

**TALENOM PLC BUSINESS REVIEW JANUARY–MARCH 2019
(UNAUDITED): OPERATING PROFIT IMPROVED BY 30% AND NET
SALES INCREASED BY 16.1% - INTERNATIONALISATION
LAUNCHED WITH AN ACQUISITION IN SWEDEN**

1 January–31 March 2019

Talenom is an accountancy company established in 1972, and it offers its customers a wide range of accountancy and other services supporting their customers' business activities. Talenom engages in its own software development and offers its accountancy customers digital financial management tools.

Talenom has operations at 37 locations, including service centres in Oulu and Tampere. During the period between 1 January–31 March 2019, Talenom employed 688 personnel on average. Talenom's net sales were EUR 14.8 (12.7) million between 1 January–31 March 2019, representing a year-on-year increase of 16.1%.



TALENOM
yrittämisen iloa

TALENOM PLC BUSINESS REVIEW JANUARY–MARCH 2019 (UNAUDITED): OPERATING PROFIT IMPROVED BY 30% AND NET SALES INCREASED BY 16.1% - INTERNATIONALISATION LAUNCHED WITH AN ACQUISITION IN SWEDEN

JANUARY–MARCH 2019 IN BRIEF:

- Net sales EUR 14.8 (12.7) million, an increase of 16.1% (18.1%)
- Operating profit (EBIT) EUR 3.4 (2.6) million, 23.3% (20.7%) of net sales *)
- Net profit EUR 2.6 (2.0) million *)
- Earnings per share EUR 0.38 (0.29)
- After the review period, the company announced its expansion into Sweden with an acquisition. At the same time, the company adjusted its guidance for 2019

Group	1–3/2019	1–3/2018	Change
Net sales, thousands of euro	14,783	12,736	2,047
Net sales, increase %	16.1%	18.1%	-2.0 percentage points
Operating profit, thousands of euro *)	3,442	2,639	803
Operating profit, as % of net sales *)	23.3%	20.7 %	2.6 percentage points
Return on investment (ROI), % (rolling 12 months) *)	21.5%	15.6%	5.9 percentage points
Liquid assets, thousands of euro	5,330	2,914	2,416
Earnings per share, euro	0.38	0.29	0.09
Net profit, thousands of euro *)	2,585	1,985	599

*) The Talenom Group adopted the IFRS 16 Leases standard on 1 January 2019, due to which the review periods are not fully comparable. During the period 1-3/2019, the standard had a positive effect on operating profit (+EUR 22,000) and a negative effect on net profit (-EUR 21,000) and return on investment (-2.1 percentage points). The effects of adopting the standard on the Group's financial information are described in detail under section Financial development of the Group.

This Business Review is not an Interim Financial Report prepared in accordance with the IAS 34 standard. The Company prepares its interim financial reporting in accordance with the Securities Market Act, in addition to which the Company releases Business Reviews for the first three and first nine months of the year. The Business Reviews contain key information regarding the financial position and development of the Talenom Group.

GUIDANCE FOR 2019

After the review period, the company announced its expansion into Sweden with an acquisition. At the same time, the company adjusted its guidance for 2019.

New guidance for 2019 issued in connection with the acquisition on 4 April 2019:

The company's net sales growth percentage is expected to increase from 2018 (18.0% in 2018). Operating profit margin (17.5% in 2018) is expected to increase from 2018.

The previous guidance given in the financial statements on 4 February 2019 read as follows:

The company's net sales is expected to grow at the same rate as in 2018 (18.0%). The operating profit margin (17.5%, 2018) is expected to still improve slightly compared to 2018.

JUSSI PAASO, CEO

Talenom had a strong first quarter. We continued to be able to increase our level of profitability, and operating profit for the review period grew by 30%. Operating profit was as high as 23.3% of net sales (EUR 3.4 million). Net sales during the review period increased year-on-year from EUR 12.7 million to 14.8 million (16.1%). Over the full year, we expect the relative growth of net sales to accelerate toward the end of the year, and estimate the growth percentage of net sales to exceed 2018 levels (18.0% in 2018).

Profitable growth was driven by both an increase in the number of customers in accounting services and developments in the accounting production line. The change in the number of customers in accounting services, in turn, continued to be based on organic growth in which our sales, together with franchising entrepreneurs, succeeded in active customer acquisition. In terms of developing our bookkeeping production line, we are currently preparing to introduce the next major instance of automation while finalising the scalability benefits of the previous development phase. Introduction of the next development phase of the production line is expected to result in improved accounting efficiency from next autumn onwards.

After the review period, we finalised the first phase of our internationalisation project and acquired the Stockholm-based accounting firm Wakers Consulting AB. We are very pleased with the acquisition. In our estimation, our outstanding expertise in sales, processes and technology are strong competitive factors also in the Swedish accounting market. We will begin to prepare the launch of active sales work in Sweden. At the same time, we will continuously evaluate the potential utilisation of our bookkeeping production line components also in the Swedish market.

The acquisition affected our financial outlook for the current year, and we adjusted our guidance for 2019 in connection with the expansion. However, it should be noted that the full effects of the acquisition on Talenom's net sales will not be evident until the second half of the year.

We currently identify many potential new business opportunities. In addition to internationalisation, new business operations, such as Talenom Financing Services, have produced excellent pilot study results. At the same time, we consider our domestic core business operations to have excellent potential. Improved efficiency of bookkeeping production line processes thanks to technological advances, over 90% recurring net sales, the defensive nature of the sector, and strong evidence of profitable growth will all continue to serve as the key factors for outstanding future prospects for the next few years.

FINANCIAL DEVELOPMENT

The Talenom Group adopted the IFRS 16 Leases standard on 1 January 2019. The standard affects the Group's financial information in cases where leases of premises are recognised in the balance sheet mainly as assets and liabilities. The amount of the asset recognised in the balance sheet on 1 January 2019 and the corresponding interest-bearing debt was EUR 8.2 million.

The standard concerns the Group's fixed-term lease agreements for business premises and those continuous leases for which the lease has continued for over 12 months. The lease periods of continuous leases are determined based on the estimate given by the Group management. In the interest of comparability, in its key figures and consolidated balance sheet for the review period, the company presents both the effects of the IFRS 16 standard and information adjusted to ignore the effects of the IFRS 16 standard.

KEY FIGURES

Group	1-3/2019	Effect of IFRS 16	Adjusted 1-3/2019	1-3/2018	Adjusted change
Net sales, thousands of euro	14,783	0	14,783	12,736	2,047
Net sales, increase %	16.1%	0.0 percentage points	16.1%	18.1%	-2.0 percentage points
Operating profit (EBIT), thousands of euro	3,442	+22	3,420	2,639	781
Operating profit (EBIT), as % of net sales	23.3%	+0.2 percentage points	23.1%	20.7 %	2.4 percentage points
Return on investment (ROI), % (rolling 12 months)	21.5%	-2.1 percentage points	23.6%	15.6%	8.0 percentage points
Interest-bearing net liabilities, thousands of euro	26,629	+7,839	18,791	20,531	-1,740
Net gearing ratio, %	150%	+44 percentage points	106%	145%	-39 percentage points
Equity ratio, %	29.7%	-4.5 percentage points	34.2%	30.5%	3.7 percentage points
Working capital, thousands of euro	-3,912	0	-3,912	-2,908	-1,004
Net investments, thousands of euro	10,536	+8,201	2,335	3,266	-931
Liquid assets, thousands of euro	5,330	0	5,330	2,914	2,416
Earnings per share, euro	0.38	0.00	0.38	0.29	0.09
Weighted average number of shares during the period *)	6,870,302	0	6,870,302	6,845,614	24,688
Net profit, thousands of euro	2,585	-21	2,605	1,985	620

*) 5,100 shares held by the company were subtracted from the figure

NET SALES, PROFITABILITY AND FINANCIAL PERFORMANCE – JANUARY-MARCH 2019

During the period from January to March, Talenom's net sales increased by 16.1% year-on-year. Net sales grew by EUR 2.0 million and amounted to EUR 14.8 (12.7) million. The growth was mainly due to the increase in the number of accounting service customers.

The completion rate of annually billable tasks scheduled during the financial statements period of customer companies was slightly lower on the final date of the review period compared with the

previous year. As a result, a part of the year-on-year net sales will be posted only for the second quarter. The amount of these accrued net sales is estimated at around EUR 180,000.

Personnel expenses during the review period were EUR 7.3 (6.9) million, amounting to 49.3% (54.4%) of net sales. The ratio of the personnel expenses to net sales decreased year-on-year from 2018.

Other operating expenses, including materials and services, totalled EUR 2.2 (2.4) million, being 14.7% (18.7%) of net sales.

In the review period, operating profit (EBIT) was EUR 3,442 thousand (23.3% of net sales), with a net profit of EUR 2,585 thousand. Adoption of the IFRS 16 Leases standard had a positive effect on operating profit (+EUR 22,000) and a negative effect on net profit (-EUR 21,000). Operating profit (EBIT) adjusted to ignore the standard's effects was EUR 3,420 (2,639) thousand (23.1% (20.7%) of net sales) and net profit EUR 2,605 (1,985) thousand.

The improved profitability was due to the increased efficiency of bookkeeping.

BALANCE SHEET, FINANCING AND INVESTMENTS

CONSOLIDATED BALANCE SHEET

Thousands of euro	31 March 2019	Effect of IFRS 16	Adjusted 31 March 2019	31 March 2018	31 December 2018
ASSETS					
Non-current assets					
Goodwill	18,420		18,420	18,420	18,420
Other intangible assets	10,944		10,944	9,379	10,493
Property, plant and equipment	10,135	+7,813	2,322	2,617	2,248
Other non-current financial assets	237		237	237	237
Deferred tax assets	77	+5	72	123	62
Capitalised contract costs	8,592		8,592	6,903	8,357
Total non-current assets	48,405	+7,818	40,587	37,679	39,817
Current assets					
Trade and other receivables	6,138		6,138	6,056	5,473
Current tax assets	0		0	129	11
Cash and cash equivalents	5,330		5,330	2,914	5,914
Total current assets	11,468	0	11,468	9,099	11,398
Total assets	59,873	+7,818	52,055	46,778	51,215
CAPITAL AND RESERVES					
Share capital	80		80	80	80
Reserve for invested unrestricted equity	11,025		11,025	10,850	10,850
Fair value reserve	-81		-81	-113	-93
Retained earnings	6,698	-21	6,719	3,377	7,850
Total equity	17,723	-21	17,744	14,195	18,688
LIABILITIES					
Non-current liabilities					
Financial liabilities	23,500		23,500	21,250	23,500
Trade and other payables	230		230	371	230
Other non-current financial liabilities	6,499	+6,399	101	141	116
Deferred tax liabilities	50		50	44	50
Total non-current liabilities	30,280	+6,399	23,881	21,806	23,896
Current liabilities					
Financial liabilities	0		0	1,250	0
Trade and other payables	9,960		9,960	9,087	7,728
Other current financial liabilities	1,440	+1,440	0	0	0
Current tax liabilities	470		470	440	903
Total current liabilities	11,871	+1,440	10,431	10,777	8,631
Total liabilities	42,150	+7,839	34,312	32,583	32,528
Total equity and liabilities	59,873	+7,818	52,055	46,778	51,215

On 31 March 2019, the consolidated balance sheet total was EUR 59.9 million. The Group had an equity ratio of 29.7% and a net gearing ratio of 150%.

With the adoption of the IFRS 16 standard, the Group's equity ratio has decreased by 4.5 percentage points, and its net gearing ratio increased by 44 percentage points. Equity ratio adjusted

to ignore the effects of the IFRS 16 standard stood at 34 (30.5) % and net gearing ratio at 106 (145) %.

On 31 March 2019, the Group's interest-bearing financial loans were EUR 23.5 million, excluding instalment debts. Other non-current interest-bearing liabilities (instalment debts) stood at EUR 0.2 million, with other current interest-bearing liabilities (instalment debts) amounting to EUR 0.3 million.

In accordance with the IFRS 16 Leases standard, 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 EUR 6.4 million and current lease liabilities at EUR 1.4 million.

The Group recognises the costs of new customer contracts, such as costs of obtaining and fulfilling a contract, as investments as specified in the IFRS 15 standard. These costs are presented in the Balance Sheet under "Capitalised contract costs". Furthermore, the Group recognises a part of the development costs related to software and digital services as investments according to the requirements outlined in the IAS 38 standard. These costs are presented in the Balance Sheet under "Other intangible assets". Investments stemming from new customer contracts amounted to EUR 1.0 (0.8) million in the review period. Investments concerning software and digital services amounted to EUR 1.0 (1.1) million.

The company's total net investments during the period from 1 January to 31 March 2019 were EUR 10.5 million. Adoption of the IFRS 16 Leases standard significantly affected the Group's net investments (EUR +8.2 million). Net investments adjusted to ignore the effects of adopting the IFRS 16 standard were EUR 2.3 (3.3) million.

On 31 March 2019, liquid assets stood at EUR 5.3 (2.9) million. In addition, the company's unused overdraft limits stood at EUR 1.0 million on 31 March 2019.

PERSONNEL AND MANAGEMENT

On average, Talenom employed 688 personnel during the review period 1 January–31 March 2019. The members of the executive board were Jussi Paaso (CEO), Otto-Pekka Huhtala (deputy CEO), Antti Aho (CFO and CHRO), Tuomas Iivanainen (Director, Business Development), Juho Aho (Director, Accounting Services) as of 4 February 2019, Nina Lukkari (Director, Value-added Services) until 4 February 2019, and Sakari Jorma (CIO and CTO) until 4 February 2019.

SHARES AND SHAREHOLDERS

On 31 March 2019, Talenom Plc. had a total of 6,903,714 shares entered in the Trade Register. The company held 5,100 company shares (0.07% of the total number of shares and total number of votes) on 31 March 2019. On 31 March 2019, Talenom had a total of 3,132 (2,489) shareholders, representing a year-on-year increase of 643 shareholders.

There were 63 trading days in the review period 1 January–31 March 2019. A total of 474,856 shares were traded during this period, and the value of the shares traded was EUR 11,338,443. The highest share price was EUR 28.90 and the lowest EUR 18.90. The volume weighted average price was EUR 23.88, and the closing price at the end of the review period 31 March 2019 was EUR 26.20. In accordance with the closing price, the combined market value of the shares was approximately EUR 180.9 million.

SIGNIFICANT EVENTS IN THE REVIEW PERIOD

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. Talenom was again awarded a Great Place to Work® certification.

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

The AGM 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 under the issued or special rights is 300,000 shares. 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](https://www.talenom.fi/sijoittajat/yhtiokokoukset).

The composition of the Board of Directors remained unchanged as the AGM resolved to renew the terms of Harri Tahkola, Mikko Siuruainen, Olli Hyypä, Anne Riekkö and Johannes Karjula. In its organising meeting after the Annual General Meeting, the Board of Directors elected Harri Tahkola as Chairman of the Board.

On 21 March 2019, a total of 31,851 new shares of the company were subscribed as Talenom Plc option rights 2016B. The shares subscribed as option rights were registered in the Trade Register on 28 March 2019. The total number of Talenom Plc shares was 6,903,714 shares after the registration of the new shares.

EVENTS AFTER THE REVIEW PERIOD

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 will be 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 SEK 27.2 million (EUR 2.6 million) in the financial period 1 September 2017-31 August 2018. Profitability over the financial period was good (EBITDA of SEK 4.0 million (EUR 0.4 million), 14.7% of net sales). The sale price was SEK 27.0 million (EUR 2.6 million), of which SEK 13.5 million (EUR 1.3 million) is paid in cash and financed by the liquid assets of Talenom Plc. The remainder of the sale price is paid by means of new subscribed shares of Talenom Plc in a directed issue.

In accordance with the terms of sale, the new shares will be subscribed and their subscription price considered paid for as apportioned property for all shares of Wakers Consulting AB to be transferred. The directed issue is estimated to take place on 2 May 2019. The subscription price for the new shares will be fully booked in Talenom Plc's invested unrestricted equity fund. In the directed issue, 48,678 new shares will be offered for subscription. The number of new shares to be issued corresponded to around 0.71 percent 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. The cancellation of option rights will be entered in the Trade Register at a later date.

No other significant events took place after the review period.

BASIS OF PREPARATION

This Business Review is not an Interim Financial Report prepared in accordance with the IAS 34 standard. The Company prepares its interim financial reporting in accordance with the Securities Market Act, in addition to which the Company releases Business Reviews for the first three and first nine months of the year. The Business Reviews contain key information regarding the financial position and development of the Talenom Group.

The figures of the Business Review are unaudited.

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 standards 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 the 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 and explanations of alternative performance metrics are presented below under section Formulas.

In addition to the aforementioned, the company presents alternative performance metrics in describing the effects of the IFRS 16 standard on its financial information (see Financial development)

FINANCIAL REPORTING

Talenom Plc. will publish interim reports as follows:

January–June 2019 (H1) on Monday 29 July 2019 at 13:30

Financial Statement Bulletin 2019 on Monday 3 February 2020 at 13:30

In addition, the company will publish a business review for January–September 2019 on Monday 21 October 2019 at 13:30.

The Financial Statement Reports, Half-year Reports and Business Reviews as well as Stock Exchange Releases can be found on the Company's investor pages: www.talenom.fi/en/investors

FORMULAS

Net sales, increase %	=	$\frac{\text{net sales} - \text{net sales of the preceding year}}{\text{net sales of the preceding year}}$	x 100
Operating profit (EBIT)	=	$\text{net sales} + \text{other operating income} - \text{materials and services} - \text{personnel expenses} - \text{depreciations and amortisations} - \text{other operating expenses}$	
Operating profit (EBIT), %	=	$\frac{\text{operating profit (EBIT)}}{\text{net sales}}$	x 100
Return on investment (ROI), % (rolling 12 months)	=	$\frac{\text{operating profit (EBIT) before taxes} + \text{interest and other financial expenses}}{\text{total equity and liabilities} - \text{non-interest-bearing liabilities (average of the accounting period)}}$	x 100
Interest-bearing liabilities	=	$\text{interest-bearing liabilities} - \text{cash in hand and in banks}$	
Net gearing ratio, %	=	$\frac{\text{interest-bearing liabilities} - \text{cash in hand and in banks}}{\text{capital and reserves}}$	x 100
Equity ratio, %	=	$\frac{\text{capital and reserves}}{\text{balance sheet total} - \text{advances received}}$	x 100
Working capital	=	$\text{inventories} + \text{non-interest-bearing current receivables} - \text{non-interest-bearing current liabilities}$	
Net investments	=	$\text{investments in tangible and intangible assets} - \text{sales of assets}$	
Earnings per share	=	$\frac{\text{net profit of the review period}}{\text{weighted average number of shares during the period} - \text{treasury shares held by the company}}$	x 100
Compound annual growth rate (CAGR)	=	$\left(\frac{\text{net sales at the end of the period}}{\text{net sales in the beginning of the period}} \right)^{\frac{1}{\text{number of years} - 1}}$	

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

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

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

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

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

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

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

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