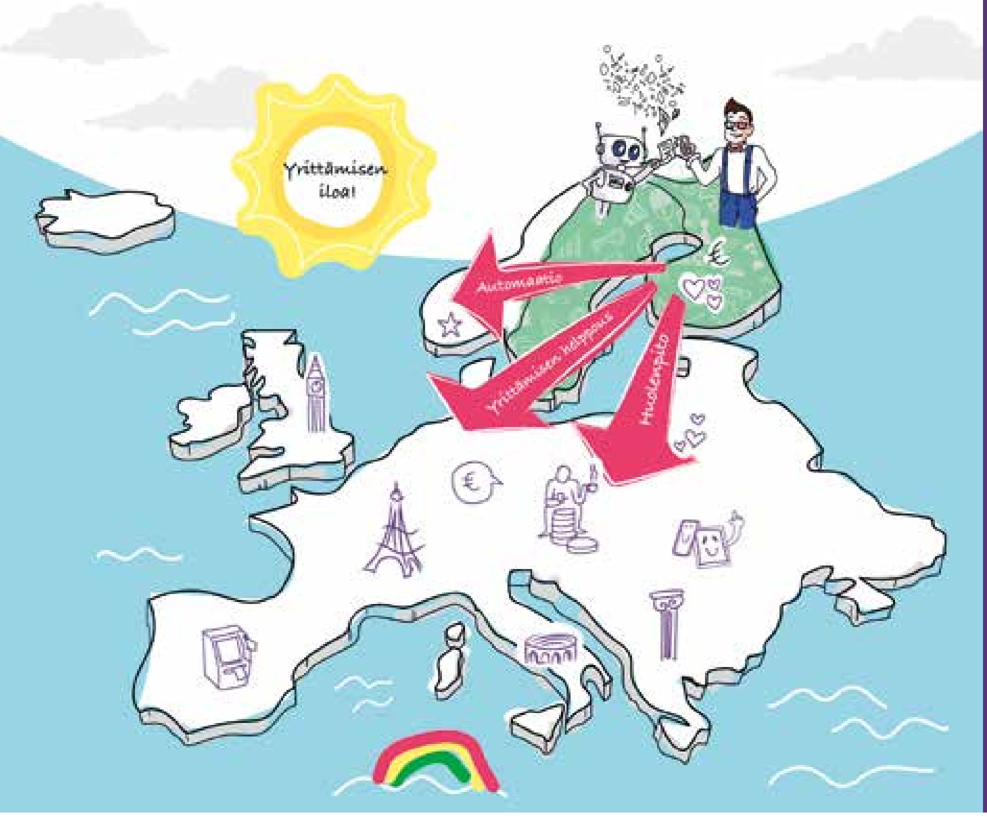
# ANNUAL REPORT 2020

TALENOM

*joy of entrepreneurship*

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# TALENOM IN BRIEF

Talenom is an agile and forward-looking accounting firm established in 1972. Our business idea is to make day-to-day life easier for entrepreneurs with the most user-friendly electronic tools on the market and highly automated services. In addition to comprehensive accounting services, we support our customers' business operations with a wide range of expert services as well as financing and banking services. Our vision is to offer unbeatable accounting and banking services for SMEs.

Talenom has a history of strong growth – the average annual increase in net sales was approximately 15,5 % between 2005 and 2020.

At the end of 2020, Talenom had 912 employees in Finland and Sweden. The company has 47 business locations. Talenom's share is quoted on the main list of the Helsinki Stock Exchange.

ESTABLISHED IN
**1972**

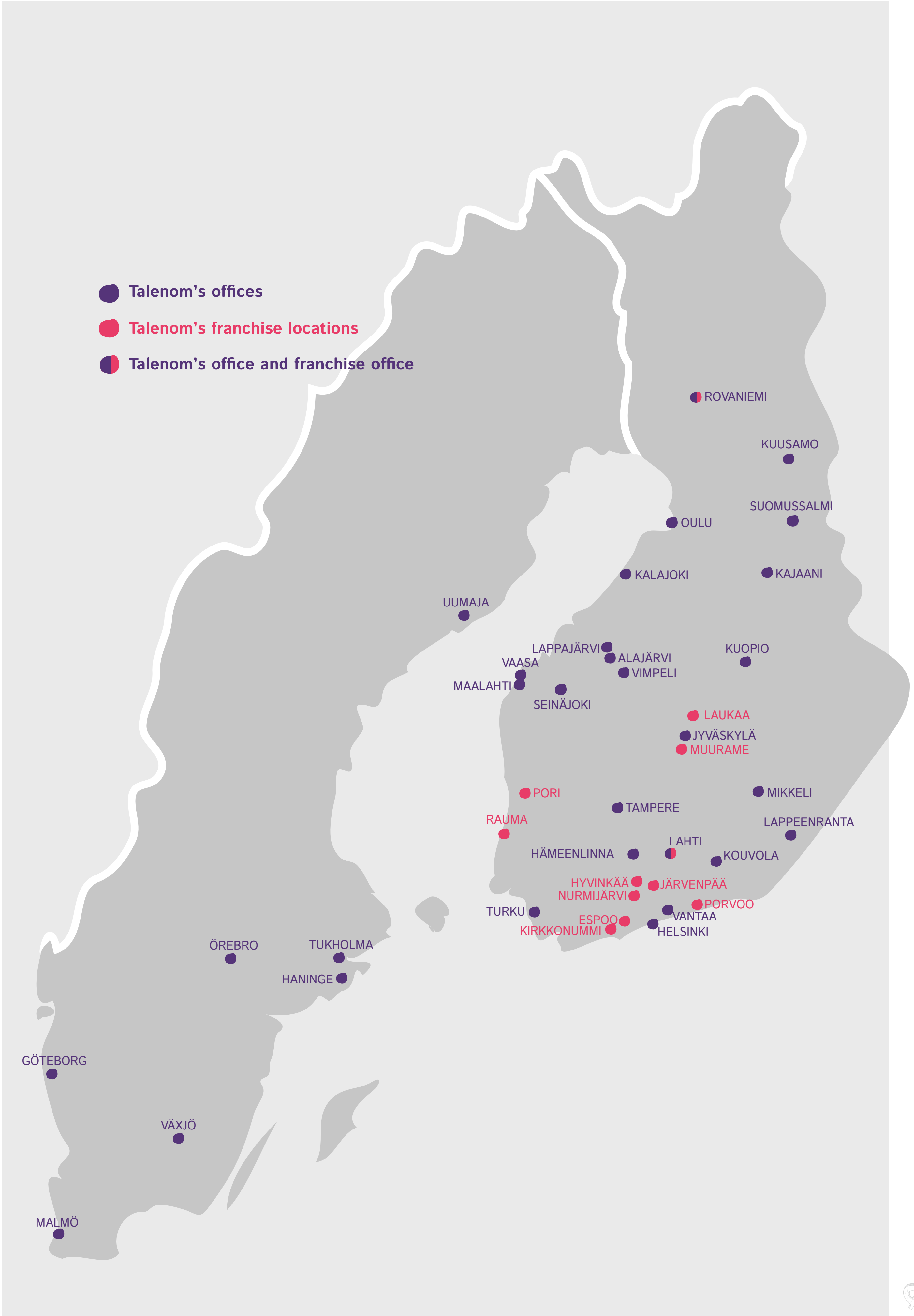
EMPLOYEES
**868**
(average)

OFFICES
**47**

Net sales 2020
**65,2 (58,0)**
million euros
growth 12,4 (18,6) %

Operating profit 2020
(EBIT)
**12,9 (10,4)**
million euros
19,8 (18,0) % of net sales

Dividend proposal
**0,15**
euro/share



# TALENOM'S SERVICES

### ACCOUNTING SERVICES

Accounting, sales invoicing, invoice payment, payroll service, staffing services, HR services

### ADVISORY SERVICES

Mergers and acquisitions, law, finances, taxes, personal services for entrepreneurs

### FINANCING SERVICES

Invoice financing, instalment financing and corporate loans

### BANKING SERVICES

Payment accounts and cards

### LIGHT ENTREPRENEUR SERVICES

Talenom Light Entrepreneur

### THE TILIJASKA™ SERVICE FOR SMALL ENTREPRENEURS

includes an accounting application, banking services (IBAN accounts and cards) and accounting services that are scaled to each customer's needs.

### DIGITAL SERVICES FOR FINANCIAL MANAGEMENT



# VALUES

1

### COURAGE

We enjoy challenges. We want to have confidence in what lies ahead and face new challenges fearlessly.

2

### CARING

We see each other as human beings – as individuals. We take good care of each other.

3

### WILL

We have the will and tenacity to achieve our objectives. We do not give up.

# MISSION, VISION AND STRATEGY

## MISSION

### *Joy of entrepreneurship*

We want to free up the time of our customers so they can focus on their own core functions – to this end, we do our own work exceptionally well and provide the joy of entrepreneurship.


## TALENOM VISION

### *Unbeatable accounting and banking services for SMEs*

Talenom provides its SME customers in Europe with effortless access to unbeatable accounting and banking services under a one-stop shop principle.

## TALENOM STRATEGY

Talenom's strategy is based on making day-to-day life easier for entrepreneur customers, highly automated services and proactively taking care of customers. The key to the implementation of the strategy is the combination of Talenom's in-house software production and accounting market expertise.

### DEVELOPMENT OF AUTOMATION

Thanks to automation, experts' resources are freed up from manual routines to supporting customers. Automation has already reduced the need for labour and thereby improved Talenom's capacity to take on new customers without hiring more accountants.

### AN UNBEATABLE CUSTOMER EXPERIENCE YIELDS A COMPETITIVE EDGE

Talenom's objective is to provide an unbeatable customer experience, which is created by combining a digital user experience with high-quality, highly personal service. Talenom wants to stand out as an active player – a company that helps its customers not only with accounting services, but also with added value services for finance, taxation and administration as well as banking services.

### GROWTH ORGANICALLY AND THROUGH ACQUISITIONS

Talenom wants to keep pursuing strong growth. The aim is to increase the number of both in-house sales personnel and franchising entrepreneurs as well as to seek geographical coverage also through distance sales. Talenom's substantial investments in software and achievements in developing efficiency support increasing business volume through acquisitions as well.

### INTERNATIONALISATION

The aim is to keep growing and expanding in Sweden. Talenom is also pursuing growth in other European countries, which provide the company with significant opportunities for expansion into new markets as a pioneer in the digitalisation of the accounting sector.

TO BE CONTINUED >>

## SMALL CUSTOMER CONCEPT AND TALENOM LIGHT ENTREPRENEUR ACCELERATE THE IMPLEMENTATION OF THE STRATEGY OF PROFITABLE GROWTH

Talenom reached an important milestone in its growth strategy in autumn 2020 when it launched the TiliJaska service in the Finnish market in line with its small customer concept. This new service provides small entrepreneurs with a free accounting application, banking 11 services (IBAN accounts and cards) and accounting services that are scaled to each customer's needs. A similar service will be introduced in Sweden. The small customer concept opens up an entirely new target market for Talenom in Finland – the small customer sector of SMEs, consisting of companies with net sales of under 400,000 euros.

In connection with TiliJaska, Talenom also launched the Light Entrepreneur service. Talenom Light Entrepreneur is the easiest and most affordable way on the market that enables budding entrepreneurs to go into business. The ongoing transformation of work is leading more and more people to take a second job or become part-time entrepreneurs. At the same time, work is increasingly changing into platform economy work performed through entrepreneurship. With its Light Entrepreneur service, Talenom wants to be involved in this megatrend. In the past five years, the Finnish light entrepreneur market has grown threefold.

## ADDED VALUE FOR CUSTOMERS WITH BANKING AND FINANCING SERVICES UNDER THE SAME ROOF

Talenom has been providing its customers with financing services since 2018. The services have been well-received by customers. Talenom intends to launch its own bank account and card services developed with the TiliJaska™ service to all Talenom customers, so that it can offer the accounting and banking services customers want under the same roof.

# MEGATRENDS

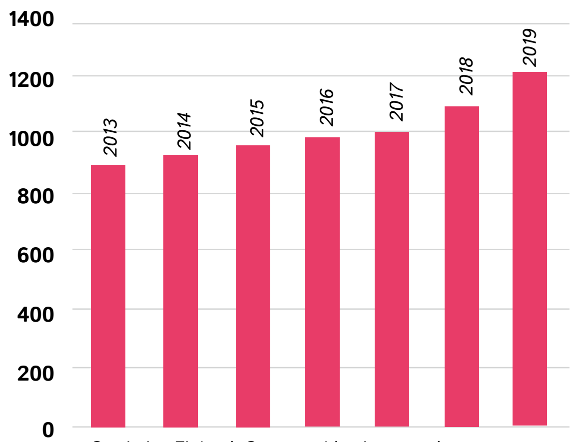
## MEGATRENDS AND LEGISLATIVE CHANGES SUPPORT THE IMPLEMENTATION OF OUR GROWTH STRATEGY MEGATRENDS AND LEGISLATIVE CHANGES SUPPORT THE IMPLEMENTATION OF OUR GROWTH STRATEGY

- The digital transformation of the accounting and banking sector enables us as a pioneer to provide and distribute even more customer-friendly services with greater efficiency.
- The platform economy is transforming working life – ever more people are seeking their livelihood from entrepreneurship and thus there is growing demand for financial management services.
- Due to the new e-Invoicing Directive that came into force in April 2020, traders have the right to receive an e-invoice from another company.
- The Payment Services Directive PSD2 obligates opening up bank interfaces across the EU, which makes it possible to include banking services in the service portfolios of accounting firms.
- Basel regulations have tightened the solvency requirements of banks, for instance, which has created the need for new financing channels for SMEs.

# GROWTH IN TALENOM'S NET SALES AND THE ACCOUNTING MARKET

SIZE OF SECTOR 2020

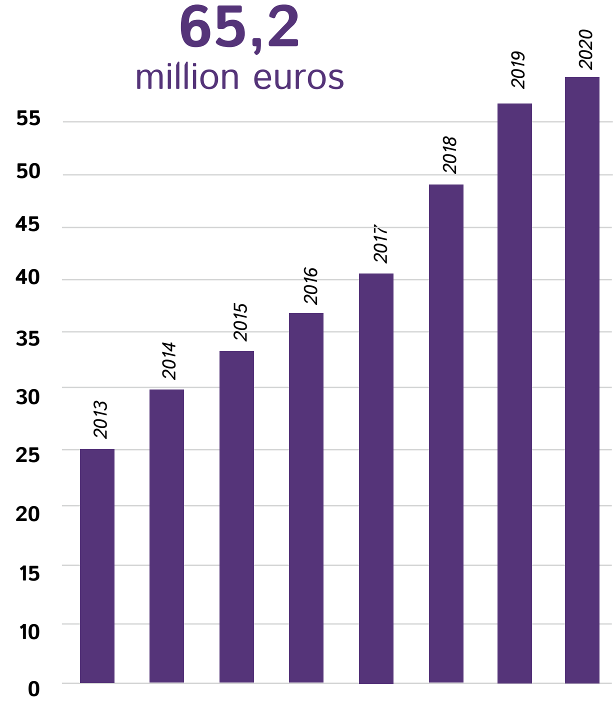
**1 219**
million euros




*Statistics Finland: Structural business and financial statement statistics*

NET SALES 2020

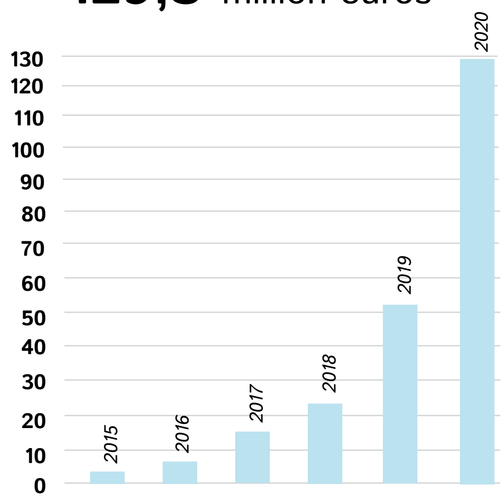
**65,2**
million euros




# SHAREHOLDERS

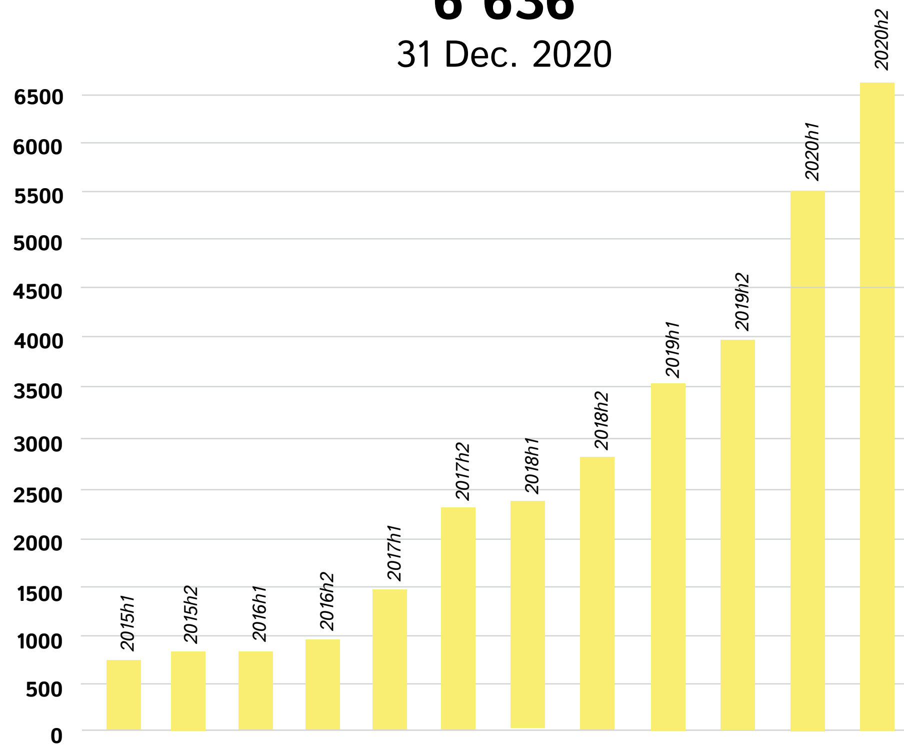
Total value of turnover 2020

**129,3** million euros



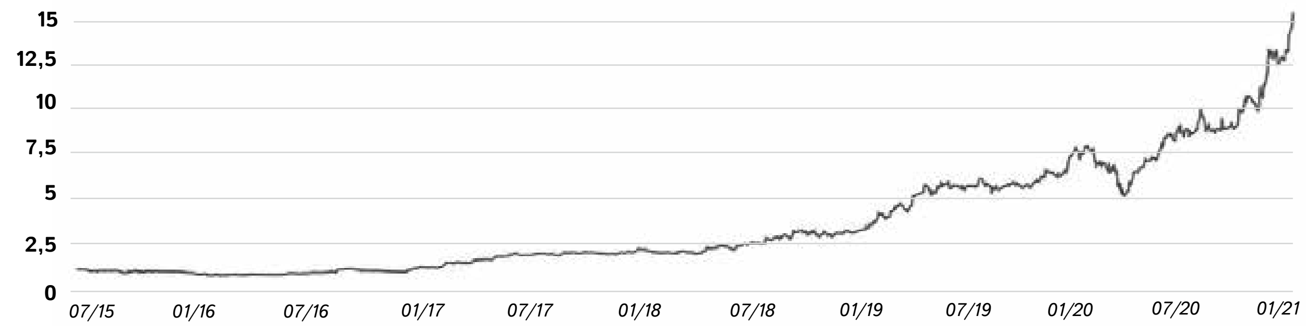

Number of shareholders

**6 636**
31 Dec. 2020




**650,4**
**Market capitalisation**
31 Dec. 2020
million euros

Stock quotation development
euros




# CEO'S REVIEW

*We will remember 2020 as an eventful year of development in exceptional circumstances. At the beginning of the year, I predicted that this will be the decade of consulting. The coronavirus pandemic accelerated our journey of evolving from accountants to consultants. On this journey, we want to support the business operations of our entrepreneur customers by providing them not only with accounting services, but also a range of expert services such as financial and tax advisory services and financing services. In the exceptional circumstances of 2020, entrepreneurs found our support and advisory services especially valuable.*

In the autumn, we launched TiliJaska, a new concept for the small customer segment, and unveiled our new banking services. Our goal for this year is to offer Talenom bank accounts and Talenom bank cards to all our customers. The digital distribution of the TiliJaska concept will enable us to sell our services efficiently to small entrepreneurs. We estimate that the new small customer concept has almost doubled the market potential of our services in Finland. Furthermore, we believe that the concept has substantial potential also in other markets, and we intend to launch a similar service, KontoKalle, in Sweden this year.

Our business developed favourably during the review year. We continued to grow and improved our profitability in spite of the coronavirus pandemic. Operating profit for January–December 2020 saw year-on-year improvement of 23.8 % and amounted to 12.9 million euros. Operating profit was 19.8 % of net sales. Net sales for January–December increased year-on-year by only 12.4 % to 65.2 million euros. The relative growth of net sales slowed down as the pandemic weakened sales to new customers and transaction-based invoicing. However, we successfully adjusted costs and stepped up automation, and as a result our relative profitability developed favourably.

In addition to organic growth, Talenom aims to pursue growth through acquisitions as well. In this respect, too, 2020 was a successful year, as we carried out several acquisitions in Finland. Our positive experiences of the Swedish market encouraged us to accelerate the growth of our business there. Through acquisitions, we expanded to new locations, Gothenburg, Malmö and, in January after the review year, to Växjö. Following the growth of our business operations in Sweden, we have achieved a sufficient level of net sales there to enable us to profitably localise and deploy our software in the country. We believe that the introduction of our own software will significantly boost the efficiency of our operations while making everyday life easier for our customers.

During the review year, we further increased our investments in software development. Our in-house software development combined with our accounting expertise is our strategic strength. We believe that this enables us to provide an excellent customer experience to our entrepreneur customers while automating our own routines. Cutting down on routines gives our experts more time to provide services with higher added value.

The boundaries between different sectors in our market are undergoing a transformation. The Payment Services Directive challenges the earnings logic of traditional banks and the EU's new e-Invoicing Directive spurs companies to digitalise their financial management. On the other hand, the digitalisation of financial management improves the transparency of business operations, boosts efficiency in tax collection and also plays a key role in the EU's green policy. We want to remain at the forefront of our industry and in October updated our vision: unbeatable accounting and banking services for SMEs. At the same time, we are building our future as a company that is going international and venturing into the European market by relying on our strategic cornerstones – automation, making entrepreneurship easy and care.

**Otto-Pekka Huhtala**
CEO
Talenom Oyj

# INTERNATIONAL MARKET

## SUBSTANTIAL GROWTH IN SWEDISH BUSINESS OPERATIONS IN 2020

**In 2020, we expanded our operations to Malmö, Gothenburg and Växjö. Thanks to the acquisitions carried out during the financial year, we leaped into a size class that enables us to tap into substantial economies of scale in Sweden.**

Talenom took its first steps into the international market when it bought Wakers Consulting AB in Sweden in 2019. We continued to carry out acquisitions in 2020. Talenom has now established itself in all three of Sweden's large economic areas (Stockholm, Gothenburg, Malmö). As integration progresses, the company will have a consistent way of working and evolving sales machinery.

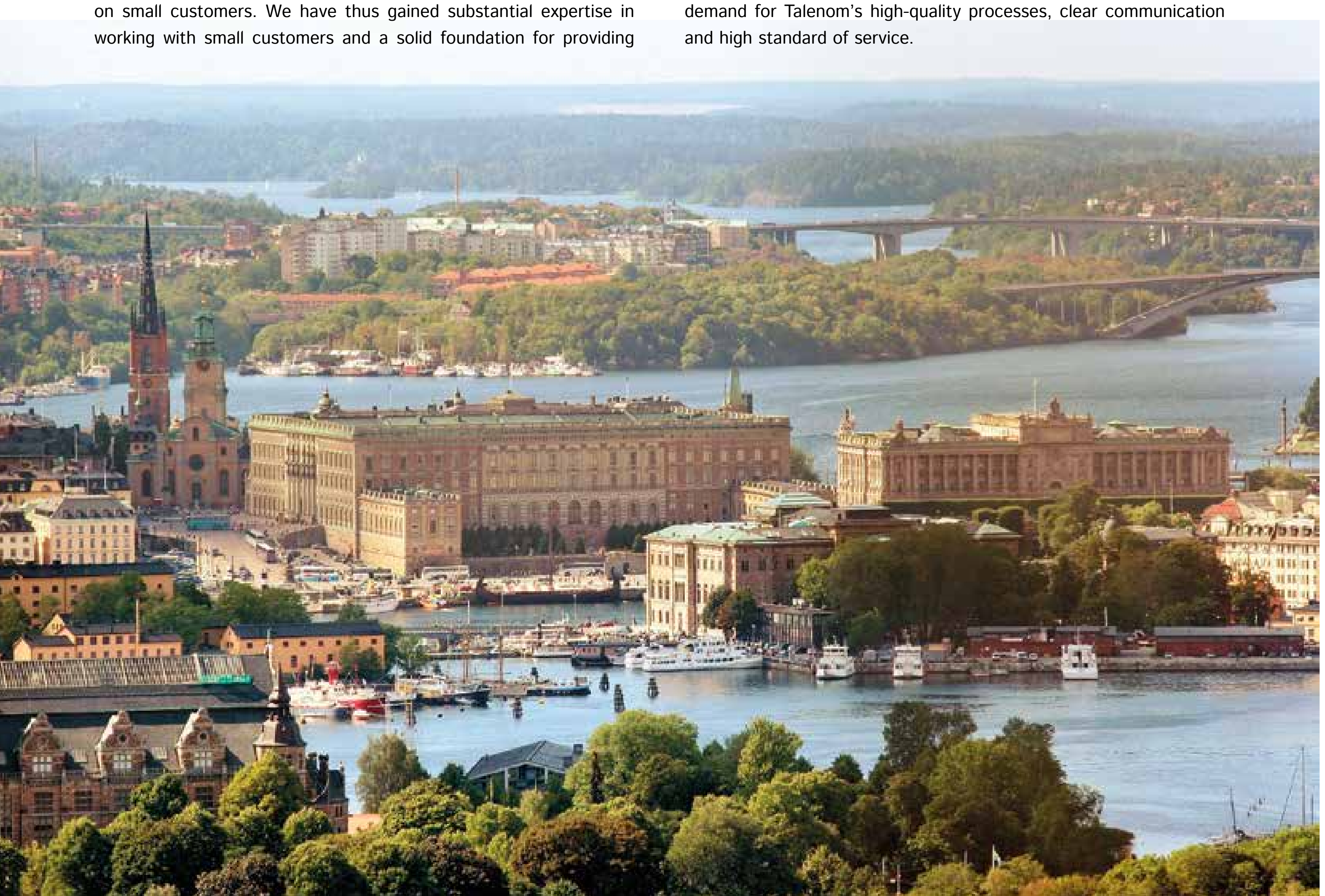
In May 2020, we acquired the accounting firm Niva Ekonomi AB in Haninge to the south of Stockholm. In the acquisition, we gained 17 new employees and net sales of 1.4 million euros.

In September, we concluded a deal for Frivision AB, which has offices in not only Stockholm but also Gothenburg and Malmö. The company has net sales of 1.4 million euros and 20 employees. Frivision focuses on small customers. We have thus gained substantial expertise in working with small customers and a solid foundation for providing services targeted at small customers. Talenom will launch KontoKalle in the Swedish market in 2021 – this new service for small entrepreneurs is similar to the TiliJaska service in Finland.

In December, we agreed on two more acquisitions, thanks to which we leaped into a size class that enables us to tap into substantial economies of scale in Sweden. In Stockholm, we acquired Ekonomianalys KL AB, which has specialist expertise in the provision of payroll services. The company has 27 employees and net sales of 2.3 million euros. The accounting firm Persson & Thorin AB is located in Växjö, Southern Finland. Its acquisition brought in 15 employees and net sales of 1.2 million euros. These two aqcuisitions will have an effect from beginning of 2021.

### Growth opportunities in other new European markets

We seek to pursue growth in other European countries as well. Talenom has many attractive market areas in Europe where the technology and working methods used in financial management are not yet as advanced as in the Nordic countries and where there is particular demand for Talenom's high-quality processes, clear communication and high standard of service.



# LIGHT ENTREPRENEURSHIP

## THANKS TO LIGHT ENTREPRENEURSHIP, IT'S NO TROUBLE AT ALL TO START RUNNING YOUR OWN BUSINESS.

Light entrepreneurship is a flexible and risk-free means of testing out your business idea and its profitability. Talenom wants to make it as easy as possible to become an entrepreneur. Our goal is to ensure that budding entrepreneurs have the lowest threshold on the market to start running their own business.

Talenom's Light Entrepreneur service is a fast and convenient invoicing tool for those who do not have a business ID yet. A tax card, account number and customer are fed into the mobile app – and the invoice is ready to send off. The invoice is sent to the customer with Talenom's business ID. In addition to invoicing, we handle financial statements and all contacts with the authorities on behalf of the entrepreneur. The service fee is two per cent and is only charged for actual invoices.

The Light Entrepreneur service is intended for entrepreneurs that only send one or two invoices. When entrepreneurship becomes a more regular activity, it's time to take the next step. Then you should establish your own business name or limited liability company and start using Talenom's TiliJaska service. Even though our two per cent service fee is the lowest on the market, as a responsible company we believe that it's not sensible to keep paying it over the long term. With TiliJaska, a small entrepreneur can handle their accounting services free of charge.

# TILIJASKA IS A SMALL ENTREPRENEUR'S BEST FRIEND

**So far, Talenom's customers have mainly been medium-sized SMEs. We believe that small customers have massive potential for growth and that it would be worth our while to cater to them, too. We thus developed TiliJaska, a simple accounting service for small entrepreneurs. This service makes it convenient for entrepreneurs to handle their own business accounting – at no cost. Through TiliJaska, we can also provide banking services to our small customers.**

The first version of TiliJaska was launched for customers in October and it already works at most banks. Product development focused especially on user friendliness – ensuring that the software is as simple and easy to use as possible. Before this, there has never been an accounting service available in Finland that enables an entrepreneur to handle the accounting of their company from start to finish. We saw that there was a need for this.

TiliJaska is a complete product family for small customers – an entrepreneur can start using the accounting and banking services they need. It provides the customer with free accounting software, payroll service, sales invoicing and transfer of purchase invoices for payment. Up to a certain limit, banking services are also free of charge to small entrepreneurs.

TiliJaska is a do-it-yourself accounting system for small businesses. The service has three levels: free, pro and premium.

The differences between TiliJaska and Talenom's regular monthly paid package are clear. Even a small monthly payment can be a lot of money for a small entrepreneur and traditional accounting software packages tend to be designed for the requirements of larger companies. Providing free accounting tools to small entrepreneurs supports the growth of their company. When the company has grown into the next size category, Talenom is ready to take on the responsibility for handling its accounting services.

Small entrepreneurs also fall between two stools in terms of banking services, too. Talenom has noticed that smaller companies all too often tend to be given weaker service. To correct this, Talenom decided to offer its own banking services.

And why not? We know the companies. We know what kinds of services they offer. We also know what kinds of services have unfortunately not been provided to small companies. When our customer companies start using Talenom's banking services, they have access to all the financial assistance they require from a single address. Adopting a Talenom account and bank card also significantly reduces the costs of the company's banking services.

> TILIJASKA HAS MADE ACCOUNTING EASY. YOU DON'T NEED TO STRESS ABOUT IT. I HAVE BEEN ABLE TO CONCENTRATE ON ENTREPRENEURSHIP.

Karoliina Sippola
Entrepreneur, Tampere

> AS A BEGINNER ENTREPRENEUR I CAN RECOMMEND TILIJASKA FOR EVERYONE WHO WANTS TO CARE ITS ACCOUNTING ITSELF.

Ossi Myllylä
Maalissa.fi Oy, Oulu




# CORPORATE RESPONSIBILITY AT TALENOM

## ENVIRONMENT

Talenom has secured Green Office certification – the only accounting company to have done so. In line with the certificate, we shoulder our responsibility for the environment.

Paperless operations is one of the objectives of Talenom's environmental programme. In 2020, as much as 82.6 per cent of the receipts recorded by Talenom were processed entirely paperlessly. The figure for the previous year was 76.9.

The objectives of the environmental programme also include efficient property use and environmental friendliness. Employees started working mostly remotely due to the coronavirus pandemic, and this had a significant effect on the electricity and water consumption of properties.

The pandemic also had an impact on business travel, which declined by half. Previously, we had already made use of teleconferencing whenever possible and appropriate – last year, most meetings were held remotely. Due to remote work, there was relatively little commuting between work and home.

## PEOPLE

Caring is one of Talenom's most important values. To us, caring means that people – both our employees and customers – are at the heart of our operations. We know that when our employees are thriving, they also take good care of our customers. The coronavirus crisis challenged us to take even better care of our employees.

Talenom has been granted a Great Place to Work certificate – the company has been ranked as one of Finland's best places to work for three years running. We want to ensure that we remain a great workplace even in these exceptional times. It's a pleasure to work at Talenom, no matter what the circumstances.

We seek to provide especially good assistance to our customers who are struggling in this crisis. We compiled information and guidelines about different types of support, provided information regularly in customer letters and created a coronavirus information package for Talenom's internet site. The need for customer advice grew. We catered to this demand and provided advice to our entrepreneur customers, mainly free of charge.

Customer satisfaction is a matter of the heart to Talenom. We measure satisfaction regularly. We hone our operations on the basis of feedback, as necessary. As we have largely automated our routine work, we have the opportunity to engage in unhurried interactions with our customers. Talenom's financial management professionals provide customers with expert service in financial management, knowledge of different sectors and ease of doing business.

We paid even more attention than usual to the wellbeing of our personnel. Due to the pandemic, our employees started working mainly at their home offices in the spring – and continued to do so until the end of the year. The transition to remote work went smoothly, as our day-to-day operations have been digital for a long time. As physical interactions decreased, we considered it particularly important to foster regular team meetings and discussions between employees and their supervisors.

We are also interested in the experts of the future. Our cooperation with students is close and important. We offer traineeships and Talenom is the first real workplace for many young people.
We launched Talenom's own training programmes in the autumn in spite of the pandemic. We had to tweak schedules, transfer teaching online and make recordings of some training sessions. Our goal was to ensure that training and trainee activities would continue.

## GOOD GOVERNANCE: PREVENTING CORRUPTION, MONEY LAUNDERING AND BRIBERY

Talenom Plc complies with the Finnish Corporate Governance Code issued by the Securities Market Association. The Corporate Governance Code is available on the site of the Securities Market Association at www.cgfinland.fi.

In addition to the Corporate Governance Code, Talenom Plc complies in its decision-making and corporate governance with the Finnish Limited Liability Companies Act, securities market legislation, other legal provisions concerning listed companies, Talenom Plc's Articles of Association, and the rules and guidelines issued by Nasdaq Helsinki Ltd.

As Talenom is a provider of financial management services, themes related to preventing corruption, money laundering and bribery are important to the company. Talenom has policies against bribery and corruption, and has drafted a risk assessment of its operations as required by the Act on Detecting and Preventing Money Laundering and Terrorist Financing.

Talenom has established procedures to detect any activities that might indicate money laundering and has provided guidelines and training for its employees for such eventualities. The company's HR Guidelines include instructions on what to do when irregularities are detected. Under the Act on Detecting and Preventing Money Laundering and Terrorist Financing, Talenom is obligated to notify the Financial Intelligence Unit of any suspicions of money laundering or terrorist financing.

Due to the nature of the services it provides, Talenom collects, stores, processes and distributes a large volume of sensitive information, such as confidential corporate and personal data on customers, employees and suppliers. The vast majority of this data is stored and transferred electronically in the company's IT systems. Preventing abuse of such data is a key aspect of Talenom's risk management.

> TALENOM HAS BEEN RANKED AS ONE OF FINLAND'S BEST PLACES TO WORK FOR THREE YEARS RUNNING.

# Corporate Governance Statement 2020

## 1. INTRODUCTION

Talenom Plc complies with the full Finnish Corporate Governance Code 2020 issued by the Securities Market Association.

The Corporate Governance Code is available on the site of the Securities Market Association at www.cgfinland.fi.

In addition to the Corporate Governance Code, Talenom Plc complies in its decision-making and corporate governance with the Finnish Limited Liability Companies Act, securities market legislation, other legal provisions concerning listed companies, Talenom Plc's Articles of Association, and the rules and guidelines issued by Nasdaq Helsinki Ltd.

This CG statement is also available on the company's website at www.talenom.fi/en/investors

## 2. CORPORATE GOVERNANCE

In accordance with the Companies Act and the Articles of Association, the highest responsibility for the governance and operations of Talenom is held by its governing bodies, which are the General Meeting of Shareholders, Board of Directors and CEO. The highest decision-making power is exercised by shareholders at General Meetings of Shareholders. The company is managed by its Board of Directors and CEO. The Executive Board assists the CEO in the management of operations.

### GENERAL MEETING OF SHAREHOLDERS

The highest decision-making power at Talenom is exercised by the company's shareholders at General Meetings, in which the shareholders may exercise their right to speak, ask questions and vote. The decision on convening a General Meeting is made by the Board of Directors.

The Annual General Meeting is held each year on the date set by the Board of Directors within six months of the end of the financial year. Shareholders are entitled to present matters for consideration at the Annual General Meeting; in this, the company follows the procedure recommended in the Corporate Governance Code.

In accordance with the Articles of Association, the Annual General Meeting takes decisions on adopting the financial statements, the use of the profit shown in the balance sheet, releasing the members of the Board of Directors and CEO from liability, the number of members of the Board, and the remuneration of the members of the Board and the auditors. The Annual General Meeting also elects the members of the Board of Directors and auditors and handles any other matters included in the notice of meeting.

The notice of meeting is published on the company's Internet site no earlier than two months and no later than 21 days before the meeting, but in any case at least nine days before the record date of the meeting as specified in the Companies Act. The meeting documents will be available on the company's Internet site for at least five years (https://www.talenom.fi/en/investors).

In accordance with the Corporate Governance Code, the meetings shall be attended by the Chairman of the Board, the members of the Board and the CEO. In addition, the auditor shall attend the Annual General Meeting. At meetings where new Board members are elected, the candidates must be present.

In 2020, the Annual General Meeting was held on 25 February 2020 in Helsinki.

### BOARD OF DIRECTORS

According to Talenom's Articles of Association, the Board of Directors may consist of four to eight ordinary members. The General Meeting decides on the members and their number. The Board of Directors elects a Chairman from amongst its members for a term of one year. The company familiarises new Board members with the operations of the company.

Talenom's Board of Directors is responsible for the company's governance and proper organisation of operations. The Board of Directors has general competence to decide on all matters that are not reserved for the General Meeting of Shareholders or the CEO by law or the Articles of Association. The Board of Directors convenes as often as necessary to fulfil its obligations. The Board of Directors has a quorum when more than half of its members are present.

### COMPOSITION AND ACTIVITIES OF THE BOARD OF DIRECTORS

The main duties and operating principles of the Board of Directors are defined in a written charter. According to the charter, the Board of Directors decides on the company's strategic policies, confirms the company's business plan and budget, and supervises aspects of performance. In addition, the Board of Directors directs and supervises the management of the company, appoints the CEO, and decides on the remuneration to be paid to the CEO and other terms and conditions of the CEO's contract. The Board of Directors also ensures that the company has set internal control and a risk management and disclosure policy, and that the company operates in the manner it has specified. In addition, the Board of Directors decides on strategically or financially significant investments, acquisitions and contingent liabilities, approves the company's financial policy and decides on the remuneration and incentive scheme.

As set out in the Corporate Governance Code, it is the task of the Board to assess the independence of its members. A majority of Board members must be independent of the company. In addition, at least two of the independent members must also be independent of the significant shareholders of the company.

The Board of Directors performs an internal self-assessment of its activities and working methods annually. Board members must have sufficient competence, knowledge of the sector and time to work on the Board. The composition of the Board must be sufficiently diverse. Members must have complementary experience and expertise. With respect to ensuring the diverse composition of the Board of Directors, the company seeks to take the age and gender balance of Board members and their educational background into consideration in addition to their experience, expertise and knowledge of the sector when preparing the composition of the Board. In the view of the company, it has ensured the diversity of the composition of the Board of Directors.

At the 2020 Annual General Meeting, Harri Tahkola (Chairman), Olli Hyyppä, Mikko Siuruainen, Anne Riekki and Johannes Karjula were reelected to the Board of Directors. Sampsa Laine was elected as a new member. The term of office of Board members ends at the conclusion of the next AGM following their election.

The Board of Directors convened 21 times in 2020.

### INFORMATION ON THE BOARD MEMBERS

| Name | Education and year of birth | Main occupation | Independent of the company | Independent of significant shareholders | Attendance at Board meetings in 2020 |
|---|---|---|---|---|---|
| Harri Tahkola (Chairman of the Board) | M.Sc. (Econ.), b. 1972 | entrepreneur, investor, Board professional | No | No | 21/21 |
| Olli Hyyppä (Board member) | M.Sc. (Tech.), b. 1969 | Senior Vice President & Chief Information Officer, NXP Semiconductors | Yes | Yes | 21/21 |
| Mikko Siuruainen (Board member) | BBA, MBA, b. 1975 | entrepreneur, investor, Board professional | Yes | Yes | 21/21 |
| Anne Riekki (Board member) | M.Sc. (Econ.), LLM, b. 1971 | partner, MB Partners V Oy | Yes | Yes | 21/21 |
| Johannes Karjula (Board member) | M.Sc. (Econ.), b. 1988 | CEO and founder, Trustmary Group Oy, Trustmary Finland Oy, Vice President, Sesonkia Oy | Yes | Yes | 21/21 |
| Sampsa Laine (Board member as from 25 Feb. 2020) | M.Sc. (Econ.), b. 1969 | entrepreneur and Board professional | Yes | Yes | 19/21 |

# Talenom Plc's Board of Directors 31 Dec. 2020

### HARRI TAHKOLA, M.SC. (ECON.), B. 1972

Finnish citizen

Chairman of the Board since 2017 and Board member since 1998.

**Key work experience**
Harri Tahkola worked at Talenom in many different positions between 1994 and 2016, most recently as Talenom's CEO from 2003 to 2016.

**Key positions of trust**
Harri Tahkola has served as the Chairman of the Board of Directors of Hacap Oy since 2016, Ducap Oy since 2011, and Omago Oy since 2017. In addition, he has been a member of the Boards of Alfa Finance Oy since 2014, Hemmo Capital Oy since 2010 and Citinvest Oy since 2010.

**Independence**
Harri Tahkola is not independent of the company based on an overall assessment (more than 10 years on the Board of Directors). In addition, he is not considered to be independent of significant shareholders, as he owns more than 10% of the shares in the company.

## OLLI HYYPPÄ, M.SC. (TECH.), B. 1969

Finnish citizen

Board member since 2015.

**Key work experience**

Olli Hyyppä has served as Senior Vice President & Chief Information Officer at NXP Semiconductors since 2013 with responsibility for global information management. In addition, he worked as Vice President & Chief Information Officer at ST Ericsson from 2009–2013, in various IT expert and management roles at Elektrobit Corporation in 1996–2009 and as a designer at Rautaruukki Corporation in 1992–1996.

**Key positions of trust**

Olli Hyyppä has served as the Chairman of the Board of Directors of Hyyppä Consulting Oy since 2018.

**Independence**

Olli Hyyppä is independent of the company and its significant shareholders.

## MIKKO SIURUAINEN, TRADENOMI, BBA, MBA, B. 1975

Finnish citizen

Board member since 2016 and in 2004-2015.

**Key work experience**

Mikko Siuruainen has worked as the CEO of Alfa Finance Oy since 2014 and the CEO of Citinvest Oy since 2010. Mikko Siuruainen worked for Talenom Plc in 2000–2016 in many roles, including Corporate Advisor, Consulting Manager, Unit Director, Head of the company's Oulu office and Vice President (2006–2016). He also worked at Fortum Plc as a Financial Planner in 1999–2000.

**Key positions of trust**

Mikko Siuruainen has served as a Board member of the following companies: Suuntakivi Oy since 2016, Silta Partners Oy since 2016, and Tammi Partners Oy since 2016.

**Independence**

Mikko Siuruainen is independent of the company and its significant shareholders.

## ANNE RIEKKI, M.SC. (ECON.), LLM, B. 1971

Finnish citizen

Board member since 2017.

**Key work experience**

Anne Riekki has been a partner at MB Partners V Oy since 2019. In 2017-2019, she served as the Investment Director of eQ Asset Management Ltd's Private Equity Team. She also worked in numerous expert and management positions at Finnish Industry Investment Ltd in 2007–2017, serving as a Management Team member and Team Leader of Fund Investments in 2011–2017. In 2005–2006, she worked as Investment Manager at the European Investment Fund (EIF), in 2000–2003 in numerous investment roles on Eqvitec Partners Oy's mezzanine team, and in 1999–2000 as a corporate analyst at Merita Bank Plc.

**Key positions of trust**

Anne Riekki has served as a Board member of Rutrik Oy since 2020, MB Partners Oy since 2020 and MB Equity VI Oy since 2020.

**Independence**

Anne Riekki is independent of the company and its significant shareholders.

## JOHANNES KARJULA, M.SC. (ECON.), B. 1988

Finnish citizen

Board member since 2017.

**Key work experience**

Johannes Karjula has been the CEO of Trustmary Group Oy, which he founded, since 2016, CEO of Trustmary Finland Oy since 2019, and Senior Vice President at Sesonkia Oy since 2015. In addition, Johannes Karjula was the CEO of LeadFlow Oy in 2014–2016 and a private entrepreneur in 2010–2015.

**Key positions of trust**

Johannes Karjula has served as the Chairman of the Board of Directors of Eeroplan Oy since 2016 and of the Board of Satokausikalenteri Media Oy since 2018. He also serves as a Board member at the following companies: Trustmary Group Oy since 2016, Sesonkia Oy since 2015, Molarum Salaojat Oy since 2015, Markkinointitoimisto WDS Oy since 2017 (in which he is also a partner), CX International Oy since 2017 and Trustmary Finland Oy since 2017. He previously served as a member of the Board of LeadFlow Oy in 2014–2016.

**Independence**

Johannes Karjula is independent of the company and its significant shareholders.

## SAMPSA LAINE, M.SC. (ECON.), B. 1969

Finnish citizen

Board member since 2020.

**Key work experience**

Sampsa Laine has served as the Chairman of the Board of Directors of Growroad Oy, which he founded, since 2013. He was responsible for the development of digital services for Nordea's corporate customers from summer 2017 to January 2020 and served as the Executive Vice President, Deputy Head of Banking Finland and Head of Business Banking (SMEs) at Nordea Finland in 2014–2017. At Danske Bank, Laine served as the Global Head of Financial & Institutional Clients in 2012–2013 and as the Country Head of Danske Markets Finland in 2007–2011. He has been a part-time entrepreneur since 2003.

**Key positions of trust**

Sampsa Laine has served as the Chairman of the Board of Directors of Fundu Platform Oy since 2020 and as a member of the Board of Privanet Group Oyj since 2020.

**Independence**

Sampsa Laine is independent of the company and its significant shareholders.

## CEO

The CEO manages the daily operations of Talenom in accordance with the Companies Act and the instructions, rules and authorisations issued by the Board of Directors, and ensures that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner. The CEO reports to the Board of Directors. The CEO also directs and supervises the operations of Talenom and its business functions, is responsible for day-to-day operational management and implementation of strategy, as well as prepares matters to be handled by the Board of Directors and is responsible for their implementation.

The company's CEO is Otto-Pekka Huhtala, M.Sc. (Econ), b. 1980. Huhtala has served as CEO since 2019 and has worked at Talenom in a variety of positions since 2002. Prior to his appointment as CEO, he served the company for a long time as a member of the Executive Board and the head of accounting services, with responsibility for accounting service production and the development of the bookkeeping production line. He graduated from the University of Vaasa with a masters degree in economics, majoring in production economics.

## OTHER MANAGEMENT

The Executive Board assists the CEO with matters such as preparing the strategy, operating principles and company-wide issues. The Executive Board is chaired by Talenom's CEO.

In 2020, the members of the Executive Board were

- Otto-Pekka Huhtala, CEO, M.Sc. (Econ.), b. 1980, in the company's employ since 2002 and on the Executive Board since x, CEO since 2019
- Antti Aho, CFO and CHRO, M.Sc. (Econ.), KLT, b. 1979, in the company's employ since 2003 and on the Executive Board since 2017
- Tuomas Iivanainen, Director, International Business, M.Sc. (Tech.), b. 1970, in the company's employ since 2016 and on the Executive Board since 2019
- Juho Ahosola, Director, Accounting Services, BBA, M.Sc.A. (financial law), b. 1988, in the company's employ since 2013 and on the Executive Board since 2019
- Juha Jutila, Director, Business Development, M.Sc. (Econ.), B.Sc. (Tech.), b. 1970, in the company's employ since 2015 and on the Executive Board since 2019.

All members of the Executive Board are Finnish citizens.

### DIRECT AND INDIRECT HOLDINGS OF THE BOARD OF DIRECTORS, 31 DEC. 2020

| Name | Shares owned, no., 31 Dec. 2020 | Shares owned as % of share capital, 31 Dec. 2020 |
|---|---|---|
| Harri Tahkola (Chairman of the Board) | 8,679,015 | 20.08 % |
| Olli Hyyppä (Board member) | 60,000 | 0.14 % |
| Mikko Siuruainen (Board member) | 694,716 | 1.61 % |
| Anne Riekki (Board member) | 0 | 0 % |
| Johannes Karjula (Board member) | 2,812 | 0.01 % |
| Sampsa Laine (Board member) | 12,000 | 0.03 % |

The Board of Directors may establish committees if necessary due to the scope of Talenom's operations or to enable the Board to discharge its duties effectively. The Board did not establish any committees in 2020.

### DIRECT AND INDIRECT HOLDINGS OF THE CEO AND EXECUTIVE BOARD, 31 DEC. 2020

| Name | Shares owned, no. | Shares earnable under the stock option scheme (maximum), no. | Shares owned as % of share capital | Shares owned and shares earnable under the stock option scheme as % of share capital |
|---|---|---|---|---|
| Otto-Pekka Huhtala | 447,160 | 174,000 | 1.03 % | 1.44 % |
| Antti Aho | 159,960 | 126,000 | 0.37 % | 0.66 % |
| Juho Ahosola | 16,614 | 106,000 | 0.04 % | 0.28 % |
| Tuomas Iivanainen | 58,296 | 70,000 | 0.13 % | 0.30 % |
| Juha Jutila | 61,700 | 70,000 | 0.14 % | 0.30 % |

## 3. INTERNAL CONTROL AND AUDIT AND RISK MANAGEMENT

### RISK MANAGEMENT

Risk management is part of Talenom's internal control. The company has a risk management policy, endorsed by the Board, which supports strategic and business objectives, and ensures the continuity of operations in all circumstances. The ability to take risks and manage them efficiently is a key factor in business success and creating shareholder value.

In accordance with the risk management policy approved by the Board of Directors, risk preparedness and identification are continuous and systematic activities, and are the responsibility of the management team. The management is responsible for defining, implementing and monitoring the implementation of measures as part of normal operational guidance.

Risk management is coordinated by the head of IT security and safety, who reports to the Group's CEO. The company's Board of Directors is provided, at least once a year, with a separate inventory of the risks and uncertainties that the Board of Directors uses to define risk management measures. The company presents the key risks identified in the context of the financial statements.

### INTERNAL CONTROL AND AUDIT

Internal control, together with risk management, sees to it that the company operates efficiently, publishes up-to-date and reliable information and complies with the regulations in force. Internal control is intended to ensure the efficiency and profitability of Talenom's operations, the reliability of information and conformity with applicable legal and operating principles. Internal control aims to enhance the realisation of the steering task of the Board of Directors. The Board of Directors and CEO are responsible for organising control.

The Board has primary responsibility for control of the company's financial position and financial management. The Executive Board and Board of Directors monitor Talenom's financial situation on a monthly basis. This information is disclosed in accordance with Talenom's disclosure policy. Monthly reports to the Board of Directors comprise a key element of the company's financial control. The monthly report is comparatively extensive, ensuring that the Board is continuously informed about the company's performance in terms of operations, financial position and strategic objectives. Reporting supports the development of operational controls and monitors the adequacy and effectiveness of controls.

Financial control is intended to detect any deviations in time. In addition, internal control of financial reporting aims to ensure that Talenom's operations are effective and that decision-making is based on correct and reliable information, with adequate identification of business risks. Internal control also ensures that financial reporting complies with generally accepted accounting principles and the laws and regulations that are in force. It is the responsibility of the Board of Directors to ensure that the internal control of accounting and financial management has been properly organised. The Board is also responsible for supervising the financial reporting process.

The company applies accounting standards by employing consistent recognition principles and reporting standards through the Group's Financial Management unit. The CFO is responsible for the Financial Management Unit together with the Administration Director and Controller. Therefore, the CFO, the Administration Director and the Controller are also responsible for supervising compliance with legislation and the Group's guidelines. The CFO reports any findings to the CEO and the Board of Directors.

The company has not considered it necessary to establish an audit committee. Furthermore, in view of the scope of operations, the company has not deemed it necessary to establish a separate internal audit organisation. In both cases, the Board of Directors is responsible and assesses the need for them annually. In connection with annual audit planning, the Board of Directors defines the key areas that it would be appropriate for the audit to focus on.

## 4. OTHER INFORMATION

### INSIDERS

In insider matters, Talenom complies with the applicable legislation, the Guidelines for Insiders issued by Nasdaq Helsinki Ltd, as well as its own Guidelines for Insiders confirmed by the Board of Directors. Talenom promptly discloses any inside information directly relating to Talenom in accordance with the company's disclosure policy. However, if the company decides to delay the disclosure of inside information, a project-specific insider register is established for the information in question. When postponing the disclosure of inside information, the company complies with the delayed disclosure procedure of the Market Abuse Regulation. Persons with access to inside information on Talenom are immediately entered in the Insider List.

Talenom's managers with an obligation to notify include the members of the Executive Board and Board of Directors. The persons with an obligation to notify and their related parties as defined in the Market Abuse Regulation are obligated to report, both to the company and the Financial Supervisory Authority, any transactions they make on their own behalf with shares in the company, debt instruments or related derivatives, or other financial instruments without delay and in any case no later than three business days after the transaction. In addition to financial instruments issued by the company, such as its shares, the obligation to notify may concern, for instance, business transactions in an insurance wrapper or financial products when the financial instruments of the company account for more than 20% of the bundled product. In addition to acquisitions and disposals, the transactions to be disclosed may include, for example, pledges, donations or inheritances.

The obligation to notify arises when the total amount of transactions reaches the 5,000 euro threshold during a calendar year. Each individual is always responsible for complying with their obligation to notify, even if they have assigned the financial instruments to the custody of another person, such as a portfolio manager.

The company publishes releases on the transaction notifications it receives without delay and no later than three business days after the transaction.

Talenom complies with the closed window principle prior to the publication of results. During the closed window, persons discharging managerial responsibilities at Talenom (members of the Board of Directors, the CEO or their deputies and members of the Executive Board) and persons participating in the preparation of financial reports, or persons under their control or supervision, or controlled organisations as defined in Chapter 2(4) of the Securities Markets Act may not trade in the financial instruments issued by the company during a period of 30 days prior to the publication of the company's business reviews, interim reports or financial statement bulletins. The company also recommends that related parties of those subject to the closed window should also comply with this trading restriction. In addition, the company recommends that its managers should make long-term investments in the company's securities and other financial instruments.

### RELATED PARTIES

Talenom complies with the current regulations and the recommendations of the 2020 Corporate Governance Code for listed companies on the supervision and assessment of related-party activities.

Talenom's related-party guidelines are intended to ensure that related-party activities comply with market terms and are in the interests of the company's business in transactions involving related parties of the company. The company assesses and monitors that related-party transactions as a whole are in the interests of the company and that any conflicts of interest are taken appropriately into account in the company's decision-making. Disqualification regulations and the appropriate decision-making parties must be taken into consideration in preparatory work and decision-making concerning related parties as well as the assessment and approval of individual related-party business transactions. Talenom's Board of Directors decides on significant related-party activities, that is, any agreements or other legal actions with related parties that are not part of the company's ordinary business or which are not carried out under customary commercial terms. The principles of the related-party guidelines are complied with throughout the Group and in decision-making concerning all Group companies.

Talenom's related parties include its subsidiaries, the key personnel of the management, including the Board of Directors, the CEO and the Group's Executive Board, and their family members. Related parties also include companies in which the above persons have control, either on their own or with their related parties.

Talenom maintains an up-to-date related-party list of related-party transactions between the company and its related parties, including the parties involved and the key terms and conditions. The information to be recorded on the list is collected from related-party individuals annually. The company reports on related-party activities regularly in its annual financial statements. The company discloses information as required by law in the report of the Board of Directors and notes to the financial statements. In addition, the company discloses related-party transactions as necessary pursuant to the Market Abuse Regulation, Securities Markets Act and the rules of the stock exchange.

### COMMUNICATIONS AND INVESTOR RELATIONS

Talenom's communications seek to ensure that all market parties have equal and timely access to relevant and sufficient information to determine the prices of Talenom's financial instruments, such as its shares. The company seeks to create a continuous flow of information that is consistent, reliable, sufficient, and up-to-date in order to ensure that capital market actors have as transparent and clear a view as possible when assessing the company's financial situation and the prices of its financial instruments. The company publishes information to the capital markets and other key stakeholders at the same time.

In its communications, Talenom adheres to the principle of providing equal access to information pursuant to the Securities Markets Act and Finnish Companies Act as well as the rules of Nasdaq Helsinki Ltd. Talenom's communications are based on facts: they provide a truthful picture of the company's operations, business environment, strategy, objectives and financial performance. The general principles of communications are transparency, openness, honesty, equality and proactiveness. Talenom communicates about both positive and negative issues consistently and at the same time to all stakeholders.

Talenom publishes its stock exchange releases through Nasdaq Helsinki to key media in Finnish and English. All releases are published at the same time on the company's Internet site as well. In addition to its releases, Talenom's investor pages – www.talenom.fi/en/investors – comprise its most important channel for communicating up-to-date information on its operations and finances to all stakeholders.

### AUDIT

According to the Articles of Association, the General Meeting shall elect one regular auditor, which shall be an auditing firm approved by the Central Chamber of Commerce. The auditor's term of office ends at the conclusion of the Annual General Meeting following the election. The 2020 AGM selected the auditing firm KPMG Ltd as the auditor, with Juho Rautio, APA as the principal auditor.

The purpose of the audit is to verify that the financial statements provide a true and fair view of the company's performance and financial position in the financial period. The company's auditor provides the shareholders of the company with an auditor's report in connection with the company's annual financial statements, as required by law. A report on the audit of the financial year is submitted to the Board of Directors. The auditor and the Board meet at least once a year.

The Group paid the auditors a total of 152,510 euros in audit fees and 44,283 euros for other services in 2020.



# Remuneration report 2020

## 1. INTRODUCTION

As from 1 January 2020, Talenom Plc complies with the full 2020 Finnish Corporate Governance Code issued by the Securities Market Association. The Corporate Governance Code is available on the site of the Securities Market Association at www.cgfinland.fi. In addition to the Corporate Governance Code, Talenom Plc complies in its decision-making and corporate governance with the Finnish Limited Liability Companies Act, securities market legislation, other legal provisions concerning listed companies, Talenom Plc's Articles of Association, and the rules and guidelines issued by Nasdaq Helsinki Ltd.

This remuneration report is also available on the company's website at www.talenom.fi/en/investors In accordance with the Companies Act and the Articles of Association, the highest responsibility for the governance and operations of Talenom is held by its governing bodies, which are the General Meeting of Shareholders, Board of Directors and CEO.

The principles and decision-making processes for the remuneration of the Board of Directors and CEO and for the key terms of the service contract are set forth in Talenom Plc's remuneration policy. The company's remuneration principles apply to the entire personnel. The transparency and market orientation of remuneration and remuneration based on good performance are key principles in remuneration. The company's remuneration policy applies to the company's Board of Directors and CEO. The objective of the company's remuneration policy is to encourage and reward management for work that is in line with the company's current strategy and for compliance with the set rules, as well as to motivate them to strive for the success of the Talenom Group. Well-functioning and competitive remuneration is an essential tool for engaging competent directors and executives for the company. This, in turn, contributes to the financial success of the company and the implementation of good corporate governance. In addition to supporting the company's long-term profitability and results, remuneration supports the implementation of the objectives set by the company and the company's strategy.

Remuneration in accordance with the remuneration policy consists of the following components:

• Basic salary and employee benefits are in compliance with the local market practices, laws and regulations
• A short-term incentive scheme intended to guide the performance of an individual and the organisation as well as to support rapid implementation of strategic projects
• A long-term remuneration scheme designed to commit key persons to the company Long-term incentives aim to commit management to the company and harmonise their interests with those of shareholders.

**Development of remuneration in relation to the financial development of the company**

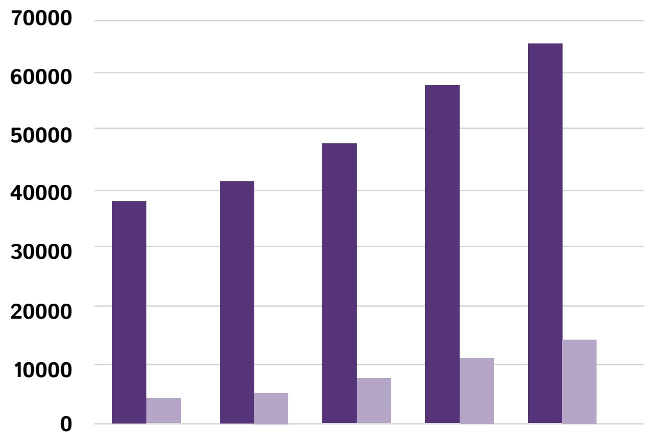
The following table and diagrams present the trend in the remuneration of the Board of Directors and CEO compared to the trend in the average remuneration of Group employees and the financial development of the Group during the past five financial years. In accordance with Talenom's remuneration policy, part of the remuneration of the CEO consists of short-term and long-term incentives that are linked to the result of operations. Thereby, the favourable financial development of the company is reflected in the remuneration paid to the CEO. Board fee level has raised the number of board members in 2020 by one and an increase in fees.

### DEVELOPMENT OF REMUNERATION

| 1,000 € | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Annual remuneration of the Board of Directors | 57.8 | 122.7 | 133.7 | 131.9 | 182.0 |
| Annual remuneration of the CEO | 128.9 | 146.0 | 212.4 | 409.1 | 712.3 |
| Average salary development EUR 1,000/person *) | 35.8 | 36.8 | 37.2 | 37.8 | 37.9 |

*) The average salary development at Talenom is calculated by dividing salaries and rewards by the average number of employees during the financial year

## FINANCIAL DEVELOPMENT OF THE COMPANY




| EUR 1,000 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Company turnover | 36,957 | 41,421 | 48,871 | 57,955 | 65,161 |
| Company operating profit | 4,177 | 4,840 | 8,545 | 10,409 | 12,881 |

## 2. REMUNERATION OF THE BOARD OF DIRECTORS

Decisions concerning the remuneration of the Board of Directors are made in general meetings for a single term of office at a time based on a proposal of the Board of Directors. The decision on the remuneration of the Board of Directors shall be based on the valid remuneration policy presented to the general meeting.

The 2020 Annual General Meeting held on 25 February 2020 decided that the Chairman of the Board shall be paid 6,000 euros per month and Board members 2,000 euros per month. In addition, it was decided that the Board members shall be reimbursed for their travel expenses according to the company's travel rules.

### REMUNERATION PAID TO BOARD MEMBERS 1 JANUARY–31 DECEMBER 2020

| | Annual fees | Other financial benefits | Total |
|---|---|---|---|
| Harri Tahkola (Chairman of the Board) | 70,000 | | 70,000 € |
| Olli Hyyppä (Board member) | 23,000 | | 23,000 € |
| Mikko Siuruainen (Board member) | 23,000 | | 23,000 € |
| Anne Riekki (Board member) | 23,000 | | 23,000 € |
| Johannes Karjula (Board member) | 23,000 | | 23,000 € |
| Sampsa Laine (Board member)* | 20,000 | | 20,000 € |
| Total | 182,000 | | 182,000 € |

*) Board member as from 25 February 2020

Board members do not participate in the company's share-based incentive schemes and Board fees are not paid in the form of shares in the company.



## 3. REMUNERATION OF THE CEO

Decisions concerning the remuneration of the company's CEO and the terms applicable to the service contract of the CEO are made by the company's Board of Directors within the limits of the valid remuneration policy presented to the general meeting.

The company's CEO is Otto-Pekka Huhtala. As set out in the contract of the CEO, the CEO serves in the position until further notice and the period of notice is two months. Normal occupational pension contributions are paid on the salary of the CEO in accordance with occupational pension legislation. No supplementary pension contributions are paid to the CEO.

**Fixed salary component**
The fixed salary component of the CEO consists of a monthly salary and fringe benefits. In 2020, the annual salary including fringe benefits was 193,830 euros, of which fringe benefits accounted for 4,869 euros.

**Short-term incentive scheme**
The CEO, like the other members of the Executive Board, is entitled to a performance bonus when predetermined criteria are met. The criteria for the Executive Board's performance bonus take into account the company's net sales, EBITDA, customer retention, operational efficiency, personnel satisfaction, progress in product development and product group-specific growth. In addition, the Board of Directors separately assesses the performance of the CEO in his or her task and decides on the separate performance bonus to be paid to the CEO. In 2020, the performance bonus paid to the CEO was 0 euros.

**Long-term incentive schemes**
CEO Otto-Pekka Huhtala participates in the 2016 and 2019 stock option schemes. He has been granted 36,000 stock options 2016A, 54,000 stock options 2016B and 90,000 stock options 2016C and 120,000 stock options 2019. The 2016C stock options were exercised in full in 2020, whereby the option-based rewards of the CEO amounted to 518,490 euros.

**Remuneration of the CEO during the financial period**

| | Fixed annual salary (including fringe benefits) | Variable short-term incentive bonus paid for 2019 | Option-based bonus, variable long-term incentive bonus |
|---|---|---|---|
| Remuneration, (EUR 1,000) | 194 | 0 | 518 |
| Percentage of total remuneration | 27 % | 0 % | 73 % |

# Statement of non-financial information

Talenom offers small and medium-sized enterprises a wide range of accounting and software services as well as other expert and advisory services to support their business. The company combines personal service with automated financial management processes with a view to helping customers succeed and making their day-today lives run smoother.

Electronic financial management boosts efficiency in service provision, improves service quality, and reduces the amount of routine manual work. It is also an environmentally friendly way of operating in a traditionally paper-based sector. Talenom was granted Green Office certification in the year now ended.

Talenom was founded in 1972 and has a total of 47 offices. In 2020, Talenom had an average of 868 employees. Talenom has a strong history of growth and continues to pursue vigorous, profitable growth. According to the sector report for the financial administration sector (2019:50) published by the Ministry of Economic Affairs and Employment of Finland, the market outlook for the financial administration sector is very favourable both in Finland and further afield.

However, the sector report points out that digitalisation, automation and changes in the forms of working will transform both work duties and the sector as a whole. Financial administration professionals are increasingly often service professionals, corporate consultants who are expert in electronic service channels and systems.

The risks of Talenom's business principles and their management are described in the Report of the Board of Directors. (See the section "Principal risks and uncertainties".)

## ENVIRONMENTAL ISSUES

Talenom's electronic financial management routines have a direct impact on the development of paperless operations at SMEs. The paperless operations of Talenom's thousands of customer companies have a cumulative impact with nationwide significance. Paperlessness not only improves operational efficiency and productivity, it also has a positive environmental impact. A study by Finance Finland (Assessment of the Climate Impacts of the Automation of Financial Management 2015) found that the automation of data processing in financial management can be expected to yield savings of 80-90 per cent in the climate impacts of the financial management of an enterprise almost without exception, regardless of its size.

Talenom seeks to be a genuinely responsible player in environmental issues, too. For this reason, the company has worked to earn the internationally recognised Green Office certificate. Talenom succeeded in this effort – and is now the only accounting firm with Green Office certification.

Talenom's accounting services seek to be fully paperless in the case of both the customer's financial management and outsourcing services. In 2020, as much as 82.6 (76.9) per cent of the receipts recorded by Talenom were processed paperlessly, from the creation of the receipt all the way to posting.

Talenom measures the degree of digitalisation of its operations on the basis of paperless processing in bookkeeping. The average degree of digitalisation was 96.4 (96.1) per cent in the last financial period. However, this figure includes, for example, materials submitted to the central scanning service for digitalisation, which Talenom receives in paper form.

Talenom aims to further enhance its degree of digitalisation by developing its processes.

Talenom is a large company, as defined in the Energy Efficiency Act. For this reason, it carries out an energy audit of its operations at intervals of four years or less, as required by law. The energy audit and its targeted audits drafted by an external expert in 2017 did not lead to energy savings measures. At a general level, Talenom tracks the energy-efficiency of properties by monitoring the consumption of electricity – and in part heat and water – at its offices. Talenom reports on its annual electricity consumption to WWF.

Talenom measures the efficiency of property use by square metres per employee; this figure is reported in the Green Office annual schedule. In 2020, Talenom had 18.64 square metres of office space per employee.

Talenom measures and reports on business travel management in the annual schedule as the ratio of travel expenses to net sales. In 2020, travel expenses represented 0.24 per cent (0.51%). Talenom takes the principles of sustainable travel into account in business trips. Employees primarily rely on teleconferencing whenever possible and appropriate. When a business trip is essential, employees favour public transport and avoid flying, as set out in the travel guidelines. For commuting between work and home, Talenom recommends walking, cycling or public transport. Teleworking is encouraged.

Environmental issues are also taken into consideration in the company's procurements. When it comes to office equipment, the company favours energy-labelled products, such as those with Energy Star or TCO certification. In the case of office supplies, the company requires either Nordic Ecolabel, FSC or FSC Recycled labelling, depending on the product. Recycling and sorting are taken into consideration in product lifecycles. When we acquire services, we verify that the service provider is environmentally responsible.

Talenom has not identified any significant risks related to environmental issues in its business operations.

## SOCIAL AND PERSONNEL ISSUES

Talenom seeks to act as a responsible employer in every respect. High personnel satisfaction is one of the key objectives that guides operations. Talenom has drafted and introduced policies for health, safety and employee wellbeing in its occupational wellbeing plan. Talenom has been granted a Great Place to Work certificate, an internationally renowned recognition that the company is a good workplace and leads the way in Finnish working life. Talenom has ranked among Finland's best workplaces for the third year running.

Talenom has also drafted and adopted a non-discrimination policy. As an employer, the company engages in concerted efforts to ensure the equal treatment of employees. In its HR Guidelines, the company forbids harassment, inappropriate behaviour and abuse, and monitors compliance with the guidelines through the means at its disposal. Talenom has a reporting policy that obligates personnel to take action when they observe harassment, inappropriate behaviour or abuse.

During the reporting period, Talenom had an average of 868 employees at 26 offices. A total of 21 persons served as independent franchise entrepreneurs at 16 franchise offices. Sixty-eight per cent of employees were based at Talenom's service centres in Oulu and Tampere. The relative share of all employment relationships accounted for by part-time and temporary employees was 7.7 per cent (10.3%).

The key risk related to social and personnel issues that Talenom has identified is that the company may lose key employees or fail in its attempts to recruit, train and retain professionally skilled employees. In the case of financial management experts and salespeople, the realisation of this risk may lead to loss of customers or otherwise prevent the company from operating, developing and growing its operations successfully. According to the report for the financial administration sector (8/2019), it has become more difficult in recent years to recruit real professionals, and salary competition is also evident in the sector.

## RESPECTING HUMAN RIGHTS

Talenom respects human rights – and requires its partners to do so as well. With respect to key human rights issues in its operations, the company also demands responsible operations and respect for human rights in its subcontracting chains. Such risks may involve working conditions in subcontracting chains, such as the terms of employment of property maintenance staff.

## PREVENTING CORRUPTION, MONEY LAUNDERING AND BRIBERY

As Talenom is a provider of financial management services, themes related to preventing corruption, money laundering and bribery are important to the company. Companies commission Talenom to handle their accounting – and thus, under the Act on Detecting and Preventing Money Laundering and Terrorist Financing, it is obligated to notify the Financial Intelligence Unit of any suspicions of money laundering or terrorist financing.

Talenom has drafted policies against bribery and corruption. In addition, the company's HR Guidelines include instructions on what to do when irregularities are detected. The company has also established procedures to detect any suspicious activities that might indicate money laundering and has provided guidelines and training for its employees to ensure they act appropriately in this respect.

Talenom has drafted a risk assessment of its operations as required by the Act on Detecting and Preventing Money Laundering and Terrorist Financing. Guidelines have been issued for the process of reporting suspicions of money laundering. If a review of the situation does not dispel these suspicions, Talenom reports the matter to the Financial Intelligence Unit as required under the Act on Detecting and Preventing Money Laundering and Terrorist Financing.

Due to the nature of the services it provides, Talenom collects, stores, processes and distributes a large volume of sensitive information, such as confidential corporate and personal data on customers, employees and suppliers. The vast majority of this data is stored and transferred electronically in the company's IT systems. Preventing abuse of such data is a key aspect of Talenom's risk management.

# Report of the Board of Directors

## GENERAL

Talenom is an agile and progressive accounting firm established in 1972. The company's business idea is to make day-to-day life easier for entrepreneurs with the easiest-to-use digital tools on the market and highly automated services. In addition to comprehensive accounting services, Talenom supports its customers' business with a wide range of expert services as well as financing and banking services. Talenom's vision is to offer unbeatable accounting and banking services for SMEs. In-house software development combined with accounting expertise is Talenom's competitive advantage, which enables it to offer unbeatable customer experience to entrepreneur customers and at the same time automates Talenom's own routines.

Talenom has a history of strong growth – the average annual increase in net sales was approximately 15.5% between 2005 and 2020.

At the end of 2020, Talenom had 912 employees in Finland and Sweden at a total of 47 locations. Talenom's share is quoted on the main list of the Helsinki Stock Exchange.

The company complies with International Financial Reporting Standards (IFRS) in the preparation of its financial statements, half-year reports and business reviews (see Annex 2 to the financial statements: Preparation of financial statements). In addition, Talenom Plc complies in its decision-making and corporate governance with the Finnish Limited Liability Companies Act, securities market legislation, other legal provisions concerning listed companies, Talenom Plc's Articles of Association, and the rules and guidelines issued by Nasdaq Helsinki Ltd. In addition to the above, Talenom Plc complies with the full Finnish Corporate Governance Code 2020 issued by the Securities Market Association. The Corporate Governance Code is available on the site of the Securities Market Association at www.cgfinland.fi.

## SIGNIFICANT EVENTS DURING THE REVIEW PERIOD

Year 2020 in brief:

- Net sales 65.2 (58.0) million euros, increase 12.4% (18.6%)
- Operating profit (EBIT) 12.9 (10.4) million euros, 19.8% (18.0%) of net sales
- Net profit 9.6 (7.6) million euros
- Earnings per share 0.22 (0.18) euros
- Board of Directors' proposal for dividend 0.15 euros/share (0.125 euros/share)
- Guidance for 2021: Net sales for 2021 are expected to amount to 75–80 million euros and operating profit to 14–16 million euros.

Talenom carried out several acquisitions during the review period: in February 2020, it acquired the business operations of the accounting firm Addvalue Advisors Oy in Vantaa, in May the share capital of Niva Ekonomi AB in Stockholm, in August the software business of Vanaja Technologies Oy in Hämeenlinna, in September the entire share capital of Frivision AB in Gothenburg and Malmö as well as the entire business operations of Larsen & Co Tilitoimisto Oy in Helsinki, and in December the business operations of E-P:n Yrityspalvelu Oy in Seinäjoki. With its acquisitions in Sweden, Talenom expanded its operations to new locations in Malmö and Gothenburg. The companies acquired through share transactions in Sweden during the review year had 12-month net sales of 2.8 million euros in total and operating profit of 0.2 million euros in total at the time of acquisition. The operations acquired through asset deals during the review year had 12-month net sales of 2.4 million euros in total and operating profit of 0.4 million euros in total at the time of acquisition.

The purchase prices of the share transactions carried out in Sweden totalled 2.5 million euros and the purchase prices of asset deals in Finland totalled 1.9 million euros.

In the acquisitions, part of the purchase price was paid with new Talenom Plc shares subscribed for in a directed issue. A total of 216,598 shares were subscribed for in directed share issues related to acquisitions during the review period.

On 14 February 2020, Talenom announced that it was ranked as one of Finland's best workplaces for the third time in a row in the Great Place to Work survey. Talenom was ranked fourth in the Large Companies category.

On 25 February 2020, the Board of Directors resolved, based on the terms and conditions of Talenom's 2016, 2018 and 2019 option rights, to amend the number of shares to be subscribed with the option rights and their subscription price due to the Annual General Meeting's decision to carry out a share issue without payment.

On 25 February 2020, the Board of Directors decided to establish two new share-based incentive plans for the Group's key employees, the Performance Share Plan 2020–2024 and the Restricted Share Plan 2020. The Performance Share Plan 2020–2024 consists of three performance periods, covering the calendar years 2020–2022, 2021–2023 and 2022–2024. The Board of Directors resolves on the plan's performance criteria and targets to be set for each criterion at the beginning of the performance period.

On 11 March 2020, Talenom announced that its market making agreement with Lago Kapital Ltd in compliance with the Liquidity Providing (LP) requirements issued by Nasdaq Helsinki Ltd will end. Talenom estimated that the liquidity of the share will be sufficient without market making operations. The agreement ended on 9 June 2020.

In February-March 2020, Talenom carried out a brand survey on the brand awareness of the company, the impressions that potential customers have of the company and Talenom's positioning amongst its competitors. The results indicate that Talenom is clearly the best known, top-of-mind accounting firm among its core target group.

In April, Talenom agreed on a 30 million euro collateralised loan with Danske Bank A/S, Finland branch. Following the arrangement, Talenom's annual financing costs will decline by a total of around 0.12 million euros. The loan period is three years and can be extended by one year if necessary. With this new loan, Talenom repaid its collateralised loans from OP Financial Group, which totalled 28 million euros. In addition, Talenom agreed on an additional loan of 10 million euros for potential acquisitions and projects in support of growth.

In May, Talenom carried out a share issue directed to the company's personnel and franchise entrepreneurs. The subscription commitments given during the subscription period from 11 May to 22 May 2020 covered 200,447 shares, which means that the personnel share issue was oversubscribed 1.7 times. The Board of Directors of Talenom approved on 27 May 2020 the subscriptions for the maximum number of new shares in the personnel share issue, a total of 120,000 new shares. Shares were subscribed for by 252 persons, which corresponds to approximately 32% of those eligible. The members of the company's Board of Directors, the CEO and the members of the Executive Board were not entitled to participate in the personnel share issue. The approved subscriptions were paid in accordance with the terms and conditions of the personnel share issue. The share subscription price was 5.86 euros, based on the trade volume-weighted average price of the share on Nasdaq Helsinki Ltd in the 1 March to 31 March 2020 period, with a 10 per cent discount.

The 120,000 new Talenom Plc shares subscribed for in the personnel share issue were entered in the Trade Register on 28 May 2020. The total subscription price, 703,200.00 euros, was fully recorded in the company's invested unrestricted equity fund. The shares subscribed for in the personnel issue represent 0.28% of the total number of shares in the company before the issue of the shares and after the issue of shares.

A total of 1,042,150 new Talenom Plc shares were subscribed for with 2016C and 2018 stock options during the review period. The new shares were registered in the Trade Register on 13 March 2020, 28 May 2020 and 10 September 2020. The total subscription price, 1,202,507.50 euros, was fully recorded in the company's invested unrestricted equity fund.

Talenom appointed Olli Lätti as its new Commercial Director as of 3 August 2020. At Talenom, Olli Lätti's area of responsibility includes field sales, customer service and the franchising network. Lätti reports to Juho Ahosola, Director, Accounting Services.

On 31 August 2020, Talenom announced that it had concluded a new franchise agreement in Keilaniemi, Espoo. At the end of the review period, Talenom had a total of 21 franchise entrepreneurs.

On 26 October 2020, Talenom announced new services to implement its growth strategy: the TiliJaska (KontoKalle) service in line with the small customer concept, the Talenom Light Entrepreneur service, and new banking transaction services (Talenom bank account and cards).
With its new services, Talenom also released its new vision: unbeatable accounting and banking services for SMEs.

The new services, small customer concept and Talenom's strategy of profitable growth were presented at the Capital Markets Day on 11 November 2020. Talenom's strategy is based on making day-to-day life easier for entrepreneur customers, highly automated accounting services and proactively taking care of customers. In addition to organic growth, Talenom's objective is to export its expertise to new markets in Europe and to grow through acquisitions as well.



## GROUP FINANCIAL DEVELOPMENT

### KEY FIGURES

| Group | 1–12/2020 | 1–12/2019 | Change |
|---|---|---|---|
| Net sales, thousands of euro | 65,161 | 57,955 | 7,206 |
| Net sales, increase % | 12.4 % | 18.6 % | -6.2 %-percentage units |
| Operating profit (EBIT), thousands of euro | 12,881 | 10,409 | 2,473 |
| Operating profit (EBIT), as % of net sales | 19.8 % | 18.0 % | 1.8 %-percentage units |
| Return on investment (ROI), % (rolling 12 months) | 19.6 % | 20.2 % | -0.6 %-percentage units |
| Interest-bearing net liabilities, thousands of euro | 29,328 | 29,204 | 124 |
| Net gearing ratio, % | 91 % | 124 % | -33 %-percentage units |
| Equity ratio, % | 38.1 % | 33.2 % | 4.9 %-percentage units |
| Working capital, thousands of euro | -6,039 | -3,780 | -2,259 |
| Net investments, thousands of euro | 20,295 | 15,439 | 4,856 |
| Liquid assets, thousands of euro | 9,104 | 7,786 | 1,317 |
| Earnings per share, euro* | 0.22 | 0.18 | 0.04 |
| Weighted average number of shares during the period* | 42,654,214 | 41,574,952 | 1,079,262 |
| Net profit, thousands of euro | 9,579 | 7,615 | 1,964 |

*) The number of shares outstanding has been adjusted due to the share issue carried out free of charge during the review period by multiplying the preceding figures by six.

## NET SALES, PROFITABILITY AND FINANCIAL PERFORMANCE

During the period from January to December, Talenom's net sales increased by 12.4 % year-on-year. Amounting to 65.2 (58.0) million euros, net sales grew by around 7.2 million euros. The growth in net sales was mainly due to the increase in the number of accounting service customers – around half came from the company's proactive new customer acquisition efforts and half via company acquisitions.

In January-December, personnel expenses amounted to 33.9 (29.9) million euros, 52.1 % (51.6 %) of net sales.

Other operating expenses, including materials and services, totalled 8.1 (9.5) million euros, accounting for 12.4 % (16.4 %) of net sales.

In January–December, operating profit (EBIT) was 12.9 (10.4) million euros, 19.8 % (18.0 %) of net sales, and net profit was 9.6 (7.6) million euros. Operating profit improved by 23.8%. Savings on fixed costs and advances in automation enabled year-to-year improvement in profitability. Profitability in the review period was burdened by lower invoicing of transaction-based products and a slowdown in new customer acquisition due to pandemic-related restrictions. As Talenom's growth is based on acquisitions to a greater extent than before, the weaker profitability of the acquirees and integration costs weakened the profit.

During the period from October to December, Talenom's net sales increased by 10.4 % year-on-year. Amounting to 16.5 (14.9) million euros, net sales grew by around 1.6 million euros. In October–December, operating profit (EBIT) was 2.4 (1.5) million euros, 14.7 % (9.8 %) of net sales, and net profit was 1.8 (1.0) million euros. Operating profit (EBIT) for October–December improved by 66.4 % year-on-year.

## BALANCE SHEET, FINANCING AND INVESTMENTS

On 31 December 2020, the consolidated balance sheet total was 84.9 (71.3) million euros. The Group's equity ratio was 38.1 % (33.2 %) and the net gearing ratio was 91 % (124 %).

The Group's interest-bearing non-current financial loans at the end of the review period were 30.0 (28.0) million euros, excluding instalment debts. Other non-current interest-bearing liabilities (instalment debts) were 0.1 (0.2) million euros and other current interest-bearing liabilities (instalment debts) were 0.2 (0.2) million euros.

In accordance with IFRS 16 Leases, as of 1 January 2019, the Group recognises leases of business premises in the balance sheet mainly as assets and liabilities. In accordance with IFRS 16, non-current lease liabilities stood at 5.9 (6.6) million euros and current lease liabilities at 2.3 (1.9) million euros on 31 December 2020.

The Group recognises the costs of new customer contracts, such as costs of obtaining and fulfilling a contract, as investments as specified in IFRS 15. These costs are presented in the balance sheet under "capitalised contract costs". Furthermore, the Group recognises a part of the development costs related to software and digital services as investments according to the requirements outlined in IAS 38. These costs are presented in the balance sheet under "other intangible assets". Investments stemming from new customer contracts amounted to 4.2 (4.6) million euros in the review period. Investments concerning software and digital services amounted to 10.1 (5.3) million euros.

The company's total net investments in the review period 1 January–31 December 2020 were 20.3 (15.4) million euros.

In February 2020, the company acquired the business operations of the accounting firm Addvalue Advisors Oy, in May the share capital of Niva Ekonomi AB, in September the entire share capital of Frivision AB and the entire business of Larsen & Co Tilitoimisto Oy, and in December the business operations of E-P:n Yrityspalvelu Oy. In addition, Talenom acquired Vanaja Technologies Oy's software business in August. In January 2021, after the end of the review period, the ownership of the Swedish accounting firms Ekonomianalys KL AB and Persson & Thorin AB transferred to Talenom. More information on these acquisitions is presented under "Events after the review period".

The purchase prices of the share transactions carried out in Sweden during the review year totalled 2.5 million euros and the purchase prices of asset deals in Finland amounted to 1.9 million euros. In the acquisitions, part of the purchase price was paid with new Talenom Plc shares subscribed for in a directed issue. These business acquisitions accounted for EUR 4.4 (4.2) million of Talenom's net investments.

**Purchase prices, total**

| Thousand euro | Share transactions (Sweden) | Asset deals (Finland) |
|---|---|---|
| Purchase prices, total | 2,500 | 1,878 |
| 12-month net sales at the time of acquisition, total | 2,830 | 2,387 |
| 12-month operating profit at the time of acquisition, total | 166 | 387 |

Talenom's liquid assets at 31 December 2020 were 9.1 (7.8) million euros. In addition, the company had unused overdraft limits of 3.0 (1.0) million euros at the end of the review period.

## GUIDANCE FOR 2021

Net sales for 2021 are expected to amount to 75–80 million euros and operating profit to 14–16 million euros.

## ASSESSMENT OF THE MOST SIGNIFICANT RISKS AND UNCERTAINTIES

The company has identified risks and uncertainties related to its operating environment and business operations, which may adversely affect the company's business and profitability.

The key identified risks are as follows:

- The economic and political development of society may adversely affect the company's profitability.
- The competitive situation may intensify as competitors bring new services to the market or engage in price competition.
- The IT systems and communications connections of the company or those provided by its partners may be subject to security breaches, or to failures, faults or disturbances during maintenance and updates that affect the company's business, profitability and financial position.
- The coronavirus pandemic poses uncertainties to Talenom's financial forecasts. Uncertainties will increase if exceptional circumstances continue for a long time, causing bankruptcies among Talenom's customer companies, weaker sales to new customers and a decline in transaction-based invoicing.

The company has a risk management policy, endorsed by the Board, which supports strategic and business objectives, and ensures the continuity of operations in all circumstances. The ability to take risks and manage them efficiently is a key factor in business success and creating shareholder value.

In accordance with the risk management policy approved by the Board of Directors, risk preparedness and identification are continuous and systematic activities, and are the responsibility of the management. The management is responsible for defining, implementing and monitoring the implementation of measures as part of normal operational guidance.

Risk management is coordinated by the head of IT security and safety, who reports to the Group's CEO. The company's Board of Directors is provided, at least once a year, with a separate inventory of the risks and uncertainties that the Board of Directors uses to define risk management measures.

## SHARES AND SHAREHOLDERS

**Per-share key figures**

| | 1 Jan 2020 - 31 Dec 2020 | 1 Jan 2019 - 31 Dec 2019 |
|---|---|---|
| Earnings per share, euro | 0.22 | 0.18 |
| Equity per share, euro | 0.75 | 0.57 |
| Proposed dividend per share, euro | 0.15 | 0.125 |
| Proposed dividend as % of result | 66.8 % | 68.2 % |
| Effective divided yield, % | 1.0 % | 1.7 % |
| P/E ratio | 67.01 | 40.95 |
| Share turnover, euros | 129,342,779 | 51,051,258 |
| Number of shares | 43,214,780 | 41,231,178 |

*Per-share key figures for 2019 and number of shares have been adjusted in accordance with the share issue without payment carried out in 2020.*

There were 252 trading days in the review period 1 January–31 December 2020. A total of 16,506,856 shares were traded during this period, and the value of the shares traded was 129,342,779 euros. The highest price of the share was 15.20 euros and the lowest price was 4.93 euros. The volume weighted average price was 7.84 euros and the closing price at the end of the review period was 15.05 euros. In accordance with the closing price, the combined market value of the shares was approximately 650.38 million euros.

**Shareholders by sector, 31 Dec. 2020**

| Sector | Shareholders | | Book entries | | Nominee-registered | |
|---|---|---|---|---|---|---|
| | no. | % | no. | % | no. | % |
| Companies | 215 | 3.24 | 2,842,863 | 6.58 | - | - |
| Financial and insurance institutions | 32 (5) | 0.48 | 6,302,300 | 14.58 | 10,024,416 | 23.20 |
| Public-sector organisations | 3 | 0.05 | 2,070,480 | 4.79 | - | - |
| Households | 6,363 | 95.89 | 20,691,453 | 47.88 | - | - |
| Non-profit organisations | 8 | 0.12 | 793,423 | 1.84 | - | - |
| Foreign | 15 (6) | 0.23 | 68,464 | 0.16 | 421,381 | 0.98 |
| **Total** | 6,636 | 100.00 | 32,768,983 | 75.83 | 10,445,797 | 24.17 |
| **of which nominee-registered** | (11) | | | | | |

**Largest shareholders 31 Dec. 2020**

| Name | Shares, no | Shares, % |
|---|---|---|
| Tahkola Harri | 8,679,015 | 20.08 |
| Skandinaviska Enskilda Banken Ab (publ) Helsinki branch | 5,723,403 | 13.24 |
| Tahkola Markus | 5,065,824 | 11.72 |
| Nordea Bank Abp | 4,132,608 | 9.56 |
| Danske Invest Finnish Equity Fund | 2,390,000 | 5.53 |
| Conficap Oy | 1,850,000 | 4.28 |
| Ilmarinen Mutual Pension Insurance Company | 1,800,000 | 4.17 |
| Evli Finnish Small Cap Fund | 1,621,080 | 3.75 |
| Föreningen Konstsamfundet r.f. | 780,000 | 1.80 |
| Siuruainen Mikko | 694,716 | 1.61 |
| **Ten largest, total** | **32,736,646** | **75.75** |
| **Other shareholders** | **10,478,134** | **24.25** |
| **Total** | **43,214,780** | **100.00** |

**Shareholdings of Board members, CEO and Executive Board, 31 Dec. 2020**

| Name | Shares, no | Shares, % |
|---|---|---|
| Board of Directors | 9,433,731 | 21.83 |
| CEO | 447,160 | 1.03 |
| Other Executive Board | 296,570 | 0.69 |
| **Total** | **10,177,461** | **23.55** |

**Treasury shares**

On the closing date, the company held 150,600 of its own shares. The company's shares have not been divided into different share classes.

## BOARD AUTHORISATIONS

The 2020 AGM authorised the Board of Directors to resolve on the repurchase of a maximum of 300,000 shares in the company in one or several tranches using the company's unrestricted shareholders' equity. The shares will be repurchased otherwise than in proportion to the shareholdings of the shareholders in public trading arranged by Nasdaq Helsinki Ltd for the market price at the moment of purchase. The authorisation remains valid until the closing of the next Annual General Meeting, but no longer than until 30 June 2021.

The 2020 AGM authorised the Board of Directors to resolve on the issuance of shares and the issuance of special rights entitling to shares as referred to in Chapter 10 Section 1 of the Finnish Limited Liability Companies Act in one or several tranches, either against payment or without payment. The aggregate amount of shares to be issued, including the shares to be received based on special rights, must not exceed 1,800,000 shares. The Board of the Directors may resolve to issue new shares or to transfer own shares possibly held by the company.

The Board of Directors is authorised to decide on all other matters related to the issuance of shares and special rights entitling to shares, including the right to deviate from the pre-emptive right of shareholders to subscribe for shares to be issued. The authorisation is used for the purposes of paying purchase prices of corporate acquisitions, share issues directed to personnel or share award schemes or for other purposes decided by the Board of Directors. The authorisation remains valid until the closing of the next Annual General Meeting, but no longer than until 30 June 2021. The authorisation revokes all previous unused authorisations to resolve on the issuance of shares, option rights and other special rights entitling to shares.'

In addition to the abovementioned authorisations, the Board of Directors has no other valid authorisations to acquire or dispose of the company's own shares. More information on the use of authorisations in 2020 can be found in the section "Significant events in the review period".

## STOCK OPTION SCHEMES

Talenom has three stock option schemes, which were established in 2016, 2018 and 2019.

The terms of the 2016 stock option scheme were approved by the AGM of 17 March 2016. Under the terms of the option scheme, stock options are distributed free of charge to key personnel employed by the Group company as part of the Group's incentive and commitment system for key personnel. An additional condition for the 2016 option scheme is the ownership obligation of the shares, which means that the stock option owner must use 20 per cent of the gross earnings received from the stock options to acquire the company's shares. This number of shares must be owned for two years after their acquisition. The terms and conditions of the 2018 and 2019 stock option schemes are in line with the terms of the 2016 stock option scheme. The terms of the 2018 stock option scheme were approved by the AGM of 14 March 2018 and the terms of the 2019 stock option scheme by the AGM of 26 February 2019.

The Board of Directors decides on any further actions concerning stock options that are later returned to the company.

The subscription periods for the stock options are as follows:

- Option right 2016C 1 March 2020–28 February 2021
- Option right 2018 1 March 2020–28 February 2021
- Option right 2019 1 March 2022–28 February 2023

In order to enhance the liquidity of the share, the 2020 AGM resolved to issue new shares to shareholders without payment in proportion to their holdings so that five new shares was issued for each share. The shares were issued to shareholders who were registered in the shareholder list maintained by Euroclear Finland Oy on the record date, 27 February 2020. Due to the share issue without payment, the Board of Directors decided on 25 February 2020 to change the number and subscription price of the shares subscribed for with the options. After these amendments, the total number of shares to be subscribed with 2016 option rights is 1,176,000, the total number of shares to be subscribed with 2018 option rights is 360,000 and the total number of shares to be subscribed with 2019 option rights is 1,200,000.



**The options granted and the holdings or undistributed options of the company are divided into option categories (31 December 2020) as follows:**

| Option categories (pcs) | 2016C | 2018 | 2019 |
|---|---|---|---|
| Options given | 1,176,000 | 360,000 | 1,200,000 |
| Options exercised | 694,150 | 348,000 | 0 |
| Talenom Plc's holding or undistributed | 467,100 | 12,000 | 276,000 |
| Options given but not exercised | 14,750 | 0 | 924,000 |

The table below shows the shareholding and voting rights that may be exercised under the issued stock options and the effect of the options on the number of shares.

| Option categories | 2016C | 2018 | 2019 |
|---|---|---|---|
| The current subscription price of options | 0.79 | 1.80 | 3.25 |
| Total number of unexercised options | 14,750 | 0 | 924,000 |
| Exercised or Talenom Plc's holding or undistributed | 1,161,250 | 360,000 | 276,000 |
| Number of shares at 31 Dec 2020 | 43,214,780 | 43,214,780 | 43,214,780 |
| Number of shares if all options are converted into new shares | 43,229,530 | 43,214,780 | 44,138,780 |
| Proportion of holdings and votes if all options are converted into new shares | 0.034 % | 0.000 % | 2.093 % |

The total number of shares will increase from 43,214,780 to 44,138,780 if all of the three stock options 2016C, 2018 and 2019 will be used in full to subscribe for new shares. The total number of votes and holdings of all three options is 2.126% if all stock options are used to fully subscribe for new shares.

Under the terms of the option rights, the subscription price of options may change if the company distributes dividends or funds from the unrestricted equity fund, or if the company reduces its share capital by issuing share capital to shareholders. The terms and conditions are available (in Finnish) on Talenom's investor pages at: Talenom.fi/sijoittajat/yhtiokokoukset.

## SHARE-BASED INCENTIVE PLANS

Talenom has two share-based incentive plans for the Group's key personnel, which the Board of Directors decided to establish on 25 February 2020.

**Performance Share Plan 2020-2024**

The Performance Share Plan 2020–2024 consists of three performance periods, covering the calendar years 2020–2022, 2021–2023 and 2022–2024. The Board of Directors resolves on the plan's performance criteria and the targets set for each criterion at the beginning of the performance period. During the performance period 2020-2022, approximately 50 persons are included in the target group of the plan, including the company's Executive Board members.

The potential reward based on the plan will be paid partly in the company's shares and partly in cash after the end of a performance period. The cash proportion is intended to cover taxes and tax-related expenses arising from the reward to a participant. The rewards to be paid correspond to the value of an approximate maximum total of 330,000 Talenom Plc shares, including also the proportion to be paid in cash.

**Restricted Share Plan 2020**

The Restricted Share Plan 2020 is intended for selected key employees only, including the Executive Board members. The reward from the Restricted Share Plan is paid partly in the company's shares and partly in cash after the end of a 12-60-month vesting period. The rewards to be granted based on the Restricted Share Plan in 2020-2025 correspond to the value of a maximum total of 185,950 Talenom Plc shares, including also the proportion to be paid in cash.

## ANNUAL GENERAL MEETING 2020

Talenom's Annual General Meeting was held on 25 February 2020 in Helsinki. The AGM decided to issue a dividend of 0.125 euros per share for the financial period 1 January–31 December 2019 (the share issue without payment has been taken into consideration). The dividend was paid to shareholders on 5 March 2020.

In order to enhance the liquidity of the share, the AGM resolved to issue new shares to shareholders without payment in proportion to their holdings so that five new shares was issued for each share. In addition, it was decided that new shares would be issued to the company on the basis of treasury shares held by the company. A total of 34,863,360 new shares were issued. The new shares were entered in the Trade Register on 27 February 2020 and recorded on the book-entry accounts of shareholders on 28 February 2020. After the issue, the number of Talenom shares totalled 41,836,032. After the share issue without payment, Talenom held 150,600 treasury shares.

The AGM authorised the Board of Directors to resolve on the repurchase of maximum of 300,000 shares in the company in one or several tranches using the company's unrestricted shareholders' equity. The shares will be repurchased otherwise than in proportion to the shareholdings of the shareholders in public trading arranged by Nasdaq Helsinki Ltd for the market price at the moment of purchase.

The Annual General Meeting authorised the Board of Directors to resolve on the issuance of shares and the issuance of special rights entitling to shares as referred to in Chapter 10 Section 1 of the Finnish Limited Liability Companies Act in one or several tranches, either against payment or without payment.The aggregate amount of shares to be issued, including the shares to be received based on special rights, must not exceed 1,800,000 shares. The authorisation is used for the purposes of paying purchase prices of corporate acquisitions, share issues directed to personnel or share award schemes or for other purposes decided by the Board of Directors.

## FLAGGING NOTIFICATIONS

During the review period, Talenom received five notifications of changes in holdings in accordance with Chapter 9, Section 5 of the Securities Markets Act.

According to a notification received on 14 February 2020, the number of Talenom Plc shares owned by Ilmarinen Mutual Pension Insurance Company decreased below the 10% limit of all Talenom Plc shares due to share transactions.

According to a notification received on 18 February 2020, the number of Talenom Plc shares owned by Evli Bank Plc decreased below the 5% limit of all Talenom Plc shares due to share transactions.

According to a notification received on 27 February 2020, the number of Talenom Plc shares owned by Danske Bank A/S decreased below the 5% limit of all Talenom Plc shares due to share transactions.

According to a notification received on 3 March 2020, the number of Talenom Plc shares owned by Danske Bank A/S rose above the 5% limit of all Talenom Plc shares due to share transactions.

According to a notification received on 19 August 2020, the number of Talenom Plc shares owned by Ilmarinen Mutual Pension Insurance Company decreased below the 5% limit of all Talenom Plc shares due to share transactions.

## EVENTS AFTER THE REVIEW PERIOD

On 10 December 2020, Talenom agreed to acquire the accounting firms Ekonomianalys KL AB and Persson & Thorin AB in Sweden. The acquired businesses were transferred to Talenom on 4 January 2021. The combined total purchase prices amounted to 2.9 million euros. The transactions were carried out by acquiring the entire share capital of the companies and paid in the form of new Talenom Plc shares subscribed for in a directed share issue and with cash. The 136,807 new shares subscribed for in the directed share issue related to the transaction were registered in the Trade Register on 7 January 2021.

With these acquisitions, Talenom further strengthened its position in the Swedish market and expanded its operations to a new municipality, Växjö.

The combined net sales of the acquirees in the period of last 12 months was around 3.5 million euros (previous 12-month comparison period: 2.8 million euros) and their operating profit was around 0.3 million euros (previous 12-month comparison period: 0.5 million euros).

The preliminary estimates of the combined values of acquired assets and liabilities at the time of acquisition are as follows:

| **1,000 euros, pro forma** | |
|---|---|
| Property, plant and equipment | 153 |
| Customer relationships | 1,141 |
| Current assets | 794 |
| **Total assets** | **2,088** |
| | |
| Trade and other payables | 650 |
| Deferred tax liabilities | 235 |
| **Total liabilities** | **886** |
| | |
| **Net assets** | 1,203 |
| | |
| Consideration transferred includes conditional purchase price | 4,386 |
| Net assets of acquirees | -1,203 |
| **Goodwill** | **3,183** |

## BOARD OF DIRECTORS AND AUDITOR

The AGM re-elected Harri Tahkola, Mikko Siuruainen, Olli Hyyppä, Anne Riekki and Johannes Karjula to new terms of office and Sampsa Laine as a new member of the Board of Directors. In its organisational meeting after the AGM, the Board of Directors elected Harri Tahkola as Chairman of the Board. The Board of Directors re-elected KPMG Oy Ab, authorised public accountant organisation, as the auditor of the company, with Juho Rautio, authorised public accountant, as the principal auditor.

## BOARD OF DIRECTORS' PROPOSAL FOR THE TREATMENT OF PROFIT

The Board of Directors proposes that the parent company's profit of 8,440,559.94 euros for the period be transferred to the Profit/Loss Account for the previous financial years. The Board of Directors proposes that a dividend of 0.15 euros per share be paid. No material changes have occurred in the company's financial position since the end of the financial year.

## GROUP STRUCTURE

On the closing date, the Talenom Plc group included its wholly owned subsidiaries Talenom Taloushallinto Oy, Talenom Talouspalvelu Oy, Talenom Consulting Oy, Talenom Konsultointipalvelut Oy, Talenom Talousosastopalvelut Oy, Talenom Yritystilit Oy, Talenom Audit Oy, Talenom Balance Oy, Talenom Software Oy, Talenom Kevytyrittäjä Oy, Talenom Redovisning Ab, Talenom Haninge Ab, Frivision Ab, Frivision Göteborg Ab, Frivision Stockholm Ab, Frivision Malmö Ab, Plusvision Ab, Plusvision Stockholm Ab, Plusvision Göteborg Ab ja Plusvision Malmö Ab. Talenom Audit Oy is a wholly owned subsidiary of Talenom Yritystilit Oy and Frivision Göteborg Ab, Frivision Stockholm Ab, Frivision Malmö Ab, Plusvision Ab, Plusvision Stockholm Ab, Plusvision Göteborg Ab ja Plusvision Malmö Ab are wholly owned subsdiaries of jFrivision Ab. Of the other Group companies, the parent company Talenom Plc owns the entire share capital.

## ALTERNATIVE PERFORMANCE MEASURES

The company reports commonly applied alternative performance measures to reflect the underlying business performance and enhance comparability between financial periods. Alternative performance measures, i.e. performance measures not based on IFRS, provide notable supplemental information to management, investors and other interested parties. Alternative performance measures may not be considered as a substitute for measures of performance in accordance with IFRS. Alternative performance measures used by the company include operating profit (EBIT), operating profit (EBIT) as % of net sales, return on investment (ROI) %, interest-bearing net liabilities, net gearing ratio %, equity ratio %, working capital and net investments. The formulas can be found under the title "Formulas". In addition to the aforementioned, the company presents alternative performance metrics in describing the effects of IFRS 16 on its financial information.



## FORMULAS

Net sales, increase % $= \dfrac{\text{net sales - net sales of the preceding year}}{\text{net sales of the preceding year}} \times 100$

Operating profit = net sales + other operating income - materials and services - personnel expenses - depreciations and amortisations - other operating expenses

Operating profit (EBIT), % $= \dfrac{\text{operating profit (EBIT)}}{\text{net sales}} \times 100$

Return on investment (ROI), % (rolling 12 months) $= \dfrac{\text{operating profit (EBIT) before taxes + interest and other financial expenses}}{\text{total equity and liabilities - non-interest-bearing liabilities (average of the accounting period)}} \times 100$

Interest-bearing net liabilities = interest-bearing liabilities - cash in hand and in banks

Net gearing ratio, % $= \dfrac{\text{interest-bearing liabilities - cash in hand and in banks}}{\text{capital and reserves}} \times 100$

Equity ratio, % $= \dfrac{\text{capital and reserves}}{\text{balance sheet total - advances received}} \times 100$

Working capital = inventories + non-interest-bearing current receivables - non-interest-bearing current liabilities

Net investments = investments in tangible and intangible assets - sales of assets

Earnings per share $= \dfrac{\text{net profit of the review period}}{\text{Weighted average number of shares outstanding during the review period}} \times 100$

Compound annual growth rate (CAGR) = (net sales at the end of the period / net sales in the beginning of the period)$^{1/\text{number of years}}$ -1

**Operating profit (EBIT)** measures Talenom's ability to generate a profit in its business operations. Operating profit is a key metric of the company's profitability and financial performance, and indicates the profit generated from business operations.

**Operating profit margin** refers to operating profit as a percentage of net sales and is used to proportion operating profit in relation to net sales and improve comparability of operating profit over reporting periods.

**Return on investment,** meanwhile, measures operating result in relation to invested equity. It describes Talenom's relative profitability, in other words how effectively the company is able to generate profit for capital invested in the company.

**Interest-bearing net liabilities** is the net sum of Talenom's debt financing. The metric provides information on the company's indebtedness and capital structure.

**Net gearing ratio** is the ratio between Talenom's equity and interest-bearing liabilities. It describes the level of risk associated with the company's financing and is a useful metric for tracking the company's debt to equity ratio.

**Equity ratio** is a financing structure metric that shows what proportion of the company's balance sheet is financed by its own equity. Equity ratio provides information on the level of risk associated with financing and the level of equity used in business operations, and describes the company's solvency and tolerance against loss in the long term.

**Working capital** measures the amount of financing committed in Talenom's business operations and describes the efficiency of capital use.

**Net investments** measure the amount of investments minus the sale of fixed assets. The metric offers additional information on the cash flow needs of business operations.

# CONSOLIDATED FINANCIAL STATEMENTS (IFRS) 2020

*Financial statements*

# Consolidated comprehensive income statement

| In thousands of euro | Note | 2020 | 2019 |
|---|---|---|---|
| **Net sales** | 6 | **65 161** | **57 955** |
| Other operating income | 7 | 121 | 372 |
| | | | |
| Materials and services | 8 | -2 466 | -3 598 |
| Employee benefit expense | 9, 21 | -33 947 | -29 912 |
| Depreciation, amortisation and impairment losses | 10 | -10 398 | -8 498 |
| Other operating expenses | 11 | -5 589 | -5 911 |
| **Operating profit (EBIT)** | | **12 881** | **10 409** |
| | | | |
| Financial income | 12 | 82 | 64 |
| Financial expenses | 12 | -939 | -906 |
| **Net financial expenses** | | **-857** | **-843** |
| | | | |
| **Profit (loss) before taxes** | | **12 024** | **9 566** |
| | | | |
| Income taxes | 13 | -2 445 | -1 951 |
| | | | |
| **Profit (loss) for the financial year** | | **9 579** | **7 615** |
| | | | |
| **Other comprehensive income** | | | |
| | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Cash flow hedging | | 0 | 60 |
| Taxes on items that may be reclassified subsequently to profit or loss | | 0 | -12 |
| **Other comprehensive income for the financial year, net of tax** | | **0** | **48** |
| | | | |
| **Total comprehensive income for the financial year** | | **9 579** | **7 663** |
| | | | |
| Earnings per share calculated on the profit attributable to owners of the parent company | | | |
| Basic earnings per share (euro) | 14 | 0,22 | 0,18 |
| Diluted earnings per share (euro) | 14 | 0,22 | 0,18 |

# Consolidated balance sheet

| In thousands of euro | Note | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 16 | 23 956 | 20 728 |
| Other intangible assets | 16 | 22 921 | 14 930 |
| Right-of-use assets | 15 | 7 965 | 8 400 |
| Property, plant and equipment | 15 | 2 479 | 2 584 |
| Other non-current financial assets | 17 | 337 | 237 |
| Deferred tax assets | 13 | 64 | 67 |
| Capitalised contract costs | 6 | 11 033 | 10 054 |
| **Total non-current assets** | | **68 754** | **57 000** |
| | | | |
| **Current assets** | | | |
| Trade and other receivables | 18 | 7 055 | 6 521 |
| Current tax assets | | 10 | 34 |
| Cash and cash equivalents | 19 | 9 104 | 7 786 |
| **Total current assets** | | **16 168** | **14 342** |
| **Total assets** | | **84 923** | **71 342** |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 20 | 80 | 80 |
| Reserve for invested unrestricted equity | 20 | 14 818 | 11 234 |
| Fair value reserve | 20 | 0 | -45 |
| Retained earnings | 20, 21 | 17 271 | 12 304 |
| **Total equity** | | **32 169** | **23 573** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Financial liabilities | 23 | 30 000 | 28 000 |
| Trade and other payables | 25 | 556 | 215 |
| Lease liabilities | 24 | 5 859 | 6 553 |
| Other non-current financial liabilities | 24 | 0 | 56 |
| Deferred tax liabilities | 13 | 732 | 307 |
| **Total non-current liabilities** | | **37 147** | **35 130** |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 25 | 12 134 | 10 208 |
| Lease liabilities | 24 | 2 280 | 1 940 |
| Current tax liabilities | 25 | 1 193 | 491 |
| **Total current liabilities** | | **15 607** | **12 638** |
| **Total liabilities** | | **52 754** | **47 769** |
| **Total equity and liabilities** | | **84 923** | **71 342** |

# Consolidated cash flow statement

| In thousands of euro | Note | 2020 | 2019 |
|---|---|---|---|
| Cash flow from operating activities | | | |
| Profit (loss) before taxes | | 12 024 | 9 566 |
| Adjustments: | | | |
| Depreciation, amortisation and impairment losses | 10 | 10 398 | 8 498 |
| Financial income | 12 | -82 | -64 |
| Financial expenses | 12 | 939 | 906 |
| Other adjustments | | 636 | 330 |
| Changes in working capital: | | | |
| Change in trade and other receivables | 18 | 182 | -559 |
| Change in trade payables and other liabilities | 25 | 1 169 | 1 995 |
| Interest received | | 82 | 64 |
| Taxes paid | | -1 912 | -2 399 |
| **Net cash flow from operating activities** | | **23 436** | **18 337** |
| | | | |
| **Cash flow from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | 15 | 252 | 240 |
| Acquisition of property, plant and equipment | 15 | -792 | -1 107 |
| Capitalisation of contract costs | 6 | -4 239 | -4 567 |
| Acquisition of intangible assets | 16 | -10 332 | -5 580 |
| Acquired businesses | 5 | -2 352 | -2 080 |
| Investments | | -100 | 0 |
| **Net cash flow from investing activities** | | **-17 563** | **-13 094** |
| | | | |
| **Cash flow from financing** | | | |
| Proceeds from share issue | | 1 878 | 0 |
| Acquisition of treasury shares | | 0 | -674 |
| Interest paid | | -943 | -888 |
| Repayment of capital / dividends paid | | -5 211 | -3 777 |
| Realisation of options | | 0 | -684 |
| Change in instalment payment liabilities | 23 | -148 | -106 |
| Repayment of lease liabilities | 24 | -2 129 | -1 746 |
| Proceeds from loans and borrowings | 23 | 30 000 | 4 500 |
| Repayments of loans and borrowings | 23 | -28 000 | 0 |
| **Net cash flow from financing** | | **-4 554** | **-3 375** |
| **Change in cash and cash equivalents** | | **1 320** | **1 869** |
| Cash and cash equivalents at 1 January | | 7 786 | 5 914 |
| Net effect of exchange rate fluctuations on cash and cash equivalents held | | -2 | 3 |
| **Cash and cash equivalents at 31 December** | **19** | **9 104** | **7 786** |



# Consolidated statement of changes in equity

| | | Attributable to owners of the parent company | | | | |
|---|---|---|---|---|---|---|
| **In thousands of euro** | **Note** | **Share capital** | **Reserve for invested unrestricted equity** | **Fair value reserve** | **Retained earnings** | **Total** |
| **Total equity at 1 January 2020** | 20 | **80** | **11 234** | **-45** | **12 304** | **23 573** |
| **Comprehensive income** | | | | | | |
| Profit for the financial year | | | | | 9 579 | 9 579 |
| Cash flow hedging | | | | | | 0 |
| **Total comprehensive income for the financial year** | | **0** | **0** | **0** | **9 579** | **9 579** |
| | | | | | | |
| **Transactions with owners of the parent company** | | | | | | |
| Dividend distribution and capital repayment | | | | | -5 211 | -5 211 |
| Average rate difference and other exchange rate differences | | | | | -2 | -2 |
| Share issue | | | 3 585 | | | 3 585 |
| Redeemed share options | | | | | | 0 |
| Acquisition of treasury shares | | | | | | 0 |
| Share-based payments | 21 | | | | 643 | 643 |
| **Total transactions with owners of the parent company** | | **0** | **3 585** | | **-4 570** | **-983** |
| **Other adjustments** | | | | **45** | **-42** | **3** |
| **Total equity at 31 December 2020** | **20** | **80** | **14 818** | **0** | **17 271** | **32 169** |

| | | Attributable to owners of the parent company | | | | |
|---|---|---|---|---|---|---|
| **In thousands of euro** | **Note** | **Share capital** | **Reserve for invested unrestricted equity** | **Fair value reserve** | **Retained earnings** | **Total** |
| **Total equity at 1 January 2019** | 20 | **80** | **10 608** | **-93** | **8 092** | **18 688** |
| **Comprehensive income** | | | | | | |
| Profit for the financial year | | | | | 7 615 | 7 615 |
| Cash flow hedging | | | | 48 | | 48 |
| **Total comprehensive income for the financial year** | | **0** | **0** | **48** | **7 615** | **7 663** |
| | | | | | | |
| **Transactions with owners of the parent company** | | | | | | |
| Dividend distribution and capital repayment | | | | | -3 777 | -3 777 |
| Average rate difference and other exchange rate differences | | | | | 3 | 3 |
| Share issue | | | 2 159 | | | 2 159 |
| Redeemed share options | | | -859 | | | -859 |
| Acquisition of treasury shares | | | -674 | | | -674 |
| Share-based payments | | | | | 370 | 370 |
| **Total transactions with owners of the parent company** | | **0** | **625** | **0** | **-3 403** | **-2 778** |
| **Total equity at 31 December 2019** | **20** | **80** | **11 234** | **-45** | **12 304** | **23 573** |

NOTE 1

# Corporate information

Talenom is a service company that offers for its growing number of customers a wide range of accountancy and other services supporting their customers' business activities. Talenom provides services to clients using software generated by its own software development unit and it also offers its clients tools for digital financial management.

When these financial statements were released, the company had a total of 47 offices in Finland and Sweden.

The company had an average of 868 employees during the financial year.

The parent company of the Group, Talenom Plc (company ID 2551454-2), is a Finnish public limited liability company that operates under the laws of Finland. It is domiciled in Oulu and the company's registered address is Yrttipellontie 2, 90230 Oulu, Finland. A copy of the financial statements is available on the company's web site at www.talenom/fi/en/investors or at the head office of the parent company of the Group.

The financial statements were authorised for issue by the Board of Directors in their meeting on 8 February 2021.

NOTE 2

# Basis of accounting

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) comprising IAS and IFRS standards as well as SIC and IFRIC interpretations, as adopted by the European Union and in force as at 31 December 2020. In the Finnish Accounting Act and ordinances based on the provisions of the Act, IFRS refer to the standards and their interpretations adopted in accordance with the procedures laid down in regulation (EC) No 1606/2002 of the European Parliament and of the Council. The notes to the consolidated financial statements also comply with Finnish accounting and company legislation that supplement the IFRS requirements. The consolidated financial statements for the financial year 2020 incorporate the financial statements of the parent company and of all of its subsidiaries (together 'the Group'). Besides the parent company the Group includes 20 subsidiaries. The coronavirus pandemic poses uncertainties to Talenom's financial forecasts. These uncertainties will increase if these exceptional circumstances continue for a long time, causing bankruptcies among Talenom's customer companies, weaker sales to new customers and a decline in high-volume invoicing. The subsidiary Talenom Yritystilit Oy owns the share capital of Talenom Audit Oy in its entirety and the subsidiary Frivision AB owns the entire share capital of seven subsidiaries. The parent company Talenom Plc owns 100% of the other subsidiaries. The Group has 100 % control of all subsidiaries. The list of subsidiaries is disclosed in Note 5.

Consolidated financial statements are prepared for a calendar year, which is the financial year of the parent company and other companies of the Group. The figures in the financial statements are presented in thousands of euro and consequently the sum of individual figures may deviate from the presented aggregate figure. Consolidated financial statements are prepared on a historical cost basis, except for the derivative instruments measured at fair value or financial assets recognised at fair value through profit or loss.

### ACCOUNTING POLICIES REQUIRING MANAGEMENT JUDGMENT AND MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements under IFRS requires management to make judgments, estimates and assumptions that affect application of the accounting policies, reporting of assets and liabilities as well as the amounts of income and expenses. Although these estimates are based on management's best current knowledge, actual results may ultimately differ from those estimates. Group management has used judgement in capitalisation of contract costs. Management believes that personnel expenses related to persons which are involved in the introduction of a service and service deployment as well as other expenditures allocated to start-up and deployment are direct costs without which the Group is not able to fulfil its obligations under the contract. Management uses judgment in determining the amortisation period and method for those costs. The Group reviews realisation of the estimates and assumptions and changes in the underlying factors regularly. Changes in estimates and assumptions are recognised in the period in which the estimate or the assumption is revised and in all subsequent periods. Information on the assumptions made about the future, and major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the impairment testing of uncompleted development projects and goodwill, where the key assumptions applied require use of estimates. The following areas also involve estimates: recognition and measurement of assets arisen in business acquisitions and recognition of uncompleted software projects and deferred tax assets on losses.

The coronavirus pandemic poses uncertainties to Talenom's financial forecasts. These uncertainties will increase if these exceptional circumstances continue for a long time, causing bankruptcies among Talenom's customer companies, weaker sales to new customers and a decline in high-volume invoicing.



NOTE 3

# Accounting policies for the consolidated financial statements

### SUBSIDIARIES

The consolidated financial statements incorporate the financial statements of the parent company Talenom Plc and all of its subsidiaries. The consolidated financial statements include all companies in which the parent company owns directly or indirectly more than half of the voting rights or it otherwise has control of the company. Subsidiaries are companies which the Group controls. Control over an entity is deemed to exist when a group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are incorporated in the consolidated financial statements from the date on which the Group has acquired control of the subsidiary. Consolidation ends when control ceases. All intercompany transactions, such as outstanding balances of receivables and liabilities, as well as unrealised gains and profit-sharing between the parent and subsidiaries are eliminated in preparing consolidated financial statements. The financial statements of the subsidiaries consolidated have been prepared using the same reporting period. If necessary, the accounting principles of subsidiaries' financial statements are adjusted to reflect the Group's principles. All the subsidiaries consolidated are fully owned by the parent company, consequently there are no non-controlling interests in the Group.

Business combinations are accounted for using the acquisition method. Goodwill is not subject to amortisation but is instead tested annually for impairment or whenever there is an indication that the value may be impaired.

### BUSINESS COMBINATIONS

Goodwill arising from business combinations is recognised at the amount of the consideration transferred, the non-controlling interest in the acquiree and any previously held interest in excess of the fair value of the net assets acquired. Acquisition-related costs are expensed, except for costs arising from the issuance of debt or equity securities.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or a group of cash-generating units that are expected to benefit from the acquisition from which the goodwill arose. At Talenom, goodwill is allocated to Accounting Services in Finland and to Accounting Services in Sweden. These cash-generating units are tested for impairment annually or more frequently if there are indications of impairment. If the recoverable amount of a cash-generating unit is less than its carrying amount, an impairment loss is recognised, first on goodwill and then on the other assets of the unit pro rata on the basis of the carrying amounts. Impairment of goodwill is recognised in profit or loss. Impairment loss on goodwill is not reversed in subsequent financial periods.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the estimated future net cash flows expected to be derived from an asset or a cash-generating unit.

### FOREIGN CURRENCY TRANSLATION

The figures for Group units' financial performance and position are in the currency of each unit's principal operating environment (functional currency). The consolidated financial statements are presented in Euro, which is the parent company's functional and reporting currency.

### INTANGIBLE ASSETS

Intangible assets are recognised in the balance sheet only if the cost can be reliably determined and it is probable that the Group will receive future economic benefits from the asset. Intangible assets are recognised at historical cost. Costs that are directly attributable to the acquisition are included in the cost of that asset.

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated or known useful lives, and are tested for impairment if there are any indications of such impairment. Residual values, amortisation periods and amortisation methods are reviewed at least at each financial year-end. The useful life is determined separately for each intangible asset. The Group has no intangible assets with indefinite useful lives.

The Group applies the following estimated useful lives for its intangible assets:

| | |
|---|---|
| Software | 5 years |
| Customized software | 5 years |
| Customer relationships | 10 years |

Development costs are capitalised only if they meet the capitalisation criteria set under IAS 38. Customised software includes the Group's capitalised development costs related to financial management tools for managing customers' daily financial management routines and developing the quality and efficiency of the company's own service production. Those development costs that do not meet the capitalisation criteria, as well as all research expenditures, are expensed in the period in which they are incurred. The development costs previously expensed are not capitalised in subsequent periods.

Gains and losses arising from decommisioning and disposal of intangible assets are determined by comparing the sale proceeds to the remaining carrying amount, and they are recognised in profit or loss in the period in which they arise.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. The cost includes costs directly attributable to the acquisition of an item of property, plant and equipment. Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives and are tested for impairment if there are any indications of such impairment.

The estimated useful lives are as follows:

| | |
|---|---|
| Office furniture | 10 years |
| IT equipment | 4 years |
| Cars | 3 years |
| Other tangible assets | 5 years |

Residual values, depreciation periods and depreciation methods are reviewed at least at each financial year-end and adjusted, if necessary, to reflect changes in expectations of economic benefits.

A previously recognised impairment loss is reversed if there is a significant positive change in the estimates used to determine the recoverable amount of the asset. However, the impairment loss is not to be reversed beyond the carrying amount of the asset that would have been recognised without the impairment loss.

An item of property, plant and equipment is derecognised on disposal or when its use or disposal is not expected to generate future economic benefits. Gains and losses arising on decommissioning and disposal of property, plant and equipment are recognised in profit or loss and are presented under other operating income or other operating expenses in the period in which they arise.

### CONTRACT COSTS

Sales commissions paid to sales persons and client managers are capitalised as incremental costs of obtaining a new client contract. The capitalised amounts are based on the data obtained from the company's ERP system (CRM). These sales commissions would not have been paid without a new client contract.

The capitalised costs to fulfil a contract comprise direct costs related to the implementation of a service and other service deployment costs. These costs are incurred on the basis of a specific contract and relate to the fulfillment of future performance obligations arising from the contract and are expected to generate the corresponding amount of money.

Expenditures from the introduction of a service and service deployment for a new client are based on the hourly records of the ERP software. The numbers of hours entered in the ERP are contract- and client-specific and can be directly allocated to a new client contract. The capitalised amount is computed by multiplying the number of hours spent on the start-up by the average cost per hour.

Capitalised costs are amortised consistently with the transfer to the customer of the services, over the estimated contract term. In determining the contract term the expected renewal period of the contract is taken into account, in addition to the basic contract term. At Talenom, the average duration of a customer relationship is 10 years, relying on the assessment made by management based on historical experience.

The capitalised contract costs are reviewed for impairment in each reporting period. The asset is compared with the remaining amount of consideration expected to be received for the service, less costs that relate to providing those future services and that have not yet been expensed. If the asset exceeds the latter, an impairment loss is recognised. An impairment loss recognised is reversed if the situation or circumstances subsequently improve.

Later the capitalised contract costs are tested in accordance with IAS 36 as part of the cash-generating unit Accounting Services.

### IMPAIRMENT TESTING OF NON-FINANCIAL ASSETS

At each reporting date the Group assesses whether there is any indication that a non-financial asset is impaired. If there are indications of impairment, the recoverable amount of the asset is estimated. Uncompleted intangible assets and goodwill are tested at least annually, and always if there is any indication of impairment.

The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use refers to estimated future net cash flows from the asset or the cash-generating unit discounted to their present value. The discount rate is the pre-tax interest rate that reflects the market view of the time value of money  and the asset-specific risks.

For impairment testing purposes, assets are allocated to cash-generating units, i.e. the lowest unit level, which is largely independent of other units and whose cash flows are separable and largely independent of the cash flows of other similar units. An impairment loss is recognised when the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount of the asset or cash-generating unit. An impairment loss is recognised through profit or loss. An impairment loss on a cash-generating unit is first allocated to reduce the goodwill allocated to the cash-generating unit and then to the other assets of the unit on a pro-rata basis.

An impairment loss recorded on goodwill is not reversed. Impairment losses recognised for other assets in earlier periods are assessed at each reporting date for factors indicating the reversal of an impairment loss. An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount of the asset. However, an impairment loss is not reversed beyond the carrying amount of the asset without an impairment loss.

## FINANCIAL INSTRUMENTS

### FINANCIAL ASSETS

The Group's financial assets are classified into the following measurement categories: financial assets at fair value through profit or loss and financial assets at amortised cost. The classification of financial assets is based on the purpose of the acquisition (business model for managing the asset) that is determined upon initial recognition. Transaction costs are included in the original carrying amount of a financial asset when the item is not measured at fair value through profit or loss. All purchases and sales of financial assets are recorded on the trade date. The items recognised at fair value through profit or loss include derivative receivables as well as shares and interests. Items recognised at amortised cost comprise trade receivables.

### FINANCIAL LIABILITIES

Financial liabilities are initially recognised at fair value less transaction costs that are directly attributable to the acquisition or issue of the financial liability. Subsequently financial liabilities, except for derivative liabilities, are measured at amortised cost using the effective interest rate (EIR) method. Financial liabilities may include both non-current and current liabilities and they can be interest-bearing or non-interest-bearing.

### DERIVATIVE FINANCIAL INSTRUMENTS

The Group may use interest rate swaps to hedge against risks arising from fluctuations of future interest rates. They are initially recognised at fair value on the date on which the Group becomes a party to the contract and are subsequently measured at fair value. In the balance sheet derivative instruments are presented as assets if their fair value at the reporting date is positive, and as liabilities if their fair value is negative, respectively.

The Group uses interest rate derivative instruments for hedging purposes and applies cash flow hedge accounting in accordance with IFRS 9. The effective portion of the change in the fair value of a hedging derivative is recognised in equity in the fair value reserve and the ineffective portion in profit or loss. Interest income and interest expenses on derivatives are accrued through profit or loss.

Derivatives that do not qualify for hedge accounting are classified as financial assets and financial liabilities at fair value through profit or loss. The items included in this category are measured at fair value, and positive fair values of the derivative instruments are shown under the non-current or current assets, and negative fair values under the non-current or current liabilities. Both unrealised and realised gains and losses arising from changes in fair value are recognised in profit or loss for the period in which they arise.

### IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses the need to recognise an allowance for expected credit losses on trade receivables measured at amortised cost when it becomes a party to the financial asset contract. The estimate is based on historical experience on credit losses, taking into account the financial circumstances at the time of the review, and is recognised at the amount that corresponds to the amount of expected credit losses for the entire life of the instrument. The amount to be recognised is estimated collectively. The amount to be subequently recognised is also collectively assessed, unless there is any indication that the credit risk of an individual item has increased significantly. Credit risk is estimated to have increased significantly if the delay is over 30 days. If the allowance recorded for expected credit losses proves to be unfounded in a subsequent period because the credit risk has decreased, the entry is cancelled in this respect.

### EQUITY

The Group classifies the financial instruments that it has issued as equity when they do not include a contractual obligation to deliver cash or other financial assets to another entity, or to exchange financial assets or liabilities with another entity in adverse circumstances, and which demonstrate a share of the Group's assets after deducting all of its liabilities.

The costs of issuing or acquiring own equity instruments are presented as a deduction from equity. If the Group repurchases its equity instruments, their cost is deducted from equity.

The share capital of the Group consists of ordinary shares.

### TREASURY SHARES AND DIVIDENDS

The costs directly attributable to the acquisition of Talenom Plc's treasury shares are recognised as a deduction from equity. The dividend proposed by the Board of Directors is not deducted from distributable equity until the approval of the Annual General Meeting.

### EMPLOYEE BENEFITS

Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans. A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods to which the charges relate. The Group's all pension plans are classified as defined contribution plans.

### SHARE-BASED PAYMENTS

Talenom Plc has incentive schemes where payments are made either in equity instruments or in cash. The benefits granted are measured at fair value at the grant date and recognised in equity and as an expense over the vesting period, respectively.  The impact of the schemes on the result is presented in the income statement under the line item Employee benefit expenses.

### PROVISIONS AND CONTINGENT LIABILITIES

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that a payment will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The change in provisions is recorded in the income statement in the same item as the provision was originally recognised.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of an uncertain future event that is outside the control of the Group. An existing obligation that probably does not require a settlement or the amount of which cannot be reliably measured is also a contingent liability.

### EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit or loss attributable to the owners of the parent company by
the weighted average number of outstanding shares during the financial year, except for treasury shares acquired by Talenom Plc.
Diluted earnings per share is calculated assuming that all subscription rights and options have been exercised
at the beginning of the financial year. In addition to the weighted average number of shares outstanding, the denominator also includes presumed shares received from the use of subscription rights and options. The expected use of subscription rights and options is excluded in calculating earnings per share, if the exercise price exceeds the average price of the shares during the financial year.

## LEASES

The Group's lease contracts mainly relate to the premises used in business operations. Part of the leases have fixed term ranging from 0.5 to 10 years, for some the term is non-fixed. In applying IFRS 16 the Group recognised right-of-use assets and lease liabilities for most of these contracts on the balance sheet.

At the commencement date, the Group separates non-lease components from leases of premises. The Group measures a right-of-use asset at cost including the following components: lease liability, initial direct costs, prepaid lease payments less lease incentives and estimated cost to dismantle or restore. Right-of-use assets are depreciated over the lease term using the straight-line method.

At the commencement date, the Group measures the lease liability at the present value of future payments, including the following payments: fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option that the lessee is reasonably certain to exercise, and payments for terminating the lease if reasonably certain to terminate.

Lease payments are discounted using the interest rate implicit in the lease. Usually that cannot be readily determined, and the Group then uses the incremental borrowing rate, i.e. the rate that a lessee would have to pay on the commencement date of the lease for a loan to obtain a similar asset.

The Group applies the optional exemptions not to account for short-term leases (the lease term of 12 months or less) and low-value leases (the value of the underlying asset is about USD 5,000 or less) on the balance sheet. Such leases are expensed on a straight-line basis over the lease term.

For the non-fixed-term contracts the lease term is determined based on the length of the non-cancellable period of a lease and the management judgement of the future lease term for which it is reasonable certain that an extension option is used / a termination option is not used.

The Group acts as a lessor to a limited extent as it sub-leases some of the premises.

## REVENUE FROM CONTRACTS WITH CUSTOMERS

Talenom provides accountancy services to its customers, including outsourcing of financial processes, care services and financial management software. Customers are also provided with professional services including legal, tax and financial advisory services. Other services provided include administration and support services for customer service and personnel services as well as for workstations and software, and enterprise resource planning and reporting solutions. In addition to these, Talenom has entered into several partnership agreements aimed at expanding the range of services offered to customer companies.

Accounting Services consist of monthly service packages, the size of which varies from customer to customer. The service package may include bookkeeping, sales invoicing, invoice payment, payroll accounting, performance monitoring, care services and financial management software solutions. The provision of accountancy services is based on customer contracts that are valid for an indefinite period, but on average, these customer relationships are proved to be long-lasting.

In accounting services, each monthly sold service package forms a separate contract. If a customer does not terminate an existing contract for an indefinite period, a new contract will automaticly be created for the following month. The transaction price of the monthly service package is the amount of consideration that the Group expects to be entitled to against the services performed on the basis of the customer contract. The price of a monthly service package depends on the amount of services it contains. The contract states fixed prices for separate services. Contracts do not include substantial variable considerations. Revenues from accounting services are recognised as the Group provides a monthly service for the customer and the customer acquires control of it.

Revenues from administration and support services related to customer service, personnel service and workstation and software maintenance, as well as ERP and reporting solutions are recognised over time, as the customer benefits from the service when it is performed.

The implementation and charging of advisory services related to law, taxation and financial advisory is agreed upon in advance. The charge is based on an hourly rate or a fixed price. Revenues from advisory services are recognised at point of time when the service is completed and the control has been transferred to the customer. Control is considered to have been transferred when the Group has the right to receive payment for the service rendered, the risks and benefits of the services have been transferred to the customer, and the customer has accepted the service.

In its partnership agreements, where a device is supplied to the customer, Talenom acts as an agent, as it does not have control of the device delivered to the customer. For these agreements, revenue is recognised on a net basis. As a financial services provider, Talenom also acts as an agent, whereby the commission is recognized as revenue. In its other partnership agreements, Talenom, on the other hand, usually acts as a principal, whereby revenues are recorded on a gross basis.

## OPERATING PROFIT

Talenom has determined the operating profit to be a net amount attained when net sales are added by other operating income, less the following items:

- External services
- Employee benefit expenses
- Depreciation, amortisation and impairment losses
- Other operating expenses.

All other income statement items than those mentioned above are presented below operating profit.

## INCOME TAXES

The tax expense in the income statement comprises current tax and deferred tax. Taxes are recognised in profit or loss, except when they relate to a business combination or to items recognised directly in equity or other comprehensive income.

Current tax is calculated on the basis of the taxable income using the tax rate enacted or substantively enacted at the balance sheet date, and is adjusted by any taxes for the previous years.

Deferred taxes are calculated on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred taxes are determined using tax rates enacted or substantively enacted by the end of the reporting period. A deferred tax liability is recognised for all temporary differences between the carrying amount and the taxable amount, except in the case of investments in subsidiaries, and the Group is able to determine the date of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences and tax deductible losses. A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilised. Recognition criteria for deferred tax assets are always assessed at the end of each reporting period.

A deferred tax asset is not recognised if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if, and only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

In the balance sheet current taxes are presented under current assets and current liabilities, and deferred tax assets and deferred tax liabilities under non-current assets and non-current liabilities.

## ADOPTION OF NEW AND AMENDED STANDARDS IN FUTURE FINANCIAL YEARS

Other new and revised standards, amendments and interpretations are not expected to have a significant impact on the
the consolidated financial statements when adopted.

NOTE 4

# Operating segments

## REPORTABLE SEGMENTS

The Group has one reportable business segment, Accounting Services, that is assessed monthly by the Board of Directors and the CEO as the chief operating decision-makers.

The segment's performance assessment is based on the segment's operating profit.

## UNALLOCATED ITEMS

The Group's assets and liabilities are not allocated to the business segment because the chief operating decision maker does not allocate resources based on segment assets or liabilities and does not review the segment assets or segment liabilities. Assets and liabilities are reviewed at Group level.

Financial income and expenses and income taxes are not allocated to the segment.

Income and expenses related to the segment other than accounting services are presented under unallocated items as they do not form a business segment to be reported separately.

## GROUP-WIDE INFORMATION

EUR 61,315 thousand of the consolidated net sales was generated in Finland and EUR 3,845 thousand in Sweden (2019: 56,398 thousands in Finland and 1,557 thousands in Sweden).

The Group had no customers accounting for at least 10% of the consolidated net sales in the financial years 2019 and 2020.

Disclosures on the reportable segments' result are presented below.

## OPERATING SEGMENTS 2020

| In thousands of euro | Accounting services | Unallocated items and eliminations | Total Group |
|---|---|---|---|
| External net sales | 62 480 | 2 681 | 65 161 |
| **Total net sales** | 62 480 | 2681 | 65 161 |
| Operating expenses | -39 533 | -2 470 | -42 003 |
| Other income | 121 | 0 | 121 |
| Depreciation and amortisation | -8 542 | 0 | -8 542 |
| Impairment losses | -1 856 | 0 | -1 856 |
| **Operating result** | **12 670** | **211** | **12 881** |

## OPERATING SEGMENTS 2019

| In thousands of euro | Accounting services | Unallocated items and eliminations | Total Group |
|---|---|---|---|
| External net sales | 55 143 | 2 812 | 57 955 |
| **Total net sales** | **55 143** | **2 812** | **57 955** |
| Operating expenses | -36 425 | -2 996 | -39 421 |
| Other income | 344 | 28 | 372 |
| Depreciation and amortisation | -6 809 | 0 | -6 809 |
| Impairment losses | -1 689 | 0 | -1 689 |
| **Operating result** | **10 565** | **-156** | **10 409** |

NOTE 5

# Group structure and business combinations

The following companies are incorporated into the consolidated financial statements:

| Subsidiary | Domicile | Shareholding, % |
|---|---|---|
| Talenom Plc | Oulu | Parent |
| Talenom Taloushallinto Oy | Oulu | 100 % |
| Talenom Talouspalvelu Oy | Kalajoki | 100 % |
| Talenom Consulting Oy | Helsinki | 100 % |
| Talenom Yritystilit Oy | Jyväskylä | 100 % |
| Talenom Audit Oy | Jyväskylä | 100 % |
| Talenom Talousosastopalvelut Oy | Oulu | 100 % |
| Talenom Konsultointipalvelut Oy | Oulu | 100 % |
| Talenom Software Oy | Oulu | 100 % |
| Talenom Balance Oy | Oulu | 100 % |
| Talenom Kevytyrittäjä Oy | Oulu | 100 % |
| Talenom Redovisning Ab (previously Wakers Consulting Ab) | Stockholm | 100 % |
| Talenom Haninge Ab (previously Niva Ekonomi Ab) | Haninge | 100 % |
| Frivision Ab | Göteborg | 100 % |
| Frivision Göteborg AB | Göteborg | 100 % |
| Frivision Stockholm AB | Göteborg | 100 % |
| Frivision Malmö AB | Göteborg | 100 % |
| Plusvision AB | Göteborg | 100 % |
| Plusvision Stockholm AB | Göteborg | 100 % |
| Plusvision Göteborg AB | Göteborg | 100 % |
| Plusvision Malmö AB | Göteborg | 100 % |

## BUSINESS ACQUISITIONS IN 2020

On 28 February 2020, the Group acquired the accounting business operations of Addvalue Advisors Oy through an asset deal. The acquisition cost of this asset deal was 268 thousand euros, which was paid in cash and shares.

On 4 May 2020, the Group acquired the shares in the Swedish accounting firm Niva Ekonomi Ab. The acquisition cost of these shares was 1,082 thousand euros, which was paid in cash and shares. In connection with the transaction, it was agreed with the owners that they may be paid contingent consideration tied to the achievement of financial objectives set for business operations. The amount of the consideration ranges from 0 to 2 million Swedish krona. Based on the management's estimate, 1.5 million Swedish krona (140 thousand euros) of the contingent consideration has been recognised in the purchase price and as a liability.

On 20 August 2020, the Group acquired the software business operations of Vanaja Technologies Oy through an asset deal. The acquisition cost was 400 thousand euros, which was paid in cash.

On 1 September 2020, the Group acquired the shares in the Swedish accounting firm Frivision Ab. The acquisition cost of these shares was 1,457 thousand euros, which was paid in cash and shares. In connection with the transaction, it was agreed with the owners that they may be paid contingent consideration tied to the achievement of financial objectives set for business operations. The amount of the consideration ranges from 0 to 6.4 million Swedish krona. Based on the management's estimate, 4.35 million Swedish krona (420 thousand euros) of the contingent consideration has been recognised in the purchase price and as a liability.

On 30 September 2020, the Group acquired the accounting business operations of Larsen & Co Tilitoimisto Oy through an asset deal. The acquisition cost of this asset deal was 1,000 thousand euros, which was paid in cash and shares.

On 1 December 2020, the Group acquired the accounting business of TiliTeam / E-P:n Yrityspalvelu Oy through an asset deal. The acquisition cost of this asset deal was 210 thousand euros, which was paid in cash.

The combined values of acquired assets and liabilities at the time of the acquisition were as follows:

| Thousand euro | Share transactions | Asset deals |
|---|---|---|
| Development expenditure | 19 | 10 |
| Property, plant and equipment | 30 | 38 |
| Customer relationships | 946 | 923 |
| Right-of-use assets | 538 | 0 |
| Current assets | 997 | 0 |
| **Total assets** | **2 530** | **971** |
| Trade and other payables | 702 | 0 |
| Lease liabilities | 538 | 0 |
| Deferred tax liabilities | 202 | 93 |
| **Total liabilities** | **1 442** | **93** |
| **Net assets** | **1 087** | **879** |
| Consideration transferred | 3 145 | **1 878** |
| Net assets of acquired company | -1 087 | **-879** |
| **Goodwill** | **2 057** | **999** |

Expenses from the acquisitions have been recognised under other operating expenses in the income statement.

If the acquisitions had been carried out at the beginning of the 2020 financial year, their estimated impact on the result for the financial period would have been 260 thousand euros and on net sales 3,340 thousand euros.

### BUSINESS ACQUISITIONS IN 2019

On 2 May 2019, the Group acquired the shares in Wakers Consulting Ab in Stockholm. The cost of the acquisition of Wakers Consulting Ab was EUR 2,571 thousand and it was paid in both cash and shares.

In connection with the transaction, it was agreed with the owners that they may be paid contingent consideration tied to the three-year development in the price of the Talenom share. This consideration will not be paid if the specified share price is achieved. The consideration will be paid in the amount of SEK 0-10 million if the share price falls short of the specified level. The amount of contingent consideration payable will decrease if the shareholders sell shares they have subscribed. Management estimates that contingent consideration will not be paid and thus none has been recognised.

On 31 May 2019, the Group acquired the accounting business operations of Oy Wasa Tilit Ab and WT Företagstjänster Ab Oy in an asset deal. The cost of the business operations of Oy Wasa Tilit Ab and WT Företagstjänster Ab Oy was EUR 1,368 thousand and it was paid in both cash and shares.

The values of assets acquired and liabilities assumed at the date of acquisition were as follows:

| In thousands of euro | Share transactions | Asset deals |
|---|---|---|
| Property, plant and equipment | 92 | 105 |
| Customer relationships | 1182 | 808 |
| Right-of-use assets | 267 | 132 |
| Current assets | 476 | |
| **Total assets** | **2017** | **1 045** |
| | | |
| Trade and other payables | 556 | 222 |
| Lease liabilities | 267 | 132 |
| Deferred tax liabilities | 253 | 162 |
| **Total liabilities** | **1076** | **516** |
| | | |
| **Net assets** | **941** | **529** |
| | | |
| Consideration transferred | 2571 | 1368 |
| Net assets of acquiree | -941 | -529 |
| **Goodwill** | **1630** | **839** |

The acquisition-related costs have been recognised under other operating expenses in the income statement.
If the acquisitions had been carried out at the beginning of the 2019 financial year, their estimated impact on the result for the financial year would have been EUR 200 thousand and on net sales EUR 1,900 thousand.

NOTE 6

# Revenue from contracts with customers

### CONTRACTS WITH CUSTOMERS

All revenues of the Group arise from contracts with the customers. By their nature, customer contracts are mainly service type contracts with indefinite duration that do not involve significant assets or liabilities recognised in the balance sheet. The amount of recorded liabilities arising from customer contracts is disclosed in Note 25, the item Prepayments received for contracts with customers. There were no assets arising from customer contracts recorded in the balance sheet as at 31 December 2019 and 2020.

The Group has no unsatisfied performance obligations to which the transaction prices would have been allocated. The Group satisfies a performance obligation as the service is performed and the customer benefits from the service. Billing is performed on a monthly basis and invoices are due within 1 to 2 weeks. Consideration amounts are fixed and do not include a separable financing component. The services do not involve specific return or refund obligations or warranties.

### COSTS OF OBTAINING OR FULFILLING A CUSTOMER CONTRACT

**Recognised assets**

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Opening balance | 10 054 | 8 357 |
| Costs of obtaining a contract | 2 715 | 2 992 |
| Implementation costs | 1 523 | 1 574 |
| | 14 293 | 12 923 |
| | | |
| Amortisation for the financial year | -1 404 | -1 181 |
| Impairment losses | -1 856 | -1 689 |
| **Capitalised contract costs in the balance sheet** | **11 033** | **10 054** |

The costs are amortised over 10 years on the basis of the average duration of customer contracts.

NOTE 7

# Other operating income

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Gains on disposal of property, plant and equipment and intangible assets | 6 | 61 |
| Sublease income | 10 | 154 |
| Grants and subsidies | 12 | 57 |
| Other | 93 | 100 |
| **Total** | **121** | **372** |

NOTE 8

# Materials and services

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Materials and services | | |
| External services | 2 466 | 3 598 |
| **Total** | **2 466** | **3 598** |

NOTE 9

# Employee benefit expense

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Wages and salaries | 26 605 | 23 033 |
| Equity-settled share-based options and share-based payments | 643 | 370 |
| Social security contributions | | |
| Pension expenses - defined contribution plans | 3 687 | 4 396 |
| Other personnel expenses | 3 012 | 2 112 |
| **Total** | **33 947** | **29 912** |

| Average number of employees during the financial year | 2020 | 2019 |
|---|---|---|
| White-collar | 867 | 746 |
| **Total** | **867** | **746** |
| **The number of employees at the end of the financial year** | **912** | **799** |

Disclosures on the employee benefits of the Group management are provided in Note *29 Related party transactions.*

NOTE 10

# Depreciation, amortisation and impairment losses

### DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES BY ASSET CLASS

**Intangible assets**

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Intangible rights | 208 | 178 |
| Other intangible assets | 4 011 | 2 955 |
| **Total** | **4 219** | **3 133** |

**Capitalised contract costs**

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Capitalised contract costs | 3 260 | 2 869 |
| **Total** | **3 260** | **2 869** |

**Property, plant and equipment**

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Machinery and equipment | 632 | 589 |
| Right-of-use assets, buildings | 2 196 | 1 837 |
| Other tangible assets | 91 | 70 |
| **Total** | **2 919** | **2 496** |

| | | |
|---|---|---|
| **Total depreciation, amortisation and impairment losses** | **10 398** | **8 498** |

NOTE 11

# Other operating expenses

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Premises | 1 204 | 1 499 |
| Machinery and equipment | 3 394 | 3 064 |
| Other expenses (marketing, administrative etc.) | 992 | 1 347 |
| **Total** | **5 589** | **5 911** |

**Audit fees**

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Audit assignments | 153 | 94 |
| Auditor 's statements and certificates | 7 | |
| Tax advisory | 1 | |
| Other services | 36 | 57 |
| **Total** | **197** | **151** |

NOTE 12

# Financial income and expenses

### RECOGNISED IN PROFIT OR LOSS

**Financial income**

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Other financial income | 82 | 64 |
| **Total** | **82** | **64** |

**Financial expenses**

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Interest expenses | | |
| Liabilities measured at amortised cost | -648 | -681 |
| Lease liabilities | -207 | -206 |
| Change in fair values of derivatives | | |
| Interest rate swaps | | |
| Other financial expenses | -84 | -19 |
| **Total** | **-939** | **-906** |

| | | |
|---|---|---|
| **Net financial expenses** | **-857** | **-843** |

# Income taxes

## RECOGNISED IN PROFIT OR LOSS

**Current tax**

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Current tax expense | 2 485 | 1 963 |
| Tax expense from previous years | 0 | 1 |
| **Total** | **2 485** | **1 964** |

**Changes in deferred taxes**

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Change in deferred tax assets | **-8** | **-17** |
| Change in deferred tax liabilities | -31 | 4 |
| **Total** | **-40** | **-13** |
| | | |
| **Total tax expense in the consolidated income statement** | **2 445** | **1 951** |

**Reconciliation between the income tax expense in the income statement and the tax expense calculated at the corporate tax rate applicable in Finland**

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| **Profit before taxes** | **12 024** | **9 566** |
| | | |
| Income tax using the Finnish corporate tax rate (20%) | -2 405 | -1 913 |
| Previously unrecognised tax losses used to reduce the taxes for the period | 94 | 0 |
| Unrecognised deferred tax assets on tax losses | -53 | -3 |
| Tax-exempt income and non-deductible expenses | -2 | 2 |
| Taxes from previous years | 0 | -1 |
| Other differences | -79 | -37 |
| **Income tax expense reported in the income statement** | **-2 445** | **-1 951** |





## CHANGES IN DEFERRED TAXES 2020

| In thousands of euro | At 1 Jan 2020 | Recognised in profit or loss | Recognised in equity | Exchange rate differences and other changes | At 31 Dec 2020 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Derivatives | 11 | | 11 | | 0 |
| Right-of-use assets | 18 | 13 | | | 32 |
| Other temporary differences | 37 | -5 | | | 32 |
| **Total deferred tax assets** | **67** | **8** | **-11** | **0** | **64** |
| | | | | | |
| **Deferred tax liabilities** | | | | | |
| Acquisition of subsidiary | -236 | 39 | -457 | | -654 |
| Property, plant and equipment | -71 | 3 | | | -68 |
| Other temporary differences | 0 | -10 | | | -10 |
| **Total deferred tax liabilities** | **-307** | **31** | **-457** | **0** | **-732** |

## CHANGES IN DEFERRED TAXES 2019

| In thousands of euro | At 1 Jan 2020 | Recognised in profit or loss | Recognised in equity | Exchange rate differences and other changes | At 31 Dec 2020 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Derivatives | 23 | | -12 | | 11 |
| Right-of-use assets | | 18 | | | 18 |
| Other temporary differences | 38 | -1 | | | 37 |
| **Total deferred tax assets** | **62** | **17** | **-12** | **0** | **67** |
| | | | | | |
| **Deferred tax liabilities** | | | | | |
| Acquisition of subsidiary | 0 | 17 | -253 | | -236 |
| Property, plant and equipment | -50 | -21 | | | -71 |
| **Total deferred tax liabilities** | **-50** | **-4** | **-253** | **0** | **-307** |

## DEFERRED TAX ASSETS FOR LOSSES

The Group had no confirmed losses under the Finnish Business Income Tax Act (BITA; EVL) at the financial year-end 2019 and 2020.

At the end of the financial year 2020 the Group had confirmed losses amounting to EUR 469 thousand (2019: EUR 456 thousand) under the Finnish Income Tax Act (TVL), for which no deferred tax asset has been recognised. Due to a change in the taxation of sources of income, losses have been taken into consideration in the calculation of the taxes payable for the 2020 financial year.

NOTE 14

# Earnings per share

Basic earnings per share is calculated by dividing the profit for the financial year attributable to the owners of the parent company by the weighted average number of ordinary shares outstanding during the financial year.
The outstanding shares exclude the treasury shares held by the company.

| | 2020 | 2019 |
|---|---|---|
| Profit for the financial year attributable to owners of the parent company (EUR thousand) | 9 579 | 7 615 |
| Weighted average number of ordinary shares outstanding during the financial year (1,000 pieces) | 42 654 | 41 575 |
| Impact of share options | 540 | 1 624 |
| Weighted average number of ordinary shares outstanding during the financial year (diluted) (1,000 pieces) | 43 194 | 43 199 |
| Basic earnings per share (euro per share) | 0,22 | 0,18 |
| Diluted earnings per share (euro per share) | 0,22 | 0,18 |

In calculating diluted earnings per share, the dilutive effect resulting from all potential ordinary shares is taken into account in the weighted average number of shares.

*) the share amounts for 2019 have been adjusted in line with the share issue without payment carried out in 2020

NOTE 15

# Right-of-use assets and property, plant and equipment

### RIGHT-OF-USE-ASSETS 2020 / PROPERTY, PLANT AND EQUIPMENT 2020

| In thousands of euro | Buildings | Machinery and equipment | Other tangible assets | Total |
|---|---|---|---|---|
| Cost at 1 Jan 2020 | 10 238 | 6 544 | 652 | 7 196 |
| Additions | 1 222 | 722 | 69 | 792 |
| Additions through business combinations | 538 | 78 | | 78 |
| Disposals | | -476 | | -476 |
| Exchange rate differences | -1 | | | 0 |
| **Cost at 31 Dec 2020** | **11 998** | **6 868** | **722** | **7 589** |
| | | | | |
| **Cumulative depreciation and impairment losses at 1 Jan 2020** | -1 837 | -4 220 | -392 | -4 612 |
| Depreciation for the financial year | -2 196 | -632 | -91 | -723 |
| Accumulated depreciation on disposals | | 224 | | 224 |
| **Accumulated depreciation and impairment losses at 31 Dec 2020** | -4033 | -4 628 | -483 | -5 111 |
| | | | | |
| **Carrying amount at 1 Jan 2020** | **8 401** | **2 323** | **260** | **2 583** |
| **Carrying amount at 31 Dec 2020** | **7 965** | **2 240** | **239** | **2 478** |

### RIGHT-OF-USE-ASSETS 2019 / PROPERTY, PLANT AND EQUIPMENT 2019

| In thousands of euro | Buildings | Machinery and equipment | Other tangible assets | Total |
|---|---|---|---|---|
| Cost at 1 Jan 2019 | 0 | 6 076 | 421 | 6 497 |
| Right-of-use assets under IFRS 16 at 1 Jan 2019 | 8 005 | | | |
| Additions | 1 965 | 807 | 231 | 1 039 |
| Additions through business combinations | 267 | 197 | | 197 |
| Disposals | | -537 | | -537 |
| Exchange rate differences | 1 | | | 0 |
| **Cost at 31 Dec 2019** | **10 238** | **6 544** | **652** | **7 196** |
| | | | | |
| **Cumulative depreciation and** | 0 | -3 927 | -321 | -4 249 |
| **impairment losses at 1 Jan 2019** | | | | 0 |
| Depreciation for the financial year | -1 837 | -590 | -70 | -660 |
| Accumulated depreciation on disposals | | 297 | | 297 |
| **Accumulated depreciation and impairment losses at 31 Dec 2019** | **-1 837** | **-4 220** | **-392** | **-4 612** |
| | | | | |
| **Carrying amount at 1 Jan 2019** | **0** | **2 149** | **99** | **2 248** |
| **Carrying amount at 31 Dec 2019** | **8 401** | **2 323** | **260** | **2 583** |

NOTE 16

# Intangible assets

### INTANGIBLE ASSETS 2020

| In thousands of euro | Goodwill | Intangible rights | Software development costs | Customer relationships | Total |
|---|---|---|---|---|---|
| Cost at 1 Jan 2020 | 20 728 | 2 004 | 22 684 | 3 510 | 48 926 |
| Additions | | 203 | 10 148 | | 10 351 |
| Additions through business combinations | 3 229 | | | 1 858 | 5 087 |
| **Cost at 31 Dec 2020** | **23 956** | **2 208** | **32 832** | **5 369** | **64 364** |
| **Cumulative amortisation and impairment losses at 1 Jan 2020** | 0 | -1 350 | -11 440 | -478 | -13 268 |
| Amortisation for the financial year | 0 | -208 | -3 571 | -440 | -4 219 |
| **Cumulative amortisation and impairment losses at 31 Dec 2020** | **0** | **-1 558** | **-15 011** | **-918** | **-17 487** |
| **Carrying amount at 1 Jan 2020** | **20 728** | **654** | **11 244** | **3 032** | **35 659** |
| **Carrying amount at 31 Dec 2020** | **23 956** | **650** | **17 821** | **4 450** | **46 877** |

### INTANGIBLE ASSETS 2019

| In thousands of euro | Goodwill | Intangible rights | Software development costs | Customer relationships | Total |
|---|---|---|---|---|---|
| **Cost at 1 Jan 2019** | 18 420 | 1 707 | 17 401 | 1 515 | 39 043 |
| Additions | | 298 | 5 283 | | 5 580 |
| Additions through business combinations | 2 308 | | | 1 996 | 4 303 |
| **Cost at 31 Dec 2019** | **20 728** | **2 004** | **22 684** | **3 510** | **48 926** |
| **Cumulative amortisation and impairment losses at 31 Dec 2020** | 0 | -1 172 | -8 762 | -195 | -10 129 |
| Amortisation for the financial year | 0 | -178 | -2 678 | -283 | -3 139 |
| **Cumulative amortisation and impairment losses at 31 Dec 2019** | **0** | **-1 350** | **-11 440** | **-478** | **-13 268** |
| **Carrying amount at 1 Jan 2019** | **18 420** | **535** | **8 639** | **1 320** | **28 914** |
| **Carrying amount at 31 Dec 2019** | **20 728** | **654** | **11 244** | **3 032** | **35 659** |





### IMPAIRMENT TEST OF GOODWILL

The Group assesses annually the recoverable amount of goodwill irrespective of whether there is any indication of impairment.
An impairment test is performed at the level of cash-generating units.
For goodwill impairment testing purposes goodwill is allocated to the cash-generating units as shown in the table below.

| **In thousands of euro** | **2020** | **2019** |
|---|---|---|
| Accounting Services, Finland - Book value | 56 029 | 48 011 |
| Accounting Services, Sweden - Book value | 6 529 | 2 921 |
| **Total** | **62 558** | **50 932** |

**Cash-generating unit**

The recoverable amount of a cash-generating unit is determined based on value in use. The recoverable amount is calculated by discounting future cash flows from the continuing use of the cash-generating unit.

**Accounting Services, Finland**

The carrying amount of the cash-generating unit was estimated to be EUR 109 million (2019: EUR 173 million) lower than its recoverable amount. The key variables used to calculate the recoverable amount are presented below:

| **Per cent** | **2020** | **2019** |
|---|---|---|
| Terminal growth rate | 1,7 % | 1,5 % |
| Pre-tax discount rate (WACC) | 8,8 % | 8,6 % |

The terminal growth rate and the discount rate (WACC) used in the calculations are based on market information from external sources.

Net sales and profitability forecasts rely on past performance and management view of the likely future development over the next three years.

Management has estimated that a reasonably possible change in any of the key variables used would not result in a unit's recoverable amount being lower than its carrying amount.

**Accounting Services, Sweden**

The carrying amount of the cash-generating unit was estimated to be EUR 582 thousand (2019: EUR 607 thousand) lower than its recoverable amount.
The key variables used to calculate the recoverable amount are presented below:

| **Per cent** | **2020** | **2019** |
|---|---|---|
| Terminal growth rate | 1,7 % | 1,5 % |
| Pre-tax discount rate (WACC) | 14,9 % | 14,8 % |

The terminal growth rate and the discount rate (WACC) used in the calculations are based are based on market information from external sources.

Since the acquisitions in Sweden were carried out in the current and previous financial year, net sales and profitability forecasts were prepared on a prudent basis and are clearly below the target level set by management.

The sensitivity analysis below discloses how each of the changes, with all other variables held constant, would cause the carrying amount to equal its recoverable amount:

| **Percentage points** | **2020** | **2019** |
|---|---|---|
| Net sales (annual average growth rate, three years) | -4,2% | -10,1 % |
| Budgeted EBITDA (average, three years) | -0,6 % | -2,1 % |
| Terminal growth rate | -1,2 % | -3,2 % |
| Discount rate (WACC) | 1,1 % | 2,7 % |

NOTE 17

# Other financial assets

### FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS:

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Other investments | 337 | 237 |
| **Total** | **337** | **237** |
| | | |
| **Current** | - | - |
| **Non-current** | **337** | **237** |

TThe Group's other financial assets consist of investments in shares and in corporate loan receivables. These financial assets are measured at fair value through profit or loss and are classified in the category 'at fair value through profit or loss'.

Unquoted shares and securities that do not have a quoted price on an active market are measured at the probable disposal price estimated by management.

Disclosures on fair value measurement are provided in Note 22.



NOTE 18

# Trade and other receivables

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Trade receivables | 4 727 | 4 735 |
| Other receivables | 2 328 | 1 787 |
| **Total** | **7 055** | **6 521** |
| | | |
| **Current** | **7 055** | **6 521** |
| **Non-current** | **0** | **0** |

**Major items under Other receivables, Prepayments and Accrued income**

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Prepayments made | 1 084 | 1 161 |
| Rental guarantees | 195 | 169 |
| Other accrued receivables | 1 050 | 457 |
| **Total** | **2 328** | **1 787** |

The carrying amount of trade and other receivables is a reasonable approximation of fair value. The Group has recognised a provision for expected credit losses totaling EUR 218 thousand in 2020 (2019: EUR 278 thousand). The carrying amounts of trade and other receivables correspond best to the maximum credit risk exposure of the Group.

NOTE 18

**Ageing analysis of trade receivables and expected credit losses**

| In thousands of euro | 2020 | Expected credit loss | Net 2020 |
|---|---|---|---|
| Current trade receivables | 4 244 | -76 | 4 168 |
| Past due | | | |
| 1-30 days | 406 | -4 | 402 |
| 31-60 days | 83 | -9 | 74 |
| 61-90 days | 47 | -16 | 31 |
| 91-120 days | 44 | -17 | 27 |
| More than 120 days | 120 | -95 | 25 |
| **Total past due** | 701 | -142 | 559 |
| **Total** | **4 945** | **-218** | **4 727** |

| In thousands of euro | 2019 | Expected credit loss | Net 2019 |
|---|---|---|---|
| Current trade receivables | 3 879 | -72 | 3 806 |
| Past due | | | |
| 1-30 days | 743 | -8 | 735 |
| 31-60 days | 110 | -12 | 97 |
| 61-90 days | 49 | -16 | 32 |
| 91-120 days | 38 | -15 | 23 |
| More than 120 days | 196 | -155 | 41 |
| **Total past due** | 1 134 | -206 | 928 |
| **Total** | **5 013** | **-278** | **4 735** |

Details of the Group's exposure to credit and market risks and the description on how the Group assesses and manages credit risk related to trade receivables are provided in Note 26.

The company recognises expected credit losses based on the ageing analysis of its receivables and past experience.



NOTE 19

# Cash and cash equivalents

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Cash at bank and in hand | 9 104 | 7 786 |
| **Cash and cash equivalents in the balance sheet** | **9 104** | **7 786** |
| | | |
| **Cash and cash equivalents in the cash flow statement** | **9 104** | **7 786** |

At the balance sheet date the Group had a EUR 3.0 million revolving credit facility available. The limit was not used during the financial year 2020.

NOTE 20

# Capital and reserves

| In thousands of euro | Number of shares, 1000 pieces | Share capital | Reserve for invested un-restricted equity | Fair value reserve | Total |
|---|---|---|---|---|---|
| **At 1 Jan 2019** | 6 872 | 80 | 10 608 | -93 | 10 595 |
| Share issue | 101 | | 2 159 | | 2 159 |
| Redeemed share options | | | -859 | | -859 |
| Acquisition of treasury shares | | | -674 | | -674 |
| Cash flow hedges | | | | 48 | 48 |
| **At 31 Dec 2019** | 6 973 | 80 | 11 234 | -45 | 11 269 |
| | | | | | |
| **At 1 Jan 2020** | 6 973 | 80 | 11 234 | -45 | 11 269 |
| Share issue | 36 242 | | 3 585 | | 3 585 |
| Redeemed share options | | | | | 0 |
| Acquisition of treasury shares | | | | | 0 |
| Cash flow hedges | | | | 45 | 45 |
| **At 31 Dec 2020** | 43 215 | 80 | 14 818 | 0 | 14 899 |

### SHARE CAPITAL

The share capital consists of one share series and each share carries one vote. The share has no nominal value.

The 2020 AGM resolved to issue new shares free of charge in order to enhance the liquidity of the company's share. The new shares were issued to shareholders in proportion to their holdings such that five new shares were issued for each share. The shares were issued to shareholders who were registered in the shareholder list maintained by Euroclear Finland Oy on the record date, 27 February 2020.

On 31 December 2020, the Group held 150,600 of its own shares.

The subscription price of a share received by the company in connection with share issues is credited to the share capital, unless it is provided in the share issue decision that a part of the subscription price is to be recorded in the reserve for invested unrestricted equity.

### DIVIDENDS

A dividend of EUR 0,15 per share is proposed by the Board of Directors
In 2019 a dividend of EUR 0.125 per share was paid.

### RESERVE FOR INVESTED UNRESTRICTED EQUITY

The reserve for invested unrestricted equity comprises other equity investments and that part of the share subscription price that has not specifically been allocated to share capital.

### FAIR VALUE RESERVE

The fair value reserve includes the accumulated effective portions of changes in the fair value of derivative instruments used to hedge cash flows.



NOTE 21

# Share-based payments

### OPTION-BASED INCENTIVE SCHEMES

Talenom has option-based incentive and commitment schemes for the key personnel of the Group. The aim of the option rights is to encourage the key employees to work on a long-term basis in order to increase shareholder value, and to commit the key employees to the company.

The Board of Directors decided, based on the approval given by the Annual General Meeting (AGM) on 17 March 2016, on the Option Rights 2016 and related additional conditions. An additional condition is the ownership obligation upon by the Board, which means that a share option owner must use 20 % of the gross earnings received from the share options to acquire the company's shares. This number of shares must be owned for two years after their acquisition. The Board of Directors decided, based on the approval given by the AGM on 14 March 2018, on the Option Rights 2018. The terms of the 2018 share option scheme correspond to the terms of the 2016 share option scheme. The Board of Directors decided, based on the approval given by the AGM on 26 February 2019, on the Option Rights 2019. The terms of the 2019 share option scheme correspond to the terms of the 2016 and 2018 share option schemes. Besides the option schemes introduced in 2016, 2018 and 2019 the company has no other option schemes. The schemes are in the scope of IFRS 2.

Various option-based incentive schemes are aimed at the Group's key personnel. In accordance with the scheme terms options are issued without consideration and all schemes are conditional. The share subscription periods by option rights are as follows: for 2016A 1 March 2018 - 28 February 2019, for 2016B 1 March 2019 - 28 February 2020, for 2016C and 2018 1 March 2020 - 28 February 2021 and for 2019 1 March 2022 - 28 February 2023. The option rights 2016A and 2016B have either been exercised or cancelled.

The 2020 AGM resolved to issue new shares free of charge in order to enhance the liquidity of the company's share. The new shares were issued to shareholders in proportion to their holdings such that five new shares were issued for each share. Due to the share issue without payment, the Board of Directors decided on 25 February 2020 to change the number and subscription price of the shares subscribed for with the options. After these amendments, the total number of shares to be subscribed with 2016 option rights is 1,176,000, the total number of shares to be subscribed with 2018 option rights is 360,000 and the total number of shares to be subscribed with 2019 option rights is 1,200,000.

The maximum share issue-adjusted total number of option rights issued is 3,660,000, and they are issued without consideration. The option rights entitle their holders to subscribe for a maximum of 3,660,000 new shares of the company or existing shares held by the company. In total 1,309,630 new shares have been subscribed with options rights and 656,520 option rights have been cancelled.

Share issue-adjusted subscription price for the 2016 option rights was EUR 1.10 at the grant date, for the 2018 option rights EUR 2.07 and for the 2019 option rights EUR 3.38. The funds received from share subscriptions are recorded in the reserve for invested unrestricted equity of the company.

Should a share option holder cease to be employed by the group company, the holder immediately loses the option rights received without consideration if the share subscription period had not commenced at the time of termination of the employment. The grantee of the option right has no right to receive any compensation related to option rights during or after termination of the employment for any reason.

If the company distributes dividends or funds from the unrestricted equity fund, the subscription price for options will be decreased following the decision made by the Board of Directors, from 17 March 2016 for the Option Rights 2016, from 14 March 2018 for the Option Rights 2018 and from 26 February 2019 for the Option Rights 2019, based on the pre-subscription date decided per-share amounts of dividends and and capital repayments from the unrestricted equity fund, on the record date for each dividend or capital repayment. The company will act respectively, should it reduce its share capital by issuing share capital to shareholders. The key terms of the schemes are disclosed in the table on next page.

## KEY TERMS OF CURRENT OPTION SCHEMES (SHARE ISSUE-ADJUSTED)

| Scheme | 2016C | 2016C |
|---|---|---|
| **Nature of the scheme** | Share option | Share option |
| **Grant date** | 21 Apr 2016 | 31 Dec 2016 |
| **Vesting period** | 21 Apr 2016 - 28 Feb 2020 | 31 Dec 2016 - 28 Feb 2020 |
| **Subscription period** | 1 Mar 2020 - 28 Feb 2021 | 1 Mar 2020 - 28 Feb 2021 |
| **Vesting condition** | Employment requirement | Employment require-ment |
| **Maximum number of options** | 1 014 000 | 162 000 |
| **Current exercise price (EUR)** | 0,79 | 0,79 |
| **Price at grant date** | 0,85 | 1,20 |
| **Settlement** | In shares | In shares |

| Scheme | 2018 | 2019 |
|---|---|---|
| **Nature of the scheme** | Share option | Share option |
| **Grant date** | 29 Mar 2018 | 20 Mar 2019 |
| **Vesting period** | 29 Mar 2018 - 28 Feb 2020 | 20 Mar 2019 - 28 Feb 2022 |
| **Subscription period** | 1 Mar 2020 - 28 Feb 2021 | 1 Mar 2022 - 28 Feb 2023 |
| **Vesting condition** | Employment requirement | Employment requirement |
| **Maximum number of options** | 360 000 | 1 200 000 |
| **Current exercise price (EUR)** | 1,8 | 3,25 |
| **Price at grant date** | 2,06 | 4,55 |
| **Settlement** | In shares | In shares |

Numbers of the options held by Talenom Plc or undistributed options are disclosed in the table below:

| | 2016C | 2018 | 2019 | Total |
|---|---|---|---|---|
| Options held by the company | 467 100 | 12 000 | 276 000 | 755 100 |



NOTE 21

## KEY ASSUMPTIONS USED IN BLACK-SCHOLES VALUATION MODEL (SHARE ISSUE-ADJUSTED)

| Scheme | 2016C | 2016C |
|---|---|---|
| **Grant date** | **21 Apr 2016** | **31 Dec 2016** |
| Volatility, % | 42,33 % | 38,16 % |
| Option life (years) | 4,86 | 4,16 |
| Risk-free interest rate, % | -0,24 | -0,47 |
| Price at grant date | 0,85 | 1,20 |
| Option value at grant date | 0,20 | 0,35 |

| Scheme | 2018 | 2019 |
|---|---|---|
| Grant date | **29 Mar 2018** | **20 Mar 2019** |
| Volatility, % | 22,71 % | 29,31 % |
| Option life (years) | 2,92 | 3,95 |
| Risk-free interest rate, % | -0,46 | -0,44 |
| Price at grant date | 2,06 | 4,55 |
| Option value at grant date | 0,30 | 1,57 |

The table below discloses the changes in the number of outstanding share options during the financial year.

### CHANGES IN OUTSTANDING SHARE OPTIONS (SHARE ISSUE-ADJUSTED)

| Pieces | 2020 | 2019 |
|---|---|---|
| **At 1 January** | **2 046 300** | **1 699 200** |
| Granted during the year | 0 | 1 152 000 |
| Returned during the year | -65 400 | -357 000 |
| Exercised during the year | -1 042 150 | -447 900 |
| Expired during the year | | 0 |
| **At 31 December** | 938 750 | 2 046 300 |
| | | |
| **Exercisable** | 14 750 | 0 |

The subscription price for the options in question is shown above.

## SHARE-BASED INCENTIVE PLANS

Talenom has two share-based incentive plans for the Group's key personnel, which the Board of Directors decided to establish on 25 February 2020.

**Performance Share Plan 2020-2024**
The Performance Share Plan 2020–2024 consists of three performance periods, covering the calendar years 2020–2022, 2021–2023 and 2022–2024. The Board of Directors decides on the earnings criteria and the targets set for each criterion at the beginning of the performance period. During the performance period 2020-2022, approximately 50 persons are included in the target group of the plan, including the company's Executive Board members. The potential reward based on the plan will be paid partly in the company's shares and partly in cash after the end of a performance period. The cash proportion is intended to cover taxes and tax-related expenses arising from the reward to a participant. The rewards to be paid correspond to the value of an approximate maximum total of 330,000 Talenom Plc shares, including the cash component.

**Restricted Share Plan 2020**
The Restricted Share Plan 2020 is intended for selected key employees only, including the Executive Board members. The reward from the Restricted Share Plan 2020 is paid partly in the company's shares and partly in cash after the end of a 12-36-month vesting period. The rewards to be granted based on the Restricted Share Plan in 2020-2022 correspond to the value of a maximum total of 185,950 Talenom Plc shares, including the cash component.

### IMPACT OF SHARE-BASED PAYMENT SCHEMES ON PROFIT OR LOSS FOR THE FINANCIAL YEAR

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Share-based payments | 643 | 370 |
| **Total** | **643** | **370** |

Share-based compensation is expensed over the vesting period and presented under the line item Employee benefit expense and Retained earnings under equity, respectively.





# Classification of financial assets and financial liabilities

## CLASSIFICATION AND FAIR VALUES

The table discloses carrying amounts, fair values and respective fair value hierarchy levels for financial assets and financial liabilities. The table excludes those financial assets and financial liabilities not measured at fair value, if the carrying amount is a reasonable approximation of fair value. The Group applies the classification under IFRS 9 to financial assets and financial liabilities.

**At 31 December 2020**

| CARRYING AMOUNT | | | | | | FAIR VALUE | | | |
|---|---|---|---|---|---|---|---|---|---|
| In thousands of euro | Note | Financial assets and liabilities at fair value through profit or loss | Financial assets and liabilities under hedge accounting | Financial assets and liabilities recognised at amortised cost using EIR | Total | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | |
| Equity investments | 17 | 237 | | | 237 | | | 237 | 237 |
| **Total** | | **237** | | | **237** | - | - | **237** | **237** |
| **Financial assets not repeatedly measured at fair value** | | | | | | | | | |
| Trade and other receivables | 18 | | | 7 155 | 7 155 | | 100 | | 100 |
| Cash and cash equivalents | 19 | | | 9 104 | 9 104 | | | | |
| **Total** | | | | **16 259** | **16 259** | 0 | 100 | 0 | 100 |
| **FINANCIAL LIABILITIES** | | | | | | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | |
| Interest rate swaps | 24 | | 0 | | 0 | | 0 | | 0 |
| **Total** | | | **0** | | **0** | - | **0** | - | **0** |
| **Financial assets not repeatedly measured at fair value** | | | | | | | | | |
| Bank borrowings | 23 | | | 30 000 | 30 000 | | 30 000 | | 30 000 |
| Trade payables | 25 | | | 1 787 | 1 787 | | | | |
| **Total** | | | | **31 787** | **31 787** | - | **30 000** | **0** | **30 000** |

**At 31 December 2019**

| CARRYING AMOUNT | | | | | | FAIR VALUE | | | |
|---|---|---|---|---|---|---|---|---|---|
| In thousands of euro | Note | Financial assets and liabilities at fair value through profit or loss | Financial assets and liabilities under hedge accounting | Financial assets and liabilities recognised at amortised cost using EIR | Total | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets measured at fair value** | | | | | | | | | |
| Equity investments | 17 | 237 | | | 237 | | | 237 | 237 |
| **Total** | | **237** | | | **237** | **-** | **-** | **237** | **237** |
| **Financial assets not repeatedly measured at fair value** | | | | | | | | | |
| Trade and other receivables | 18 | | | 6 521 | 6 521 | | | | |
| Cash and cash equivalents | 19 | | | 7 786 | 7 786 | | | | |
| **Total** | | | | **14 308** | **14 308** | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | |
| Interest rate swaps | 24 | | 56 | | 56 | | 56 | | 56 |
| **Total** | | **0** | **56** | | **56** | **-** | **56** | **-** | **56** |
| **Financial assets not repeatedly measured at fair value** | | | | | | | | | |
| Bank borrowings | 23 | | | 28 000 | 28 000 | | 28 000 | | 28 000 |
| Trade payables | 25 | | | 1 704 | 1 704 | | | | |
| **Total** | | | | **29 704** | **29 704** | **-** | **28 000** | **0** | **28 000** |

## FAIR VALUE MEASUREMENT

Fair value for a financial asset and a financial liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Management estimates that the carrying amounts of cash and cash equivalents, trade receivables and trade payables do not materially deviate from their fair values considering the short maturities of these instruments.

## FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

**Derivative instruments**
The Group determines fair values for derivative instruments by using confirmations for derivative contracts obtained from banks.

**Publicly quoted securities**
The fair values of publicly quoted securities are based on quoted prices at the balance sheet date.





**Unquoted securities**
Unquoted securities that do not have a quoted price on an active market are measured the probable disposal price estimated by management.

**Financial instruments not measured at fair value**
Discounted cash flows: the pricing model used estimates the present value of future cash flows by using risk-adjusted discount rate.

**Level definitions**
Level 1 = quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 = inputs other than quoted prices included in Level 1 that are observable for the asset or liability; either directly (i.e. as prices) or indirectly (i.e. derived from prices or by using price components available from the market).
Level 3 = inputs not based on observable market data (unobservable inputs).

**Transfers between levels**
There were no transfers between levels 1, 2 and 3 for fair value measurements during the years 2020 and 2019.

NOTE 23

# Financial liabilities

This note provides information about terms of the Group's interest-bearing liabilities measured at amortised cost. Details for the Group's exposures to interest rate risk and credit risk are disclosed in Note 26.

### TERMS AND REPAYMENT PLAN

**Non-current liabilities measured at amortised cost**

| | | | CARRYING AMOUNT | |
|---|---|---|---|---|
| **In thousands of euro** | **Interest rate** | **Expiry date** | **2020** | **2019** |
| Financial liabilities | 1,65 % | 2.5.2023 | 30 000 | 28 000 |
| Instalment payment liabilities | 1,65 % | | 122 | 215 |
| **Total** | | | **30 122** | **28 215** |

**Current liabilities measured at amortised cost**

| | | | CARRYING AMOUNT | |
|---|---|---|---|---|
| **In thousands of euro** | **Interest rate** | **Expiry date** | **2020** | **2019** |
| Instalment payment liabilities | 1,65 % | | 171 | 226 |
| **Total** | | | **171** | **226** |
| **Total interest-bearing liabilities** | | | **30 293** | **28 441** |

On 6 April 2020, Talenom agreed on a 30 million euro collateralised loan with Danske Bank A/S, Finland branch. The loan was used to repay a collateralised loan of 28.0 million euros from OP Financial Group. The loan period is three years and according to the loan agreement this period can be extended by one year up to 30 April 2024. The loan is tied to the six-month Euribor plus a margin. In addition, Talenom has agreed on an additional loan of 10 million euros for potential acquisitions and projects in support of growth.

**Cash flows from financing activities and non-cash changes**

| | | Cash flows | Non-cash changes | | |
|---|---|---|---|---|---|
| | **2018** | | **New leases** | **Changes in fair values** | **2019** |
| Non-current liabilities | 23 730 | 4 485 | | | 28 215 |
| Current liabilities | 317 | -90 | | | 226 |
| Lease liabilities | | -1 746 | 10 238 | | 8 492 |
| Assets used for hedging non-current liabilities | 116 | | | -60 | 56 |
| **Total liabilities for financing activities** | **24 163** | **2 648** | **10 238** | **-60** | **36 990** |

| | | Cash flows | Non-cash changes | | |
|---|---|---|---|---|---|
| | **2019** | | **New leases** | **Changes in fair values** | **2020** |
| Non-current liabilities | 28 215 | 1 907 | | | 30 122 |
| Current liabilities | 226 | -56 | | | 171 |
| Contingent consideration from business acquisitions | | | | 583 | 583 |
| Lease liabilities | 8 492 | -2 129 | 1 775 | | 8 138 |
| Assets used for hedging non-current liabilities | 56 | | | -56 | 0 |
| **Total liabilities for financing activities** | **36 990** | **-277** | **1 775** | **527** | **39 014** |



NOTE 24

# Lease liabilities and other non-current financial liabilities

| **In thousands of euro** | **2020** | **2019** |
|---|---|---|
| **Lease liabilities** | | |
| Non-current lease liabilities | 5 859 | 6 552 |
| Current lease liabilities | 2 280 | 1 940 |
| Total lease liabilities | **8 138** | **8 492** |

The maturity analysis for the lease liabilities is provided in Note 26.

| **In thousands of euro** | **2020** | **2019** |
|---|---|---|
| **Derivative instruments - under hedge accounting** | | |
| Interest rate swaps - fair value | **0** | **56** |
| Nominal value | **0** | **11 805** |
| | | |
| **Current** | **0** | **56** |
| **Non-current** | **0** | **0** |

Other non-current financial liabilities measured at fair through profit or loss comprise both derivative instruments to which hedge accounting is and is not applied. The carrying amounts of the derivative liabilities reflect the year-end negative fair values of the interest rate swaps. Cash flow hedge accounting is applied to the derivative contracts under hedge accounting. For those instruments fair value changes are recognised in the fair value reserve under equity to the extent that the hedges are effective. The Group uses such hedging derivative instruments to mitigate its exposure to risks arising from fluctuations in interest rates for loans and borrowings. The Group determines fair values for derivative instruments by using confirmations for derivative contracts obtained from banks.

Disclosures for fair value measurement are provided in Note 22.

NOTE 25

# Trade and other payables

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Instalment payment liabilities | 293 | 441 |
| Trade payables | 1 494 | 1 263 |
| Prepayments received for contracts with customers | 443 | 266 |
| Other accrued expenses and deferred income | 9 877 | 8 453 |
| Contingent consideration from business acquisitions | 583 | 0 |
| **Total** | **12 690** | **10 422** |
| | | |
| **Total current** | **12 134** | **10 208** |
| **Total non-current** | **556** | **215** |

The carrying amounts of trade and other payables approximate their fair values. Major items under Accrued expenses and deferred income are presented in the table below.

The maturity analysis for financial liabilities is disclosed in Note 26.

More information about the Group's exposure to liquidity risk is provided in Note 26.

## MAJOR ITEMS UNDER ACCRUED EXPENSES AND DEFERRED INCOME

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Employee benefits | 7 379 | 6 333 |
| Interest payable | 87 | 136 |
| VAT liability | 2 285 | 1 919 |
| Other | 96 | 64 |
| **Total** | **9 847** | **8 453** |



NOTE 26

# Financial risk management

## ECONOMIC RISK MANAGEMENT AND GENERAL PRINCIPLES

The objective of the Group's risk management is to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor the realisation of risks in relation to the risk limits. The risk management principles and policies are regularly reviewed to reflect changes in market conditions and the Group's operation models.

The Group and its operations are exposed to financial risks, the major financial risks being interest rate risk and liquidity risk.

Management is responsible for monitoring business-related financial risks. The objective of financial risk management is to reduce the volatility in earnings, balance sheet and cash flows, while securing effective and competitive financing for the Group.

Interest rate risk is negative effect on the company's result arising from changes in market interest rates. At Talenom interest rate risk is primarily derived from outstanding floating-rate bank borrowings and the Group may use plain vanilla interest rate swaps for risk management purposes. Hedges are generally allocated at individual borrowings. Basically the terms of the hedging instruments match the terms of the underlying borrowing (nominal amount, term period, reference interest rate and interest reset dates).

**INTEREST RATE RISK**

The interest-bearing loans and borrowings of the Group exposure Talenom to interest rate risk, i.e. re-pricing and price risks arising from changes in market interest rates. CFO is responsible for interest rate risk management. Interest rate risk management is aimed at reducing the interest rate fluctuation impact on the results between financial years, enabling a more stable net income. The Group may hedge against interest rate risk by using interest rate forwards and interest rate swaps. The Group has an interest rate swap valid from 30 September 2016 - 30 September 2020.

The level of the interest rate hedge is regularly reviewed, considering changes in interest rate.

The tables below detail the Group's sensivity to changes in market interest rates. The following assumptions were applied in sensitivity analyses:
- The change in interest rate was assumed to be +/- 0.50 percentage point from the interest rate quoted for individual instruments at balance sheet date.
- The analysis covers those instruments with interest reset dates within the following 12 months
- In case a variable-rate instrument would be paid back in full in the following 12-month period it was assumed that the instrument would be re-acquired under current prevailing interest rate.

**Interest rate risk position**

The following table discloses the Group's exposure to interest rate risk arising from interest-bearing financial liabilities.

| | Nominal value | |
|---|---|---|
| **In thousands of euro** | **2020** | **2019** |
| **Instruments with variable rates** | | |
| Bank borrowings | 30 000 | 28 000 |
| Impact of the interest rate swaps | 0 | 11 805 |
| **Open position** | **30 000** | **16 195** |

**Sensitivity analysis for fair values of instruments with fixed interest rates**

The Group has no financial assets nor financial liabilities with fixed interest rates measured at fair value through profit or loss.

**Sensitivity analysis for cash flows of instruments with variable rates**

A change of 0.5 percentage point in reference interest rate at the balance sheet date would have increased or decreased the consoidated result as shown in the the tables below. The sensivity analyses are based on a change in an assumption while holding all other assumptions constant.

**Sensitivity analysis at 31 December 2020, interest rates rising / falling 0.5 percentage point as at 31 December 2020, from the applicable level**

| | Vaikutus tuloslaskelmaan | |
|---|---|---|
| **In thousands of euro** | **+ 0,5 %** | **- 0,5 %** |
| Liability | 0 | 0 |
| **Pre-tax impact** | | |

**Sensitivity analysis at 31 December 2019, interest rates rising / falling 0.5 percentage point as at 31 December 2019, from the applicable level**

| | Income statement impact | |
|---|---|---|
| **In thousands of euro** | **+ 0,5 %** | **- 0,5 %** |
| Liability | -10 | 0 |
| Interest rate swaps - impact on interest variable rate | **19** | **0** |
| **Pre-tax impact** | | |

| | Impact on equity | |
|---|---|---|
| **In thousands of euro** | **+ 0,5 %** | **- 0,5 %** |
| Interest rate swaps - fair value | 38 | -38 |

**CREDIT RISK**

Credit risk is the risk of a financial loss to the Group if a client or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables.

The Group is exposed to credit risk arising from its commercial receivables. The Group policy sets out the investment principles and credit rating requirements related to customers, investment transactions and derivative contract counterparties. Apart from trade receivables, the Group has no significant concentrations of credit risk, since it has a broad clientele Credit quality and credit limits of the clients with a credit account are reviewed regularly.

The ageing analysis of trade receivables is presented in Note 18 Trade and other receivables.

**LIQUIDITY RISK**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under different conditions, without incurring unacceptable losses or risking damage to the Group's reputation.





The Group continuously strives to evaluate and monitor the amount of financing required for its operations to ensure that it will have sufficient liquid funds to finance its business activities and investments and to repay loans and borrowings falling due.

At the end of the financial year 2020 the Group's financial liabilities included financial covenants. For more information on the restrictions imposed on the Group's assets and business transactions refer to Note 28 Contingent commitments.

At the balance sheet date the Group had an available overdraft limit amounting to EUR 3.0 million. The limit was not used in 2020.

The cash flows presented in the tables below comprise the financial year-end fair values of interest rate derivatives, repayments of loans and borrowings, amounts of estimated interest payable known at the balance sheet date as well as trade and other payables. Lease liabilities include increases in rental charges known at the year-end.

## MATURITY ANALYSIS FOR FINANCIAL LIABILITIES, 2020

| In thousands of euro | Carrying amount | Cash flow | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | | |
| Bank borrowings | **30 000** | **31 155** | 495 | 495 | 30 165 | | | |
| Trade and other payables | **12 690** | **2 370** | 1 814 | 495 | 61 | | | |
| Lease liabilities | 8 138 | 8 612 | 2 321 | 1 665 | 1 527 | 1 389 | 1 236 | 475 |
| **Total** | **50 828** | **42 137** | **4 630** | **2 655** | **31 753** | **1 389** | **1 236** | **475** |

## MATURITY ANALYSIS FOR FINANCIAL LIABILITIES, 2019

| In thousands of euro | Carrying amount | Cash flow | 2020 | 2021 | 2022 | 2023 | 2024 | 2025-2026 |
|---|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | | |
| Bank borrowings | 28 000 | 29 093 | 662 | 28 431 | | | | |
| Trade and other payables | 1 704 | 1 704 | 1 490 | 107 | 107 | | | |
| Lease liabilities | 8 492 | 9 667 | 2 243 | 1 638 | 1 461 | 1 364 | 1 357 | 1 604 |
| **Total** | **38 196** | **40 464** | **4 395** | **30 176** | **1 568** | **1 364** | **1 357** | **1 604** |

**CAPITAL MANAGEMENT**

The Group's objectives when managing capital are to safeguard normal operational preconditions in all circumstances and to maintain optimal cost of capital. The table below discloses the Group's net interest-bearing loans and borrowings, equity and net gearing.

**Management of capital structure**

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Interest-bearing financial liabilities | 30 000 | 28 000 |
| Lease liabilities | 8 138 | 8 492 |
| Interest rate swaps | 0 | 56 |
| Instalment payment liabilities | 293 | 441 |
| Cash and cash equivalents | 9 104 | 7 786 |
| **Net debt** | **29 327** | **29 204** |
| **Total equity** | **32 169** | **23 573** |
| **Net gearing, %** | **91 %** | **124 %** |

NOTE 27

# Leases

| Amounts recognised in profit or loss | 2020 | 2019 |
|---|---|---|
| **In thousands of euro** | | |
| Interest expense on lease liabilities | 207 | 206 |
| Expenses relating to short-term leases | 97 | 274 |
| Expenses relating to low-value assets | 0 | 0 |

The total cash outflow for leases in 2020 was EUR 2,417 thousand (2019: EUR 2,226 thousand).

Sublease income is disclosed in Note 7.

NOTE 28

# Contingent commitments

## COLLATERALS AND COMMITMENTS

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| **Liabilities secured under company mortgages given by Talenom** | | |
| Loans and borrowings from financial institutions | 30 000 | 28 000 |
| Mortgages | 45 360 | 31 860 |
| **Other pledges and commitments** | | |
| Pledges (in own possession) | 3 072 | 3 072 |
| Other* | 3 895 | 2 441 |

*Other commitments relate to the issued but unused overdraft limit, bank guarantee limit, and commitments for instalment payment obligations.

**Covenants**
The credit agreement entered into with Danske Bank A/S is subject to ordinary financial covenants, such as net debt to EBITDA and equity ratio. The Group complied with the both financial covenants of its credit agreement as at 31 December 2020. Covenants are reviewed every six months.

**Legal proceedings**
The Group was not involved in any material legal proceedings as at 31 December 2020.

**Operating leases**
For information on leases that have not been recognised in the balance sheet, see Note 27

NOTE 29

# Related party transactions

The Group's related parties include the parent company Talenom Plc and its subsidiaries. The list of subsidiaries is provided in Note 5. Furthermore, related parties comprise the key management personnel of Talenom Group, consisting of the Board of Directors, CEO and the Group Management Team, including their family members. Related parties also comprise such entities in/over which the persons referred to above have control or significant influence.

### TRANSACTIONS WITH ENTITIES UNDER CONTROL OF KEY MANAGEMENT PERSONNEL:

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| HTM Beta Service Oy: service rent for headquarters | 0 | 228 |
| HTM Beta Service Oy: compensation for termination of service rent contract | 0 | 38 |
| Hemmo Capital Oy: lease charges for holiday homes | 41 | 42 |
| Silta Partners Oy: consultation and subcontracting | 0 | 14 |
| **Total** | **41** | **322** |

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

### KEY MANAGEMENT PERSONNEL COMPENSATION

During the financial year the compensation to CEO and other Group management was as follows (including any fringe benefits):

| In thousands of euro | 2020 | 2019 |
|---|---|---|
| Salaries and other short-term employee benefits | 2 194 | 1 221 |
| Post-employment benefits | 119 | 137 |
| Share-based payments | 132 | 92 |
| **Total** | **2 445** | **1 450** |

The amounts disclosed in the table above represent the expenses recognised in those financial years.

The total compensation of the key management personnel comprises salaries, non-cash benefits and the amounts paid into defined contribution plans. The pension commitments of the Management Team are arranged through statutory pension insurance and an additional defined contribution pension plan and the Board of Directors annually decides on the amount payable into the additional pension plan. During the financial years 2019 and 2020 no contributions were made in the plan.

Group management has no defined benefit pension plans.

The CEO is entitled to the statutory pension, and the retirement age is determined by the Finnish statutory pension system. The statutory pension expense for the CEO totaled EUR 30 thousand in 2020 (2019: EUR 43 thousand).

**Remuneration of the Board of Directors and CEO, by person (paid and expensed)**

| In thousands of euro | | 2020 | 2019 |
|---|---|---|---|
| | Jussi Paaso, CEO | | 327 |
| | Otto-Pekka Huhtala, CEO | 712 | 82 |
| **Board of Directors** | | | |
| | Harri Tahkola, Chairman of the Board | 70 | 60 |
| | Olli Hyyppä, Board member | 23 | 18 |
| | Mikko Siuruainen, Board member | 23 | 18 |
| | Anne Riekki, Board member | 23 | 18 |
| | Johannes Karjula, Board member | 23 | 18 |
| | Sampsa Laine, Board member | 20 | |
| **Total** | | **894** | **541** |

NOTE 30

# Events after the end of the reporting period

On 4 January 2021, the share capital of the Swedish accounting firms Ekonomianalys KL Ab and Persson & Thorin AB was transferred to Talenom Plc. The combined net sales of the acquirees during the past 12-month period amounted to around 3.5 million euros and their operating profit to around 0.3 million euros. The total acquisition cost of these shares was 2,879 thousand euros, which was paid in cash and shares. In connection with the transactions, it was agreed with the owners that they may be paid contingent consideration tied to the achievement of financial objectives set for business operations. The amount of the consideration ranges from 0 to 23 million Swedish krona. Based on the management's estimate, 15.2 million Swedish krona (1,507 thousand euros) of the contingent consideration will be recognised in the purchase price and as a liability.

The 136,807 new shares subscribed for in the directed share issue related to the acquisition were registered in the Trade Register on 7 January 2021. The total number of Talenom Plc shares is 43,351,587 shares following the registration of the new shares.

The combined values of acquired assets and liabilities (preliminary estimate) at the time of the acquisition were as follows:

| **1,000 euros, pro forma** | |
|---|---|
| Property, plant and equipment | 153 |
| Customer relationships | 1 141 |
| Current assets | 794 |
| **Total assets** | **2 088** |
| | |
| Trade and other payables | 650 |
| Deferred tax liabilities | 235 |
| **Total liabilities** | **886** |
| | |
| **Net assets** | 1 203 |
| | |
| Consideration transferred | 4 386 |
| Net assets of acquired companies | -1 203 |
| **Goodwill** | **3 183** |

No other significant events occurred after the end of the reporting period.

# Income Statement, parent company

| EUR | 1 Jan 2020 - 31 Dec 2020 | 1 Jan 2019 - 31 Dec 2019 |
|---|---|---|
| **NET SALES** | 27 112 049,22 | 18 696 249,82 |
| Other operating income | 1 258 565,62 | 1 361 041,51 |
| Material and services | | |
| External services | -14 926 329,32 | -9 459 339,43 |
| Total material and services | -14 926 329,32 | -9 459 339,43 |
| Personnel expenses | | |
| Wages and salaries | -3 444 971,10 | -3 557 913,26 |
| Social security expenses | | |
| Pension expenses | -511 934,10 | -627 299,54 |
| Other social security expenses | -27 602,16 | -33 902,55 |
| Total personnel expenses | -3 984 507,36 | -4 219 115,35 |
| Depreciation, amortisation and impairment losses | | |
| Depreciation and amortisation according to plan | -6 555 637,45 | -5 234 644,78 |
| Impairment losses on non-current assets | -1 352 028,32 | -701 164,26 |
| Total depreciation, amortisation and impairment losses | -7 907 665,77 | -5 935 809,04 |
| Other operating expenses | -2 653 478,69 | -4 233 946,54 |
| | | |
| **OPERATING PROFIT (LOSS)** | -1 101 366,30 | -3 790 919,03 |
| Financial income and expenses | | |
| Other interest and financial income | | |
| From Group companies | 7 668,88 | 124 696,91 |
| From others | 31 249,89 | 15 103,89 |
| Interest and other financial expenses | | |
| To others | -717 957,47 | -690 699,65 |
| Total financial income and expenses | -679 038,70 | -550 898,85 |
| | | |
| **PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES** | -1 780 405,00 | -4 341 817,88 |
| Appropriations | | |
| Change in cumulative accelerated depreciation (addition (-), decrease (+) | 27 494,41 | -83 327,23 |
| Group contributions | | |
| Group contributions received | 12 650 000,00 | 12 620 000,00 |
| Total appropriations | 12 677 494,41 | 12 536 672,77 |
| Income taxes | | |
| Taxes for the financial year | -2 456 529,47 | -1 915 845,16 |
| Total income taxes | -2 456 529,47 | -1 915 845,16 |
| **PROFIT (LOSS) FOR THE FINANCIAL YEAR** | 8 440 559,94 | 6 279 009,73 |

# Balance Sheet, parent company

| EUR | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| **A S S E T S** | | |
| **NON-CURRENT ASSETS** | | |
| Intangible assets | | |
| Development costs | 17 804 529,80 | 11 243 714,57 |
| Intangible rights | 648 557,64 | 652 663,84 |
| Goodwill | 9 627 973,83 | 10 643 287,17 |
| Other intangible assets | 8 390 075,91 | 6 473 935,88 |
| Total intangible assets | 36 471 137,18 | 29 013 601,46 |
| Property, plant and equipment | | |
| Machinery and equipment | 1 471 889,15 | 1 568 135,60 |
| Total property, plant and equipment | 1 471 889,15 | 1 568 135,60 |
| Investments | | |
| Shares in Group companies | 9 286 403,89 | 6 141 749,78 |
| Other receivables | 100 000,00 | 0,00 |
| Total investments | 9 386 403,89 | 6 141 749,78 |
| **TOTAL NON-CURRENT ASSETS** | **47 329 430,22** | **36 723 486,84** |
| **CURRENT ASSETS** | | |
| Receivables | | |
| Non-current | | |
| Receivables from Group companies | 0,00 | 400 000,00 |
| Total non-current | 0,00 | 400 000,00 |
| Current | | |
| Trade receivables | 1 773 810,82 | 1 484 655,90 |
| Receivables from Group companies | 15 943 409,21 | 14 340 039,10 |
| Loan receivables | 8 529,61 | 0,00 |
| Other receivables | 323 183,50 | 212 881,47 |
| Accrued income and prepayments | 733 632,91 | 812 585,60 |
| Total current | 18 782 566,05 | 16 850 162,07 |
| Cash at bank and in hand | 8 765 479,91 | 7 654 711,59 |
| **TOTAL CURRENT ASSETS** | **27 548 045,96** | **24 904 873,66** |
| **TOTAL ASSETS** | **74 877 476,18** | **61 628 360,50** |

| EUR | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| **E Q U I T Y & L I A B I L I T I E S** | | |
| **EQUITY** | | |
| Share capital | | |
| Share capital | 80 000,00 | 80 000,00 |
| | 80 000,00 | 80 000,00 |
| Other reserves | | |
| Reserve for invested unrestricted equity | 15 224 757,88 | 11 640 159,84 |
| Total other reserves | 15 224 757,88 | 11 640 159,84 |
| Retained earnings | 2 442 395,61 | 1 374 064,87 |
| Profit (Loss) for the financial year | 8 440 559,94 | 6 279 009,73 |
| **TOTAL EQUITY** | **26 187 713,43** | **19 373 234,44** |
| **APPROPRIATIONS** | | |
| Cumulative accelerated depreciation | 189 497,94 | 216 992,35 |
| **TOTAL APPROPRIATIONS** | **189 497,94** | **216 992,35** |
| **LIABILITIES** | | |
| Non-current | | |
| Loans from financial institutions | 30 000 000,00 | 28 000 000,00 |
| Trade payables | 6 103,90 | 74 481,40 |
| Other liabilities | 433 513,05 | 0,00 |
| Total non-current | 30 439 616,95 | 28 074 481,40 |
| Current | | |
| Advances received | 60 161,48 | 33 211,54 |
| Trade payables | 757 822,67 | 795 828,47 |
| Liabilities to Group companies | 14 761 064,19 | 11 253 835,82 |
| Other liabilities | 292 321,27 | 152 028,58 |
| Accruals and prepaid income | 2 189 278,25 | 1 728 747,90 |
| Total current | 18 060 647,86 | 13 963 652,31 |
| **TOTAL LIABILITIES** | **48 500 264,81** | **42 038 133,71** |
| **TOTAL EQUITY AND LIABILITIES** | **74 877 476,18** | **61 628 360,50** |

# Cash flow statement, parent company

| EUR | 1 Jan 2020 - 31 Dec 2020 | 1 Jan 2019 - 31 Dec 2019 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit (loss) before taxes | -1 780 405,00 | -4 341 817,88 |
| Adjustments: | | |
| Depreciation and amortisation according to plan | 7 907 665,77 | 5 935 809,04 |
| Financial income and financial expenses | 679 038,70 | 550 898,85 |
| Capital gains | -5 351,86 | -60 671,80 |
| Capital losses | 6 501,39 | 7 731,90 |
| Other adjustments | -15 979,21 | 0,00 |
| **Change in working capital:** | | |
| Increase (-) / decrease (+) of current receivables | -1 303 259,09 | 971 553,85 |
| Increase (-) / decrease (+) of non-current receivables | 300 000,00 | 3 197 512,96 |
| Increase (+) / decrease (-) of current liabilities | 2 788 549,76 | 1 043 377,36 |
| Cash flow from operating activities before financial items and taxes | 8 576 760,46 | 7 304 394,28 |
| Interest received | 38 918,77 | 139 800,80 |
| Interest paid | -720 922,53 | -671 968,93 |
| Taxes | -1 918 845,17 | -2 285 746,51 |
| **Net cash from operating activities** | **5 975 911,53** | **4 486 479,64** |
| **Cash flows from investing activities:** | | |
| Acquisition of subsidiary shares | -1 335 714,45 | -1 276 774,28 |
| Acquisitions of businesses*) | -1 297 872,78 | -690 000,00 |
| Proceeds from sale of businesses*) | 1 346 702,46 | 1 380 000,00 |
| Investments in software | -10 334 688,29 | -5 580 110,86 |
| Capitalisation of contract costs | -4 190 844,58 | -4 493 905,62 |
| Investments in other intangible assets | -5 900,00 | -231 329,55 |
| Purchases of property, plant and equipment | -421 771,70 | -631 189,61 |
| Proceeds from sale of property, plant and equipment | 84 249,53 | 175 380,56 |
| **Net cash used in investing activities** | **-16 155 839,81** | **-11 347 929,36** |
| **Cash flows from financing activities:** | | |
| Acquisition of treasury shares | 0,00 | -674 416,85 |
| Proceeds from non-current loans and borrowings | 30 000 000,00 | 4 500 000,00 |
| Repayments of non-current loans and borrowings | -28 000 000,00 | 0,00 |
| Increase (+) / decrease (-) in installment liabilities | -85 278,52 | -72 638,34 |
| Proceeds from share issue | 1 877 978,50 | 0,00 |
| Dividends paid | -5 210 678,99 | -3 776 719,65 |
| Realisation of options | 0,00 | -684 261,00 |
| Group contributions received | 12 620 000,00 | 9 450 000,00 |
| Change in Group financing | 88 675,61 | -137 493,29 |
| **Net Cash flow from financing** | 11 290 696,60 | 8 604 470,87 |
| **Change in cash and cash equivalents (increase (+) / decrease (-)** | **1 110 768,32** | **1 743 021,15** |
| **Cash and cash equivalents at 1 January** | **7 654 711,59** | **5 911 690,44** |
| **Cash and cash equivalents at 31 December** | 8 765 479,91 | 7 654 711,59 |

*) Business operations acquired during the financial year have been transferred to the subsidiaries in an intra-group transaction.



NOTE 1

# Notes on the preparation of financial statements

### VALUATION AND RECOGNITION PRINCIPLES AND METHODS

The financial statements of Talenom Plc are prepared in accordance with the Finnish Accounting Act and Ordinance and other laws and regulations governing the preparation of financial statements in Finland (Finnish Accounting Standards, FAS).

The company's property, plant and equipment and intangible assets shown under the non-current assets are valued at cost less depreciation and amortisation according to plan. Depreciation and amortisation according to plan are calculated on a straight-line basis over the useful lives of intangible assets and property, plant and equipment. Depreciation and amortisation have been applied from the month in which the asset was taken into use.

The company capitalises the direct costs of obtaining a new customer contract and implementation of the service. The capitalised costs incurred from obtaining and implementation of customer contracts are recognised in intangible assets in the balance sheet. The amortisation period for the capitalised costs is 10 years, based on the average duration of a customer relationship. The expected revenues from capitalised costs are estimated in each financial year. If the customer has left or the expected returns are not sufficient to cover the remaining capitalised amount, an impairment loss is recognised.

The company also capitalises costs related to its own software development. Software development costs are treated as investments and capitalised in the balance sheet under development costs. The capitalised software development costs are amortised over five years.

NOTE 2

# Notes to income statement

### CAPITALISATIONS IN INCOME STATEMENT

During the financial year, the development and production costs of own software as well as costs relating to obtaining customer contracts and deploying the service were capitalised as follows:

| | 1 Jan 2020 - 31 Dec 2020 | 1 Jan 2019 - 31 Dec 2019 |
|---|---|---|
| **Own software** | | |
| External services | 10 054 738,47 | 5 176 555,36 |
| Personnel expenses | 72 666,90 | 76 232,00 |
| Other operating expenses | 0,00 | 0,00 |
| | **10 127 405,37** | **5 252 787,36** |
| **Costs arising from customer contracs** | | |
| External services | 1 496 960,98 | 1 494 833,51 |
| Personnel expenses | 1 653 933,22 | 1 557 308,88 |
| Other operating expenses | 1 039 950,42 | 1 441 763,23 |
| | **4 190 844,62** | **4 493 905,62** |

### OTHER OPERATING INCOME

| | 1 Jan 2020 - 31 Dec 2020 | 1 Jan 2019 - 31 Dec 2019 |
|---|---|---|
| License fees from subsidiaries | 1 200 000,00 | 1 200 000,00 |
| Capital gains | 5 351,86 | 60 671,80 |
| Other income | 53 213,76 | 100 369,71 |
| | **1 258 565,62** | **1 361 041,51** |

**BASIS OF DEPRECIATION AND AMORTISATION ACCORDING TO PLAN AND CHANGES AT 31 DECEMBER 2020**

| Class of asset | Estimated life of asset | Residual value | Depreciation / amortisation method |
|---|---|---|---|
| **Intangible assets** | | | |
| Software (readymade, purchased) | 5 years | 0 | straight-line amortisation |
| Merger gains | 15 years | 0 | straight-line amortisation |
| Brand advertising | 3 years | 0 | straight-line amortisation |
| Renovation costs of leased premises | 5 years | 0 | straight-line amortisation |
| Costs of own software development | 5 years | 0 | straight-line amortisation |
| **Property, plant and equipment** | | | |
| Office furniture | 10 years | 0 | straight-line depreciation |
| IT equipment | 4 years | 0 | straight-line depreciation |
| Cars | 3 years | 50 % | straight-line depreciation |

The amortisation period of the merger gain is based on the useful life estimated by management.

## TOTAL DIVIDEND INCOME, INTEREST INCOME AND INTEREST EXPENSE:

| | 1 Jan 2020 - 31 Dec 2020 | 1 Jan 2019 - 31 Dec 2019 |
|---|---|---|
| Dividend income from Group companies | 0,00 | 0,00 |
| Interest income from Group companies | 7 668,88 | 124 696,91 |
| Interest expenses to Group companies | 0,00 | 0,00 |
| Dividend income from others | 0,00 | 0,00 |
| Interest income from others | 31 249,89 | 15 103,89 |
| Interest expenses to others | -717 957,47 | -690 699,65 |
| | -679 038,70 | -550 898,85 |

## NOTES TO INCOME TAXES

| | 1.1.2020-31.12.2020 | 1.1.2019-31.12.2019 |
|---|---|---|
| Income taxes on business operations | -2 456 529,47 | -1 915 845,16 |
| Deferred taxes | 0,00 | 0,00 |
| | -2 456 529,47 | -1 915 845,16 |

NOTE 3

# Notes to the balance sheet, assets

**Changes in non-current assets 1 January 2020 - 31 December 2020**

| | Development costs | Intangible rights | Goodwill | Other intangible assets | Machinery and equipment |
|---|---|---|---|---|---|
| Cost at 1 January | 22 175 621,13 | 1 236 960,54 | 18 247 844,01 | 9 762 080,01 | 3 945 561,80 |
| Increases during the financial year | 10 131 448,29 | 203 240,01 | 1 370 000,00 | 4 196 744,58 | 441 771,70 |
| Decreases during the financial year | | | -990 000,00 | | -84 249,53 |
| Cost at 31 December | 32 307 069,42 | 1 440 200,55 | 18 627 844,01 | 13 958 824,59 | 4 303 083,97 |
| Accumulated depreciation/ amortisation and impairment losses at 1 January | -10 931 906,56 | -584 296,71 | -7 604 556,84 | -3 288 144,13 | -2 377 426,20 |
| Depreciation / amortisation according to plan for the financial year | -3 570 633,06 | -207 346,20 | -1 395 313,34 | -928 576,23 | -453 768,62 |
| Impairment losses | | | | -1 352 028,32 | |
| Accumulated depreciation / amortisation and impairment losses at 31 December | -14 502 539,62 | -791 642,91 | -8 999 870,18 | -5 568 748,68 | -2 831 194,82 |
| Accumulated depreciation difference at 1 January | 0,00 | 0,00 | 0,00 | 0,00 | 216 992,35 |
| Depreciation difference for the financial year | 0,00 | 0,00 | 0,00 | 0,00 | -27 464,41 |
| Accumulated depreciation difference at 31 December | 0,00 | 0,00 | 0,00 | 0,00 | 189 527,94 |
| Cost at 31 December | 32 307 069,42 | 1 440 200,55 | 18 627 844,01 | 13 958 824,59 | 4 303 083,97 |
| Accumulated depreciation / amortisation at 31 December | -14 502 539,62 | -791 642,91 | -8 999 870,18 | -5 568 748,68 | -2 831 194,82 |
| Undepreciated / unamortised balance at 31 December | 17 804 529,80 | 648 557,64 | 9 627 973,83 | 8 390 075,91 | 1 471 889,15 |
| Accumulated depreciation difference at 31 December | 0,00 | 0,00 | 0,00 | 0,00 | 189 527,94 |
| Undepreciated / unamortised balance at 31 December, less total depreciation / amortisation | 17 804 529,80 | 648 557,64 | 9 627 973,83 | 8 390 075,91 | 1 282 361,21 |

**Changes in non-current assets 1 January 2019 - 31 December 2019**

| | Development costs | Intangible rights | Goodwill | Other intangible assets | Machinery and equipment |
|---|---|---|---|---|---|
| Cost at 1 January | 16 893 010,27 | 939 460,54 | 18 247 844,01 | 5 036 844,84 | 3 436 006,65 |
| Increases during the financial year | 5 282 610,86 | 297 500,00 | | 4 725 235,17 | 631 189,61 |
| Decreases during the financial year | | | | | -121 634,46 |
| Cost at 31 December | 22 175 621,13 | 1 236 960,54 | 18 247 844,01 | 9 762 080,01 | 3 945 561,80 |
| Accumulated depreciation / amortisation at 1 January | -8 254 071,75 | -408 325,43 | -6 221 910,14 | -2 007 975,18 | -1 957 432,44 |
| Depreciation / amortisation according to plan for the financial year | -2 677 834,81 | -175 971,28 | -1 382 646,70 | -579 004,69 | -419 993,76 |
| Impairment losses | | | | -701 164,26 | |
| Accumulated depreciation / amortisation at 31 December | -10 931 906,56 | -584 296,71 | -7 604 556,84 | -3 288 144,13 | -2 377 426,20 |
| Accumulated depreciation  difference at 1 January | 0,00 | 0,00 | 0,00 | 0,00 | 133 665,12 |
| Depreciation difference for financial year | 0,00 | 0,00 | 0,00 | 0,00 | 83 327,23 |
| Accumulated depreciation difference at 31 December | 0,00 | 0,00 | 0,00 | 0,00 | 216 992,35 |
| Cost at 31 December | 22 175 621,13 | 1 236 960,54 | 18 247 844,01 | 9 762 080,01 | 3 945 561,80 |
| Accumulated depreciation / amortisation at 31 December | -10 931 906,56 | -584 296,71 | -7 604 556,84 | -3 288 144,13 | -2 377 426,20 |
| Undepreciated / unamortised balance at 31 December | 11 243 714,57 | 652 663,83 | 10 643 287,17 | 6 473 935,88 | 1 568 135,60 |
| Accumulated depreciation difference at 31 December | 0,00 | 0,00 | 0,00 | 0,00 | 216 992,35 |
| Undepreciated / unamortised balance at 31 December, less total depreciation / amortisation | 11 243 714,57 | 652 663,83 | 10 643 287,17 | 6 473 935,88 | 1 351 143,25 |



**Depreciation, amortisation and impairment losses of other non-current expenditures and non-current assets:**

| | 1 Jan 2020 - 31 Dec 2020 | 1 Jan 2019 - 31 Dec 2019 |
|---|---|---|
| Development costs | 3 570 633,06 | 2 677 834,81 |
| Immaterial rights | 207 346,20 | 175 971,27 |
| Goodwill | 1 395 313,34 | 1 382 646,70 |
| Other intangible assets | 928 576,23 | 579 004,69 |
| Machinery and equipment | 453 768,62 | 419 187,31 |
| Impairment losses | 1 352 028,32 | 701 164,26 |
| Total depreciation and amortisation | 7 907 665,77 | 5 935 809,04 |

**Receivables from Group companies:**

| | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| **Non-current** | | |
| Loan receivables from Group companies | 0,00 | 400 000,00 |
| | 0,00 | 400 000,00 |
| **Current** | | |
| Trade receivables from Group companies | 610 853,05 | 488 369,66 |
| Other receivables from Group companies | 13 738 877,90 | 12 964 863,29 |
| Prepayments and accruals from Group companies | 1 593 678,26 | 886 806,15 |
| | 15 943 409,21 | 14 340 039,10 |
| **Total receivables from Group companies** | 15 943 409,21 | 14 740 039,10 |

**Prepayments and accruals**

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Lease deposits paid | 36 616,26 | 19 173,02 |
| Other prepaid items | 697 016,65 | 793 412,58 |
| | 733 632,91 | 812 585,60 |

NOTE 4

# Notes to balance sheet, equity and liabilities

| | 1 Jan 2020 - 31 Dec 2020 | 1 Jan 2019 - 31 Dec 2019 |
|---|---|---|
| **Equity** | | |
| Share capital at 1 January | 80 000,00 | 80 000,00 |
| Change during the financial year | 0,00 | 0,00 |
| Share capital at 31 December | 80 000,00 | 80 000,00 |
| **Total restricted equity** | **80 000,00** | **80 000,00** |
| Reserve for invested unrestricted equity at 1 January | 11 640 159,84 | 11 014 692,52 |
| Share issue | 3 584 598,04 | 2 158 688,90 |
| Capital repayment | 0,00 | 0,00 |
| Purchases of treasury shares (own shares) | 0,00 | -674 416,85 |
| Redeemed options | 0,00 | -858 804,73 |
| Transfers to other equity items | 0,00 | 0,00 |
| Reserve for invested unrestricted equity at 31 December | 15 224 757,88 | 11 640 159,84 |
| Retained earnings at 1 January | 1 374 064,87 | 819 895,07 |
| Profit/loss for the previous financial year | 6 279 009,73 | 4 330 889,45 |
| Dividend distribution | -5 210 678,99 | -3 776 719,65 |
| Retained earnings at 31 December | 2 442 395,61 | 1 374 064,87 |
| Profit/loss for the financial year | 8 440 559,94 | 6 279 009,73 |
| **Total unrestricted equity** | **26 107 713,43** | **19 293 234,44** |
| **Total equity** | **26 187 713,43** | **19 373 234,44** |

**Distributable equity**

| | 1 Jan 2020 - 31 Dec 2020 | 1 Jan 2019 - 31 Dec 2019 |
|---|---|---|
| Retained earnings at 1 January | 7 653 074,60 | 5 150 784,52 |
| Profit/loss for the financial year | 8 440 559,94 | 6 279 009,73 |
| Dividend distribution | -5 210 678,99 | -3 776 719,65 |
| Reserve for invested unrestricted equity | 15 224 757,88 | 11 640 159,84 |
| Capitalised development costs | -17 804 529,80 | -11 243 714,57 |
| Total distributable equity | 8 303 183,63 | 8 049 519,87 |

## LOANS AND BORROWINGS FROM FINANCIAL INSTITUTIONS

**Non-current liabilities due after more than five years**

| | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Loans and borrowings from financial institutions | 0,00 | 0,00 |

**Liabilities to Group companies**

| **Current** | **31 Dec 2020** | **31 Dec 2019** |
|---|---|---|
| Trade payables | 4 604 232,85 | 1 902 544,50 |
| Other | 10 156 831,34 | 9 351 291,32 |
| | 14 761 064,19 | 11 253 835,82 |

**Accruals and deferred income**

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Holiday pay | 567 313,99 | 562 893,91 |
| Social security costs for holiday pay liability | 102 740,61 | 117 363,45 |
| Interest | 86 625,00 | 136 270,25 |
| Taxes | 1 027 529,51 | 489 845,21 |
| Other items | 405 069,14 | 422 375,08 |
| | 2 189 278,25 | 1 728 747,90 |

NOTE 5

# Collaterals and commitments

| **Liabilities for which company mortgage has been given as a security** | **31 Dec 2020** | **31 Dec 2019** |
|---|---|---|
| Loans and borrowings from financial institutions | 30 000 000 | 28 000 000 |
| Company mortgages given | 45 100 000 | 31 600 000 |
| | | |
| **Other pledges and company mortgages** | | |
| Pledges given | 2 865 837 | 2 865 837 |
| Company mortgages | 45 100 000 | 31 600 000 |

| **Overdraft limits** | **31 Dec 2020** | **31 Dec 2019** |
|---|---|---|
| Total amount of the granted limit | 3 000 000 | 1 000 000 |
| In use | 0 | 0 |

| **Instalment payment commitments** | **31 Dec 2020** | **31 Dec 2019** |
|---|---|---|
| Total instalment payment liabilities | 32 240,65 | 117 519,17 |
| Book value of assets given as security | 106 257,60 | 231 912,11 |

| **Off-balance sheet lease obligations** | **31 Dec 2020** | **31 Dec 2019** |
|---|---|---|
| | 8 427 840,37 | 9 961 303,73 |

| **Interest rate swaps** | **31 Dec 2020** | **31 Dec 2019** |
|---|---|---|
| Fair value | 0,00 | -56 040,26 |
| Value of the underlying | 0,00 | 11 805 000,00 |

The company acquired an interest rate swap to hedge a bank borrowing against changes in interest rates. The contract term of the interest rate swap matches the term of the underlying borrowing. The interest rate swap exchanges floating-rate interest payments of the hedged borrowing for fixed-rate interest payments. The swap has expired at 30 September 2020.



NOTE 6

# Financial covenants

The credit agreement entered into with Danske Bank is subject to ordinary financial covenants, such as net debt to EBITDA and equity ratio. The company complied with the both financial covenants of its credit agreement as at 31 December 2020.

NOTE 7

# Notes to auditor’s fees

| | **1 Jan 2020 - 31 Dec 2020** | **1 Jan 2019 - 31 Dec 2019** |
|---|---|---|
| Statutory audit | 117 210,46 | 72 220,00 |
| Other assurance assignments | 7 400,00 | |
| Tax advisory | 1 300,00 | |
| Other services | 35 583,56 | 57 138,92 |
| | 161 494,02 | 129 358,92 |

NOTE 8

# Notes to related party transactions

| | **1 Jan 2020 - 31 Dec 2020** | **1 Jan 2019 - 31 Dec 2019** |
|---|---|---|
| Other operating expenses | 0,00 | 266 172,80 |

Related party transactions were made on terms equivalent to those that prevail in arm’s length transactions.

NOTE 9

# Notes to personnel and members of governing bodies

**Number of personnel**

| | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| During the financial year, the company's average number of personnel | 88 | 87 |

**Remuneration of top management**

| | 1.1.2020–31.12.2020 | 1.1.2019–31.12.2019 |
|---|---|---|
| CEO | 712 320,50 | 409 145,03 |
| Board of Directors | 182 000,00 | 131 860,00 |

The pension commitments of the Management Team are arranged through statutory pension insurance and an additional pension plan, and the Board of Directors annually decides on the amount payable into the additional pension plan. During the financial years 2020 and 2019 no contributions were made in the plan.

LIITE 10

# Holdings in other entities

**Entities in which the company's holding is at least one fifth, at 31 December 2020**

| Name | Domicile | Holding, % |
|---|---|---|
| Talenom Taloushallinto Oy | Oulu | 100 % |
| Talenom Talouspalvelu Oy | Kalajoki | 100 % |
| Talenom Consulting Oy | Helsinki | 100 % |
| Talenom Yritystilit Oy | Tampere | 100 % |
| Talenom Talousosastopalvelut Oy | Oulu | 100 % |
| Talenom Konsultointipalvelut Oy | Oulu | 100 % |
| Talenom Software Oy | Oulu | 100 % |
| Talenom Balance Oy | Oulu | 100 % |
| Talenom Kevytyrittäjä Oy | Oulu | 100 % |
| Talenom Redovisning Ab | Stockholm | 100 % |
| Talenom Haninge Ab | Haninge | 100 % |
| Frivision Ab | Göteborg | 100 % |

NOTE 11

# Other information as intended in the limited liability companies act

**Share series of the company:**

| Share series | number |
|---|---|
| Shares | 43 214 780 of which held by the company 150,600 pcs |

NOTE 12

# List of accounting books and materials

| | |
|---|---|
| Financial statements and report by the Board of Directors | As paper documents |
| Journal ledger | electronic PDF file |
| General ledger | electronic PDF file |
| Sales ledger | electronic PDF file |
| Purchase ledger | electronic PDF file |
| Payroll management | electronic PDF file |
| Balance sheet specifications | electronic PDF file |
| Note vouchers | electronic PDF file |

| | Voucher type | Method of storage |
|---|---|---|
| Bank vouchers Danske Bank | 7 | electronic PDF file |
| Bank vouchers OP | 5 | electronic PDF file |
| Payroll vouchers | 50 | electronic PDF file |
| Travel invoice vouchers | 53,54,55,56 | electronic PDF file |
| Credit card slips | 10 | electronic PDF file |
| Sales vouchers | 35,39,80 | electronic PDF file |
| Purchase vouchers | 20,21,22,25,41,42,45,46 | electronic PDF file |
| Intra-group vouchers | 60,98 | electronic PDF file |
| Memo vouchers | 9 | electronic PDF file |
| Accrual vouchers | 90 | electronic PDF file |
| VAT vouchers | 99 | electronic PDF file |

# Talenom group

Oulu, 8 February 2021

Signatures of the Board of Directors and CEO for Management report and Financial statements

Harri Tahkola

Johannes Karjula

Olli Hyyppä

Anne Riekki

Mikko Siuruainen

Otto-Pekka Huhtala, CEO

Sampsa Laine

**THE AUDITOR'S NOTE**

A report on the audit performed has been issued today.

Oulu, 8 February 2021

KPMG Oy Ab

Juho Rautio, Authorised Public Accountant, KHT





# Auditor's Report To the Annual General Meeting of Talenom Oyj

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### OPINION

We have audited the financial statements of Talenom Oyj (business identity code 2551454-2) for the year ended 31 December 2020. The financial statements comprise the consolidated balance sheet, 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 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 11 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 (Basis of Preparation for the consolidated and parent company financial statements as well as Note 16 to the consolidated financial statements and Notes 2 and 3 to the parent company financial statements)**

- Goodwill in the consolidated financial statements amounts to EUR 24.0 million, while goodwill in the parent company financial statements totals EUR 9.6 million. The balance of goodwill is significant in proportion to consolidated and parent company equity. No depreciation is recorded on the consolidated goodwill, but the goodwill asset is tested for impairment at one-year interval or more frequently. The goodwill stated in the parent company’s financial statements is depreciated according to plan on a straight-line basis over 15 years.

- As stated in the notes to the consolidated financial statements, goodwill is allocated in its entirety to the ‘Accounting Services’ segment. For purposes of impairment testing, goodwill has been allocated to cash-generating units, comprising ‘Accounting Services – Finland’ and ‘Accounting Services – Sweden’. The recoverable amount for cash-generating units is determined based on value in use, which is derived from projected discounted cash flows. The method employed in impairment testing involves management judgment and an element of uncertainty is present in the estimation of future cash flows.

- Resulting from elements of uncertainty present in the estimation of future cash flows, management judgment underlying estimates and the significance of the book value of goodwill, the valuation of goodwill is perceived as a key audit matter.

Our audit procedures included, among others:

- We have assessed the cash flow estimates employed in the calculations, the appropriateness of the discount rate applied, and the technical integrity of the calculations prepared. We have assessed critically the foundations and management assumptions underlying the future cash flow projections. For the parent company, we have assessed the appropriateness of depreciation period employed.

- We have assessed the goodwill stated in the consolidated accounts and the appropriateness of notes concerning impairment testing as well as the notes concerning the goodwill stated by the parent company.

**Correctness and valuation of capitalized incremental contract costs (Basis of Preparation for the consolidated and parent company financial statements as well as Note 6 to the consolidated financial statements and Note 2 to the parent company financial statements)**

- The Group has during the financial year capitalized costs totaling EUR 4.2 million, of which EUR 3.2 million by the parent company, arising from incremental costs of obtaining new customer contracts and fulfilling the customer contracts. Costs of customer contracts are capitalized in the consolidated balance sheet providing that they meet the conditions of the relevant financial reporting standard (IFRS 15). The capitalized costs are expensed evenly as services are being rendered over the expected duration of the contracts, which based on management judgment and experience is estimated at 10 years. Capitalized contract costs have, considering the above, a significant effect on the company’s operating profit and consequently it is perceived as a key audit matter.

- The total balance of capitalized incremental customer contract costs in the consolidated financial statements amounted to EUR 11.0 million or 34 % in proportion to consolidated equity at the end of the financial year, while the balance of capitalized contract costs stated in the parent company’s financial statement totaled EUR 8.2 million or 31 % in proportion to parent company equity. The impairment of the value of asset in the balance sheet is evaluated by comparison of the book value to projected proceeds from rendering the service deducted by related costs that have not yet been expensed. The estimation of projected proceeds and related costs involves management judgment and consequently the valuation of the asset is perceived as a key audit matter.

Our audit procedures included, among others:

- We have assessed the functionality of the process of recording capitalized customer contract costs and performed tests of related controls in place in the process. Additionally, we have assessed the conditions for capitalization of the customer contract costs during the financial year considering the requirements of the financial reporting standard as well as the basis of the hourly fee, derived from the company’s internal accounting, employed in the capitalization of incremental costs of obtaining new customer contracts.

- We have performed sample tests and analytical audit measures aimed at verifying the correctness of capitalization transactions of contract costs in the bookkeeping records.

- As regards the valuation calculations of incremental contract costs, we have assessed critically the foundations and management judgment underlying projections of proceeds and related costs. Additionally, we have assessed the appropriateness of depreciation period employed.

- We have assessed the appropriateness of the notes to the consolidated financial statements concerning incremental contract costs.



Auditor’s Report 1 January - 31 December 2020

**Correctness and valuation of software development costs (Basis of Preparation for the consolidated and parent company financial statements as well as Note 16 to the consolidated financial statements and Notes 2 and 3 to the parent company financial statements)**

- The development of proprietary software tailored to meet the needs of customers is an essential part of the business model of Talenom Group. Development costs of software are capitalized in the consolidated financial statements and parent company financial statements providing that they meet the conditions of relevant financial reporting framework and economic benefit is expected from the costs. During the financial year, a total of EUR 10.1 million of software-related development costs have been capitalized in the consolidated and parent company balance sheet.

- Capitalized software development costs are expensed on a straight-line basis over five years of useful life, and, as a result, capitalized costs have a significant effect on the company’s operating profit. Consequently, the correctness of capitalized software development costs is perceived as a key audit matter.

- The balance of the capitalized software development costs in the consolidated and parent company balance sheet amounted to EUR 17.8 million, which accounted for 55 % of consolidated and 68 % of parent company equity. The company employs projected cash flows in the estimation of the recoverable amount from software development costs. The estimate of future economic benefit to be collected can be subject to adjustments over short periods of time owing to e.g. technological development.

Our audit procedures included, among others:

- We have assessed the functionality of the process of recording capitalized software development costs and conditions for the capitalization of the software development costs during the financial year considering the requirements of the applicable laws and regulations governing the preparation of financial statements.

- We have performed sample tests and analytical audit measures aimed at verifying the correctness of capitalization transactions of software development costs in the bookkeeping records.

- We have assessed the correctness of valuation of software development costs by reviewing the cash flow projections related to the most significant projects and the technical integrity of the calculations.

- We have assessed the appropriateness of the notes to the consolidated financial statements concerning software development costs.

## 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 were first appointed as auditors by the Annual General Meeting on 4 July 2013, and our appointment represents a total period of uninterrupted engagement of 8 years. Talenom Oyj became a public interest entity on 15 June 2017. We have been the company´s auditors since it became a public interest entity.

**Other Information**

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

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

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

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

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

Oulu, Finland, 8 February 2021
KPMG OY AB

Juho Rautio
Authorised Public Accountant, KHT

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