Q1 2011: Growth in consolidated net sales, but changes in operating environment weaken profitability

Summary

- Consolidated net sales: EUR 33.4 (32.8) million, up 1.6 per cent
- Consolidated operating profit: EUR 2.3 (4.7) million, down 51.7 per cent
- Profitability (EBIT): 6.8 (14.0) per cent
- Product business accounted for 14.5 (16.4) per cent
- Earnings per share: EUR 0.07 (0.14)

During the review period, a sudden change occurred in the operating conditions of Digia's Mobile Solutions segment. On 11 February 2011, one of the company's major clients, Nokia Plc, announced that it would adopt Windows Phone, rather than Symbian or Meego, as its primary smartphone operating system. As a consequence, the Mobile Solutions segment's net sales did not develop according to expectations; the segment was still burdened by the salary costs of personnel recruited to fulfil earlier growth targets.

To adapt its cost structure to the new market conditions, on 2 March 2011 the company announced personnel negotiations on the closure of its Pori unit. These negotiations concluded after the end of the review period, on 20 April 2011.

Mainly due to lower than expected license sales, the net sales and profitability of the Enterprise Solutions segment also fell short of budget.

Despite these challenges, the company increased its net sales in both operating segments. While Mobile Solutions had modest profitability, Enterprise Solutions exceptionally fell just short of the targeted minimum level of ten per cent.

For the rest of the year, the company predicts a fall in the net sales of the Mobile Solutions segment compared to the 2010 total. Similarly, its operational profitability is expected to remain on lower level than 2010, despite the streamlining measures taken. Due to these factors and the considerable uncertainty about the segment's near future, there is a significantly increased risk of goodwill impairment for Mobile Solutions.

With regard to Enterprise Solutions, the company regards the review period's slight challenges as temporary. It expects net sales to grow organically during the rest of the year, at least at the moderate growth rate predicted for the IT market. Profitability is expected to return to normal good level.

Reliable forecasting of the company's operations is hampered by the uncertainty surrounding the Mobile Solutions segment. For this reason, Digia is currently unable to provide more precise estimates of its group level consolidated net sales or profitability for 2011.

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GROUP KEY FIGURES AND RATIOS

	Jan-Mar/2011	Jan-Mar/2010	Change %	2010
Net sales	33,357	32,831	2%	130,825
Operating profit	2,259	4,680	-52%	17,164
- % of net sales	7%	14%		13%
Net profit	1,448	2,983	-52%	11,474
- % of net sales	4%	9%		9%
Return on equity, %	9%	20%		18%
Return on investment,%	10%	21%		19%
Interest-bearing liabilities	22,951	29,260	-22%	23,316
Cash and cash equivalents	4,677	9,703	-52%	9,682
Net gearing, %	29%	33%		20%
Equity ratio, %	56%	52%		59%
Earnings per share, EUR, undiluted	0.07	0.14	-50%	0.56
Earnings per share, EUR, diluted	0.07	0.14	-50%	0.56

MARKETS AND DIGIA'S BUSINESS

Uncertainty marked the beginning of 2011, after one of the company's major clients, Nokia Plc, announced its new strategy. This strategy involves adopting Windows Phone as its primary smartphone operating system, rather than Symbian or Meego.

The Finnish economy continued to grow – the company predicts moderate growth for the Finnish IT market during 2011. Although the IT sector has reasonable growth prospects, the risks posed to the macroeconomy by the Eurozone debt crisis, the price of oil and the general inflation trend could also affect demand for IT services.

Digia's Chinese unit generates product development and maintenance services. This enables the company to serve customers at various points in their product development cycle. The unit's capacity is utilised both in projects within China and for global customer relationships. Digia expects the Chinese unit's operations to be affected by reduced demand for Symbian and Meego technology, due to the new Nokia strategy. The Russian unit operates as a near-shore resource for Digia's Finnish customers and sells services directly to local customers. During the review period, the Russian unit's operations progressed as expected.

Enterprise Solutions:

Strong demand for ERP systems, e-business and customer experience management solutions continued during the review period. As touchscreen smartphones become more common, Digia expects the production of more business applications as multichannel wireless entities.

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On 7 March 2011, the company made an agreement with Nokia concerning the acquisition of commercial Qt-licensing and service operations. The acquisition came into effect on 22 March 2011. Digia will seek to expand and develop the acquired product business. In particular, it will do so by providing complementary productised support services and additional features required by customers. The deal supports Digia's strategic aim of increasing net sales within its international product business. The acquisition cost of EUR 0.8 million is partly dependent on an additional purchase price component, linked to the performance of the acquired business.

For this reason, the acquisition cost is preliminary, to be specified during the next 12 months.

During the review period, the company focused on creating suitable conditions for growth. Examples of this include developing sector-specific solutions for increasing customers' operational efficiency and for customer experience management.

Mobile Solutions:
During the review period, the Mobile Solutions segment was negatively affected by the uncertainty surrounding the company's relationship with Nokia. After the publication of Nokia's new strategy, the sale of new services fell significantly. As a result, in the beginning of March Digia announced that sales of Symbian and Meego-related services to Nokia are expected to fall during 2011. Digia will probably be unable to fully compensate for this shortfall through new customer relationships and added sales to existing customers.

On 8 March, to adapt its cost structure to the new market conditions, the company initiated personnel negotiations affecting 85 employees. These concerned the closure of its Pori unit. The negotiations were concluded after the end of the review period, on 20 April 2011. As a consequence, the company decided to close its Pori unit, laying off 63 employees from the unit by the end of October 2011. Digia estimates that the downsizing will cause a one-off expense of EUR 1.1 million, to be entered into the accounts during the second quarter of 2011.

NET SALES

Digia's consolidated net sales for the first quarter were EUR 33.4 (32.8) million, up 1.6 per cent on the same period in 2010.

First-quarter net sales for the Enterprise Solutions segment totalled EUR 19.5 (19.4) million, up 0.7 per cent. The Mobile Solutions segment had net sales of EUR 13.9 (13.5) million, up 2.9 per cent. This lower-than-expected growth in net sales was due to reduced licence sales in the Enterprise Solutions segment and lower demand in Mobile Solutions segment caused by Nokia's strategic realignment.

During the first quarter, the product business accounted for EUR 4.8 (5.4) million of consolidated net sales, or 14.5 (16.4) per cent.

International operations accounted for EUR 2.5 (2.7) million of consolidated net sales, or 7.5 (8.2) per cent.

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PROFIT PERFORMANCE AND PROFITABILITY

Digia's consolidated operating profit for the first quarter was EUR 2.3 (4.7) million. Profitability (EBIT %) was 6.8 (14.2) per cent.

The first-quarter operating profit of the Enterprise Solutions segment was EUR 1.8 (2.8) million, and profitability (EBIT %) was 9.0 per cent. The Mobile Solutions segment's operating profit was EUR 0.5 (1.9) million and profitability (EBIT %) was 3.7 per cent.

The profitability of Enterprise Solutions was in line with the company's earlier forecast range of 8-10 per cent. Lower licence sales than expected were the main reason for Enterprise Solutions' reduced profitability. Mobile Solutions segment's profitability was slightly below the forecast 5–7 per cent. In the Mobile Solutions segment, lower profitability was due to recruitment carried out during the end of 2010 and beginning of 2011 to meet earlier growth targets. Because of the change in Nokia's strategy, Digia was unable to provide enough work for all of the new employees in Mobile Solutions segment, while the increased salary costs were a financial burden.

Digia's consolidated earnings before tax for the first quarter were EUR 1.9 (4.2) million, and net profit totalled EUR 1.4 (3.0) million.

Consolidated earnings per share for the quarter were EUR 0.07 (0.14).

Consolidated net financial expenses totalled EUR 0.3 (0.5) million.

FINANCIAL POSITION AND EXPENDITURE

At the end of the reporting period, the Digia Group's consolidated balance sheet total stood at EUR 114.6 million (12/2010: EUR 115.4 million) and the equity ratio was 56.3 (12/2010: 58.8) per cent. Net gearing was 28.8 (12/2010: 20.2) per cent. The period-end cash and cash equivalents totalled EUR 4.7 (12/2010: 9.7) million.

Interest-bearing liabilities amounted to EUR 23.0 (12/2010: 23.3) million. This comprised EUR 21.7 million in loans from financial institutions, EUR 1.2 million in financial leasing liabilities and EUR 0.1 million in product development loans. During the reporting period, the company repaid EUR 1.0 million in loans from financial institutions.

The Group normally carries out quarterly impairment testing on goodwill and intangible assets with an indefinite useful life. Digia is, however, currently unable to provide a reliable forecast of the Mobile Solutions segment's development. This is due to insufficient information on the scope, schedule and impact of the changes occurring in the operating environment. The company's management perceives a significantly increased risk of goodwill impairment for the segment.

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The table below shows, by business segment, goodwill and values subject to testing at the end of the reporting period:

EUR 1,000	Specified intangible assets	Depreciation during the reporting period	Goodwill	Other items	Total value subject to testing
Enterprise Solutions	3,336	178	44,068	4,463	51,867
Mobile Solutions	4,650	292	22,301	4,161	31,112
Group total	7,986	470	66,369	8,624	82,979

Present values for the Enterprise Solutions segment were calculated for the forecast period, based on the following assumptions: net sales for 2011 according to the latest forecast, after which annual growth of three per cent; operating profit for 2011 in accordance with the latest forecast and after that 10 per cent, with discount rates of 11.2 per cent. Cash flows following the forecast period are estimated by extrapolating the cash flows, using the assumptions given above. The amount of goodwill for Enterprise Solutions requires average annual growth of two per cent for business operations and five per cent profitability. The management sees no risk of goodwill impairment for Enterprise Solutions.

The Group's cash flow from operations for the period was positive by EUR 1.8 (3.1) million, cash flow from investments was negative by EUR 0.9 (0.3) million and cash flow from financing was negative by EUR 6.0 (3.5) million. Cash flow from financing was negatively affected by the repayment of loans for a total sum of EUR 1.0 million, as well as the payment of EUR 4.9 million in dividends.

The Group's total investments in fixed assets during the review period were EUR 0.8 (0.3) million. Acquisitions of tangible fixed assets totalled EUR 0.7 (0.2) million.

Return on investment (ROI) for the period was 10.3 (21.2) per cent and return on equity (ROE) was 8.8 (20.5) per cent.

HUMAN RESOURCES, MANAGEMENT AND ADMINISTRATION

At the end of the period, the number of Group personnel totalled 1,586, representing an increase of 28 employees or 1.8 per cent since the end of 2010 (1,558 employees). During the reporting period, the number of employees averaged 1,580, an increase of 103 employees or 7.0 per cent over the 2010 average (1,477).

Employees by function at the end of the period:

Enterprise Solutions	49%
Mobile Solutions	48%
Administration and management	3%

As of the end of the period, 218 (12/2010: 196) employees were working abroad.

Digia Plc's Annual General Meeting of 16 March 2011 re-elected Robert Ingman, Kari Karvinen, Pertti Kyttälä, Martti Mehtälä, Pekka Sivonen, Tommi Uhari and Marjatta Virtanen as members of the Board. At the organisation meeting of the Board, Pertti Kyttälä was elected as Chairman of the Board and Martti Mehtälä as Vice Chairman.

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Juha Varelius has been Digia Plc's President and CEO since 1 January 2008.

Ernst & Young Oy, authorised public accountants, are the Group's auditors, with Heikki Ilkka, Authorised Public Accountant, as the chief auditor.

RISKS AND UNCERTAINTIES

The company's short-term business risks and uncertainties were described in the Financial Statements for 2010. These are mainly unchanged. However, the uncertainty and business risks surrounding trends and forecasts for the mobile market have grown.

FUTURE PROSPECTS

The company's original objective for 2011 was to focus on increasing net sales. This had to be updated due to the changes in the operating environment for Mobile Solutions. Our updated measures are targeted to adjustment of the Mobile Solutions segment as well as possible to future demand, swiftly recovery of profitability and further development of the operations of the Enterprise Solutions segment. The company aims to reinforce its organisation and competencies through targeted recruitment. In addition to its core business operations, the company will continue to invest in expanding its scalable product business. Digia will also continue to develop its international operations, particularly in China and Russia.

As a whole, the company expects the IT market to continue growing moderately from 2010 levels. For the rest of the year, it predicts a fall in the Mobile Solutions segment's net sales from the 2010 total. Similarly, operational profitability is expected to fall year on year, despite the streamlining measures undertaken.

For Enterprise Solutions, net sales are expected to grow organically during the rest of the year, at least matching the moderate rate predicted for the IT market. Profitability is expected to return to normal good level. The commercial Qt-licensing and service operations, acquired from Nokia towards the end of the review period, have made a promising start. They are expected to contribute EUR 5–8 million to the net sales of Enterprise Solutions during the remaining of 2011. Digia believes that these operations will have a neutral impact on overall profit for 2011, despite the negative impact of the related start-up costs during the second quarter.

Continuing uncertainty surrounding the Mobile Solutions segment is, however, hampering reliable forecasting of the company's operations. As a result, Digia is unable to provide more reliable forecasts of its group level annual consolidated net sales or profitability.

The long-term cornerstones of Digia's success will be strengthening organic growth and maintaining good cash flows and profitability.

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OTHER EVENTS DURING THE REVIEW PERIOD

Convening on 16 March 2011, Digia Plc's Annual General Meeting (AGM) adopted the financial statements for 2010, released the Board members and the CEO from liability, determined Board emoluments, resolved to raise the number of Board members to seven (7), and elected the company's Board of Directors for a new term.

With regard to profit distribution for 2010, the AGM approved the Board's proposal to pay a dividend of EUR 0.27 per share to all shareholders listed in the shareholder list maintained by Euroclear Finland Ltd on the reconciliation date of 21 March 2011. The dividend payment date was 28 March 2011.

The AGM granted the following authorisations to the Board:

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

The AGM authorised the Board to decide on the buyback and/or acceptance as collateral of a maximum of 2,000,000 shares in the company. The buyback can only be executed using the company's unrestricted equity. The Board shall decide on how the shares are bought. Own shares can be bought back in disproportion to the holdings of the shareholders. The authorisation also includes the acquisition of shares through public trading organised by NASDAQ OMX Helsinki Oy in accordance with the rules and instructions of NASDAQ OMX Helsinki and Euroclear Finland Ltd, or through offers made to shareholders. Shares may be acquired in order to improve the company's capital structure, to fund acquisitions or other business transactions, to offer share-based incentive schemes, to sell on or to be annulled. The shares must be acquired at the market price in public trading. The authorisation replaces the authorisation granted by the Shareholders' Meeting on 3 March 2010 and is valid for 18 months, i.e. until 16 September 2012.

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

The AGM authorised the Board to decide on an ordinary or bonus issue of shares and the granting of special rights (as defined in Section 1, Chapter 10 of the Limited Liability Companies Act) in one or more instalments, as follows: the issue can total a maximum of 4,000,000 shares. The authorisation applies both to new shares and own shares held by the company. By virtue of the authorisation, the Board has the right to decide on share issues and the granting of special rights, waiving the pre-emptive subscription rights of the shareholders (directed issue). The authorisation can be used to fund or complete acquisitions or other business transactions, to offer share-based incentive schemes, to develop the company's capital structure, or for other purposes. The Board was authorised to decide on all terms relating to the share issue or special rights, including the subscription price, its payment in cash or partly or wholly in capital contributed in kind, or by writing it off against the subscriber's receivables, and its recognition in the company's balance sheet. The authorisation replaces the authorisation granted by the Shareholders' Meeting on 3 March 2010 and is valid for 18 months, i.e. until 16 September 2012.

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SHARE CAPITAL AND SHARES

On 31 March 2011, the number of Digia Plc shares totalled 20,875,645.

At the end of the period, according to Finnish Central Securities Depository Ltd, Digia had 6,564 shareholders. The ten major shareholders were:

Shareholder	Shares and votes
Ingman Group Oy Ab	14.8%
Pekka Sivonen	12.6%
Jyrki Hallikainen	10.2%
Kari Karvinen	6.5%
Matti Savolainen	6.1%
Varma Mutual Pension Insurance Company	3.6%
OMXBS/Skandinaviska Enskilda Banken (nominee-registered)	1.6%
Nordea Bank Finland Plc	1.5%
Etola Oy	1.0%
Olli Ahonen	0.9%

Distribution of holdings by number of shares held on 31 March 2011

Number of shares	Holding (%)	Shares and votes
1 – 100	21.2%	0.5%
101 – 1,000	60.3%	8.7%
1,001 – 10,000	17.1%	14.6%
10,001 – 100,000	1.1%	9.9%
100,001 – 1,000,000	0.2%	16.1%
1,000,001 – 3,000,000	0.1%	50.2%

Shareholding by sector on 31 March 2011

	Holding	Shares
Companies	4.9 %	20.2 %
Financial institutions and insurance companies	0.2 %	4.0 %
Non-corporate public sector	0.1 %	3.6 %
Non-profit organisations	0.2 %	0.5 %
Households	94.2 %	70.5 %
Foreign ownership	0.4 %	1.2 %

REPORTED SHARE PERFORMANCE ON THE HELSINKI STOCK EXCHANGE

Digia Plc shares are listed on the NASDAQ OMX Helsinki Exchange under IT Services. The company's short name is DIG1V. The lowest reported share quotation was EUR 4.20 and the highest was EUR 5.79. The share officially closed at EUR 4.21 on the last trading day. The trade-weighted average was EUR 4.87. The Group's market capitalisation totalled EUR 87,886,465 at the end of the period.

The company received no flagging notifications during the reporting period.

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STOCK OPTION SCHEMES

Digia Plc had no outstanding options.

Helsinki, 29 April 2011

Digia Plc

Board of Directors

BRIEFING FOR ANALYSTS

Digia will hold a briefing on its Financial Statement for analysts on Friday 29 April 2011 at 11 am, at WTC Sodexo in the Marski cabinet of the World Trade Center, Aleksanterinkatu 17, 00100 Helsinki, Finland. All are welcome.

FURTHER INFORMATION

Juha Varelius, President and CEO, Mobile: +358 400 855849, E-mail: juha.varelius@digia.com

The Interim Report will be available in the Investors section of the website www.digia.fi from 9 am and the related live briefing can be viewed online (in Finnish) from 11 am.

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ABBREVIATED FINANCIAL STATEMENTS AND ATTACHMENTS

Consolidated Income Statement
Consolidated Balance Sheet
Consolidated Cash Flow Statement
Consolidated Statement of Changes In Shareholders' Equity
Notes to the Accounts

The interim report has been prepared in compliance with IFRS and the IAS 34 standard. This interim report is based on unaudited figures.

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CONSOLIDATED INCOME STATEMENT, EUR 1,000

	Jan-Mar/2011	Jan-Mar/2010	Change %	2010
NET SALES	33,356.7	32,830.8	1.6%	130,825.2
Other operating income	24.2	62.6	-61.3%	317.5
Materials and services	-2,483.6	-2,776.2	-10.5%	-10,156.9
Depreciation and amortisation	-926.8	-936.7	-1.1%	-3,719.1
Other operating expenses	-27,711.1	-24,500.6	13.1%	-100,102.3
Operating profit	2,259.5	4,679.9	-51.7%	17,164.4
Financial expenses (net)	-342.7	-479.1	-28.5%	-1,438.8
Earnings before tax	1,916.8	4,200.8	-54.4%	15,725.7
Income taxes	-468.9	-1,217.7	-61.5%	-4,251.3
NET PROFIT	1,447.9	2,983.1	-51.5%	11,474.3
Components of statement of comprehensive income:				
Exchange differences on translating foreign operations	120.3	129.0	-6.8%	292.3
TOTAL COMPREHENSIVE INCOME	1,568.2	3,112.2	-49.6%	11,766.6
Distribution of net profit:				
Parent company shareholders	1,447.9	2,983.1	-51.5%	11,474.3
Minority interest	0.0	0.0		0.0
Distribution of comprehensive income:				
Parent company shareholders	1,568.2	3,112.2	-49.6%	11,766.6
Minority interest	0.0	0.0		0.0
Earnings per share, EUR	0.07	0.14	-50.0%	0.56
Earnings per share (diluted), EUR	0.07	0.14	-50.0%	0.56

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CONSOLIDATED BALANCE SHEET, EUR 1,000

Assets	31 Mar 2011	31 Dec 2010	Change %
Non-current assets			
Intangible assets	74,866.3	74,514.2	0.5%
Tangible assets	3,209.2	2,925.9	9.7%
Financial assets	640.8	628.0	2.0%
Long-term receivables	14.0	14.0	0.0%
Deferred tax assets	1,087.8	875.7	24.2%
Total fixed and other non-current assets	79,818.0	78,957.8	1.1%
Current assets			
Current receivables	30,093.4	26,798.9	12.3%
Available-for-sale financial assets	304.9	299.6	1.8%
Cash and cash equivalents	4,371.6	9,382.1	-53.4%
Total current assets	34,769.9	36,480.5	-4.7%
Total assets	114,587.9	115,438.3	-0.7%

Shareholders' equity and liabilities	31 Mar 2011	31 Dec 2010	Change %
Share capital	2,087.6	2,126.2	-1.8%
Premium fund	7,899.5	7,899.5	0.0%
Other reserves	5,203.8	5,203.8	0.0%
Unrestricted invested equity reserve	35,525.0	35,486.4	0.1%
Translation difference	286.7	166.3	72.4%
Retained earnings	11,078.0	5,054.4	119.2%
Net profit	1,447.9	11,474.3	-87.4%
Equity attributable to parent company shareholders	63,528.5	67,411.0	-5.8%
Minority interest	0.0	0.0	
Total shareholders' equity	63,528.5	67,411.0	-5.8%
Liabilities			
Long-term interest-bearing liabilities	16,330.0	16,609.4	-1.7%
Deferred tax liabilities	2,053.6	2,177.6	-5.7%
Total long-term liabilities	18,383.6	18,786.9	-2.1%
Short-term interest-bearing liabilities	6,620.8	6,706.2	-1.3%
Other short-term liabilities	26,055.0	22,534.1	15.6%
Total short-term liabilities	32,675.8	29,240.4	11.7%
Total liabilities	51,059.4	48,027.3	6.3%
Shareholders' equity and liabilities	114,587.9	115,438.3	-0.7%

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CONSOLIDATED CASH FLOW STATEMENT, EUR 1,000

Cash flow from operations:	1 Jan-31 Mar 2011	1 Jan-31 Mar 2010	1 Jan-31 Dec 2010
Net profit	1,448	2,983	11,474
Adjustments to net profit for the period	1,738	2,633	9,409
Change in working capital	-322	-1,521	-5,828
Interest paid	-235	-254	-703
Interest income	11	2	21
Taxes paid	-848	-744	-3,306
Cash flow from operations	1,791	3,099	11,066
Cash flow from investments:			
Purchase of property, plant and equipment and intangible assets	-901	-322	-1,965
Cash flow from investments	-901	-322	-1,965
Cash flow from financing:			
Share issue			79
Purchase of own shares			-
Repayment of short-term loans	-1044	-1,044	-6,082
Repayments of long-term loans			-1,000
Withdrawals of short-term loans			-
Withdrawals of long-term loans			-
Dividends paid and other profit distribution	-4,851	-2,499	-2,885
Cash flow from financing	-5,896	-3,543	-9,887
Change in cash and cash equivalents	-5,005	-766	-786
Cash and cash equivalents at beginning of period	9,682	10,469	10,469
Change in fair value			-
Change in cash and cash equivalents	-5,005	-766	-786
Cash and cash equivalents at end of period	4,677	9,703	9,682

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, EUR 1,000

	a	b	c	d	e	f	g	h
SHAREHOLDERS' EQUITY 1 Jan 2010	2,085	0	7,899	35,448	5,204	-126	7,673	58,184
Net profit							2,983	2,983
Items of comprehensive income						129		129
Distribution of dividends							-2,885	-2,885
Own share redemption fund							72	72
Share-based payments recognised against equity	2,085	0	7,899	35,448	5,204	3	7,843	58,482
SHAREHOLDERS' EQUITY 31 Dec 2010	2,085	0	7,899	35,448	5,204	-126	7,673	58,184

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	a	b	c	d	e	f	g	h
SHAREHOLDERS' EQUITY 1 Jan 2011	2,086	40	7,899	35,486	5,204	166	16,529	67,411
Net profit							1,448	1,448
Items of comprehensive income						120		120
Distribution of dividends							-5,577	-5,577
Share-based payments recognised against equity	1	-40		39			126	126
SHAREHOLDERS' EQUITY 31 Mar 2011	2,088	0	7,899	35,525	5,204	287	12,526	63,528

a = share capital
b = rights issue
c = share premium
d = unrestricted invested shareholders' equity reserve
e = other reserves
f = currency translation differences
g = retained earnings
h = Total shareholders' equity

NOTES TO THE ACCOUNTS

Accounting principles:

The interim report has been drafted in line with IFRS, applying the same accounting principles as in the 2010 financial statements. The accounting principles and formulae for the calculation of key figures and ratios are unchanged and are presented in the 2010 financial statements.

Seasonal nature of business:

The Group's business is affected by the number of workdays each month as well as by holiday seasons.

Dividends paid:

Dividends paid during the reporting period totalled EUR 4,851,297.62.

Events after the review period:

On 20 April 2011, the company concluded negotiations with employees concerning the closure of its Pori unit, which it had initiated during the review period. As a consequence, the company decided to close its Pori unit and thereby lay off 63 employees from the unit by the end of October 2011.

The company estimates that the downsizing will cause a one-off expense of EUR 1.1 million, to be entered in the accounts for the second quarter of 2011.

Related party transactions:

The Digia Group's related parties include the CEO and the members of the Board of Directors and Group Management Team. The Digia Group had no significant transactions with related parties during the reporting period.

Concluded M&A transactions:

On 7 March 2011 Digia concluded an agreement with Nokia Plc for the acquisition of commercial Qt-business. Transaction included a right to sell commercial software licenses for Qt-technology with the exclusivity for the first three years.

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digia

Purchase price for the acquired business includes fixed and variable components. Fixed components amounts to 150,000 euros and it was paid with company's cash reserves. In addition to fixed component the seller is entitled to additional purchase price in the event the sales targets agreed for said business for 2011-2013 are met. The additional purchase price is estimated to amount 0,6 million euros, and it is paid in cash as realised.

On the basis of the initial purchase price allocation the main portion of the acquisition price (0,8 million euros) relates to acquired exclusivity to sell commercial licenses as well as to acquired customer relationships. The transaction carried no goodwill.

Segment information:

Digia's business operations are divided into two main business segments: Enterprise Solutions and Mobile Solutions. Enterprise Solutions is divided into ERP and Financial Administration, Digital Services and Integration Solutions. The Mobile Solutions segment is divided into Contract Engineering Services and User Experience Services.

NET SALES, EUR 1,000	Jan-Mar 2011	Jan-Mar 2010	Change %	2010
Enterprise Solutions	19,503	19,370	0.7%	75,674
Mobile Solutions	13,854	13,461	2.9%	55,152
Digia Group	33,357	32,831	1.6%	130,826

OPERATING PROFIT, EUR 1,000	Jan-Mar 2011	Jan-Mar 2010	Change %	2010
Enterprise Solutions	1,750	2,809	-37.7%	11,001
Mobile Solutions	509	1,870	-72.8%	6,164
Digia Group	2,259	4,680	-51.7%	17,165

ASSETS, EUR 1,000	31 Mar 2011	31 Dec 2010
Enterprise Solutions	66,720	63,762
Mobile Solutions	41,448	40,491
Unallocated	6,419	11,185
Digia Group	114,587	115,438

Consolidated income statement by quarter:

EUR 1000	Jan-Mar 2011	Oct-Dec/2010	Jul-Sep/2010	Apr-Jun/2010	Jan-Mar 2010
Net sales	33,356.7	36,025.4	26,951.0	35,018.0	32,830.8
Other operating income	24.2	32.3	184.8	37.8	62.6
Materials and services	-2,483.6	-2,749.0	-1,689.6	-2,942.1	-2,776.2
Depreciation and amortisation	-926.8	-954.6	-922.8	-905.1	-936.7
Other operating expenses	-27,711.1	-27,573.3	-21,596.0	-26,432.4	-24,500.6
Operating profit	2,259.5	4,780.9	2,927.5	4,776.2	4,679.9
Financial expenses (net)	-342.7	-286.5	-350.1	-323.0	-479.1
Earnings before tax	1,916.8	4,494.3	2,577.4	4,453.1	4,200.8
	-				
Income taxes	-468.9	-1,220.3	-512.1	-1,301.3	-1,217.7
NET PROFIT	1,447.9	3,274.1	2,065.3	3,151.9	2,983.1
Allocation:					
Parent company shareholders	1,447.9	3,274.1	2,065.3	3,151.9	2,983.1
Minority interest	0	0	0	0	0
Earnings per share, EUR	0.07	0.16	0.10	0.15	0.14
Earnings per share (diluted), EUR	0.07	0.16	0.10	0.15	0.14

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Group key figures and ratios:

	Jan-Mar 2011	Jan-Mar 2010
Extent of business		
Net sales	33,357	32,831
- change from previous year	2%	6%
Average capital invested	88,603	88,177
Personnel at period-end	1,586	1,495
Average number of personnel	1,580	1,477
Profitability		
Operating profit before extraordinary items and impairment	2,259	4,680
- % of net sales	7%	14%
Operating profit	2,259	4,680
- % of net sales	7%	14%
Earnings before tax	1,917	4,201
- % of net sales	5.7%	13%
Net profit	1,448	2,983
% of net sales	4%	9%
Return on equity, %	9%	20%
Return on investment, %	10%	21%
Financing and financial standing		
Interest-bearing liabilities	22,951	29,260
Short-term investments & cash and bank receivables	4,677	9,703
Net gearing	29%	33%
Equity ratio	56%	52%
Net cash flow from operating activities	1,641	3,099
Basic earnings per share (EUR)	0.07	0.14
Earnings per share, diluted (EUR)	0.07	0.14
Equity per share	3.04	2.80
Lowest share price	4.20	3.36
Highest share price	5.79	5.20
Average share price	4.87	4.17
Market capitalisation	87,886	107,813

The weighted average number of shares during the reporting period, adjusted for share issues, totalled 20,670,737. The number of outstanding shares totalled 20,875,645 at the end of the review period.

The company held a total of 173,327 treasury shares at the end of the reporting period. The accounting counter value of own shares is EUR 0.10 per share. The company held about 0.8 per cent of the capital stock as of 31 March 2011.

Relating to the company's performance-based incentive system, Digia has financed the acquisition of 300,000 own shares. At the end of the review period, 43,363 of said shares were not distributed and were held by Evli Alexander Management Ltd.

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