ANNUAL REPORT 2019

TALENOM

yrittämisen iloa


VÄLITTÄMINEN


Great Place To Work
TALENOM


TALENOM
VÄLITTÄMINEN

CONTENTS

A LONG HISTORY OF PROFITABLE GROWTH IN A DEFENSIVE SECTOR

Our business environment is the accounting market. On the one hand, the sector is defensive, due to reasons such as the statutory need of companies to arrange accounting. On the other hand, the sector is seeing growth, with total net sales of over a billion euros.

Net sales of the sector 2018: 1,099 million euros

Furthermore, the Finnish accounting market is extremely fragmented. In 2018, there were 4,134 companies in the sector, with an average of 3.0 employees each.

Talenom is growing at a significantly faster pace than the market:

ANNUAL GROWTH OF THE SECTOR 2001-18 (CAGR) 5.1%
TALENOM'S ANNUAL GROWTH 2005-19 (CAGR) 15.7%

Historically, price rises, the increase in receipts and higher sales of value-added services have acted as drivers of growth in the sector.

A RELIABLE PART OF THE DAILY LIVES OF ENTREPRENEURS

Talenom has achieved good results by following its chosen strategy. The strategy is based on handling day-to-day financial management routines, such as submitting material for accounts, as effortlessly as possible from the entrepreneur's perspective.

Talenom also continues to develop the degree of automation of our accounting. The technological expertise of our own Digital Services unit plays a key role in this regard. The scalability of the bookkeeping production line is also a key enabler of continued growth.

However, as well as digitalising routines, we help our customers face to face, in which we provide extensive support in the daily lives of entrepreneurs through our care and value-added services.

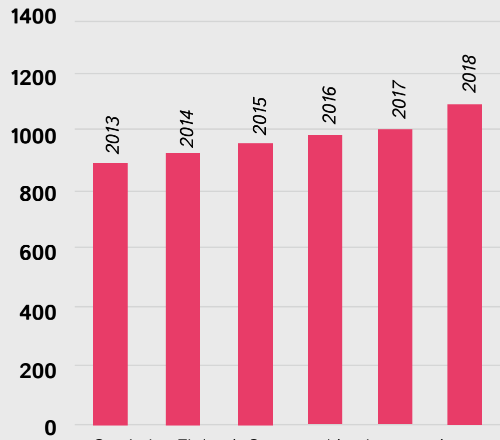
GROWTH IN TALENOM'S NET SALES AND THE ACCOUNTING MARKET

SIZE OF SECTOR 2018

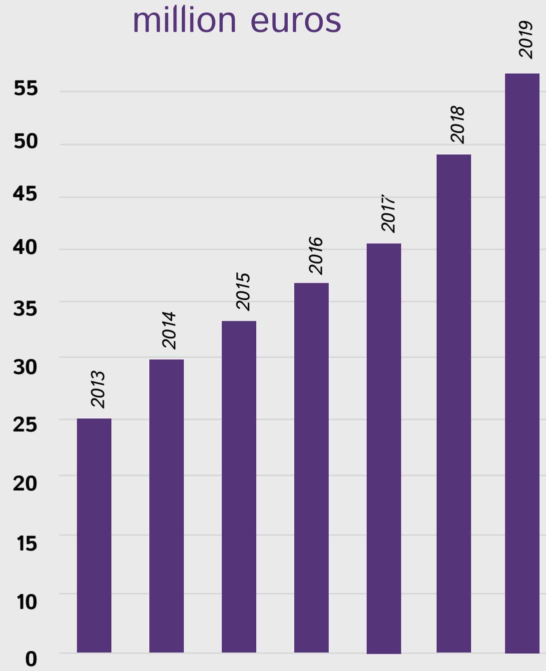
1,099
million euros

NET SALES 2019

58.0
million euros



Statistics Finland, Structural business and financial statement statistics



NOTABLE ACHIEVEMENTS IN 2019

2019

- *2019 was a year of strong growth and forward-looking investments. Net sales grew by 18.6% and our strong profitability improved further, with our operating profit rising by 20.5%.*
- *In 2019, we initiated our internationalisation by acquiring a firm in Sweden. We started up service production automation projects and organic growth efforts in Sweden.*
- *In 2019, too, we made substantial investments in automation and customer user interfaces. We introduced the latest version of our bookkeeping production line, thanks to which we are well poised to expand our services to even smaller companies.*
- *We also carried out an acquisition in Finland, buying two firms in the Vaasa region. This bolsters our ability to provide Swedish-language services in Finland and expands our growth potential in the country.*

Operating profit 2019
(EBIT) **10.4 (8.5)**
million euros,
18.0% (17.5%) of net sales *)

Net sales 2019
58.0 (48.9)
million euros
growth 18.6% (18.0%)

Net profit 2019
7.6 (6.4)
million euros*)

*) The Talenom Group adopted IFRS 16 Leases on 1 January 2019, due to which the review periods are not fully comparable. In the 1-12/2019 period, the standard had a positive effect on operating profit (+115 thousand euros) and a negative effect on net profit (-73 thousand euros)

ESTABLISHED IN
1972

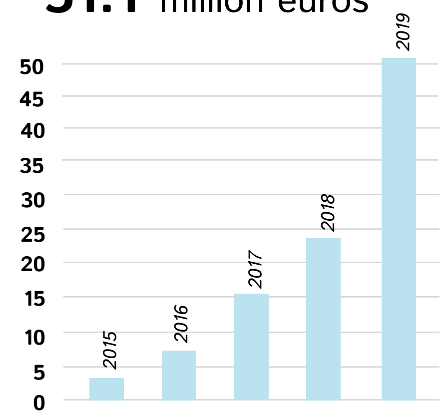
OFFICES
40

EMPLOYEES
746

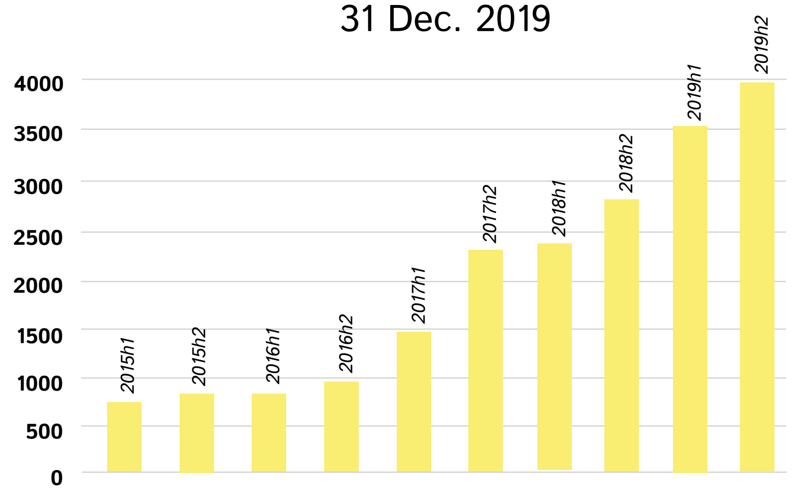
FRANCHISE ENTREPRENEURS
24

SHAREHOLDERS

Total value of turnover 2019
51.1 million euros



Number of shareholders
3,937
31 Dec. 2019



313.8
Market capitalisation
31 Dec. 2019
million euros

Stock quotation development
euros

VALUES & OBJECTIVES

COURAGE

1

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

EFFORTLESSNESS

We want to make routines as easy as possible for our customers. Providing effortless service is a matter of honour for us.

CARING

2

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

AUTOMATION

Our aim is fully automated accounting. Digitalising routines gives our personnel even more time to provide better customer service.

WILL

3

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

CARE

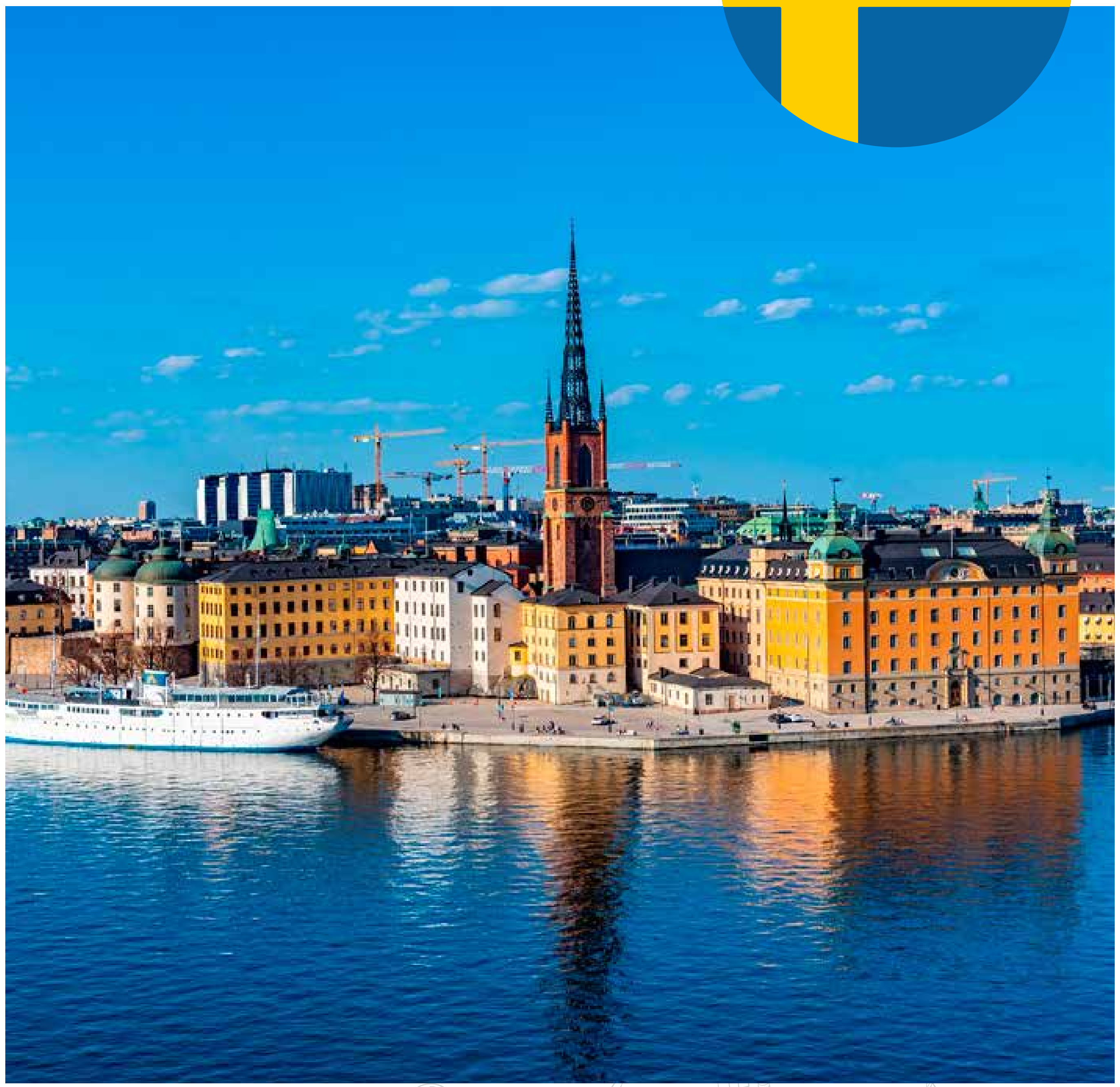
Customers are served by familiar faces who support them as entrepreneurs. To make our customers' everyday lives easier, we have created additional services such as taxation, legal and financial advice.

INTERNATIONALISATION BEGINS

HEJA SVERIGE!

Sweden, our beloved neighbour, was Talenom's first step into the international market. In April, Talenom acquired the Stockholm-based accounting firm Wakers Consulting AB. It had 30 employees and net sales of over 2.5 million euros at the time of acquisition.

Following the acquisition, Talenom will start up proactive sales efforts in Sweden. Talenom's outstanding sales, process and technology expertise is expected to be a strong selling point in the Swedish accounting market, too.



WORKING TOGETHER WITH CHILDREN, WE HAVE DECIDED THAT TALENOM WILL BECOME THE WORLD'S GREENEST ACCOUNTING FIRM. FOR A BETTER ENVIRONMENT, BETTER PLANET AND BETTER TOMORROW, DECLARED 13-YEAR-OLD MATILDA IN A SPEECH GIVEN TO TALENOM STAFF ON BRING YOUR CHILD TO WORK DAY ON 22 NOVEMBER 2019.

CORPORATE RESPONSIBILITY AT TALENOM

Talenom wants to be genuinely responsible, taking its operating environment into consideration. We at Talenom know that responsible solutions also influence the development of shareholder value.

ENVIRONMENT

Talenom understands that we have only one planet. The success of the company cannot come at the expense of the environment. For this reason, Talenom has secured Green Office certification – the only accounting company to have done so.

A major share of accounting firms run on paper. At Talenom, we have observed this from the fact that new customers usually come to us carrying a stack of binders. Almost without exception, the accounting firms acquired by Talenom rely on paper bookkeeping. Talenom does things differently. We already process as many as three quarters of receipts fully electronically, from the moment of creation all the way to posting. When customers switch over to Talenom from their old accounting firm, they say that their major reason for partnering up with us is our electronic services.

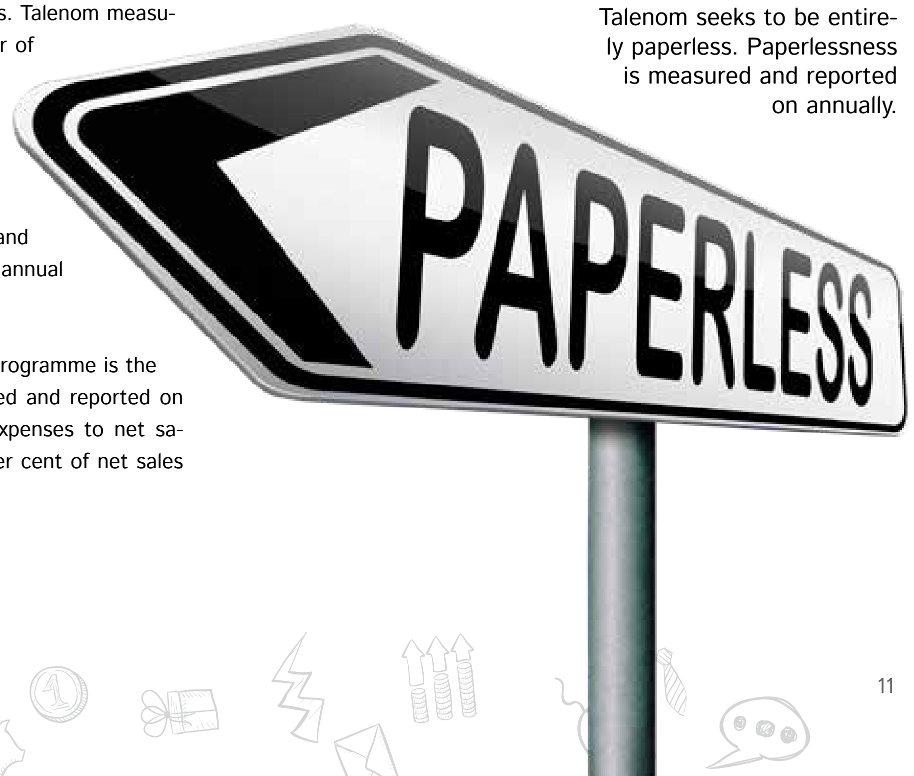
One of the objectives of Talenom's environmental programme is in fact paperless operations. Talenom's accounting services seek to be fully paperless in the case of both the customer's financial management and outsourcing services. In 2019, as much as 76.9 (76.7) per cent of the receipts recorded by Talenom were processed entirely paperlessly.

The objectives of the environmental programme also include efficient property use and environmental friendliness. Talenom measures the efficiency of property use by the number of employees per square metre; this figure is reported in the Green Office annual schedule. In 2019, Talenom had 18.47 square metres of office space per employee. Talenom tracks the energy-efficiency of properties by monitoring the consumption of electricity – and in part heat and water – at its offices. The company reports on its annual electricity consumption to WWF.

The third objective in Talenom's environmental programme is the management of business travel. This is measured and reported on in the annual schedule as the ratio of travel expenses to net sales. In 2019, travel expenses represented 0.51 per cent of net sales (297,000 euros). Talenom's employees take the principles of sustainable travel into account in their 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 procurements. Only necessities are purchased. Sustainable, environmentally friendly alternatives are favoured. 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. At meetings, we serve tap water instead of bottled water. When we acquire services, we verify that the service provider is environmentally responsible.

Talenom seeks to be entirely paperless. Paperlessness is measured and reported on annually.



PEOPLE

Talenom is an accounting company that cares. Caring means that people – both our employees and customers – are at the heart of our operations. Talenom knows that the better employees feel and enjoy their work, the better they can serve customers. Satisfied employees mean satisfied customers.

Talenom has been granted a Great Place to Work certificate. It is 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 second year running. And with good reason. Talenom understands that its employees truly are its most important resource. This is not something that the company only talks about in festive speeches.

Customer satisfaction is a matter close to Talenom's heart and it is measured regularly. Satisfaction begins from unhurried interactions with the customer. On top of that, Talenom offers knowledge of different sectors, expert service and ease of doing business. Our deployment service tailored for new customers is one example of how we make things easy. All they need to do is tell us that they want to become our customer – Talenom's staff take care of the rest. If they have a contract with another accounting firm, we handle the notice of termination and transfer the necessary materials on a turnkey basis – politely and with discretion, of course.

Talenom is also interested in the experts of the future. The company's cooperation with students is close and important. Talenom offers traineeships and is the first real workplace for many young people.

Additional information: Great Place to Work certification >> talenom.fi/rekrytointi

GOOD ADMINISTRATION: 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 24 franchise entrepreneurs and 17 franchise offices. In 2019, the chain expanded to Kirkkonummi, Rauma and Nurmijärvi.

A UNIQUE FRANCHISING MODEL

Talenom is a growth company, with new accounts generated through active sales. In addition to its own sales network, franchising is a key component of Talenom's organic growth. Entrepreneur-driven offices enable Talenom to expand and grow efficiently even in smaller market areas.

In the franchise model, independent franchisees offer the same services to their customers locally as Talenom's other offices. The company's bookkeeping activities are concentrated in Talenom's highly automated units in Oulu and Tampere.

Talenom offers a franchise model to prospective entrepreneurs – a uniquely competitive concept for success as an accounting firm entrepreneur.

The company intends to continue expanding its franchise chain to new locations.

For more information, see: talenom.fi/franchising

CEO'S REVIEW

Our mission and the foundation of our business is encapsulated in the phrase: "the joy of entrepreneurship!" We want to make the world into a better place to be an entrepreneur. We are committed to making the working days of entrepreneurs as easy as possible by providing exceptionally good services. Thanks to our services, our customers can experience the joy of entrepreneurship – we free up their time from routine work so they can do more interesting and inspiring things.

We have successfully implemented our strategy, which has three core elements: effortlessness, automation and value-added services. We have created a unique service concept guided by the concept of making daily life effortless for our customers. We have received excellent feedback on our intuitive customer user interfaces and financial routines that save time for entrepreneurs. Thanks to our own software development, we have been able to harness digitalisation to step up the degree of automation in our operations to a far higher degree than others in our field of business. We are heading towards fully paperless operations – we are proud of both the business and environmental benefits this yields. Effortless user interfaces and automated service provision give us even more time to provide customer service and value-added services to our customers. This is evident in the improvement in our customer satisfaction for the fifth year running, which we are particularly pleased about.

2019 was a year of strong growth and forward-looking investments. Net sales grew by 18.6% and our strong profitability improved further, with our operating profit rising by 20.5%. Most of our growth was organic – our own sales staff and franchise entrepreneurs acquired a record number of new customers. We have been investing in automation and process development for about ten years now, which has raised our profitability to the top of our field. In 2019, too, we made substantial investments in automation and customer user interfaces. We introduced the latest version of our bookkeeping production line, thanks to which we are well poised to expand our services to even smaller companies. I would like to warmly thank our excellent Talenom staff for this! We also successfully launched our new financial services.

In 2019, we initiated our internationalisation by acquiring a firm in Sweden. We started up service production automation projects and organic growth efforts in Sweden. Based on our experiences to date, we expect to be able to harness our strong sectoral expertise in Sweden. We also carried out an acquisition in Finland, buying two firms in the Vaasa region. This bolsters our ability to provide Swedish-language services in Finland.

We believe that our sector will increasingly adopt a consultative approach – during the course of this journey, accountants will become consultants. Customers want ever-more proactive and effortless solutions for their needs. A comprehensive service experience is key – and technology functions in the background as an enabler. Those who can seamlessly combine services and technology into a single end-to-end solution in many channels will come out on top. We believe that, heading into the 2020s, we are in great shape as our sector evolves in a more consultative and comprehensive direction. We will continue to make investments in effortless customer experience, further development of automation and the creation of new solutions to enable our customers to pursue the joy of entrepreneurship!

Otto-Pekka Huhtala
CEO
Talenom Plc

Corporate Governance Statement 2019

1. INTRODUCTION

Talenom Plc complies with the full 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 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 2019, the Annual General Meeting was held on 26 February 2019 in Helsinki.

BOARD OF DIRECTORS

According to Talenom's Articles of Association, the Board of Directors may consist of three to six ordinary members and a maximum of six deputy 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.

At the 2019 Annual General Meeting, Harri Tahkola (Chairman), Olli Hyyppä, Mikko Siuruainen, Anne Riekki and Johannes Karjula were elected to the Board of Directors. The composition of the Board remained the same as in 2018. The term of office of Board members ends at the conclusion of the next AGM following their election.

INFORMATION ON THE BOARD OF DIRECTORS ELECTED AT THE AGM ON 26 FEBRUARY 2019

Name	Education and year of birth	Independent of the company	Independent of significant shareholders	Attendance at Board meetings in 2019
Harri Tahkola (Chairman)	M.Sc. (Econ.), b. 1972	No	No	14/14
Olli Hyyppä (Board member)	M.Sc. (Tech.), b. 1969	Yes	Yes	14/14
Mikko Siuruainen (Board member)	BBA, MBA, b. 1975	No	No	14/14
Anne Riekki (Board member)	M.Sc. (Econ.), LLM, b. 1971	Yes	Yes	14/14
Johannes Karjula (Board member)	M.Sc. (Econ.), b. 1988	Yes	Yes	14/14

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

Finnish citizen

Harri Tahkola was not considered to have been independent of the company during the review period, as he was in a non-temporary employment relationship with the company during the preceding three years. In addition, he is not considered to be independent of significant shareholders, as he owns more than 10% of the shares in the company.

Chairman of the Board since 16 March 2017 Board member since 1998 and CEO in 2003–2016.

Key work experience

Harri Tahkola worked at Talenom in many different positions between 2016 and 1994. In 2016–2003, Harri was the CEO of Talenom.

Key positions of trust

Harri Tahkola was the Chairman of the Board of Directors of Peltolanportti Oy in 2014–2016 and has served as the Chairman of the Board of Directors of HTM Beta Service Oy since 2016. In addition, he has been a member of the Boards of Alfa Finance Oy since 2014, Ducap Oy since 2011, Hemmo Capital Oy since 2010 and Citinvest Oy since 2010.

OLLI HYYPPÄ, M.SC. (TECH.), B. 1969

Finnish citizen

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

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.

MIKKO SIURUAINEN, BBA, MBA, B. 1975

Finnish citizen

Mikko Siuruainen was not considered to have been independent of the company during the review period, as he was in a non-temporary employment relationship with the company during the preceding three years. In addition, he is not considered to be independent of significant shareholders.

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 the company 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: HTM Beta Service Oy since 2016, Suuntakivi Oy since 2016, Silta Partners Oy since 2016, Tammi Partners Oy since 2016 and Peltolanportti Oy in 2014–2016.

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

Finnish citizen

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

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 the Finnish Venture Capital Association since 2012. She has also been a Board member of two subsidiaries of Finnish Industry Investment Ltd: from 2010–2017 at Tesi Fund Management Oy and from 2010–2016 at Start Fund Management Oy.

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

Finnish citizen

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

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 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, 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.

Name	No. of shares, 31 Dec. 2019	% of share capital, 31 Dec. 2019
Harri Tahkola (Chairman)	1,454,315	20.86%
Olli Hyyppä (Board member)	10,000	0.14%
Mikko Siuruainen (Board member)	115,786	1.66%
Anne Riekki (Board member)	0	0
Johannes Karjula (Board member)	0	0

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 committees in 2019.

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.

Jussi Paaso (BBA, MBA, b. 1979) served as the company's CEO until 29 July 2019. Otto-Pekka Huhtala, M.Sc. (Econ.), started out as the company's new CEO on 29 July 2019. Prior to this, he had 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 has worked for the company in various roles since 2002. 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 2019, the members of the Executive Board were Otto-Pekka Huhtala (CEO), Antti Aho (CFO and CHRO), Tuomas Iivanainen (Director, International Business), Juho Ahosola (Director, Accounting Services) as of 4 February 2019, Juha Jutila (Director, Business Development) as from 13 August 2019, Jussi Paaso (CEO) until 29 July 2019, Nina Lukkari (Director, Value-added Services) until 4 February 2019, and Sakari Jorma (CIO and CTO) until 4 February 2019.

DIRECT AND INDIRECT HOLDINGS OF THE CEO AND EXECUTIVE BOARD, 31 DEC. 2019

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	70,360	35,000	1.01%	1.51%
Other Executive Board	31,820	71,650	0.46%	1.48%

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 a business's success and in creating ownership 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 Administration Director, 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 operations and financial position. 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 and press releases and news through Nasdaq Helsinki to key media in Finnish and English. All releases will be published as simultaneously as possible 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 term of office of the auditor ends at the conclusion of the next Annual General Meeting following their election. The 2019 AGM selected the auditing firm KPMG Ltd as the auditor, with Tapio Raappana, 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 93,660 euros in audit fees and 57,139 euros for other services in 2019.

Remuneration Statement 2019

1. INTRODUCTION

Talenom Plc complies with the full 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 statement is also available on the company's website at www.talenom.fi/en/investors

2. DECISION-MAKING PROCEDURE CONCERNING REMUNERATION

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 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 AGM elects the members of the Board of Directors and the auditors, and decides on the number of Board members as well as the remuneration of Board members and auditors.

The Board of Directors elected at the AGM selects a Chairman from amongst its number at its organization meeting.

The Board of Directors 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 Executive Board assists the CEO in the management of operations. In addition to the CEO, the Board of Directors appoints the other members of the Executive Board and decides on their remuneration and the other terms and conditions of their employment contracts. The Board also decides on the company's remuneration and incentive scheme.

The company has not considered it necessary to establish a remuneration committee.

3. KEY PRINCIPLES OF REMUNERATION

BOARD OF DIRECTORS

The remuneration of Board members is decided upon at the AGM. On 26 February 2019, the 2019 AGM decided that the Chairman of the Board of Directors shall be paid a fee of 5,000 euros per month and Board members a fee of 1,500 euros per month. In addition, it was decided that Board members shall be reimbursed for their travel expenses according to the company's travel rules.

The AGM reelected Harri Tahkola, Mikko Siuruainen, Olli Hyyppä, Anne Riekki and Johannes Karjula for a new term. The composition of the Board of Directors thus did not change. None of the Board members were in the employment of the company in 2019.

FEES PAID TO BOARD MEMBERS, 1 JAN.–31 DEC. 2019

	Monetary pay	Fringe benefits	Fees	Total
Harri Tahkola (Chairman)		7,725 *	52,135 euros	59,860 euros
Olli Hyyppä (Board member)			18,000 euros	18,000 euros
Mikko Siuruainen (Board member)			18,000 euros	18,000 euros
Anne Riekki (Board member)			18,000 euros	18,000 euros
Johannes Karjula (Board member)			18,000 euros	18,000 euros

* Board fees have partly been paid as fringe benefits.

Board members do not participate in the company's share-based incentive schemes and no Board fees are paid in the form of shares in the company.

CEO AND OTHER MANAGEMENT

The Board of Directors appoints the CEO, and decides on the remuneration to be paid to the CEO and other terms and conditions of the CEO's contract. In addition, the Board of Directors appoints the members of the Executive Board and decides on their remuneration and the other terms and conditions of their employment contracts.

CEO IN 2019

Jussi Paaso served as the company's CEO until 29 July 2019. Otto-Pekka Huhtala has been the CEO since 29 July 2019. As set out in the CEO's contract, he serves in the position until further notice. The contractual period of notice is two months.

The remuneration of the CEO consists of a fixed monthly salary, fringe benefits, performance bonuses and option-based bonuses. The fixed annual salary of the CEO in 2019 amounted to 194,444 euros, which included fringe benefits of 6,647 euros.

When predefined criteria are met, the CEO, like the other members of the Executive Board, is entitled to a performance bonus. The criteria take into consideration 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 separately assesses the performance of the CEO in his task and decides on a separate performance bonus to be paid to him. In 2019, the CEO was paid 36,000 euros in performance bonuses.

CEO Otto-Pekka Huhtala participates in the 2016 and 2019 stock option schemes. He has been granted 6,000 category 2016A options, 9,000 category 2016B options, 15,000 category 2016C options, and 20,000 category 2019 options. Category 2016B options were exercised in full in 2019 and the share-based bonuses of the CEO amounted to 178,700 euros. (See "Stock option scheme")

OTHER MEMBERS OF THE EXECUTIVE BOARD IN 2019

In 2019, the members of the Executive Board were Otto-Pekka Huhtala (CEO), Antti Aho (CFO and CHRO), Tuomas Iivanainen (Director, International Business), Juho Ahosola (Director, Accounting Services) as of 4 February 2019, Juha Jutila (Director, Business Development) as from 13 August 2019, Juusi Paaso (CEO) until 29 July 2019, Nina Lukkari (Director, Value-added Services) until 4 February 2019, and Sakari Jorma (CIO and CTO) until 4 February 2019.

The members of the Executive Board serve until further notice. Their period of notice is two months. The remuneration of the Executive Board consists of fixed monthly salaries, fringe benefits, performance bonuses and option-based bonuses. With the exception of the CEO, the combined fixed annual salary of Executive Board members in 2019 was 456,512 euros, which includes fringe benefits of 23,246 euros.

When predefined criteria are met, the members of the Executive Board are entitled to a performance bonus. The criteria take into consideration the company's net sales, EBITDA, customer retention, operational efficiency, personnel satisfaction, progress in product development and product group-specific growth. With the exception of the CEO, Executive Board members were paid 42,490 euros in performance bonuses in 2019.

In addition to the CEO, the other Executive Board members are included in the 2016 and 2019 option schemes, and some of the members also participate in the 2018 option scheme. Other Executive Board members have been granted 4,950 category 2016A options, 7,400 category 2016B options, 14,150 category 2016C options, 15,500 category 2018 options, and 42,000 category 2019 options. Category 2016B options were exercised in full in 2019 and the share-based bonuses of the Executive Board members amounted to 312,720 euros. (See "Stock option scheme")

ADDITIONAL PENSION PLAN

In addition to statutory pension insurance, the company has agreed on additional pension plans with its key personnel. Contributions to the additional pension plans are decided on by the Board of Directors. No contributions have been made to additional pension plans after 2015.

STOCK OPTION SCHEME

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

Under the terms of the Talenom Plc./Option Rights 2016, approved by the Annual General Meeting of Shareholders on 17 March 2016, 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 of the 2018 stock option scheme were approved by the Annual General Meeting of 14 March 2018, and they correspond to the terms of the 2016 stock option scheme. The terms of the 2019 stock option scheme were approved by the Annual General Meeting of 26 February 2019, and they correspond to the terms of the 2016 stock option scheme.

Under the terms of Talenom Plc/Option Rights 2016, Talenom Plc/Option Rights 2018, and Talenom Plc/Option Rights 2019, the Board of Directors will decide on any further actions concerning stock options that are returned to the company.

The options granted and the holdings or undistributed options of the company are divided into option categories (31 December 2019) as follows:

Option categories	2016C	2018	2019
Options given (no.)	119,050	58,000	164,000
Talenom Plc.'s holding or undistributed	76,950	2,000	36,000
Total	196,000	60,000	200,000

The members of the Board of Directors are not included in the option scheme.

On 31 December 2019, there were a total of 456,000 options, of which 106,650 were held by the Executive Board (Otto-Pekka Huhtala, Antti Aho and Tuomas Iivanainen, Juho Ahosola and Juha Jutila) and 234,400 by other key personnel; 114,950 were undistributed or held by 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

Under the terms of Talenom Plc/Option Rights 2016, Talenom Plc/Option Rights 2018 and Talenom Plc/Option Rights 2019, 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 Talenom Plc/Option Rights 2016, Talenom Plc/Option Rights 2018 and Talenom Plc/Option Rights 2019 terms and conditions are available on Talenom's investor website at: Talenom.fi/sijoittajat/yhtiokokoukset (in Finnish).

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-to-day 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 40 offices. In 2019, Talenom had an average of 746 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 2019, as much as 76.9 (76.7) 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 96.1 (95.8) 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 the number of employees per square metre; this figure is reported in the Green Office annual schedule. In 2019, Talenom had 18.47 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 2019, travel expenses represented 0.51 per cent of net sales (297,000 euros). 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 second 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 746 employees at 23 offices. A total of 24 persons served as independent franchise entrepreneurs at 17 franchise offices. Seventy-three 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 10.3 per cent (10.8%).

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 accounting group established in 1972 that provides its growing clientele with a comprehensive range of accounting services and other services to support their business. The company provides highly automated services using systems developed by its in-house software development unit and also offers electronic financial management tools to its customers.

The company has 40 offices in Finland, including its service centres in Oulu and Tampere and 17 franchise offices. The company had 746 employees on average during the financial period. The company has made substantial outlays on growing its operations. The average growth rate of net sales (CAGR) was 15.7 per cent in 2005–2019.

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 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 PERIOD

Year 2019 in brief:

- Net sales 58.0 (48.9) million euros, an increase of 18.6% (18.0%)
- Operating profit (EBIT) 10.4 (8.5) million euros, 18.0% (17.5%) of net sales *)
- Net profit 7.6 (6.4) million euros *)
- Earnings per share 1.10 (0.93) euros
- Board of Directors' proposal for dividend 0.75 euros/share (0.55 euros)

*) The Talenom Group adopted IFRS 16 Leases on 1 January 2019, due to which the review periods are not fully comparable. In the 1-12/2019 period, the standard had a positive effect on operating profit (+115 thousand euros) and a negative effect on net profit (-73 thousand euros)

During the review period, Talenom signed franchising agreements with four new entrepreneurs and opened new franchise offices in Rauma, Kirkkonummi and Nurmijärvi. Talenom now has a total of 24 franchisees.

In February 2019, Talenom announced that according to a survey performed by Great Place to Work Finland, Talenom is one of the best workplaces in Finland: it was ranked seventh in the Large Companies category. In October 2019, Talenom was awarded the Great Place to Work certificate for the third time running.

On 4 April 2019, Talenom Plc agreed with the owners of Stockholm-based Swedish accounting firm Wakers Consulting AB on the purchase of the entire share capital of said accounting firm. A part of the purchase price was paid with shares of Talenom Plc in a share issue for the owners of Wakers Consulting AB. The acquisition changed Talenom's financial outlook, and the company adjusted its guidance for 2019.

Wakers Consulting AB is a Stockholm-based authorised accounting firm, with approximately 30 employees at the time of acquisition. The firm's net sales were 27.2 million krona (2.6 million euros) in the financial period 1 September 2017-31 August 2018. Profitability over the financial period was good (EBITDA of 4.0 million krona (0.4 million euros), 14.7% of net sales). The sale price was 27.0 million krona (2.6 million euros), of which 13.5 million krona (1.3 million euros) was paid in cash and financed by the liquid assets of Talenom Plc. The remainder of the sale price was paid by means of new subscribed shares of Talenom Plc in a special issue.

In accordance with the terms of sale, the new shares were subscribed for and their subscription price was considered paid with all the shares in Wakers Consulting AB as consideration in kind on 2 May 2019. The subscription price for the new shares was fully booked in Talenom Plc's invested unrestricted equity fund. In the directed issue, 48,678 new shares were offered for subscription. The number of new shares issued corresponded to around 0.71% of all Talenom Plc shares before the directed issue.

In its meeting of 23 April 2019, the Board of Directors decided to cancel 60,549 option rights, marked as 2016B, held by the company. The other options in the 2016B series had been used earlier to subscribe for shares. Thus, following the cancellation, the company has no more outstanding stock options of the 2016B series.

On 31 May 2019, Talenom Plc agreed with the owners of Vaasa-based accounting firms Oy Wasa Tilit Ab and WT Företagstjänster Ab Oy to acquire the businesses of the firms. Part of the purchase price was paid with the shares of Talenom Plc subscribed in a directed share issue to the owners of the acquired companies.

The acquired businesses employed a total of 30 people. The combined net sales of the businesses amounted to 2.2 million euros between 1 March 2018 and 28 February 2019 (unaudited) and the operating margin (EBITDA) was 0.2 million euros. The purchase price totalled 1,590 thousand euros, of which 690 thousand euros was paid with new Talenom Plc shares subscribed for in a directed share issue. The rest of the purchase price was paid with cash and financed through the liquid assets of Talenom Plc and by taking over the holiday pay reserves of the acquired businesses.

20,280 new shares were offered for subscription in accordance with the terms and conditions of the purchase agreement in the directed share issue. The number of new shares issued was equivalent to approximately 0.29% of all Talenom shares before the issue of the new shares.

In accordance with the terms and conditions of the purchase agreement, the new shares were subscribed and their subscription price was considered to be paid with the businesses of Oy Wasa Tilit Ab and WT Företagstjänster Ab Oy, which were delivered as a contribution in kind at the same time. The subscription price for the new shares was fully booked in Talenom Plc's invested unrestricted equity fund.

Otto-Pekka Huhtala stepped into the position of CEO on 29 July 2019. The previous CEO, Jussi Paaso, remains in the company's employ.

On 13 August 2019, Talenom announced that it had signed a market making agreement with Lago Kapital Ltd in compliance with the requirements of Nasdaq Helsinki Ltd's Liquidity Providing (LP) operations. A market making agreement with Lago Kapital Ltd had already been in force for the Talenom Plc share. The agreement was updated to meet the requirements of Nasdaq Helsinki Ltd's Liquidity Providing (LP) operations.

On 22 August 2019, Talenom started repurchasing its own shares. The share buyback ended on 20 September 2019. During this period, Talenom acquired 20,000 of its own shares at an average price of 33.7208 euros per share. The shares were acquired at the market price quoted at the time of the repurchase in public trading on Nasdaq Helsinki Ltd. The share buyback was based on the authorisation granted by the Annual General Meeting of 2019, in which the Board of Directors was authorised to decide on the repurchase of a maximum of 50,000 of its own shares, and the decision of the Board on 22 August 2019 to carry out a repurchase programme for 20,000 shares.

After the buyback, Talenom Plc holds a total of 25,100 own shares, representing about 0.36% of all shares in the company.

The company aims to be fully paper-free in the modern accounting services it provides. Thanks to its determined environmental efforts, Talenom was granted Green Office certification by WWF on 4 December 2019. Talenom is the first accounting firm to receive this certificate.

FINANCIAL DEVELOPMENT

KEY FIGURES

Group	1–12/2019	Effect of IFRS 16 **)	Adjusted 1–12/2019	1–12/2018	Adjusted change
Net sales, thousands of euro	57,955	0	57,955	48,871	9,084
Net sales, increase %	18.6%	0.0 percentage points	18.6%	18.0%	0.6 percentage points
Operating profit (EBIT), thousands of euro	10,409	+115	10,294	8,545	1,749
Operating profit (EBIT), as % of net sales	18.0%	+0.2 percentage points	17.8%	17.5%	0.3 percentage points
Return on investment (ROI), % (rolling 12 months)	20.2%	-2.4 percentage points	22.6%	21.4%	1.2 percentage points
Interest-bearing net liabilities, thousands of euro	29,204	+8,492	20,711	18,250	2,461
Net gearing ratio, %	124%	+36 percentage points	88%	98%	-10 percentage points
Equity ratio, %	33.2%	-4.6 percentage points	37.7%	36.7%	1.1 percentage points
Working capital, thousands of euro	-3,780	0	-3,780	-2,712	-1,068
Net investments, thousands of euro	15,439	0	15,439	9,503	5,936
Liquid assets (cash in hand and in banks), thousands of euro	7,786	0	7,786	5,914	1,873
Earnings per share, euro	1.10	-0.01	1.11	0.93	0.18
Weighted average number of shares during the period *)	6,929,159	0	6,929,159	6,861,476	67,683
Net profit, thousands of euro	7,615	-73	7,688	6,363	1,324

*) Weighted average of treasury shares held by the company during the period has been deducted from the figure

**) The Talenom Group adopted IFRS 16 Leases on 1 January 2019; its impacts are presented in this column

NET SALES, PROFITABILITY AND FINANCIAL PERFORMANCE – JANUARY–DECEMBER 2019

In the period from January to December, Talenom's net sales increased by 18.6% compared to the corresponding period of the preceding year. Amounting to 58.0 (48.9) million euros, net sales grew by about 9.1 million euros. The growth was mainly due to the increase in the number of accounting service customers.

In the review period, personnel expenses were 29.9 (26.2) million euros, amounting to 51.6% (53.7%) of net sales. The ratio of the personnel expenses to net sales decreased year on year.

Other operating expenses, including materials and services, totalled 9.5 million euros, being 16.4% of net sales. Due to the adoption of IFRS 16 Leases, other operating expenses are not directly comparable in periods 1–12/2018 and 1–12/2019 (see Tables: Consolidated statement of comprehensive income).

In the review period, operating profit (EBIT) was 10,409 thousand euros (18.0% of net sales), with a net profit of 7,615 thousand euros. Adoption of IFRS 16 Leases had a positive effect on operating profit (+115 thousand euros) and a negative effect on net profit (-73 thousand euros). Operating profit (EBIT) adjusted to ignore the standard's effects was 10,294 (8,545) thousand euros (17.8% (17.5%) of net sales) and net profit 7,688 (6,363) thousand euros.
The improved profitability was due to the improvement in the efficiency of bookkeeping.

In the period from October to December, Talenom's net sales increased by 19.8% compared to the corresponding period of the preceding year. Amounting to 14.9 (12.4) million euros, net sales grew by about 2.5 million euros. In the review period, operating profit (EBIT) was 1,458 thousand euros (9.8% of net sales), with a net profit of 1,016 thousand euros. *)

Fourth-quarter profitability was depressed relative to the comparison period due to the more even spread of net sales from annual declarations over the financial period as a result of the introduction of the Incomes Register, as described earlier. This change had an effect of 330 thousand euros on net sales and operating profit in the fourth quarter.

*) Adoption of IFRS 16 had a positive effect on operating profit in the 10-12/2019 period (+41 thousand euros) and a negative effect on net profit (-11 thousand euros).

BALANCE SHEET, FINANCING AND INVESTMENTS

On 31 December 2019, the consolidated balance sheet total was 71.3 (51.2) million euros. The Group's equity ratio was 33.2% and the net gearing ratio was 124%.
With the adoption of IFRS 16, the Group's equity ratio has decreased by 4.6 percentage points, and its net gearing ratio increased by 36 percentage points. Equity ratio adjusted to ignore the effects of IFRS 16 stood at 37.7% (36.7%) and net gearing ratio at 88% (98%).

The Group's interest-bearing financial loans at the end of the review period were 28.0 million euros, excluding instalment debts. Other non-current interest-bearing liabilities (instalment debts) stood at 0.2 million euros, with other current interest-bearing liabilities (instalment debts) amounting to 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 6.6 million euros and current lease liabilities at 1.9 million euros on 31 December 2019.

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 as 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 4.6 (3.7) million euros in the review period. Investments concerning software and digital services amounted to 5.3 (4.0) million euros.

The company’s total net investments in the review period were 15.4 (9.5) million euros.

During the review period, the company acquired the share capital of Wakers Consulting Ab in Stockholm and the business operations of Oy Wasa tilit Ab and WT Företagstjänster Ab Oy. These transactions accounted for 4.2 million euros of net investments and half was paid for with new Talenom Plc shares subscribed for in a directed issue.

On 31 December 2019, liquid assets amounted to 7.8 (5.9) million euros. In addition, the company had unused overdraft limits of 1.0 million euros at the end of the review period.

GUIDANCE FOR 2020

2020 is expected to be in line with 2019 in terms of relative growth in net sales and relative profitability.

PRINCIPAL 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 provided by the company or its affiliates may be subject to security breaches, or to failures, faults or disturbances affecting the company’s business, profitability and financial position.

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 a business’s success and in creating ownership 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 Administration Director, 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.–31 Dec. 2019	1 Jan.–31 Dec. 2018
Earnings per share, euro	1.10	0.93
Equity per share, euro	3.40	2.72
Proposed dividend per share, euro	0.75	0.55
Proposed dividend as % of result	68.2	59.3
Effective dividend yield, %	1.7%	2.9%
P/E ratio	40.95	20.54
Market capitalisation, 31 Dec., million euros	313.8	130.90
Share turnover, euros	51,051,258	24,570,129
Number of shares	6,972,672	6,871,863

There were 250 trading days in the review period 1 January–31 December 2019. A total of 1,611,953 shares were traded during this period, and the value of the shares traded was 51,051,258 euros. The highest price of the share was 47.10 euros and the lowest price was 18.90 euros. The volume weighted average price was 31.67 euros and the closing price at the end of the review period (31 December 2019) was 45.00 euros. In accordance with the closing price, the combined market value of the shares was approximately 313.8 million euros.

Shareholders by sector, 31 Dec. 2019

Sector	Shareholders		Book entries		Nominee-registered	
	no.	%	no.	%	no.	%
Companies	152	3.86	290307	4.16	-	-
Financial and insurance institutions	31 (7)	0.79	1,223,603	17.55	759,782	10.90
Public-sector organisations	3	0.8	832,856	11.95	-	-
Households	3,730	94.74	3,626,941	52.02	-	-
Non-profit organisations	12	0.31	139,841	2.01	-	-
Foreign	9 (3)	0.23	12,369	0.177	86,973	1.25
Total	3,937 (10)	100.00	6,125,917	87.86	846,755	12.14
of which nominee-registered	(10)				846,755	12.14

Largest shareholders, 31 Dec. 2019

Name	Shares, no.	Shares, %
Tahkola Harri	1,454,315	20.86
Tahkola Markus	919,304	13.18
Ilmarinen Mutual Pension Insurance Company	787,776	11.30
Evli Finnish Small Cap	400,000	5.74
Skandinaviska Enskilda Banken Ab (Publ) Helsinki branch (nominee-registered)	369,284	5.30
Nordea Bank Ab (Publ), Finnish branch (nominee-registered)	353,588	5.07
Sr Danske Invest Finland	326,252	4.68
Föreningen Konstsamfundet r.f	130,000	1.86
Siuruainen Mikko	115,786	1.66
Eq Nordic Small Cap	108,656	1.56
Ten largest, total	**4,964,961**	**71.21%**
Other shareholders	**2,007,711**	**28.79%**
Total	**6,972,672**	**100.00**

Shareholdings of Board members, CEO and Executive Board, 31 Dec. 2019

Name	Shares, no.	Shares, %
Board of Directors	1,580,101	22.66%
CEO	70,360	1.01%
Other Executive Board	31,820	0.46%
Total	**1,682,281**	**24.13%**

Treasury shares

On the closing date, the company held 25,100 of its own shares. The company’s shares have not been divided into different share classes.

BOARD AUTHORISATIONS

The 2019 Annual General Meeting authorised the Board of Directors to decide on the buyback of up to 50,000 of the company's shares in one or more instalments with the company's unrestricted equity. According to the authorisation, the share buyback will be conducted as public trading arranged by Nasdaq Helsinki Oy at the market price valid at the moment of buyback, without consideration to the proportions of shares held by shareholders.

The authorisation remains in force until the end of the next Annual General Meeting, but no longer than until 30 June 2020. The company has no earlier valid authorisations to buy back shares.

The 2019 Annual General Meeting resolved to authorise the Board of Directors to decide on share issues and the issuance of special rights entitling to shares, as referred to in Chapter 10, Section 1 of the Limited Liability Companies Act. The maximum number of shares to be issued, including shares received under special rights, is 300,000 shares in total. The Board of Directors will use the authorisation to pay transaction prices in connection with acquisitions, or for other purposes decided by the Board of Directors.

The authorisation entitles the Board of Directors to decide on all the terms and conditions of the issuance shares and on special rights entitling to shares, including the right of shareholders to deviate from the preemptive subscription right. The Board of Directors will use the authorisation to pay transaction prices in connection with acquisitions, or for other purposes decided by the Board of Directors.

The authorisation remains in force until the end of the next Annual General Meeting, but no longer than until 30 June 2020. The authorisation cancelled all previous unused authorisations for share issues as well as issuing special rights entitling to option rights and other special rights.

In deviation from shareholders' pre-emptive rights, the 2019 Annual General Meeting decided to issue option rights to Talenom Group's key employees in accordance with the terms and conditions of Talenom Plc's Option Rights 2019. A maximum of 200,000 option rights will be issued. The terms and conditions are available (in Finnish) on Talenom's investor pages at: Talenom.fi/sijoittajat/yhtiokokoukset.

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.

STOCK OPTION SCHEMES

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

Under the terms of the Talenom Plc./Option Rights 2016, approved by the Annual General Meeting of Shareholders on 17 March 2016, 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 of the 2018 stock option scheme were approved by the Annual General Meeting of 14 March 2018, and they correspond to the terms of the 2016 stock option scheme. The terms of the 2019 stock option scheme were approved by the Annual General Meeting of 26 February 2019, and they correspond to the terms of the 2016 stock option scheme.

Under the terms of Talenom Plc/Option Rights 2016, Talenom Plc/Option Rights 2018, and Talenom Plc/Option Rights 2019, the Board of Directors will decide on any further actions concerning stock options that are returned to the company.

The options granted and the holdings or undistributed options of the company are divided into option categories (31 December 2019) as follows:

Option categories	2016C	2018	2019
Options given (no.)	119,050	58,000	164,000
Talenom Plc.'s holding or undistributed	76,950	2,000	36,000
Total	196,000	60,000	200,000

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

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	5.48	11.52	20.25
Total number of options	196,000	60,000	200,000
Talenom Plc.'s holding or undistributed	76,950	2,000	36,000
Number of shares outstanding, 31 Dec. 2019	6,947,572	6,947,572	6,947,572
Number of shares outstanding if all options are converted into new shares	7,143,572	7,007,572	7,147,572
Proportion of holdings and votes if all options are converted into new shares	2.744%	0.856%	2.798%

The total number of shares will increase from 6,972,672 to 7,428,672 if all of the three stock option options 2016C, 2018 and 2019 will be used to fully subscribe for new shares. The total number of votes and holdings of all three options is 6.138% if all stock options are used to fully subscribe for new shares.

Under the terms of Talenom Plc/Option Rights 2016, Talenom Plc/Option Rights 2018 and Talenom Plc/Option Rights 2019, 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 Talenom Plc/Option Rights 2016, Talenom Plc/Option Rights 2018 and Talenom Plc/Option Rights 2019 terms and conditions are available on Talenom's investor website at: Talenom.fi/sijoittajat/yhtiokokoukset (in Finnish).

ANNUAL GENERAL MEETING 2019

Talenom's Annual General Meeting was held on 26 February 2019 in Helsinki. The Annual General Meeting decided to issue a dividend of 0.55 euros per share for the financial period 1 January–31 December 2018. The dividend was paid to shareholders on 7 March 2019.

The Annual General Meeting authorised the Board of Directors to decide on the buyback of up to 50,000 of the company's shares in one or more instalments with the company's unrestricted equity. The share buyback will be conducted as public trading arranged by Nasdaq Helsinki Oy at the market price valid at the moment of buyback, without consideration to the proportions of shares held by shareholders.

The Annual General Meeting resolved to authorise the Board of Directors to decide on share issues and the issuance of special rights entitling to shares, as referred to in Chapter 10, Section 1 of the Limited Liability Companies Act. The maximum number of shares to be issued, including shares received under special rights, is 300,000 shares in total. The Board of Directors will use the authorisation to pay transaction prices in connection with acquisitions, or for other purposes decided by the Board of Directors.

In deviation from shareholders' pre-emptive rights, the Annual General Meeting decided to issue option rights to Talenom Group's key employees in accordance with the terms and conditions of Talenom Plc's Option Rights 2019. The terms and conditions are available (in Finnish) on Talenom's investor pages at: Talenom.fi/sijoittajat/yhtiokokoukset.

FLAGGING NOTIFICATIONS

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

According to a notification received on 30 April 2019, the number of Talenom Plc shares owned by Ilmarinen Mutual Pension Insurance Company decreased below the 15% limit of all Talenom Plc shares due to share transactions.

EVENTS AFTER THE REVIEW PERIOD

After the end of the review period, Talenom announced that the Board of Directors is planning to organise a personnel share issue in Finland: Talenom shares will be offered for subscription to Talenom Group employees and franchise entrepreneurs. The Board of Directors plans to decide on the detailed terms and conditions as well as the schedule of the personnel share issue in April 2020 at the latest.

No other significant events took place after the review period.

BOARD OF DIRECTORS AND AUDITOR

The AGM reelected Harri Tahkola, Mikko Siuruainen, Olli Hyyppä, Anne Riekki and Johannes Karjula for a new term. The composition of the Board of Directors thus did not change. In its organising meeting after the Annual General Meeting, the Board of Directors elected Harri Tahkola as Chairman of the Board.

The auditing firm KPMG Oy Ab was selected to continue as the auditor, with Tapio Raappana, APA, 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 6,279,009.73 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 0.75 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 Redovisning Ab and Talenom Software Oy. The parent company Talenom Plc owns the entire capital stock of all its subsidiaries, except for Talenom Audit Oy, which is a wholly owned subsidiary of Talenom Yritystilit Oy.

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 %	=	$\frac{\text{net sales - net sales of the preceding year}}{\text{net sales of the preceding year}}$	x 100
Operating profit	=	net sales + other operating income - materials and services - personnel expenses - depreciations and amortisations - other operating expenses	
Operating profit (EBIT), %	=	$\frac{\text{operating profit (EBIT)}}{\text{net sales}}$	x 100
Return on investment (ROI), % (rolling 12 months)	=	$\frac{\text{operating profit (EBIT) before taxes + interest and other financial expenses}}{\text{total equity and liabilities - non-interest-bearing liabilities (average of the accounting period)}}$	x 100
Interest-bearing net liabilities	=	interest-bearing liabilities - cash in hand and in banks	
Net gearing ratio, %	=	$\frac{\text{interest-bearing liabilities - cash in hand and in banks}}{\text{capital and reserves}}$	x 100
Equity ratio, %	=	$\frac{\text{capital and reserves}}{\text{balance sheet total - advances received}}$	x 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	=	$\frac{\text{net profit of the review period}}{\text{Weighted average number of shares outstanding during the review period}}$	x 100
Compound annual growth rate (CAGR)	=	(net sales at the end of the period / net sales in the beginning of the period)$^{\text{1/number of years -1}}$	

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) 2019

Financial statements

Consolidated comprehensive income statement

In thousands of euro	Note	2019	2018
Net sales	6	**57 955**	**48 871**
Other operating income	7	372	658
Materials and services	8	-3 598	-2 555
Employee benefit expense	9, 21	-29 912	-26 226
Depreciation, amortisation and impairment losses	10	-8 498	-5 130
Other operating expenses	11	-5 911	-7 073
Operating profit (EBIT)		**10 409**	**8 545**
Financial income	12	64	57
Financial expenses	12	-906	-636
Net financial expenses		**-843**	**-578**
Profit (loss) before taxes		**9 566**	**7 966**
Income taxes	13	-1 951	-1 603
Profit (loss) for the financial year		**7 615**	**6 363**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedging		60	27
Taxes on items that may be reclassified subsequently to profit or loss		-12	-5
Other comprehensive income for the financial year, net of tax		**48**	**22**
Total comprehensive income for the financial year		**7 663**	**6 385**
Earnings per share calculated on the profit attributable to equity holders of the parent company			
Basic earnings per share (euro)	14	1,10	0,93
Diluted earnings per share (euro)	14	1,06	0,91

Consolidated balance sheet

In thousands of euro	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Goodwill	16	20 728	18 420
Other intangible assets	16	14 930	10 493
Right-of-use assets	15	8 400	0
Property, plant and equipment	15	2 584	2 248
Other non-current financial assets	17	237	237
Deferred tax assets	13	67	62
Capitalised contract costs	6	10 054	8 357
Total non-current assets		**57 000**	**39 817**
Current assets			
Trade and other receivables	18	6 521	5 473
Current tax assets		34	11
Cash and cash equivalents	19	7 786	5 914
Total current assets		**14 342**	**11 398**
Total assets		**71 342**	**51 215**
CAPITAL AND RESERVES			
Share capital	20	80	80
Reserve for invested unrestricted equity	20	11 234	10 608
Fair value reserve	20	-45	-93
Retained earnings	20, 21	12 304	8 092
Total equity		**23 573**	**18 688**
LIABILITIES			
Non-current liabilities			
Financial liabilities	23	28 000	23 500
Trade and other payables	25	215	230
Lease liabilities	24	6 553	0
Other non-current financial liabilities	24	56	116
Deferred tax liabilities	13	307	50
Total non-current liabilities		**35 130**	**23 896**
Current liabilities			
Trade and other payables	25	10 208	7 728
Lease liabilities	24	1 940	0
Current tax liabilities	25	491	903
Total current liabilities		**12 638**	**8 631**
Total liabilities		**47 769**	**32 528**
Total equity and liabilities		**71 342**	**51 215**

Consolidated cash flow statement

In thousands of euro	Note	2019	2018
Cash flow from operating activities			
Profit (loss) before taxes		9 566	7 966
Adjustments:			
Depreciation, amortisation and impairment losses	10	8 498	5 130
Financial income	12	-64	-57
Financial expenses	12	906	636
Other adjustments		330	125
Changes in working capital:			
Change in trade and other receivables	18	-559	-16
Change in trade payables and other liabilities	25	1 995	-496
Interest received		64	57
Taxes paid		-2 399	-1 136
Net cash flow from operating activities		**18 337**	**12 208**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment	15	240	239
Acquisition of property, plant and equipment	15	-1 107	-560
Capitalisation of contract costs	6	-4 567	-3 740
Acquisition of intangible assets	16	-5 580	-4 345
Acquired businesses	5	-2 080	-505
Net cash flow from investing activities		**-13 094**	**-8 910**
Cash flow from financing			
Acquisition of treasury shares		-674	
Interest paid		-888	-647
Repayment of capital / dividends paid		-3 777	-2 197
Realisation of options		-684	-160
Change in instalment payment liabilities	23	-106	-259
Repayment of lease liabilities	24	-1 746	
Proceeds from loans and borrowings	23	4 500	23 500
Repayments of loans and borrowings	23	0	-22 500
Net cash flow from financing		**-3 375**	**-2 263**
Change in cash and cash equivalents		**1 869**	**1 035**
Cash and cash equivalents at 1 January		5 914	4 879
Net effect of exchange rate fluctuations on cash and cash equivalents held		3	
Cash and cash equivalents at 31 December	**19**	**7 786**	**5 914**

Consolidated statement of changes in equity

		Attributable to equity holders 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	21				370	370
Total transactions with owners of the parent company			625	0	-3 403	-2 778
Total equity at 31 December 2019	**20**	**80**	**11 234**	**-45**	**12 304**	**23 573**

		Attributable to equity holders 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 2018	20	**80**	**12 373**	**-114**	**1 603**	**13 942**
Comprehensive income						
Profit for the financial year					6 363	6 363
Cash flow hedging				22		22
Total comprehensive income for the financial year		**0**	**0**	**22**	**6 363**	**6 385**
Transactions with owners of the parent company						
Dividend distribution and capital repayment			-2 197		0	-2 197
Share issue			675			675
Redeemed share options			-242			-242
Share-based payments	21				126	126
Total transactions with owners of the parent company		**0**	**-1 765**	**0**	**126**	**-1 639**
Total equity at 31 December 2018	**20**	**80**	**10 608**	**-93**	**8 092**	**18 688**

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 published Talenom had 40 offices in Finland including service centers in Oulu and Tampere and 17 offices that operate on a franchise basis. The company has an office in Sweden.

The company had an average of 746 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 3 February 2020.

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 2019. 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 2019 incorporate the financial statements of the parent company and of all of its subsidiaries (together 'the Group'). Besides the parent company the Group includes 10 subsidiaries. The parent company holds all of the shares in all subsidiaries, except for Talenom Audit Oy, which is owned by the subsidiary Talenom Yritystilit Oy. The Group has 100 % control of all subsidiaries. The list of subsidiaries is disclosed in Note 5.

The Group has applied the new standard IFRS 16 Leases in the financial year. The standard requires lessees to recognise lease contracts on the balance sheet as right-of-use assets and lease liabilities.
The Group has used the simplified approach for the adoption of the standard, thus the comparative information for the previous financial year prior to the adoption has not been restated.

In applying IFRS 16 in transition, the Group has used the practical expedient permitted by the standard not to account for the leases with a remaining lease term of less than 12 months on the balance sheet. The Group's lease contracts relate to property leases only. The standard is applied both to the Group's fixed-term leases for premises as well as to non-fixed term leases of premises (i.e. leases that are valid for an indefinite period), for which the leases have continued for more than 12 months. For the non-fixed-term contracts, the lease term is determined based on management estimate.

According to the practical expedient in the standard the Group has not reassessed whether a contract is, or contains a lease at the date of initial application but relied on its assessment made under previous guidance. The Group has also applied the practical expedient not to include initial direct costs for the measurement of the right-of-use asset at the date of initial application, and the practical expedient to use hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has applied the practical expedient to apply a single discount rate to a portfolio of assets with reasonably similar characteristics. At the date of initial application the weighted average lessee's incremental borrowing rate was 2.5 per cent.

The following table reconciles the lease commitments at 31 December 2018 with the recognised lease liabilities at 1 January 2019 (in thousands of euro).

Operating lease commitments at 31 December 2018	11,766
Discounted using the lessee's incremental borrowing rate	10,870
Less: short-term contracts not recognised as liability	-303
Add: adjustments due to a different treatment of extension and termination options	150
Less: non-lease components of the contracts	-2,522
Less: lease contracts to which committed but not yet commenced	-198
Other adjustments	8
Lease liability at 1 January 2019	8,005

Other amendments and interpretations that have come into force had no impact on the consolidated financial statements.

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.

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 arisen from the business combinations made before 1 January 2015 (the IFRS transition date) was recognised at the amount that is in accordance with the previously applied Finnish accounting standards, as the Group elected to apply the exemption for business combinations provided in IFRS 1. In accordance with the exemption, IFRS 3 was not applied retrospectively to those business combinations that occurred before the date of transition to IFRS.

Goodwill arising from post-transition date 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 fully allocated to Accounting Services. This cash-generating unit is 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

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-FINANCSIAL 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 uses 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 subsequently 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 in 2019 the Group recognised right-of-use assets and lease liabilities for most of these contracts on the balance sheet. In 2018 these leases were treated as operating leases under IAS 17. The comparatives have not been restated as the Group used the modified retrospective method in the transition (refer to Note 2 for further details).

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. 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.

GOVERMENT GRANTS

Government grants are initially recognised when there is reasonable assurance that the grant will be received and the Group will comply with all related conditions. Grants related to expenses are recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

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 56,398 thousand of the consolidated net sales was generated in Finland and EUR 1,557 thousand in Sweden.

The Group had no customers accounting for at least 10% of the consolidated net sales in the financial years 2018 and 2019.

Disclosures on the reportable segments' result are presented below.

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**

OPERATING SEGMENTS 2018

In thousands of euro	Accounting Services	Unallocated items and eliminations	Total Group
External net sales	45 569	3 302	48 871
Total net sales	**45 569**	**3 302**	**48 871**
Operating expenses	-32 218	-3 637	-35 855
Other income	452	207	658
Depreciation and amortisation	-3 791	-454	-4 244
Impairment losses	-885	0	-885
Operating result	**9 127**	**-582**	**8 545**

NOTE 5

Group structure and business combinations

The following companies are incorporated into the consolidated financial statements:

Subsidiary:	Domicile	Shareholding %
Talenom Oyj	Oulu	Parent company
Talenom Taloushallinto Oy	Oulu	100 %
Talenom Talouspalvelu Oy	Kalajoki	100 %
Talenom Consulting Oy	Helsinki	100 %
Talenom Yritystilit Oy	Tampere	100 %
Talenom Audit Oy	Tampere	100 %
Talenom Talousosastopalvelut Oy	Oulu	100 %
Talenom Konsultointipalvelut Oy	Oulu	100 %
Talenom Software Oy	Oulu	100 %
Talenom Balance Oy	Oulu	100 %
Talenom Redovisning Ab (previously Wakers Consulting Ab)	Stockholm	100 %

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. The amount of contingent consideration recorded at the date of acquisition was EUR 0.

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 AbOy 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	Wakers Consulting Ab	Oy Wasa Tilit Ab WT Företagstjänster Ab Oy
Property, plant and equipment	92	105
Customer relationships	1 182	808
Right-of-use assets	267	
Current assets	476	
Total assets	**2017**	**913**
Trade and other payables	556	222
Lease liabilities	267	
Deferred tax liabilities	253	
Total liabilities	**1 076**	**222**
Net assets	**941**	**690**
Consideration transferred	2 571	**1 368**
Net assets of acquiree	-941	**-690**
Goodwill	**1 630**	**677**

The acquisition-related costs EUR 53 thousand 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.

BUSINESS ACQUISITIONS IN 2018

On 15 January 2018 the Group acquired all operations of the authorised accounting firm Tilitoimisto K Ollila Oy in Oulu. The cost of the transaction amounted to EUR 318 thousand, which was paid in cash and new shares issued by Talenom Plc.

On 31 January 2018, the Group acquired the business operations of the authorised accounting firms ATT Yrityspalvelut Oy and Tilitoimisto Tuloslaskenta Oy, both of which operate in the regions of Ostrobothnia, Central Ostrobothnia and South Ostrobothnia in Finland. The cost of the business acquisitions totaled EUR 780 thousand, which was paid in cash and new shares issued by Talenom Plc.

Acquisitions were made to strengthen the Group's growth.

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

In thousands of euro	Recognised amounts
Property, plant and equipment	63
Customer relationships	1 035
Total assets	**1 098**
Trade and other payables	151
Total liabilities	**151**
Net assets	**946**
Consideration transferred	
Shares in Talenom Plc	593
Cash payment	353
Net assets of acquiree	**-946**
Goodwill	0

The acquisitions are not considered material individually, consequently the related information is presented on an aggregate basis.

The acquisition-related costs amounting to EUR 17 thousand were recognised under other operating expenses in the income statement.

Since the acquisitions were made at the beginning of the financial year and their impact is included in the consolidated financial statements, no pro forma information on the impact of the acquisitions on the Group's net sales and profit for the financial year has been separately presented for the reporting period.

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 2018 and 2019.

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	2019	2018
Opening balance	8 357	6 417
Costs of obtaining a contract	2 992	2 437
Implementation costs	1 574	1 303
	12 923	10 157
Amortisation for the financial year	-1 181	-915
Impairment losses	-1 689	-885
Capitalised contract costs in the balance sheet	**10 054**	**8 357**

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	2019	2018
Gains on disposal of property, plant and equipment and intangible assets	61	15
Sublease income	154	194
Grants and subsidies	57	53
Other	100	396
Total	**372**	**658**

NOTE 8

Materials and services

In thousands of euro	2019	2018
Materials and services		
External services	-3 598	-2 555
Total	**-3 598**	**-2 555**

NOTE 9

Employee benefit expense

In thousands of euro	2019	2018
Wages and salaries	23 033	20 279
Social security contributions		
Pension expenses - defined contribution plans	4 396	3 853
Equity-settled share-based options and share-based payments	370	126
Other personnel expenses	2 112	1 969
Total	**29 912**	**26 226**

Average number of employees during the financial year	2019	2018
White-collar	746	657
Total	746	657
The number of employees at the end of the financial year	**799**	**673**

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	2019	2018
Intangible rights	178	120
Other intangible assets	2 955	2 553
Total	**3 133**	**2 672**

Capitalised contract costs

In thousands of euro	2019	2018
Capitalised contract costs	2 869	1 800
Total	**2 869**	**1 800**

Property, plant and equipment

In thousands of euro	2019	2018
Machinery and equipment	589	597
Right-of-use assets, buildings	1 837	0
Other tangible assets	70	60
Total	**2 496**	**657**

Total depreciation, amortisation and impairment losses	**8 498**	**5 130**

NOTE 11

Other operating expenses

In thousands of euro	2019	2018
Premises	1 499	3 155
Machinery and equipment	3 064	2 524
Other expenses (marketing, administrative and other expenses)	1 347	1 394
Total	**5 911**	**7 073**

Audit fees

In thousands of euro	2019	2018
Audit assignments	94	90
Other assurance services		
Tax advisory		
Other services	57	18
Total	**151**	**108**

NOTE 12

Financial income and expenses

RECOGNISED IN PROFIT OR LOSS

Financial income

In thousands of euro	2019	2018
Other financial income	64	57
Total	**64**	**57**

Financial expenses

In thousands of euro	2019	2018
Interest expenses		
Liabilities measured at amortised cost	-681	-593
Lease liabilities	-206	
Change in fair values of derivatives		
Interest rate swaps		-2
Other financial expenses	-19	-42
Total	**-906**	**-636**

Net financial expenses	**-843**	**-578**

NOTE 13

Income taxes

RECOGNISED IN PROFIT OR LOSS

Current tax

In thousands of euro	2019	2018
Current tax expense	1 963	1 473
Tax expense from previous years	1	0
Total	**1 964**	**1 473**

Changes in deferred taxes

In thousands of euro	2019	2018
Change in deferred tax assets	**-17**	**124**
Change in deferred tax liabilities	4	6
Total	**-13**	**130**
Total tax expense in the consolidated income statement	**1 951**	**1 603**

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	2019	2018
Profit before taxes	**9 566**	**7 966**
Income tax using the Finnish corporate tax rate (20%)	-1 913	-1 593
Unrecognized deferred tax assets on tax losses	-3	-5
Tax-exempt income and non-deductible expenses	2	-1
Taxes from previous years	-1	0
Other differences	-37	-4
Income tax expense reported in the income statement	**-1 951**	**-1 603**

LIITE 13

CHANGES IN DEFERRED TAXES 2019

In thousands of euro	At 1 Jan 2019	Recognised in profit or loss	Recognised in equity	Exchange rate differences and other changes	At 31 Dec 2019
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**

CHANGES IN DEFERRED TAXES 2018

In thousands of euro	At 1 Jan 2018	Recognised in profit or loss	Recognised in equity	Exchange rate differences and other changes	At 31 Dec 2018
Deferred tax assets					
Derivatives	29		-5		23
Other temporary differences	162	-124			38
Total deferred tax assets	**191**	**-124**	**-5**	**0**	**62**
Deferred tax liabilities					
Property, plant and equipment	-44	-6			-50
Total deferred tax liabilities	**-44**	**-6**	**0**	**0**	**-50**

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 2018 and 2019.

At the end of the financial year 2019 the Group had confirmed losses amounting to EUR 456 thousand (2018: EUR 456 thousand) under the Finnish Income Tax Act (TVL), for which no deferred tax asset has been recognised. Due to the abolition of the distribution of income sources in taxation a deferred tax asset will be recorded as from 1 January 2020.

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.

	2019	2018
Profit for the financial year attributable to equity holders of the parent company (EUR thousand)	7 615	6 363
Weighted average number of ordinary shares outstanding during the financial year (1,000 pieces)	6 929	6 867
Impact of share options	271	159
Weighted average number of ordinary shares outstanding during the financial year (diluted) (1,000 pieces)	7 200	7 025
Basic earnings per share (euro per share)	1,10	0,93
Diluted earnings per share (euro per share)	1,06	0,91

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.

NOTE 15

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

	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 2018	0	6 076	421	6 497
Right-of-use assets under IFRS 16 at 1 Jan 2019	8 005			
Additions	1 965	807	231	1 038
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**	**7 195**
Cumulative depreciation and impairment at 1 Jan 2019	0	-3 927	-321	-4 249
Right-of-use assets under IFRS 16 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	-1837	-4 220	-392	-4 612
Carrying amount at 1 Jan 2019	**0**	**2 149**	**99**	**2 248**
Carrying amount at 31 Dec 2019	**8 400**	**2 323**	**260**	**2 583**

PROPERTY, PLANT AND EQUIPMENT 2019

In thousands of euro	**Buildings**	**Machinery and equipment**	**Other tangible assets**	**Total**
Cost at 1 Jan 2018	0	5 865	417	6 282
Additions		619	3	623
Disposals		-408		-408
Exchange rate differences				0
Cost at 31 Dec 2018	**0**	**6 076**	**421**	**6 497**
Cumulative depreciation and impairment at 1 Jan 2018	0	-3 500	-261	-3 761
Depreciation for the financial year		-597	-60	-657
Accumulated depreciation on disposals		169		169
Accumulated depreciation and impairment losses at 31 Dec 2018	**0**	**-3 927**	**-321**	**-4 249**
Carrying amount at 1 Jan 2018	**0**	**2 365**	**156**	**2 521**
Carrying amount at 31 Dec 2018	**0**	**2 149**	**99**	**2 248**

Intangible assets

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	2 308	298	5 283	1 996	9 883
Cost at 31 Dec 2019	**20 728**	**2 004**	**22 684**	**3 510**	**48 926**
Cumulative amortisation and impairment at 1 Jan 2019	0	-1 172	-8 762	-195	-10 129
Amortisation for the financial year	0	-178	-2 678	-283	-3 139
Cumulative amortisation and impairment 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**

INTANGIBLE ASSETS 2018

In thousands of euro	Goodwill	Intangible rights	Software development costs	Customer relationships	Total
Cost at 1 Jan 2018	18 420	1 337	13 426	480	33 664
Additions		369	3 975	1 035	5 379
Cost at 31 Dec 2018	**18 420**	**1 707**	**17 401**	**1 515**	**39 043**
Cumulative amortisation and impairment at 1 Jan 2018	0	-1 053	-6 352	-52	-7 457
Amortisation for the financial year	0	-120	-2 410	-143	-2 672
Cumulative amortisation and impairment at 31 Dec 2018	**0**	**-1 172**	**-8 762**	**-195**	**-10 129**
Carrying amount at 1 Jan 2018	**18 420**	**285**	**7 074**	**428**	**26 207**
Carrying amount at 31 Dec 2018	**18 420**	**535**	**8 639**	**1 320**	**28 914**

*) Impairment arose from retirement of software.

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	Note	2019	2018
Accounting Services, Finland - Book value	4	48 011	35 817
Accounting Services, Sweden - Book value	4	2 921	
Total		**50 932**	**35 817**

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 173,018 thousand (2018: EUR 89,598 thousand) lower than its recoverable amount. The key variables used to calculate the recoverable amount are presented below:

Percent	2019	2018
Terminal growth rate	1,5 %	1,5 %
Pre-tax discount rate (WACC)	8,6 %	9,4 %

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 607 thousand lower than its recoverable amount. The key variables used to calculate the recoverable amount are presented below:

Percent	2019
Terminal growth rate	1,5 %
Pre-tax discount rate (WACC)	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 acquisition in Sweden was carried out in the current 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:

Percent	2019
Net sales (annual average growth rate, three years)	-10,1 %
Budgeted EBITDA (average, three years)	-2,1 %
Terminal growth rate	-3,2 %
Discount rate (WACC)	2,7 %

NOTE 17

Other financial assets

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS:

In thousands of euro	**2019**	**2018**
Other investments	237	237
Total	**237**	**237**
Current	-	-
Non-current	**237**	**237**

The Group's other financial assets consist of investments in shares. 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.

Information about fair value measurement is provided in Note 22.

NOTE 18

Trade and other receivables

In thousands of euro	**2019**	**2018**
Trade receivables	4 735	4 384
Other receivables	1 787	1 090
Total	**6 521**	**5 473**
Current	**6 521**	**5 473**
Non-current	**0**	**0**

Major items under Other receivables, Prepayments and Accrued income

In thousands of euro	**2019**	**2018**
Prepayments	1 161	752
Rental guarantees	169	130
Other accrued receivables	457	208
Total	**1 787**	**1 090**

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 278 thousand in 2019 (2018: EUR 234 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	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**

In thousands of euro	2018	Expected credit loss	Net 2018
Current trade receivables	3 558	-66	3 492
Past due			
1-30 days	703	-8	695
31-60 days	101	-11	90
61-90 days	69	-24	46
91- 120 days	54	-21	33
More than 120 days	133	-105	28
Total past due	1 060	-168	891
Total	**4 618**	**-234**	**4 384**

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	2019	2018
Cash at bank and in hand	7 786	5 914
Cash and cash equivalents in the balance sheet	**7 786**	**5 914**
Cash and cash equivalents in the cash flow statement	**7 786**	**5 914**

At the balance sheet date the Group had a EUR 1.0 million revolving credit facility available. The limit was not used during the financial year 2019.

NOTE 20

Capital and reserves

In thousands of euro	Number of shares, 1000 pieces	Share capital	Reserve for invested unrestricted equity	Fair value reserve	Total
At 1 Jan 2018	6 812	80	12 373	-114	12 339
Share issue	60		675		675
Capital repayment			-2 197		-2 197
Redeemed share options			-242		-242
Cash flow hedges				22	22
At 31 Dec 2018	6 872	80	10 608	-93	10 595
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

SHARE CAPITAL

The share capital consists of one share series and each share carries one vote. The share has no nominal value.
At 31 December 2019 the Group held 25,100 treasury shares (2018: 5,100).

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 0.75 per share is proposed by the Board of Directors.

In 2018 a dividend of EUR 0.55 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

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.

OPTION-BASED INCENTIVE SCHEMES

TThe 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 maximum total number of option rights issued is 610,000, and they are issued without consideration. The option rights entitle their holders to subscribe for a maximum of 610,000 new shares of the company or existing shares held by the company. In total 44,580 new shares have been subscribed with options rights and 109,420 option rights have been cancelled.

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 subscription price for the 2016 option rights was EUR 6.62 at the grant date, for the 2018 option rights EUR 12.39 and for the 2019 option rights EUR 20.25. 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 OPTIONS SCHEMES

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 requirement
Number of options	169 000	27 000
Current exercise price (EUR)	5,48	5,48
Price at grant date	5,07	7,20
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
Number of options	60 000	200 000
Current exercise price (EUR)	11,52	20,25
Price at grant date	12,35	27,30
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	76 950	2 000	36 000	114 950

KEY ASSUMPTIONS USED IN BLACK-SCHOLES VALUATION MODEL

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	5,07	7,20
Option value at grant date	1,20	2,08

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	12,35	27,30
Option value at grant date	1,81	9,44

NOTE 21

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

CHANGES IN OUTSTANDING SHARE OPTIONS

Pieces	2019	2018
At 1 January	**283 200**	**293 000**
Granted during the year	192 000	60 000
Returned during the year	-59 500	-57 071
Exercised during the year	-74 650	-12 729
Expired during the year	0	0
At 31 December	341 050	283 200
Exercisable	0	0

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

Impact of share-based payment schemes on profit or loss for the financial year

In thousands of euro	2019	2018
Share-based payments	370	126
Total	**370**	**126**

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

NOTE 22

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 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									
Financial assets measured at fair value									
Equity investments	17	237			237			237	237
Total		**237**			**237**	**-**	**-**	**237**	**237**
Financial assets not 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									
Financial liabilities measured at fair value									
Interest rate swaps	24		56		56		56		56
Total			**56**		**56**	**-**	**56**	**-**	**56**
Financial liabilities not measu-red at fair value									
Bank borrowings	23			28 000	28 000		28 000		
Trade payables	25			1 704	1 704				
Total				**29 704**	**29 704**	**-**	**28 000**	**0**	**-**

At 31 December 2018

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 measured at fair value									
Trade and other receivables	18			5 473	5 473				
Cash and cash equivalents	19			5 914	5 914				
Total				**11 387**	**11 387**				
FINANCIAL LIABILITIES									
Financial liabilities measured at fair value									
Interest rate swaps	24		116		116		116		116
Total		**0**	**116**		**116**	**-**	**116**	**-**	**116**
Financial liabilities not measu-red at fair value									
Bank borrowings	23			23 500	23 500		23 500		
Trade payables	25			1 117	1 117				
Total				**24 617**	**24 617**	**-**	**23 500**	**0**	**-**

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 2019 and 2018.

NOTE 23

Interest-bearing 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**	**2019**	**2018**
Financial liabilities	2,05 %	17 Oct 2021	28 000	23 500
Instalment payment liabilities	1,65 %		215	230
Total			**28 215**	**23 730**

Current liabilities measured at amortised cost

			CARRYING AMOUNT	
In thousands of euro	**Interest rate**	**Expiry date**	**2019**	**2018**
Instalment payment liabilities	1,65 %		226	317
Total			**226**	**317**
Total interest-bearing liabilities			**28 441**	**24 047**

The Group has a variable-rate loan from OP Corporate Bank Plc. The loan is linked to the 6-month Euribor rate with a marginal. On 17 October 2018, Talenom signed a new credit agreement with OP Corporate Bank Plc. The credit will mature in three years from the date of signature, and it will be fully repaid on the last maturity date. The agreement involved a refinancing of previous loans at the amount of EUR 23.5 million. The credit agreement also includes an additional withdrawal option of EUR 6.5 million. In 2019 in total EUR 4.5 million was raised.

Cash flows from financing activities and non-cash changes

		Cash flows	Non-cash changes		
	2018		**Changes in fair values**	**New leases**	**2019**
Non-current liabilities	23 730	4 485			28 215
Current liabilities	317	-90			226
Lease liabilities	0	-1 746		10 237	8 492
Assets used for hedging non-current liabilities	116		-60		56
Total liabilities for financing activities	**24 163**	**2 648**	**-60**	**10 238**	**36 990**

NOTE 24

Lease liabilities and other non-current financial liabilities

In thousands of euro	**2019**
Lease liabilities	
Non-current lease liabilities	6 552
Current lease liabilities	1 940
Total lease liabilities	**8 492**

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

In thousands of euro	**2019**	**2018**
Derivative instruments - under hedge accounting		
Interest rate swaps - fair value	**56**	**116**
Nominal value	**11 805**	**13 083**
Current	**56**	**0**
Non-current	**0**	**116**

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.

Information about fair value measurement is disclosed in Note 22.

NOTE 25

Trade and other payables

In thousands of euro	2019	2018
Instalment payment liabilities	441	547
Trade payables	1 263	570
Prepayments received for contracts with customers	266	267
Other accrued expenses and deferred income	8 453	6 574
Total	**10 422**	**7 958**
Total current	**10 208**	**7 728**
Total non-current	**215**	**230**

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	2019	2018
Employee benefits	6 333	4 573
Interest payable	136	118
VAT liability	1 919	1 575
Other	64	308
Total	**8 453**	**6 574**

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 during 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	**2019**	**2018**
Instruments with variable rates		
Bank borrowings	28 000	23 500
Impact of the interest rate swaps	11 805	13 083
Open position	**16 195**	**10 417**

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 assume holding all other variables constant.

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

Sensitivity analysis at 31 December 2018, interest rates rising / falling 0.5 percentage point as at 31 December 2018, from the applicable level

	Income statement impact	
In thousands of euro	**+ 0,5 %**	**- 0,5 %**
Liability	-55	0
Interest rate swaps - impact on interest variable rate	**57**	**0**
Pre-tax impact		

	Impact on equity	
In thousands of euro	**+ 0,5 %**	**- 0,5 %**
Interest rate swaps - fair value	114	-114

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 credit rating requirements and investment principles 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 assets to finance its business activities and investments and to repay loans and borrowings falling due.

At the end of the financial year 2018 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 1.0 million. The limit was not used in 2018.

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

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	0	0	0	0
Trade and other payables	**1 704**	**1 704**	1 490	107	107	0	0	0
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**

MATURITY ANALYSIS FOR FINANCIAL LIABILITIES, 2018

In thousands of euro	Carrying amount	Cash flow	2019	2020	2021	2022
Financial liabilities						
Bank borrowings	23 500	24 987	564	562	23 861	0
Trade and other payables	1 117	1 117	887	115	115	0
Total	**24 617**	**26 104**	**1 451**	**677**	**23 976**	**0**

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	2019	2018
Interest-bearing financial liabilities	28 000	23 500
Interest rate swaps	56	116
Instalment payment liabilities	441	547
Lease liabilities	8 492	0
Cash and cash equivalents	7 786	5 914
Net debt	**29 204**	**18 250**
Total equity	**23 573**	**18 688**
Net gearing, %	**124 %**	**98 %**

NOTE 27

Leases (Group as a lessee)

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

The total cash outflow for leases in 2019 was EUR 2,226 thousand.

Sublease income is disclosed in Note 7.

GROUP AS A LESSEE

Minimum lease payments in relation to non-cancellable operating leases:

In thousands of euro	**2018**
Within one year	2 382
Later than one year but not later than five years	4 928
Later than five years	4 456
Total	**11 767**

Recognised in profit or loss

In thousands of euro	**2018**
Lease charges	2 759
Total	**2 759**

The Group leases the offices it uses. The Group also acts as a lessee under various leases of low-value office supplies and IT equipment, expiring within three to five years. Some of these leases involve an option to extend the lease term from three to five years.

NOTE 28

Contingent commitments

COLLATERALS AND COMMITMENTS

In thousands of euro	**2019**	**2018**
Liabilities secured under company mortgages given by Talenom		
Loans and borrowings from financial institutions	28 000	23 500
Mortgages	31 860	31 860
Other pledges and commitments		
Pledges (in own possession)	3 072	3 074
Other*	2 441	2 547

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

Covenants
The credit agreement entered into with OP Corporate Bank Plc 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 2019. Covenants are reviewed every six months.

Legal proceedings
The Group was not involved in any material legal proceedings as at 31 December 2019.

Operating leases
Operating lease commitments of the Group are disclosed in 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	2019	2018
HTM Beta Service Oy: service rent for headquarters	228	222
HTM Beta Service Oy: compensation for termination of service rent contract	38	
Hemmo Capital Oy: lease charges for holiday homes	42	34
Silta Partners Oy: consultation and subcontracting	14	50
Total	**322**	**306**

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	2019	2018
Salaries and other short-term employee benefits	1 221	821
Post-employment benefits	137	154
Share-based payments	92	56
Total	**1 450**	**1 031**

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 2018 and 2019 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 43 thousand in 2019 (2018: EUR 33 thousand).

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

In thousands of euro		2019	2018
	Jussi Paaso, CEO	327	212
	Otto-Pekka Huhtala, CEO	82	
Board of Directors			
	Harri Tahkola, Chairman of the Board	60	60
	Seppo Laine, Board member (1 January - 13 March 2018)	0	5
	Taisto Riski, Board member (1 January - 13 March 2018)	0	5
	Olli Hyyppä, Board member	18	18
	Mikko Siuruainen, Board member	18	18
	Anne Riekki, Board member (from 14 March 2018)	18	14
	Johannes Karjula, Board member (from 14 March 2018)	18	14
Total		**541**	**346**

NOTE 30

Events after the end of the reporting period

After the reporting period Talenom announced that Talenom Plc's Board of Directors is planning to arrange a directed share issue to personnel in Finland, in which shares in the company are offered for subscription to the personnel and franchise entrepreneurs of Talenom Group. The Board of Directors plans to decide on the detailed terms and conditions as well as the schedule of the personnel share issue in April 2020 at the latest.

There were no other material events subsequent to the end of the reporting period.

Income Statement, parent company

EUR	1 Jan 2019 - 31 Dec 2019	1 Jan 2018 - 31 Dec 2018
NET SALES	18 696 249,82	8 294 237,51
Other operating income	1 361 041,51	1 581 875,88
Material and services		
External services	-9 459 339,43	-2 668 851,83
Total material and services	-9 459 339,43	-2 668 851,83
Personnel expenses		
Wages and salaries	-3 557 913,26	-3 111 801,46
Social security expenses		
Pension expenses	-627 299,54	-578 034,88
Other social security expenses	-33 902,55	-59 086,91
Total personnel expenses	-4 219 115,35	-3 748 923,25
Depreciation, amortisation and impairment losses		
Depreciation and amortisation according to plan	-5 234 644,78	-4 892 688,96
Impairment losses on non-current assets	-701 164,26	-34 278,59
Total depreciation, amortisation and impairment losses	-5 935 809,04	-4 926 967,55
Other operating expenses	-4 233 946,54	-1 777 623,77
OPERATING PROFIT (LOSS)	-3 790 919,03	-3 246 253,01
Financial income and expenses		
Other interest and financial income		
From group companies	124 696,91	187 981,26
From others	15 103,89	3 024,21
Interest and other financial expenses		
To others	-690 699,65	-621 584,63
Total financial income and expenses	-550 898,85	-430 579,16
PROFIT BEFORE APPROPRIATIONS AND TAXES	-4 341 817,88	-3 676 832,17
Appropriations		
Change in cumulative accelerated depreciation	-83 327,23	-16 531,82
Group contributions		
Group contributions received	12 620 000,00	9 450 000,00
Total appropriations	12 536 672,77	9 433 468,18
Income taxes		
Taxes for the financial year	-1 915 845,16	-1 425 746,56
Total income taxes	-1 915 845,16	-1 425 746,56
PROFIT (LOSS) FOR THE FINANCIAL YEAR	6 279 009,73	4 330 889,45

Balance sheet, parent company

EUR	31 Dec 2019	31 Dec 2018
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Development costs	11 243 714,57	8 638 938,52
Intangible rights	652 663,84	531 135,11
Goodwill	10 643 287,17	12 025 933,87
Other intangible assets	6 473 935,88	3 028 869,66
Total intangible assets	29 013 601,46	24 224 877,16
Property, plant and equipment		
Machinery and equipment	1 568 135,60	1 478 574,21
Total property, plant and equipment	1 568 135,60	1 478 574,21
Investments		
Shares in Group companies	6 141 749,78	3 570 836,80
Total investments	6 141 749,78	3 570 836,80
TOTAL NON-CURRENT ASSETS	36 723 486,84	29 274 288,17
CURRENT ASSETS		
Receivables		
Non-current		
Receivables from Group companies	400 000,00	3 597 512,96
Total non-current	400 000,00	3 597 512,96
Current		
Trade receivables	1 484 655,90	662 241,09
Receivables from Group companies	14 340 039,10	14 431 532,15
Other receivables	212 881,47	37 851,92
Accrued income and prepayments	812 585,60	699 155,86
Total current	16 850 162,07	15 830 781,02
Cash at bank and in hand	7 654 711,59	5 911 690,44
TOTAL CURRENT ASSETS	24 904 873,66	25 339 984,42
TOTAL ASSETS	61 628 360,50	54 614 272,59

EUR	31 Dec 2019	31 Dec 2018
EQUITY & LIABILITIES		
EQUITY		
Share capital		
Share capital	80 000,00	80 000,00
	80 000,00	80 000,00
Other reserves		
Reserve for invested unrestricted equity	11 640 159,84	11 014 692,52
Total other reserves	11 640 159,84	11 014 692,52
Retained earnings	1 374 064,87	819 895,07
Profit (Loss) for the financial year	6 279 009,73	4 330 889,45
TOTAL EQUITY	19 373 234,44	16 245 477,04
APPROPRIATIONS		
Cumulative accelerated depreciation	216 992,35	133 665,12
TOTAL APPROPRIATIONS	216 992,35	133 665,12
LIABILITIES		
Non-current		
Loans from financial institutions	28 000 000,00	23 500 000,00
Trade payables	74 481,40	79 731,84
Total non-current	28 074 481,40	23 579 731,84
Current		
Advances received	33 211,54	25 301,46
Trade payables	795 828,47	438 281,29
Liabilities to Group companies	11 253 835,82	11 865 468,13
Other liabilities	152 028,58	530 039,31
Accruals and prepaid income	1 728 747,90	1 796 308,40
Total current	13 963 652,31	14 655 398,59
TOTAL LIABILITIES	42 038 133,71	38 235 130,43
TOTAL EQUITY AND LIABILITIES	61 628 360,50	54 614 272,59

Cash flow statement, parent company

EUR	1 Jan 2019 - 31 Dec 2019	1 Jan 2018 - 1 Dec 2018
Operations		
Operating profit	-3 790 919,03	-3 246 253,01
Depreciation and amortisation according to plan	5 935 809,04	4 926 967,55
Financial income	139 800,80	191 005,47
Financial expenses	-671 968,93	-632 627,50
Taxes	-2 285 746,51	-1 134 191,83
Capital gains	-60 671,80	-12 490,74
Capital losses	7 731,90	17 847,95
Cash flows from operations	-725 964,53	110 257,89
Change in working capital:		
Increase (-) / decrease (+) of current receivables	971 553,85	-452 225,91
Increase (-) / decrease (+) of non-current receivables	3 197 512,96	1 500 000,00
Increase (+) / decrease (-) of current liabilities	1 043 377,36	24 161,23
Change in net working capital	5 212 444,17	1 071 935,32
Net cash from operating activities	4 486 479,64	1 182 193,21
Cash flows from investing activities		
Acquisition of subsidiary shares	-1 276 774,28	0
Acquisitions of businesses*)	-690 000,00	-353 323,37
Proceeds from sale of businesses*)	1 380 000,00	651 823,45
Investments in software	-5 580 110,86	-4 342 152,12
Capitalisation of contract costs	-4 493 905,62	-3 137 575,94
Investments in other intangible assets	-231 329,55	0
Purchases of property, plant and equipment	-631 189,61	-326 091,86
Proceeds from sale of property, plant and equipment	175 380,56	123 701,47
Net cash used in investing activities	-11 347 929,36	-7 383 618,37
Cash flows before financing activities	-6 861 449,72	-6 201 425,16
Cash flows from financing activities		
Acquisition of treasury shares	-674 416,85	0
Proceeds from non-current loans and borrowings	4 500 000,00	23 500 000,00
Repayments of non-current loans and borrowings	0,00	-22 500 000,00
Increase (+) / decrease (-) in installment liabilities	-72 638,34	-175 403,86
Proceeds from issue of shares for cash	0	0
Dividends paid	-3 776 719,65	0
Capital repayments	0	-2 197 364,16
Realisation of options	-684 261,00	-160 196,54
Group contributions received	9 450 000,00	7 840 000,00
Change in Group financing	-137 493,29	928 960,25
Cash flows from financing activities	8 604 470,87	7 235 995,69
Change in cash and cash equivalents	1 743 021,15	1 034 570,53
Cash and cash equivalents at 1 January	5 911 690,44	4 877 119,91
Cash and cash equivalents at 31 December	7 654 711,59	5 911 690,44

***) 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 2019 - 31 Dec 2019	1 Jan 2018 - 31 Dec 2018
Own software		
External services	5 176 555,36	3 975 127,19
Personnel expenses	76 232,00	0,00
Other operating expenses	0,00	0,00
	5 252 787,36	**3 975 127,19**
Costs arising from customer contracs		
External services	1 494 833,51	700 772,28
Personnel expenses	1 557 308,88	1 391 095,65
Other operating expenses	1 441 763,23	1 045 708,01
	4 493 905,62	**3 137 575,94**

Basis of depreciation and amortisation according to plan and changes at 31 December 2018

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 2019 - 31 Dec 2019	1 Jan 2018 - 31 Dec 2018
Dividend income from Group companies	0,00	0,00
Interest income from Group companies	124 696,91	187 981,26
Interest expenses to Group companies	0,00	0,00
Dividend income from others	0,00	0,00
Interest income from others	15 103,89	3 024,21
Interest expenses to others	-690 699,65	-621 584,63
	-550 898,85	-430 579,16

NOTES TO INCOME TAXES

	1 Jan 2019 - 31 Dec 2019	1 Jan 2018 - 31 Dec 2018
Income taxes on business operations	-1 915 845,16	-1 425 746,56
Deferred taxes	0,00	0,00
	-1 915 845,16	-1 425 746,56

NOTE 3

Notes to the balance sheet assets

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 and impairment at 1 January	-8 254 071,75	-408 325,43	-6 221 910,14	-2 007 975,18	-1 957 432,44
Depreciation and 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 and impairment 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 the 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 and 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

Changes in non-current assets 1 January 2018 - 31 December 2018

	Development costs	Intangible rights	Goodwill	Other intangible assets	Machinery and equipment
Cost at 1 January	12 917 883,07	572 435,63	18 247 844,01	1 899 268,90	3 238 973,46
Increases during the financial year	3 975 127,20	367 024,91		3 137 575,94	326 091,90
Decreases during the financial year				0,00	-129 058,71
Cost at 31 December	16 893 010,27	939 460,54	18 247 844,01	5 036 844,84	3 436 006,65
Accumulated depreciation and amortisation at 1 January	-5 717 386,03	-291 894,28	-4 839 263,44	-1 543 185,24	-1 531 018,40
"Depreciation and amortisation according to plan for the financial year	-2 410 017,10	-116 431,15	-1 382 646,70	-430 511,35	-426 414,04
Impairment losses	-126 668,62			-34 278,59	
Accumulated depreciation and amortisation at 31 December	-8 254 071,75	-408 325,43	-6 221 910,14	-2 007 975,18	-1 957 432,44
Accumulated depreciation difference at 1 January	0,00	0,00	0,00	0,00	117 133,30
Depreciation difference for financial year	0,00	0,00	0,00	0,00	16 531,82
Accumulated depreciation difference at 31 December	0,00	0,00	0,00	0,00	133 665,12
Cost at 31 December	16 893 010,27	939 460,54	18 247 844,01	5 036 844,84	3 436 006,65
Accumulated depreciation and amortisation at 31 December	-8 254 071,75	-408 325,43	-6 221 910,14	-2 007 975,18	-1 957 432,44
Undepreciated / unamortised balance at 31 December	8 638 938,52	531 135,11	12 025 933,87	3 028 869,66	1 478 574,21
Accumulated depreciation difference at 31 December	0,00	0,00	0,00	0,00	133 665,12
Undepreciated / unamortised balance at 31 December, less total depreciation / amortisation	8 638 938,52	531 135,11	12 025 933,87	3 028 869,66	1 344 909,09

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

	1 Jan 2019 - 31 Dec 2019	1 Jan 2018 - 31 Dec 2018
Development costs	2 677 834,81	2 410 017,10
Immaterial rights	175 971,27	116 431,15
Goodwill	1 382 646,70	1 382 646,70
Other intangible assets	579 004,69	430 511,35
Machinery and equipment	419 187,31	426 414,04
Impairment losses	701 164,26	160 947,21
Total depreciation and amortisation	5 935 809,04	4 926 967,55

Receivables from Group companies:

	31 Dec 2019	31 Dec 2018
Non-current		
Loan receivables from Group companies	400 000,00	3 597 512,96
	400 000,00	3 597 512,96
Current		
Trade receivables from Group companies	488 369,66	364 133,53
Other receivables from Group companies	12 964 863,29	11 268 344,39
Prepayments and accruals from Group companies	886 806,15	2 799 054,23
	14 340 039,10	14 431 532,15
Total receivables from Group companies	14 740 039,10	18 029 045,11

Prepayments and accruals

	31 Dec 2019	31 Dec 2018
Lease deposits paid	19 173,02	71 153,61
Other prepaid items	793 412,58	628 002,25
	812 585,60	699 155,86

NOTE 4

Notes to balance sheet, equity and liabilities

	1 Jan 2019 - 31 Dec 2019	1 Jan 2018 - 31 Dec 2018
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	11 014 692,52	12 779 337,14
Share issue	2 158 688,90	674 636,26
Capital repayment	0,00	-2 197 364,16
Purchases of treasury shares (own shares)	-674 416,85	0
Redeemed options	-858 804,73	-241 916,72
Transfers to other equity items	0,00	0,00
Reserve for invested unrestricted equity at 31 December	11 640 159,84	11 014 692,52
Retained earnings at 1 January	819 895,07	-58 909,12
Profit/loss for the previous financial year	4 330 889,45	878 804,19
Dividend distribution	-3 776 719,65	0
Retained earnings at 31 December	1 374 064,87	819 895,07
Profit/loss for the financial year	6 279 009,73	4 330 889,45
Total unrestricted equity	**19 293 234,44**	**16 165 477,04**
Total equity	**19 373 234,44**	**16 245 477,04**

Distributable equity

	1 Jan 2019 - 31 Dec 2019	1 Jan 2018 - 31 Dec 2018
Retained earnings at 1 January	5 150 784,52	819 895,07
Profit/loss for the financial year	6 279 009,73	4 330 889,45
Dividend distribution	-3 776 719,65	0,00
Reserve for invested unrestricted equity	11 640 159,84	11 014 692,52
Capitalised development costs	-11 243 714,57	-8 638 938,52
Total distributable equity	8 049 519,87	7 526 538,52

LOANS AND BORROWINGS FROM FINANCIAL INSTITUTIONS

Non-current liabilities due after more than five years

	31 Dec 2019	31 Dec 2018
Loans and borrowings from financial institutions	0,00	0,00

Liabilities to Group companies

Current	**31 Dec 2019**	**31 Dec 2018**
Trade payables	1 902 544,50	1 197 618,42
Other	9 351 291,32	10 667 849,71
	11 253 835,82	11 865 468,13

Accruals and deferred income

	31 Dec 2019	31 Dec 2018
Holiday pay	562 893,91	506 441,80
Social security costs for holiday pay liability	117 363,45	113 291,00
Interest	136 270,25	117 546,25
Taxes	489 845,21	859 746,56
Other items	422 375,08	199 282,79
	1 728 747,90	1 796 308,40

NOTE 5

Collaterals and commitments

Liabilities for which company mortgage has been given as a security	31 Dec 2019	31 Dec 2018
Loans and borrowings from financial institutions	28 000 000	23 500 000
Company mortgages given	31 600 000	31 600 000
Other pledges and company mortgages		
Pledges given	2 865 837	2 865 337
Company mortgages	31 600 000	31 600 000

Overdraft limits	31 Dec 2019	31 Dec 2018
Total amount of the granted limit	1 000 000	1 000 000
In use	0	0

Instalment payment commitments	31 Dec 2019	31 Dec 2018
Total instalment payment liabilities	117 519,17	190 157,51
Book value of assets given as security	231 912,11	293 890,24

Off-balance sheet lease obligations	31 Dec 2019	31 Dec 2018
	9 961 303,73	10 340 659,00

Interest rate swaps	31 Dec 2019	31 Dec 2018
Fair value	-56 040,26	-116 184,49
Value of the underlying	11 805 000,00	13 083 000,00

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 expires at 30 September 2020. Based on the contract terms early termination is possibile only from 5 January 2020, and consequently the impacts from the early termination would concern the financial year 2020. The interest accrued for the interest rate swap was recognised as an expense in the financial statements.

NOTE 6

Financial covenants

The credit agreement entered into with OP Corporate Bank Plc 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 2019.

NOTE 7

Notes to auditor's fees

	1 Jan 2019 - 31 Dec 2019	1 Jan 2018 - 31 Dec 2018
Statutory audit	86 020,00	69 385,00
Other assurance		
assignments		
Tax advisory		
Other services	40 975,00	18 150,00
	126 995,00	87 535,00

NOTE 8

Notes to related party transactions

	1 Jan 2019 - 31 Dec 2019	1 Jan 2018 - 31 Dec 2018
Other operating expenses	266 172,80	221 678,28

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 2019	31 Dec 2018
During the financial year, the company's average number of personnel	87	84

Remuneration of top management

	1 Jan 2019 - 31 Dec 2019	1 Jan 2018 - 31 Dec 2018
CEO	409 145,03	212 432,60
Board of Directors	131 860,00	133 714,28

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 2019 and 2018 no contributions were made in the plan.

NOTE 10

Holdings in other entities

Entities in which the company's holding is at least one fifth, at 31 December 2019

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 Redovisning Ab	Stockholm	100 %

NOTE 11

Other information as intended in the limited liability companies act

Share series of the company:

Share series	number
Shares	6 972 672 of which held by the company 25,100 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 invoices	electronic PDF file
Purchase invoices	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
Credit card slips	11	electronic PDF file
Sales vouchers	30,35,80	electronic PDF file
Purchase vouchers	20,25,41,42	electronic PDF file
Intra-group vouchers	60	electronic PDF file
Memo vouchers	9	electronic PDF file
Accrual vouchers	90	electronic PDF file
VAT vouchers	99	electronic PDF file

Talenom Group

Oulu, 3 February 2020

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

Harri Tahkola
Chairman of the Board

Johannes Karjula
Board member

Olli Hyyppä
Board member

Anne Riekki
Board Member

Mikko Siuruainen
Board member

Otto-Pekka Huhtala
CEO

THE AUDITOR'S NOTE

A report on the audit performed has been issued today.

Oulu, 3 February 2020

KPMG Oy Ab

Tapio Raappana, 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 2019. 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 20.7 million, while goodwill in the parent company financial statements totals EUR 10.6 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 4.6 million, of which EUR 4.5 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 10.0 million or 43 % 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 6.2 million or 32 % 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.

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 5.3 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 are 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 11.2 million, which accounted for 48 % of consolidated and 58 % of parent company equity. The company employs projected discounted present value of future 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, the appropriateness of discount rate employed and the technical integrity if 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 7 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, 3 February 2020
KPMG OY AB

Tapio Raappana
Tapio Raappana, Authorised Public Accountant, KHT

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