

**TALENOM PLC HALF-YEAR REPORT JANUARY–JUNE 2019
(UNAUDITED): OPERATING PROFIT IMPROVES BY 26% AND NET
SALES GROW BY 17% – THE COMPANY CONTINUES ITS
EXCELLENT PROFITABLE GROWTH AND STARTED ITS
INTERNATIONALISATION**

1 January–30 June 2019

Talenom is an accountancy company established in 1972. It offers a wide range of accounting services as well as other expert and advisory services for its clients. Talenom engages in its own software development and offers its accountancy customers digital financial management tools.

Talenom has operations at 40 locations, including service centres in Oulu and Tampere. During the period between 1 January–30 June 2019, Talenom employed 699 personnel on average. Talenom's net sales were EUR 29.5 (25.3) million between 1 January–30 June 2019, representing a year-on-year increase of 16.9%.



TALENOM
yritykselämän iloa

TALENOM PLC HALF-YEAR REPORT JANUARY–JUNE 2019 (UNAUDITED): OPERATING PROFIT IMPROVES BY 26% AND NET SALES GROW BY 17% – THE COMPANY CONTINUES ITS EXCELLENT PROFITABLE GROWTH AND STARTED ITS INTERNATIONALISATION

JANUARY–JUNE 2019 IN BRIEF:

- Net sales EUR 29.5 (25.3) million, an increase of 16.9% (18.0%)
- Operating profit (EBIT) EUR 6.6 (5.2) million, 22.3% (20.7%) of net sales *)
- Net profit EUR 4.9 (3.9) million *)
- Earnings per share EUR 0.71 (0.58)
- Change of CEO at Talenom. On 29 July 2019, Deputy CEO Otto-Pekka Huhtala assumes the position of CEO, as Jussi Paaso steps down at his own request to attend to tasks in support of the company's growth
- During the review period, the company started its internationalisation with an acquisition in Sweden and expanded with asset deals into the Vaasa economic area

Group	1–6/2019	1–6/2018	Change
Net sales, thousands of euro	29,545	25,277	4,268
Net sales, increase %	16.9%	18.0%	-1.1 percentage points
Operating profit, thousands of euro *)	6,600	5,227	1,373
Operating profit, as % of net sales *)	22.3%	20.7%	1.7 percentage points
Return on investment (ROI), % (rolling 12 months) *)	20.2%	18.3%	1.9 percentage points
Liquid assets, thousands of euro	8,423	4,036	4,387
Earnings per share, euro	0.71	0.58	0.14
Net profit, thousands of euro *)	4,924	3,947	976

*) The Talenom Group adopted IFRS 16 Leases on 1 January 2019, due to which the review periods are not fully comparable. During the period 1-6/2019, the standard had a positive effect on operating profit (+EUR 47 thousand) and a negative effect on net profit (-EUR 42 thousand) and return on investment (-1.9 percentage points). The effects of adopting the standard on the Group's financial information are described in detail under the section Basis of Preparation.

Group	4–6/2019	4–6/2018	Change
Net sales, thousands of euro	14,762	12,541	2,221
Net sales, increase %	17.7%	17.9%	-0.2 percentage points
Operating profit (EBIT), thousands of euro **)	3,158	2,588	570
Operating profit (EBIT), as % of net sales **)	21.4%	20.6%	0.8 percentage points
Return on investment (ROI), % (rolling 12 months) **)	20.2%	18.3%	1.9 percentage points
Liquid assets, thousands of euro	8,423	4,036	4,387
Earnings per share, euro	0.34	0.29	0.05
Net profit, thousands of euro **)	2,339	1,962	377

***) The Talenom Group adopted IFRS 16 Leases on 1 January 2019, due to which the review periods are not fully comparable. During the period 4-6/2019, the standard had a positive effect on operating profit (+EUR 25 thousand) and a negative effect on net profit (-EUR 21 thousand) and return on investment (-1.9 percentage points). The effects of adopting the standard on the Group's financial information are described in detail under the section Basis of Preparation.

GUIDANCE FOR 2019 REMAINS UNCHANGED

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.

CEO OTTO-PEKKA HUHTALA

Our company performed excellently during the half-year period. We continued to improve our level of profitability. Operating profit grew by 26.3% and stood at 22.3% (EUR 6.6 million) of net sales. During the review period, net sales increased year-on-year from EUR 25.3 million to EUR 29.5 million (16.9%). More than 90% of net sales consisted of continuous net sales.

The second quarter was likewise excellent. Relative profitability (operating profit as a percentage of net sales) rose year-on-year from 20.6% to 21.4%, while net sales grew from EUR 12.5 million to EUR 14.8 million (17.7%).

The acquisition in Sweden and the asset deals in Vaasa in the second quarter as well as successful organic sales contribute to our growth outlook for the second half of the year. We expect that full-year relative growth will be higher than in 2018 (net sales growth 18%, 2018). In addition, we expect to see a year-on-year increase in relative profitability (operating profit as a percentage of net sales 17.5%, 2018).

Our profitability trend is driven by systematic investments in the bookkeeping production line and its technological development. We are currently launching a new instance of automation, which will eliminate the final dependencies of the bookkeeping production line to commercial systems made by other software providers. This allows for further development of automation more freely. The deployment of the new instance of automation is ahead of schedule. The profitability benefits of the current phase of development will come into full effect as from next year. The development of the bookkeeping production line will continue after the completion of the current phase, thanks to which the positive profitability trend is also expected to continue.

Net sales growth was generated by the higher number of customers using accounting services. Maintaining relative growth will require us to continuously step up sales – and we have succeeded extremely well in this. Our own sales organisation and franchising entrepreneurs brought in more new customer accounts than ever before.

During the second quarter, we successfully carried out two M&A transactions while maintaining a good financial position. Our investment capacity is supported by extremely strong net cash flows from operating activities.

Thanks to the asset deal in Vaasa, we are expanding into a new market area. We can now provide also Swedish-speaking customers with pioneering, high-quality and extensive financial management services all over Finland. We will start the deployment of the Talenom automated bookkeeping production line in Vaasa this coming autumn. In Sweden, we have already successfully determined the opportunities for technology utilisation. We will start proactive sales efforts in Sweden in Q1 2020.

The costs of preparing these two closely timed M&A transactions burdened Q2 earnings slightly. In our experience, the first post-acquisition month is weak in terms of net sales, as the previous owner invoices all the work performed to date and the integration involves several non-invoiceable working days. The guidance, updated in connection with the Swedish acquisition, has accounted for both these transactions, and the financial guidance for 2019 remains unchanged.

Our major new service area, Talenom Financing Services, moved from the pilot phase to providing a full service offering. The new service area has been very well received from the outset, and in the review period, EUR 31 million was provided in financing. The services are provided by Talenom's financing partners and currently comprise invoice factoring, instalment payment services and corporate loans. As an accounting firm, Talenom is closely connected to the financial transactions of our customers – and thus it is natural for them to turn to us even for financing services.

Today, I've assumed the position of CEO of Talenom, as Jussi Paaso steps down at his own request to attend to tasks in support of the company's growth. As I accept the baton, the company could not be in better shape. We have positioned ourselves uniquely well in the prevailing market situation. We can scale our business for profitable growth while the technological development of the bookkeeping production line boosts efficiency in service provision. The outlook for the core business is excellent in itself, and at the same time, I see many new business opportunities in both Finland and Sweden.

I have worked at Talenom since 2002, and have long been responsible for the management and development of accounting services. Most recently I served as Talenom's Deputy CEO. Based on my experience, I can well state that we are in a great position to continue Talenom's growth story for the benefit of our customers, together with our motivated and skilled staff.

FINANCIAL DEVELOPMENT

KEY FIGURES

Group	1-6/2019	Effect of IFRS 16 **)	Adjusted 1-6/2019	1-6/2018	Adjusted change
Net sales, thousands of euro	29,545	0	29,545	25,277	4,268
Net sales, increase %	16.9%	0.0 percentage points	16.9%	18.0%	-1.1 percentage points
Operating profit (EBIT), thousands of euro	6,600	+47	6,553	5,227	1,326
Operating profit (EBIT), as % of net sales	22.3%	+0.1 percentage points	22.2%	20.7%	1.5 percentage points
Return on investment (ROI), % (rolling 12 months)	20.2%	-1.9 percentage points	22.1%	18.3%	3.8 percentage points
Interest-bearing net liabilities, thousands of euro	29,260	+8,965	20,295	19,327	968
Net gearing ratio, %	137%	+42 percentage points	95%	119%	-24 percentage points
Equity ratio, %	30.5%	-4.6 percentage points	35.1%	34.1%	1.0 percentage points
Working capital, thousands of euro	-4,323	0	-4,323	-2,885	-1,438
Net investments, thousands of euro	9,520	0	9,520	5,492	4,028
Liquid assets, thousands of euro	8,423	0	8,423	4,036	4,387
Earnings per share, euro	0.71	-0.01	0.72	0.58	0.14
Weighted average number of shares during the period *)	6,903,523	0	6,903,523	6,861,289	42,234
Net profit, thousands of euro	4,924	-42	4,965	3,947	1,018

*) 5,100 shares held by the company were subtracted 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-JUNE 2019

Talenom's net sales grew by 16.9% in January-June compared with the same period in the previous year. Net sales increased by about EUR 4.3 million and amounted to EUR 29.5 (25.3) million. Net sales growth was mainly generated by the higher number of customers using accounting services.

Personnel expenses were EUR 15.0 (13.5) million during the review period, accounting for 50.9% (53.5%) 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 4.2 million, being 14.4% of net sales. Due to the adoption of IFRS 16 Leases, other operating expenses are not directly comparable in the periods 1-6/2018 and 1-6/2019 (see Tables: Consolidated comprehensive income statement).

Operating profit was EUR 6,600 thousand (22.3% of net sales) during the review period and net profit was EUR 4,924 thousand. The adoption of IFRS 16 had a positive effect on operating profit (+EUR 47 thousand) and a negative effect on net profit (-EUR 42 thousand). Adjusted operating profit excluding the impacts of IFRS 16 was EUR 6,553 (5,227) thousand, 22.2% (20.7%) of net sales, and the net profit was 4,965 (3,947) thousand.

The improved profitability was due to the improvement in the efficiency of bookkeeping.

BALANCE SHEET, FINANCING AND INVESTMENTS

On 30 June 2019, the consolidated balance sheet total was EUR 70.0 (47.7) million. The Group had an equity ratio of 30.5% and a net gearing ratio of 137%.

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 42 percentage points. Equity ratio adjusted to ignore the effects of IFRS 16 stood at 35.1% (34.1%) and net gearing ratio at 95% (119%).

On 30 June 2019, the Group's interest-bearing financial loans were EUR 28.0 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 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 EUR 7.3 million and current lease liabilities at EUR 1.7 million on 30 June 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 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 EUR 2.3 (1.9) million in the review period. Investments concerning software and digital services amounted to EUR 2.3 (2.1) million.

The company's total net investments during the period 1 January-30 June 2019 were EUR 9.5 (5.5) million.

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 Företagstjänster Ab Oy. These transactions accounted for EUR 4.2 million of net investments and half was paid for with new Talenom Plc shares subscribed for in a directed issue.

Liquid assets amounted to EUR 8.4 (4.0) million on 30 June 2019. In addition, the company's unused overdraft limits stood at EUR 1.0 million on 30 June 2019.

MARKET AND SECTORAL REVIEW

The accounting market in Finland is fragmented. According to Statistics Finland's structural business and financial statement statistics, the number of companies in the sector was 4,249 (4,235) in 2017 and the average size of company was 2.8 employees. The accountancy market has a lot of one-person offices and part-time entrepreneurs. Market fragmentation offers the opportunity for growth and creates benefits of scale. 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 Business Register statistics for earlier years, annual growth in average net sales in the accountancy market totalled 4.8% in the period 2001–2017.

According to Statistics Finland's structural business and financial statement statistics, the total size of the accountancy market was EUR 998 (970) million in 2017, while Talenom's market share was 4.1%, measured in net sales. Correspondingly, in 2018 Talenom's market share would have been 4.8%, assuming that annual growth in the sector remained at the same level as in 2017.

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 solutions for customers.

In the view of Talenom, customers expect a more diverse, proactive and unified service offering from accounting offices. At the same time, the automation and digitalisation of routine work is enabling the expansion of service portfolios in the direction of consultancy. The service offering is increasingly focusing on routine work, in order to support the management of client companies in developing and guiding their businesses.

This is reinforced by the increasing complexity of the customer's business environment, which 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 2019 was about 699. 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 Ahosola (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.

On 29 July 2019, after the end of the review period, a new CEO took the helm at Talenom: Otto-Pekka Huhtala, the former Deputy CEO. At the same time, Jussi Paaso stepped down from the executive board to attend to tasks in support of growth.

ANNUAL GENERAL MEETING 2019

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, 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](https://www.talenom.fi/sijoittajat/yhtiokokoukset).

BOARD OF DIRECTORS AND AUDITOR

The AGM re-elected Harri Tahkola, Mikko Siuruainen, Olli Hyyppä, Anne Riekkö and Johannes Karjula to the Board of Directors. The composition of the Board remained unchanged. In its organising meeting after the AGM, the Board of Directors elected Harri Tahkola as Chairman of the Board.

The auditing firm KPMG Ltd was selected to continue as the auditor, with Tapio Raappana, APA as the principal auditor.

SHARES AND SHAREHOLDERS

On 30 June 2019, Talenom Plc had a total of 6,972,672 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 30 June 2019. On 30 June 2019, Talenom had a total of 3,520 (2,407) shareholders, representing a year-on-year increase of 1,113 shareholders.

There were 123 trading days in the review period 1 January–30 June 2019. A total of 880,429 shares were traded during this period, and the value of the shares traded was EUR 24,750,657. The highest share price was EUR 36.20 and the lowest EUR 18.90. The volume weighted average price was EUR 28.11, and the closing price at the end of the review period 30 June 2019 was EUR 33.40. In accordance with the closing price, the combined market value of the shares was approximately EUR 232.9 million.

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.

SIGNIFICANT EVENTS IN THE REVIEW PERIOD

During the review period, Talenom signed franchising agreements with three new entrepreneurs and opened new franchise offices in Rauma and Kirkkonummi. The number of franchising entrepreneurs rose to 26.

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.

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 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) 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 Talenom Plc shares subscribed for in a directed 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.

At 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 employ 30 people. The combined net sales of the businesses amounted to EUR 2.2 million between 1 March 2018 and 28 February 2019 (unaudited) and the operating margin (EBITDA) was EUR 0.2 million. The purchase price totalled EUR 1,590 thousand, of which EUR 690 thousand 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 of the new shares was entirely recorded in Talenom Plc's reserve for invested unrestricted equity.

EVENTS AFTER THE REVIEW PERIOD

A new CEO took the helm at Talenom. On 29 July 2019, former Deputy CEO Otto-Pekka Huhtala assumed the position of CEO, as Jussi Paaso stepped down of his own volition to attend to tasks in support of the company's growth.

No other significant events took place after the review period.

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% 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 AGM 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 AGM of 26 February 2019, and they likewise 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 (30 June 2019) as follows:

Option categories	2016C	2018	2019
Options given (pcs)	119,050	60,000	192,000
Talenom Plc's holding or undistributed	76,950	0	8,000
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
Current subscription price of options	5.48	11.52	19.70
Total number of options	196,000	60,000	200,000
Talenom Plc's holding or undistributed	76,950	0	8,000
Number of shares at 30 June 2019	6,972,672	6,972,672	6,972,672
Number of shares if all options are converted into new shares	7,168,672	7,032,672	7,172,672
Options and voting rights of options if all options are converted into new shares	2.734%	0.853%	2.788%

The total number of shares will increase from 6,972,672 to 7,428,672 if all of the three stock 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).

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 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 Group Financial Controller, 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

The half-year report has been prepared in accordance with IAS 34 Interim Financial Reporting. With the exception of IFRS 16, which came into force on 1 January 2019, its accounting policies are the same as those presented in Talenom's financial statement for 2018. The financial statement is available on the company's investor pages at www.talenom.fi/sijoittajat. In the IFRS reporting, the Group has one reporting business segment, its accounting services.

The Talenom Group adopted IFRS 16 Leases 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 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. IFRS 16 includes exemptions for short-term leases and leases of low-value assets, which the company has applied. The related payments have been recognised as expenses in equal instalments in the income statement. In the interest of comparability, in its key figures and consolidated balance sheet for the review period, the company presents both the effects of IFRS 16 and information adjusted to ignore the effects of IFRS 16.

The amount of the asset recognised in the balance sheet on 1 January 2019 and the corresponding interest-bearing debt was EUR 8.0 million. Other operating lease commitments on 31 December 2018 amounted to EUR 11.8 million. Lease liabilities and operating lease commitments differed at the time of adoption mainly because the company has separated out the non-lease component of lease agreements for business premises (maintenance charges) and has recognised an asset according to IFRS 16 only for the net rent component. This difference is also affected by the application of exemptions for short-term leases and leases of low-value assets as well as the interest rate used in discounting lease liabilities, 2.5% on average. Interest on lease liabilities is disclosed in financial expenses.

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, 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 metrics are presented below under section Formulas.

In addition to the aforementioned, the company presents alternative performance metrics in describing the effects of IFRS 16 on its financial information.

FINANCIAL REPORTING

Talenom Plc will publish interim reports as follows:

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.

TABLES

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

Thousand euro	1-6/2019	Effect of IFRS 16 *)	Adjusted 1-6/2019	1-6/2018	1-12/2018
Net sales	29,545		29,545	25,277	48,871
Other operating revenue	199		199	388	658
			0		
Materials and services	-1,513		-1,513	-1,238	-2,555
Employee benefit expenses	-15,046		-15,046	-13,514	-26,226
Depreciation, amortisation and impairment losses	-3,856	-822	-3,034	-2,365	-5,130
Other operating expenses	-2,728	+869	-3,597	-3,322	-7,073
Operating profit	6,600	+47	6,553	5,227	8,545
Financial income	31		31	29	57
Financial expenses	-435	-99	-336	-306	-636
Net financial expenses	-403	-99	-305	-277	-578
Profit (loss) before taxes	6,197	-52	6,248	4,950	7,966
Income taxes	-1,273	+10	-1,283	-1,003	-1,603
Profit (loss) for the financial period	4,924	-42	4,965	3,947	6,363
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss					
Cash flow hedging	14		14	-1	27
Taxes on items that may be subsequently reclassified to profit or loss	-3		-3	0	-5
Other comprehensive income for the financial period after tax	11		11	-1	22
Total comprehensive income for the financial period	4,935	-42	4,976	3,946	6,385
Earnings per share calculated on the profit attributable to equity holders of the parent company					
Undiluted earnings per share (EUR)	0.71	-0.01	0.72	0.58	0.93
Diluted earnings per share (EUR)	0.70	-0.01	0.71	0.57	0.91

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

CONSOLIDATED BALANCE SHEET

Thousand euro	30 June 2019	Effect of IFRS 16 *)	Adjusted 30 June 2019	30 June 2018	31 December 2018
ASSETS					
Non-current assets					
Goodwill	20,728		20,728	18,420	18,420
Other intangible assets	13,495		13,495	9,896	10,493
Property, plant and equipment	11,363	+8,913	2,450	2,448	2,248
Other non-current financial assets	307		307	237	237
Deferred tax assets	79	+10	69	74	62
Capitalised contract costs	9,331		9,331	7,508	8,357
Total non-current assets	55,303	+8,923	46,379	38,583	39,817
Current assets					
Trade and other receivables	6,132		6,132	4,890	5,473
Current tax assets	154		154	238	11
Cash and cash equivalents	8,423		8,423	4,036	5,914
Total current assets	14,709	0	14,709	9,163	11,398
Total assets	70,012	+8,923	61,089	47,747	51,215
CAPITAL AND RESERVES					
Share capital	80		80	80	80
Reserve for invested unrestricted equity	13,009		13,009	10,850	10,850
Fair value reserve	-82		-82	-114	-93
Retained earnings	8,291	-42	8,333	5,373	7,850
Total equity	21,298	-42	21,340	16,190	18,688
LIABILITIES					
Non-current liabilities					
Liabilities to credit institutions	28,000		28,000	21,250	23,500
Trade and other payables	202		202	299	230
Non-current lease liabilities	7,260	+7,260	0	142	116
Deferred tax liabilities	102		102	44	50
Total non-current liabilities	35,564	+7,260	28,304	21,736	23,896
Current liabilities					
Financial liabilities	0		0	1,250	0
Trade and other payables	10,202		10,202	7,685	7,728
Current lease liabilities	1,705	+1,705	0	0	0
Current tax liabilities	1,243		1,243	886	903
Total current liabilities	13,150	+1,705	11,445	9,821	8,631
Total liabilities	48,714	+8,965	39,749	31,557	32,528
Total equity and liabilities	70,012	+8,923	61,089	47,747	51,215

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Thousand euro	1-6/2019	1-6/2018	1-12/2018
Cash flow from operating activities			
Profit (loss) before taxes	6,197	4,950	7,966
Adjustments:			
Depreciation, amortisation and impairment losses	3,856	2,365	5,130
Financial income	-31	-29	-57
Financial expenses	435	306	636
Other adjustments	151	64	125
Changes in working capital:			
Change in trade receivables and other receivables	-268	568	-16
Change in trade payables and other liabilities	1,695	-664	-496
Interest income	31	29	57
Income taxes paid	-1,196	-793	-1,136
Net cash flow from operating activities	10,870	6,796	12,208
Cash flow from investing activities			
Proceeds from the sale of property, plant and equipment	163	122	239
Acquisition of property, plant and equipment	-539	-363	-560
Capitalisation of contract costs	-2,309	-1,865	-3,740
Investments in intangible assets	-2,391	-2,288	-4,345
Acquired businesses	-2,077	-505	-505
Net cash flow from investing activities	-7,152	-4,899	-8,910
Cash flow from financing			
Proceeds from share issue			
Purchase of treasury shares			
Interest paid	-429	-297	-647
Realisation of options	-684	-160	-160
Dividend / Repayment of capital	-3,777	-2,197	-2,197
Change in instalment payment liabilities	-45	-85	-259
Loan withdrawals	4,500	0	23,500
Loan repayments	0	0	-22,500
Repayment of lease liabilities	-771	0	0
Net cash flow from financing activities	-1,205	-2,740	-2,263
Change in cash and cash equivalents	2,513	-842	1,035
Cash and cash equivalents on 1 Jan.	5,914	4,879	4,879
Net effect of exchange rate fluctuations on cash and cash equivalents	-3		
Cash and cash equivalents	8,423	4,036	5,914

The Talenom Group adopted IFRS 16 Leases on 1 January 2019, due to which the review periods are not fully comparable. During the period 1-6/2019, the standard had a negative effect on net cash flow from operating activities (-EUR 869 thousand) and a positive effect on cash flow from financing (+EUR 869 thousand).

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Thousand euro	Share capital	Reserve for invested unrestricted equity	Fair value reserve	Retained earnings	Total
Total equity 1 January 2019	80	10,850	-93	7,850	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	
Share issue		2,159			2,159
Redeemed options				-859	-859
Share-based payments				151	151
Transactions with owners, total	0	2,159	0	-4,483	-2,326
Total equity 30 June 2019	80	13,009	-82	8,291	21,296

Thousand euro	Share capital	Reserve for invested unrestricted equity	Fair value reserve	Retained earnings	Total
Total equity 1 Jan. 2018	80	12,373	-114	1,603	13,942
Comprehensive income					
Profit for the financial period				6,363	6,363
Cash flow hedging			22		22
Total comprehensive income for the financial period	0	0	22	6,363	6,385
Transactions with owners					
Dividend distribution and capital repayment		-2,197			-2,197
Share issue		675			675
Redeemed options				-242	-242
Share-based payments				126	126
Transactions with owners, total	0	-1,523	0	-116	-1,639
Total equity 31 December 2018	80	10,850	-93	7,850	18,688

Thousand euro	Share capital	Reserve for invested unrestricted equity	Fair value reserve	Retained earnings	Total
Total equity 1 Jan. 2018	80	12,373	-114	1,603	13,942
Comprehensive income					
Profit for the financial period				3,947	3,947
Cash flow hedging			1		1
Total comprehensive income for the financial period	0	0	1	3,947	3,948
Transactions with owners					
Dividend distribution and capital repayment		-2,197			-2,197
Share issue		675			675
Redeemed options				-242	-242
Share-based payments				65	65
Transactions with owners, total	0	-1,522	0	-177	-1,700
Total equity 30 June 2018	80	10,850	-113	5,373	16,190

The Talenom Group adopted IFRS 16 Leases on 1 January 2019, due to which the review periods are not fully comparable. During the period 1-6/2019, the standard had a negative effect on net profit and equity (-EUR 42 thousand).

OPERATING SEGMENTS

The Group has one reporting business segment, the accounting services, that are 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 1–6/2019

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 1–6/2018

Thousand euro	Accounting services	Unallocated items and eliminations	Group total
External net sales	23,527	1,750	25,277
Total net sales	23,527	1,750	25,277
Operating expenses	-16,373	-1,701	-18,074
Other income	199	189	388
EBITDA	7,353	238	7,592
Depreciations	-1,776	-234	-2,010
Amortisations	-355	0	-355
Operating result	5,222	4	5,227

Operating segments 1–12/2018

Thousand euro	Accounting services	Unallocated items and eliminations	Group total
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
EBITDA	13,803	-128	13,674
Depreciations	-3,791	-454	-4,244
Amortisations	-885	0	-885
Operating result	9,127	-582	8,545

BUSINESS ACQUISITIONS

On 2 May 2019, the Group acquired the shares in Wakers Consulting Ab in Stockholm. The purchase price for the shares in 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. 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 paid will decrease if the shareholders sell shares they have subscribed. The amount of contingent consideration recorded at the time of acquisition was EUR 0.

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 EUR 1,368 thousand 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 or business	-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 financial period would have been EUR 200 thousand and on net sales EUR 1,900 thousand.

COLLATERAL AND CONTINGENT LIABILITIES

	30 June 2019	30 June 2018	31 December 2018
Liabilities secured by an enterprise mortgage			
Loans from financial institutions	28,000	22,500	23,500
Enterprise mortgages provided as security	31,860	31,860	31,860
Other deposits and enterprise mortgages			
Deposits	3,074	3,074	3,074
Other *)	2,502	2,721	2,547
Off-balance sheet operating lease commitments **)	3,050	11,851	11,767
Interest rate swaps			
Fair value	-122	-165	-138
Value of the underlying instrument	12,444	13,722	13,083

*) Other contingent liabilities are related to the issued, unused overdraft limit, bank guarantee limit, and commitments for instalment payment liabilities.

***) The Talenom Group adopted IFRS 16 Leases on 1 January 2019. The adoption of IFRS 16 has reduced external operating lease commitments in the balance sheet. Operating lease commitments comprise short-term leases and leases of low-value assets, included under voluntary exemptions by the standard, and service components in lease agreements for business premises.

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 net 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)	=	$\left(\frac{\text{net sales at the end of the period}}{\text{net sales in the beginning of the period}} \right)^{1/\text{number of years} - 1}$	

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.