



Financial Statements **2018**

Financial Statements and Annual Report 2018

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Report of the Board of Directors 2018

iLOQ is a Finnish technology company that is rapidly growing and internationalizing. iLOQ is transforming mechanical locking into digital access management.

iLOQ's technological solutions enable electronic locking without batteries or cables. The company's products are sold via the iLOQ retail channel, which offers professional installation, servicing, and maintenance services. The company has more than 600 retailers globally. Revenues increased steadily during the 2018 financial period in the oval and DIN lock cylinder markets. Product manufacturing is based on outsourced, flexibly scalable production, with distribution from distribution centers managed by iLOQ. In addition, the company has a small-scale production unit to support its research and development needs. In line with its growth strategy, iLOQ continued to strengthen its organization in 2018 to support the company's long-term internationalization and growth targets. The most significant investments were made in strengthening the company's international sales and marketing, and in research and development. The company's strategy calls for the international expansion and reinforcement of existing functions, and iLOQ expanded its Central European operations by opening new sales companies in France and Spain. The company's other national companies are in Sweden, Norway, Denmark, Germany, and the Netherlands.

In May, iLOQ released the iLOQ S50, the world's first mobile access management solution using NFC technology. The iLOQ S50 is intended for electricity generation and transmission companies, telephone network services, data centers, water treatment plants, real estate services, and transportation services. The iLOQ S50 works without a key using the NFC technology in smartphones, and it operates via a cloud service that enables access rights to be shared securely. The iLOQ S50's technology is based on the world's first and only lock cylinder that receives the energy required for opening from a smartphone.

In addition to expanding its network of retailers, the company signed framework agreements with companies including Finland's leading real estate companies, YIT, SATO, Bonava, Avain Yhtiöt, and the Student Housing Foundation of Northern Finland. Furthermore, several measures have been taken and initiated to raise aware-

ness of iLOQ and boost the brand with the aim of achieving good visibility among the main target groups in Central and Northern Europe, the market areas that are important to the company.

In May 2018, the company announced that it was assessing the possibility of listing its shares on the Nasdaq Helsinki Ltd stock exchange, alongside other alternatives for ensuring the company's rapid growth and internationalization. This examination will continue in 2019 due to the number of potential alternatives and the time required to make a choice.

BUSINESS DURING THE FINANCIAL PERIOD

For the sixth year in succession, iLOQ generated strongly positive income despite its rapid expansion and substantial investments in internationalization. In the 2018 financial period, iLOQ Group's revenues were EUR 50.2 million (2017: EUR 40.3 million), an increase of 24.5% year-on-year. The growth in revenues in Central Europe was driven by operations in Germany, leading to a year-on-year increase of 53.9% to EUR 8.8 (5.7) million. Revenues from operations in Northern Europe amounted to EUR 41.5 (34.6) million, showing year-on-year growth of 19.7%. In Northern Europe, revenues grew fastest in Sweden in euro terms.

The company's profitability improved by all key measures in the 2018 financial period. Rapid growth improved the gross margin by 23.0% year-on-year to 55.0% (55.7%) of revenue. EBITDA in 2018 was EUR 9.5 million (2017: EUR 10.1 million). The costs for 2018 include a non-recurring charge of EUR 0.8 million for work related to examining the listing of the company's shares and other strategic alternatives. Taking into consideration the systematic investments in growth in line with the strategy and the costs of the ongoing strategic investigation work, the comparable EBITDA increased 2.1% year-on-year to EUR 10.3 (10.1) million. Comparable EBITDA was 20.5% of revenue (25.0%). At the end of the year, the company had 129 (86) personnel, representing a year-on-year increase of 50.0%. Operating profit (EBIT) amounted to EUR 8.3 (9.1) million, which is 16.5% (22.6%) of revenue. The company's net profit for the 2018 financial period was EUR 6.5 (7.2) million.

THE GROUP'S KEY FINANCIAL INDICATORS

| EUR THOUSAND | 2018 | 2017 | 2016 | 2015 |
|---|--------|--------|--------|--------|
| Revenue | 50 249 | 40 345 | 33 741 | 23 063 |
| Revenue growth (%) | 24,5 % | 19,6 % | 46,3 % | - |
| Gross margin | 27 624 | 22 454 | 16 686 | 10 902 |
| Gross margin, % | 55,0 % | 55,7 % | 49,5 % | 47,3 % |
| EBITDA | 9 463 | 10 100 | 6 373 | 2 679 |
| EBITDA, % | 18,8 % | 25,0 % | 18,9 % | 11,6 % |
| Comparable (EBITDA) | 10 309 | 10 100 | 7 456 | 2 679 |
| Comparable (EBITDA), % | 20,5 % | 25,0 % | 22,1 % | 11,6 % |
| EBIT | 8 284 | 9 115 | 5 079 | 1 784 |
| EBIT, % | 16,5 % | 22,7 % | 15,1 % | 7,7 % |
| Comparable (EBIT) | 9 130 | 9 115 | 6 523 | 1 784 |
| Comparable (EBIT), % | 18,2 % | 22,6 % | 19,3 % | 7,7 % |
| Investments, tangible and intangible assets | 3 301 | 1 726 | 923 | 1 132 |
| Investments (% of revenue) | 6,5 % | 4,3 % | 2,7 % | 4,9 % |
| Solvency ratio, % | 68,6 % | 70,4 % | 58,2 % | 58,3 % |
| Return on equity (%) | 33,4 % | 43,1 % | 38,3 % | 17,6 % |
| Average number of employees | 109 | 78 | 62 | 56 |
| Number of employees at the end of period | 129 | 86 | 67 | 54 |

REVIEW OF THE SCOPE OF RESEARCH AND DEVELOPMENT ACTIVITIES

The company has invested in developing new products and improving the features and manufacturing methods of its existing products. The most important development project involved developing the mechanics, electronics, and software for the iLOQ S50 locking system, which was launched in the financial period.

Capitalized investments in tangible and intangible assets in 2018 amounted to EUR 3.3 (1.7) million.

THE COMPANY'S FINANCIAL POSITION

At the end of the 2018 financial period, the company's liquidity and financial position were good. Cash flow from operations in 2018 totaled EUR 3.8 (7.4) million. Compared with the previous year, the cash flow from operations reflected the investments in business growth and, thereby, also the working capital committed to the business, as well as the supplementary tax paid in relation to the net profit in the previous year.

The consolidated balance sheet total at the end of the review period was EUR 26.5 (29.8) million and the equity ratio was 68.6% (70.4%).

FINANCING ARRANGEMENTS AND SPECIAL RIGHTS

The General Meeting held on March 23, 2018 decided to authorize the Board of Directors to decide on a directed share issue of a maximum of 60,000 class K shares. The Board of Directors is freely entitled to decide on all of the terms and conditions of the directed share issue. The authorization is valid until revoked. On December 31, 2018, the Board of Directors decided on a directed issue of 1,500 shares on the basis of the authorization. Furthermore, the Board of Directors decided during the 2018 financial period to execute a directed issue of a total of 5,300 new class K shares on the basis of the authorization granted by the General Meeting held on March 22, 2017. On December 31, 2018, at the end of the financial period, the authorization granted on March 22, 2017 is no longer valid. The company had a weighty financial reason in accordance with chapter 9, section 4, point 1 of the Limited Liability Companies Act for the directed share issues as they were related to the incentive and commitment scheme for the company's key personnel.

The subscription price received from the share issues were recognized in the company's invested unrestricted equity fund.

In 2018, the General Meeting authorized the Board of Directors to decide on an option program permitting a maximum of 60,000 new class K shares in the company to be subscribed. The Board of Directors is freely entitled to decide on all of the terms and conditions of the option program.

The company has a weighty reason for this decision because the option program is intended to commit the company's key personnel to new roles. The authorization is valid until revoked, and it superseded the option authorization granted on June 30, 2016. On December 20, 2018, the Board of Directors decided on a new option program, which will offer a maximum of 20,000 options for subscription. The option rights entitle their holders to subscribe to a total maximum of 20,000 new class K shares or class K treasury shares. The share subscription period is from May 1, 2021 to December 31, 2026.

In 2018, the General Meeting decided to launch an option program for members of the parent company's Board of Directors. According to the terms of the options program, options were issued without charge to members of the Board of Directors, each of whom could receive a maximum of 500 options. The options program is a means of committing the members of the Board of Directors to the company and, therefore, there is a sound financial justification on the part of the company. The option rights entitle their holders to subscribe to a total maximum of 3,000 class K shares in the company.

RELATED-PARTY LOANS AND LIABILITIES

The company has granted related-party loans at market rates to commit its key personnel to the company in relation to its share-based incentive scheme. On December 31, 2018, the total amount in loans was EUR 2,980,000.00. The term of the loan is 10 years and the interest rate is the 12-month Euribor rate plus 1.5%. The guarantees for the loans are the shares that were subscribed by key personnel using the loans.

SIGNIFICANT EVENTS SINCE AFTER THE FINANCIAL PERIOD

No material changes have occurred in the company's operations or financial position since the end of the financial period.

ESTIMATE OF PROBABLE FUTURE DEVELOPMENT

The company's management forecasts a growth in revenues in the current market areas thanks to development measures to accelerate growth in 2019. Profitability is forecast to remain good despite the investments in growth.

BUSINESS RISKS

The company operates a network business model to manufacture and distribute its products.

Efforts are made to prevent risks related to business operations by identifying the risks in advance. In 2018, special attention was paid to ensuring the availability of com-

ponents in order to safeguard the company's ability to supply its products.

Due to the nature of the operations of the company's security products, efforts are made to prevent product-related risks through thorough product testing, both internally and by external testing institutions, and through high-quality operations at every stage of research, development, and manufacturing.

The above-mentioned and other business risks are also covered by insurance policies, in addition to the development of operational processes. The Board of Directors is not aware of any legal action or risks related to credit losses as could materially affect the company's profitability.

QUALITY AND ENVIRONMENTAL MANAGEMENT

The company has a certified ISO 9001:2015 quality management system and a certified ISO 14001:2015 environmental management system. The company's iLOQ S10/S50 SaaS service is provided by Fujitsu Services Oy, which holds ISO 27001:2013 certification for its information security management system.

COMPANY SHARES

The company's share capital is distributed as follows:

| | 2018 | 2017 |
|----------------|-----------|-----------|
| Class K shares | 1 238 744 | 1 220 124 |
| Class A shares | 0 | 0 |

All shares carry an equal right to dividends and company assets. Both series of shares are subject to the redemption clause of the Articles of Association.

TREASURY SHARES

The Group held no treasury shares on December 31, 2018.

PROPOSAL OF THE BOARD OF DIRECTORS FOR DISTRIBUTION OF PROFITS

On December 31, 2018, iLOQ Ltd had distributable equity of EUR 13,140,165.20, including the profit for the financial period of EUR 6,507,602.91. The company's distributable funds are divided between the invested unrestricted equity fund, which contains EUR 5,151,132.20, and retained earnings, which contains EUR 12,420,178.49. Capitalized development expenditure reduces the amount of distributable assets by a total of EUR 4,431,685.49.

The Board of Directors proposes to the General Meeting that a dividend of EUR 2.00 be paid for the 2018 period for each class K share in circulation.

Since the end of the financial period, no material changes have occurred in the company's financial position. The company's liquidity is good, and it is the opinion of the Board of Directors that the proposed distribution of profit and refund of capital will not compromise the company's solvency.

AUDIT

The company's auditor was KPMG Oy Ab, a firm of auditors, with Tapio Raappana, Authorized Principal Auditor, as the principal auditor.

iLOQ Consolidated Financial Statements IFRS

2018



iLOQ-GROUP
INCOME STATEMENT IFRS

| EUR thousand | Note | 1.1.2018–31.12.2018 | 1.1.2017–31.12.2017 |
|--|------|---------------------|---------------------|
| Revenue | 4 | 50 249 | 40 345 |
| Other income | | 3 | 0 |
| Materials and services | 6 | -22 628 | -17 892 |
| Employee benefit expenses | 7 | -9 395 | -6 982 |
| Depreciation, amortisation and impairment | 8 | -1 179 | -985 |
| Other operating expenses | 9 | -8 766 | -5 372 |
| Operating profit | | 8 284 | 9 115 |
| Finance income | 10 | 146 | 138 |
| Finance expenses | 10 | -278 | -343 |
| Net finance costs | | -132 | -205 |
| Profit (-loss) before taxes | | 8 152 | 8 910 |
| Income taxes | 11 | -1 659 | -1 727 |
| Profit (-loss) for the financial year | | 6 493 | 7 183 |
| Other comprehensive income | | | |
| Items that may be subsequently reclassified to profit or loss | | | |
| Other comprehensive income (-loss), net of tax | | -31 | -6 |
| Total comprehensive income (-loss) for the tax | | -31 | -6 |
| Total comprehensive income (-loss) for the year | | 6 462 | 7 177 |
| Earnings per share attributable to owners of the parent company | | | |
| Earnings per share, undiluted (EUR) | 17 | 5,20 | 6,02 |
| Earnings per share, diluted (EUR) | | 5,20 | 5,98 |

iLOQ-GROUP
BALANCE SHEET IFRS

| EUR thousand | Note | 31.12.2018 | 31.12.2017 |
|--|--------|---------------|---------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 12 | 6 489 | 4 952 |
| Property, plant and equipment | 13 | 1 406 | 821 |
| Deferred tax assets | 11 | 507 | 654 |
| Other receivables | 15, 26 | 2 980 | 2 292 |
| Total non-current assets | | 11 382 | 8 719 |
| Current assets | | | |
| Inventories | | 5 532 | 3 501 |
| Trade and other receivables | 15 | 8 260 | 6 664 |
| Current tax assets | 11 | 40 | 0 |
| Cash and cash equivalents | 16 | 1 218 | 10 871 |
| Total current assets | | 15 051 | 21 036 |
| TOTAL ASSETS | | 26 433 | 29 755 |
| SHAREHOLDERS' EQUITY | | | |
| Equity | | | |
| Share capital | 17 | 1 000 | 1 000 |
| Share premium reserve | 17 | 380 | 380 |
| Reserve for invested non-restricted equity | 17 | 5 151 | 12 717 |
| Translation reserve | | -25 | 7 |
| Retained earnings | 17 | 11 462 | 6 752 |
| Total shareholders' equity | | 17 982 | 20 856 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Liabilities to credit institutions | 24 | 314 | 245 |
| Total non-current liabilities | | 314 | 245 |
| Current liabilities | | | |
| Account payables and other liabilities | 21 | 7 349 | 6 245 |
| Current provisions | 24 | 710 | 1 013 |
| Liabilities to credit institutions | | | |
| current tax liabilities | 11 | 78 | 1 397 |
| Total current liabilities | | 8 137 | 8 655 |
| Total liabilities | | 8 451 | 8 900 |
| TOTAL EQUITY AND LIABILITIES | | 26 433 | 29 755 |

iLOQ-GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS IFRS

| EUR thousand | Note | 2018 | 2017 |
|--|------|----------------|---------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Profit (-loss) for the financial period | | 6 493 | 7 183 |
| Adjustments: | | | |
| Non-cash items | | 15 | 1 |
| Depreciation and amortisation | 8 | 1 179 | 985 |
| Unrealised exchange rate gains and losses | | 33 | -39 |
| Finance income | 10 | -146 | -138 |
| Finance expenses | | 278 | 343 |
| Taxes | 11 | 1 659 | 1 727 |
| Other adjustments | | -1 | -6 |
| Changes in working capital: | | | |
| Change in trade and other receivables | 15 | - 1 555 | -1 325 |
| Change in inventory | 14 | -2 031 | -1 406 |
| Change in trade and other payables | 21 | 1 081 | 1 128 |
| Change in provisions | 24 | -234 | 28 |
| Interest paid | | -17 | -22 |
| Interest received | | 7 | 18 |
| Income taxes paid | | -2 913 | -999 |
| Other financial items | | -45 | -55 |
| Net cash flow from operating activities | | 3 803 | 7 423 |
| Cash flow from investing activities | | | |
| Purchases of tangible fixed assets | 13 | -901 | -506 |
| Purchases of intangible fixed assets | 12 | -2 400 | -1 220 |
| | | -3 301 | -1 726 |
| Net cash flow from investing activities | | | |
| Cash flow from financing activities | | | |
| Loans granted | 15 | -688 | -2 292 |
| Repayments of loans and borrowings | | 688 | 2 402 |
| Dividends paid | 17 | -1 786 | -1 167 |
| Refund of capital | | -8 254 | 0 |
| Payments of short-term liabilities | 20 | 0 | -519 |
| Proceeds from long-term liabilities | 20 | 0 | -1 307 |
| Net cash flow from financing activities | | -10 040 | -2 883 |
| Change in cash and cash equivalents | | -9 538 | 2 814 |
| Cash and cash equivalents, Jan 1 | | 10 871 | 8 235 |
| Net effect of exchange rate changes on cash and cash equivalents | | -115 | -178 |
| Cash and cash equivalents, Dec 31 | 16 | 1 218 | 10 871 |

iLOQ-GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IFRS

Equity attributable to shareholders of the parent company

| EUR thousand | Note | Share capital | Share premium reserve | Reserve for intested non-restricted equity | Translation reserve | Retained earnings | Total |
|---------------------------------------|------|---------------|-----------------------|--|---------------------|-------------------|---------------|
| EQUITY | | | | | | | |
| Equity at Jan 1, 2018 | 17 | 1 000 | 380 | 12 717 | 7 | 6 753 | 20 857 |
| Comprehensive income | | | | | | | |
| Profit for the financial year | | | | | | 6 493 | 6 493 |
| Translation difference | | | | 0 | -31 | 0 | -31 |
| Total comprehensive income | | 0 | 0 | 0 | -31 | 6 493 | 6 462 |
| Transactions with shareholders | | | | | | | |
| Issue of shares | 17 | | | 688 | | 0 | 688 |
| Dividend | | | | | | -1 786 | -1 786 |
| Refund of capital | | | | -8 254 | | 0 | -8 254 |
| Share-based payments | | | | 0 | | 15 | 15 |
| Total transactions with owners | | 0 | 0 | -7 566 | 0 | -1 771 | -9 337 |
| EQUITY AT DEC 31, 2018 | 17 | 1 000 | 380 | 5 151 | -25 | 11 476 | 17 982 |

Equity attributable to shareholders of the parent company

| | | | | | | | |
|--|----|--------------|------------|---------------|-----------|---------------|---------------|
| EQUITY | | | | | | | |
| Equity at Jan 1, 2017 | 17 | 1 000 | 380 | 10 315 | 13 | 737 | 12 446 |
| Comprehensive income | | | | | | | |
| Profit for the financial year | | | | | | 7 183 | 7 183 |
| Translation difference | | | | 0 | -6 | 0 | -6 |
| Total comprehensive income for the financial period | | 0 | 0 | 0 | -6 | 7 183 | 7 177 |
| Transactions with owners | | | | | | | |
| Issue of shares | 17 | | | 2 292 | | | 2 292 |
| Dividend | | | | | | -1 167 | -1 167 |
| Share options exercised | 18 | | | 110 | | 0 | 110 |
| Total transactions with owners | | 0 | 0 | 2 402 | 0 | -1 167 | 1 234 |
| EQUITY AT DEC 31, 2017 | 17 | 1 000 | 380 | 12 717 | 7 | 6 753 | 20 857 |



Notes to the financial statements IFRS 2018

Konsernitilinpäätöksen laadintaperiaatteet

NOTE 1 BASIC INFORMATION ABOUT THE GROUP

iLOQ is a Finnish technology company that is rapidly growing and internationalizing. iLOQ designs, manufactures, markets, and sells security systems. The company's products are sold via the iLOQ retail channel, which offers professional installation, servicing, and maintenance services, with operations in Finland, Sweden, Norway, Denmark, Germany, the Netherlands, France, and Spain. Product manufacturing is based on outsourced, flexibly scalable production, with distribution managed by iLOQ.

iLOQ Ltd is a Finnish limited liability company operating under Finnish law. iLOQ Ltd is the parent company of iLOQ Group. The parent company's domicile is Oulu, Finland. Copies of the consolidated financial statements are available at iLOQ Ltd's head office. The company's registered address is Yrttipellontie 10, 90230 Oulu, Finland.

The Board of Directors of iLOQ Ltd approved the financial statements for publication at its meeting on February 27, 2019. In accordance with the Finnish Limited Liability Companies Act, shareholders have the opportunity to accept or reject the financial statements at an Annual General Meeting to be held after the statements have been published. The Annual General Meeting can also vote to alter the financial statements

NOTE 2 BASIS FOR PREPARING THE FINANCIAL STATEMENTS

The consolidated financial statements for the 2018 and 2017 financial periods have been prepared in compliance with the International Financial Reporting Standards (IFRS), adhering to the IAS and IFRS standards and SIC and IFRIC interpretations valid on 31 December 2017 for application in the EU. In addition, the company has applied the IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments standards in its consolidated financial statements for the 2018 and 2017 financial periods, exercising the option, as permitted by the standards, to apply them before they become mandatory. "International financial reporting standards" refers to the standards approved for application in the Finnish Accounting Act and the provisions laid down pursuant to the Act in accordance with the procedures laid down in

Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards, as well as the interpretations of these standards. The notes to the consolidated financial statements also conform to the Finnish accounting and company legislation supplementing the IFRS standards.

The consolidated financial statements for the 2018 and 2017 financial periods combine the figures for the parent company with the figures for the subsidiaries (jointly referred to as the "Group"). The Group consists of the parent company and seven subsidiaries.

NOTE 3 ACCOUNTING PRINCIPLES BEHIND THE CONSOLIDATED FINANCIAL STATEMENTS

Accounting principles requiring management discretion and uncertainty factors relating to estimates

Preparing consolidated financial statements in accordance with IFRS requires the company's management to exercise discretion, use estimates and make assumptions that affect the application of the accounting principles, the reporting of assets and liabilities, and the amounts of income and expenses. These estimates are based on the management's best insight at the present time, but it is possible that actual results may ultimately deviate from the estimates made.

The Group regularly monitors the realization of estimates and assumptions, as well as the changes occurring in the background. Changes in the estimates and assumptions are entered into the accounts in the financial period during which the changes occur as well as in all subsequent periods.

The most common and significant circumstances where the management is called upon to exercise discretion and make estimates are related to the following decisions:

- Estimates of future business development and the assumptions used for impairment testing on development projects
- The depreciation periods for tangible and intangible assets
- Estimates of the amount of warranty provisions
- Recognition of deferred tax assets for losses

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NOTES TO THE FINANCIAL STATEMENTS

CONSOLIDATION PRINCIPLES BEHIND THE CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries

The consolidated financial statements include the parent company and all of the subsidiaries under the control of the Group's parent company. Control arises when the Group's participation in the entity exposes the Group to the entity's variable income or entitles it to variable income and the Group is able to influence this income by exercising its control over the entity. The Group's control over an entity is based on voting rights. All of the subsidiaries included in the consolidated financial statements are wholly owned.

Subsidiaries are consolidated from the date of acquisition until the date when the parent company no longer has control over the subsidiary.

Intra-Group transactions, receivables, liabilities, unrealized profits and internal distribution of profit are eliminated in the consolidated financial statements.

During consolidation, the accounting principles applied to the subsidiaries are altered if necessary to correspond to the accounting principles used for the consolidated financial statements.

CONVERSION OF ITEMS DENOMINATED IN FOREIGN CURRENCIES

The figures for the income and financial position of the Group's units are given in the currency primarily used in the company's operating environment (the "operating currency"). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the Group's parent company. The figures presented in the financial statements are rounded to the nearest thousand euros unless otherwise stated. For this reason, the sums of individual figures may differ from the totals stated.

FOREIGN-CURRENCY DENOMINATED TRANSACTIONS

Transactions in foreign currencies are recognized in the Group companies' operating currencies at the exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are converted to the operating currency at the exchange rates prevailing on the balance sheet date.

Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are converted to the operating currency at the exchange rates prevailing on the measurement date. Non-financial items denominated in foreign currencies and valued at original acquisition cost are

translated using the exchange rates prevailing on the date of transaction.

The gains and losses arising from translations of transactions and monetary items denominated in foreign currencies are recognized through profit or loss.

FINANCIAL STATEMENTS OF FOREIGN SUBSIDIARIES

The assets and liabilities of foreign subsidiaries are converted to euros at the exchange rates prevailing on the final day of the reporting period. Exchange rate gains or losses from the conversion of assets and liabilities denominated in foreign currencies are recognized on the consolidated statement of income as items affecting operating profit for items related to business operations, while financial items are recognized on the statement of income under financial income and expenses.

The income and expense items on the statements of income of the Group subsidiaries that operate in currencies other than the euro are converted into euros at the average exchange rate during the reporting period.

Converting the income for the financial period and the comprehensive income at different exchange rates on the balance sheet gives rise to a translation difference recognized under equity, and changes to the translation difference are recognized under other items of comprehensive income.

PRINCIPLES OF REVENUE RECOGNITION

Sales revenues are recognized in the amount that the Group expects to be entitled to receive on the basis of contracts with customers. The Group's sales revenues accrue from digital locking and access management systems and they are recognized when control over the goods or services is transferred to the customer.

The Group's customers are retailers. Customer contracts typically consist of a partnership agreement and each confirmed product order.

The contracts identify the separate performance obligations, which consist of supplied locks, as well as lock operation and maintenance services. The warranties related to the locks are identified as ordinary warranties that do not constitute a separate performance obligation. Instead, a warranty provision is made for them in accordance with the IAS 37 standard.

For locks, the transaction price consists of the price as per the price list, less estimated variable charges, which are any applicable annual discounts. The operation and maintenance agreement specifies the maintenance fees for the locking service. The total price of the service depends on the number of locks and the services selected by the customer. The agreements do not include significant financing components.

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NOTES TO THE FINANCIAL STATEMENTS

The capitalization of lock deliveries does not meet the criteria for capitalization over time, so they are capitalized when control is transferred on the basis of the delivery, when the risks and benefits have been transferred to retailers. Operation and maintenance agreements are capitalized over time as sales of services because the end customer receives the benefit of the service when it has been provided.

EMPLOYEE BENEFITS

Pension obligations

Pension schemes are classed as defined-benefit or defined-contribution schemes. Under defined-contribution schemes, the Group pays fixed fees to a separate unit and the Group has no legal or actual obligations to make further payments. The contributions paid into defined-contribution schemes are recognized through profit or loss as charges arising from employee benefits in the period to which the contribution applies. The Group's pension schemes are classed as defined-contribution pension schemes.

Share-based payments

Options are measured at fair value on the date of issue and recognized as expenses in the statement of income in equal installments over the vesting period. A corresponding amount is recognized directly as an addition to equity. The expense determined at issue is based on the Group's estimate of the number of options that are expected to vest at the end of the vesting period.

When options are exercised, the monetary payments received on the basis of share subscriptions (adjusted for any transaction costs) are recognized in the invested unrestricted equity fund. The vesting period for the Group's 2013 option scheme ended at the end of 2014, and the subscription period was from 2015 to 2017.

OPERATING PROFIT

Operating profit consists of revenues and other operating income less the costs of materials and services, the costs of employee benefits and other operating costs, as well as depreciation and impairment losses.

RECOGNITION OF INCOME TAXES AND DEFERRED TAXES

Income taxes consist of taxes based on the taxable income for the financial period, adjustments related to prior financial periods, and deferred taxes. The taxes based on taxable income for the period are calculated from the taxable income at the applicable tax rate in each country or at the tax rate that was approved in practice by the reporting date.

The Group offsets the tax assets and liabilities based on the taxable income for the period against each other only when the Group has a legally enforceable entitlement to offset the tax assets and liabilities based on the taxable income for the period against each other and it intends either to make the payment on a net basis or realize an asset item and settle the liabilities simultaneously.

Deferred taxes are calculated from the temporary differences between the carrying value and the taxable value using the tax rates enacted or approved in practice by the reporting date.

Deferred tax liabilities are recognized for all temporary differences between the carrying value and the taxable value. Deferred tax assets are recognized for all deductible temporary differences and for losses that can be deducted in tax up to the probable amount of taxable income in the future against which the temporary difference can be utilized. The criteria for recognizing deferred tax assets are estimated on the final day of each reporting period.

The Group offsets deferred tax assets and liabilities against each other only when the Group has a legally enforceable right to offset the tax assets and liabilities based on the taxable income for the period and when the deferred tax assets and liabilities relate to the income tax levied by the same tax authority on the same entity or different entities that intend to realize the asset and settle the liability on a net basis.

INTANGIBLE ASSETS

Intangible assets are recognized on the balance sheet only if the acquisition cost can be reliably determined and it is likely that the financial benefit derived from the asset will accrue to the Group.

Research and development expenditure

Research and development expenditure is recognized as a cost in the period during which it arises.

Research and development expenditure is only recognized on the balance sheet if an asset in progress meets the requirements of IAS 38 concerning the capitalization of development expenditure. Research and development expenditure is depreciated over the useful economic life. Depreciation is recognized on the asset once the research and development project has been concluded and the asset created by the development is ready for use or sale. Other research and development expenditure is recognized as a cost. Research and development expenditure that has previously been recognized as a cost cannot be capitalized in later periods.

Research and development expenditure recognized as a

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cost is included in the consolidated statement of income under other operating costs.

Other intangible assets

Other intangible assets are recognized on the balance sheet at acquisition cost. In subsequent periods, other intangible assets are measured at acquisition cost less recognized depreciation. The original acquisition cost includes the immediate expenses due to the acquisition of the asset.

Other tangible assets with a finite service life are depreciated on a straight-line basis over the estimated service life of the asset. Changes to the service life of an asset, the method of depreciation, and the residual value are treated as changes in an actuarial estimate.

- The estimated service lives of assets are as follows:
- Intangible rights: 5–10 years
- Other intangible assets: 5–10 years

The service lives of assets and methods of depreciation are evaluated at the end of each reporting period and adjusted if necessary.

Gains on disposals of intangible assets are recognized on the statement of income under other operating income and losses are recognized under other operating costs.

TANGIBLE FIXED ASSETS

Tangible fixed assets are recognized on the balance sheet only when it is likely that the Group will enjoy future financial benefits derived from the asset and the acquisition cost can be reliably determined.

Tangible fixed assets are measured at acquisition cost less depreciation and impairment. Acquisition cost includes the costs directly incurred in acquiring the tangible fixed asset.

Tangible fixed assets are depreciated on a straight-line basis over the estimated service life of each asset. The methods of depreciation used and the estimated service lives of assets are as follows:

- Machinery and equipment: 5 years
- Furnishings and other moveable property: 5 years

The service life and method of depreciation are evaluated at the end of each reporting period and adjusted if necessary to reflect changes in the expected economic benefit.

Tangible fixed assets are derecognized from the balance sheet when they are disposed of or when no future financial benefits can be expected from the use or disposal of the asset. Gains and losses on disposals of tangible fixed assets are recognized through profit or loss and presented under other operating income or costs.

LEASES – THE GROUP AS THE LESSEE

Finance leasing

If a substantial proportion of the risks and rewards of ownership are transferred to the Group under a lease, it is classified as a finance lease. Leases other than those classified as finance leases are other leases and the leased asset is not recognized on the balance sheet.

The consolidated financial statements for the 2018 and 2017 financial periods do not include leases classified as finance leases.

Other lease agreements

If the risks and rewards characteristic of ownership are retained in substantial part by the lessor under a lease, it is treated as an "other lease" and the payments made on the basis of the lease are recognized as costs throughout the term of the lease.

INVENTORIES

Inventories are measured in accordance with the average price principle at either the determined acquisition cost or the net realization value, whichever is lower. The net realization value is the estimated sale price that could be received under normal business operations.

The acquisition cost includes the direct costs of acquiring the asset incurred by transferring the inventory to the location and state that it was in when reviewed.

FINANCIAL ASSETS AND LIABILITIES

Recognition and classification of financial assets and liabilities

Financial assets

Pursuant to IFRS 9, the Group's financial assets are classified into the following categories:

- Deferred acquisition cost,
- Assets measured at fair value through other comprehensive income and
- Assets measured at fair value through profit or loss.

Classification is performed on the basis of the goal of the business model and the contractual cash flows of investments or by applying the fair value alternative in conjunction with the original acquisition. On the reporting date, the Group had no items measured at fair value through other comprehensive income.

Transaction costs are included in the original carrying value of financial assets for items that are not measured at fair value through profit or loss. All purchases and sales of financial assets are recognized on the transaction date.

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NOTES TO THE FINANCIAL STATEMENTS

Transaction costs are included in the original carrying value of financial assets for items that are not measured at fair value through profit or loss. All purchases and sales of financial assets are recognized on the transaction date.

The Financial assets recognized at deferred acquisition cost group is for trade receivables, loan receivables, and other receivables that are not included in derivative assets. The assets classified in this group are measured at deferred acquisition cost using the effective interest method. The carrying value of trade and other current receivables is assumed to be the same as the fair value. For expected credit losses, the Group recognizes a deduction item from the asset item belonging to financial assets, and this is measured at deferred acquisition cost.

For trade receivables, the Group estimates its expected credit losses using the simplified approach permitted by IFRS 9, whereby credit losses are recognized in an amount corresponding to the expected credit losses throughout the entire period of validity. The credit losses that are recognized are based on historical information about the failure to pay receivables. No expected credit losses were recognized in the consolidated financial statements for the 2018 and 2017 periods because the Group's realized trade credit losses have historically been very small.

The category of financial assets recognized at fair value through profit or loss includes financial asset items that were acquired to be held for trading or that are classified as assets recognized at fair value through profit or loss when they were originally recognized. Financial assets held for trading were primarily acquired with a view to profiting over the short or long term, and they are presented under either current or non-current financial assets.

Financial liabilities

Pursuant to IFRS 9, the Group's financial liabilities are classified into the following categories:

- Deferred acquisition cost
- Assets measured at fair value through profit or loss

At the end of the reporting period, the Group had no financial liabilities measured at fair value through profit or loss.

Financial liabilities measured at deferred acquisition cost are initially recognized at fair value. Transaction costs are included in the original carrying value of the financial liabilities. Subsequently, all financial liabilities, with the exception of derivative liabilities, are measured at deferred acquisition cost using the effective interest method. Items measured at deferred acquisition cost can include current and non-current liabilities, accounts payable, and other liabilities. Loans maturing in under 12 months are presented under current liabilities.

Derivative instruments

The Group uses derivatives such as foreign currency forward contracts to hedge against the risks of exchange rate fluctuations. Derivatives are classified as financial assets or liabilities to be recognized at fair value through profit or loss. These financial instruments are originally entered into the accounts at fair value on the date when the Group becomes a party to the contract, and they are subsequently measured at fair value.

Changes in fair value are recognized through profit or loss. Derivatives are presented on the balance sheet under assets if the fair value is positive on the reporting date and under liabilities if the fair value is negative.

Changes in the fair values of foreign currency derivatives are recognized under other operating costs.

The Group uses derivatives for hedging purposes but it does not apply hedge accounting in accordance with IFRS 9.

IMPAIRMENTS AND IMPAIRMENT TESTING

Financial assets

On the last day of each reporting period, the Group evaluates whether there is objective evidence that the value of an item belonging to financial assets has decreased. The value of an item belonging to financial assets is impaired if there is objective evidence that the value has decreased due to one or more events that have occurred since the financial asset was recognized. If an item belonging to financial assets is impaired, the Group recognizes a realized credit loss.

All realized credit losses are recognized through profit or loss. Credit losses may be reversed in subsequent periods if the reversal can be objectively considered to relate to an event that occurs after the credit loss was recognized. Reversals of credit losses on financial assets measured at deferred acquisition cost are recognized through profit or loss.

Assets not belonging to financial assets

On the final day of each reporting period, the Group assesses whether there is any indication that the value of an asset item not belonging to financial assets has decreased. If such an indication is found, the recoverable amount of cash for the asset in question is estimated.

Annual impairment testing is conducted on research and development projects in progress. In addition, the company monitors internal and external indications of asset impairment. If any internal or external indications are found, the company conducts an impairment test by estimating the recoverable amount of an asset item or a cash-generating unit.

The recoverable amount of a non-current asset is the asset's fair value less sales costs or its value in use, whichever is greater. The value in use is determined by discounting the estimated future cash flows generated by the asset.

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An impairment loss is recognized through profit or loss when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are reversed if the estimates used to determine the recoverable amount from the asset have changed. However, impairment losses are not reversed by more than the carrying value that the asset would have had without the recognition of the impairment loss.

PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognized when the Group has, due to a past event, a legal or constructive obligation and it is probable that resources providing a financial benefit will need to be transferred out of the company in the future to settle the obligation and when the amount of the obligation can be reliably estimated.

If the time value of money has a substantial effect, the amount of the provision is the present value of the expenses that are expected to be required to fulfill the obligation.

A provision is recognized for future warranty obligations based on the warranty costs that have previously been realized.

The amount of provisions is evaluated on every balance sheet date and the amount is adjusted to represent the best estimate at the time of review. Changes in provisions are entered into the statement of income under other operating expenses.

Contingent liabilities are potential obligations arising due to prior events, and the existence of these obligations can only be confirmed upon the realization of an uncertain event that is beyond the control of the Group. Contingent obligations also include existing obligations that are not likely to require the fulfillment of a payment obligation or that are of a magnitude that cannot be reliably determined. Contingent liabilities are presented in the notes to the financial statements.

PUBLIC GRANTS

Public grants are recognized when it is reasonably certain that they will be received and that the Group meets the conditions for receiving a grant.

Public grants related to costs are recognized systematically through profit or loss in the periods when the entity recognizes a cost item for expenditure that is covered by the intended purpose of the grant.

Public grants related to acquisitions of tangible fixed assets are recognized as deductions in the asset's acquisition cost and they are capitalized in the form of lower depreciation charges over the asset's service life.

Equity

The Group classifies financial instruments under equity when the instruments are issued by the Group and do not include a contractual obligation to transfer cash or cash equivalents

to another entity or to exchange financial assets or liabilities with another entity in the event of circumstances that are unfavorable to the issuer and when the instruments indicate an entitlement to a share of the Group's assets after all of its liabilities have been deducted. The share capital consists of common stock. If the Group buys back its equity instruments, the acquisition cost is deducted from equity.

NEW AND UPDATED STANDARDS AND INTERPRETATIONS FOR APPLICATION AT A LATER DATE

The Group will adopt the new and updated standards and interpretations published by IASB as of the effective date of each standard and interpretation or, if the effective date is other than the first day of the financial period, as of the beginning of the financial period following the effective date.

IFRS 16 Leases is effective for financial periods beginning on or after 1 January 2019. The new standard replaces IAS 17 and the related interpretations. IFRS 16 requires lessees to enter leases on the balance sheet as lease payment obligations with a related asset item. The entry on the balance sheet is very similar to the treatment of finance leases under IAS 17. There are two forms of relief for entry onto the balance sheet for short-term leases no longer than 12 months and for assets worth no more than approximately USD 5,000. The treatment by lessors will continue to follow the present IAS 17 standard in large part. According to preliminary estimates, iLOQ will need to recognize its present leasing and office space rents on its consolidated balance sheet. On December 31, 2018, other leases presented as off-balance-sheet liabilities amounted to EUR 1,484 thousand. However, the treatment of leases as liabilities differs from the treatment of leases under IFRS 16, so the amount to be recognized on the balance sheet may differ from the amount of liabilities due to factors such as the applicable forms of relief. The most significant contracts that the Group must recognize on its balance sheet are the fixed-term office rental agreement and vehicle leasing agreements. According to preliminary estimates, the forms of relief for short-term or low-value leases can be applied to several other office rental and leasing agreements, so these do not need to be recognized on the balance sheet. The change will affect the consolidated financial statements and the key indicators based on the balance sheet, such as the debt-to-equity ratio. In the forthcoming financial period, the Group will continue to assess the impact of IFRS 16 and determine the amounts that need to be recognized.

The other new or amended standards published by the IASB are not expected to affect the consolidated financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 SALES REVENUE AND SEGMENT REPORTING

SEGMENT REPORTING

iLOQ Group is a technology company offering electronic locking solutions. The Group operates a network business model to manufacture and distribute its products. The Group's products are sold via the iLOQ retail channel, which offers professional installation, servicing, and maintenance services. The Group has national companies in Sweden, Denmark, Norway, Germany, the Netherlands, France, and Spain.

The Group's operations are managed and monitored as a single entity. The national companies are sales organizations whose net sales consist of commission charges earned from the Group's parent companies. On the basis of the nature of the business, the products and services, and the similarity of production processes and customer groups, the Group has a single operating segment. The most senior operational decision-making authority is the Group's Management Group. The Group's Management Group evaluates the company's performance and the use of resources as a whole.

The composition and geographical distribution of the Group's net sales are described under the notes on net sales. The Group does not have any individual external customers from which its receivable sales revenue exceeds 10 per cent of the organization's earnings. The Group's most significant non-current assets are in the parent company's country of domicile.

The following describes the geographical distribution of the Group's net sales.

| EUR thousand | 2018 | | 2017 | |
|-----------------|---------------|--------------|---------------|--------------|
| Northern Europe | 41 477 | 83 % | 36 645 | 86 % |
| Central Europe | 8 772 | 17 % | 5 700 | 14 % |
| Total | 50 249 | 100 % | 40 345 | 100 % |

Net sales in Finland accounted for EUR 26,402 thousand (2017: EUR 24,098) of the net sales for Northern Europe in 2018. The following describes the distribution of sales revenues according to the timing of goods deliveries and service provision.

| EUR thousand | 2018 | | 2017 | |
|--|---------------|--------------|---------------|--------------|
| Revenue is recognised at a point in time | 49 686 | 99 % | 39 875 | 99 % |
| Revenue is recognised over time | 563 | 1 % | 470 | 1 % |
| Total | 50 249 | 100 % | 40 345 | 100 % |

No credit losses were recognized during the financial periods presented here.

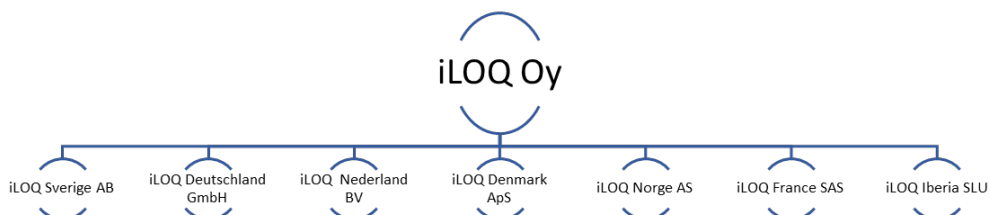
Trade receivables are described in Note 15 Trade and other receivables.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 GROUP STRUCTURE AND BUSINESS COMBINATIONS

iLOQ GROUP'S STRUCTURE IS DESCRIBED BELOW:



Subsidiaries included in the consolidated financial statements:

| Subsidiary name: | Domicile | Shareholding (%) |
|-----------------------|-------------|------------------|
| iLOQ Sverige AB | Sweden | 100 |
| iLOQ Deutschland GmbH | Germany | 100 |
| iLOQ Nederland BV | Netherlands | 100 |
| iLOQ Denmark ApS | Denmark | 100 |
| iLOQ Norge AS | Norway | 100 |
| iLOQ France SAS | France | 100 |
| iLOQ Iberia SLU | Spain | 100 |

In the 2018 financial period, iLOQ opened new national companies in France and Spain. The Group did not acquire or sell any businesses in 2018.

The Group also has the subsidiaries iLOQ USA Inc. and iLOQ Canada Inc., which are not included in the consolidated financial statements. These are inactive companies.

NOTE 6 MATERIALS AND SERVICES

| EUR thousand | 2018 | 2017 |
|--|---------------|---------------|
| Purchases of material, supplies, and goods | 23 896 | 18 567 |
| Change in inventories | -2 031 | -1 406 |
| Warranty expenses | -66 | 134 |
| External services | 829 | 597 |
| Total | 22 628 | 17 892 |

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 EMPLOYEE BENEFIT COSTS

| EUR thousand | 2018 | 2017 |
|--|--------------|--------------|
| Salaries and wages | 7 656 | 5 634 |
| Pension expenses – defined contribution schemes | 1 033 | 1 026 |
| Options exercisable and payable in shares and share bonuses | 15 | 0 |
| Other personnel expenses | 691 | 322 |
| Total | 9 395 | 6 982 |
| | 2018 | 2017 |
| Average number of Group employees during the financial year: | 109 | 78 |
| Total number of employees at the end of the financial year: | 129 | 86 |

In both tables, the number of part-time employees is converted into full-time equivalents.
Information about the employee benefits of senior managers is presented in Note 26 Related party transactions.

NOTE 8 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Depreciation, amortization and impairment by asset category

Depreciation by asset category

Intangible assets

| EUR thousand | 2018 | 2017 |
|-------------------------|------------|------------|
| Intangible rights | 119 | 98 |
| Other intangible assets | 743 | 627 |
| Total | 862 | 724 |

Property, plant and equipment

| EUR thousand | 2018 | 2017 |
|-----------------------------|------------|------------|
| Machinery and equipment | 285 | 182 |
| Other tangible fixed assets | 32 | 21 |
| Total | 317 | 204 |

Impairment by asset group

Intangible assets

| EUR thousand | 2018 | 2017 |
|-------------------------|----------|-----------|
| Other intangible assets | 0 | 53 |
| Total | 0 | 53 |

Property, plant and equipment

| EUR thousand | 2018 | 2017 |
|-----------------------|----------|----------|
| Other tangible assets | 0 | 4 |
| Total | 0 | 4 |

| | | |
|--|--------------|------------|
| Total depreciation and impairment | 1 179 | 985 |
|--|--------------|------------|

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 OTHER OPERATING EXPENSES

| EUR thousand | 2018 | 2017 |
|---|--------------|--------------|
| Rental and leasing expenses | 1 099 | 714 |
| IT hardware and software expenses | 569 | 374 |
| Machinery and equipment expenses | 543 | 305 |
| Sales and marketing expenses | 1 838 | 1 189 |
| Research and development expenses | 552 | 631 |
| Changes in the fair value of foreign exchange | 0 | 1 |
| Administrative expenses | 1 877 | 987 |
| Other expenses | 2 289 | 1 171 |
| Total | 8 766 | 5 372 |

The administrative expenses for 2018 include expenses of EUR 846 thousand related to investigating strategic options.

Auditors' fees

| EUR thousand | 2018 | 2017 |
|--------------------------|------------|-----------|
| Auditing | 26 | 19 |
| Other assurance services | 0 | 1 |
| Tax services | 5 | 4 |
| Other services | 104 | 4 |
| Total | 135 | 28 |

NOTE 10 FINANCE INCOME AND EXPENSES

Recognized through profit or loss

Finance income

| EUR thousand | 2018 | 2017 |
|----------------------|------------|------------|
| Other finance income | 146 | 138 |
| Total | 146 | 138 |

Finance expenses

| EUR thousand | 2018 | 2017 |
|-----------------------------|-------------|-------------|
| Interest expenses | -17 | -23 |
| Other finance expenses | -261 | -320 |
| Total | -278 | -343 |
| Net finance expenses | -132 | -205 |

Other finance income and expenses consist mostly of the parent company's exchange rate gains and losses.

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NOTES TO THE FINANCIAL STATEMENTS

LIITE 11 INCOME TAXES

Tax based on the taxable income for the period

| EUR thousand | 2018 | 2017 |
|---|--------------|--------------|
| Current tax for the reporting year | 1 552 | 1 690 |
| Current tax adjustments for prior years | -40 | -109 |
| Change in deferred taxes | 147 | 146 |
| Total | 1 659 | 1 727 |

Reconciliation between the tax expenses in the income statement and the taxes calculated at the rate applicable in

| EUR thousand | 2018 | 2017 |
|--|---------------|---------------|
| Profit before tax | 8 152 | 8 910 |
| Tax calculated at the tax rate applicable in Finland (20%) | -1 630 | -1 782 |
| Unrecognized deferred tax assets from tax losses | -53 | -57 |
| Non-deductible expenses | -25 | -7 |
| Current tax adjustments for prior years | 40 | 109 |
| Postponed amortization in taxation and other differences | 9 | 10 |
| Income taxes on the statement of comprehensive income | -1 659 | -1 727 |

Taxes are not recognised in other comprehensive income.

Changes in deferred taxes

2018

| EUR thousand | 1.1.2018 | Recognized through profit or loss | Recognized in equity | Exchange rate differences and other changes | 31.12.2018 |
|------------------------------------|----------|-----------------------------------|----------------------|---|------------|
| Deferred tax assets | | | | | |
| Postponed amortisation in taxation | 144 | -65 | 0 | 0 | 79 |
| Tax losses carried forward | 284 | -60 | 0 | 0 | 223 |

2017

| EUR thousand | 1.1.2017 | Recognized through profit or loss | Recognized in equity | Exchange rate differences and other changes | 31.12.2017 |
|------------------------------------|----------|-----------------------------------|----------------------|---|------------|
| Deferred tax assets | | | | | |
| Postponed amortisation in taxation | 273 | -130 | 0 | 0 | 144 |

On December 31, 2018, the Group had EUR 264 thousand (December 31, 2017: EUR 286 thousand) of confirmed losses for which no deferred tax receivables have been recognized because the Group is unlikely to accrue taxable earnings that could be offset by these losses before the losses expire. The losses will expire in 2023.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 INTANGIBLE ASSETS

Intangible assets 2018

| EUR thousand | Development expenses | Intangible rights | Other intangible assets | Total |
|---|----------------------|-------------------|-------------------------|---------------|
| Acquisition cost, Jan 1, 2018 | 8 968 | 984 | 263 | 10 215 |
| Additions | 2 200 | 152 | 48 | 2 400 |
| Acquisition cost, Dec 31, 2018 | 11 168 | 1 136 | 311 | 12 615 |
| Accumulated depreciation and impairment, Jan | 4 674 | 478 | 112 | 5 263 |
| Amortisation | 685 | 119 | 58 | 862 |
| Accumulated depreciation and impairment, Dec | 5 359 | 597 | 170 | 6 126 |
| Carrying amount, Jan 1, 2018 | 4 295 | 506 | 151 | 4 952 |
| Carrying amount, Dec 31, 2018 | 5 810 | 539 | 141 | 6 489 |

Intangible assets 2017

| EUR thousand | Development expenses | Intangible rights | Other intangible assets | Total |
|--|----------------------|-------------------|-------------------------|---------------|
| Acquisition cost, Jan 1, 2017 | 7 940 | 858 | 148 | 8 944 |
| Additions | 1 028 | 126 | 117 | 1 271 |
| Acquisition cost, Dec 31, 2017 | 8 968 | 984 | 263 | 10 215 |
| Accumulated depreciation and impairment, Jan 1, 2017 | 4 043 | 380 | 63 | 4 485 |
| Amortisation | 578 | 98 | 49 | 725 |
| Impairment | 53 | 0 | 0 | 53 |
| Accumulated depreciation and impairment, Dec 31, 2017 | 4 674 | 478 | 112 | 5 264 |
| Carrying amount, Jan 1, 2017 | 3 897 | 478 | 83 | 4 459 |
| Carrying amount, Dec 31, 2017 | 4 295 | 506 | 151 | 4 952 |

The Group's intangible rights consist of patents and IT software licenses, and the other intangible assets consist of IT software. The Group has invested in developing new products and improving the features and manufacturing methods of its existing products. At the end of 2018, the carrying amount of expenses for development in progress totaled EUR 1,048 thousand. In 2018, an addition of EUR 2,200 thousand (2017: EUR 1,028 thousand) was recognized on the balance sheet under research and development expenses.

Impairment testing

An impairment test for the research and development projects in progress was prepared to reflect the statuses on December 31, 2018 and December 31, 2017. The impairment test compares the carrying amount of research and development projects in progress with the recoverable amount of money, which is defined as the present value of future cash flows. The impairment testing did not indicate a need for impairment losses to be recognized.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 2018

| EUR thousand | Machinery and equipment | Fixed assets in progress | Other tangible assets | Total |
|--|-------------------------|--------------------------|-----------------------|--------------|
| Acquisition cost, Jan 1, 2018 | 1 242 | 164 | 159 | 1 565 |
| Additions | 756 | 104 | 41 | 901 |
| Acquisition cost, Dec 31, 2018 | 1 998 | 268 | 200 | 2 466 |
| Accumulated depreciation and impairment, Jan 1, 2018 | 685 | 0 | 58 | 743 |
| Depreciation | 272 | 0 | 45 | 317 |
| Accumulated depreciation and impairment, Dec 31, 2018 | 957 | 0 | 103 | 1 060 |
| Carrying amount, Jan 1, 2018 | 557 | 164 | 100 | 821 |
| Carrying amount, Dec 31, 2018 | 1 041 | 268 | 96 | 1 406 |

The sum of EUR 268 thousand recognized under fixed assets in progress at the end of the 2018 financial period mainly consists of advance payments for production equipment for the new NFC lock.

Property, plant and equipment 2017

| EUR thousand | Machinery and equipment | Fixed assets in progress | Other tangible assets | Total |
|--|-------------------------|--------------------------|-----------------------|--------------|
| Acquisition cost, Jan 1, 2017 | 982 | 0 | 76 | 1 058 |
| Additions | 260 | 164 | 83 | 507 |
| Acquisition cost, Dec 31, 2017 | 1 242 | 164 | 159 | 1 565 |
| Accumulated depreciation and impairment, Jan 1, 2017 | 499 | 0 | 37 | 536 |
| Depreciation | 182 | 0 | 21 | 203 |
| Impairment | 4 | 0 | 0 | 4 |
| Accumulated depreciation and impairment, Dec 31, 2017 | 685 | 0 | 58 | 743 |
| Carrying amount, Jan 1, 2017 | 483 | 0 | 39 | 522 |
| Carrying amount, Dec 31, 2017 | 557 | 164 | 100 | 821 |

NOTE 14 INVENTORIES

| EUR thousand | 2018 | 2017 |
|---------------------|--------------|-------------|
| Products | 5 119 | 3 256 |
| Products in transit | 413 | 245 |
| Total | 5 532 | 3501 |

Inventories consist of materials related to lock products.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 TRADE AND OTHER RECEIVABLES

Non-current receivables

| EUR thousand | 2018 | 2017 |
|--|--------------|--------------|
| Non-current receivables from others | | |
| Loan receivables | 2 980 | 2 292 |
| Total | 2 980 | 2 292 |

The item "non-current loan receivables from other companies" consists of related-party loans. Related-party transactions are described in Note 26.

Current receivables

| EUR thousand | 2018 | 2017 |
|--|--------------|--------------|
| Current receivables from others | | |
| Trade receivables | 7 858 | 6 349 |
| Other receivables | 152 | 103 |
| Prepayments and accrued income | 250 | 211 |
| Total | 8 260 | 6 663 |

Other receivables include V.A.T. receivables and the sum recognized on the balance sheet for foreign currency forward contracts. The carrying amount of trade and other receivables is a reasonable estimate of their fair value.

Age distribution of trade receivables

| EUR thousand | 2018 | 2017 |
|----------------------|--------------|--------------|
| Not due | 6 031 | 4 696 |
| Due | | |
| Less than 1 month | 1 452 | 1 574 |
| 1–3 months | 326 | 38 |
| More than 3 months | 49 | 41 |
| Total overdue | 1 827 | 1 653 |
| Total | 7 858 | 6 349 |

Expected credit losses

The determination of the Group's provision for credit losses is based on the expected credit losses over the entire period of validity of the trade receivables. In the 2017 and 2018 financial periods, the Group did not recognize any expected credit losses as the expected credit losses, calculated using historical data on realized credit losses and the management's estimate based on experience, were zero for the 2017 and 2018 financial periods. The calculation of expected credit losses is described in Note 22.

On the balance sheet date, the maximum sum exposed to credit risk corresponds to the total amount of trade receivables. The Group also has credit insurance from Euler Hermes, which covers potential credit loss risks on trade receivables from customers. The Group assesses the need for credit insurance cover for each customer and insures the receivables from each customer on the basis of this assessment.

The Group's realized trade credit losses have historically been very small, and no realized trade credit losses were recognized in the financial periods presented in the financial statements.

The Group's risk management and the Group's credit risk are described in Note 22.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 CASH AND CASH EQUIVALENTS

| EUR thousand | 2018 | 2017 |
|---|--------------|---------------|
| Cash and cash equivalents | 1 218 | 10 871 |
| Cash and cash equivalents on the balance sheet | 1 218 | 10 871 |

On the balance sheet date, the Group had access to an overdraft worth EUR 5 million. The overdraft was not in use on the balance sheet date of December 31, 2018.

NOTE 17 NOTES RELATING TO EQUITY

Share capital

The share capital is EUR 1,000,015.60, and all of the shares in circulation have been paid in full.

The share capital consists of two share classes: class K and class A. The shares have no nominal value. All shares carry an equal right to dividends and company assets. No class A shares were issued during the 2017 and 2018 financial periods. The redemption clause in the Articles of Association applies to both share classes. The Group held no treasury shares in 2017 or 2018.

When shares are issued, the share subscription price is recognized under share capital unless the share issue decision includes a decision to recognize the subscription price in the invested unrestricted equity fund.

The table shows the changes in the number of shares and the corresponding changes in the Group's shareholders' equity.

| | Number of class K shares | Number of class A shares | Total shares | Share capital | Invested unrestricted equity fund |
|-------------------------|-----------------------------|-----------------------------|------------------|------------------|---|
| 2018 | | | | | |
| 1.1. | 1 220 124 | 0 | 1 220 124 | 1 000 | 12 717 |
| Share options exercised | 6 820 | 0 | 6 820 | 0 | 0 |
| Share issue | 11 800 | 0 | 11 800 | 0 | 688 |
| Refund of capital | 0 | 0 | 0 | 0 | -8 254 |
| 31.12. | 1 238 744 | 0 | 1 238 744 | 1 000 | 5 151 |

In 2018, a general meeting of shareholders authorized the Board of Directors to decide upon a share issue. The authorization permits a maximum of 60,000 new class K shares to be subscribed. In addition, the general meeting of shareholders authorized the Board of Directors to decide upon an options program permitting a maximum of 60,000 new class K shares to be subscribed. The general meeting of shareholders also decided upon 3,000 option rights for members of the Board of Directors, permitting each member to subscribe to 500 options from the beginning of 2019. In 2018, a total of 11,800 shares were issued under the 2017 authorization, whereby the Board of Directors decided upon an issue of a maximum of 70,000 shares.

| | Number of class K shares | Number of class A shares | Total shares | Share capital | Invested unrestricted equity fund |
|-------------------------|-----------------------------|-----------------------------|------------------|------------------|---|
| 2017 | | | | | |
| 1.1. | 1 165 284 | 0 | 1 165 284 | 1 000 | 10 315 |
| Share options exercised | 3 840 | 0 | 3 840 | | 110 |
| Share issue | 51 000 | 0 | 51 000 | | 2 292 |
| 31.12. | 1 220 124 | 0 | 1 220 124 | 1 000 | 12 717 |

In 2017, a general meeting of shareholders authorized the Board of Directors to decide upon a share issue. Based on the authorization, the Board of Directors decided to issue a maximum of 70,000 class K shares. By December 31, 2017, a total of 51,000 shares had been subscribed. A total of 10,660 options were exercised during the financial period. A total of 6,820 of these exercised options were registered during the 2018 financial period.

In 2016, a general meeting of shareholders authorized the Board of Directors to decide upon a share issue. The authorization permitted a maximum of 50,000 class K shares to be issued. No options were issued on the basis of the open authorization in 2016.

iLOQ-GROUP

NOTES TO THE FINANCIAL STATEMENTS

In 2013, iLOQ Ltd's Board of Directors decided to launch an options program to commit every member of the Group's personnel to the company. A total of 40,000 options were issued on the basis of the program, and 30,460 options were subscribed by the deadline date of December 31, 2017.

The options program is described in more detail in Note 18 Share-based payments.

Dividends

The profit of EUR 6,507,602.91 for the financial period will be transferred to retained earnings. On December 31, 2018 the company had distributable assets totaling EUR 13,140,165.20, of which EUR 12,420,718.49 is retained earnings, and distributable assets in the invested unrestricted equity fund amounted to EUR 5,151,132.20. Capitalized development expenditure reduces the amount of distributable assets by a total of EUR 4,431,685.49.

The Board of Directors proposes to the general meeting of shareholders that a total of EUR 12,420,718.49 of distributable assets be distributed as a dividend of EUR 2,00 for each class K share registered and in circulation by the decision date.

Invested unrestricted equity fund

The invested unrestricted equity fund includes other equity-type investments and the subscription price of shares unless this was recognized in shareholders' equity under a specific decision.

Share premium account

In the event that decisions were made concerning option rights while the old Limited Liability Companies Act (29.9.1978/734) was in force, the cash payments received from share subscriptions based on options were recognized in share capital and the share premium account in accordance with the terms of the arrangement, less transaction costs.

Translation differences

The translation difference reserve includes translation differences arising from the translation of the financial statements of foreign units.

The Group's capital management is described in Note 22 Risk management.

Earnings per share

Undiluted earnings per share are calculated by dividing the profit for the financial year attributable to the parent company's shareholders by the weighted average number of shares in circulation during the financial period.

2018

| | 2018 | 2017 |
|---|-------------|-------------|
| Profit for the financial period attributable to the parent company's shareholders (EUR) | 6 425 | 7 183 |
| Weighted average number of shares during the period | 1 234 975 | 1 193 589 |
| Undiluted earnings per share (EUR per share) | 5,20 | 6,02 |

When the diluted earnings per share are calculated, the diluting effect of all potential ordinary shares is taken into consideration in the weighted average number of shares. The Group's potential ordinary shares for diluting purposes are share-based incentive programs that pay out shares.

2017

| | 2018 | 2017 |
|---|-------------|-------------|
| Profit for the financial period attributable to the parent company's shareholders (EUR) | 6 425 | 7 183 |
| Weighted average number of shares during the period | 1 234 975 | 1 193 589 |
| Effect of stock options | 675 | 8 202 |
| Weighted average number of shares during the period for the calculation of diluted earnings per share | 1 235 650 | 1 201 792 |
| Diluted earnings per share (EUR per share) | 5,20 | 5,98 |

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 SHARE-BASED PAYMENTS

The Group has an options program used to commit personnel to the company. Option rights incentivize key personnel to do long-term work to increase shareholder value and commit to the employer.

Option-based incentive programs 2013

In 2013, the Group's Board of Directors decided to launch an options program for every member of the Group's personnel. According to the terms of the options program, options were issued without charge to Group personnel in permanent employment relationships. The option rights are a discretionary and one-off part of the incentive program. The option rights entitle their holders to subscribe to a total maximum of 40,000 class K shares in the company. The recipients of option rights are liable for their own taxes and tax consequences in relation to receiving or exercising option rights.

The period for subscribing to shares under the option rights was from May 1, 2015 to December 31, 2017.

The share subscription price was EUR 10–13.

If the employment relationship between a Group company and the holder of an option right ends, the holder immediately forfeits the option rights issued without charge to him/her if the share subscription period has not begun when the employment relationship ends. Recipients of option rights are not entitled to receive any form of compensation related to the option rights during or after their employment relationships.

Option-based incentive programs 2018

In 2018, the general meeting of shareholders decided to launch an options program for members of the parent company's Board of Directors. According to the terms of the options program, options were issued without charge to members of the Board of Directors, each of whom could receive a maximum of 500 options. The options program is a means of committing the members of the Board of Directors to the company and, therefore, there is a sound financial justification on the part of the company. The option rights entitle their holders to subscribe to a total maximum of 3,000 class K shares in the company. The recipients of option rights are liable for their own taxes and tax consequences in relation to receiving or exercising option rights.

The period for subscribing to shares under the 2018 option rights is from January 1, 2019 to December 31, 2020. The share subscription price is EUR 60.

Key terms and conditions

| Program | Option 2013 | Option 2018 |
|---------------------------|----------------------|----------------------|
| Nature of the plan | Share option | Share option |
| Grant date | 01/03/2013 | 23/03/2018 |
| Vesting period | 1.3.2013-31.12.2014 | 23.3.-31.12.2018 |
| Vesting conditions | Employment condition | Employment condition |
| Maximum number of options | 40 000 | 3 000 |
| Exercise price (EUR) | 10,00 - 13,00 | 60,00 |
| Price when issued | - | - |
| Settlement | In shares | In shares |

The options in iLOQ Ltd's possession and undistributed options are shown in the table below.

| | 2018 | Total |
|-----------------------|------|-------|
| Undistributed options | 500 | 500 |

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NOTES TO THE FINANCIAL STATEMENTS

Key presumptions used in the Black-Scholes valuation model

Program

| | 2018 |
|-----------------------------|-----------|
| Date of issue | 23.3.2018 |
| Volatility (%) | 23,47 |
| Validity (years) | 2,78 |
| Risk-free interest rate (%) | -0,07 |
| Price when issued | 60,00 |
| Option value when issued | 6,15 |

The table below shows the changes in the options in circulation during the financial period.

Number

| | 2018 | 2017 |
|---------------------------------------|--------------|---------------|
| At the beginning of the period | 0 | 19 450 |
| Granted during the period | 2 500 | 0 |
| Forfeited | 0 | 0 |
| Exercised | 0 | -10 660 |
| Lapsed | 0 | -8 790 |
| At the end of the period | 2 500 | 0 |
| Exercisable | 0 | 0 |

EUR thousand

| | 2018 | 2017 |
|----------------------|-----------|----------|
| Share-based payments | 15 | 0 |
| Total | 15 | 0 |

iLOQ-GROUP

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Classification and fair value

Classification and carrying amounts of financial assets and financial liabilities are presented in the table.

The table does not show the fair values of financial asset and liability items if the carrying amount is a reasonable estimate of the fair value. A classification method in accordance with the IFRS 9 standard was used to classify the financial assets and liabilities.

31/12/2018

| EUR thousand | Note | Carrying amount Financial assets and liabilities recognized at deferred acquisition cost using the effective interest method |
|--|------|---|
| Financial assets that are not measured at fair value | | |
| Non-current receivables | 15 | 2 980 |
| Trade and other receivables | 15 | 8 260 |
| Cash and cash equivalents | 16 | 1 218 |
| Total | | 12 458 |
| Financial liabilities that are not measured at fair value | | |
| Accounts payable and other liabilities | 21 | 7 349 |
| Yhteensä | | 7 349 |

31/12/2017

| EUR thousand | Note | Carrying amount Financial assets and liabilities recognized at deferred acquisition cost using the effective interest method |
|--|------|---|
| Financial assets that are not measured at fair value | | |
| Non-current receivables | 15 | 2 292 |
| Trade and other receivables | 15 | 6 664 |
| Cash and cash equivalents | 16 | 10 871 |
| Total | | 17 535 |
| Financial liabilities that are not measured at fair value | | |
| Accounts payable and other liabilities | 21 | 6 245 |
| Total | | 6 245 |

Fair value measurement

The fair value of financial assets and liabilities is the price that would be received by selling an asset item or the price that would be paid to transfer a liability between market participants by means of a conventional transaction on the valuation date. In the evaluation of the company's management, the carrying amounts of the financial assets, trade receivables, other receivables, accounts payable and other liabilities do not substantially differ from the fair value, taking into consideration the short maturities of these instruments.

Derivative instruments

The Group had no derivative instruments in the 2017 and 2018 financial periods.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 FINANCING LOANS

The Group had no financing loans in the financial periods that ended on December 31, 2018 and December 31, 2017.

Further details about the Group's exposure to interest rate risks and credit risks are included in Note 22 Management of financing risks. The Group's overdrafts are described in Note 25 Contingent commitments and the main covenants related to them are described in Note 22.

NOTE 21 ACCOUNTS PAYABLE AND OTHER LIABILITIES

Current liabilities to others

| EUR thousand | 2018 | 2017 |
|--|--------------|--------------|
| Advances received under operation and maintenance agreements | 214 | 137 |
| Accounts payable | 3 844 | 3 587 |
| Other liabilities | 1 309 | 920 |
| Accrued expenses and deferred income | 1 981 | 1 601 |
| Total | 7 348 | 6 245 |

The carrying amounts of accounts payable and other liabilities correspond to their fair values.

The significant items of accrued expenses and deferred income are shown in the table below.

Significant items of accrued expenses and deferred income

| EUR thousand | 2018 | 2017 |
|--|--------------|--------------|
| Accrued expenses and deferred income | | |
| Deferred employee expenses | 1 451 | 1 501 |
| Other accrued expenses and deferred income | 745 | 100 |
| Total | 2 196 | 1 601 |

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 FINANCIAL RISK MANAGEMENT

The Group's risk management policy aims to identify and analyze the financing risks affecting the Group, set appropriate risk levels and controls, and monitor the realization of risks in relation to the risk levels. The purpose of managing financing risks is to reduce the volatility of earnings, the balance sheet, and cash flows while ensuring that the Group has sufficient liquidity, as well as effective and competitive financing. The Board of Directors is responsible for approving the Group's general risk management principles. The risk management principles and methods are reviewed regularly to ensure that they describe the market conditions and the Group's operating models.

The main financing risks that the Group is exposed to are market risk (currency risk), liquidity risk, and credit risk. The Group's management assesses the risks and purchases appropriate hedging instruments. The Group's risk management methods include foreign subsidiaries contracts and credit insurance for trade receivables. The Group does not have any risk concentrations related to financing risks.

MARKET RISK

Currency risk

Currency risk refers to the cash flow, income, and balance sheet uncertainty resulting from changes in exchange rates. The Group operates internationally and, therefore, is exposed to risks arising from fluctuations in various exchange rates. In addition, the Group is exposed to translation difference risks when the net investments in foreign subsidiaries are translated into the parent company's operating currency (the euro).

The Group's currency risk management policy aims to limit the uncertainty due to exchange rate changes in the Group's income, balance sheet, and cash flows. The Group's business is exposed to foreign exchange risks as the Group's sales and purchases and other transactions take place in the companies' local currencies and in U.S. dollars, in addition to the Group's operating currency. The most important currencies for the Group are the U.S. dollar, the Swedish krona, the Danish krone, and the Norwegian krone. In the 2018 financial period, 30.0% of the Group's sales were denominated in foreign currencies, and 63.1% of purchases, including fixed and variable expenses, were denominated in foreign currencies. The Group hedges its foreign exchange risk using foreign subsidiaries contracts. IFRS 9 hedge accounting is not applied to these derivatives; instead, changes in the fair value are recognized through profit or loss. The fair values and nominal values of derivatives are described in Note 19.

The following table shows the transaction risk for each currency and a sensitivity analysis of exchange rate changes.

Transaction risk by currency 31/12/2018

| EUR thousand | SEK | DKK | NOK | USD |
|----------------------------|--------------|------------|------------|---------------|
| Trade receivables | 3 401 | 614 | 161 | 0 |
| Cash and cash equivalents | 369 | 49 | 63 | 3 |
| Accounts payable | 268 | 89 | 85 | 2 280 |
| Net balance sheet position | 3 502 | 574 | 140 | -2 278 |
| Open position | 3 502 | 574 | 140 | -2 278 |

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NOTES TO THE FINANCIAL STATEMENTS

Sensitivity analysis by currency 31/12/2018

| EUR thousand | SEK | DKK | NOK | USD |
|---------------|------|-----|-----|------|
| + 10 % change | 318 | 52 | 13 | -207 |
| - 10% change | -389 | -64 | -16 | 253 |

Transaction risk by currency 31/12/2017

| EUR thousand | SEK | DKK | NOK | USD |
|----------------------------|--------------|------------|----------|---------------|
| Trade receivables | 2 840 | 110 | 6 | 0 |
| Cash and cash equivalents | 0 | 0 | 0 | 3 |
| Accounts payable | 23 | 0 | 0 | 2 201 |
| Net balance sheet position | 2 817 | 110 | 6 | -2 199 |
| Open position | 2 817 | 110 | 6 | -2 199 |

Sensitivity analysis by currency 31/12/2017

| EUR thousand | SEK | DKK | NOK | USD |
|---------------|------|-----|-----|------|
| + 10 % change | 256 | 10 | 1 | -200 |
| - 10% change | -313 | -12 | -4 | 244 |

In addition, the Group is exposed to currency risks from its net investments in foreign subsidiaries (translation difference risk). Foreign net investments are translated into the Group parent company's operating currency (the euro). The Group's risk management principle is not to hedge currency risks on net investments made in foreign units as these are considered minor risks.

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NOTES TO THE FINANCIAL STATEMENTS

CREDIT RISK

Credit risk is the risk that a counterparty to a financial instrument is unable to meet its contractual obligations and, therefore, gives rise to a financial loss for the Group. The Group's credit risk mainly arises due to the credit risk associated with trade receivables from customers. This credit risk is determined on the basis of the open position and the counterparty's creditworthiness. As the Group's customer base is diverse and distributed over a wide geographic area, the Group has no credit risk concentrations related to any specific customer segment.

The Group's credit risk policy specifies the creditworthiness requirements for customers and the counterparties to other financial contracts. The Group assesses its customers' creditworthiness regularly and monitors its customers' payment behavior. The Group reduces and manages its credit risk by taking out credit insurance from Euler Hermes to covers trade receivables from customers. Credit insurance covers potential credit loss risks for individual customers, so the Group's financial management organization assesses the need for credit insurance cover for each customer and insures the receivables from each customer on the basis of this assessment. The age distribution of trade receivables is described in Note 15.

In addition, the Group is exposed to credit risk when it invests its cash assets in financial institutions and when it uses derivative instruments. Credit risk is managed by making agreements with well-established financial institutions in accordance with the Group's risk management policy.

Determining expected credit losses

The Group determines its expected credit losses using the simplified approach permitted by IFRS 9, whereby the accounting of expected credit losses on trade receivables may be based on a provision matrix. In such cases, the credit loss provision is determined on the basis of the expected credit losses over the entire period of validity of the trade receivables.

The Group makes use of its experience of prior credit losses realized on trade receivables and historical data to evaluate the expected credit losses on these financial assets over their entire period of validity. The evaluation also takes into consideration the financial climate and the Group's estimate of future development. The Group updates its estimates concerning the future and monitoring based on historical data on every reporting date. Expected credit losses are determined on the basis of fixed provision percentages according to the number of days by which the payments related to trade receivables are overdue. The expected credit loss is calculated by multiplying the gross carrying amount of trade receivables by the fixed provision percentage determined for the age of the specific trade receivable. Changes in expected credit losses are recognized on the income statement under other operating expenses.

The amounts of expected credit losses are described in Note 15.

Based on its financial history, the Group has a small amount of realized credit losses. The Group ultimately recognizes a credit loss on a trade receivable when the management considers it unreasonable to expect payment to be received. Realized credit losses are recognized on the income statement under other operating expenses.

The Group has a related-party loan receivable measured at deferred acquisition cost. The terms of the receivable are described in Note 26. The guarantees for the loans are the shares that were subscribed by key personnel using the loans. Expected credit losses are not recognized on receivables from related parties as the Group has a guarantee that covers the principal receivable and the interest payable.

SOLVENCY RISK

Solvency risk is the risk that the Group will have difficulties meeting its obligations related to financial liabilities. The aim of solvency risk management is to continuously maintain an adequate standard of liquidity and ensure sufficient financing as required for working capital and investment expenses. In accordance with the Group's risk management practices, the Group monitors the amount of financing required by the business and the solvency forecasts. The Group's management has not identified any significant solvency risk concentrations in its financial assets or sources of financing.

In the assessment of the Group's management, the Group's solvency is good. At the end of the 2018 financial period, the Group had no loans from financial institutions. At the end of the 2018 financial period, the Group's cash and cash equivalents totaled EUR 1,218 thousand (Dec 31, 2017: EUR 10,871). The Group endeavors to secure the availability and flexibility of financing using an overdraft facility. On December 31, 2018, the Group had access to an overdraft facility worth EUR 5,000 thousand, none of which had been withdrawn. The Group's overdraft agreement includes a covenant related to the Group's equity ratio, and the Group

iLOQ-GROUP

NOTES TO THE FINANCIAL STATEMENTS

The following is a maturity analysis of the Group's financial liabilities and derivative instruments based on the relevant contracts. The figures are not discounted, and they include interest payments as well as principal repayments.

31/12/2018

| EUR thousand | 2019 | 2020 | 2021 | 2022 |
|---|--------------|----------|----------|----------|
| Financial liabilities other than derivatives | | | | |
| Loans from financial institutions | 0 | 0 | 0 | 0 |
| Accounts payable and other liabilities | 7 135 | 0 | 0 | 0 |
| Derivative contracts | | | | |
| Foreign subsidiaries contracts | 0 | 0 | 0 | 0 |
| Total | 7 135 | 0 | 0 | 0 |

31/12/2017

| EUR thousand | 2018 | 2019 | 2020 | 2021 |
|---|--------------|----------|----------|----------|
| Financial liabilities other than derivatives | | | | |
| Loans from financial institutions | 0 | 0 | 0 | 0 |
| Accounts payable and other liabilities | 6 108 | | | |
| Derivative contracts | | | | |
| Foreign subsidiaries contracts | 0 | | | |
| Total | 6 108 | 0 | 0 | 0 |

CAPITAL MANAGEMENT

The Group's capital management policy aims to maintain the optimal capital structure for the group to safeguard the ordinary operating conditions of the business and increase shareholder value over the long term. Capital management applies to the shareholders' equity indicated on the consolidated balance sheet. The structure of the shareholders' equity is mainly affected by dividends and share issues. The Group has no external capital requirements. The Group's management and the parent company's Board of Directors monitor the company's capital structure and liquidity trends. The purpose of monitoring is to ensure that the company is solvent and has a flexible capital structure in order to realize the growth strategy and ensure the positive development of shareholder value.

The Group monitors the development of its capital structure by examining the ratio of shareholders' equity to total equity (the equity ratio). In the 2018 financial period, the equity ratio was 68.6% (2017: 70.4%).

NOTE 23 OPERATING LEASES

The Group as the lessee

Minimum leases payable on the basis of other noncancelable lease agreements.

| EUR thousand | 2018 | 2017 |
|----------------------|--------------|--------------|
| Within 12 months | 711 | 623 |
| In 1–5 years | 795 | 755 |
| In more than 5 years | 0 | 10 |
| Total | 1 506 | 1 388 |

iLOQ-GROUP

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 PROVISIONS

| EUR thousand | 2018 | 2017 |
|-----------------------|--------------|--------------|
| Non-current provision | 314 | 245 |
| Current provision | 710 | 1 013 |
| Total | 1 024 | 1 258 |

The Group grants a warranty for the iLOQ products that it supplies. The Group incurs costs due to the repair, replacement, and maintenance measures performed on lock systems at the Group's expense. The Group recognizes a warranty provision for these warranty repairs. The warranty provision is based on prior experience of faulty products.

| EUR thousand | Warranty provision |
|--|--------------------|
| Warranty provision, Jan 1, 2018 | 1 258 |
| Increase in the warranty provision during the financial period | 314 |
| Unwinding of warranty provisions (over 2 years) | -128 |
| Realized warranty expenses | -420 |
| Warranty provision, Dec 31, 2018 | 1 024 |

| EUR thousand | Warranty provision |
|--|--------------------|
| Warranty provision, Jan 1, 2017 | 1 230 |
| Increase in the warranty provision during the financial period | 246 |
| Unwinding of warranty provisions (over 2 years) | -20 |
| Realized warranty expenses | -198 |
| Warranty provision, Dec 31, 2017 | 1 258 |

NOTE 25 CONTINGENT LIABILITIES

Collateral and contingent liabilities

| EUR thousand | 2018 | 2017 |
|-------------------------------|--------------|--------------|
| Contingent liabilities | | |
| Credit facility | 5 000 | 1 000 |
| Standby letter of credit | 1 332 | 1 267 |
| Lease guarantee | 146 | 148 |
| Corporate credit card | 89 | 32 |
| Total | 6 567 | 2 447 |

An overdraft facility worth EUR 5,000,000 was used during the 2017 and 2018 financial periods.

The standby letter of credit is denominated in a foreign currency. The amount of liability in foreign currency is USD 1,500,000.

iLOQ-GROUP

NOTES TO THE FINANCIAL STATEMENTS

| EUR thousand | 2018 | 2017 |
|--|--------------|--------------|
| Collateral pledged on own behalf | 8 300 | 3 800 |
| Collateral pledged on behalf of others | | |
| Collateral | 13 | 14 |
| Guarantee | 292 | 331 |
| Total | 8 605 | 4 145 |

Covenants

The Group's covenants are described in Note 22 Risk management.

Legal action

The Group did not have any relevant legal action pending in 2017 and 2018.

Other lease agreements

The liabilities derived from the Group's other lease agreements are presented in Note 23 Other lease agreements.

NOTE 26 RELATED PARTY TRANSACTIONS

The Group's related parties are the Group's parent company, iLOQ Ltd, and its subsidiaries. A list of subsidiaries is presented in Note 5. In addition, the related parties include the members of the Board of Directors, the CEO, and the members of the Group's Management Group who are considered the key personnel in iLOQ Group's management, as well as the entities under the control of the foregoing personnel or their family members.

Related party transactions, and related party receivables and liabilities

| EUR thousand | 2018 | 2017 |
|---|-------|-------|
| Interest-bearing receivables – related party loan | 2 980 | 2 292 |
| Interest on the related party loan | 39 | 18 |
| Other operating expenses | 44 | 35 |

The terms and conditions of purchases executed with related parties correspond to the terms and conditions applying to transactions between independent parties.

In 2018, the Group issued related party loans to commit personnel to the company in a total amount of EUR 688,000. The term of the loan is 10 years and the interest rate is the 12-month Euribor rate plus 1.5%. The guarantees for the loans are the shares that were subscribed by key personnel using the loans. The total amount of loans that had been issued to commit personnel to the company on December 31, 2018 and December 31, 2017 are shown in the table above.

Other operating expenses consist of consultancy fees paid to members of the Group's Board of Directors.

Management employee benefits

During the financial period, the CEO and Group management were paid salaries and bonuses, including fringe benefits, as follows:

| EUR thousand | 2018 | 2017 |
|---|--------------|--------------|
| Short-term employee benefits | 1 739 | 1 261 |
| Benefits after the end of the employment relationship | 283 | 233 |
| Share-based benefits | 15 | 0 |
| Total | 2 037 | 1 494 |

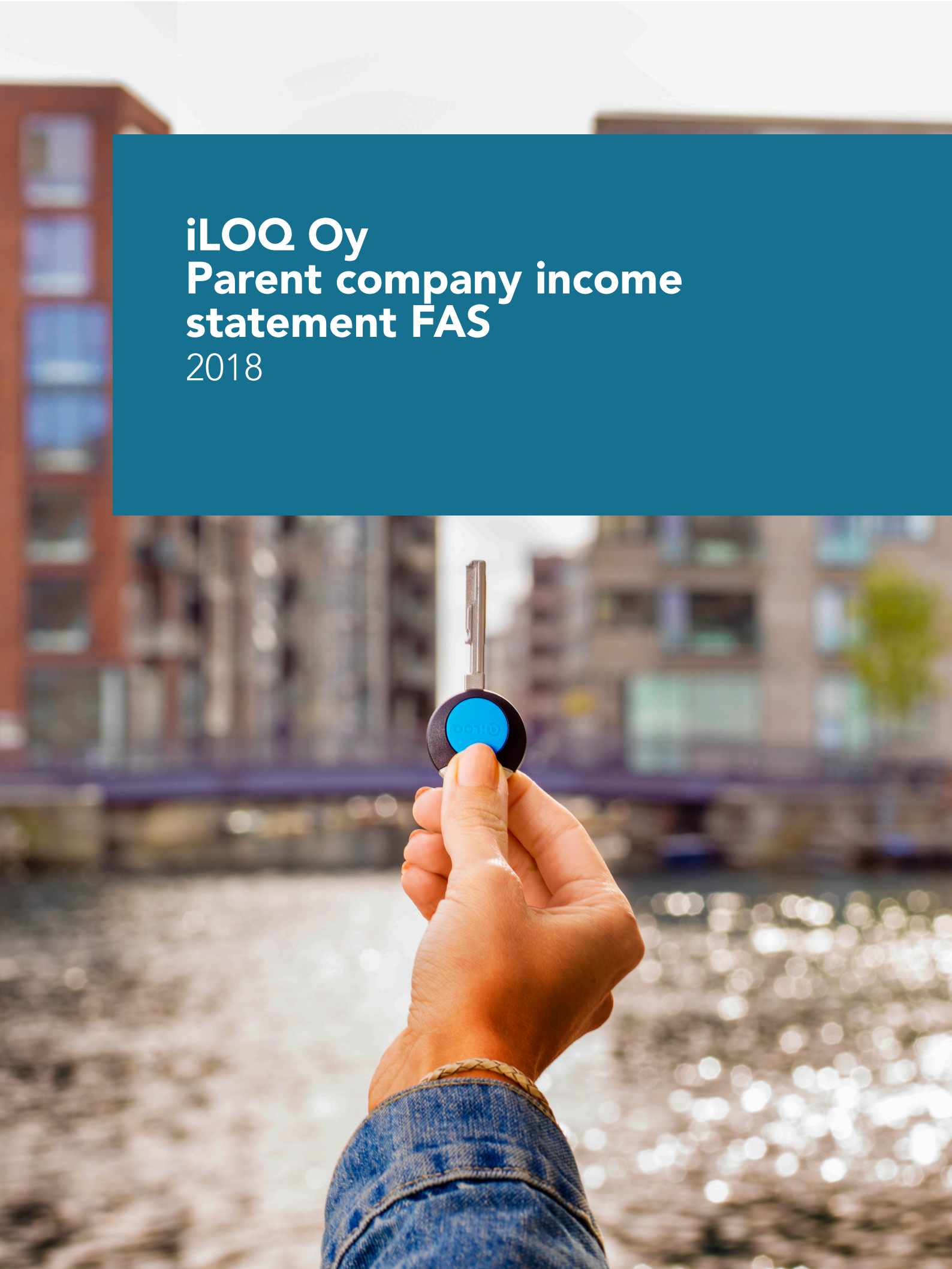
The amounts presented in the table correspond to the costs recognized as expenses in the financial period.

The total amount of compensation received by the key personnel belonging to the Group's management consists of the salary, non-monetary benefits, and the costs of defined contribution pension plans. The Group's management do not have defined benefit pension plans.

NOTE 27 SUBSEQUENT EVENTS

No significant events have occurred since the end of the reporting period.

iLOQ Oy
Parent company income
statement FAS
2018



iLOQ LTD
INCOME STATEMENT FAS

| | Note | 1.1.2018–31.12.2018 | 1.1.2017–31.12.2017 |
|---|------|---------------------|---------------------|
| Revenue | | 50 249 | 40 345 |
| Other operating income | | 3 | |
| Materials and services | | -22 549 | -17 834 |
| Personnel costs | 28 | -5 436 | -4 115 |
| Depreciation and impairment | 28 | -1 166 | -980 |
| Other operating expenses | | -13 017 | -8 452 |
| Operating profit | | 8 084 | 8 965 |
| Finance income | 28 | 194 | 185 |
| Finance expenses | 28 | -270 | -337 |
| Profit before extraordinary items | | 8 008 | 8 813 |
| Profit before appropriations and taxes | | 8 008 | 8 813 |
| Taxes | | -1 500 | -1 622 |
| Profit for the financial period | | 6 508 | 7 191 |

iLOQ LTD
BALANCE SHEET FAS

| | Note | 31/12/2018 | 31/12/2017 |
|---|------|---------------|---------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Intangible assets | 29 | 6 579 | 5 053 |
| Tangible assets | 30 | 1 300 | 712 |
| Investments | 30 | 1 029 | 1 123 |
| Total fixed assets | | 8 907 | 6 888 |
| CURRENT ASSETS | | | |
| Inventories | | 5 532 | 3 501 |
| Non-current receivables | 31 | 3 990 | 3 267 |
| Current receivables | 31 | 8 123 | 6 579 |
| Cash in hand and at banks | | 508 | 10 321 |
| Total current assets | | 18 153 | 23 668 |
| TOTAL ASSETS | | 27 061 | 30 556 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| SHAREHOLDERS' EQUITY | | | |
| | 32 | | |
| Share capital | | 1 000 | 1 000 |
| Share premium account | | 380 | 380 |
| Invested unrestricted equity fund | | 5 151 | 12 717 |
| Retained earnings | | 5 913 | 509 |
| Profit for the financial period | | 6 508 | 7 191 |
| Total shareholders' equity | | 18 952 | 21 797 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Non-interest-bearing liabilities | 33 | 8 109 | 8 759 |
| Total liabilities | | 8 109 | 8 759 |
| TOTAL LIABILITIES AND SHAREHOLDERS' | | 27 061 | 30 556 |

iLOQ LTD
CASH FLOW STATEMENT FAS

| (EUR thousand) | 2018 | 2017 |
|---|----------------|---------------|
| CASH FLOW FROM OPERATIONS | | |
| Profit (loss) before taxes | 8 008 | 8 813 |
| Adjustments: | | |
| Planned depreciation | 1 166 | 923 |
| Impairment of non-current assets | 0 | 57 |
| Unrealized foreign exchange gains and losses | 33 | -39 |
| Finance income and expenses | 76 | 151 |
| Cash flow before change in working capital | 9 283 | 9 905 |
| Change in working capital: | | |
| Increase (-)/decrease (+) in current non-interest-bearing trade | -1 492 | -1 261 |
| Increase (-)/decrease (+) in inventories | -2 031 | -1 406 |
| Increase (+)/decrease (-) in current non-interest-bearing liabilities | 697 | 1 245 |
| Cash flow from operations before financial items and taxes | 6 457 | 8 483 |
| Interest and other expenses paid for finance expenses from operations | -270 | -349 |
| Interest received from business operations | 166 | 166 |
| Direct taxes paid | -2 906 | -999 |
| Cash flow before non-recurring items | 3 447 | 7 301 |
| Cash flow from operations (A) | 3 447 | 7 301 |
| CASH FLOW FROM INVESTMENTS | | |
| Investments in tangible and intangible assets | -3 279 | -1 726 |
| Loans granted | -135 | 0 |
| Repayments of loan receivables | 100 | 0 |
| Establishment of subsidiary | -13 | -3 |
| Repayment of equity investment | 107 | 0 |
| Cash flow from investments (B) | -3 220 | -1 729 |
| CASH FLOW FROM FINANCING | | |
| Share issue | 688 | 2 402 |
| Repayments on short-term loans | 0 | -519 |
| Loans granted | -688 | -2 330 |
| Long-term loan repayments | 0 | -1 307 |
| Dividends paid and other distribution of profit | -1 786 | -1 167 |
| Refunds of capital | -8 254 | 0 |
| Cash flow from financing (C) | -10 040 | -2 921 |
| CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C) | -9 813 | 2 651 |
| Cash and cash equivalents at the beginning of the financial period | 10 321 | 7 670 |
| Cash and cash equivalents at the end of the financial period | 508 | 10 321 |

Parent company notes to the financial statements FAS 2018



Accounting principles used for the parent company's financial statements and notes to the income statement

iLOQ Oy's financial statements have been prepared in accordance with the Finnish Accounting Standards (FAS). The financial statements are presented in thousands of euros.

TANGIBLE AND INTANGIBLE ASSETS

Tangible and intangible assets are entered on the balance sheet at acquisition cost less planned depreciation. Variable expenses are included in the acquisition cost. Planned depreciation has been calculated on a straight-line basis over the economic service life of tangible and intangible assets.

The development expenses for 2018 have been recognized on the balance sheet at acquisition cost. Recognition of planned, straight-line depreciation on these items will begin when the product development project is concluded.

THE DEPRECIATION PERIODS ARE AS FOLLOWS:

| | |
|---|------------|
| Intangible rights | 5–10 years |
| Other intangible assets | 5–10 years |
| Machinery and equipment | 5 years |
| Furnishings and other moveable property | 5 years |

INVENTORIES

Inventories are presented in accordance with the average price principle at either acquisition cost or likely sale price, whichever is lower. Variable expenses are included in the value of inventories.

iLOQ LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 28 ACCOUNTING PRINCIPLES USED FOR THE PARENT COMPANY'S FINANCIAL STATEMENTS AND NOTES TO THE INCOME STATEMENT

| PERSONNEL COSTS | 2018 | 2017 |
|------------------------------------|--------------|--------------|
| Salaries and bonuses | 4 535 | 3 277 |
| Pension costs | 801 | 707 |
| Other indirect personnel costs | 100 | 131 |
| Total | 5 436 | 4 115 |
| Average number of employees | 72 | 52 |

Total

| DEPRECIATION AND IMPAIRMENT | 2018 | 2017 |
|------------------------------------|--------------|-------------|
| Planned depreciation | 1 166 | 923 |
| Impairment of non-current assets | 0 | 57 |
| Total | 1 166 | 980 |

| FINANCE INCOME AND EXPENSES | 2018 | 2017 |
|------------------------------------|-------------|-------------|
| Finance income | | |
| Intra-Group interest income | 48 | 47 |
| Other finance income | 146 | 138 |
| Total | 194 | 185 |
| Finance expenses | | |
| Interest expenses | 17 | 22 |
| Other finance expenses | 252 | 315 |
| Total | 270 | 337 |

iLOQ LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 29 INTANGIBLE ASSETS

| INTANGIBLE ASSETS | 2018 | 2017 |
|--|--------------|--------------|
| Development expenditure | | |
| Acquisition cost, Jan 1 | 2 349 | 1 320 |
| Increases | 2 200 | 1 028 |
| Acquisition cost, Dec 31 | 4 548 | 2 349 |
| Accumulated depreciation and impairment, Jan 1 | 0 | 0 |
| Depreciation for the financial period | 117 | 0 |
| Accumulated depreciation and impairment, Dec 31 | 117 | 0 |
| Carrying amount, Dec 31 | 4 432 | 2 349 |
| INTANGIBLE RIGHTS | | |
| Acquisition cost, Jan 1 | 984 | 858 |
| Increases | 153 | 126 |
| Acquisition cost, Dec 31 | 1 136 | 984 |
| Accumulated depreciation and impairment, Jan 1 | 477 | 380 |
| Depreciation for the financial period | 119 | 98 |
| Accumulated depreciation and impairment, Dec 31 | 597 | 477 |
| Carrying amount, Dec 31 | 540 | 506 |
| Other intangible assets | | |
| Acquisition cost, Jan 1 | 7 042 | 6 842 |
| Increases | 68 | 200 |
| Acquisition cost, Dec 31 | 7 110 | 7 042 |
| Accumulated depreciation and impairment, Jan 1 | 4 844 | 4 143 |
| Depreciation for the financial period | 658 | 648 |
| Impairment | 0 | 53 |
| Accumulated depreciation and impairment, Dec 31 | 5 502 | 4 844 |
| Carrying amount, Dec 31 | 1 608 | 2 198 |
| TOTAL INTANGIBLE ASSETS | 6 579 | 5 053 |

iLOQ LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 30 TANGIBLE ASSETS AND INVESTMENTS

| TANGIBLE ASSETS | 2018 | 2017 |
|---|--------------|-------------|
| Machinery and equipment | | |
| Acquisition cost, Jan 1 | 1 206 | 947 |
| Increases | 755 | 259 |
| Acquisition cost, Dec 31 | 1 961 | 1 206 |
| Accumulated depreciation and impairment, Jan 1 | 658 | 477 |
| Depreciation for the financial period | 272 | 177 |
| Impairment | 0 | 4 |
| Accumulated depreciation and impairment, Dec 31 | 929 | 658 |
| Carrying amount, Dec 31 | 1 031 | 548 |
| Fixed assets in progress | | |
| Acquisition cost, Jan 1 | 164 | 51 |
| Increases | 168 | 243 |
| Decreases | 64 | 130 |
| Acquisition cost, Dec 31 | 268 | 164 |
| Carrying amount, Dec 31 | 268 | 164 |
| TOTAL TANGIBLE ASSETS | 1 300 | 712 |

| INVESTMENTS | 2018 | 2017 |
|---------------------------------|--------------|--------------|
| Shares in Group companies | | |
| Acquisition cost, Jan 1 | 1 123 | 1 120 |
| Increases | 13 | 3 |
| Decreases | 107 | 0 |
| Acquisition cost, Dec 31 | 1 029 | 1 123 |

The increase in investments in 2018 is due to investments in the new subsidiaries, iLOQ France SAS and iLOQ Iberia SLU. The decrease in investments in 2018 is due to iLOQ Sverige AB's refund of an equity investment.

iLOQ LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 31 CURRENT AND NON-CURRENT RECEIVABLES

| NON-CURRENT RECEIVABLES | 2018 | 2017 |
|--|--------------|--------------|
| Non-current receivables from others | | |
| Loan receivables | 2 980 | 2 292 |
| Total | 2 980 | 2 292 |
| The item "non-current receivables from others" consists of related-party loans to key personnel in the company's management. The term of the loan is 10 years and the interest rate is the 12-month Euribor rate plus 1.5%. The guarantees for the loans are the shares that were subscribed by key personnel using the loans. | | |
| Non-current receivables from Group companies | | |
| Loan receivables | 200 | 65 |
| Subordinated loan receivables | 810 | 910 |
| Total | 1 010 | 975 |
| TOTAL NON-CURRENT RECEIVABLES | 3 990 | 3 267 |

| CURRENT RECEIVABLES | 2018 | 2018 |
|--|--------------|--------------|
| Current receivables from other companies | | |
| Trade receivables | 7 858 | 6 349 |
| Other receivables | 26 | 26 |
| Prepayments and accrued income | 203 | 157 |
| Total | 8 087 | 6 532 |
| Current receivables from Group companies | | |
| Prepayments and accrued income | 35 | 46 |
| Total | 35 | 46 |
| TOTAL CURRENT RECEIVABLES | 8 123 | 6 578 |

iLOQ LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 32 SHAREHOLDERS' EQUITY AND CALCULATION OF DISTRIBUTABLE EQUITY

| SHAREHOLDERS' EQUITY | 2018 | 2017 |
|--|---------------|---------------|
| Restricted equity | | |
| Share capital, Jan 1 | 1 000 | 1 000 |
| Share capital, Dec 31 | 1 000 | 1 000 |
| Share premium account, Jan 1 | 380 | 380 |
| Share premium account, Dec 31 | 380 | 380 |
| Total restricted equity | 1 380 | 1 380 |
| Subscription issue, Jan 1 | 253 | 0 |
| Change | -253 | 253 |
| Subscription issue, Dec 31 | 0 | 253 |
| Invested unrestricted equity fund, Jan 1 | 12 464 | 10 315 |
| Share issue | 688 | 2 148 |
| Transfers between items | 253 | 0 |
| Refund to shareholders | -8 254 | 0 |
| Invested unrestricted equity fund, Dec 31 | 5 151 | 12 464 |
| Retained earnings, Jan 1 | 8 867 | 1 676 |
| Retained earnings, Dec 31 | 8 867 | 1 676 |
| Dividend distribution, Jan 1 | -1 167 | 0 |
| Dividends paid | -1 786 | -1 167 |
| Dividend distribution, Dec 31 | -2 954 | -1 167 |
| Profit for the financial period | 6 508 | 7 191 |
| Total unrestricted shareholders' equity | 17 571 | 20 417 |
| Total shareholders' equity | 18 952 | 21 797 |
| CALCULATION OF DISTRIBUTABLE EQUITY | 2018 | 2017 |
| Retained earnings | 5 913 | 509 |
| Profit for the financial period | 6 508 | 7 191 |
| Invested unrestricted equity fund | 5 151 | 12 464 |
| Capitalized development expenditure | -4 432 | -2 349 |
| Total | 13 140 | 17 814 |

The share capital is EUR 1,000,015.60, paid in full. The number of shares is 1,238,744.

iLOQ LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 33 LIABILITIES

| CURRENT LIABILITIES | 2018 | 2017 |
|--|--------------|--------------|
| Non-interest-bearing current liabilities to other companies | | |
| Advances received | 214 | 137 |
| Accounts payable | 3 716 | 3 466 |
| Other liabilities | 844 | 633 |
| Accrued expenses and deferred income | | |
| Deferred employee expenses | 1 451 | 1 183 |
| Deferred operating expenses | 1 024 | 1 258 |
| Other accrued expenses and deferred income | 112 | 74 |
| Tax liabilities based on the taxable income for the period | 71 | 1 437 |
| Total | 7 432 | 8 188 |
| Current liabilities to Group companies | | |
| Accounts payable | 677 | 571 |
| Total | 677 | 571 |
| Total non-interest-bearing current liabilities | 8 109 | 8 759 |

iLOQ LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 34 LIABILITIES AND GUARANTEES

**AMOUNT PAYABLE UNDER
LEASING AGREEMENTS**

| | 2018 | 2017 |
|----------------------------------|-------------|-------------|
| Due in the next financial period | 48 | 36 |
| Due later | 54 | 42 |
| Total | 102 | 78 |

OTHER CONTINGENT LIABILITIES

| | 2018 | 2017 |
|--------------------------|--------------|--------------|
| Standby letter of credit | 1 332 | 1 267 |
| Rental liabilities | 663 | 773 |
| Corporate credit cards | 68 | 24 |
| Total | 2 064 | 2 064 |

The company has pledged collateral worth EUR 13,086.55 on behalf of iLOQ Sverige AB relating to the subsidiary's office lease. In addition, the company has issued a guarantee on behalf of iLOQ Sverige AB worth EUR 79,445.04, a guarantee on behalf of iLOQ Danmark ApS worth EUR 71,866.67, a guarantee on behalf of iLOQ Norge AS worth EUR 117,101.41, and a guarantee on behalf of iLOQ Deutschland GmbH worth EUR 23,269.28. The guarantees are related to car leasing agreements. In addition, the company has an overdraft facility worth EUR 5,000,000, which was used during the 2018 financial period.

COLLATERAL PLEDGED

| | 2018 | 2017 |
|--------------------|--------------|--------------|
| Collateral pledged | 8 300 | 3 800 |
| Total | 8 300 | 3 800 |

ILOQ-GROUP

SIGNATURES TO THE FINANCIAL STATEMENTS AND ANNUAL REPORT

In Oulu, February 27, 2019



Veijo Karppinen
Chair of the Board of Directors



Jorma Takanen
Member of the Board



Mika Pukari
Member of the Board



Harri Takanen
Member of the Board



Johan Flykt
Member of the Board



Heikki Hiltunen
Member of the Board

AUDITOR'S NOTE

A report has been issued today on the audit performed.

In Oulu February 27, 2019

KPMG Oy Ab



Tapio Raappana
Authorised Public



This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's Report

To the Annual General Meeting of iLOQ Oy

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of iLOQ Oy (business identity code 1842821-6) for the year ended 31 December 2018. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted

in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information that we have obtained prior to the date of this auditor's report is the report of the Board of Directors. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

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

Oulu, Finland, 27 February 2019

KPMG OY AB

TAPIO RAAPPANA

Tapio Raappana, Authorised Public Accountant, KHT

LIST OF ACCOUNTING LEDGERS AND RECORDS

| Accounting ledgers | Storage method |
|--|------------------------------|
| Financial statements and annual report | On paper |
| Balance sheet specifications | Electronically as a PDF file |
| Journal and general ledger | Electronically as a PDF file |
| Accounts receivable ledger | Electronically as a PDF file |
| Accounts payable ledger | Electronically as a PDF file |
| Accounts receivable vouchers | Electronically as a PDF file |
| Accounts payable vouchers | Electronically as a PDF file |
| Bank and cash vouchers | Paper vouchers |
| Memo vouchers | Paper vouchers |
| Note voucher | Paper vouchers |

