

TALENOM PLC HALF-YEAR REPORT JANUARY-JUNE 2020 (UNAUDITED): NET SALES GREW BY 15% AND OPERATING PROFIT IMPROVED BY 11% – STRONG PROFITABLE GROWTH CONTINUED IN LINE WITH THE STRATEGY

1 January–30 June 2020

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 44 locations, including service centres in Oulu and Tampere. During the period between 1 January–30 June 2020, Talenom had an average of 847 (709) employees. Talenom reported net sales of 33.9 (29.5) million euros for 1 January–30 June 2020, representing a year-on-year increase of 14.6%.



TALENOM
yrittämisen iloa

TALENOM PLC HALF-YEAR REPORT JANUARY–JUNE 2020 (UNAUDITED): NET SALES GREW BY 15% AND OPERATING PROFIT IMPROVED BY 11% – STRONG PROFITABLE GROWTH CONTINUED IN LINE WITH THE STRATEGY

JANUARY–JUNE 2020 IN BRIEF:

- Net sales 33.9 (29.5) million euros, increase 14.6% (16.9%)
- Operating profit (EBIT) 7.3 (6.6) million euros, 21.6% (22.3%) of net sales
- Net profit 5.5 (4.9) million euros
- Earnings per share 0.13 (0.12) euros
- Talenom's guidance for 2020 remains unchanged: Net sales for 2020 are expected to amount to 64–68 million euros and operating profit to 12–14 million euros.

Group	1–6/2020	1–6/2019	Change
Net sales, thousands of euro	33,852	29,545	4,307
Net sales, increase %	14.6%	16.9%	-2.3 percentage points
Operating profit (EBIT), thousands of euro	7,312	6,600	712
Operating profit (EBIT), as % of net sales	21.6%	22.3%	-0.7 percentage points
Return on investment (ROI), % (rolling 12 months)	17.9%	20.2%	-2.3 percentage points
Liquid assets, thousands of euro	9,627	8,423	1,204
Earnings per share, euro	0.13	0.12	0.01
Net profit, thousands of euro	5,456	4,924	532

Group	4–6/2020	4–6/2019	Change
Net sales, thousands of euro	16,503	14,762	1,741
Net sales, increase %	11.8%	17.7%	-5.9 percentage points
Operating profit (EBIT), thousands of euro	3,594	3,158	436
Operating profit (EBIT), as % of net sales	21.8%	21.4%	0.4 percentage points
Return on investment (ROI), % (rolling 12 months)	17.9%	20.2%	-2.3 percentage points
Liquid assets, thousands of euro	9,627	8,423	1,204
Earnings per share, euro	0.06	0.06	0.01
Net profit, thousands of euro	2,650	2,339	311

GUIDANCE FOR 2020 REMAINS UNCHANGED

In its business review January-March 2020, published on 27 April 2020, Talenom revised its guidance for 2020:

Net sales for 2020 are expected to amount to 64–68 million euros and operating profit to 12–14 million euros.

CEO OTTO-PEKKA HUHTALA

The past six months were one of the most memorable periods in Talenom's history. The year started on a stable note as we continued our years-long development of operations and growth. In March, the world faced the coronavirus epidemic – and also Talenom had to learn to live with it. In spite of exceptional circumstances, the mood remained confident at Talenom, as evident in the oversubscription of the share issue to personnel in May. Our employees demonstrated their strong commitment and trust in our company and its future.

Our net sales for January-June grew by 15% year-on-year to 33.9 million euros and operating profit improved by 11% to 7.3 million euros. The strategic drivers of our profitable growth have remained unchanged. We seek to ensure that our customers enjoy effortless day-to-day operations, to automate our routines with our bookkeeping production line and to provide care services to our customers.

In our Business Review January-March 2020, we reported on coronavirus-related uncertainties, which particularly concern the acquisition of new customers, bankruptcies among customer companies and our transaction based invoicing. Sales to new customers have continued at the top end of the expectations we set for coronavirus epidemic, albeit falling short of the sales targets we set before the coronavirus hit. The trend in the number of bankruptcies among customer companies was also in line with expectations during the second quarter, but performance in transaction based invoicing has been in the lower range of our coronavirus-adjusted forecasts. For instance, layoffs at customer companies have been reflected in payroll service volumes sooner than during earlier financial crises. The uncertainties posed by the coronavirus remain unchanged. Our full-year financial outlook has not changed significantly, and our guidance for 2020 net sales and operating profit issued in April remains unchanged.

During the review period, we continued our planned investments in customer user interfaces, automation and new customer acquisition. Talenom Online will be renewed during the present year, making the day-to-day lives of our customers even easier. Even though we have invested in automation for a long time, there are still untapped opportunities in this area – and we will continue to invest in them. We will continue our efforts to acquire new customers with our own sales and franchising team, and we will also seek to support growth by means of corporate acquisitions.

In our Business Review January-March 2020, we mentioned that we are developing a new small customer concept that will be a major milestone in Talenom's future. Talenom has not previously engaged in significant business in the small customer segment, as in our view it was not possible to generate growth sufficiently cost-effectively. We believe that the small customer concept we are now piloting will enable a digital, even more efficient way of distributing our services. We are currently piloting the concept in-house and are very satisfied with the results. Our aim is to release the first version of the product in connection with the publication of our next business review in October.

We want to play a major role at the forefront of the digital transformation of the accounting sector. We have invested heavily in our own processes and software over the long term. Now is a good time to harness our strengths to benefit a wider range of customers and users. In February, we acquired the business operations of Addvalue Advisors Oy in Vantaa, and in May we expanded our operations also in Sweden by purchasing the share capital of Niva Ekonomi Ab. Based on our

experience in the Swedish market and favourable outlook, we want to expand our presence and accelerate our growth in this market.

FINANCIAL DEVELOPMENT

KEY FIGURES

Group	1–6/2020	1–6/2019	Change
Net sales, thousands of euro	33,852	29,545	4,307
Net sales, increase %	14.6%	16.9%	-2.3 percentage points
Operating profit (EBIT), thousands of euro	7,312	6,600	712
Operating profit (EBIT), as % of net sales	21.6%	22.3%	-0.7 percentage points
Return on investment (ROI), % (rolling 12 months)	17.9%	20.2%	-2.3 percentage points
Interest-bearing net liabilities, thousands of euro	29,365	29,260	105
Net gearing ratio, %	110%	137%	-27 percentage points
Equity ratio, %	34.3%	30.5%	3.8 percentage points
Working capital, thousands of euro	-5,240	-4,323	-917
Net investments, thousands of euro	9,027	9,520	-493
Liquid assets, thousands of euro	9,627	8,423	1,204
Earnings per share, euro	0.13	0.12	0.01
Weighted average number of shares during the period *)	42,303,612	41,421,138	882,474
Net profit, thousands of euro	5,456	4,924	532

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

NET SALES, PROFITABILITY AND FINANCIAL PERFORMANCE, JANUARY–JUNE 2020

During the period from January to June, Talenom's net sales increased by 14.6% year-on-year. Amounting to 33.9 (29.5) million euros, net sales grew by around 4.3 million euros. The growth in net sales was mainly due to the increase in the number of accounting service customers. In addition, net sales grew due to acquisitions.

In January-June, personnel expenses amounted to 17.3 (15.0) million euros, 51.2% (50.9%) of net sales.

Other operating expenses, including materials and services, totalled 4.2 (4.2) million euros, accounting for 12.3% (14.4%) of net sales.

In January-June, operating profit (EBIT) was 7.3 (6.6) million euros, 21.6% (22.3%) of net sales, and net profit was 5.5 (4.9) million euros. Operating profit improved by 10.8%.

During the period from April to June, Talenom's net sales increased by 11.8% year-on-year. Amounting to 16.5 (14.8) million euros, net sales grew by around 1.7 million euros. In April-June, operating profit (EBIT) was 3.6 (3.2) million euros, 21.8% (21.4%) of net sales, and net profit was 2.7 (2.3) million euros. Operating profit (EBIT) for April-June improved by 13.8% year-on-year. Net sales and relative profitability for the last quarter were weakened by lower invoicing of transaction-

based products and the lower profitability of acquired businesses in the early stage of the post-acquisition period.

BALANCE SHEET, FINANCING AND INVESTMENTS

On 30 June 2020, the consolidated balance sheet total was 78.0 (70.0) million euros. The Group's equity ratio was 34.3% (30.5%) and the net gearing ratio was 110% (137%).

The Group's interest-bearing financial loans at the end of the review period were 30.0 (28.0) million euros, excluding instalment debts. Other non-current interest-bearing liabilities (instalment debts) were 0.2 (0.2) million euros and other current interest-bearing liabilities (instalment debts) were 0.2 (0.3) 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 6.3 (7.3) million euros and current lease liabilities at 2.2 (1.7) million euros on 30 June 2020.

The Group recognises the costs of new customer contracts, such as costs of obtaining and fulfilling a contract, as investments as specified in IFRS 15. These costs are presented in the balance sheet under "capitalised contract costs". Furthermore, the Group recognises a part of the development costs related to software and digital services as investments according to the requirements outlined in IAS 38. These costs are presented in the balance sheet under "other intangible assets". Investments stemming from new customer contracts amounted to 2.2 (2.3) million euros in the review period. Investments concerning software and digital services amounted to 4.9 (2.3) million euros.

The company's total net investments in the review period 1 January-30 June 2020 were 9.0 (9.5) million euros.

In February 2020, the company acquired the business operations of the accounting firm Addvalue Advisors Oy and in May the share capital of Niva Ekonomi AB. The purchase price of Addvalue Advisors Oy totalled 0.3 million euros and the purchase price of Niva Ekonomi AB totalled 1.3 million euros. In both acquisitions, part of the purchase price was paid with new Talenom Plc shares subscribed for in a directed issue. These business acquisitions accounted for 1.6 (4,2) million euros of Talenom's net investments.

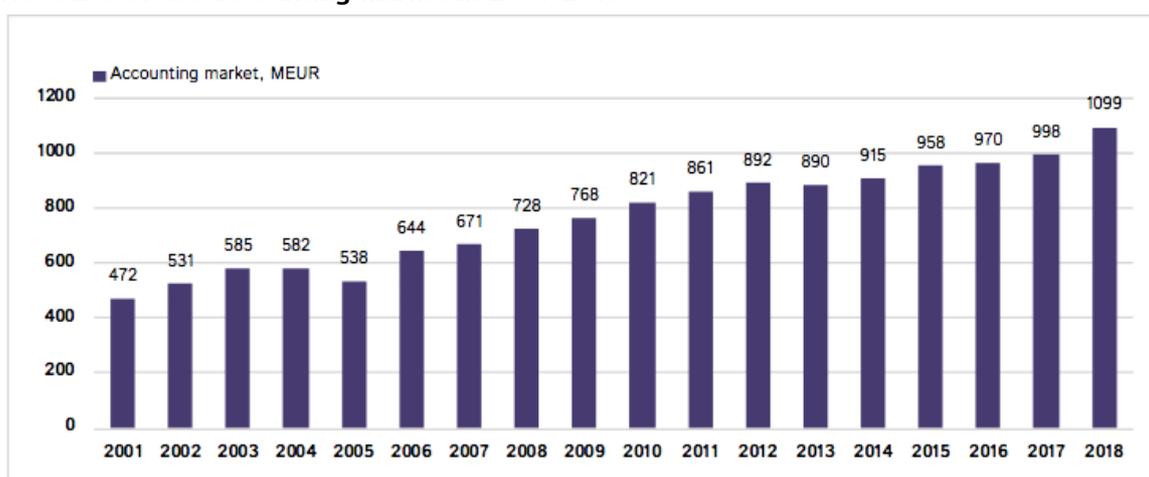
Liquid assets at 30 June 2020 were 9.6 (8.4) million euros. In addition, the company had unused overdraft limits of 3.0 (1.0) million euros at the end of the review period.

MARKET AND SECTORAL REVIEW

The accounting market in Finland is fragmented. Statistics Finland's structural business and financial statement statistics indicate that the number of companies in the sector was 4,134 (4,249) in 2018 and the average size of company was 3.0 employees. The accountancy market has a lot of one-person offices and part-time entrepreneurs. Market fragmentation offers the opportunity for growth and creates scalable benefits. Scale benefits are significant, for example, in information systems, sales and marketing, and in organising activities.

The market for accountancy services is defensive, due to the statutory need of companies to arrange accounting. The market has grown in Finland almost every year since 2001, despite the financial crisis and the intermittent shrinking of Finland's Gross Domestic Product. According to Statistics Finland's structural business and financial statement statistics and the preceding year's Business Register statistics, average growth in annual net sales in the accountancy market amounted to 5.1% in the period 2001–2018.

Net sales of the accounting market in 2001–2018



Source: Statistics Finland, Structural business and financial statement statistics

Statistics Finland's structural business and financial statement statistics also indicate that the total size of the accountancy market was 1,099 (998) million euros in 2018, when Talenom's market share was 4.4%, measured in net sales. In 2019, Talenom's market share would have been 4.8% assuming that the annual growth of the industry remained at the 2018 level.

DEVELOPMENT OF THE BUSINESS ENVIRONMENT

The accountancy market is affected by the aspirations of both clients and accounting offices to engage in paperless financial management. Accounting is arranged so that the customer's receipts and printouts are not handled in paper form, but are moved electronically between the client company and the organiser of the accounting service. Accounting services, especially bookkeeping, are automated so that time spent by experts on routine work can be used for the most demanding work phases. It is primarily the large companies that are able to respond to the changes in the operating environment since they have the most intellectual capital and the ability to invest in product development. Small accounting firms are expected to face challenges due to customers' increasing demands, which will in turn accelerate consolidation in the accounting industry. In the

view of Talenom, approximately 80% of the Finnish accounting market is still held by small accounting firms.

The intense digitalisation of financial management is changing familiar operating models. Talenom aims to be a technological pioneer and will continue investing heavily in software development. The company's own software production expertise is a major competitive factor in both the organisation of financial administration services and the development of electronic customer solutions.

In the view of Talenom, customers expect accounting companies to provide a more diverse and proactive service offering. At the same time, the automation and digitalisation of routine work is enabling the expansion of service portfolios in the direction of consultancy. In addition to routine work, the service offering increasingly focuses on supporting the management of client companies in developing and guiding their businesses.

The increasing complexity of the customer's business environment is creating a growing need for expert and other business support services. The development of customer needs is driving accounting firms to expand their services, which is enabling accounting customers to concentrate their purchases. This trend is supported by a relatively close relationship between the customer and the accounting firm.

PERSONNEL AND MANAGEMENT

The average number of personnel during the review period 1 January–30 June 2020 was 847 (709). During the review period, the members of the company's Executive Board were Otto-Pekka Huhtala (CEO), Antti Aho (CFO and CHRO), Tuomas Iivanainen (Director, International Business), Juho Aho (Director, Accounting Services) and Juha Jutila (Director, Business Development). There were no changes in the composition of the Executive Board during the review period.

ANNUAL GENERAL MEETING 2020

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

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

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

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

BOARD OF DIRECTORS AND AUDITOR

The AGM re-elected Harri Tahkola, Mikko Siuruainen, Olli Hyyppä, Anne Riekkö and Johannes Karjula as the members of the Board of Directors and Sampsa Laine as a new member of the Board of Directors. In its organisational meeting after the AGM, the Board of Directors elected Harri Tahkola as Chairman of the Board.

The AGM decided to re-elect the auditing firm KPMG Oy Ab, authorised public accountant organisation, as the auditor of the company, with Juho Rautio, authorised public accountant, as the principal auditor.

SHARES AND SHAREHOLDERS

On 30 June 2020, Talenom Plc had a total of 43,063,073 shares entered in the Trade Register. The company held 150,600 company shares (0.35% of the total number of shares and total number of votes) on 30 June 2020. On 30 June 2020, Talenom had a total of 5,561 (3,520) shareholders, representing an increase of 2,041 shareholders, year on year.

There were 123 trading days in the review period 1 January–30 June 2020. A total of 10,804,087 shares were traded during this period, and the value of the shares traded was 73,383,583 euros. The highest price of the share was 9.08 euros and the lowest price was 4.93 euros. The volume weighted average price was 6.79 euros and the closing price at the end of the review period (30 June 2020) was 8.40 euros. In accordance with the closing price, the combined market value of the shares was approximately 361.73 million euros.

FLAGGING NOTIFICATIONS

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

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

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

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

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

SIGNIFICANT EVENTS IN THE REVIEW PERIOD

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

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

On 25 February 2020, the Board of Directors resolved to establish two new share-based incentive plans for the Group's key employees, the Performance Share Plan 2020–2024 and the Restricted Share Plan 2020. The Performance Share Plan 2020–2024 consists of three performance periods, covering the calendar years 2020–2022, 2021–2023 and 2022–2024. The Board of Directors resolves

on the plan's performance criteria and targets to be set for each criterion at the beginning of a performance period.

On 28 February 2020, Talenom agreed to acquire the business operations of the accounting firm Addvalue Advisors Oy from its owners. The purchase price totalled 268,000 euros, of which 134,000 euros was paid with new Talenom Plc shares subscribed for in a directed share issue. The 20,594 new shares subscribed for in the directed share issue were entered in the Trade Register on 4 March 2020.

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

The 900,900 new Talenom Plc shares subscribed for with 2016C and 2018 stock options were entered in the Trade Register on 13 March 2020.

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

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

On 4 May 2020, Talenom made an agreement with the owner of the Swedish accounting company Niva Ekonomi AB on purchasing its entire share capital. The company's net sales were 14.6 million Swedish krona (1.4 million euros) in 2019. Profitability of the business was good. The EBITDA in 2019 was 2.3 million Swedish krona (0.2 million euros), 15.8 % of net sales.

The purchase price was 11.7 million Swedish krona (1.1 million euros), of which 5.85 million Swedish krona (0.5 million euros) was paid in cash and financed with the liquid assets of Talenom Plc. The remainder of the purchase price was paid with new shares of Talenom Plc subscribed for in a directed share issue. In addition, the seller has the opportunity to receive a contingent consideration of 2.0 million Swedish krona (0.2 million euros) at maximum when the financial targets set for the acquired business are realised. Based on the management's estimate, 1.5 million Swedish krona (0.14 million euros) of the contingent consideration has been recognised in the purchase price and as a liability. The 77,747 new shares subscribed for in the directed share issue related to the acquisition were registered in the Trade Register on 6 May 2020.

In the short term, the purchase of shares will have no significant impact on Talenom's financial position or future outlook. The acquired company supports Talenom's core business and

strengthens its position on the Swedish market, to which Talenom expanded its operations in 2019 by purchasing the share capital of Wakers Consulting AB.

In May, Talenom carried out a share issue directed to the company's personnel and franchise entrepreneurs. The subscription commitments given during the subscription period from 11 May to 22 May 2020 covered 200,447 shares, which means that the personnel share issue was oversubscribed 1.7 times. The Board of Directors of Talenom approved on 27 May 2020 the subscriptions for the maximum number of new shares in the personnel share issue, a total of 120,000 new shares. Shares were subscribed for by 252 persons, which corresponds to approximately 32% of those eligible. The members of the company's Board of Directors, the CEO and the members of the Executive Board were not entitled to participate in the personnel share issue. The approved subscriptions have been paid in accordance with the terms and conditions of the personnel share issue.

The share subscription price was 5.86 euros, based on the trade volume-weighted average price of the share on Nasdaq Helsinki Ltd in the 1 March to 31 March 2020 period, with a 10 per cent discount.

The 120,000 new Talenom Plc shares subscribed for in the personnel issue and the 107,800 new shares subscribed for with 2016C and 2018 options were entered in the Trade Register on 28 May 2020. The total subscription price, 845,629 euros, was fully recorded in the company's invested unrestricted equity fund.

The shares subscribed for in the personnel issue represent 0.28% of the total number of shares in the company before the issue of the shares and after the issue of shares. The total number of Talenom Plc shares is 43,063,073 shares following the registration of the new shares. The new shares were admitted to trading on the official list of Nasdaq Helsinki Oy on 29 May 2020.

EVENTS AFTER THE REVIEW PERIOD

No significant events took place after the review period.

BOARD AUTHORISATIONS

The 2020 AGM authorised the Board of Directors to resolve on the repurchase of maximum of 300,000 shares in the company in one or several tranches using the company's unrestricted shareholders' equity. The shares will be repurchased otherwise than in proportion to the shareholdings of the shareholders in public trading arranged by Nasdaq Helsinki Ltd for the market price at the moment of purchase.

The authorisation remains valid until the closing of the next Annual General Meeting, but no longer than until 30 June 2021. The authorisation replaces the previous authorisation to repurchase own shares granted by the AGM on 26 February 2019.

The 2020 AGM authorised the Board of Directors to resolve on the share issuances and on the issuance of special rights entitling to shares covered by chapter 10, section 1 of the Limited Liability Companies Act in one or several tranches, either against a payment or without payment.

The aggregate amount of shares to be issued, including the shares to be received based on special rights, must not exceed 1,800,000 shares. The Board of the Directors may resolve to issue new shares or to transfer own shares possibly held by the company. The maximum amount of the authorisation corresponds to approximately 4.3 per cent of all shares in the company on the date of the notice to the Annual General Meeting.

The Board of Directors is authorised to decide on all other matters related to the issuance of shares and special rights entitling to shares, including the right to deviate from the pre-emptive right of shareholders to subscribe for shares to be issued. The authorisation is used for the purposes of paying purchase prices of corporate acquisitions, share issues directed to personnel or share award schemes or for other purposes decided by the Board of Directors.

The authorisation remains in valid until the closing of the next Annual General Meeting, but no longer than until 30 June 2021. The authorisation revokes all previous unused authorisations to resolve on the issuance of shares, option rights and other special rights entitling to shares.

In addition to the abovementioned authorisations, the Board of Directors has no other valid authorisations to acquire or dispose of the company's own shares.

STOCK OPTION SCHEMES

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

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

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

The subscription periods for the stock options are as follows:

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

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

number of shares to be subscribed with 2016 option rights is 1,176,000, the total number of shares to be subscribed with 2018 option rights is 360,000 and the total number of shares to be subscribed with 2019 option rights is 1,200,000.

The options granted and the holdings or undistributed options of the company are divided into option categories (30 June 2020) as follows:

Option categories (pcs)	2016C	2018	2019
Options given	1,176,000	360,000	1,200,000
Options exercised	680,950	327,750	0
Talenom Plc's holding or undistributed	467,100	12,000	240,000
Options given but not exercised	27,950	20,250	960,000

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

Option categories	2016C	2018	2019
The current subscription price of options	0.79	1.80	3.25
Total number of unexercised options	27,950	20,250	960,000
Exercised or Talenom Plc's holding or undistributed	1,148,050	339,750	240,000
Number of shares at 30 June 2020	43,063,073	43,063,073	43,063,073
Number of shares if all options are converted into new shares	43,091,023	43,083,323	44,023,073
Proportion of holdings and votes if all options are converted into new shares	0.065%	0.047%	2.181%

The total number of shares will increase from 43,063,073 to 44,071,273 if all of the three stock options 2016C, 2018 and 2019 will be used in full to subscribe for new shares. The total share of votes and holdings of all three options is 2.288% if all stock options are used to fully subscribe for new shares.

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

SHARE-BASED INCENTIVE PLANS

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

Performance Share Plan 2020-2024

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

The potential reward based on the plan will be paid partly in the company's shares and partly in cash after the end of a performance period. The cash proportion is intended to cover taxes and tax-related expenses arising from the reward to a participant. The rewards to be paid correspond to the value of an approximate maximum total of 360,000 Talenom Plc shares, including also the proportion to be paid in cash.

Restricted Share Plan 2020

The Restricted Share Plan 2020 is intended for selected key employees only, including the Executive Board members. The reward from the Restricted Share Plan is paid partly in the company's shares and partly in cash after the end of a 12-36-month vesting period. The rewards to be granted based on the Restricted Share Plan in 2020-2022 correspond to the value of a maximum total of 120,000 Talenom Plc shares, including also the proportion to be paid in cash.

RISKS, UNCERTAINTIES AND RISK MANAGEMENT

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

The key identified risks are as follows:

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

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

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

Risk management is coordinated by the 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.

BASIS OF PREPARATION OF THE HALF-YEAR REPORT

The half-year report has been prepared in accordance with IAS 34 Interim Financial Reporting, and its accounting policies are the same as those presented in Talenom's financial statement for 2019. The financial statement is available on the company's investor pages at www.talenom.fi/en/investors. In IFRS reporting, the Group has one reporting business segment, its accounting services.

The figures of the half-year report 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 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 measures are presented below under section Formulas.

FINANCIAL REPORTING

The company will publish Business Review for January–September 2020 on Monday, 26 October 2020 at 13:30.

The Financial Statement Bulletin for 2020 will be released on Monday, 8 February 2021 at 13:30.

The Financial Statement, 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.

TABLES

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

Thousand euro	1-6/2020	1-6/2019	1-12/2019
Net sales	33,852	29,545	57,955
Other operating income	78	199	372
Materials and services	-1,316	-1,513	-3,598
Employee benefit expenses	-17,332	-15,046	-29,912
Depreciation and amortisations	-5,120	-3,856	-8,498
Other operating expenses	-2,851	-2,728	-5,911
Operating profit	7,312	6,600	10,409
Financial income	46	31	64
Financial expenses	-484	-435	-906
Net financial expenses	-438	-403	-843
Profit (loss) before taxes	6,874	6,197	9,566
Income taxes	-1,418	-1,273	-1,951
Profit (loss) for the financial period	5,456	4,924	7,615
Other items of comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Cash flow hedging	40	14	60
Taxes on items that may be subsequently transferred to profit or loss	-8	-3	-12
Other comprehensive income for the financial period after tax	32	11	48
Total comprehensive income for the financial period	5,488	4,935	7,663
Earnings per share calculated on the profit attributable to equity holders of the parent company			
Undiluted earnings per share (euro)	0.13	0.12	0.18
Diluted earnings per share (euro)	0.13	0.12	0.18

OPERATING SEGMENTS

The Group has one reporting business segment, the accounting services, that is evaluated monthly by the Board of Directors and the CEO as the highest operational decision-makers.

The Group's assets and liabilities are not allocated to the business segment because the top operating decision maker does not allocate resources based on segment assets or liabilities and does not review the segment assets or 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 segments other than accounting services are presented in unallocated items because they do not form a separately reported business segment.

Operating segments 1-6/2020

Thousand euro	Accounting services	Unallocated items and eliminations	Group total
External net sales	32,356	1,496	33,852
Total net sales	32,356	1,496	33,852
Operating expenses	-20,232	-1,268	-21,499
Other income	78		78
EBITDA	12,203	228	12,431
Depreciations	-4,212		-4,212
Amortisations	-908		-908
Operating result	7,084	228	7,312

Operating segments 1-6/2019

Thousand euro	Accounting services	Unallocated items and eliminations	Group total
External net sales	27,879	1,666	29,545
Total net sales	27,879	1,666	29,545
Operating expenses	-17,610	-1,677	-19,287
Other income	190	8	199
EBITDA	10,460	-3	10,456
Depreciations	-3,079	0	-3,079
Amortisations	-778	0	-778
Operating result	6,603	-3	6,600

Operating segments 1-12/2019

Thousand euro	Accounting services	Unallocated items and eliminations	Group total
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
EBITDA	19,063	-156	18,907
Depreciations	-6,809	0	-6,809
Amortisations	-1,689	0	-1,689
Operating result	10,565	-156	10,409

CONSOLIDATED BALANCE SHEET

Thousand euro	30 June 2020	30 June 2019	31 Dec. 2019
ASSETS			
Non-current assets			
Goodwill	21,166	20,728	20,728
Other intangible assets	18,819	13,495	14,930
Right-of-use assets	8,311	8,913	8,400
Property, plant and equipment	2,615	2,450	2,584
Other non-current financial assets	237	237	237
Deferred tax assets	76	79	67
Capitalised contract costs	10,656	9,331	10,054
Total non-current assets	61,880	55,233	57,000
Current assets			
Trade and other receivables	6,467	6,202	6,521
Current tax assets	0	154	34
Cash and cash equivalents	9,627	8,423	7,786
Total current assets	16,094	14,779	14,342
Total assets	77,974	70,012	71,342
CAPITAL AND RESERVES			
Share capital	80	80	80
Reserve for invested unrestricted equity	13,741	11,908	11,234
Fair value reserve	-13	-82	-45
Retained earnings	12,876	9,392	12,304
Total equity	26,684	21,298	23,573
LIABILITIES			
Non-current liabilities			
Financial liabilities	30,000	28,000	28,000
Trade and other payables	157	202	215
Lease liabilities	6,335	7,260	6,553
Other non-current financial liabilities	0	0	56
Deferred tax liabilities	471	102	307
Total non-current liabilities	36,962	35,564	35,130
Current liabilities			
Trade and other payables	10,915	10,202	10,208
Lease liabilities	2,249	1,705	1,940
Other current financial liabilities	16	0	
Current tax liabilities	1,148	1,243	491
Total current liabilities	14,328	13,150	12,638
Total liabilities	51,290	48,714	47,769
Total equity and liabilities	77,974	70,012	71,342

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Thousand euro	Share capital	Reserve for invested unrestricted equity	Fair value reserve	Retained earnings	Total
Total equity 1 January 2020	80	11,234	-45	12,304	23,573
Comprehensive income					
Profit for the financial period				5,456	5,456
Cash flow hedging			32		32
Total comprehensive income for the financial period	0	0	32	5,456	5,488
Transactions with owners					
Dividend distribution and repayment of capital				-5,211	-5,211
Average exchange rate difference and translation differences				6	6
Share issue		2,507			2,507
Share-based payments				365	365
Other adjustments				-44	-44
Transactions with owners, total	0	2,507	0	-4,883	-2,376
Total equity 30 June 2020	80	13,741	-13	12,876	26,684

Thousand euro	Share capital	Reserve for invested unrestricted equity	Fair value reserve	Retained earnings	Total
Total equity 1 January 2019	80	10,608	-93	8,092	18,688
Comprehensive income					
Profit for the financial period				4,924	4,924
Cash flow hedging			11		11
Total comprehensive income for the financial period	0	0	11	4,924	4,935
Transactions with owners					
Dividend distribution and capital repayment				-3,777	-3,777
Average exchange rate difference and translation differences				1	1
Share issue		2,159			2,159
Redeemed options		-859			-859
Share-based payments				151	151
Transactions with owners, total	0	1,300	0	-3,624	-2,324
Total equity 30 June 2019	80	11,908	-82	9,392	21,298

Thousand euro	Share capital	Reserve for invested unrestricted equity	Fair value reserve	Retained earnings	Total
Total equity 1 January 2019	80	10,608	-93	8,092	18,688
Comprehensive income					
Profit for the financial period				7,615	7,615
Cash flow hedging			48		48
Total comprehensive income for the financial period	0	0	48	7,615	7,663
Transactions with owners					
Dividend distribution and capital repayment				-3,777	-3,777
Average exchange rate difference and translation differences				3	3
Share issue		2,159			2,159
Redeemed options		-859			-859
Purchase of treasury shares		-674			-674
Share-based payments				370	370
Transactions with owners, total	0	625	0	-3,403	-2,778
Total equity 31 December 2019	80	11,234	-45	12,304	23,573

CONSOLIDATED CASH FLOW STATEMENT

Thousand euro	30 June 2020	30 June 2019	31 Dec. 2019
Cash flow from operating activities			
Profit (loss) before taxes	6,874	6,197	9,566
Adjustments:			
Depreciation and amortisations	5,120	3,856	8,498
Financial income	-46	-31	-64
Financial expenses	484	435	906
Other adjustments	394	151	330
Changes in working capital:			
Change in trade and other receivables	271	-268	-559
Change in trade payables and other liabilities	441	1,695	1,995
Interest income	46	31	64
Paid taxes	-762	-1,196	-2,399
Net cash flow from operating activities	12,821	10,870	18,337
Cash flow from investing activities			
Revenue from the sale of property, plant and equipment	154	163	240
Acquisition of property, plant and equipment	-514	-539	-1,107
Capitalisation of contract costs	-2,186	-2,309	-4,567
Acquisition of intangible assets	-4,926	-2,391	-5,580
Acquired businesses	-572	-2,077	-2,080
Net cash flow from investing activities	-8,044	-7,152	-13,094
Cash flow from financing			
Proceeds from share issue	1,831		
Purchase of treasury shares			-674
Paid interest	-499	-429	-888
Dividends paid	-5,211	-3,777	-3,777
Realisation of options	0	-684	-684
Change in instalment payment liabilities	-49	-45	-106
Repayment of lease liabilities	-1,014	-771	-1,746
Loan withdrawals	30,000	4,500	4,500
Loan repayments	-28,000	0	0
Net cash flow from financing	-2,942	-1,205	-3,375
Change in cash and cash equivalents	1,835	2,513	1,869
Cash and cash equivalents, 1 Jan.	7,786	5,914	5,914
Net effect of exchange rate fluctuations on cash and cash equivalents	6	-3	3
Cash and cash equivalents	9,627	8,423	7,786

ACQUISITIONS OF SUBSIDIARIES AND BUSINESSES IN 2020

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

On 4 May 2020, the Group acquired the shares in Niva Ekonomi Ab in Stockholm. The acquisition cost of the shares in Niva Ekonomi Ab was 1,308 thousand euros, which was paid in cash and shares. In connection with the transaction, it was agreed with the owners that they have the opportunity to receive contingent consideration amounting to a maximum of 2.0 million Swedish krona (0.2 million euros) if the financial goals set for the acquired business are realised. The amount of contingent consideration recognised at the time of acquisition is 1.5 million Swedish krona (0.14 million euros), which is included in the acquisition cost. No consideration will be paid if the goals are not met.

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

Thousand euro	Niva Ekonomi Ab	Addvalue Advisors Oy
Property, plant and equipment	9	8
Customer relationships	824	260
Right-of-use assets	172	
Current assets	414	
Total assets	1,419	268
Trade and other payables	201	31
Lease liabilities	172	
Deferred tax liabilities	176	
Total liabilities	549	31
Net assets	870	238
Consideration transferred	1,308	238
Net assets of acquired company	-870	-238
Goodwill	438	0

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

If the acquisitions had been carried out at the beginning of the 2020 financial year, their estimated impact on the result for the review period would have been 120 thousand euros and on net sales 560 thousand euros.

Acquisitions of subsidiaries and businesses in 2019

On 2 May 2019, the Group acquired the shares in Wakers Consulting Ab in Stockholm. The acquisition cost of the shares in Wakers Consulting Ab was 2,571 thousand euros, which was paid in cash and shares. In connection with the transaction, it was agreed with the owners that they may be paid contingent consideration tied to the three-year development in the price of the Talenom share. This consideration will not be paid if the specified share price is achieved. Consideration will be paid in the amount of 0-10 million Swedish krona if the share price falls short of the specified level. The amount of contingent consideration paid will decrease if the shareholders sell shares they have subscribed. The amount of contingent consideration recorded at the time of acquisition was 0 euros.

On 31 May 2019, the Group acquired the accounting business operations of Oy Wasa Tilit Ab and WT Företagstjänseter Ab Oy in an asset deal. The acquisition cost of the business operations of Oy Wasa Tilit Ab and WT Företagstjänseter Ab Oy

was 1,368 thousand euros and it was paid in both cash and shares.

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

Thousand euro	Wakers Consulting Ab	Oy Wasa Tilit Ab WT Företagstjänseter Ab Oy
Property, plant and equipment	92	105
Customer relationships	1,182	808
Right-of-use assets	267	
Current assets	476	
Total assets	2,017	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 acquired company	-941	-690
Goodwill	1,630	677

Expenses from the acquisitions have been recognised under other operating expenses in the income statement. If the acquisitions had been carried out at the beginning of the 2019 financial year, their estimated impact on the result for the review period would have been 200 thousand euros and on net sales 1,900 thousand euros.

COLLATERAL AND CONTINGENT LIABILITIES

	30 June 2020	30 June 2019	31 Dec. 2019
Liabilities secured by an enterprise mortgage			
Loans from financial institutions	30,000	28,000	28,000
Enterprise mortgages provided as security	45,360	31,860	31,860
Other deposits and contingent liabilities			
Deposits	3,072	3,072	3,072
Other *)	4,895	2,502	2,441
*) Other contingent liabilities are related to the issued, unused overdraft limit, bank guarantee limit, and commitments for instalment payment liabilities.			
Interest rate swaps			
Fair value	-32	-122	-78
Value of the underlying instrument	9,890	12,444	11,805

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	=	$\text{net sales} + \text{other operating income} - \text{materials and services} - \text{personnel expenses} - \text{depreciations and amortisations} - \text{other operating expenses}$	
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 net	=	$\text{interest-bearing liabilities} - \text{cash in hand and in banks}$	
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	=	$\frac{\text{net profit of the review period}}{\text{Weighted average number of shares outstanding during the review period}}$	x 100
Compound annual growth rate (CAGR)	=	$\left(\frac{\text{net sales at the end of the period}}{\text{net sales in the beginning of the period}} \right)^{1/\text{number of years} - 1}$	

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.