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4 MANAGEMENT OF FINANCIAL RISKS

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance.

4.1 Financial risk factors

In its business operations, the Group is exposed to several types of financial risks: foreign-currency, interest, financing and liquidity, counterparty and credit risks. The objective of financial risk management is to protect the Group from unfavorable changes in the financial market and thus contribute as much as possible to guaranteeing the Group's profitability and equity, and to guarantee sufficient liquidity in a cost-efficient manner. Management of financial risks has been centralized with the Group's financial department, which is responsible for identification and evaluation of, and protection against, the Group's financial risks. Furthermore, the financial department is responsible, in a centralized fashion, for funding of the Group, and it provides the management with information about the financial situation of the Group and the business units.

4.1.1 Foreign-currency risk

Foreign-currency risk related to different currencies comes about as a result of foreign-currency-denominated commercial transactions and from translation of foreign-currency-denominated balance sheet items into the reporting currency.

a) Transaction risk

The majority of the Group's business operations are handled in the currency of the project country of the respective Group company. This means that both sales and costs are in the same currency. In the period under review, the Group did not have significant transaction risks generated from the currency flow in foreign currencies. The Group did not take steps to protect itself against transaction risks during the review period.

b) Translation risk

The Group is exposed to a translation risk caused by fluctuations in foreign currency exchange rates, when it translates balance sheet items of subsidiaries based outside the euro area into its reporting currency. The main risk is with goodwill booked in Swedish Krona (SEK). The goodwill booked in SEK at the end of the financial year was EUR 27,229 thousand (2019: EUR 26,154 thousand).

A sensitivity analysis of the effect of reasonable potential changes in exchange rates on the Group's profit for the financial year, equity and goodwill at balance sheet date is presented in the table below. In the analysis, the change in exchange rates has been estimated to be +/- 10 per cent from reporting date, and other factors are estimated to remain unchanged.

2020 EUR 1,000	Effect in profit for the financial year	Effect in other equity items	Effect in goodwill
EUR/SEK 10% increase	-171	-901	-2,475
EUR/SEK 10% decrease	209	1,102	3,025
EUR/PLN 10% increase	-20	-173	0
EUR/PLN 10% decrease	25	212	0
EUR/CNY 10% increase	-21	-111	-166
EUR/CNY 10% decrease	25	136	203

2019 EUR 1,000	Effect in profit for the financial year	Effect in other equity items	Effect in goodwill
EUR/SEK 10% increase	-231	-694	-2,378
EUR/SEK 10% decrease	282	848	2,906
EUR/PLN 10% increase	16	-164	0
EUR/PLN 10% decrease	-19	201	0
EUR/CNY 10% increase	14	-93	-170
EUR/CNY 10% decrease	-17	114	208

4.1.2 Interest risk

The Group is exposed to interest risk in two ways: because of changes in value for balance sheet items (i.e. price risk) and cash flow risk caused by changes in market interest rates.

On the balance sheet date, the total amount of interest-bearing debt excluding lease liabilities was EUR 40,483 thousand (2019: EUR 40,657 thousand) covered with contracts in which the interest range is between 0.65 and 2.0 per cent (2019: between 0.65 and 2.0 per cent). All of the Group's loans have variable interest rates.

The Group monitors the interest risk by calculating the effect of one percentage point change in interest rates on the Group's next twelve months' interest expenses. The sensitivity of the interest position to changes in interest rates is determined by calculating how much an equal one percentage point change in interest rates throughout the Group's interest rate range would change yearly interest expenses. Interest bearing loans from financial institutions excluding lease liabilities are included in the calculation. At the balance sheet date, the Group's sensitivity to an increase in interest rates of one percentage point was approximately EUR 271 thousand (2019: EUR 333 thousand).

4.1.3 Financing and liquidity risk

The Group aims to guarantee solid liquidity in all market conditions through efficient cash management. Credit limits tied to cash pool arrangements are used for short-term financing. On the balance sheet date, the Group had EUR 16,534 thousand (2019: EUR 15,959 thousand) of available credit limits, of which EUR 0 thousand (2019: EUR 1,799) was in use. Refinancing risk is attempted to be minimized by applying a balanced maturity schedule to the loan portfolio, ensuring sufficient maturity of loans, and using several banks as sources of financing.

The Group has financial covenants, which are tied to the equity ratio of the Group and to the debt/EBITDA ratio of the Group. In case the Group's equity ratio at the time of the Financial Statement is below 25% or the debt/EBITDA ratio is higher than 3.5, the financer has the right to demand immediate payment of all the Group's loans. According to Consolidated Financial Statements in 2020, the terms of these covenants were not breached.

To balance the cash effect of the long payment terms typical to design business, the Group sells a part of its key customer receivables to a finance institution. There is no credit risk related to the sold receivables and these receivables are not included in the Consolidated Statement of Financial Position.

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Maturity analysis of financial liabilities

2020

EUR 1,000	Less than 1 year	1-5 years
Borrowings	27,583	12,900
Lease liabilities	15,883	8,608
Interest payments	217	103
Liabilities from acquisitions	132	0
Trade and other payables	11,938	20
Financial liabilities, total	**55,753**	**21,631**

2019

EUR 1,000	Less than 1 year	1-5 years
Borrowings	15,757	24,900
Lease liabilities	7,381	8,216
Interest payments	273	239
Liabilities from acquisitions	2,430	0
Trade and other payables	14,070	20
Financial liabilities, total	**39,912**	**33,375**

Non-monetary changes in interest-bearing liabilities

EUR 1,000 EUR	2020	2019
Interest-bearing liabilities Jan 1	**56,255**	**36,252**
Financing cash flow	-13,346	-2,544
Non-monetary changes		
IFRS 16 implementation	*0*	*12,337*
New leases and use of extension options	*22,001*	*10,238*
Lease disposals	*-949*	*-494*
Liabilities assumed in acquisitions	*1,095*	*314*
Translation differences	*-81*	*153*
Non-monetary changes, total	20,065	22,547
Interest-bearing liabilities Dec 31	**64,974**	**56,255**

4.1.4 Counterparty and credit risk

Financing contracts have the associated risk of the counterparty being unable to fulfill its obligations under the contract. To minimize the counterparty risk financing contracts are concluded with leading Nordic banks that have a good credit rating.

Credit risk related to business operations arises out of a customer’s inability to perform its contractual obligations. A considerable proportion of the Group’s business operations focus on large, financially solid companies that operate internationally. Credit risk is also reduced by the customer companies being divided among several different sectors of operation. The Group aims to ensure that services are sold only to such customers that have an appropriate credit rating. Credit risk is controlled systematically, and overdue sales receivables are assessed on a weekly basis. The Company strives to control the effects of increased financial uncertainty by actively monitoring its receivables and by an efficient debt collection process. The maximum customer credit risk exposure at the end of the financial year is the book value of accounts receivable.

To measure expected credit losses the Group applies the IFRS 9 simplified approach which uses a lifetime expected loss allowance for all trade receivables and contract assets (“Work in progress”) including amounts not due. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The measurement of the expected credit losses includes forward-looking information in the form of the estimated growth of the EU gross domestic product.

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In addition, the Group's management also estimates expected credit losses case-by-case according to management judgment. Generally, the Group recognizes a 50 per cent allowance for receivables that are more than 60 days past due and a 100 per cent reservation for receivables that are more than 90 days past due.

2020		**Past due**				
EUR 1,000	**Not due**	**0-30 d**	**31-60 d**	**61-90 d**	**> 90 d**	**Total**
Expected loss rate	0,1 %	0,1 %	3,9 %	10,3 %	9,1 %	
Trade receivables	29 277	2 716	1 045	443	1 149	34 631
Work in progress	17 764	0	0	0	0	17 764
Lifetime expected credit loss allowance	47	3	41	46	105	241
Case-by-case credit loss allowance					123	123
Expected credit loss allowance recognized						**364**

2019		**Past due**				
EUR 1,000	**Not due**	**0-30 d**	**31-60 d**	**61-90 d**	**> 90 d**	**Total**
Expected loss rate	0,1 %	0,1 %	3,1 %	7,2 %	5,9 %	
Trade receivables	30 197	3 725	745	79	1 261	36 008
Work in progress	22 498	0	0	0	0	22 498
Lifetime expected credit loss allowance	53	4	23	6	74	160
Case-by-case credit loss allowance					254	254
Expected credit loss allowance recognized						**413**

Movements of the allowance for impairment

EUR 1,000	**2020**	**2019**
Loss allowance recognized Jan 1	-413	-312
Payments received	44	0
Loss allowance in acquirees	-12	-105
Provision for impairment of receivables, decrease (+) / increase (-)	17	4
Loss allowance recognized Dec 31	**-364**	**-413**

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

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4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

Consistent with other companies in the industry, the Group monitors capital on the basis of the net gearing ratio. This ratio is calculated as net debt divided by equity. Net debt is calculated as total gross interest-bearing debt less cash and cash equivalents. To ensure sufficient flexibility, the goal is to keep the net gearing ratio within 30–100%. The following table sets out the Group's net gearing ratio:

EUR 1,000	2020	2019
Gross interest-bearing debt	64,974	56,255
Less: cash and cash equivalents	-24,407	-15,878
Net debt	40,567	40,377
Total equity	87,074	76,740
Net gearing ratio	**46.6%**	**52.6%**