depreciation periods are:

Long-term customer relationships	10 years
Intangible rights	3–10 years
Other intangible assets	3–10 years
Right to land use in China	50 years

The balance sheet value of an asset is always assessed for establishing possible impairment whenever there are any indications that the value of some asset has been impaired.

Long-term customer relationships

In connection with the allocation of the purchase price related to the acquisition of PartnerTech AB in 2015 and HASEC-Elektronik GmbH in 2019, the group has allocated part of the purchase price to long-term customer relationships. Following the initial recognition, customer relationships are measured at cost less accrued depreciation and impairment.

Research and development costs

Research and development costs are recognized as expenses through profit or loss. Development costs as per IAS 38 Intangible Assets are capitalized and amortized over their useful lives. The group has no capitalized development costs.

Impairment

The balance sheet values of fixed assets are assessed for establishing possible impairment on the balance sheet date and whenever there are any indications that the value of some asset has been impaired. The recoverable amount for the asset in question is assessed in the impairment tests. The recoverable amount is the fair value of the asset less its disposal costs, or its value of use, whichever is higher. An impairment loss is recognized in the income statement, if the book value of an asset exceeds its recoverable amount. The impairment loss is included in the income statement item Depreciation, amortization and impairment. An impairment loss related to property, plant and equipment is reversed if there has been a material change in the estimates used to determine the recoverable amount. An impairment loss is only reversed up to the asset's book value which it would have net of depreciation, if no impairment loss had been recognized in earlier years.

Other intangible assets, 1000 EUR	Customer relationships	Intangible rights	Other long-term expenses	Advance payments	Intangible assets total
Acquisition cost at 1 Jan. 2019	12 570	6 750	1 921		21 241
Additions		889	1 068	834	2 792
Business combinations	3 780	290	156		4 225
Deductions		-3	-234		-237
Exchange rate differences	-231	32	-2		-201
Acquisition cost at 31 Dec. 2019	**16 119**	**7 958**	**2 910**	**834**	**27 820**
Accumulated depreciations at 1 Jan. 2019	-4 399	-3 302	-1 293		-8 994
Depreciations	-1 406	-556	-343		-2 306
Deductions			218		218
Exchange rate differences	64	-9	-2		54
Accumulated depreciations at 31 Dec. 2019	**-5 741**	**-3 866**	**-1 421**		**-11 028**
Carrying amount at 1 Jan. 2019	8 170	3 448	628	0	12 246
Carrying amount at 31 Dec. 2019	**10 377**	**4 092**	**1 489**	**834**	**16 792**

Other intangible assets, 1000 EUR	Customer relationships	Intangible rights	Other long-term expenses	Advance payments	Intangible assets total
Acquisition cost at 1 Jan. 2018	13 095	6 744	1 834	159	21 832
Additions		181	119	17	317
Deductions		-128		-176	-304
Exchange rate differences	-525	-47	-32		-604
Acquisition cost at 31 Dec. 2018	**12 570**	**6 750**	**1 921**	**0**	**21 241**
Accumulated depreciations at 1 Jan. 2018	-3 274	-2 927	-1 002		-7 203
Depreciations	-1 257	-497	-304		-2 057
Deductions		109			109
Exchange rate differences	131	13	13		157
Accumulated depreciations at 31 Dec. 2018	**-4 399**	**-3 302**	**-1 293**		**-8 994**
Carrying amount at 1 Jan. 2018	9 821	3 817	832	159	14 628
Carrying amount at 31 Dec. 2018	**8 170**	**3 448**	**628**	**0**	**12 246**

Other intangible assets include the right to land use in China, having a book value of EUR 0.4 million.

3.3. PROPERTY, PLANDT AND EQUIPMENT

ACCOUNTING PRINCIPLE

Property, plant and equipment

The main items included in this category are buildings, machinery, equipment, fixtures and fittings. They are stated in the balance sheet at historical cost less depreciation and any impairment losses. Depreciation is calculated from historical cost on a straight-line basis over the expected useful lives of the assets. No depreciation is made for land areas. The repair and maintenance costs of tangible fixed assets are recognized through profit or loss.

The residual values and useful lives of assets are reviewed annually and adjusted, if appropriate, to indicate changes in expected financial benefits.

An item of property, plant and equipment will no longer be depreciated when such an item is considered as being held for sale in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

The depreciation periods are:

Buildings and structures	10–25 years
Machinery and equipment	3–10 years
Other tangible assets	5–10 years

Regarding machinery and equipment, a depreciation period of 8–10 years is generally used for heavy machinery (such as sheet metalwork centers) and production lines (such as surface mounting lines). Otherwise, the depreciation period for machinery and equipment is usually five years. Production tools are depreciated over three years.

The capital gains from property, plant and equipment are included in other operating income while the corresponding capital losses are included in other operating expenses.

Government grants related to tangible and intangible assets are deducted from an asset's acquisition cost, and the net acquisition cost is capitalized on the balance sheet.

Impairment

The principle for determining impairment is shown in note 3.2, "Other intangible assets".

Property, plant and equipment, 1000 EUR	Land	Buildings and constructions	Machinery and equipments	Other tangible assets	Advance payments and constructions in progress	Tangible assets total
Acquisition cost at 1 Jan. 2019	820	37 808	73 457	-169	1 230	113 146
Additions		371	7 407		1 730	9 508
Deductions		-16	-1 825		-1 485	-3 327
Business combinations			3 502		293	3 795
Reclassification		-4 509	-338			-4 847
Exchange rate differences	4	193	276	8	22	503
Acquisition cost at 31 Dec. 2019	**824**	**33 846**	**82 479**	**-161**	**1 790**	**118 778**
Accumulated depreciations at 1 Jan. 2019		**-16 579**	**-47 641**	**186**		**-64 035**
Depreciations		-1 899	-6 363			-8 262
Deductions		7	1 515			1 522
Reclassification		2 466	202			2 668
Exchange rate differences		-51	64	-8		6
Accumulated depreciations at 31 Dec. 2019		**-16 056**	**-52 223**	**178**		**-68 102**
Change in accounting principle						
Carrying amount at 1 Jan. 2019	820	21 229	25 816	17	1 230	49 111
Carrying amount at 31 Dec. 2019	**824**	**17 790**	**30 256**	**17**	**1 790**	**50 677**

The reclassification includes a transfer of a finance lease asset in accordance with IAS 17 to be presented in note 3.4. "Right-of-use assets".

Gross investments totaled EUR 21.1 million and represents 3.6% of net sales. The investments include the acquisition price of HASEC-Elektronik GmbH shares of EUR 10.3 million. Otherwise, they are mainly machinery and equipment purchases. During the year, equipment and automation investments were made in the electronics manufacturing lines in locations including Malmö and Pärnu, mechanics manufacturing in Myslowice and collaboration robots (Cobots), automated intelligent vehicles (AIV) and warehouse automation in several factories. At the Suzhou and Sieradz plants, investments concerned the digitalization of production using a manufacturing execution system (MES).

Property, plant and equipment, 1000 EUR	Land	Buildings and constructions	Machinery and equipments	Other tangible assets	Advance payments and constructions in progress	Tangible assets total
Acquisition cost at 1 Jan. 2018	832	35 916	67 279	-184	2 312	106 156
Additions		2 485	8 402		2 030	12 918
Deductions		-64	-1 566		-3 047	-4 678
Exchange rate differences	-12	-529	-658	15	-65	-1 250
Acquisition cost at 31 Dec. 2018	**820**	**37 808**	**73 457**	**-169**	**1 230**	**113 146**
Accumulated depreciations at 1 Jan. 2018		**-14 631**	**-44 065**	**202**		**-58 494**
Depreciations		-2 144	-5 361	-1		-7 506
Deductions		39	1 511			1 550
Exchange rate differences		157	274	-15		416
Accumulated depreciations at 31 Dec. 2018		**-16 579**	**-47 641**	**186**		**-64 035**
Carrying amount at 1 Jan. 2018	832	21 285	23 214	18	2 312	47 662
Carrying amount at 31 Dec. 2018	**820**	**21 229**	**25 816**	**17**	**1 230**	**49 111**

During the financial period of January 1 – December 31, 2018, the gross investments in tangible and intangible assets totaled EUR 10.1 million. Investments mainly consisted of the completion of the expansion of the electronics plant in Poland, started in the previous year, and machinery and equipment purchases in China and Poland. In Suzhou, Scanfil increased machinery capacity in electronics manufacturing and invested in production automation. In Myslowice, Scanfil modernized equipment and increased capacity in mechanics manufacturing. In addition, several plants invested in automated material handling.

3.4 RIGHT-OF-USE ASSETS

ACCOUNTING PRINCIPLE

The group adopted the new IFRS 16 standard starting from January 1, 2019, and applied the simplified approach to its adoption. The cumulative effect of the adoption is presented on the opening balance sheet of January 1, 2019, and comparative data from the previous year has not been adjusted.

Policy applicable from 1 January 2019

When an agreement enters into force, the group will determine whether it is a lease agreement, or whether it includes a lease agreement. An agreement is a lease agreement or includes a lease agreement if it provides the right to control the use of a specific asset item for compensation for a specific period.

The group as a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. Right-of-use asset is initially measured at the original acquisition cost, including an amount equal to the original valuation of the lease liability, rents paid until the start date of the agreement and expenses for returning the right-of-use asset to its original state, less any rent incentives received.

The group leases production and office facilities. A typical lease for production facilities covers five to eight years. Six of the Group's eleven production plants operate in leased premises. Some lease agreements include options to extend the lease period or to terminate the agreement before the end of the lease period. When a lease period starts, the group assesses whether it is reasonable certain to exercise different options. The group will reassess whether it is reasonable certain to exercise different options if there are changes in circumstances under its control, or if significant event takes place. The group has recognized extension options based on lease agreements totaling three to four years.

In addition, the group has lease agreements on cars and other vehicles (mainly forklifts) and equipment. Lease agreements typically cover one to four years. With regard to vehicle leases, the group processes components other than lease agreement components as separate, including servicing.

Right-of-use asset is subsequently depreciated using straight-line method, starting from the commencement date of the lease agreement until the end of the lease period or until the end of the expected useful life of each right-of-use asset, depending on which is shorter. The expected useful life of each right-of-use asset is determined using the same principles that are used to determine the depreciation periods of owned properties and equipment. In addition, right-of-use asset is reduced by impairment losses, if any, and adjustments resulting from the remeasurement of the lease liability.

The lease liability is recognized at the current value of upcoming rents using the interest rate of incremental borrowing rate as the discount rate, in which case the value of the right-of-use asset corresponds with the amount of the lease liability on the commencement date of the lease agreement.

The lease liability is measured using the effective interest method. Lease liability is remeasured if there are changes in upcoming rents due to changes in index or interest rates, if the estimated residual value guarantee to be paid changes, or if the estimate of exercising the extension or termination option changes. When lease liability is remeasured as described above, the book value of the right-of-use asset will be adjusted correspondingly or the impact of the change will be recognized through profit and loss, provided that the book value of the right-of-use asset has decreased to zero.

Short-term lease agreements and leases of low-value assets
The group applies recognition exemptions concerning short-term lease agreements of at most 12 months and assets with a low value of at most EUR 5,000. As an exception to the application of exemptions, the exemption of 12 months does not apply to leasing vehicles. Expenses related to short-term lease agreements and asset items with a low value are recognized on a straight-line basis in other operating expenses over the lease period.

Lease agreements previously classified as finance leases in accordance with IAS 17
Lease agreements that were previously classified as finance leases in accordance with IAS 17 are included in right-of-use asset and lease liability in accordance with IFRS 16 , starting from January 1, 2019.

	Land	Buildings and constructions	Machinery and equipment	Tangible assets total
Acquisition cost at 1 Jan. 2019	285	17 841	1 559	19 685
Additions	4	1 733	123	1 860
Business combinations		5 959	675	6 634
Deductions		-768	-219	-987
Exchange rate differences	3	7	0	10
Acquisition cost at 31 Dec. 2019	**292**	**24 772**	**2 138**	**27 203**
Accumulated depreciations at 1 Jan. 2019		**-2 466**	**-202**	**-2 668**
Depreciations	-39	-2 809	-716	-3 564
Deductions		29	40	69
Exchange rate differences	-3	-69	-9	-81
Accumulated depreciations at 31 Dec. 2019	**-42**	**-5 315**	**-887**	**-6 244**
Carrying amount at 1 Jan. 2019	285	15 376	1 357	17 017
Carrying amount at 31 Dec. 2019	**251**	**19 457**	**1 251**	**20 959**

Consolidation of business operations includes a right-of-use asset of EUR 0.6 million on the balance sheet on the acquisition date of HASEC-Elektronik GmbH and right-of-use asset of EUR 5.3 million recognized for the group in accordance with IFRS 16. An itemization of fixed assets during the comparative year of 2018 is presented in Section 3.5 "Finance leases".

Lease liabilities	2019
Maturity analysis - contractual undiscounted cash flows	
Within one year	4 213
In one to two years	3 946
More than five years	17 053
Total	**25 212**

Carrying amount for lease liabilities at 31 Dec. 2019	
Long-term liabilities	18 893
Short-term liabilities	3 439
Total	**22 332**

Amounts recognised in profit and loss, 1000 EUR	2019
Interest on lease liabilities	608
Expenses relating to short-term leases	130
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	15
Total	**753**

The group as a lessor

The group has leased out one of its office buildings and classified this lease agreement as an operational lease agreement. The group therefore recognizes rents received under this agreement as income on a straight-line basis throughout the lease period under "other operating income." The group has no other agreements in the role of a lessor.

Operating lease

Lease income, 1000 EUR	2019
Maturity analysis - contractual undiscounted cash flows	
Within one year	61
In one to two years	61
More than five years	77
Total undiscounted lease income at 31 December	**199**

3.4.1 TRANSITION TO IFRS 16 AND IMPACT ON FINANCIAL STATEMENTS

Scanfil used a simplified approach during the transition period. The group used exemptions concerning short-term lease agreements of at most 12 months and assets with a maximum value of EUR 5,000, apart from leasing cars, for example, to which the 12-month exemption does not apply. Therefore, nearly all lease agreements were recognized on the balance sheet at the time of the transition. The interest rate applied to the group's incremental borrowing rate was used as the discount rate. The interest rate was 1.66% in Europe, excluding Poland, 2.4% in Poland, 4.4% in China and 3.9% in the USA.

The adoption of IFRS 16 had an impact on key figures; the equity ratio weakened by 2.9 percentage points and net gearing by 11.6 percentage points in 2019. The adoption has only had a minor impact on net results. The adoption of the standard has a significant impact on the presentation of the consolidated cash flow statement, improving the operating cash flow by EUR 3.2 million. According to IFRS 16, payments of lease liabilities are presented in net cash flow from financing activities, and related interest is presented as interest expenses in net cash flow from operating activities. Previously, rent payments were presented in full in net cash flow from operating activities.

During the transition, lease liabilities and right-of-use assets on January 1, 2019 recognized on the balance sheet totaled EUR 14.8 million.

Reconciliation calculation, 1000 EUR	
Minimum leasing liabilities in financial statements of December 31, 2018	12 035
Impact of discount rate	-1 145
Lease periods longer than minimum lease periods	5 371
New lease agreement, starting on February 1, 2019, included in lease agreement liabilities	-1 422
Fixed asset item in accordance with IFRS 16, January 1, 2019	**14 839**

In addition, the group has a finance lease in accordance with IAS 17 with a value of EUR 2.2 million on December 31, 2018. This lease is presented in Section 3.5.

3.5 FINANCE LEASES

ACCOUNTING PRINCIPLE

Applicable before 1.1.2019

In the comparison year a lease is classified as a finance lease if it substantially transfers the risks and rewards incidental to ownership to the group. Assets acquired through finance leases are recognized in the consolidated balance sheet under assets and liabilities. Their depreciation is performed in the same way as for owned assets. Finance lease payments are recognized as financial expenses and reduction in liability.

Leases where the risks and rewards incidental to ownership remain with the lessor are processed as other leases, and the leases are recognized in the income statement as expenses over the lease period.

Property, plant and equipment as well as intangible assets include assets acquired by finance leases as follows:

Finance leases, 1000 EUR	Buildings and constructions	Machinery and equipments	Tangible assets total
Acquisition cost at 1 Jan. 2018	4 643	299	4 942
Additions		86	86
Reductions		-36	-36
Exchange rate differences	-134	-10	-145
Acquisition cost at 31 Dec. 2018	**4 509**	**338**	**4 847**
Accumulated depreciations at 1 Jan. 2018	**-2 249**	**-167**	**-2 415**
Depreciations	-284	-76	-360
Reductions		34	34
Exchange rate differences	68	6	74
Accumulated depreciations at 31 Dec. 2018	**-2 466**	**-202**	**-2 668**
Carrying amount at 1 Jan. 2018	2 394	132	2 526
Carrying amount at 31 Dec. 2018	**2 043**	**136**	**2 179**

Finance lease maturities, 1000 EUR	2018
Gross financial debt - Minimum rents by time of maturity	
Within one year	778
In one to five years	4 360
More than five years	178
Total	**5 316**
Future financing expenses accrued	-1 592
Current value of financing lease debt	**3 724**

The current value of financing lease debt, 1000 EUR	2018
Within one year	406
In one to five years	3 142
More than five years	175
Total	**3 724**

3.6 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

ACCOUNTING PRINCIPLE

The determination principles are shown in note 3.1. "Goodwill", 3.2 "Other intangible assets", 3.3 "Tangible assets" and 3.4. "Right-of-use assets".

Depreciation and amortization

Depreciation by asset class, 1000 EUR	2019	2018
Intangible assets		
Intangible rights	556	516
Other long-term expenses	343	246
Long-term customer relationships	1 406	1 257
Total	**2 306**	**2 018**
Property, plant and equipment		
Buildings	1 899	2 144
Machinery and equipment	6 363	5 318
Other tangible assets		47
Total	**8 262**	**7 509**
Right-of-use-assets		
Land	39	
Buildings	2 809	
Machinery and equipment	716	
Total	**3 564**	
Total depreciation	**14 132**	**9 527**

Amortization by asset class, 1000 EUR	2019	2018
Intangible assets		
Goodwill	3 602	
Total	**3 602**	
Total amortization	**3 602**	

The business of the German subsidiary Scanfil GmbH, acquired in 2014, did not develop as anticipated and as a result, based on impairment testing, the Group has recognized an impairment of goodwill of EUR 3.6 million related to the acquisition. For more information on goodwill, see Note 3.1. "Goodwill".

3.7 ACQUIRED BUSINESS

Scanfil plc has acquired the entire share capital of the German contract manufacturer HASEC-Elektronik GmbH (now known as Scanfil Electronics GmbH). The purchase price was EUR 10.3 million. The company paid EUR 8.1 million of the purchase price in cash and the remaining EUR 2.2 million by issuing a share issue to the owners of HASEC-Elektonik GmbH as part of the purchase price payment. The acquisition date was 17 June 2019. Acquisition related costs of EUR 0.4 million are mainly comprised of advisory fees and due diligence expenses and is included in other operating expenses.

1000 EUR	Note	Booked value
Tangible assets	3.3, 3.4	4 443
Long-term customer relationships	3.2	3 780
Other tangible assets	3.2	450
Shares in associated companies		502
Inventories		8 001
Trade and other receivables		1 478
Cash and cash equivalents		595
Total assets		**19 248**
Deferred tax liabilities		1 204
Non-current interest bearing liabilities		4 518
Trade and other liabilities		3 882
Equity loan		1 044
Total liabilities		**10 648**
Net assets		8 600
Goodwill arising on acquisition		
Acquisition cost		10 217
Goodwill	3.1	-1 617
Purchase price in cash		8 050
Cash and cash equivalents of the acquired company		595
Cash flow		7 455

According to the preliminary acquisition cost calculation, EUR 3.8 million was allocated to long-term customer relationships. The deferred tax liability is EUR 1.1 million. EUR 1.6 million of unallocated goodwill was recognised from the acquisition. EUR -0.6 million was allocated to property, plant and equipment. The deferred tax asset is EUR 0.1 million. HASEC-Elektronik GmbH has been consolidated into Scanfil Group as of 17 June 2019. The effect on the Group's turnover for the reporting period was EUR 19.9 million and net profit for the period EUR -0.1 million. Scanfil's turnover for January-December 2019 would have been EUR 595.0 million and net profit for the period EUR 28.4 million if the business acquired during the financial year had been consolidated as of January 1, 2019.

4. CAPITAL STRUCTURE

FINANCIAL ITEMS

ACCOUNTING PRINCIPLE

Financial assets and liabilities

The group's financial assets are classified according to IFRS 9 into the following classes: financial assets recognized at amortized cost, financial assets recognized at fair value through profit or loss and financial assets recognized at fair value in other items in the statement of comprehensive income. The classification is made in connection with the initial acquisition according to the purpose of use of the financial assets.

Financial assets recognized at amortized cost includes trade receivables, loan receivables and other receivables that are assets not included in derivative assets. Assets included in this item are valued at amortized cost using the effective interest method. The book value of current trade receivables and other receivables is assumed to be the same as the fair value. Trade receivables are measured at acquisition cost less expected impairment losses.

Financial assets recognized at fair value through profit or loss include financial assets acquired to be held for trading or classified as items recognized at fair value during initial recognition. Financial assets included in this item are non-quoted shares. Investments in non-quoted shares are stated at the lower of historical cost and probable realizable value because their fair values cannot be determined reliably. Quoted shares are measured at fair value, which is the market price of the date of the financial statement. This item also includes derivatives to which hedge accounting does not apply. In the 2019 financial statements, the group had no investments in non-quoted shares.

Financial assets entered at fair value in other comprehensive income are derivatives that are subject to hedge accounting.

On the date of the financial statements, the group's financial assets are evaluated to see if there are indications that the value of any of the assets might be impaired.

Cash and cash equivalents include cash at bank and in hand as well as short-term bank deposits, which can easily be exchanged for an amount known in advance and for which there is little risk of changes in value. Items classified as cash and cash equivalents have a maximum maturity of three months from the time of acquisition. Cash and cash equivalents are included in the item of financial assets recognized at amortized cost.

The group's financial liabilities are recognized at amortized cost.

The financial assets and liabilities are recognized on the value date, apart from derivative contracts which are recognized on the transaction date.

4.1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents, 1000 EUR	2019	2018
Cash and cash equivalents	20 353	19 153
Total	**20 353**	**19 153**

The deposits are fixed-term deposits with a maximum maturity of three months.

4.2 FINANCIAL INCOME AND EXPENSES

ACCOUNTING PRINCIPLE

Interest income is recognized using the effective interest method and dividend income when the right to a dividend was created.

Financing incomes and expenses, 1000 EUR	2019	2018
Financing incomes		
Interest income from other financial assets	35	7
Exchange rate gains	5 130	9 132
Translation differences recognised through profit or loss	19	285
Other financial income	234	105
Financing incomes total	**5 418**	**9 529**
Financing expenses		
Interest expenses	1 445	1 238
Exchange rate losses	4 634	9 665
Other financial expenses	645	370
Financing expenses total	**6 724**	**11 273**
Financing incomes and expenses	**-1 307**	**-1 744**

Exchange rate gains and losses have arisen from the translation of transactions and monetary items into euro. The exchange rate items are shown under financial income and expenses as their net amount, EUR 0.5 (-0.5) million. The operating profit includes a total of EUR -0.4 (-1.2) million of exchange rate losses.

The translation differences related to discontinued units have been transferred from equity to financial income and recognized through profit or loss. The translation differences are presented in note 4.8, Shareholders' equity.

Interest expenses consist of interest for financial liabilities, EUR 0.5 (0.7) million, interest expenses for leases, EUR 0.6 (0.4) million and interest expenses for using the overdraft facility, EUR 0.4 (0.3) million. Other financial expenses include financial liabilities commissions and loan withdrawal fees of EUR 0.2 (0.2) million, and interest of EUR 0.2 million paid on the equity loan.

4.3 FINANCIAL LIABILITIES

Financial liabilities, 1000 EUR	2019	2018
Long term liabilities recognised at amortised cost		
Financial institutions	24 704	13 250
Lease liability	18 803	
Finance lease		3 327
Total	**43 508**	**16 577**
Short term liabilities recognised at amortised cost		
Financial institutions	6 364	10 524
Drawdowns from credit facilities	13 184	19 840
Lease liability	3 534	
Finance lease		396
Total	**23 083**	**30 761**

Scanfil has signed a financing agreement with Nordea Bank Finland Plc in 2015, related to the acquisition of PartnerTech AB shares, and taken out a long-term credit of EUR 50 million. The credit was entirely repaid on December 20, 2019, and at the same time, new long-term credit of EUR 30 million was taken out. The loan is amortized every six months and the first instalment of EUR 3.0 million will be paid on March 27, 2020. In addition, Nordea's Multicurrency Global Cash Pool is available with an overdraft facility of EUR 50 million.

The group's financing arrangements includes termination covenants related to the equity ratio and the ratio between interest-bearing net liabilities and the operating margin. The terms of the covenants are monitored on a quarterly basis. The group fulfilled the covenant terms during the financial periods of 2018 and 2019.

Finance leases are discussed in note 3.5, "Finance leases".

4.4 BOOK VALUES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

2019, Balance sheet item, 1000 EUR	Derivatives in cash flow hedging	Recognised at fair value through profit or loss	Financial assets and liabilities recognised at amortised cost	Balance sheet items total
Non-current assets				
Equity investments		534		534
Current assets				
Derivatives, hedging	212			212
Trade receivables			102 297	102 297
Cash and cash equivalents			20 353	20 353
Total financial assets	**212**	**534**	**122 650**	**123 396**
Non-current financial liabilities				
Interest-bearing liabilities from financial institutions			24 704	24 704
Lease liabilities			18 803	18 803
Current financial liabilities				
Interest-bearing liabilities from financial institutions			6 364	6 364
Drawdowns from credit facilities			13 184	13 184
Lease liabilities			3 534	3 534
Derivatives, hedging		54		54
Trade payables			72 897	72 897
Total financial liabilities		**54**	**139 488**	**139 542**

The fair values of financial assets and liabilities do not differ from their book values

2018, Balance sheet item, 1000 EUR	Derivatives in cash flow hedging	Recognised at fair value through profit or loss	Financial assets and liabilities recognised at amortised cost	Balance sheet items total
Non-current assets				
Equity investments		33		33
Current assets				
Trade receivables			97 257	97 257
Cash and cash equivalents			19 153	19 153
Total financial assets		**33**	**116 410**	**116 442**
Non-current financial liabilities				
Interest-bearing liabilities from financial institutions			13 250	13 250
Finance lease			3 327	3 327
Current financial liabilities				
Interest-bearing liabilities from financial institutions			10 524	10 524
Drawdowns from credit facilities			19 840	19 840
Finance lease			396	396
Derivatives, hedging	301			301
Trade payables			81 189	81 189
Total financial liabilities	**301**		**128 527**	**128 829**

The fair values of financial assets and liabilities do not differ from their book values.

4.5 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

ACCOUNTING PRINCIPLE

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognized in accounting at fair value on the date when the group becomes a party to the related contract and later further valued at fair value. For derivative financial instruments to which hedge accounting is not applied, changes in value are immediately recognized through profit or loss. For derivative financial instruments to which hedge accounting is applied and which are considered effective hedging instruments, the impact on the result of changes in value is presented according to the hedge accounting model employed.

The group applies cash flow hedge accounting to currency derivatives and applied the interest rate swap used to hedge a variable-rate loan, which was paid off in December 2019. Hedge accounting has been terminated for the interest swap agreement. When initiating hedge accounting, the group documents the relationship between the hedged item and the hedging instruments, together with the group's risk management objectives and hedging strategy. When initiating hedging and at least every time when preparing financial statements and interim financial statements, the group documents and evaluates the effectiveness of the hedging relationships by examining the ability of the hedging instrument to negate changes in the fair value or cash flows of the hedged item. Any change in the fair value of the effective portion of derivative financial instruments fulfilling the conditions of a cash flow hedge is recognized under other comprehensive income and presented in equity hedging reserve with tax consequence considered (included in "Fair value reserves"). Profits and losses accumulated from the hedging instrument to equity are recognized through profit or loss when the hedged item affects profit or loss.

Forward exchange contracts

The group uses forward exchange contracts for hedging against currency risks. The group applies cash flow hedge accounting to currency derivative contracts prepared for hedging purposes. Changes in fair value are recognized in other comprehensive income items adjusted for deferred taxes and presented in the fair value reserve under equity.

Interest and currency derivatives

1000 EUR	Positive	Negative	Net	Nominal value	Book value, liabilities	Changes in fair values (used in efficiency testing)
2019						
Interest rate swaps		-54	-54	13 250	-54	
Forward exchange contracts, hedge accounting	302	-90	212	23 465	212	251
Total			**158**	**23 465**	**158**	

The company uses forward exchange contracts for hedging against currency risk and interest swaps for managing the interest rate risk. The table shows the interest rate derivatives at net values and currency derivatives at gross values.

1000 EUR	Positive	Negative	Net	Nominal value	Book value, liabilities	Changes in fair values (used in efficiency testing)
2018						
Interest rate swaps, hedge accounting		-196	-196	23 750	-196	135
Forward exchange contracts, hedge accounting	43	-149	-105	9 138	-105	-293
Total			**-301**	**32 888**	**-301**	

The company uses forward exchange contracts for hedging against currency risk and interest swaps for managing the interest rate risk. The table shows the interest rate derivatives at net values and currency derivatives at gross values.

Cash flow hedging, 1000 EUR	Hedging instrument nominal value	Hedging instrument book value, liabilities	Hedging instrument included in balance sheet item
2019			
Interest rate swaps	13 250	-54	Other liabilities
Forward exchange contracts, hedge accounting	23 465	212	Other assets
Total	**36 715**	**158**	

Cash flow hedging, 1000 EUR	Hedging instrument nominal value	Hedging instrument book value, liabilities	Hedging instrument included in balance sheet item
2018			
Interest rate swaps, hedge accounting	23 750	-196	Other liabilities
Forward exchange contracts, hedge accounting	21 659	-105	Other liabilities
Total	**45 409**	**-301**	

Cash flow hedging, 1000 EUR	Cash flow hedging fair value reserves
2019	
Forward exchange contracts, hedge accounting	251
Total	**251**

Forward exchange contracts are used to hedge expenses denominated in Polish zloty.

Cash flow hedging, 1000 EUR	Hedging instrument nominal value	Hedging instrument book value, liabilities	Cash flow hedging fair value reserve
2018			
Interest rate swaps, hedge accounting	23 750	Financial liabilities	135
Forward exchange contracts, hedge accounting			-293
Total	**23 750**		**-158**

Forward exchange contracts are used to hedge expenses denominated in Polish zloty.

4.6 HIERARCHY OF FAIR VALUES

2019, 1000 EUR	Tier 2	Tier 3
Assets measured at fair value		
Recognised at fair value through profit or loss		
Equity investments		534
Assets measured at fair value		
Derivatives, hedging	212	
Liabilities measured at fair value		
Financial liabilities at fair value through profit or loss		
Derivatives	54	
Liabilities recognised at amortised cost		
Financing loan	31 068	

2018, 1000 EUR	Tier 2	Tier 3
Assets measured at fair value		
Recognised at fair value through profit or loss		
Equity investments		33
Liabilities measured at fair value		
Derivatives, hedging	301	
Liabilities recognised at amortised cost		
Financing loan	23 750	
Finance lease	3 724	

The fair values of **Tier 2** instruments are to a significant extent based on data that can be observed indirectly (e.g. derived from the prices) for the asset or liability in question. When determining the fair value of these instruments, the group utilizes widely accepted measurement models whose input data, however, is significantly based on observable market data.

The fair values of **Tier 3** The fair values of Tier 3 instruments are based on input data concerning the asset that are not based on observable market data but significantly on the estimates of the management and their use in widely accepted measurement models.. Tier 3 items are unlisted shares.

There were no transfers between tiers during the financial period.

Tier 3 reconciliation item:

Financial assets at fair value, 1000 EUR	2019	2018
Cost at 1 Jan.	33	33
Additions	502	
Exchange rate differences	0	-1
Cost at 31 Dec.	**534**	**33**
Carrying amount at 31 Dec.	**534**	**33**

The increase in financial assets measured at fair value consists of shares of IMG Electronic & Power Systems GmbH and EMS-Electra SRL, owned by Scanfil Electronics GmbH. Other financial assets measured at fair value include golf club shares and shares in an employee brokerage agency. These are included in financial assets recognized at fair value through profit or loss.

4.7 FINANCIAL RISK MANAGEMENT

In its business operations, Scanfil Group is exposed to different financial risks. The group's treasury operations and financial risks are managed centrally in compliance with the principles approved by the parent company's Board of Directors. Scanfil's financial function, part of the group's financial management, provides the financial services and handles financing transactions centrally for all group companies. The goal is cost-efficient risk management and optimization of cash flows.

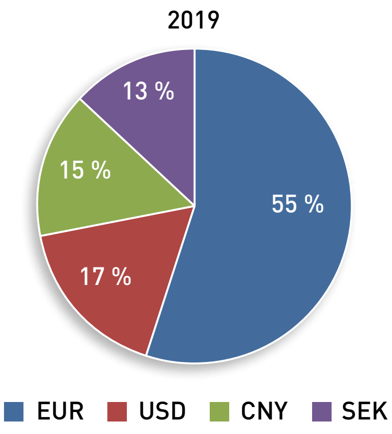
Currency risk

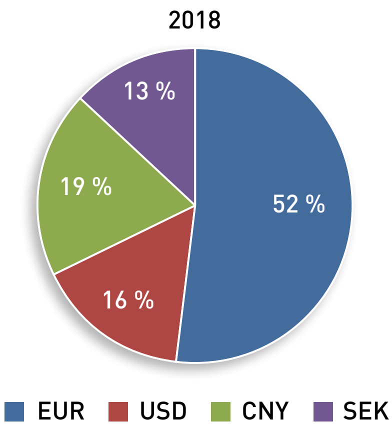
Scanfil has international operations and is therefore exposed to transaction and translation risks in several currencies. The transaction risk consists of operating and financing cash flows denominated in foreign currencies. The translation risk is related to the conversion of foreign subsidiaries' income statements and balance sheets into euro.

Transaction risk

The group's operating currency is the euro. Scanfil's turnover is mainly generated in EUR, RMB, USD and SEK. Half of the group's turnover is generated in the group's operating currency.

Breakdown of turnover by currency:





A significant part of the business is done in local operating currencies, which does therefore not create any transaction risk. In addition to the above currencies, the most significant transaction risk associated with the business concern the Polish zloty. Very little sales revenues are created in local currency in Poland, but the local expenses, such as salaries, taxes, etc. are zloty-denominated.

The purpose of currency risk management is to mitigate the uncertainty created by exchange rate fluctuations regarding the group's financial results, cash flows and balance sheet.

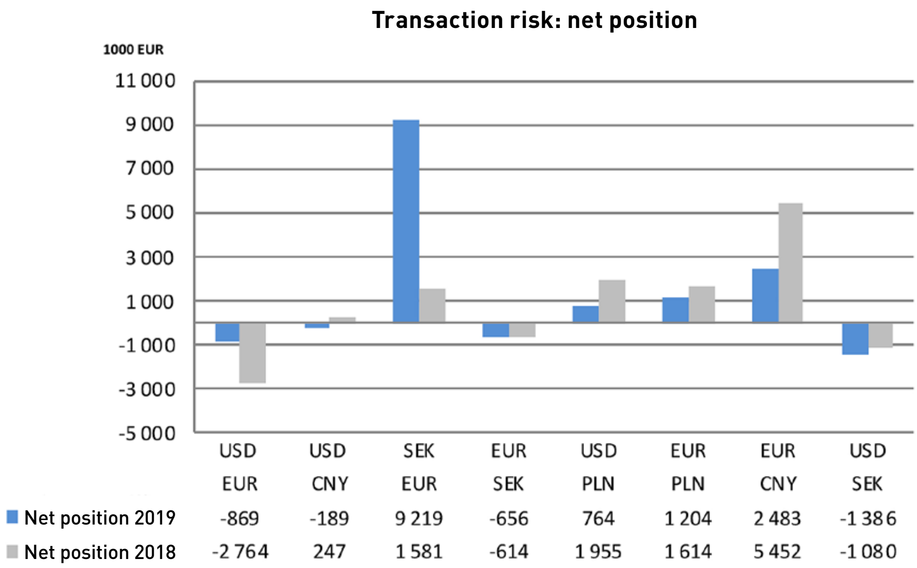
Currency risks can be hedged with forward exchange contracts. The group's financial function is responsible for all hedging actions.

The financial statements of December 31, 2019 include outstanding EUR/PLN and PLN/SEK forward exchange contracts made for hedging purposes. Their nominal value is EUR 23.5 (21.7) million, and the group applies hedge accounting to them. Forward contracts are made on a monthly basis, and the final contract will expire on December 29, 2020.

The net positions associated with financial assets and liabilities are shown below in euros for the main currencies.

Transaction risk, 1000 EUR								2019
Foreign currency	USD	USD	SEK	EUR	USD	EUR	EUR	USD
Reporting currency	EUR	CNY	EUR	SEK	PLN	PLN	CNY	SEK
Cash and cash equivalents	97	520	0	0	105	48	632	0
Trade receivables	93	4 758	0	2 483	8 369	14 913	4 252	1 120
Trade payables	-1 309	-5 468	-161	-3 139	-7 710	-7 681	-2 401	-2 506
Finance leasing						-6 076		
Global Cash Pool	250	0	9 380	0	0	0	0	0
Net position	**-869**	**-189**	**9 219**	**-656**	**764**	**1 204**	**2 483**	**-1 386**

Transaction risk, 1000 EUR								2018
Foreign currency	USD	USD	SEK	EUR	USD	EUR	EUR	USD
Reporting currency	EUR	CNY	EUR	SEK	PLN	PLN	CNY	SEK
Cash and cash equivalents	286	1 757			48	146	2 404	0
Trade receivables	92	4 540		2 690	11 533	12 860	5 033	569
Trade payables	-3 189	-6 051	-21	-3 304	-9 626	-7 807	-1 985	-1 649
Finance leasing						-3 586		
Global Cash Pool	47		1 602					
Net position	**-2 764**	**247**	**1 581**	**-614**	**1 955**	**1 614**	**5 452**	**-1 080**



The impact on the group's result of a change of 10% in the exchange rate of a foreign currency relative to the euro is shown below. Tax consequences have not been considered.

Foreign currency	USD	USD	SEK	EUR	USD	EUR	EUR	SEK
Reporting currency	EUR	CNY	EUR	SEK	PLN	PLN	CNY	PLN
change in currency % +/- 10								
Year 2019	+/- 87	+/- 19	+/- 922	+/- 66	+/- 76	+/- 120	+/- 248	+/- 139
	USD	USD	SEK	EUR	USD	EUR	EUR	SEK
	EUR	CNY	EUR	SEK	PLN	PLN	CNY	PLN
change in currency % +/- 10								
Year 2018	+/- 276	+/- 25	+/- 158	+/- 61	+/- 196	+/- 161	+/- 545	+/- 108

Translation risk

The translation risk consists of the equities of foreign subsidiaries. The policy regarding the translation risk is that equity is not hedged.

The group's translation position per currency and a sensitivity analysis, presenting the impact of a change of 10% in the exchange rate of a foreign currency, are presented below.

			Sensitivity analysis +/- 10%	
Translation risk, 1000 EUR	2019	2018	2019	2018
CNY	45 336	52 997	+/- 4 534	+/- 5 299
HKD		-502		-/+ 50
HUF	1 443	1 427	+/- 144	+/- 143
NOK	-50	-139	-/+ 5	-/+ 14
PLN	34 318	26 997	+/- 3 432	+/- 2 699
SEK	53 819	47 369	+/- 5 382	+/- 4 737
USD	5 194	3 374	+/- 519	+/- 337
Total	**140 059**	**131 524**		

Interest rate risk

The interest rate risk is associated with interest-bearing liabilities. Changes in the interest rates mainly affect the fair values of interest-bearing liabilities in the balance sheet and the interest payments associated with these liabilities. Interest swaps are used for managing the interest rate risk.

The group had a credit that was taken out in 2015 and was paid off in December 2019. The interest rate of the credit was fixed through an interest swap agreement for a loan period of five years. Based on the interest swap agreement, Scanfil has received a variable EURIBOR 3 month rate and has paid a fixed five-year rate. The hedging relationship expired after the loan was paid off.

In connection with the repayment of the aforementioned credit, a new credit of EUR 30.0 million has been taken out. It is not secured. The loan interest margin includes covenant conditions. Depending on the development of the interest covenant condition (interest bearing liabilities / EBITDA), the interest rate of the loan can increase by a maximum of 0.25 percentage points.

Credit risk

The group's credit risk is associated with the trade receivables from its customers. Overdue trade receivables are regularly monitored at the group level on a monthly basis. The group companies are responsible for the credit risks of trade receivables, and they monitor trade receivables on a customer-specific basis in compliance with the group guidelines. The creditworthiness of new customers is checked, and the customers are only granted normal payment terms. Scanfil monitors the credit rating of its customers. Most of Scanfil's major customers have a good credit rating. The group's management is of the opinion that the company does not have any significant concentration of credit risks. The largest customer's share of the turnover in 2019 was 14.3% (12.2% in 2018), and that of the ten largest customers was 55.8% (60.1%).
Scanfil has not had factoring agreements or credit insurance before. HASEC-Elektronik GmbH, acquired during the financial period, uses factoring and has credit insurance.

Trade receivables are measured at acquisition cost less the provision of any expected impairment losses. According to IFRS 9, impairment provisions must be recognized on the basis of expected credit losses. A simplified model must be applied to trade receivables, in which the estimated amount of credit losses is based on percentages defined on the basis of the age distribution of the receivables. These percentages are based on the estimated probability of credit losses and historical information. Impairment losses are recorded as expenses in the income statement. At the end of the financial period, the expected credit loss provision stood at EUR 42 (123) thousand. During the financial period, credit losses recognized from trade receivables were EUR 2 (15) thousand.

The age distribution of trade receivables is shown in note 2.3, "Trade and other receivables."

The counterparty risk associated with investments in financial markets is managed by only accepting banks with high credit ratings as counterparts.

Liquidity risk
The purpose of cash and liquidity management is to concentrate the group's management of cash and cash equivalents, thus ensuring efficient use of the funds. The group has a Multicurrency Global Cash Pool arrangement in place for ensuring the efficient use of cash and cash equivalents.

On December 31, 2019, liquid assets stood at EUR 20.4 (19.2 in 2018) million. In addition, the group has an EUR 50.0 million credit limit, of which EUR 36.8 million remained unused at the end of the year. Considering the group's balance sheet structure, the liquidity risk is small.

The group's financing arrangements include usual loan covenant terms. The group has fulfilled the financing-related covenant terms during the financial periods of 2018 and 2019.

Maturity analysis based on debt agreements
The figures are undiscounted and include the interest payments and repayments of capital based on the agreements.

31.12.2019, 1000 EUR	balance sheet	cash flow	0-6 months	2020 6 months-1 year	2021 1-2 years	2022-2024 2-5 years	2025- more than 5 years
Loans from financial institutions	31 068	31 817	3 504	3 411	6 395	18 506	
Finance lease	22 338	25 212	2 192	2 021	3 946	10 977	6 076
Overdraft facility	13 184	13 184	13 184				
Derivatives	55	55	55				
Derivatives, hedging	-212						
Cash flow due		23 465	17 448	6 016			
Available cash flow		-23 676	-17 632	-6 045			
Trade payables	72 894	72 894	72 894				
Total	**139 328**	**142 950**	**91 646**	**5 404**	**10 341**	**29 483**	**6 076**

31.12.2018, 1000 EUR	balance sheet	cash flow	0-6 months	2019 6 months-1 year	2020 1-2 years	2021-2023 2-5 years	2024- more than 5 years
Loans from financial institutions	23 750	24 079	5 384	5 371	13 323		
Finance lease	3 724	5 316	394	384	768	3 592	178
Overdraft facility	19 840	19 840	19 840				
Derivatives, hedging	196	106	47	37	22		
Derivatives, hedging	105						
Cash flow due		21 655	15 841	5 813			
Available cash flow		-21 760	-15 902	-5 859			
Trade payables	81 189	81 189	81 189				
Total	**128 805**	**130 424**	**106 793**	**5 747**	**14 113**	**3 592**	**178**

Reconciliation of changes in financial liabilities with cash flows from financing

1000 EUR	1.1.2019	Cash flows	Changes not affecting cash flow: Changes in IFRS 16	Business combinations	Changes in exchange rates	Changes in fair values	31.12.2019
Long-term loans	23 750	-1 671		2 625			24 704
Short-term loans	19 865	-2 923		2 607	0		19 548
Lease liabilities	18 562	-3 347	7 249		-126		22 338
Derivative assets hedging long-term loans	196					-142	54
Total liabilities in financial operations	**62 372**	**-7 941**	**7 249**	**5 232**	**-126**	**-142**	**66 645**

The opening balance of lease liabilities includes EUR 14.8 million entered in the introduction of the IFRS 16 standard and the financial lease liabilities of the reference year of EUR 3.7 million, which were previously included in short-term loans.

1000 EUR	1.1.2018	Cash flows	Changes not affecting cash flow: Change in finance lease	Changes in exchange rates	Changes in fair values	31.12.2018
Long-term loans	34 250	-10 500				23 750
Short-term loans	27 065	-3 532	86	-31		23 588
Derivative assets hedging long-term loans	371				-175	196
Total liabilities in financial operations	**61 686**	**-14 032**	**86**	**-31**	**-175**	**47 534**

4.8 SHAREHOLDERS' EQUITY

Shares and share capital

Scanfil plc has a total of 64,699,993 shares. The company's registered share capital is EUR 2,000,000.00. The company has one series of shares, and all shares belong to the same class. Each share entitles the holder to one vote and equal entitlement to dividends The share has no nominal value.

Scanfil plc's shares are quoted on Nasdaq Helsinki Ltd. The trading code of the shares is SCANFL. The shares are included in the book-entry securities system maintained by Euroclear Finland Ltd. The company acquired its own shares during the financial year. The company held 300,000 of its own shares on December 31, 2019.

Number of shares	2019
Number of shares at 1 Jan. 2019	64 035 439
Share issue	545 554
Share subscription under option rights 2013C on July 4, 2019	90 000
Share subscription under option rights 2016A on December 12, 2019	30 000
Number of shares at 31 Dec. 2019	**64 699 993**

Number of shares	2018
Number of shares at 1 Jan. 2018	63 895 439
Share subscription under option rights 2013 on June 19, 2018	90 000
Share subscription under option rights 2013C on December 18, 2018	50 000
Number of shares at 31 Dec. 2018	**64 035 439**

Translation differences

Translation differences include differences arising from the conversion of the financial statements of foreign companies. On December 31, 2019, translation differences stood at EUR 4.6 million (EUR 4.3 million in 2018), of which EUR 11.2 (10.8) million was created by the exchange rate change of the Chinese RMB and the change of the Swedish krone to -9.3 (-8.1). The translation difference for the financial period, EUR 0.3 (-2.4) million, is mainly made up of the exchange rate changes of the Swedish currency, EUR -1.2 (-1.4) million, and Polish currency, EUR 1.1 (0.4) million.

The translation differences of discontinued units of EUR 0.0 (0.3) million have been transferred from equity to be recognized through profit or loss.

1000 EUR	RMB	HKD	SEK	GBP	NOK	USD	PLN	HUF	total
1.1.2019	10 772	0	-8 138	0	0	1	1 630	-8	**4 256**
Recorded in comprehensive income items	403	-14	-1 154	-114	146	61	1 075	-42	**363**
Transferred to be recognised through profit or loss		14		114	-146				**-19**
31.12.2019	**11 175**	**0**	**-9 292**	**0**	**0**	**63**	**2 705**	**-50**	**4 600**

Fair value reserve

The fair value reserve includes the change in the value of the interest rate derivable due to cash flow hedging and the changes in the fair value of currency derivatives concluded for hedging purposes. The derivative instruments recorded in the fair value reserve are discussed in more detail in note 4.5 "Derivative financial instruments and hedge accounting."

Fair value reserve, 1000 EUR	2019	2018
1.1.	-225	-68
Interest rate derivatives, change	143	135
Currency derivatives, change	251	-293
Total	**168**	**-225**

Of the derivative financial instruments, EUR 17 (6) thousand has been recognized through profit or loss.

Other reserves
Other reserves include a reserve that includes transfers from retained earnings in accordance with the Articles of Association of foreign companies.

Reserve for invested unrestricted equity
The reserve for invested unrestricted equity includes other equity investments and the subscription price of shares to the extent that it is not recognized in share capital pursuant to a specific decision. The payments received from share subscriptions made on the basis of option schemes are recorded in their entirety in the reserve for invested unrestricted equity.

Dividend
In 2019, dividends of EUR 0.13 per share were paid, in total EUR 8,324,607.07.

After the reporting date, the Board of Directors has proposed a dividend of EUR 0.15 per share to be distributed, in total EUR 9,704,998.95.

4.9 MANAGEMENT OF CAPITAL STRUCTURE

The objective of the group's capital management is to ensure normal prerequisites for business operations. Development of the group's capital structure is monitored through net gearing. The capital structure is regularly reviewed. The shareholders' equity on the consolidated balance sheet is managed as capital. No external capital requirements are applied to the group. The group's long-term goal is that net gearing does not exceed 50%. The increase in interest-bearing liabilities is due to the introduction of IFRS 16. Lease liabilities have been recognized in the balance sheet since January 1, 2019.

Net liabilities, 1000 EUR	2019	2018
Interest-bearing liabilities	66 590	47 338
Cash assets	-20 353	-19 153
Net liabilities	**46 238**	**28 186**
Equity total	**166 688**	**144 744**
Gearing, %	**27,7**	**19,5**

5. OTHER NOTES

5.1. PROVISIONS

ACCOUNTING PRINCIPLE
A provision is recognized in the balance sheet when a past event has created an obligation that will probably be realized and when the amount of the obligation can be reliably estimated

Use of estimates
Estimates are required when assessing the amount of provisions associated with business operations

Provisions, 1000 EUR	Reclamation and quarantee	Pension provision	Other provisions	Total
1.1.2019	120	49	243	412
Exchange rate differences	-4	1	-4	-7
Additions	62	41	98	201
31.12.2019	**179**	**90**	**336**	**606**

	2019	2018
Non-current provisions	427	292
Current provisions	179	120
Total	**606**	**412**

The complaint and warranty provision includes the estimated cost of repairing defective products that is related to customer complaints and warranty obligations, and any fees resulting from delayed deliveries. Other provisions are related to a benefit payable on the basis of years of service, which was locally agreed in Poland and is applicable to employees with a long history of service in the company.

5.2. OTHER LEASES

ACCOUNTING PRINCIPLE

Leases where the risks and rewards incidental to ownership remain with the lessor are processed as other leases, and the leases are recognized in the income statement as expenses over the lease period. With the introduction of IFRS 16, leases have been entered in the balance sheet in 2019 as a right-of-use asset.

Other leases, 1000 EUR	2018
Group as lessee	
Minimum rents payable based on other non-cancellable leases:	
Within one year	2 862
In one to five years	7 385
More thatn five years	1 788
Total	**12 035**

Rental expenses in 2018 mainly comprised the rents of the production facilities. Rent liabilities do not include VAT. The group uses leased premises in Sweden, Germany, the USA, and Myslowice in Poland as well as Vantaa and Oulu in Finland.

5.3 SECURITIES PROVIDED, CONTINGENT LIABILITIES AND OTHER LIABILITIES

Securities provided

1000 EUR	2019	2018
Business mortgages	**10 000**	**110 000**
Liabilities secured with mortgages, 1000 EUR		
Interest-bearing liabilities from financial institutions		43 590
Guarantees given, 1000 EUR		
On behalf of own company	8 399	8 068
On behalf of Group company	188	186
Total	**8 587**	**8 254**

The given guarantees are mainly bank guarantees given to a customer in relation to a storage arrangement.

In addition to the aforementioned commitments, the following guarantees have been given:

Scanfil plc has given absolute guarantees to Nordea Bank AB (publ) as security for payment of the liabilities which Scanfil Sweden AB has created from time to time towards Nordea Bank AB (publ) on the basis of derivative contracts concluded, as well as to Skandinaviska Enskilda Banken AB as a replacement for the securities earlier provided by Scanfil Sweden AB. The maximum liability to Skandinaviska Enskilda Banken AB is EUR 3.6 million.

Scanfil EMS Oy has provided a guarantee of any obligations arising from the subsidiary's delivery contracts with its customers. The guarantee is limited to a maximum of EUR 7.5 million and will expire seven years after the end of the last product agreement.

5.4. DETAILS OF RELATED PARTIES AND GROUP STRUCTURE

The group's related parties include, in addition to group companies, the key members of management, i.e., the members of the parent company's Board of Directors and the group's Management Team.

Employee benefits for members of the management, 1000 EUR	2019	2018
Salaries and other short-term employee benefits	1 812	1 703
Options implemented and paid in shares	124	179
Post-employment benefits	2	2
Option scheme	149	234
Total	**2 087**	**2 118**

The management includes the parent company's Board of Directors, CEO and Management Team members.

Salaries paid to the President, 1000 EUR	2019	2018
Salaries and other short-term employee benefits	541	436
Options implemented and paid in shares	71	35
Total	**612**	**471**

Statutory pension expenditure, TYEL	2019	2018
Petteri Jokitalo	101	81

Harri Takanen has a voluntary pension insurance policy with a projected pension of some EUR 1,000 per month.
The pension period is September 1, 2026 – August 31, 2033.

Salaries paid to the Board members, 1000 EUR	2019	2018
Jarkko Takanen	30	29
Harri Takanen	49	47
Bengt Engström	28	26
Christer Härkönen	26	25
Christina Lindstedt	29	27
Total salaries of the Board Members	**162**	**154**

The salary information is payment-based.

Group companies	Domicile	Group´s ownership	Share of votes	Parent company´s ownership
Scanfil Oyj, parent company;	Finland			
Scanfil EMS Oy	Finland	100 %	100 %	100 %
Scanfil GmbH	Germany	100 %	100 %	100 %
Scanfil Electronics GmbH	Germany	100 %	100 %	100 %
Scanfil Holding Germany GmbH	Germany	100 %	100 %	100 %
Scanfil Oü	Estonia	100 %	100 %	100 %
Scanfil (Suzhou) Co., Ltd.	China	100 %	100 %	100 %
Scanfil (Hangzhou) Co., Ltd.	China	100 %	100 %	100 %
Scanfil Poland Sp. z o.o.	Poland	100 %	100 %	100 %
Scanfil Sweden AB	Sweden	100 %	100 %	100 %
Scanfil Vellinge AB	Sweden	100 %	100 %	100 %
Scanfil Åtvidaberg AB	Sweden	100 %	100 %	100 %
Scanfil Atlanta Inc.	USA	100 %	100 %	100 %
Scanfil Business Services Kft	Hungary	100 %	100 %	100 %
PartnerTech AS	Norway	100 %	100 %	100 %

Scanfil plc's subsidiary Scanfil EMS Oy has leased office premises from Kiinteistö Oy Pilot 1. The main shareholder of Jussi Real Estate Oy, the owner of Kiinteistö Oy Pilot 1, is Jussi Capital Oy. The main shareholders of Jussi Capital Oy are Scanfil plc's Board members Harri Takanen and Jarkko Takanen. In 2019, the market rents paid totaled EUR 26,300 (EUR 24,762 in 2018).

5.5 EVENTS AFTER THE REPORTING PERIOD

No material events to be reported have occurred after the reporting period.

THE PARENT COMPANY'S INCOME STATEMENT, FAS

1000 EUR	Note	1.1.-31.12.2019	1.1.-31.12.2018
Other operating income		2 335	2 208
Personnel expenses			
Wages, salaries and fees		-1 624	-1 798
Pensions and statutory indirect employee costs			
Pensions		-258	-291
Statutory indirect employee costs		-45	-60
Personnel expenses total	1	**-1 927**	**-2 149**
Depreciation and reduction in value			
Depreciation according to plan		-29	-29
Depreciation and reduction in value total	3	**-29**	**-29**
Other operating expenses	2	**-710**	**-724**
Operating profit		**-330**	**-695**
Financial income and expenses			
Financial income from group		11 000	8 000
Other interest and financial income			
To group		132	
From other		1 436	1 149
Interest expenses and financial expenses			
To group		-246	-331
To other		-1 360	-1 036
Financial income and expenses total		**10 962**	**7 782**
Profit before appropriations and taxes		**10 632**	**7 087**
Appropriations			
Depreciation difference increase			4
Group contribution	4	1 000	1 500
Appropriations total		**1 000**	**1 504**
Profit before tax		11 632	8 591
Income taxes	5		
Taxes for the financial year		-139	-117
Deferred taxes		11	-2
Income taxes total		**-128**	**-120**
Net profit for the period		**11 504**	**8 472**

THE PARENT COMPANY'S BALANCE SHEET, FAS

1000 EUR	Note	31.12.2019	31.12.2018
ASSETS			
Non-current assets			
Intangible assets			
Immaterial rights		25	48
Other non-current assets		7	14
Intangible assets total	6	**33**	**61**
Tangible assets			
Other tangible assets		17	17
Tangible assets total	7	**17**	**17**
Investments			
Holdings in Group companies		61 469	61 444
Investments total	8	61 469	61 444
Total non-current assets		**61 519**	**61 522**
Current assets			
Long-term receivables			
Loan receivables from Group companies	9	25 389	
Acrual tax receivables		11	
Long-term receivables total		**25 400**	
Short-term receivables			
Receivables from Group companies	9	50 869	68 137
Accrued income		207	53
Short-term receivables total		51 076	68 189
Cash and cash equivalents	10	0	0
Total current assets		**76 477**	**68 189**
Total assets		**137 995**	**129 711**

THE PARENT COMPANY'S BALANCE SHEET, FAS

1000 EUR	Note	31.12.2019	31.12.2018
SHAREHOLDER'S EQUITY AND LIABILITIES			
Equity			
Share capital		**2 000**	**2 000**
Other reserves			
Fair value reserve		113	
Reserve for invested unrestricted equity fund		31 317	28 787
Retained earnings		665	1 757
Profit for the period		11 504	8 472
Total Equity	11	**45 599**	**41 015**
Non-current liabilities			
Non-current liabilities			
Financing loan	12	24 000	13 250
Deferred tax liabilities		28	
Non-current liabilities total		**24 028**	**13 250**
Current liabilities			
Financing loans	12	19 184	30 340
Financial loans to Group companies		4 780	
Trade liabilities		217	152
Liabilities to Group companies	13	43 212	43 713
Other creditors		96	147
Accrued liabilities	14	880	1 094
Current liabilities total		**68 368**	**75 446**
Total liabilities		**92 396**	**88 696**
Total equity and liabilities		**137 995**	**129 711**

THE PARENT COMPANY'S CASH FLOW STATEMENT, FAS

1000 EUR	1.1.-31.12.2019	1.1.-31.12.2018
Cash flow from operating activities		
Profit for the period	11 504	8 472
Adjustments		
Depreciation according to plan	29	29
Financial income and expenses	-10 962	-7 782
Other income and expenses without payment		
Deferred taxes	128	120
Change in cumulative accelerated depreciation		-4
Group contributions received	-1 000	-1 500
Exchange rate differences	-147	-1
Changes in working capital		
Inc(-)/dec(+) in short-term non-interest bearing receivables	88	-168
Inc(+)/dec(-) in short-term non-interest-bearing liabilities	-191	366
Interest paid	-1 273	-1 383
Interest received	943	1 150
Net cash flow from operating activities	**-883**	**-702**
Cash flow from investing activities		
Investments in tangible and intangible assets		
Investments in daughter company shares	-25	
Granted loans	-27 389	
Net cash flow from investing activities	**-27 414**	**0**
Cash flow from financing activities		
Received group contributions	1 500	3 700
Received dividends	8 000	6 000
Related party investments to company shares	363	407
Changes in group financing	14 624	8 123
Drawdown of short-term loans	5 250	
Repayment of short-term loans	-5 250	
Drawdown of long-term loans	30 000	
Repayment of long-term loans	-13 250	-10 500
Dividends paid	-8 325	-7 028
Net cash flow from financing activities	**32 913**	**702**
Net increase/decrease in cash and cash equivalents	**0**	**0**
Cash and cash equivalents at beginning of period	0	0
Cash and cash equivalents at end of period	**0**	**0**

Changes in group financing are presented in net and are related to the group's Cash Pool.

The parent company's accounting principles
Scanfil plc is a Finland-based public limited company domiciled in Sievi. The company's shares are quoted on the Main List of Nasdaq Helsinki Ltd. The financial statements of Scanfil plc have been prepared in accordance with the Finnish Accounting Act and other legislation and regulations in force in Finland.

Measurement and recognition principles and methods

Fixed assets
Fixed attests are measured at historical cost less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis over the expected useful lives of the assets.
The depreciation periods for fixed assets are as follows:

Intellectual property rights	5 years
Other long-term expenses	5 years
Machinery and equipment	3–5 years

Subsidiary company shares
Shares in subsidiaries have been measured at the acquisition cost, which is adjusted by impairment if the future returns on the investment are expected to be permanently lower than the acquisition cost.

Financial instruments
Financial assets and liabilities are measured at the lower of cost and probable realizable value.

The group's bank account system
The assets and liabilities of the subsidiaries included in Scanfil plc's group account systems are shown as offset at Scanfil plc, either as cash and bank receivables or as short-term financial liabilities and short-term receivables from group companies or as short-term debts to group companies.

Turnover
The parent company's operations consist of group functions, and income from the sale of services is presented as turnover.

Pension costs
The pension cover of employees is provided by pension insurance companies. Pension expenses are recognized as expenses for the year during which they are accrued.

Foreign currency items
Foreign currency-denominated transactions are recognized during the financial period using the exchange rates on the transaction date. Any foreign currency-denominated balance sheet items remaining outstanding on the closing date are measured at the exchange rate valid on the closing date.

1. PERSONNEL EXPENSES, 1000 EUR

	2019	2018
Salaries, wages and fees	1 624	1 798
Pension costs	258	291
Other indirect employee expenses	45	60
Total	**1 927**	**2 149**
Fringe benefits (taxable value)	**41**	**42**

The pension costs are based on defined contribution schemes Management's employee benefits are reported in note 18.

Average number of employees during the period	2019	2018
Clerical employees	13	13
Total	**13**	**13**

2. OTHER OPERATING EXPENSES, 1000 EUR

Other operating expenses include the following significant expense items:	2019	2018
Other operating expenses	710	724
Total	**710**	**724**

Other operating costs mainly consist of legal and consultation expenses, traveling expenses and statutory expenses of a listed company.

Auditor's remuneration		
Auditor's remunerations of the Chartered Accountants	42	35
Tax advisor	17	40
Other services	165	26
Total	**224**	**101**

3. DEPRECIATION AND AMORTIZATION, 1000 EUR

Depreciation by asset class	2018	2017
Intangible assets		
Intangible rights	22	22
Other long-term expenses	6	6
Total	**29**	**29**
Total depreciation	**29**	**29**

4. CONTRIBUTIONS FROM GROUP COMPANIES, 1000 EUR

	2019	2018
Group contribution from Scanfil EMS Oy	1 000	1 500
Total	**1 000**	**1 500**

5. INCOME TAXES, 1000 EUR

	2019	2018
Income taxes from group contribution	200	300
Income taxes from actual operations	-63	-183
Income taxes from previous years	2	2
Change in deferred taxes	-11	
Total	**128**	**120**

6. INTANGIBLE ASSETS, 1000 EUR

	Intangible rights	Other long-term expenses	Intangible assets total
Acquisition cost at 1 Jan. 2019	110	32	143
Acquisition cost at 31 Dec. 2019	**110**	**32**	**143**
Accumulated depreciations at 1 Jan. 2019	-63	-18	-81
Depreciations	-22	-6	-29
Accumulated depreciations at 31 Dec. 2019	**-85**	**-25**	**-110**
Carrying amount at 1 Jan. 2019	48	14	61
Carrying amount at 31 Dec. 2019	**25**	**7**	**33**

	Intangible rights	Other long-term expenses	Intangible assets total
Acquisition cost at 1 Jan. 2018	110	32	143
Acquisition cost at 31 Dec. 2018	**110**	**32**	**143**
Accumulated depreciations at 1 Jan. 2018	-41	-12	-53
Depreciations	-22	-6	-29
Accumulated depreciations at 31 Dec. 2018	**-63**	**-18**	**-81**
Carrying amount at 1 Jan. 2018	70	20	90
Carrying amount at 31 Dec. 2018	**48**	**14**	**61**

7. TANGIBLE ASSETS, 1000 EUR

	Other tangible assets	Tangible assets total
Acquisition cost at 1 Jan. 2019	17	17
Acquisition cost at 31 Dec. 2019	**17**	**17**
Carrying amount at 1 Jan. 2019	17	17
Carrying amount at 31 Dec. 2019	**17**	**17**

	Other tangible assets	Tangible assets total
Acquisition cost at 1 Jan. 2018	17	17
Acquisition cost at 31 Dec. 2018	**17**	**17**
Carrying amount at 1 Jan. 2018	17	17
Carrying amount at 31 Dec. 2018	**17**	**17**

8. HOLDINGS IN GROUP COMPANIES, 1000 EUR

	2019	2018
Total at beginning of period	61 444	61 444
Scanfil Holding Germany GmbH	25	
Total at end of period	**61 469**	**61 444**
Carrying amount at 31 Dec.	**61 469**	**61 444**

Group companies	Domicile	Group share %	Parent company share %	Parent company book value
Scanfil EMS Oy	Finland	100	100	12 621
Scanfil Sweden AB	Sweden	100	100	48 823
Scanfil Holding Germany GmbH	Germany	100	100	25
				61 469

9. RECEIVABLES FROM GROUP COMPANIES, 1000 EUR

	2019	2018
Long-term receivables		
Loan receivables	25 389	
Total	**25 389**	**0,00**
Short-term receivables		
Prepayments and accrued income	12 000	9 500
Loans, Global Cash Pool	38 255	58 046
Other receivables	614	591
Total	**50 869**	**68 137**
The most significant items included in accrued income		
Group contribution from subsidiaries	1 000	1 500
Dividends from group	11 000	8 000
Total	**12 000**	**9 500**

10. CASH AND CASH EQUIVALENT, 1000 EUR

	2019	2018
Cash and bank balances	0	0
Total	**0**	**0**

11. EQUITY, 1000 EUR

	2019	2018
Share capital		
Share capital at 1 Jan.	2 000	2 000
Share capital at 31 Dec.	**2 000**	**2 000**
Fair Value Reserve	**113**	
Total restricted shareholder's equity	**2 113**	**2 000**
Reserve for invested unrestricted equity fund		
Reserve for invested unrestricted equity fund at 1 Jan.	28 787	28 379
Addition of equity	2 167	
Options	363	407
Reserve for invested unrestricted equity fund at 31 Dec.	**31 317**	**28 787**
Retained earnings		
Retained earnings at 1 Jan.	10 229	8 785
Retained earnings, purchase of own shares	-1 239	
Paid dividends	-8 325	-7 028
Retained earnings at 31 Dec.	**665**	**1 757**
Profit for the period	**11 504**	**8 472**
Total unrestricted equity	**43 486**	**39 015**
Total equity	**45 599**	**41 015**
Calculation of distributable funds at 31 Dec.		
Reserve for invested unrestricted equity fund	31 317	28 787
Retained earnings	665	1 757
Profit for the period	11 504	8 472
Total	**43 486**	**39 015**

12. LOANS FROM FINANCIAL INSTITUTIONS, 1000 EUR

	2019	2018
Non-current		
Financial Institutions	24 000	13 250
Current		
Financial Institutions	6 000	10 500
Credit facility	13 184	19 840
Total	**43 184**	**43 590**
Interest-bearing liabilities will mature as follows:		
Year 2019		10 500
Year 2020	6 000	13 250
Year 2021	6 000	
Year 2022	6 000	
Year 2023	6 000	
Year 2024	6 000	
	30 000	**23 750**

In 2015, Scanfil plc withdrew a loan of EUR 50 million from Nordea Bank Finland Plc for the acquisition of shares in PartnerTech AB. The loan was entirely repaid on December 20, 2019, and at the same time, a new long-term loan of EUR 30 million was taken out. The loan is amortized every six months and the first instalment of EUR 3.0 million will be paid on March 27, 2020. In addition, Nordea's Multicurrency Global Cash Pool is available with an overdraft facility of EUR 50 million, of which EUR 13.2 million was in use on December 31, 2019.

The group's financing arrangements include termination covenants related to the equity ratio, and the ratio between interest-bearing net liabilities and the operating margin. The terms of the covenants are monitored on a quarterly basis. During the 2018 and 2019 financial periods, the group fulfilled the covenant terms.

13. LIABILITIES TO GROUP COMPANIES, 1000 EUR

	2019	2018
Short-term liabilities to Group companies		
Trade payables	5	6
Loans, Global Cash Pool	43 197	43 707
Other payables	9	
Total	**43 212**	**43 713**

14. ACCRUED LIABILITIES, 1000 EUR

	2019	2018
The most significant items included in accrued liabilities		
Employee expenses	600	890
Interests	9	39
Other accrued liabilities	271	46
Total	**880**	**975**

15. COMMITMENTS AND CONTINGENCIES, 1000 EUR

	2019	2018
Mortgages to secure own debt		
Business mortgages		100 000
Liabilities secured with mortgages		
Interest-bearing liabilities from financial institutions		43 590
Guarantees given		
On behalf of group company	188	186
Total	**188**	**186**

In addition Scanfil plc has given absolute guarantees to Nordea Bank AB (publ) as security for payment of the liabilities which Scanfil Sweden AB has created from time to time towards Nordea Bank AB (publ) on the basis of derivative contracts concluded, as well as to Skandinaviska Enskilda Banken AB as a replacement for the securities earlier provided by Scanfil Sweden AB. The maximum liability to Skandinaviska Enskilda Banken AB is EUR 3.6 million.

Scanfil plc has given a guarantee to its subsidiary Scanfil Inc regarding lease liabilities.

16. DERIVATIVE CONTRACTS, 1000 EUR

Interest derivatives	2019	2018
Interest swap agreements, hedging		
Fair value	-54	-196
Rated value of underlying asset	13 250	23 750

Hedge accounting	2019	2018
Forward exchange contracts, hedge accounting		
Fair value	142	
Rated value of underlying asset	15 012	

In 2015, Scanfil plc withdrew a long-term loan of EUR 50 million. The company used an interest swap to hedge the loan. The purpose of the hedge was to offer protection against interest rate fluctuations related to the variable-rate loan. Through hedging, the interest payments of the variable-rate euro-denominated loan were changed to have a fixed rate. Scanfil has paid a fixed rate of 0.41% every quarter, in addition to the bank's rate. The objective of the hedge was compliant with the group's risk management principles.

The effectiveness of the hedge was reliably measured, and the hedge remained fully effective throughout the validity of the hedge. The terms and conditions of the hedged object and the hedging instrument corresponded to each other. Effectiveness was evaluated every quarter, and the hedge remained effective. The hedged loan was repaid in December 2019, and the hedge has terminated. During the validity of the hedge, changes in the fair value of the derivative were recognized through items in the statement of comprehensive income. After the termination of the hedge, changes in the fair value have been recognized through profit and loss. The impact on results after deferred taxes is EUR -0.04 million.

On December 31, 2019, the rated amount of the interest swap agreement was EUR 13.3 million, and it will expire on May 25, 2020. The fair value of the derivative was EUR -0.1 million, including accumulated interest.

17. OTHER RENTAL CONTRACTS, 1000 EUR

	2019	2018
To be paid next accounting period	30	31
To be paid later	2	32
Total	**32**	**64**

Rental liabilities do not include VAT.

18. MANAGEMENT'S EMPLOYMENT-RELATED BENEFITS, 1000 EUR

Salaries and other short-term employee benefits	2019	2018
Salaries and bonuses of the President		
Salaries, wages and fees	541	436
Shares and options	71	35
Salaries and bonuses of the Board members		
Jarkko Takanen	30	29
Harri Takanen	49	47
Bengt Engström	28	26
Christer Härkönen	26	25
Christina Lindstedt	29	27
Total salaries of the Board Members	**162**	**154**

Board of directors' proposal for the distribution of profit

The parent company's distributable funds total EUR 43,485,669.92, including undistributed profits of EUR 12,168,378.38. The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.15 per share be paid, totaling EUR 9,704,998,95 for the financial year ending on December 31, 2019.

Signatures to the Board of Directors' report and financial statements

Vantaa, February 19. 2020

Harri Takanen
Chairman of the Board

Jarkko Takanen
Member of the Board

Christer Härkönen
Member of the Board

Bengt Engström
Member of the Board

Christina Lindstedt
Member of the Board

Petteri Jokitalo
CEO

To the Annual General Meeting of Scanfil Plc
Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Scanfil Plc (business identity code 2422742-9) for the year ended December 31, 2019. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion
– the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU

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

Our opinion is consistent with the additional report submitted to the Audit Committee and Board of Directors.

Basis for Opinion

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

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

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 1.5 to the consolidated financial statements.

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

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

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

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Valuation of goodwill and acquisition-related customer relationships (Refer to Accounting principles for consolidated financial statements and note 3.1. and 3.2.)	
Goodwill and acquisition-related customer relationships amounted to EUR 18.4 million. Goodwill is not amortized, instead it is tested for impairment at least on an annual basis. Impairment tests are based on future cash flow forecasts and determining the underlying key assumptions require management judgment. Scanfil's acquisition-related long-term customer relationships have finite useful lives that are estimated by management through the application of judgement. Due to the high level of judgment related to the forecasts used in goodwill impairment tests and the significant carrying amounts involved, impairment of goodwill and acquisition-related customer relationships are considered key judgmental areas that our audit is focused on.	We assessed the key assumptions used in the calculations, such as growth of turnover, profitability and discount rate, with relation to the budgets approved by the Board of Directors, external references and our own views. We involved KPMG valuation specialists when assessing the technical accuracy of the calculations and comparing the assumptions used with external market and industry data. In respect of acquisition-related customer relationships, we evaluated the recoverability of these assets by inspecting the associated calculations and underlying assumptions. In addition, we considered the appropriateness of the Group's disclosures in respect of goodwill, acquisition-related customer relationships and impairment testing.

Valuation of inventories (Refer to Accounting principles for consolidated financial statements and note 2.2.)

Inventory management, stocktaking routines and determination of cost are the key elements of inventory valuation. The Group's carrying values of inventories amounted to EUR 101.9 million representing 30 percent of the consolidated total assets as at 31 December 2019.

Inventory valuation involves the exercise of judgement by management surrounding determination of cost and any impaired inventories.

Due to management judgments and the significant carrying amount involved, valuation of inventories is considered a key audit matter.

We assessed the appropriateness of the inventory valuation principles applied.

Our audit procedures comprised testing of controls over inventory management and the accuracy of inventory amounts. We also performed substantive procedures to evaluate the accuracy of inventory valuation.

We followed the execution of certain stocktaking routines in order to assess the effectiveness of the process.

Revenue recognition (Refer to Accounting principles for consolidated financial statements and note 1.1.)

The number of sales transactions processed in the IT systems is significant and pricing responsibilities for products and services are decentralized.

Due to the nature of the industry, the effectiveness of the internal controls over the IT systems and pricing are critical in respect of the accuracy of revenue recognition.

Revenue is recognized when Scanfil has satisfied performance obligations in the contract either at a point in time or over the time for services. As the revenue of the group consists mainly of the sale of products the revenue is recognized at a point in time when the control is transferred to a customer in accordance with the terms and conditions of the agreement.
Application of consistent revenue recognition principles is considered a key audit matter.

We assessed the appropriateness of the revenue recognition principles applied.

As part of our audit procedures we tested internal controls over registration of sales transactions, recording related revenues and approval of changes.

Our substantive procedures included testing of recognition of relevant transactions in the appropriate period, comparing invoice details to the received payments and assessing the appropriateness of the bad debt provision recognized.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Requirements

Information on our audit engagement

We have acted as auditors appointed by the Annual General Meeting as of January 1, 2012, at which point the parent company was established as a result of a demerger of Sievi Capital Plc. Since 1999 we have acted as auditors in Sievi Capital Plc, which became a public interest entity as a result of a listing in 2000.

Other Information

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

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

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

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

Helsinki February 25, 2020

KPMG OY AB

Kirsi Jantunen
Authorized Public Accountant, KHT

Scanfil plc is a publicly listed company, managed in accordance with the company's Articles of Association, the Finnish Companies Act and other legislation relating to the company. In addition, the Company complies with the Finnish Corporate Governance Code (2020) published by the Securities Market Association and entered into force on January 1, 2020, but this report for the financial period January 1 - December 31, 2019 is issued in accordance with the Corporate Governance Code 2015.

The Board of Directors has evaluated the independence of its members according to which the majority of members are independent of the company (Jarkko Takanen, Bengt Engström and Christina Lindstedt) and independent of the significant shareholders of the company (Christer Härkönen, Bengt Engström and Christina Lindstedt). The majority of the members of Board's two committees are independent of the company and one member of the Audit Committee is independent of the significant shareholders of the company.

This statement has been reviewed by Scanfil plc's Board of Directors. Scanfil plc's auditing firm has verified that the summary description of the internal control and risk management associated with the financial reporting process is consistent with the financial statements.

This Corporate Governance Statement is available on the company website at www.scanfil.com under Investors. The Finnish Corporate Governance Code is available to the public at www.cgfinland.fi.

BOARD OF DIRECTORS

Under the Companies Act, the Board of Directors is responsible for the management of the company and the proper organization of operations. The members of the Board of Directors are elected by the Annual General Meeting. According to the Articles of Association, Scanfil plc's Board of Directors shall include a minimum of three and a maximum of seven regular members. The Board of Directors elects a Chairman from among its members. The Board of Directors is responsible for deciding on the business strategy, significant matters related to investments, organization and finance, as well as supervising the company's management and operations. The Board of Directors shall also ensure that supervision of the company's accounts and asset management is properly organized.

Composition of the Board of Directors

The following Board members were elected by the Annual General Meeting held on April 24, 2019:

Harri Takanen

Chairman of the Board of Directors. Born 1968, M.Sc. (Tech.). Member of the Board of Directors of Scanfil plc since April 18, 2013. Professional board member. Not independent of the company and its major shareholders. Holds 9,858,146 shares in Scanfil plc.

Jarkko Takanen

Member of the Board since January 1, 2012. Born 1967, B.Sc. (Prod.Eng.), Commercial College Diploma in Management Accountancy. CEO of Jussi Capital Oy. Independent of the company, not independent of major shareholders. Holds 8,541,169 shares in Scanfil plc.

Christer Härkönen

Member of the Board since April 8, 2014. Born 1957, M.Sc. (Tech.). CEO of DimWei Group Oy.
Not independent of the company, independent of its major shareholders. Does not hold Scanfil plc shares. Christer Härkönen has been involved in the Scanfil and PartnerTech integration process between 1 January and 30 April 2017 on Group level project tasks.

Bengt Engström

Member of the Board since August 20, 2015. Born 1953, M.Sc. (Eng.). Has held several management-level positions in Sweden and internationally, including Whirlpool, Bofors AB, Duni AB and Fujitsu. Independent of the company and major shareholders. Holds 12,829 shares in Scanfil plc.

Christina Lindstedt

Member of the Board since April 12, 2016. Born 1968, holds a Master's Degree of Business Administration and Commercial law. Managing Director of XploreBiz AB. Background from several international business leadership roles at AB Electrolux and Sony, based in Sweden and internationally. Independent of the company and major shareholders. Holds 6,000 shares in Scanfil plc.

The entities over which the Board members exercise control do not own Scanfil shares.

The term of office of the Board members expires at the close of the first Annual General Meeting following the one in which they were elected.

Activity of the Board

The Board of Directors had a total of 18 meetings in 2019, some of which were telephone meetings. The members' average attendance rate for meetings was 100%.

The duties and responsibilities of the Board of Directors of Scanfil plc are based on the Finnish Limited Liability Companies Act, other applicable legislation, the Articles of Association, good governance recommendations and the Board's charter. The Board carries out an annual review of its operations and regular reviews of the work of the CEO and the Management Team. The Scanfil Board of Directors has confirmed the charter, which lists the following key duties for the Board:

- confirming the company's business strategy and monitoring its implementation
- confirming the annual key business targets and monitoring Scanfil Group's performance
- deciding on strategically significant investments in the Group
- discussing and approving financial statements and interim reports
- appointing and dismissing the CEO and determining their terms of employment and remuneration
- deciding on incentive systems for managers and employees
- monitoring the company's key operational risks and their management
- confirming the company's values and operating principles.

Diversity Principles for the Board of Directors

Scanfil plc operates in the international contract manufacturing market and its customers include global companies in various industries. For the Board to be effective, its members must possess experience from several different industries, be well versed in international business and have insight into the global trends that affect the development of the contract manufacturing market. The Nomination Committee should consider the education and professional and international experience of the candidates, as well as their individual characteristics, when preparing the proposal for the Board's composition. The aim is to form a diverse Board with a sufficient number of members, who are able to take responsibility for developing the company's operations and strategy in its line of business, and who are competent to manage the duties and responsibilities of the Board. Scanfil plc aims to have a sufficiently diverse gender and age distribution of the Board of Directors.

Board Committees

The Board of Directors has established two committees: a Nomination and Compensation Committee and an Audit Committee.

The task of the Nomination and Compensation Committee is to prepare matters related to the appointment and remuneration of the members of the Board of Directors and, when necessary, find suitable members for it. The Committee has three members: Harri Takanen (Chairman), Jarkko Takanen and Bengt Engström. The committee convened three times in 2019. The attendance rate of its members was 100%.

The Audit Committee is responsible for monitoring the financial reporting process and the reporting of financial statements and interim reports, as well as monitoring the functionality of internal control and risk management in the company. It also evaluates the appropriateness of auditing and prepares the proposal for the appointment of an auditor. The committee has three members: Jarkko Takanen (chairman), Harri Takanen and Christina Lindstedt. The committee convened five times in 2019. The attendance rate of its members was 100%.

CEO

The Board of Directors decides on the appointment and dismissal of the CEO and the terms and conditions of his employment. The CEO is covered by the performance and profit bonus systems decided upon separately by the Board of Directors. Petteri Jokitalo, M.Sc. (Eng.), has been the CEO of the company between 1 January and 31 December 2019. Petteri Jokitalo holds 312,000 shares in Scanfil plc and he has the following option rights: option program 2016(A) for 110,000 shares, 2016(B) for 110,000 shares, 2016(C) 110,000 shares and 2019(A) 110,000 shares.

The CEO's duties are determined in accordance with the Companies Act. The CEO is in charge of the company's operative management in accordance with the guidelines and orders given by the Board of Directors. The CEO shall ensure that the company's accounting practices comply with legislation and that asset management is organized in a reliable manner. The CEO is the chairman of the company's Management Team.

The CEO has a separate service contract that is valid until further notice with a mutual notice period of six months. Should the company terminate the service contract made with the CEO, an amount equivalent to the monetary salary of 12 months will be paid to the CEO as a severance package in accordance with the terms and conditions of his service contract. The CEO's retirement age is the statutory retirement age.

OTHER MANAGEMENT

The principal duty of the Management Team is to assist the CEO in the company's operative management. The Team's other duties include matters relating to long-term planning, the planning and monitoring of investments and the allocation of resources to key operations.

Timo Sonninen,

Vice President, Sales & Global Customers, as of 1.12.2019
Timo Sonninen (b. 1966), BSc (Eng.), is responsible for sales and customer relations development globally, as well as new and local customer sales outside of Central Europe with a focus on the Nordic countries and the USA. Earlier he acted in GMT Vice President, Sales, responsible for the company's global customers and business development.
Timo Sonninen holds 113,000 shares in Scanfil plc and he has the following option rights: option program 2016(B) for 20,000 shares, 2016(C) for 20,000 shares and 2019(A) for 20,000 shares.

Kristoffer Asklöv,

VP Business Development & Sales, Central Europe Development, as of 1.12.2019 Kristoffer Asklöv (b. 1977), M.Sc. (Mech.Eng.) is responsible for sales for local customers as well as new sales in Central Europe. He will also will be in charge of Scanfil's global marketing as well as design sales and design strategic partnerships development globally.
Earlier he acted in GMT as Vice President, Strategy and Business Development, responsible for Strategic Initiatives and Development Services.
Kristoffer Asklöv holds 23,000 shares in Scanfil plc and he has the following option rights: option program 2016(A) for 20,000 shares, 2016(B) for 20,000 shares, 2016(C) for 20,000 shares and 2019(A) for 20,000 shares.

Markku Kosunen,

CTO as of 1.12.2018
Markku Kosunen (b. 1967), technology undergraduate, is responsible for ICT and ERP, Quality processes and systems, production technology and investments. Earlier he acted in GMT as Vice President responsible for the operation of Myslowice plant. He holds 27,861 shares in Scanfil plc and has the following option rights: option program 2016(A) for 20,000 shares, 2016(B) for 20,000 shares, 2016(C) for 20,000 shares and 2019(A) for 20,000 shares.

Kai Valo,

CFO
Kai Valo (b. 1965), MSc (Economics), Group's Chief Financial Officer. He holds 10,000 shares in Scanfil plc, and has the following option rights: option program 2016(A) for 10,000 shares, 2016(B) for 20,000 shares, 2016(C) for 20,000 shares and 2019(A) for 20,000 shares.

Riku Hynninen,

COO, as of 1.2.2018
Riku Hynninen (1972) is responsible for factories financial and operational performance and development, global sourcing and supply chain and strategic HR.
He holds 1,150 shares in Scanfil plc and has the following option rights: option program 2016(B) for 20,000 shares, 2016(B) for 20,000 shares, 2016(C) for 20,000 shares and 2019(A) for 20,000 shares.

DESCRIPTIONS OF INTERNAL CONTROL PROCEDURES AND THE MAIN FEATURES OF RISK MANAGEMENT SYSTEMS RELATED TO THE FINANCIAL REPORTING PROCESS

Risk Management

The Board of Directors of Scanfil plc is responsible for ensuring the appropriate organization of the Group's risk management and internal control and audit.

Risk management is based on a risk management policy approved by the Board, aimed at managing risks in a comprehensive and proactive manner. The assessment of risks is part of the annual strategy and business planning process. There is no separate risk management organisation; risk management is incorporated into the business processes and the management system. Risk management aims to observe and analyse factors that might have a negative impact on the achievement of the company's goals and to take measures to mitigate or completely eliminate the risks. The operative units report on business risks in accordance with the management and reporting system.

Internal Control

Scanfil plc's internal control is a continuous process used to ensure profitable and uninterrupted operation. The control function aims to minimize risks by ensuring the reliability of reporting and compliance with laws and regulations.

Internal control is based on the Group's shared values, ethical guidelines and industry legislation, from which the operating principles and guidelines are derived. The guidelines cover procedures for core operations. Group and unit management hold the responsibility for the company's internal control system. Internal control forms an active part of the company's management and administration. The Group's operational management holds the responsibility for developing the harmonized business processes included in the control system. The Group's financial administration co-ordinates the financial management of the Group.

The controls included in Scanfil's operating processes form the basis of the company's financial control. They enable the company to swiftly identify and react to any deviations. The management's monthly reporting is a fundamental part of financial control. It includes producing a rolling forecast, the result of business operations carried out and an analysis of the differences between the forecast and the actual result. The indicators monitored in monthly reporting have been set so as to support the achievement of shared Group-level and unit-specific targets, and to identify issues that require control measures. An auditing firm supports the performance of financial control.

The interpretation and application of accounting standards are carried out centrally by the Group's financial administration. These standards form the basis for the Group's shared recognition principles and reporting and accounting standards. In order to ensure reliable financial reporting, core functions are conducted using a globally harmonized ERP system and shared reporting tools. The use of standardized tools enables continuous control and successful change management.

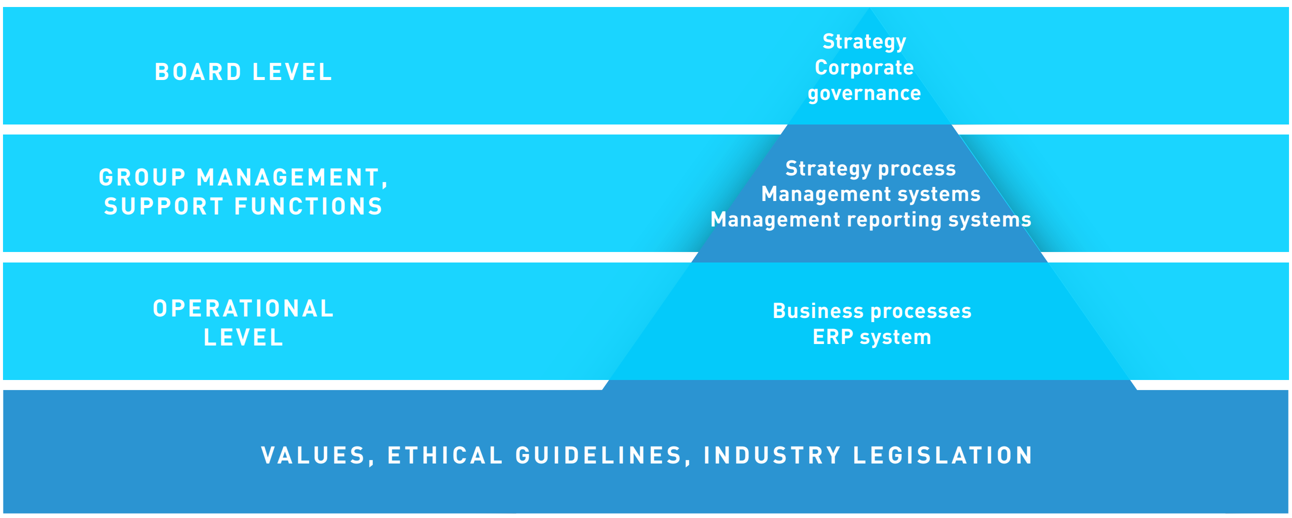
Internal Audit

The company uses internal auditing that, in co-operation with other Group functions, handles internal auditing duties and makes regular reports to the CEO and the Board.

Changes in Group's structure in 2019

Through a transaction signed on May 22, 2019, Scanfil plc acquired all shares in HASEC-Elektronik GmbH, a German

Description of the Internal Control at Scanfil plc



contract manufacturer of electronics (currently Scanfil Electronics GmbH).

During the review period, Scanfil plc established Scanfil Holding Germany GmbH, a wholly-owned holding company, in Germany. It holds all shares in Scanfil GmbH (Hamburg) and Scanfil Electronics GmbH:n (Wutha-Farnroda), Scanfil's subsidiaries in Germany. After the arrangement, Scanfil plc has three wholly-owned sub-groups: Scanfil EMS Oy (Finland), Scanfil Sweden AB (Sweden) and Scanfil Holding Germany GmbH (Germany). The parent companies of these sub-groups wholly own their subsidiaries.

The operations of Hasec-Electronik Sp. z.o.o., a Polish subsidiary of Scanfil Electronics GmbH, was discontinued during the review period. Preparations to dissolve the company through a voluntary liquidation procedure are underway. The dissolution of two discontinued companies was completed through a voluntary liquidation procedure during the financial period.

OTHER INFORMATION TO BE PROVIDED IN THE STATEMENT

Company Insiders and Insider Administration

Scanfil plc will abide by the current Nasdaq Helsinki Ltd Guidelines for Insiders. In addition, the Scanfil plc Board of Directors has confirmed company insider guidelines that are based on the Nasdaq Helsinki Ltd. guidelines.

In accordance with the Market Abuse Regulation (EU/No 596/2014 (MAR)), Scanfil plc has determined the company's Board of Directors and the members of the company's Management Team to be its managerial employees. Managerial employees of the company bound by the reporting obligation may not trade in Scanfil plc shares or other financial instruments for 30 days before financial statements are released (= the MAR closed period).

Persons and parties with access to insider information will be specified in the insider list for each project. Any party on the insider list may not trade while they are still listed.

The Scanfil plc insider administration will ensure that the insider guidelines are followed and organize training in insider matters. The insider administration will maintain a list of persons discharging managerial responsibilities in the company who have a reporting obligation and their closely related persons, as well as the case specific insider lists.

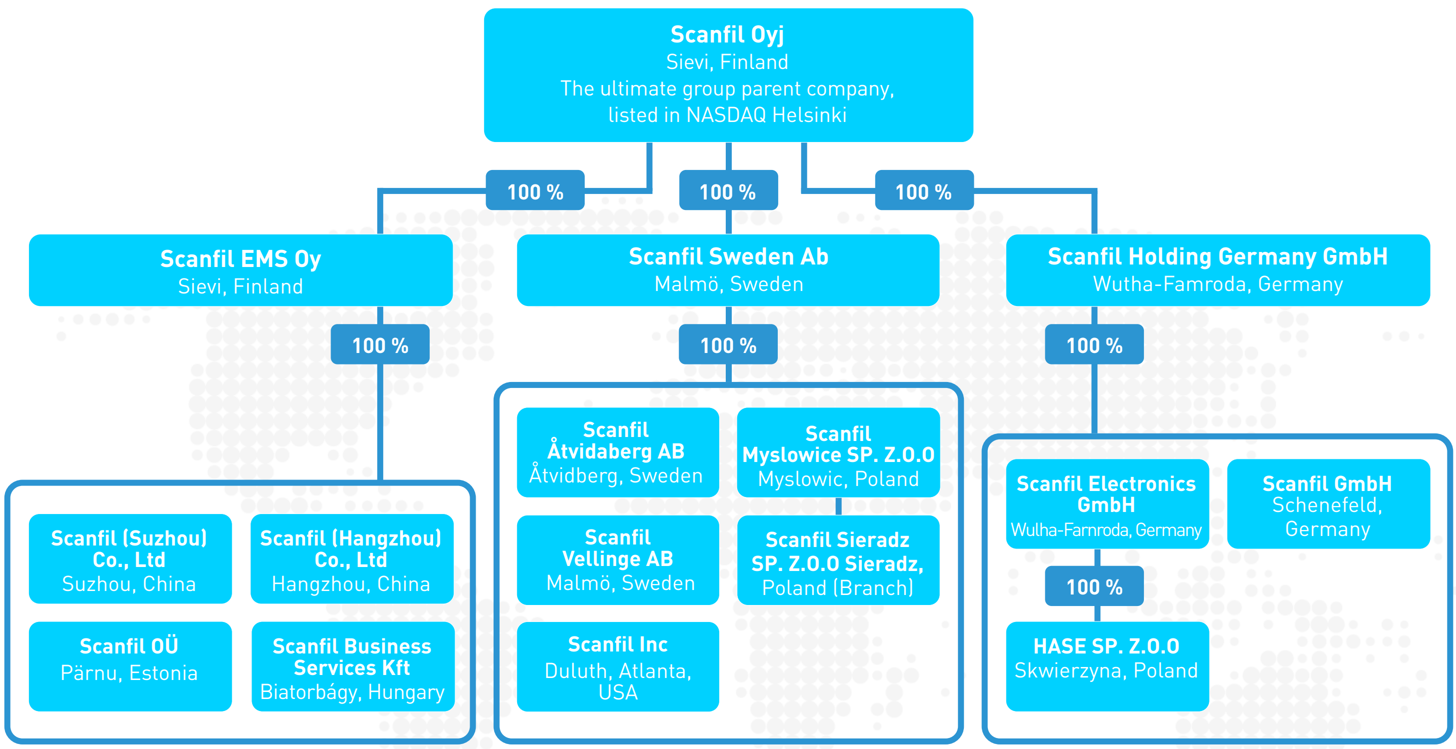
Transactions with related parties

Company has stated that related party transactions that are material to the company or deviate from the company's normal business or are not made on market equivalent terms have not been done.

Auditors

The Annual General Meeting held on April 24, 2019 selected the Chartered Accountants KPMG Oy Ab to be the company's auditor, and they named Authorized Public Accountant Kirsi Jantunen as the main auditor. The audit fees for the Finnish companies of the Group for the 2019 accounting year were EUR 63,940 in total, and the parent company's share was EUR 41,000. The audit fees for the foreign companies of the Group were EUR 255,180 in total. For services unrelated to auditing, the auditing company was paid EUR 211,033.

Scanfil plc groups structure in 2019



In addition to companies listed above Scanfil Sweden owns 100% of the following company which did not have operational activities in the end of 2019: PartnerTech AS (Norway).

From left to right: Jarkko Takanen, Bengt Engström, Harri Takanen, Christer Härkönen, Christina Lindstedt

Scanfil Oyj Board of Directors

Harri Takanen
Chairman of the Board of Directors

Harri Takanen (born 1968), Member of Board since 2013, Professional Board Member. Harri Takanen has worked for Sievi Capital plc as CEO 2007 - 2011. He was CEO of Scanfil plc and Scanfil EMS ltd. during 1.1.2012-31.3.2013. He has served Scanfil Group since 1994, for example as Director of operations in China, Scanfil (Hangzhou) Co., ltd's Managing Director, Technology Director, Director of Customer Relations, Customer Service Manager and Plant Manager of Sievi mechanics. Harri Takanen holds Master's degree in Engineering. Not independent of the company and major shareholders.

- Holds 9,858,146 shares in Scanfil plc. (31 Dec. 2019)
- Chairman of Board of Directors: Titanium Oyj
- Member of Board of Directors: iLOQ Oy, Jussi Capital Oy

Jarkko Takanen

Jarkko Takanen (1967) a member of Board of Directors since 2012, Managing Director of Jussi Capital Oyj. He has worked for Sievi Capital Group during 1995 – 2004 among others as Customer Service Manager, Plant Manager, Quality Manager, IT Manager and Director of Sourcing and Logistics. As Managing Director of Belgian subsidiary Scanfil N.V. he acted between 1 April 2003 and 30 June 2004. Jarkko Takanen holds a Bachelor's Degree in Production Engineer and a Commercial College Diploma in Management Accountancy. Independent of the company, not independent of major shareholders.

- Holds 8,541,169 shares in Scanfil plc. (31 Dec. 2019)

Bengt Engström

Bengt Engström (born 1953), Member of the Board since 2015. Bengt Engström has held a number of executive positions at several companies, both in Sweden and globally, for example at Whirlpool, Bofors AB, Duni AB and Fujitsu. Bengt Engström holds a Mechanical Engineer's degree. Independent of the company and major shareholders.

- Holds 12,829 shares in Scanfil plc. (31 Dec. 2019)
- Chairman of Board of Directors: Nordic Flanges, Real Holding AB, BEngström AB, BEngström Förvaltning AB.
- Member of Board of Directors: KHT Executive School, Bure Equity AB, ScandiNova Systems AB, CBF Holding Aps

Christer Härkönen

Christer Härkönen (born 1957), Member of Board since 2014, CEO at DimWei Group Oy. Christer Härkönen held executive positions at Oy Fibox Ab 2013 – 2017, Sandvik Mining and Construction in Sweden and Holland during years 2010- 2013. Between 2005 – 2010 he led the RFID business of UPM Oyj. Between 1996 and 2005 he worked in executive positions in Elcoteq Oyj to where he transferred from Fujitsu ICL. Härkönen started his career at Nokia in 1984 and moved in 1991 with the sale of business operations to Fujitsu ICL . Christer Härkönen holds a Master's degree in Engineering. Not independent of the company and independent of major shareholders.

- Does not hold Scanfil plc shares.
- Chairman of Board of Directors at Valoya Oy
- Member of Board of Directors at Arnon Oy, Greenlux Oy and Kontiotuote Oy

Christina Lindstedt

Christina Lindstedt (born 1968), Member of the Board since 2016. Managing Director at XploreBiz AB and as a Partner of Stockholm Business Angels. Christina Lindstedt has held a number of executive positions at AB Electrolux, Sony Ericsson and Sony, both in Sweden and globally. Primarily she has served as a Business/ Product area head for businesses such as eg; smartphones, washing machines, automatic lawn mowing and New Business Areas. In addition, she has been responsible for establishing global sourcing operations in China. Christina Lindstedt holds a Master's Degree of Business Administration and Commercial law. Independent of the company and major shareholders.

- Holds 6,000 shares in Scanfil plc. (31 Dec. 2019)
- Member of Board of Directors: Qlean Air Scandinavia AB (Publ), Handicare Group AB (Publ), Swedish Lorry Parts AB

From left to right: Riku Hynninen, Kristoffer Asklöv, Petteri Jokitalo, Timo Sonninen, Markku Kosunen, Kai Valo

Scanfil Oyj Management team

Petteri Jokitalo
CEO

Petteri Jokitalo (1963), company's CEO since 1 April 2013. Earlier Petteri Jokitalo has worked in Scanfil EMS Oy as Director of Sales and Marketing 2012 – 2013, in Meka Pro Oy as Managing Director during 2007 – 2011, in Scanfil Oyj in management tasks of sales and business development during 2003 – 2007 and in international tasks in Nokia Networks during 1998 – 2003. Petteri Jokitalo holds Master's Degree in Engineering.

Timo Sonninen
Vice President, Sales & Global Customers

Timo Sonninen (1966) is responsible for sales and customer relations development globally, as well as new and local customer sales outside of Central Europe with a focus on the Nordic countries and the USA since 1 December 2019. Earlier in the Management Team he was responsible for the company's global customers and business development. Previously he has worked in Efore Oyj as Vice President, Operations, in Suzhou, China 2006 – 2013. Prior to that he has worked at Incap Oyj during 1991 – 2006 among others as Director of Operations, Business Director of Electronics Production and Plant Director of Vuokatti Plant. Timo Sonninen holds a Bachelor's Degree in Engineering.

Kristoffer Asklöv
Vice President, Business Development & Sales Central Europe

Kristoffer Asklöv (1977) is responsible for sales for local customers as well as new sales in Central Europe since 1 December 2019. He is also in charge of Scanfil's global marketing as well as design sales and design strategic partnerships development globally. Earlier in the Management Team he was responsible for Strategic Initiatives and Development Services. Before joining Scanfil he has worked as Managing Director of PartnerTech's factory in Åtvidaberg as well as Operations Manager, Program Manager and Production Manager within PartnerTech. Prior to this he worked for Toyota Material Handling. Kristoffer Asklöv holds a Master's degree in Mechanical Engineering.

Markku Kosunen
CTO

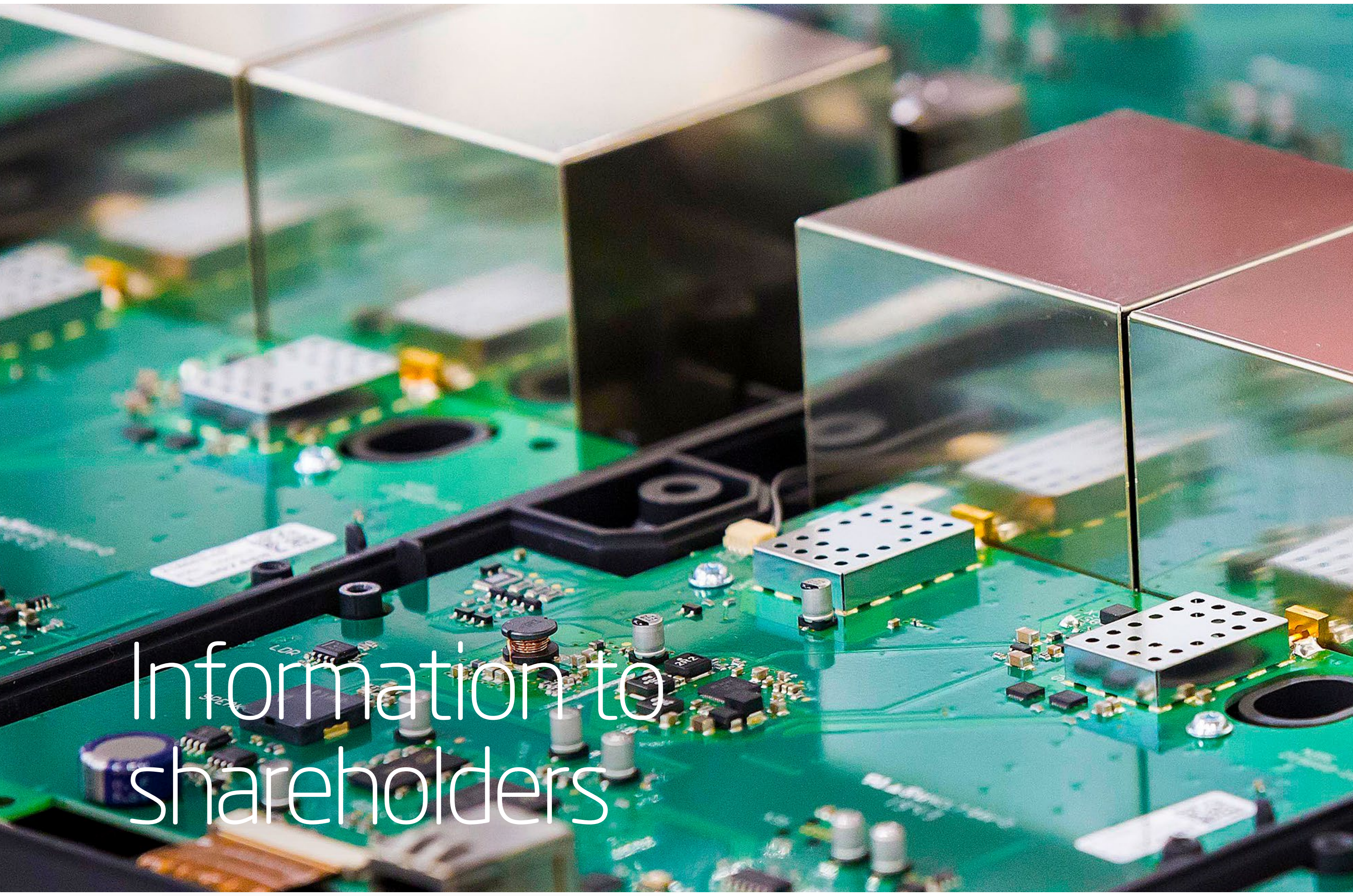
Markku Kosunen (1967) is responsible for ICT and ERP, Quality processes and systems, production technology and investments. Before joining Scanfil Group he worked in Mecanova Oy as Vice President of Business Development 2005 - 2007, Director of Operations during 2008 - 2010 and in different management positions in mechanics plants of Flextronics and Ojala-yhtymä in Finland during 1993-2005. Markku Kosunen is a technology undergraduate.

Kai Valo
CFO

Mr. Kai Valo (1965) is the Group CFO since 14 October 2016. During 2015 – 2016 Kai was the CFO for Norpe Group. Prior to that he was in Lite-On Mobile Group Director of Finance and Control in Beijing, China 2009 – 2015. Before that (during 1999 – 2008) he had several finance related management positions in Perlos. Kai holds a Master's Degree in Economics.

Riku Hynninen
COO

Riku Hynninen (1972) is responsible for factories financial and operational performance and development, global sourcing and supply chain and strategic HR. He has previously worked at Nokia Corporation (1995 – 2018), in charge of developing the production technology for mobile network business, creating new product delivery capability, and product portfolio lifecycle management (2014 - 2018). Prior to that he has been responsible among others the technical functions of the Nokia Suzhou factory and the creation and management of the delivery capability of several different mobile network product families in Italy and Finland. Riku Hynninen holds Master's degree in Industrial Economics and Engineering.



Information to shareholders

Annual General Meeting

Scanfil plc's Annual General Meeting (AGM) will be held on Thursday 23 April 2020 in the Company's main office at Yritystie 6, Sievi. The AGM will discuss the matters listed in the notice of the meeting, in accordance with the company's Articles of Association. In addition, the meeting agenda will be published on the company's website at www.scanfil.com.

Distribution of profits

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.15 per share be paid for a total of EUR 9,704,998.95 for the financial year ending on 31 December 2019 . The dividend matching day is 27 April 2020 and the dividend payment date 5 May 2020. The dividend will be paid to shareholders who are registered in the Register of Shareholders maintained by Euroclear Finland Ltd on the matching date.

Financial information

In 2020, Scanfil plc will publish the following financial reviews:

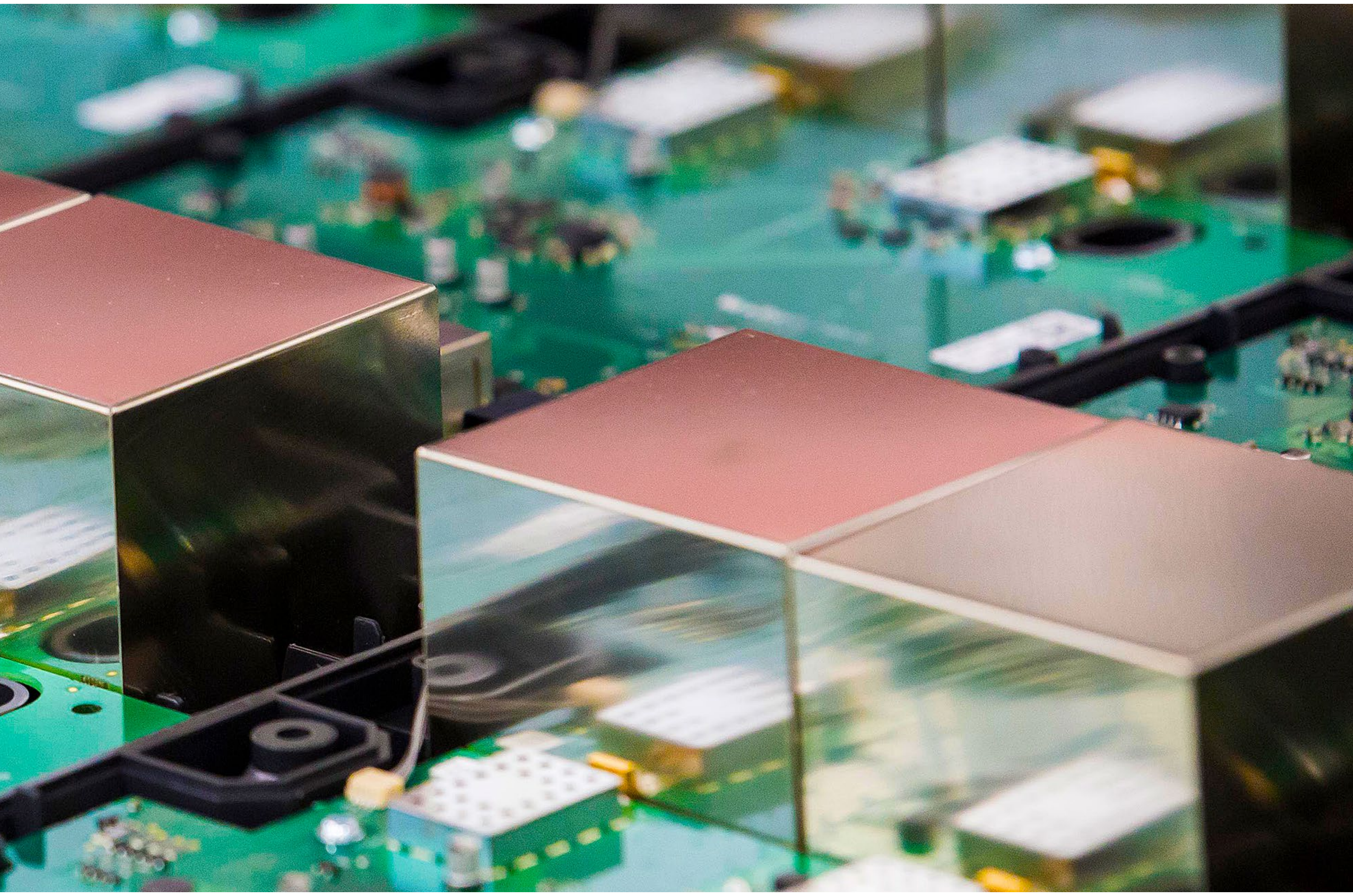
Financial statements 19 February 2020
Annual report week 12/2020
Interim report for January–March 24 April 2020
Interim report for January–June 7 August 2020
Interim report for January–September 27 October 2020

Information to shareholders

The financial reviews will be released in Finnish and English. They will be published on the company's website at www.scanfil.com. The publications may also be ordered from Scanfil plc, Yritystie 6, FI-85410 Sievi, Finland or by calling +358 8 4882 111.

Register of Shareholders

Each shareholder is requested to notify the bank, brokerage firm or Euroclear Finland Ltd, which manages the shareholder's book entry account, as the account operator selected by the shareholder of any changes in its name or address.



SCANFIL

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