



Financial Statements and Annual Report 2019

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Report of the Board of Directors

2019

iLOQ is a Finnish, rapidly expanding and internationalizing technology company that transforms mechanical locking into digital access management.

iLOQ's technological solutions enable electronic locking without batteries or cables. The company's products are sold through iLOQ's distribution channel providing professional installation and maintenance services. The company has nearly 900 resellers globally. Revenue increased steadily during the financial period 2019 in both the oval and DIN lock cylinder markets. The manufacturing of the products is based on outsourced, flexibly scalable production, distributed by the iLOQ-managed distribution center. In addition, the company has a small-scale production unit to support product development needs.

In accordance with its growth strategy, iLOQ continued in 2019 to strengthen its organization to support the company's long-term internationalization and growth targets. The most significant investments were focused particularly on strengthening the company's international sales and marketing as well as product development. In accordance with its growth strategy, iLOQ continued in 2019 to strengthen its organization to support the company's long-term internationalization and growth targets. The most significant investments were focused particularly on strengthening the company's international sales and marketing as well as product development. The company has subsidiaries in Sweden, Norway, Denmark, Germany, the Netherlands, France, Spain and UK.

iLOQ launched iLOQ S5 in the Nordic countries in fall 2019. With the publication of iLOQ S5, the company utilizes even further the opportunities offered by digitalization and the Internet of Things in improving safety, decreasing administration and reducing life cycle costs.

In May 2018, iLOQ published the world's first mobile access management solution utilizing NFC technology, iLOQ S50, which is aimed at electricity production and distribution companies, telephone network services, server centers, water treatment plants, property maintenance services and transport services. The successful launch of the iLOQ S50 access system showed that we do not only rely on one product and technology. And when Apple finally opened its NFC (Near Field Communications) function to third party manufacturers in its new iOS 13 operating system, the opportunities for further development in user access management that is not dependent on hardware is now in practice limitless.

iLOQ also made strong investments in improving the transaction experience of its reseller network and end customers by introducing the iLOQ partner portal and by enhancing the effectiveness of expert support processes and tools.

In addition to expanding its reseller network, the company concluded a Frame Agreement with the Domus Arctica foundation (DAS). The company was selected to become a member of KONE's partner network and the interaction between the companies' technologies and application interfaces brings additional value in access control by using KONE's digital platform. Nokian Renkaat selected iLOQ's locking system for its future testing center in Spain. In addition, several measures have been implemented and initiated to enhance the iLOQ brand and awareness of it. The objective is to achieve good visibility among the main target groups in the market areas important for the company in Central and Northern Europe.

The long-term Chairman of the Board of Directors with eight years' service, Veijo Karppinen, passed away in fall 2019, and Harri Takanen, member of the Board of Directors, was elected new Chairman of the Board of Directors.

In May 2018, the company announced that it is assessing the possibility of listing the company's shares on the Nasdaq Helsinki Ltd stock exchange as well as other possible alternatives for ensuring the company's fast growth and internationalization. In December 2019, iLOQ's majority shareholders closed a Transfer Agreement concerning the sale of iLOQ to a company whose majority shareholding is in Nordic Capital Fund IX. The purchase price of the acquisition executed as a share transfer was EUR 190 million.

BUSINESS ACTIVITIES DURING THE FINANCIAL PERIOD

iLOQ turned a strong profit for the seventh consecutive year, despite strong growth and significant investments in internationalization. iLOQ Group's net sales in 2019 came to EUR 61.1 million (2018: EUR 50.2 million), an increase of 21.5% in comparison to the same period in the previous year. The revenue from Central European operations increased by 19.2% compared to the previous year and came to EUR 10.5 (8.8) million. The revenue from operations in Northern Europe came to EUR 50.6, a growth of 22.0% to the same period in the previous year. In Northern Europe, growth in euro terms was strongest in Sweden.

FINANCIAL KEY FIGURES FOR THE GROUP

Thousand euros, unless otherwise stated	2019	2018	2017
Revenue	61,074	50,249	40,345
Revenue growth (%)	21.5 %	24.5 %	19.6 %
Gross margin	34,076	27,624	22,454
Gross margin (%)	55.8 %	55.0 %	55.7 %
EBITDA	10,395	9,463	10 ,100
EBITDA (%)	17.0 %	18.8 %	25.0 %
EBIT	7,412	8,284	9,115
EBIT (%)	12.1 %	16.5 %	22.7 %
Investments, tangible and intangible assets	4,720	3,301	1,726
Investments (% of revenue)	7.7 %	6.5 %	4.3 %
Solvency ratio (%)	60.6 %	68.6 %	70.4 %
Return on equity (%)	28.4 %	33.4 %	43.1 %
Average number of employees	147	109	78
Number of employees at the end of period	152	129	86

The company's profitability, measured in all key indicators, developed in a positive way in the financial period 2019. The strong growth strengthened the sales margin, which increased by 23.3% from the previous year to 55.8% of revenue (55.0%). The operating profit (EBITDA) for 2019 was EUR 10.4 million (2018: EUR 9.5 million). The expenses for 2019 include one-off expenses relating to work in charting the company's strategic alternatives in the amount of approximately EUR 0.1 million. The number of the company's personnel at the end of the year was 152 (129), growth of 18% to the end of the previous year. Net operating profit (EBIT) was EUR 7.4 (8.3) million, or 12.1% (16.5%) of revenue. The company's profit for the reporting period 2019 was EUR 5.5 (6.5) million.

REPORT ON THE SCOPE OF RESEARCH AND DEVELOPMENT ACTIVITIES

The company has invested in the development of new products and the further development of the features and manufacturing processes of existing products. The most important development projects were the development of the mechanics, electronics and software for the iLOQ S50 locking system, which was introduced to

the market in the last financial period, as well as the iLOQ S5 access control system launched in the Nordic countries in the fall.

Investments in tangible and intangible assets capitalized in 2019 totaled EUR 4.7 (3.3) million.

FINANCIAL POSITION OF THE COMPANY

The company's liquidity and financial position were at a good level at the end of the financial period 2019. Cash flow from operating activities in 2019 was EUR 8.7 (3.8) million. The Group's balance sheet total at the end of the financial period was EUR 34.7 (26.4) million and equity ratio 60.6% (68.6%).

FINANCIAL ARRANGEMENTS AND SPECIAL RIGHTS

The Annual General Meeting held on 21 March 2019 authorized the Board of Directors to decide on a share issue as well as to grant option rights and other special rights entitling to shares in accordance with Section 10 paragraph 1 of the Companies Act in one or more batches in such a way that a maximum of 150,000 new or treasury series K shares can be granted either against compensation or without compensation.

On the basis of the authorization, shares or special rights entitling to shares could also be offered as a directed share issue in deviation of the shareholders' subscription right. The Board of Directors is also free to decide about the terms and conditions of the share issue or special rights.

The authorization is valid until the start of the next Annual General Meeting, however at the latest until 30 June 2020, and the authorization cancelled the previous authorizations granted by the Annual General Meeting held on 23 March 2018. No options have been issued on the basis of the open authorization.

In addition, the Annual General Meeting decided to direct a total of 2,600 options to the members of the Board of Directors in such a way that an individual member can receive a maximum of 650 options, each of which entitles to subscribing for one new series K share in accordance with the share's option terms. The subscription period for the options is 1 January 2020 - 31 December 2021.

The Annual General Meeting held on 23 March 2018 decided to authorize the Board of Directors to decide on a directed share issue of a maximum of 60,000 series K shares. The Board of Directors is free to decide about all the terms and conditions of the directed share issue. The authorization is valid until further notice and on the basis of it. the Board of Directors has decided on 31 December 2018 about a directed share issue of 1,500 shares. In addition, in the financial period 2018, the Board of Directors decided about a directed share issue of a total of 5,300 new series K shares on the basis of the share issue authorization granted by the Annual General Meeting on 22 March 2017. The company had a weighty financial reason in accordance with Section 9, paragraph 4, subparagraph 1 of the Companies Act to issue directed share issues, because they were connected with the incentive and engagement program of key personnel.

The subscription price received for the share issues has been recognized in the invested unrestricted equity fund of the company.

The Annual General Meeting of 2018 authorized the Board of Directors to decide about an option program under which a maximum of 60,000 new series K shares can be subscribed. The Board of Directors is free to decide about the terms and conditions of the share program.

There is a weighty reason for the company's decision, because the purpose of the option program is to ensure the commitment of the company's key personnel to new duties. The authorization is valid until further notice and it cancelled the option authorization decided on 30 March 2016.

Under the authorization granted to it, the Board of Directors decided on 20 December 2018 about a new option program under which a maximum of 20,000 option rights are offered for subscription. The option rights grant the right to subscribe for 20,000 of the company's new or treasury K series shares in total. The subscription period for the shares is 1 May 2021 - 31 December 2026.

In 2018, Annual General Meeting decided to issue a share option plan for the Board of Directors of the parent company. According to the conditions of the share option plan, the options were granted without consideration to the members of the Board of Directors so that each individual member can receive a maximum of 500 options. The share option program is part of ensuring the commitment of the members of the Board of Directors and thus, there is a weighty financial reason from the company's point of view. The option rights grant the right to subscribe for a maximum of 3,000 of the company's series K shares in total. In connection with the option arrangements, 2,500 new series K shares were subscribed for in 2019, and the subscription price received has been recognized in the invested unrestricted equity fund of the company.

LOANS TO RELATED PARTIES AND RESPONSIBILITIES

The company does not have related party loans at the end of the financial period.

SIGNIFICANT EVENTS AFTER THE END OF THE **FINANCIAL PERIOD**

Since the end of the financial period, there have been no material changes in the company's operations and financial position.

ASSESSMENT OF LIKELY FUTURE DEVELOPMENTS

The company's management predicts that the revenue will grow in the current market areas also in 2020, thanks to development measures that accelerate growth. It is predicted that profitability will remain good despite growth investments.

BUSINESS RISKS

The company operates with a network business model in the manufacture and distribution of products. The aim is to prevent business risks by identifying risks. In 2019, particular focus has been placed on ensuring the availability of components so that the company's capacity to honor supply contracts can be secured.

Due to the nature of the company's security products, product-related risks are prevented through thorough product testing, both internally and by external testing institutions, as well as high-quality operations at all stages of product 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 judicial or credit loss risks that would substantially affect the company's performance.

QUALITY AND ENVIRONMENT

The company has a certified ISO 9001:2015 quality system and ISO 14001:2015 environmental management system. The company's iLOQ S10/S50 SaaS service is produced by Fujitsu Services Oy, whose information security management system has been certified in accordance with ISO 27001:2013.

SHARES OF THE COMPANY

The company's share capital is divided as follows:

	2019	2018
K-share	1,241,244	1,238,744
A-share	0	0

All shares have equal rights to dividends and company assets.

OWN SHARES

The company has 5,300 treasury shares on 31 December 2019.

BOARD OF DIRECTORS' PROPOSAL FOR PROFIT DISTRIBUTION

iLOQ Oy's distributable equity was EUR 13,996,281.92 on 31 December 2019 of which profit for the period amounted to EUR 5,662,620.64. The company's distributable equity is divided into invested unrestricted equity fund EUR 5,301,132.20 and earnings, EUR 15,028,451.13. The distributable funds are reduced by capitalized development expenses totaling EUR 6,333,301.41.

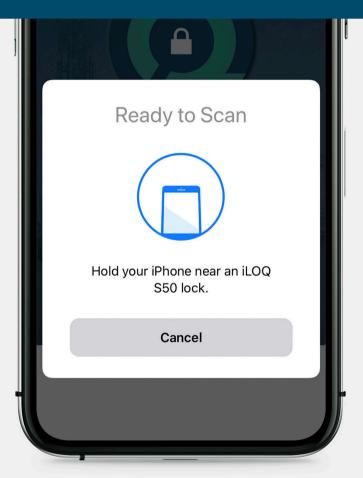
The Board of Directors proposes to the Annual General Meeting that the profit for the financial year 2019 is transferred to the profit and loss account and that no dividends are paid out.

Since the end of the financial period, there have been no material changes in the company's financial position. The company's liquidity is good and, in the view of the Board of Directors, the proposed distribution of profits and capital repayment will not endanger the company's solvency.

AUDITING

The company's auditor has been auditing firm KPMG Oy Ab, Authorized Public Accountants, with Tapio Raappana, APA, as the principal auditor.

iLOQ Consolidated Financial Statements IFRS 2019





INCOME STATEMENT IFRS

EUR thousand	Note	1.1.2019–31.12.2019	1.1.2018-31.12.2018
Revenue	4	61,074	50,249
Other income		0	3
Materials and services	6	-26,998	-22,628
Employee benefit expenses	7	-13,395	-9,395
Depreciation and amortization	8	-2,983	-1,179
Other expenses	9	-10,286	-8,766
Operating profit		7,412	8,284
Finance income	10	106	146
Finance expenses	10	-461	-278
Net finance costs		-355	-132
Duelit / Local Indiana tours		7,057	8,152
Profit (-loss) before taxes		7,057	6,152
Income taxes	11	-1,548	-1,659
Profit (-loss) for the financial year		5,508	6,493
Other comprehensive income			
Items that may be subsequently reclassified			
to profit or loss			
Other comprehensive income (-loss), net of tax		10	-31
Total comprehensive income (-loss) for the tax		10	-31
Total comprehensive income (-loss) for the		5,519	6,462
Earnings per share attributable to owners of the parent company			
	17	4,44	5,26
Earnings per share, undiluted (EUR)	17	•	

iLOQ-GROUP **BALANCE SHEET IFRS**

EUR thousand	Note	31.12.2019	31.12.2018
ASSETS			
Non-current assets			
Intangible assets	12	8,329	6,489
Property, plant and equipment	13	3,954	1,406
Deferred tax assets	11	392	507
Other receivables	15, 26	0	2,980
Total non-current assets		12,676	11,382
Current assets			
Inventories		7,092	5,532
Trade and other receivables	15	10,853	8,260
Current tax assets	11	0	40
Cash and cash equivalents	16	4 110	1 218
Total current assets	10	22,055	15,051
Total Current assets		22,033	13,031
TOTAL ASSETS		34,730	26,433
SHAREHOLDERS' EQUITY			
Equity			
Share capital	17	1,000	1,000
Share premium reserve	17	380	380
Reserve for invested non-restricted equity	17	5,301	5,151
Translation reserve		-15	-25
Retained earnings	17	14,177	11,476
		20,844	17,982
TOTAL SHAREHOLDERS' EQUITY			
Non-current liabilities			
Liabilities from credit institutions	20	0	0
Non-current lease liabilities	23	781	0
Non-current provisions	24	460	314
Non-current liabilities		1,241	314
Non-current liabilities			
Account payables and other liabilities	21	10,742	7,349
Current lease liabilities	23	958	0
Current provisions	24	314	710
Current tax liabilities	11	630	78
Total current liabilities		12,645	8,137
Total liabilities		13,886	8,451
TOTAL EQUITY AND LIABILITIES		34,730	26,433
		3-11.00	20,-100

CONSOLIDATED STATEMENT OF CASH FLOWS IFRS

_			
EUR thousand	Note	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES			
Profit (-loss) for the financial period		5,508	6,493
Adjustments:			
Non-cash items		248	15
Depreciation and amortisation	8	2,983	1,179
Unrealised exchange rate gains and losses		-134	33
Finance income		-106	-146
Finance expenses		461	278
Taxes		1,549	1,659
Other adjustments		0	-1
Changes in working capital:			
Change in trade and other receivables	15	-2,514	- 1,555
Change in inventory	14	-1,560	-2,031
Change in trade and other payables	21	3,454	1,081
Change in provisions	24	-250	-234
Interest paid		-134	-17
Interest received		88	7
Income taxes paid		-842	-2,913
Other financial items		-49	-45
Net cash flow from operating activities		8,703	3,803
Cash flow from investing activities Purchases of tangible fixed assets	13	-1,322	-901
Purchases of tangible fixed assets	12	-3,398	-2,400
- distributed the distribution of the distribu		-4,720	-3,301
Net cash flow from investing activities			
Cash flow from financing activities			
Loans granted	15	0	-688
Repayments of loans and borrowings	15,26	2,662	0
Acquisition of own shares		-261	0
Proceeds from issuance of shares		150	688
Dividends paid	17	-2,472	-1,786
Refund of capital		0	-8,254
Payments of lease liabilities	23	-912	0
Net cash flow from financing activities		-833	-10,040
Change in cash and cash equivalents		3,150	-9,538
Cash and cash equivalents, Jan 1		1,218	10,871
Net effect of exchange rate changes on cash and cash	h equivalents	-258	-115
Cash and cash equivalents, Dec 31			

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IFRS

Equity attributable to shareholders of the parent company

				Reserve for			
				intested			
			Share	non-			
	Note	Share	premium	restricted	Translation	Retained	
EUR thousand		capital	reserve	equity	reserve	earnings	Total
EQUITY							
Equity at Jan 1, 2019	17	1,000	380	5,151	-25	11,476	17,982
Comprehensive income							
Profit for the financial year						5,508	5,508
Translation difference				0	10	0	10
Total comprehensive income		0	0	0	10	5,508	5,518
Transactions with shareholders							
Issue of shares	17			150		0	150
Dividend						-2,472	-2,472
Purchase of own shares	18					-583	-583
Share-based payments				0		248	248
Total transactions with owners		0	0	150	0	-2,807	-2,657
EQUITY AT DEC 31, 2019	17	1,000	380	5,301	-15	14,178	20,844

Equity attributable to shareholders of the parent company

EQUITY							
2011							
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
Total comprehensive income							
Issue of shares	17			688			688
Dividend						-1,786	-1,786
Refund of capital				-8,254			-8,254
Share-based payments	18			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

Notes to the financial statements IFRS 2019



Accounting principles behind the consolidated financial statements

NOTE 1 BASIC INFORMATION

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.

Since 11 December 2019, iLOQ Oy's parent company has been Capnor Weasel Bidco Oy, who prepares the consolidated financial statements. The parent company's domicile is Helsinki, Finland. Copies of the consolidated financial statements are available at iLOQ Ltd's head office.

The Board of Directors of iLOQ Ltd approved the financial statements for publication at its meeting on 11 March 2020. 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 OF PREPARATION

The consolidated financial statements for the 2019 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 2019 for application in the EU. "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

As of the start of the financial period, the Group has adopted a new standard, IFRS 16 Leases. The standard replaces IAS 17 Leases and the related interpretations. According to IFRS 16, a lessee recognizes a use right asset relating to the asset on the balance sheet, as well as a lease liability describing its future lease payment liability. There are two forms of exemption for recognition onto the balance sheet for short-term leases and for lease agreements of minor value.

In the adoption of IFRS 16, iLOQ Group has applied the simplified accumulated impact method according to which comparative data has not been adjusted. The most significant use right assets of the Group are the Espoo and Oulu office premises and vehicles. According to the exemption allowed by the Standard, minor assets have not been recognized on the balance sheet. Furthermore, immediate expenditure at the initial phase of the agreement has not been recognised under use right assets at the moment of transfer on 1 January 2019. One pre-defined discount rate has been applied to lease agreements of a fairly similar type.

Reconciliation of lease liabilities on 31 December 2018 and lease agreement liabilities recognized on 1 January 2019 is presented in the table below:

The impact of a change in lease liabilities to the current value

Lease liabilities on 1 January 2019	1,947
Other items	-50
Changes based on the management's evaluation	513
Indices and variable interest rates	8
Services	0
Exemptions	-41
Finance leasing	0
Discounted lease liabilities	11
Lease liabilities on 31 December 2018	1,506

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In addition to the impact on the balance sheet, IFRS 16 has also changed the nature of expenses recognized in the profit and loss account, because instead of lease expenses, depreciation and interest paid on lease liabilities are recognized in the profit and loss account. As regards the financial period 2019, the lease agreements in force have increased depreciation by approximately EUR 0.93 million and financial expenses by approximately EUR 0.95 million. Correspondingly, lease expenses decreased by approximately EUR 0.97 million. The consolidated financial statements for the 2019 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 eight subsidiaries.

NOTE 3 ACCOUNTING POLICIES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Accounting policies 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 policies, 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
- definition of a lease agreement term: As regards lease agreements in which the term has been defined to be until further notice, the expected lease term based on the consideration of the management is applied. When determining the expected lease term, the impact of

the sanctions included in the lease agreement relating, for example, to a premature termination of the agreement, are also considered.

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 policies applied to the subsidiaries are altered if necessary to correspond to the accounting policies used for the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR FOREIGN SUBSIDIARIES

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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 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 useful life are depreciated on a straight-line basis over the estimated useful life of the asset. Changes to the useful life of an asset, the method of depreciation, and the residual value are treated as changes in an accounting estimate.

The estimated useful lives of assets are as follows:

- Intangible rights: 5-10 years
- Other intangible assets: 5-10 years

The useful 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.

PROPERTY, PLANT AND EQIPMENT

Property, plant and equipment 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.

Property, plant and equipment are measured at acquisition cost less depreciation and impairment. Acquisition cost includes the costs directly incurred in acquiring the property, plant and equipment.

Property, plant and equipment are depreciated on a straight-line basis over the estimated service life of each asset.

The methods of depreciation used and the estimated useful lives of assets are as follows:

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

The useful lives and methods of depreciation are evaluated at the end of each reporting period and adjusted if necessary to reflect changes in the expected economic benefit.

Property, plant and equipment are derecognized from the balance sheet when they are disposed of or when no future

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

financial benefits can be expected from the use or disposal of the asset. Gains and losses on disposals of property, plant and equipment are recognized through profit or loss and presented under other operating income or costs.

LEASES - THE GROUP AS THE LESSEE

An evaluation is made at the start of a lease agreement as to whether the agreement is a lease agreement or whether it includes a lease agreement. A lease agreement is an agreement or a part of an agreement that grants the right to use an asset for a specific period of time against compensation. At the time the agreement enters into force, the Group separates the lease agreement and the non-lease component

At the time the agreement enters into force, the Lessee recognizes the lease agreement on the balance sheet as a use right asset and a corresponding lease agreement liability. The use right asset is originally valued at acquisition cost. This corresponds to the original amount of the lease agreement liability adjusted by lease payments made in advance, lease incentives, direct expenses at the initial phase, as well as by the estimated expenses that the lessee incurs as a result of reverting the asset to the conditions required under the terms and conditions of the lease agreement.

The use right asset is derecognized during the term of the lease.

The lease liability is recognized at originally the unpaid lease payments at the time the agreement enters into force discounted by the internal interest of the lease agreement, or if this cannot be determined, by the interest rate of the lessee's additional interest. When determining the lease agreement-specific discount interest rate, the criteria used are asset class, geographical location, currency, maturity of risk-free interest, as well as the lessee's credit risk premium.

The lease agreement liabilities are measured at amortised cost using the effective interest method. The lease payments included in lease liabilities are fixed or variable payments that depend on an index or an interest rate. Options relating to continuation periods are included in the term of the lease if it is relatively certain that they will be exercised. The lease agreements in force until further notice are included for the period during which in the management's estimation it is relatively certain that the agreement will not be terminated.

The Group applies two exemptions allowed by the Standard, i.e., lease agreements with lease terms not exceeding 12 months, or lease agreements with minor value, are not recognized on the balance sheet. These agreements are recognized as expenses in the statement of income over the term of the lease.

Lease agreements, accounting policy for the year of comparison 2018

If the risks and rewards characteristic of ownership are retained in substantial part by the lessor under a lease, it is treated as an operating 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:

- Amortised cost, 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.

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 carried at amortised 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 amortised 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 amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 period 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:

- Amortised 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 amortised 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 amortised cost using the effective interest method. Items measured at amortised 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 financial 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 amortised 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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 property, plant and equipment 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.

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 ordinary shares. If the Group buys back its equity instruments, the acquisition cost is deducted from equity.

NEW AND UPDATED STANDARDS AND INTERPRETA-TIONS 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.

The following amended standards that enter into force at the start of 2020 are not expected to affect the consolidated financial statements.

* = The regulation has not been approved to be applied in the EU on 31 December 2019.

AMENDMENTS TO IERS 3 — DEFINITION OF A BUSI-NESS *

The amendments contracted and clarified the definition of a business. They also allowed a simplified evaluation to be made of whether the acquired entity is an asset group or a business.

AMENDMENTS TO IAS 1 AND IAS 8 — DEFINITION OF **MATERIAL**

The amendments clarify the definition of material and include guidelines to make it easier to consistently apply the concept across all IFRS standards. Furthermore, the clarifications relating to the definition have been improved.

INTEREST RATE BENCHMARK REFORM* (AMEND-MENTS TO IFRS 9, IAS 39 AND IFRS 7)*

The background to the amendments are the uncertainties relating to the preparation for and introduction of the interbank offered rate reference value decree (the IBOR reform). The amendments make it easier to fulfil the preconditions of financial instruments' hedging calculation during the period preceding the IBOR reform.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 REVENUE AND SEGMENT REPORTING

SEGMENT REPORTING

The iLOQ Group is a technology company that offers solutions for electronic locking. The Group operates with a network business model in the manufacture and distribution of products. The Group's products are sold through iLOQ's distribution channel providing professional installation and maintenance services. The Group has country offices also in Sweden, Denmark, Norway, Germany, the Netherlands, France, Spain and the UK.

The Group's business operations are managed and monitored as one entirety. Subsidiaries are sales organizations and their turnover consists of commission charges from the Group's parent company. Based on the similarity of business operations, products, services and production process, the Group has only one operating segment. The Executive Board is the Group's chief operating decision maker. The Group's Executive Board evaluates the performance of the company and the use of resources as a whole.

Composition of Group's turnover and geographical distribution is presented with the notes related to turnover. The Group has no external customers with net sales over 10 % of the Group's total net sales. The Group's most significant non-current assets are located at the domicile state of the parent company.

REVENUE

The revenue of iLOQ consists of digital locking and access management systems. The Group's products consist of supplied locks, as well as lock operation and maintenance services. The Group's customers are retailers and partners of locking products. .

Revenue is recognized when control over the goods or the service is transferred to the customer. Lock deliveries are capitalized when control is transferred on the basis of the delivery of the products, when the risks and benefits have been transferred to retailers. ExWorks Incoterms delivery term is generally used on the delivery of products. For one significant customer, performance obligation is satisfied at the time of the delivery, and for these deliveries Delivered Duty Paid -Incoterms are applied. Revenue from maintenance and repair services is recognized over time as the customer receives the benefits simultaneously as the service is provided.

Sales contracts are made with the regular payment terms. A yearly discount can be granted to customers for products sold. Revenue recognition principles are presented in note 3 Accounting policies for the consolidated financial statements. Warranty clauses related to the products sold are presented in note 24 Provisions.

The Group's revenue by geographical area is presented below.

EUR thousand	2019		2018	
Northern Europe	50,619	83 %	41,477	83 %
Central Europe	10,455	17 %	8,772	17 %
Total	61,074	100 %	50,249	100 %

The proportion of Finland's revenue of the revenue from Northern Europe was EUR 32,619 in 2019 (EUR 26,402 in 2018).

The classification of revenue according to the timing of product deliveries and service production is presented below.

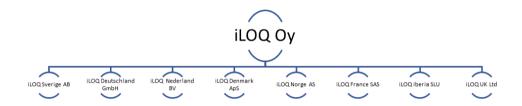
EUR thousand	2019		2018	
Revenue is recognized at a point in time	60,269	99 %	49,686	99 %
Revenue is recognized over time	805	1 %	563	1 %
Total	61.074	100 %	50,249	100 %

During the financial years presented there were no recognized credit losses on sales. Trade receivables are presented in note 15 Trade and other receivables.

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
iLOQ UK Ltd	UK	100

During the reporting period 2019, iLOQ opened a new subsidiary in the UK. The Group did not have any business acquisitions or sold business operations in 2019.

In addition, the Group has subsidiaries in the USA (iLOQ USA Inc.) and Canada (iLOQ Canada Inc.). These subsidiaries do not have any operations.

NOTE 6 MATERIALS AND SERVICES

Total	26,998	22,628
External services	825	829
Warranty expenses	-153	-66
Change in inventories	-1,612	-2,031
Purchases of material, supplies, and goods	27,938	23,896
EUR thousand	2019	2018

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 EMPLOYEE BENEFIT COSTS

EUR thousand	2019	2018
Salaries and wages	10,773	7,656
Pension expenses – defined contribution schemes	1,399	1,033
Options exercisable and payable in shares and share bonuses	248	15
Other personnel expenses	974	691
Total	13,395	9,395
	2019	2018
Average number of Group employees during the financial year:	147	109
Total number of employees at the end of the financial year:	152	129

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

mangible assets		
EUR thousand	2019	2018
Intangible rights	139	119
Other intangible assets	1,420	743
Total	1,558	862
Property, plant and eqipment		
EUR thousand	2019	2018
Machinery and equipment	460	285
Other property, plant and equipment	33	32
Use right assets	932	0
Total	1,425	317
Total depreciation and impairment	2,983	1,179

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 OTHER OPERATING EXPENSES

EUR thousand	2019	2018
Expenses relating to office premises and vehicles	791	1,099
IT hardware and software expenses	768	569
Machinery and equipment expenses	355	543
Sales and marketing expenses	2,756	1,838
Research and development expenses	1,387	552
Administrative expenses	1,626	1,877
Other expenses	2,603	2,289
Total	10,286	8,766

In 2019, expenses related to office premises and vehicles include short-term lease expenses in the amount of EUR 20 thousand and EUR 20 thousand of minor lease expenses. Computer and program expenses include EUR 23 thousand of minor lease expenses. In 2019, administrative expenses include EUR 47 thousand of expenses related to the evaluation of strategic alternatives.

Auditors' fees		
EUR thousand	2019	2018
Auditing	42	26
Tax services	6	5
Other services	99	104
Total	146	135

NOTE 10 FINANCE INCOME AND EXPENSES

Recognized through profit or loss

2019	2018
106	146
106	146
	106

Finance expenses		
EUR thousand	2019	2018
Interest expenses on lease liabilities	-53	-17
Interest expenses	-32	0
Other finance expenses	-376	-261
Total	-461	-278
Net finance expenses	-355	-132

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 INCOME TAXES

Tax based on the taxable income for the period

Total	-1,548	1,659
Change in deferred taxes	115	147
Current tax adjustments for prior years	0	-40
Current tax for the reporting year	1,434	1,552
EUR thousand	2019	2018

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

EUR thousand	2019	2018
Profit before tax	7,057	8,152
Tax calculated at the tax rate applicable in Finland (20%)	-1,411	-1,630
Unrecognized deferred tax assets from tax losses	-6	-53
Non-deductible expenses	-104	-25
Current tax adjustments for prior years	0	40
Postponed amortization in taxation and other differences	-26	9
Income taxes on the statement of comprehensive income	-1,548	-1,659

Taxes are not recognised in other comprehensive income.

Changes in deferred taxes				Exchange		
2019				rate		
2017		Recognized		differences and other		
		through	Recognized			
EUR thousand	1.1.2019	profit or loss	in equity	changes	31.12.2019	
Deferred tax assets						
Postponed amortisation in taxation	79	-23	0	0	56	
Tax losses carried forward	224	-46	0	0	178	
Provisions	205	-50	0	0	155	
Leases	0	4	0	0	4	
Total	507	-115	0	0	392	

2018				Exchange rate	
		Recognized		differences	
		through	Recognized	and other	
EUR thousand	1.1.2018	profit or loss	in equity	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
Provisions	226	-21	0	0	204
Total	654	-147	0	0	507

On 31 December 2019 the confirmed losses of the Group amounted to EUR 234 thousand (EUR 264 thousand on 31 December 2018), on which no deferred tax assed has been recognized because the Group unlikely generates taxable income against which the losses could be utilized before expiring. The losses will expire in the year 2023.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 INTANGIBLE ASSETS

Intangible assets 2019

Development expenses	Intangible rights	Other intangible assets	Work in progress	Total
11,168	1,136	311	0	12,615
2,680	234	198	287	3,399
13,848	1,370	509	287	16,014
5,359	597	170	0	6,125
1,348	139	72	0	1,559
6,707	736	242	0	7,685
5,810	539	141	0	6,490
7,142	634	267	287	8,329
	expenses 11,168 2,680 13,848 5,359 1,348 6,707	expenses rights 11,168 1,136 2,680 234 13,848 1,370 5,359 597 1,348 139 6,707 736	expenses rights assets 11,168 1,136 311 2,680 234 198 13,848 1,370 509 5,359 597 170 1,348 139 72 6,707 736 242 5,810 539 141	expenses rights assets progress 11,168 1,136 311 0 2,680 234 198 287 13,848 1,370 509 287 5,359 597 170 0 1,348 139 72 0 6,707 736 242 0 5,810 539 141 0

Intangible assets in 2018

	Development	Intangible	Other intangible	Work in	
EUR thousand	expenses	rights	assets	progress	Total
Acquisition cost, Jan 1, 2018	8,968	984	263	0	10,215
Additions	2,200	152	48	0	2,400
Acquisition cost, Dec 31, 2018	11,168	1,136	311	0	12,615
Accumulated depreciation	4,674	478	112	0	5,263
and impairment Jan 1, 2018					
Amortisation	685	119	58	0	862
Accumulated depreciation	5,359	597	170	0	6,126
and impairment Jan 1, 2019					
Carrying amount, Jan 1, 2018	4,295	506	151	0	4,952
Carrying amount, Dec 31, 2018	5,810	539	141	0	6,489

Group's intangible rights consist of patents and licenses related to IT-programs and other intangible assets consist of IT-programs. At the end of the financial year 2019, the amount of work in progress mainly consist of advance payments for the development of systems.

The Group has invested in the development of new products and the further development of the features and manufacturing processes of existing products. The carrying amount of unfinished product development expenditure was EUR 2,067 thousand in 2019. In 2019, an addition of EUR 2,685 thousand of product development expenditures was recognized on the balance sheet (in 2018 EUR 2,200 thousand.

Impairment testing

The Group has carried out impairment testing for unfinished product development expenditures as at 31 December 2019 and 31 December 2018. The test is a comparison between the carrying amount of the development cost and the recoverable amount, which is defined as the present value of the future cash flows expected to be generated from the asset. Based on the impairment test, the Group's management did not recognize any indication for a recognition of an impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 PROPERTY, PLANT AND EQUIPMENT

Owned property, plant and equipment in 2019

Use right assets in 2019

	Machinery	Fixed assets in	Other tangible			
EUR thousand	equipment	progress	assets	Cars	Premises	Total
Acquisition cost, Jan 1, 2019	1,998	268	200	0	0	2,466
Adoption of the IFRS 16 Standard				659	1,289	1,948
Additions	996	484	41	543	162	2,227
Reductions				-45	0	-45
Transfer between items	0	-199	0			-199
Acquisition cost, Dec 31, 2019	2,994	553	241	1,157	1,451	6,397
Accumulated depreciation	957	0	103			1,060
and impairment, Jan 1, 2019						
Depreciation	460	0	33	348	541	1,383
Accumulated depreciation	1,417	0	136	348	541	2,443
and impairment, Dec 31, 2019						
Carrying amount, Jan 1, 2019	1,041	268	96	0	0	1,405
Carrying amount, Dec 31, 2019	1,577	554	104	809	909	3,954

At the end of the financial year 2019 the amount of work in progress (EUR 554 thousand) mainly consist of advance payments for the production equipment of the new locks.

Property, plant and equipment 2018

EUR thousand	Machinery 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

NOTE 14 INVENTORIES

EUR thousand	2019	2018
Products	6,691	5, 119
Products in transit	401	413
Total	7,092	5,532

Inventory consist of products i.e. materials related to locking products.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 TRADE AND OTHER RECEIVABLES

Non-current receivables

EUR thousand	2019	2018
Non-current receivables from others		
Loan receivables	0	2,980
Total	0	2,980

Current receivables

EUR thousand	2019	2018
Current receivables from others	<u> </u>	
Trade receivables	10,262	7,858
Other receivables	222	152
Prepayments and accrued income	369	250
Total	10,853	8,260

The carrying amount of trade and other receivables is a reasonable estimate of their fair value.

Age distribution of trade receivables

EUR thousand	2019	2018
Not due	7,959	6,031
Due		
Less than 1 month	1,833	1,452
1–3 months	313	326
More than 3 months	157	49
Total overdue	2,303	1,827
Total	10,262	7,858

Expected credit losses

The Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit losses (ECL). No expected credit losses were recognized in reporting periods 2018-2019, because based on historical experience on realized impairment losses and calculation based on management's experience-based judgement, expected credit losses were 0 euros for reporting periods 2018-2019. The measurement of expected credit losses is presented in Note 22.

The carrying amount of trade receivables represent the maximum credit exposure on the reporting date. The Group also holds credit insurance provided by Euler Hermes to cover potential credit losses of trade receivables from customers. The Group considers the need for credit insurance coverage on a customer-specific basis and insures the receivables from customers based on this estimate.

The realized credit losses from sales to customers have been of minor importance, and no impairment losses have been recognized on the reporting periods presented in the financial statements.

Group's financial risk management and credit risk presented in Note 22.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 CASH AND CASH EQUIVALENTS

EUR thousand	2019	2018
Cash and cash equivalents	4,110	1,218
Cash and cash equivalents on the balance sheet	4,110	1,218

At the end of financial year the Group has a withdrawable credit facility amounting to EUR 5 million. At the end of financial year on 31 December 2019, the limit is not in use.

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 company's shares consist of two series: K shares and A shares. The shares have no nominal value. All shares have equal rights to dividends and company assets. A shares have not been issued during the financial years 2018-2019. The Group has 5,300 treasury shares on 31 December 2019.

The subscription price received in connection with the issue of shares is credited to share capital insofar as the resolution on share issuance does not include a decision to credit the issue price to reserve for invested non-restricted equity.

The following table specifies changes in the numbers of shares and corresponding changes in shareholders' equity.

2019	Number of class K shares	Number of class A shares	Total shares	Share capital	Invested unrestricted equity fund
1.1.	1,238,744	0	1,238,744	1,000	5,151
Share options exercised	2,500	0	2,500	0	150
31.12.	1,241,244	0	1,241,244	1,000	5,301

In 2019, the Annual General Meeting authorized the Board of Directors to decide on a share issue and on the issuance of other special rights entitling to shares. Under the authorization, a maximum of 150,000 new or treasury series K shares could be issued either for consideration or without consideration. On the basis of the authorization, shares or special rights entitling to shares can also be offered as a directed share issue in deviation of the shareholders' subscription right. The Board of Directors is also free to decide about the terms and conditions of a share issue or special rights.

The 2019 share issue of 2,500 shares is connected with the 2018 authorization in which the Annual General Meeting decided about a directed issue of option rights of 3,000 options to be directed to the Board of Directors.

	Number of	Number of class	Total	Share	Invested unrestricted
2018	class K shares	A shares	shares	capital	equity fund
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, the Annual General Meeting authorized the Board of Directors to decide on a share issue. Under the authorization granted, a maximum of 60,000 new series K shares can be subscribed. In addition, the Annual General Meeting authorized the Board of Directors to decide about an option program under which a maximum of 60,000 new series K shares can be subscribed. The Annual General Meeting further decided about an option right of 3,000 options to be directed to the Board of Directors under which the members of the Board of Directors can subscribe for 500 options each from the beginning of 2019. The 2018 share issue of 11,800 shares is connected with the 2017 authorization in which the Board of Directors decided on a share issue of a maximum of 70,000 shares in total.

NOTES TO THE FINANCIAL STATEMENTS

In 2017, the Annual General Meeting authorized the Board of Directors to decide on a share issue. Under the authorization granted, the Board of Directors has decided to issue a maximum of 70,000 series K shares. By 31 December 2017, 51,000 shares of the issue were subscribed. Of these share options, 10,660 were registered during the financial year. Of these share options, 6,820 were registered during the financial year 2018.

Dividends

Profit for the financial period, EUR 5,662,620.64, is recognized in the retained earnings account. The company's distributable funds on 31 December 2019 total EUR 13,996,281.92, of which the amount of retained earnings is EUR 15,028,451.13 and the distributable funds in the invested unrestricted equity fund are EUR 5,301,132.20. The distributable funds are reduced by capitalized development expenses totaling EUR 6,333,301.41.

The Board of Directors proposes to the Annual General Meeting that the profit for the financial year is transferred to the profit and loss account and that no dividends are paid out.

The Annual General Meeting of 21 March 2019 decided that a dividend of EUR 2.00 be distributed per each outstanding series K share registered by the time of the decision, a total of EUR 2,471,888.00.

Reserve for invested non-restricted equity

Reserve for invested non-restricted equity includes other equity investments and the subscription price of shares, to the extent that it is not specifically decided to be recorded in share capital.

Share premium reserve

In cases, where a decision on the option rights has been made under the former Companies Act (29.9.1978/734) the cash received for the share subscription on the basis of the option has been recorded to share capital and share premium reserve according to the conditions of the arrangement. Transaction costs have been deducted.

Translation differences

The reserve for translation differences comprises translation differences arising from the translation of financial statements of foreign operations.

The Group's capital management is presented in note 22 Risk management.

Earnings per share

Undiluted earnings per share is calculated by dividing the profit attributable to owners of the parent company by the average number of outstanding shares during the financial year.

	2019	2018	
Profit for the financial period attributable to the parent company's shareholders (EUR)	5,508	6,493	
Weighted average number of shares during the period	1,240,710	1,234,975	
Undiluted earnings per share (EUR per share)	4,44	5,26	

When calculating the diluted earnings per share, the dilutive effect of all dilutive potential ordinary shares is taken into account in the weighted average number of outstanding shares. The Group's dilutive potential ordinary shares consist of share-based incentive arrangements payable in shares.

	2019	2018
Profit for the financial period attributable to the parent company's shareholders (EUR)	5,508	6,493
Weighted average number of shares during the period	1,240,710	1,234,975
Effect of share options	0	675
Weighted average number of		
shares adjusted for the effect of dilution	1,240,710	1,235,650
Diluted earnings per share (EUR per share)	4,44	5,25

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 SHARE-BASED PAYMENTS

The Group has a share-based incentive plan directed to the personnel of the Group. The aim of the option rights is to encourage employees for a long-term employment in order to increase the value of the company and to make employees committed to the company. With the sale of iLOQ Oy's entire share capital executed in December 2019, all option-based incentive arrangements where options have been directed to the personnel, have expired. With the expiration of the arrangements, the cost effect of the incentive systems valid before the sale of the share capital have been recognized in full in 2019.

Option-based incentive plan 2018

In 2018, Annual General Meeting decided to issue a share option plan for the Board of Directors of the parent company. According to the conditions of the share option plan, the options were granted with no consideration to the members of the Board of Directors so that each individual member can receive a maximum of 500 options. The share option program is part of ensuring the commitment of the members of the Board of Directors and thus, there is a weighty financial reason from the company's point of view. Option rights grant the right to subscribe for 40,000 of series K shares in total. The grantee of the option right is liable for all taxes and tax-related consequences that relate to the receiving or exercising of the option right.

The subscription period for the shares to be subscribed under the option rights is 1 January 2019 - 31 December 2020. The subscription price of a share is EUR 60.

In 2018, the Board of Directors decided on the basis of the valid authorization to issue a share option plan for the Group's key personnel. According to the conditions of the share option plan, the options are granted with no consideration to the Group's key personnel decided by the Board of Directors. There is a weighty financial reason for the Group to grant the option rights, because the option rights are intended to be a part of the incentive and engagement system of the Group's key personnel. The option rights grant the right to subscribe for 20,000 of the company's series K shares in total. The grantee of the option right is liable for all taxes and tax-related consequences that relate to the receiving or exercising of the option right.

The subscription period for option rights is 1 May 2021 – 31 December 2026. The subscription price of a share is EUR 123.

Option-based incentive plan 2019

In 2019, Annual General Meeting decided to issue a share option plan for the Board of Directors of the parent company. According to the conditions of the share option plan, the options were granted with no consideration to the members of the Board of Directors so that each individual member can receive a maximum of 650 options. The share option program is part of ensuring the commitment of the members of the Board of Directors and thus, there is a weighty financial reason from the company's point of view. The option rights grant the right to subscribe for 2,600 of the company's series K shares in total. The grantee of the option right is liable for all taxes and tax-related consequences that relate to the receiving or exercising of the option right.

The subscription period for the shares to be subscribed under the option rights 2019 is 1 January 2020 - 31 December 2021.

The subscription price of a share is EUR 110.

Key terms and conditions

Plan			
	Option 2018	Option 2018	Option 2019
Nature of the plan	Share option	Share option	Share option
Grant date	23.3.2018	23.3.2019	21.3.2019
Vesting period	23.3 31.12.2018	22.3.2019-1.5.2021	21.331.12.2019
Vesting condition	Time at work condition	Time at work condition	Time at work condition
Maximum amount of options	3,000	20,000	3,000
Exercise price (EUR)	60.00	123.00	110.00
Price at the time of granting	-	-	-
Settlement	As shares	As shares	As shares

NOTES TO THE FINANCIAL STATEMENTS

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

	2019	2018
Undistributed options	0	500

Key assumptions applied in the Black-Scholes value determination model

Plan			
	2018	2018	2019
Grant date	23.3.2018	22.3.2019	21.3.2019
Volatility (%)	23.47%	26.98%	26.9,%
Validity (years)	2.78	7.78	2.78
Risk-free interest rate (%)	-0.07	-0.42	-0.42
Price when issued	60.00	123.00	110.00
Option value when issued	6.15	12.88	13.24

Number		
	2019	2018
At the beginning of the period	2,500	0
Granted during the period	19,200	2,500
Forfeited	0	0
Exercised	0	0
Lapsed	-21,700	0
At the end of the period	0	2,500
Exercisable	0	2,500

Impact of share-based payments on the result for the financial period

EUR thousand	2019	2018
Share-based payments	248	15
Total	248	15

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.

Fair values of financial assets and financial liabilities are not are not presented in the table, as far as the book value is reasonable estimate of the fair value. Financial assets and financial liabilities are classified in accordance with the IFRS 9 standard.

31/12/2019		Carrying amount Financial assets and liabilities recognized
		at deferred acquisition cost using the
EUR thousand	Note	effective interest method
Financial assets that are not measured at fair value		
Non-current receivables	15	0
Trade and other receivables	15	10,853
Cash and cash equivalents	16	4,110
Total		14,963
Financial liabilities that are not measured at fair value		
Accounts payable and other liabilities	21	10,742
Lease agreement liabilities	21	1,739
Total		12,481
31/12/2018		Carrying amount
		Financial assets and liabilities recognized
		Financial assets and liabilities recognized at deferred acquisition cost using the
EUR thousand	Note	•
	Note	at deferred acquisition cost using the
Financial assets that are not measured at fair value	Note	at deferred acquisition cost using the
Financial assets that are not measured at fair value Non-current receivables		at deferred acquisition cost using the effective interest method
Financial assets that are not measured at fair value Non-current receivables Trade and other receivables	15	at deferred acquisition cost using the effective interest method
EUR thousand Financial assets that are not measured at fair value Non-current receivables Trade and other receivables Cash and cash equivalents Total	15 15	at deferred acquisition cost using the effective interest method 2,980 8,260
Financial assets that are not measured at fair value Non-current receivables Trade and other receivables Cash and cash equivalents	15 15	at deferred acquisition cost using the effective interest method 2,980 8,260 1,218

Fair value measurement

Total

Fair value of financial assets and liabilities is the price that would be received for selling an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The management assessed that the fair values of cash and cash equivalents, trade receivables, other receivables, trade payables and other liabilities do not materially deviate from their fair values due to the short-term maturities of these instruments.

7,349

Derivative instruments

The Group did not have derivative instruments during the financial years 2018-2019.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 LIABILITIES TO CREDIT INSTITUTIONS

The Group did not have financing loans during the financial years ending on 31 December 2019 or 31 December 2018.

Additional information on the Group's exposure to interest risks and credit risks are presented in note 22 Financial risk management. The Group's credit facilities are presented in note 25 Contingent liabilities and the essential covenant terms related to credit facilities are presented in note 22.

NOTE 21 ACCOUNT PAYABLES AND OTHER LIABILITIES

Current liabilities to other companies

EUR thousand	2019	2018
Advances received for operation and maintenance contracts	312	214
Accounts payable	5,534	3,844
Other liabilities	1,866	1,309
Accrued expenses	3,030	1,981
Total	10,742	7,348

The carrying amounts of account payables and other liabilities correspond to their fair values.

Material items in accrued expenses are presented in the table below.

Main items of accrued expenses

EUR thousand	2019	2018
Accrued expenses		
Accrual of personnel expenses	2,887	1,451
Other accrued expenses and deferred income	143	745
Total	3,030	2,196

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 FINANCIAL RISK MANAGEMENT

The objective of the Group's risk management is to identify and analyze the risks impacting the Group, to define appropriate risk levels and controls and to monitor the realization of risks in relation to the risk levels. The objective of financial risk management is to decrease the volatility related to profit, financial positions and cash flows, as well as secure the Group's sufficient liquidity as well as efficient and competitive financing. The Board of Directors approve the general principles of risk management. The principles and policies of risk management are reviewed regularly to reflect changes in market conditions and the Group's operations. 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.

The Group is mainly exposed to the following financial risks: market risk (currency risk), liquidity risk and credit risk. The Group's management assesses the financial risks and obtains the instruments necessary to hedge against these risks. For risk management, the Group uses currency forward contracts and credit insurance for trade receivables. There are no risk concentrations of financial risks.

MARKET RISK

Currency risk

Currency risk refers to the uncertainty in cash flows, income or financial position caused by changes in foreign exchange rates. The Group operates internationally and thus is exposed to risks due to fluctuations in foreign exchange rates. In addition, the Group is exposed to translation risks when investments in foreign subsidiaries are converted to parent company's functional currency (Euro).

The objective of the Group's currency risk management is to manage and control uncertainty in cash flows, income and financial position caused by fluctuations in foreign exchanges rates. The Group is exposed to currency risk in its business operations as, in addition to its functional currency, the Group's sales and purchases and other business transactions are carried out in the subsidiaries' local currencies and in US dollars. The most significant foreign currencies for the Group are US dollar, Swedish crown, Danish crown and Norwegian crown. In the financial period 2019, 31.0% of the Group's sales were currency denominated and of purchases, including variable and fixed costs, 50.0%. The Group utilizes forward exchange contracts to hedge its exposure to foreign exchange risk. Hedge accounting in accordance with IFRS 9 is not applied to these derivatives, and thus changes in their fair value are recognized in the statement of profit or loss. The fair value and nominal value of derivatives are presented in the note 19.

The transaction risk exposure by currency and the Group's sensitivity to changes in the exchange rates is described in the following table.

Transaction risk by currency 31/12/2019

EUR thousand	SEK	DKK	NOK	USD	GBP
Trade receivables	4,017	588	259	0	0
Cash and cash equivalents	726	180	142	66	1
Accounts payable	221	119	22	3,425	0
Net balance sheet position	4,522	650	379	-3,358	1
Forward exchange contracts	0	0	0	0	0
Open position	4,522	650	379	-3,358	1

NOTES TO THE FINANCIAL STATEMENTS

Sensitivity analysis by currency 31/12/2019

EUR thousand	SEK	DKK	NOK	USD	GBP
+ 10% change	411	59	34	-305	0
– 10% change	-502	-72	-42	373	0

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

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

In addition, the Group is exposed to currency risk through net investments in foreign subsidiaries (translation risk). Foreign net investments are converted into the functional currency (Euro) of the Group's parent company. The Group's risk management principle is not to hedge against foreign exchange risk through net investments in foreign subsidiaries, because the risk exposure is considered of minor importance.

NOTES TO THE FINANCIAL STATEMENTS

CREDIT RISK

Credit risk is a risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk arises principally from the Group's trade receivables from customers, which is determined by open risk position and counterparties' credit rating. The Group has no significant credit risk concentrations related to a certain client segment, because it has a broad clientele, which is geographically spread over a wide area.

The Group' credit risk policy defines the credit rating requirements for clients and other commercial contract parties. The Group regularly reviews clients' credit ratings and monitors its clients' payment behavior. The credit risk is reduced and managed by taking out a Euler Hermes credit insurance policy for trade receivables from customers. Credit losses on customer-specific basis is provided for with the credit insurance, and therefore the Group's financial management makes a customer-specific assessment of the need for credit insurance and insures the receivables from customers based on this estimate. The age analysis of trade receivables is provided in Note 15.

In addition, the Group is exposed to credit risk through its investment of cash in financial institutions and through the use of derivative contracts. The credit risk is managed by contracting with well-established financial institutions in accordance with the Group's risk management policy.

Determining expected credit losses

The Group uses an allowance matrix, a simplified approach allowed by IFRS 9, to measure expected credit losses for trade receivables from customers. The loss allowance is measured at an amount equal to lifetime expected credit losses for trade receivables. The Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit losses (ECL).

The Group uses its previous credit losses and historical credit loss experience for trade receivables to estimate the lifetime expected credit losses on financial assets. In addition, the economic conditions and Group's assessment on future development are taken into account in the estimate. The Group updates its follow-up data based on historical information and future estimates at each reporting date. Expected credit losses are determined based on fixed provision rates depending on the number of days that a trade receivable is past due. Expected credit losses are thus calculated by multiplying the gross carrying amount of trade receivables with the fixed provision rate determined for a class of trade receivables. Changes in expected credit losses are recognized in profit or loss under other operating expenses.

Expected credit losses are described in Note 15.

Based on historical experience, the Group has an insignificant amount of realized credit losses. Based on the Group's assessment, the gross carrying amount of a trade receivable is written off when the management estimates that the Group has no reasonable expectation of recovering the payment. Realized credit losses are recognized in profit or loss under other operating expenses.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities. The objective of managing liquidity risk is to continuously maintain an adequate level of liquidity and ensure that it will have sufficient financing for working capital and investment costs. As stated in the Group's risk management policy, the amount of financing required for business activities and liquidity forecasts are monitored in the Group. The management has not identified liquidity risk concentrations in its financial assets or sources of finance.

The Group's management estimates that the Group's liquidity is at a good level. The Group did not have any loans from financing institutions at the end of the financial period 2019. The cash and cash equivalents of the Group totaled EUR 4,110 thousand on 31 December 2019 (EUR 1,218 thousand on 31 December 2018). The Group strives to ensure the availability and flexibility of funding through an overdraft facility. The Group maintains an undrawn credit facility totaling EUR 5,000 on 31 December 2019. The Group's credit facility contract contains a financial covenant clause related to the equity ratio. The Group has complied with the covenant during the reporting period 2019.

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NOTES TO THE FINANCIAL STATEMENTS

The table below presents the maturity analysis of financial liabilities and derivative instruments. The amounts disclosed in the table are the contractual undiscounted cash flows that include both expected interests and repayments.

31/12/2019				
EUR thousand	2020	2021	2022	2023
Financial liabilities other than derivatives				
Loans from financial institutions	0	0	0	0
Accounts payable and other liabilities	10,430	0	0	0
Derivative contracts				
Forward exchange contracts	0	0	0	0
Total	10,430	0	0	0

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			
Derivative contracts				
Forward exchange contracts	0			
Total	7,135	0	0	0

CAPITAL MANAGEMENT

The Group's objective in capital management is to maintain optimum capital structure in order to secure normal operating conditions and to increase shareholder value in the long term. For capital management purposes, the Group manages equity as indicated in the consolidated balance sheet. The equity is mainly influenced through dividend distribution or share issue. The Group is not subject to externally imposed capital requirements. The Group management and the Board of Directors of the parent company monitor the Group's capital structure and the development of liquidity. The objective of this monitoring is to ensure the Group's liquidity and the flexibility of capital structure to realize the growth strategy and 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 2019 financial period, the equity ratio was 60.6% (2018: 68.6%).

NOTE 23 OPERATING LEASES

Maturity of lease liability

EUR thousand	2019
Within 12 months	987
In 1–5 years	819
In more than 5 years	0
Total	1,806

Minimum lease payments under non-cancellable operating lease agreements concerning the year of comparison:

EUR thousand	2018
Within 12 months	711
In 1–5 years	795
In more than 5 years	0
Total	1,506

iLOQ-GROUP

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 PROVISIONS

EUR thousand	2019	2018
Non-current provision	460	314
Current provision	314	710
Total	774	1,024

The Group grants a warranty on the iLOQ products it delivers. The Group incurs costs for the repair, replacement and maintenance of locking systems, which are carried out at the Group's expense. The Group recognizes a warranty provision for these warranty repairs. The warranty provision is based on previous years' experience of defective products.

EUR thousand	Warranty provision	
Warranty provision, Jan 1, 2019		1,024
Increase in the warranty provision during the financial period		460
Cancellation of warranty provision (over 2 years)		-407
Realized warranty expenses		-303
Warranty provision, Dec 31, 2019	·	774

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

NOTE 25 CONTINGENT LIABILITIES

Collateral and contingent liabilities

EUR thousand	2019	2018
Contingent liabilities		
Credit facility	5,000	5,000
Standby letter of credit	1,363	1,332
Lease guarantee	167	146
Corporate credit card	49	89
Total	6,579	6,567

Credit facility of EUR 5,000,000 was used during the financial years 2018-2019.

A standby letter of credit is denominated in foreign currency. The amount of liability in the currency is 1,500,000 US Dollars.

iLOQ-GROUP

NOTES TO THE FINANCIAL STATEMENTS

EUR thousand	2019	2018
Collateral pledged on own behalf	8,300	8,300
Collateral pledged on behalf of others		
Collateral	141,713	13
Guarantee	361	292
Total	150,374	8,605

In 2019, collateral granted on behalf of others includes EUR 141,700,000 for a business mortgage related to the financing of the parent company Capnor Weasel Bidco Oy.

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 2018 and 2019.

NOTE 26 RELATED PARTY TRANSACTIONS

The Group's related parties consists of parent company iLOQ Oy and its subsidiaries. The subsidiaries are listed in Note 5. In addition, related parties include as iLOQ-Group's Board members as key management personnel, the CEO and members of the Group management, as well as entities that are under the control of key management personnel and their family members.

Transactions, receivables and loans executed with related parties

EUR thousand	2019	2018
Interest-bearing receivables – related party loan	0	2,980
Interest on the related party loan	35	39
Other operating expenses	0	44

The terms and conditions used in the related party transactions are equivalent to the terms used in transactions between independent parties. In 2018, the Group has issued related party loans in the amount of EUR 688,000 to engage key personnel.

The loan period was 10 years and the interest rate was 12-month Euribor +1.5%. The shares subscribed for with the loans by key personnel were used as loan collateral. The related party loans have been repaid during the financial period 2019. Other expenses consist of consulting fees paid to a member of the Group's Board of Directors.

Management employee benefits

During the financial year, salaries and fees including fringe benefits have been paid to the CEO and Group management as follows:

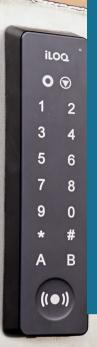
Total	3,046	2.037
Share-based benefits	248	15
Benefits after the end of the employment relationship	505	283
Short-term employee benefits	2,293	1,739
EUR thousand	2019	2018

The figures presented equal to costs expensed during the financial period.

The total compensation for the Group's key management consists of salaries, non-monetary benefits and pension expenses for defined contribution plans. The members of the Group management do not have defined benefit plans.

NOTE 27 SUBSEQUENT EVENTS

There have been no significant events after the end of the reporting period.



iLOQ Oy Parent company income statement FAS 2019



iLOQ LTD **INCOME STATEMENT FAS**

EUR thousand	Note	1.1.2019–31.12.2019	1.1.2018–31.12.2018
Revenue		61,074	50,249
Other operating income		0	3
Materials and services		-26,960	-22,549
Personnel costs	28	-7,370	-5,436
Depreciation and impairment	28	-2,045	-1,166
Other operating expenses		-17,398	-13,017
Operating profit		7,301	8,084
Finance income	28	155	194
Finance expenses	28	-402	-270
Profit before extraordinary items		7,055	8,008
Profit before appropriations and taxes		7,055	8,008
Taxes		-1,393	-1,500
Profit for the financial period		5,663	6,508

ILOQ LTD BALANCE SHEET FAS

EUR thousand	Note	31.12.2019	31.12.2018
ASSETS			
Non-current assets			
Intangible assets	29	8,431	6,579
Tangible assets	30	2,117	1,300
Investments	30	952	1,029
Total fixed assets		11,500	8,907
Current assets			
Inventories		7,092	5,532
Non-current receivables	31	951	3,990
Current receivables	31	10,585	8,123
Cash in hand and at banks		3,228	508
		24.054	18,153
Total current assets		21,856	10,133
TOTAL ASSETS		33,355	
	32		27,061
TOTAL ASSETS LIABILITIES AND SHAREHOLDERS' EQUITY Shareholders' equity	32	33,355	27,061
TOTAL ASSETS LIABILITIES AND SHAREHOLDERS' EQUITY Shareholders' equity Share capital	32	33,355 1,000	27,061
TOTAL ASSETS LIABILITIES AND SHAREHOLDERS' EQUITY Shareholders' equity Share capital Share premium account	32	1,000 380	27,061 1,000 380
TOTAL ASSETS LIABILITIES AND SHAREHOLDERS' EQUITY Shareholders' equity Share capital Share premium account Invested unrestricted equity fund	32	1,000 380 5,301	1,000 380 5,151
TOTAL ASSETS LIABILITIES AND SHAREHOLDERS' EQUITY Shareholders' equity Share capital Share premium account Invested unrestricted equity fund Retained earnings	32	1,000 380	1,000 380 5,151 5,913
TOTAL ASSETS LIABILITIES AND SHAREHOLDERS' EQUITY	32	1,000 380 5,301 9,366	1,000 380 5,151 5,913 6,508
TOTAL ASSETS LIABILITIES AND SHAREHOLDERS' EQUITY Shareholders' equity Share capital Share premium account Invested unrestricted equity fund Retained earnings Profit for the financial period	32	1,000 380 5,301 9,366 5,663	27,061 1,000 380
TOTAL ASSETS LIABILITIES AND SHAREHOLDERS' EQUITY Shareholders' equity Share capital Share premium account Invested unrestricted equity fund Retained earnings Profit for the financial period Total shareholders' equity	32	1,000 380 5,301 9,366 5,663	1,000 380 5,151 5,913 6,508
TOTAL ASSETS LIABILITIES AND SHAREHOLDERS' EQUITY Shareholders' equity Share capital Share premium account Invested unrestricted equity fund Retained earnings Profit for the financial period Total shareholders' equity Liabilities	32	1,000 380 5,301 9,366 5,663	1,000 380 5,151 5,913 6,508
TOTAL ASSETS LIABILITIES AND SHAREHOLDERS' EQUITY Shareholders' equity Share capital Share premium account Invested unrestricted equity fund Retained earnings Profit for the financial period Total shareholders' equity Liabilities Current liabilities		1,000 380 5,301 9,366 5,663	1,000 380 5,151 5,913 6,508

iLOQ OY

CASH FLOW STATEMENT FAS

EUR thousand	2019	2018
CASH FLOW FROM OPERATIONS		
Profit (loss) before taxes	7,055	8,008
Adjustments:		
Planned depreciation	2,045	1,166
Impairment of non-current assets	0	0
Unrealized foreign exchange gains and losses	-134	33
Finance income and expenses	246	76
Cash flow before change in working capital	9,212	9,283
Change in working capital:		
Increase (+)/decrease (-) in current non-interest-bearing trade	-2,394	-1,492
Increase (+)/decrease (-) in inventories	-1,559	-2,031
Increase (+)/decrease (-) in current non-interest-bearing liabilities	3,078	697
Cash flow from operations before financial items and taxes	8,337	6,457
Interest and other expenses paid for finance expenses from operations	-402	-270
Interest received from business operations	121	166
Direct taxes paid	-834	-2,906
Cash flow before non-recurring items	7,222	3,447
Cash flow from operations (A)	7,222	3,447
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-4,714	-3,279
Loans granted	0	-135
Repayments of loan receivables	59	100
Establishment of subsidiary	-1	-13
Repayment of equity investment	78	107
Cash flow from investments (B)	-4,578	-3,220
CASH FLOW FROM FINANCING		
Share issue	150	688
Acquisition of own shares	-583	0
Repayments on short-term loans	0	0
Loans granted	0	-688
Long-term loan repayments	2,980	0
Dividends paid and other distribution of profit	-2,472	-1,786
Refunds of capital	0	-8,254
Cash flow from financing (C)	75	-10,040
CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C)	2,720	-9,813
Cash and cash equivalents at the beginning of the financial period	508	10,321



Accounting principles for the financial statements of the parent company

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

INTANGIBLE AND TANGIBLE ASSETS

Intangible and tangible assets are recognized in the balance sheet at acquisition cost less planned depreciation. Acquisition cost includes variable expenses. Planned depreciation is calculated with the straight line method over the useful lives of intangible and tangible assets.

Development expenses for 2019 have been entered in the balance sheet at acquisition cost. Depreciation of these will be initiated as planned straight-line depreciation when the R&D project has been completed.

THE DEPRECIATION PERIODS ARE AS FOLLOWS:

5-10 years Intangible rights Other intangible assets 5-10 years Machinery and equipment 5 years Equipment and other movable items 5 years

INVENTORIES

Inventories are presented in accordance with the average price principle at acquisition cost or at a lower probable selling price. Variable expenses are included in the value of inventories.

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	2019	2018
PERSONNEL COSTS	2019	2018
Salaries and bonuses	6,213	4,535
Pension costs	1,052	801
Other indirect personnel costs	105	100
Total	7,370	5,436
Average number of employees	147	72

DEPRECIATION AND IMPAIRMENT	2019	2018
Planned depreciation	2,045	1,166
Impairment of non-current assets	0	0
Total	2,045	1,166

FINANCE INCOME AND EXPENSES	2019	2018
Finance income		
Intra-Group interest income	50	48
Other finance income	106	146
Total	155	194
Finance expenses		
Interest expenses	32	17
Other finance expenses	370	252
Total	402	270
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NOTES TO THE FINANCIAL STATEMENTS

NOTE 29 INTANGIBLE ASSETS

INTANGIBLE ASSETS	2019	2018
DEVELOPMENT EXPENDITURE		
Acquisition cost, Jan 1	4,548	2,349
Increases	2,685	2,200
Acquisition cost, Dec 31	7,233	4,548
Accumulated depreciation and impairment, Jan 1	117	0
Depreciation for the financial period	783	117
Accumulated depreciation and impairment, Dec 31	900	117
Carrying amount, Dec 31	6,333	4,432
INTANGIBLE RIGHTS		
Acquisition cost, Jan 1	1,136	984
Increases	231	153
Acquisition cost, Dec 31	1,367	1,136
Accumulated depreciation and impairment, Jan 1	597	477
Depreciation for the financial period	139	119
Accumulated depreciation and impairment, Dec 31	735	597
Carrying amout, Dec 31	632	540
OTHER INTANGIBLE ASSETS		
Acquisition cost, Jan 1	7,110	7,042
Increases	240	68
Acquisition cost, Dec 31	7,350	7,110
Acquisition cost, Dec 31	7,330	7,110
Accumulated depreciation and impairment, Jan 1	5,502	4,844
Depreciation for the financial period	668	658
Impairment		0
Accumulated depreciation and impairment, Dec 31	6,170	5,502
Carrying amout, Dec 31	1,179	1,608
WORK IN PROGRESS		
Acquisition cost, Jan 1	0	0
Increases	287	0
Reductions	0	0
Acquisition cost, Dec 31	287	0
Carrying amout, Dec 31	287	0
	· .	
TOTAL INTANGIBLE ASSETS	8,431	6,579

NOTES TO THE FINANCIAL STATEMENTS

NOTE 30 TANGIBLE ASSETS AND INVESTMENTS

TANGIBLE ASSETS	2019	2018
MACHINERY AND EQUIPMENT		
Acquisition cost, Jan 1	1,961	1,206
Increases	986	755
Acquisition cost, Dec 31	2,947	1 ,961
Accumulated depreciation and impairment, Jan 1	929	658
Depreciation for the financial period	454	272
Impairment	0	0
Accumulated depreciation and impairment, Dec 31	1 ,384	929
Carrying amount, Dec 31	1,563	1,031
Fixed assets in progress		
Acquisition cost, Jan 1	268	164
Increases	484	168
Decreases	199	64
Acquisition cost, Dec 31	544	268
Carrying amount, Dec 31	554	268
TOTAL TANGIBLE ASSETS	2,117	1,300
INVESTMENTS	2019	2018
Shares in Group companies		
Acquisition cost, Jan 1	1,029	1,123
Increases	1	13

Increase in investments for 2019 is due to investments in the new subsidiary iLOQ UK Ltd. Decrease in investments for 2019 is due to the repayment of iLOQ Sverige AB's equity investment.

78

952

107

1,029

Decreases

Acquisition cost, Dec 31

NOTES TO THE FINANCIAL STATEMENTS

NOTE 31 CURRENT AND NON-CURRENT RECEIVABLES

NON-CURRENT RECEIVABLES	2019	2018
Non-current receivables from others		
Loan receivables	0	2,980
Total	0	2,980

Long-term receivables from others were related party loans to key personnel belonging to the company's management. The loan period wa 10 years and the interest rate 12-month Euribor +1.5%. Loan collateral consisted of the shares subscribed for by key personnel with the loans.

TOTAL NON-CURRENT RECEIVABLES	951	3,990
Total	951	1,010
Subordinated loan receivables	810	810
Loan receivables	141	200
Non-current receivables from Group companies		

CURRENT RECEIVABLES	2019	2018
Current receivables from other companies		
Trade receivables	10,262	7,858
Other receivables	27	26
Prepayments and accrued income	254	203
Total	10,543	8,087
Current receivables from Group companies		
Prepayments and accrued income	42	35
Total	42	35
TOTAL CURRENT RECEIVABLES	10,586	8,123

NOTES TO THE FINANCIAL STATEMENTS

NOTE 32 SHAREHOLDERS' EQUITY AND CALCULATION OF DISTRIBUTABLE EQUITY

SHAREHOLDERS' EQUITY	2019	2018
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	0	253
Change	0	-253
Subscription issue, Dec 31	0	0
Invested unrestricted equity fund, Jan 1	5,151	12,464
Share issue	150	688
Transfers between items	0	253
Refund to shareholders	0	-8,254
Invested unrestricted equity fund, Dec 31	5,301	5,151
Retained earnings, Jan 1	15,375	8,867
Return to shareholders	-583	0
Retained earnings, Dec 31	14,792	8,867
Dividend distribution, Jan 1	-2,954	-1,167
Dividends paid	-2,472	-1,786
Dividend distribution, Dec 31	-5,426	-2,954
Profit for the financial period	5,663	6,508
Total unrestricted shareholders' equity	20,329	17,571
Total shareholders' equity	21,709	18,952
CALCULATION OF DISTRIBUTABLE EQUITY	2019	2018
Retained earnings	9,366	5,913
Profit for the financial period	5,663	6,508
Invested unrestricted equity fund	5,301	5,151
Capitalized development expenditure	-6,333	-4,432
Total	13,997	13,140

The share capital is EUR 1,000,015.60, paid in full. The number of shares is 1,241,224, 5,300 of which are treasury shares.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 33 LIABILITIES

CURRENT LIABILITIES	2019	2018
CONNENT EINDIETTES	2017	2010
Non-interest-bearing current liabilities to other companies		
Advances received	312	214
Accounts payable	5,397	3,716
Other liabilities	1,730	844
Accrued expenses and deferred income		
Deferred employee expenses	1,930	1,451
Deferred operating expenses	0	1,024
Other accrued expenses and deferred income	875	112
Tax liabilities based on the taxable income for the period	590	71
Total	10,834	7,432
Current liabilities to Group companies		
Accounts payable	811	677
Total	811	677
Total non-interest-bearing current liabilities	11,645	8,109

NOTES TO THE FINANCIAL STATEMENTS

NOTE 34 LIABILITIES AND GUARANTEES

AMOUNT PAYABLE LEASING		
AGREEMENTS	2019	2018
Due in the next financial period	50	48
Due later	41	54
Total	92	102

Total	2,031	2,064
Corporate credit cards	49	68
Rental liabilities	620	663
Standby letter of credit	1,363	1,332
OTHER CONTINGENT LIABILITIES	2019	2018

The company has issued a guarantee in the amount of EUR 12,846.04 on behalf of iLOQ Sverige AB relating to the office lease of the subsidiary. In addition, the company has issued a guarantee of EUR 91,120.63 on behalf of iLOQ Sverige AB, a guarantee of EUR 107,643.36 on behalf of iLOQ Danmark ApS, a guarantee of EUR 98,325.29 on behalf of iLOQ Norge AS and a guarantee of EUR 63,955.83 on behalf of iLOQ Iberia SLU. The guarantees relate to car leasing contracts. Additionally, the company has an overdraft facility of EUR 5,000,000, which has been used during the financial year 2019.

COLLATERAL PLEDGED	2019	2018
Collateral pledged	8,300	8,300
Total	8,300	8,300

In 2019, collateral granted on behalf of others includes EUR 141,700,000 for a business mortgage related to the financing of the parent company Capnor Weasel Bidco Oy.

SIGNATURES

TO THE FINANCIAL STATEMENTS AND ANNUAL REPORT

SIGNATURES OF THE BOARD OF DIRECTORS

In Düsseldorf, Germany, March 11, 2020.

Itzhak Wiesenfeld

Chair of the Board of Directors

Robert Furuhjelm

Member of the Board

Karl Petersson Member of the Board Heikki Hiltunen

President and CEO

AUDITOR'S NOTE

A report has been issued today on the audit performed. In Oulu, March 11, 2020.

KPMG Oy Ab

Tapio Raappana

Authorised Public Accountant



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 2019. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

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

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, 11 March 2020 KPMG OY AB TAPIO RAAPPANA

Tapio Raappana, Authorised Public Accountant, KHT

ILOQ-GROUP LIST OF ACCOUNTING LEDGERS AND RECORDS

Accounting ledgers

Financial statements and annual report

Balance sheet specifications
Journal an general ledger
Accounts receivable ledger
Accounts payable ledger
Accounts receivable vouchers
Accounts payable vouchers
Bank and cash vouchers
Memo vouchers

Note voucher

Storage method

On paper

Electronically as a PDF file
Paper vouchers
Paper vouchers
Paper vouchers

