Capnor Weasel BidCo

Financial Statements 2019

REPORT OF THE BOARD OF DIRECTORS 2019

Capnor Weasel Bidco Oy was incorporated in 2019. It is a limited liability company domiciled in Helsinki, Finland, and its principal line of business is management consulting.

On December 11, 2019, the company acquired the entire share capital of iLOQ Oy and Hailuoto Development Oy.

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

The company's subsidiary 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, the company's subsidiary 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 2019, iLOQ strengthened its organization to support the company's long-term internationalization and growth targets. The most significant investments were targeted particularly to strengthening the company's international sales and marketing as well as product development. iLOQ Group has subsidiaries in Sweden, Denmark, Norway, Germany, the Netherlands, France, Spain and the UK.

The company's subsidiary 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, the company's subsidiary 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.

The company's subsidiary 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.

BUSINESS ACTIVITIES DURING THE FINANCIAL PERIOD

This is Capnor Weasel Bidco Oy's first financial period. In the financial period, the company implemented the acquisition of iLOQ Group and Hailuoto Development Oy.

Capnor Weasel Bidco Oy's subsidiary 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 25.3% compared to the previous year and came to EUR 8.5 (6.8) million. The revenue from operations in Northern Europe came to EUR 50.1 (EUR 41.5) million, a growth of 20.9% to the same period in the previous year. In Northern Europe, growth in euro terms was strongest in Sweden.

The subsidiary iLOQ'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. Taking into account the expenses for strategic review, the comparable operating profit (EBITDA) increased by 1.7% from the previous year and came to EUR 10.5 (10.3) million. The comparable operating profit (EBITDA) was 17.2% of revenue (20.5%). 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 subsidiary iLOQ's profit for the financial period 2019 was EUR 5.5 (6.5) million.

FINANCIAL IFRS KEY FIGURES

Capnor Weasel Bidco Group's key figures for the period October 4, 2019 - December 31, 2019:

Revenue (EUR 1,000)	7 112
Operating profit (EUR 1,000)	-3 992
Operating profit (%)	-56,1
Return on equity (%)	-62,2
Equity ratio (%)	61

OTHER KEY FIGURES

Capnor Weasel Bidco Group's personnel expenses for the period October 4, 2019 - December 31, 2019:

Wages, salaries and fees (EUR 1,000)	661
Pension expenses (EUR 1,000)	87
Other personnel expenses (EUR 1,000)	60
Total (EUR 1,000)	808

Average number of employees for the financial period was 152.

REPORT ON THE SCOPE OF RESEARCH AND DEVELOPMENT ACTIVITIES

The Group's subsidiary iLOQ 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.

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. The Group's balance sheet total at the end of the financial period was EUR 225,938 thousand and equity ratio 61.0%.

FINANCIAL ARRANGEMENTS AND SPECIAL RIGHTS

On December 11, 2019, Capnor Weasel Bidco Oy acquired the share capitals of iLOQ Group and Hailuoto Development Oy. Capnor Weasel Bidco Oy issued a bond at a value of EUR 55 million in December 2019. The bond is secured and a coupon rate of 3-month Euribor increased by 5.375 percentage units is payable on it. The bond matures on June 12, 2025. The company has no special rights.

LOANS TO RELATED PARTIES AND RESPONSIBILITIES

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

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.

SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL PERIOD

Capnor Weasel Bidco Oy's Board of Directors has evaluated the impacts on the Group's market environment and business operations of the virus epidemic that started at the beginning of 2020 and expanded rapidly. For the time being, the virus epidemic has not had a significant impact on the Group. The company's Board of Directors and management are closely monitoring the development of the coronavirus situation and update their evaluation of the impacts of the epidemic as the situation progresses.

BUSINESS RISKS

The Group 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

Capnor Weasel Bidco Oy does not have a quality system, but iLOQ Oy, a company belonging to the Group, has a certified ISO 9001:2015 quality system and an ISO 14001:2015 environmental 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 has only one type of shares, a total of 100 shares. All shares have equal rights to dividends and company assets.

OWN SHARES

The company does not hold any treasury shares.

BOARD OF DIRECTORS' PROPOSAL FOR PROFIT DISTRIBUTION

Capnor Weasel Bidco Oy's distributable equity was EUR 141,000,522.39 on December 31, 2019, of which loss for the period amounted to EUR 1,777,698,61. The company's distributable equity is divided into invested unrestricted equity fund EUR 142,778,221.00 and earnings, EUR -1,777,698.61.
The Board of Directors proposes to the Annual General Meeting that the result 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.

AUDITING

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

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Note	4.10.-31.12.2019
Revenue	4	**7 112**
Other income		0
Materials and services	6	-3 306
Employee benefit expenses	7	-808
Depreciation and amortization	8	-447
Other operating expenses	9	-6 542
Operating profit		**-3 992**
Financial income	10	10
Financial expenses	10	-565
Net financial expenses		**-554**
Profit (loss) before taxes		**-4 546**
Income taxes	11	-472
Profit (loss) for the financial year		**-5 017**
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Translation differences		0
Other comprehensive income (-loss), net of tax		0
Total comprehensive income		**-5 017**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR thousand	Note	31.12.2019
ASSETS		
Non-current assets		
Intangible assets	12	104 843
Goodwill	5	91 672
Property, plant and equipment	13	3 954
Deferred tax assets	11	392
Total non-current assets		**200 861**
Current assets		
Inventories	14	8 473
Trade and other receivables	15	10 820
Cash and cash equivalents	16	5 784
Total current assets		**25 076**
Total assets		**225 938**
EQUITY		
Reserve for invested non-restricted equity	17	142 778
Retained earnings	17	-5 017
Total equity		**137 761**
LIABILITIES		
Non-current liabilities		
Financial liabilities	20	54 046
Non-current lease liabilities	23	781
Non-current provisions	24	460
Deferred tax liabilities	11	19 669
Total non-current liabilities		**74 956**
Current liabilities		
Account payables and other liabilities	21	11 318
Current lease liabilities	23	958
Current provisions	24	314
Current tax liabilities	11	630
Total current liabilities		**13 221**
Total liabilities		**88 177**
Total equity and liabilities		**225 938**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basic information

Capnor Weasel Bidco Oy is a Finnish limited liability company. Since December 11, 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 located at Yrttipellontie 10, 90230 Oulu, Finland.

On December 11, 2019, Capnor Weasel Bidco Oy acquired ownership of the iLOQ Group and Hailuoto Development Oy through company acquisition. Industrial operations are in the iLOQ Group that offers solutions for electronical locking. iLOQ Group operates with a network business model in the manufacture and distribution of products. iLOQ Group's products are sold through iLOQ's distribution channel providing professional installation and maintenance services. iLOQ Group has subsidiaries in Sweden, Denmark, Norway, Germany, the Netherlands, France, Spain and UK.

The Board of Directors of Capnor Weasel Bidco Oy approved the financial statements for publication at its meeting on April 27, 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.

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 standards.

The consolidated financial statements for the financial period 2019 combine the figures for the parent company with the figures for the subsidiaries (jointly referred to as the "Group") as of December 11, 2019. These are the first consolidated financial statements and therefore do not contain comparative data. The Group consists of the parent company and seven subsidiaries.

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
- Recognition and valuation of assets created in the acquisition of business operations
- 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 adjusted if necessary to correspond to the accounting policies used for the consolidated financial statements.

Business acquisitions are recognized using the acquisition method. Depreciation is not recognized on goodwill. It is tested for possible impairment annually and whenever there are indications that a value may be impaired.

Merging of business operations

The goodwill created in merging business operations is recognized to the amount that the consideration assigned, the share of the non-controlling owners in the object of acquisition and the previously owned share combined exceed the current value of the net asset acquired. Expenses relating to the acquisition, except for expenses incurred in issuing debt securities and equity securities, are recognized as expenses. For purposes of impairment testing, goodwill has been assigned to the Group's cash-generating units or groups of units that are expected to benefit from the merging of business operations. In Capnor Weasel Bidco Group, goodwill is assigned entirely to iLOQ Group. For these cash-generating units, impairment testing is carried out annually or more often if indications of impairment exist. If the recoverable amount of cash of a cash-generating unit is below its book value, the impairment is first recognized with regard to goodwill and thereafter in accordance with relative book values to the other assets of the cash-generating unit. Impairment of goodwill is recognized through profit or loss. Impairment losses recognized on goodwill are not cancelled in subsequent financial periods. The recoverable amount is the fair value of an asset less sales costs incurred in the assignment or its value in use, whichever is greater. The value in use refers to the estimated net cashflows that can be yielded from an asset or a cash-generating unit, discounted to their present value.

Conversion of items denominated in foreign currencies

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

Foreign-currency denominated transactions

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

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

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

Financial statements of foreign subsidiaries

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

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

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

Principles of revenue recognition

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

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

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

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

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. 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 equipment

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 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.

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.

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.

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

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 and on goodwill. 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. Impairment losses recognized on goodwill are not cancelled.

Provisions and contingent liabilities

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

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

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

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

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

Public grants

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

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

Public grants related to acquisitions of 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.

Equity

The Group classifies financial instruments under equity when the instruments are issued by the Group and do not include a contractual obligation to transfer cash or cash equivalents to another entity or to exchange financial assets or liabilities with another entity in the event of circumstances that are unfavorable to the issuer and when the instruments indicate an entitlement to a share of the Group's assets after all of its liabilities have been deducted. The share capital consists of ordinary shares. If the Group buys back its equity instruments, the acquisition cost is deducted from equity.

New and updated standards and interpretations for application at a later date

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

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

Amendments to IFRS 3 **— Definition of a business**

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.

Amendments to IFRS 9, IAS 39 and IFRS 7 — Interest Rate Benchmark Reform

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.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR thousand	Note	4.10.-31.12.2019
Cash flow from operating activities		
Profit (-loss) for the financial year		-5 017
Adjustments:		
Depreciation and amortization	8	447
Financial income	10	-10
Financial expenses	10	564
Taxes	11	472
Change in net working capital:		
Change in trade and other receivables	15	-1 465
Change in inventory	14	1 026
Change in trade and other payables	21	594
Change in provisions	24	-58
Interest paid		-1 225
Interest received		10
Net cash flow from operating activities		**-4 662**
Cash flow from investing activities		
Investments in intangible assets	12	-231
Investments in tangible assets	13	-130
Business acquisitions	5	6 162
Net cash flow from investing activities		**5 801**
Cash flow from financing activities		
Increase of equity against payment		3 365
Proceeds from long-term liabilities	20	55 000
Payments of short-term liabilities		-53 663
Payments of lease liabilities		-58
Net cash flow from financing activities		**4 645**
Change in cash flows		**5 784**
Cash and cash equivalents on October 4		0
Cash and cash equivalents on December 31	16	5 784

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to shareholders of the parent company				
EUR thousand	**Note**	**Share capital**	**Share premium reserve**	**Reserve for invested non-restricted equity**	**Retained earnings**	**Total**
Equity on October 4, 2019	17	**0**	**0**	**0**	**0**	**0**
Comprehensive income						
Profit for the financial year					-5 017	-5 017
Total comprehensive income		**0**	**0**	**0**	**-5 017**	**-5 017**
Transactions with shareholders						
Issue of shares	17			142 778	0	142 778
Total transactions with shareholders		0	0	142 778	0	142 778
Equity on December 31, 2019	17	**0**	**0**	**142 778**	**-5 017**	**137 761**

Note 4 Revenue and segment reporting

Segment reporting

Capnor Weasel Bidco Group is a Finnish group of companies. In addition to the parent company Capnor Weasel Bidco Oy, iLOQ Group and Hailuoto Development Oy belong to the Group. Industrial operations are in the iLOQ Group that offers solutions for electronical locking. iLOQ Group operates with a network business model in the manufacture and distribution of products. iLOQ Group’s products are sold through iLOQ’s distribution channel providing professional installation and maintenance services. iLOQ Group has subsidiaries in Sweden, Denmark, Norway, Germany, the Netherlands, France, Spain and Great Britain.

The Group's business operations are managed and monitored as one entity. Subsidiaries are sales organizations and their turnover consists of commission charges from the iLOQ 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 iLOQ Group's chief operative decision maker. The 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 Capnor Weasel Bidco Group 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. EX Works 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**	
Northern Europe	6 347	89 %
Central Europe and other regions	765	11 %
Other	0	0 %
Total	**7 112**	**100 %**

The proportion of Finland's revenue of the revenue from Northern Europe in 2019 was EUR 3,206 thousand.

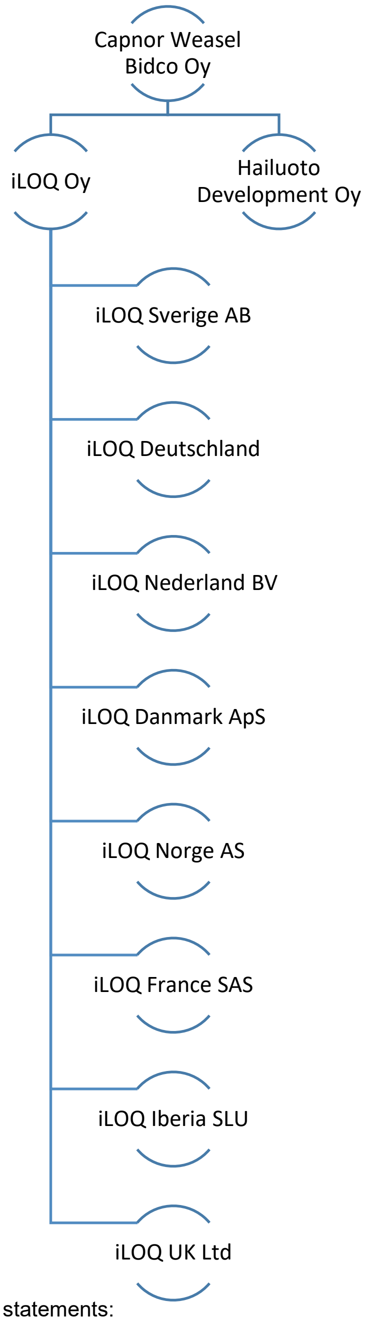
The classification of revenue according to the timing of product deliveries and service production is presented below.

EUR thousand	**2019**	
Revenue is recognized at a point in time	7 067	99 %
Revenue is recognized over time	45	1 %
Total	**7 112**	**100 %**

There were no recognized credit losses on sales during the financial period. Trade receivables are presented in note 15 *Trade and other receivables* .

Note 5 Group structure and business combinations

The structure of iLOQ Group is presented below:



Subsidiaries included in the consolidated financial statements:

Name of the subsidiary:		Domicile	Shareholding %
iLOQ Oy		Finland	100
	iLOQ Sverige AB	Sweden	100
	iLOQ Deutschland	Germany	100
	iLOQ Nederland BV	the 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
Hailuoto Development Oy		Finland	100

On December 11, 2019, Capnor Weasel Bidco Oy acquired ownership of the iLOQ Group and Hailuoto Development Oy through company acquisition.

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

Acquisition of iLOQ

Capnor Weasel Bidco Oy completed the acquisition of iLOQ and its subsidiaries on December 11, 2019 after having received the consent of the competition authorities.
It is iLOQ's aim to transfer from traditional locks to digital access control solutions patented by the company. iLOQ's solutions are in use in various types of buildings where daily streams of people are large. As an example, residential real estate including student dormitories, educational institutions, health care and offices.

iLOQ has more than 150 employees in its offices in nine countries (Finland, Sweden, Denmark, Norway, Germany, the Netherlands, France, Spain and Great Britain). The head office is located in Oulu, Finland. In addition to the offices abroad, iLOQ has more than 800 resellers across Europe.

The acquisition price of EUR 185.7 million was paid in cash at the time of executing the acquisition.
The cash flows related to iLOQ's acquisition are presented in the table below.
The cash consideration related to the acquisition was paid by Capnor Weasel Topco Oy and Capnor Weasel Midco Oy, for which reason the amount presented in the cash flow calculation deviates from that presented here.

Cash flow

EUR thousand	
Cash consideration at the time of acquisition	185 668
Acquired liquid assets	-2 240
Cash flow	**183 428**

In the table below, the fair values for the acquired liquid assets are presented, as well as the amount of goodwill generated in the acquisition:

EUR thousand	
Intangible assets	105 000
Property, plant and equipment	2 140
Use right assets	1 778
Deferred tax assets	178
Total non-current assets	**109 096**
Inventories	9 499
Trade and other receivables	8 926
Accrued income	398
Cash and cash equivalents	2 240
Total current assets	**21 063**
Total assets	**130 159**
Interest-bearing financial liabilities	450
Provisions	460
Lease agreement liabilities	809
Deferred tax liabilities	19 572
Total non-current liabilities	**21 291**
Short-term interest-bearing financial liabilities	2 207
Account payables and other liabilities	10 733
Lease agreement liabilities	988
Current tax liabilities	630
Provisions	314
Total current liabilities	**14 872**
Total liabilities	**36 163**
Net assets	**93 996**
Consideration	**185 668**
Goodwill	**91 672**

The fair value of the intangible assets identified in the acquisition was EUR 105.0 million at the time of acquisition, mainly consisting of technology (EUR 79.4 million), customer relationships (EUR 12.1 million), as well as brand (EUR 12.9 million).

The nominal value of the acquired trade receivables was EUR 8.8 million and they are expected to be fully collectable.

The goodwill is EUR 91.7 million. The goodwill is not deductible in taxation. The goodwill consists of workforce, market position, geographical coverage and expected future profits.

The expenses related to the acquisition, EUR 5.2 million, are included in Other business expenses in the consolidated statement of income and in cash flow from operating activities in the cash flow calculation.

The acquired business yielded revenue of EUR 7.1 million and net operating profit of EUR 1.2 million during the period December 11 – December 31, 2019 for Capnor Weasel Bidco Group.

If the acquisition had been executed on January 1, 2019, Capnor's revenue would have been EUR 61.1 million and operating loss EUR 4.9 million.

Note 6 Materials and services

EUR thousand	2019
Purchases of materials and services	2 295
Change in inventories	1 027
Warranties	-116
External services	100
Total	**3 306**

Note 7 Employee benefit expenses

EUR thousand	2019
Salaries and wages	661
Pension costs - defined-contribution schemes	87
Other personnel expenses	60
Total	**808**

	2019
Average number of employees for the financial year:	152
Number of employees at the end financial year:	152

In both tables, part-time employees have been converted into full-time employees.

Information concerning key management's employment benefits is presented in note 26 *Related party transactions.*

Note 8 Depreciation and amortization

Depreciation, amortization and impairment by asset category

Depreciation by asset category

Intangible assets

EUR thousand	2019
Intangible rights	8
Development expenses and other intangible assets	346
Total	**354**

Property, plant and equipment

EUR thousand	
Machinery and equipment	34
Other property, plant and equipment	1
Use right assets	59
Total	**94**
Total depreciation and amortization	**447**

Note 9 Other operating expenses

EUR thousand	2019
Expenses relating to office premises and vehicles	36
Computer and program expenses	50
Machinery and equipment expenses	78
Sales and marketing expenses	105
Research and development expenses	131
Administrative expenses	977
Other expenses	5 167
Total	**6 542**

Administrative expenses and other expense items include EUR 5,209 thousand of expenses related to business acquisitions.

Auditor's fees

EUR thousand	2019
Audit	2
Other services	6
Total	**8**

Note 10 Financial income and expenses

Recognized through profit or loss

Financial income

EUR thousand	2019
Other financial income	10
Total	**10**

Financial expenses

EUR thousand	2019
Interest expenses on lease liabilities	-3
Other interest expenses	-156
Other financial expenses	-406
Total	**-565**
Net financial expenses	**-554**

Other financial expenses include EUR 384 thousand of fees related to the organization of financing

Note 11 Income taxes

Current tax for the reporting year

EUR thousand	2019
Current tax for the reporting year	589
Change in deferred taxes	-117
Total	**472**

Reconciliation between income tax expense in profit or loss and tax expense calculated by the Finnish tax rate

EUR thousand	2019
Profit before tax	**-4 546**
Tax calculated using Finnish tax rate (20%)	909
Unrecognized deferred tax assets on tax losses	-6
Non-deductible expenses	-1 324
Postponed amortization in taxation and other differences	-51
Income taxes in the statement of comprehensive income	**-472**

Taxes are not recognized in other comprehensive income.

Changes in deferred tax

2019

EUR thousand	4.10.2019	Business acquisitions	Recognized through profit or loss	Recognized in equity	31.12.2019
Deferred tax assets					
Postponed amortization in taxation		55	0	0	**55**
Tax losses carried forward		178	0	0	**178**
Provisions		155	0	0	**155**
Leases		4	0	0	**4**
Total	**0**	**392**	**0**	**0**	**392**

On December 31, 2019, the Group had EUR 234 thousand of confirmed losses on which deferred tax assets have not been recognized, because it is likely that taxable income against which the losses could be set will not be accrued for the Group before these losses expire. The losses will expire in the year 2023.

EUR thousand	4.10.2019	Business acquisitions	Recognized through profit or loss	Recognized in equity	31.12.2019
Deferred tax liabilities					
Measurement of intangible assets and inventories at fair value	0	19 786	-117	0	**19 669**
Total	**0**	**19 786**	**-117**	**0**	**19 669**

Note 12 Intangible assets

Intangible assets in 2019

EUR thousand	Technology	Intangible rights	Goodwill	Other intangible assets	Work in progress	Total
Acquisition cost on October 4, 2019	0	0	0	0	0	0
Acquisitions through business mergers	79 384	13 001	91 672	12 329	252	196 638
Additions	160	12	0	22	37	231
Acquisition cost on December 31, 2019	**79 544**	**13 013**	**91 672**	**12 351**	**289**	**196 869**
Accumulated depreciation, amortization and impairment on October 4, 2019	0	0	0	0	0	0
Depreciation	220	50	0	84	0	354
Impairment	0	0	0	0	0	0
Accumulated depreciation, amortization and impairment on December 31, 2019	**220**	**50**	**0**	**84**	**0**	**354**
Carrying amount October 4, 2019	**0**	**0**	**0**	**0**	**0**	**0**
Carrying amount on December 31, 2019	**79 325**	**12 963**	**91 672**	**12 267**	**289**	**196 515**

Group's intangible rights mainly consist of the iLOQ brand and licenses related to IT-programs. Other intangible assets mainly consist of the assets allocated to customer contracts at the time of acquiring iLOQ Group. 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 160 thousand of product development expenditures was recognized on the balance sheet.

Impairment testing

The Group has carried out impairment testing for unfinished product development expenditures as at December 31, 2019. 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.

Note 13 Property, plant and equipment

Owned property, plant and equipment in 2019				Use right assets in 2019		
EUR thousand	**Machinery and equipment**	**Work in progress**	**Other tangible assets**	**Cars**	**Premises**	**Total**
Acquisition cost on October 4, 2019	0	0	0	0	0	0
Acquisitions through business mergers	1 279	757	95	835	943	3 909
Additions	334	36	10	0	0	380
Transfer between items	0	-240	0			-240
Acquisition cost on December 31, 2019	**1 613**	**553**	**105**	**835**	**943**	**4 049**
Accumulated depreciation, amortization and impairment on October 4, 2019	0	0	0			0
Depreciation	36	0	1	26	32	96
Impairment	0	0	0			0
Accumulated depreciation and amortizatior Impairment on December 31, 2019	**36**	**0**	**1**	**26**	**32**	**96**
Carrying amount October 4, 2019	**0**	**0**	**0**	**0**	**0**	**0**
Carrying amount on December 31, 2019	**1 577**	**554**	**104**	**809**	**911**	**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.

Note 14 Inventories

EUR thousand	2019
Products	8 072
Products in transit	401
Total	**8 473**

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

Note 15 Trade and other receivables

Current receivables

EUR thousand	2019
Current receivables from others	
Trade receivables	10 262
Other receivables	190
Accrued income	369
Total	**10 820**

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

Aging of trade receivables

EUR thousand		2019
Not past due		7 959
Past due		
	Less than one month	1 833
	One to three months	313
	More than three months	157
	Total past due	2 303
Total		**10 262**

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 the financial period 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 the financial period 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.

iLOQ Group's realized credit losses from sales to customers have historically 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.

Note 16 Cash and cash equivalents

EUR thousand	2019
Cash and cash equivalents	5 784
Cash on the balance sheet	**5 784**

At the end of financial year the Group has a withdrawable credit facility amounting to EUR 15 million. At the end of financial year on December 31, 2019, the limit is not in use.

Note 17 Notes relating to equity

Share capital

The share capital is EUR 0.

There is one share series. The shares have no nominal value. All shares have equal rights to dividends and company assets.

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

2019	Number of shares	Total shares	Share capital	Reserve for invested non-restricted equity
4.10.	100	100	0	0
Issue of shares	0	0	0	142 778
31.12.	**100**	**100**	**0**	**142 778**

Dividends

The parent company's loss for the financial period, EUR 1,777,698.61, is recognized in the retained earnings account. The parent company's distributable equity on December 31, 2019 is a total of EUR 141,000,522.39, of which retained earnings amount to EUR - 1,777,698.61. Distributable funds in the invested unrestricted equity fund amount to EUR 142,778,221.

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

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.

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* .

Note 18 Share-based payments

In the Group, iLOQ Oy 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 on December 11, 2019 have been recognized before the sale.

Note 19 Classification of financial assets and liabilities

Classification and fair values

Classification and carrying amounts of financial assets and liabilities.

Fair values of financial assets and financial liabilities are not are not presented in the table, as far as the carrying amount 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
EUR thousand	**Note**	**Financial assets and liabilities measured at amortized cost using the effective interest rate method**
Financial assets, which are not measured at fair value		
Trade and other receivables	15	10 820
Cash and cash equivalents	16	5 784
Total		**16 604**
Financial liabilities, which are not measured at fair value		
Bond	20	54 046
Account payables and other liabilities	21	11 318
Lease agreement liabilities	21	1 739
Total		**67 103**

Fair value measurement

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.

Derivative financial instruments

The Group did not have derivative instruments during the financial period 2019.

Note 20 Liabilities to credit institutions

The Group issued a bond at a nominal value of EUR 55,000,000 million in December 2019. A floating interest of Euribor 3 months + 5.375% is payable on the bond, and the capital becomes due for payment in June 2025. The bond contains covenants based on the result and on the debt-equity ratio, The covenants were fulfilled during the financial period ending on December 31, 2019. The bond is classified at amortized cost and its balance sheet value was EUR 54.046.426 in the financial period ending on December 31, 2019.

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**
Advances received for operation and maintenance contracts	312
Account payables	5 816
Other creditors	1 866
Accrued expenses	3 324
Total	**11 318**

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**
Accrued expenses		
	Accrual of personnel expenses	2 887
	Other accrued expenses	437
Total		**3 324**

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 Group is mainly exposed to the following financial risks: market risk (currency and interest 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, 49.7% 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 exposure by currency
31.12.2019

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

Sensitivity analysis by currency
31.12.2019

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

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.

Interest risk
The Group becomes subject to a cash flow interest risk as a result of the Group's bond with a floating rate of interest. The bond has a interest rate floor, if interest rates were to increase by one (1) percentage unit, interest expenses after tax would increase by approximately EUR 273 thousand.

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.

Assessment of 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. At the end of the financial period 2019, the Group had a bond with a balance sheet value of EUR 54,046 thousand. The cash and cash equivalents of the Group totaled EUR 5,784 thousand at the end of the financial period 2019. The Group strives to ensure the availability and flexibility of funding through an overdraft facility. The Group maintains an undrawn credit facility totaling EUR 15,000 thousand on December 31, 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 financial period 2019.

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	2024	2025
Non-derivative financial liabilities						
Liabilities from credit institutions	2 956	2 956	2 956	2 956	2956	56 478
Account payables and other liabilities	11 318	0	0	0	0	0
Derivative financial instruments						
Forward exchange contracts	0	0	0	0	0	0
Total	14 274	2 956	2 956	2 956	2 956	56 478

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 based on the ratio of equity to balance sheet total (equity ratio). The equity ratio was 61.0% at the end of financial period 2019.

Note 23 Maturity of lease liability

EUR thousand	2019
Within 12 months	987
Within one to five years	819
Over five years	0
Total	**1 806**

Note 24 Provisions

EUR thousand	2019
Non-current provision	460
Current provision	314
Total	**774**

The Group's subgroup 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.

Note 25 Contingent liabilities

Collaterals and contingent liabilities

EUR thousand	2019
Contingent liabilities	
Credit facility	15 000
Standby letter of credit	1 363
Lease guarantee	167
Corporate credit card	49
Total	16 579

Credit facility of EUR 15,000,000 was not used during the period October 4 – December 31, 2019.

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

EUR thousand	2019
Collateral given for own commitments	150 000
Collateral given on behalf of others	
Collateral	13
Guarantee	361
Total	**150 374**

Covenants

The Group's covenant terms are presented in note 20 Liabilities to credit institutions and note 22 *Risk Management.*

Legal proceedings

The Group has not had any material outstanding legal proceedings in 2019.

Note 26 Related party transactions

The Group's related parties consist of the parent company Capnor Weasel Midco Oy, Capnor Weasel Midco Oy's parent company Capnor Weasel Topco Oy, as well as the subsidiaries. The subsidiaries are listed in note 5. In addition, related parties include Capnor Weasel Topco Oy's, Capnor Weasel Midco Oy's and Capnor Weasel Bidco Oy's Board members and as iLOQ-Group's key management personnel, its Board members, CEO and members of the Group management, as well as entities that are under the control of the above-mentioned persons and their family members.

Employee benefits of the key management

Capnor Weasel Bidco Oy does not have a CEO or Group management. iLOQ Oy's CEO and Group management have been paid salaries and fees including fringe benefits in the financial period as follows:

EUR thousand	2019
Short-term employee benefits	132
Benefits paid after the end of employment relationship	29
Total	**161**

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

Capnor Weasel Bidco Oy's Board of Directors has evaluated the impacts on the company's market environment, employees and business operations of the virus epidemic that started at the beginning of 2020 and expanded rapidly. It is estimated that the virus epidemic will have an impact on the demand of iLOQ Group's products and services but no significant impact on the operating profit. The company's Board of Directors and management are closely monitoring the development of the coronavirus situation and update their assessment of the impacts of the epidemic as the situation progresses.

Capnor Wiesel Bidco Oy

INCOME STATEMENT	Note	4.10.2019-31.12.2019
Revenue		**0**
Other operating expenses		-284
Operating profit		**-284**
Financial expenses	28	-1 494
Profit before extraordinary items		**-1 778**
Profit before appropriations and taxes		**-1 778**
Taxes		0
Profit for the financial period		**-1 778**

Capnor Wiesel Bidco Oy

BALANCE SHEET	Note	31.12.2019
ASSETS		
NON-CURRENT ASSETS		
Investments	30	194 969
Non-current assets, total		**194 969**
CURRENT ASSETS		
Current receivables	31	8
Cash at bank and in hand		1 640
Current assets, total		**1 647**
ASSETS, TOTAL		**196 616**
EQUITY AND LIABILITIES		
EQUITY	32	
Invested unrestricted equity fund		142 778
Profit for the financial period		**-1 778**
Total equity		**141 001**
LIABILITIES	33	
Long-term liabilities		
Interest-bearing liabilities		55 000
Short-term liabilities		
Interest-free liabilities		616
Liabilities, total		**55 616**
EQUITY AND LIABILITIES, TOTAL		**196 616**

Capnor Wiesel Bidco Oy

CASH FLOW STATEMENT (EUR thousand)	4.10.2019-31.12.2019
CASH FLOW FROM OPERATING ACTIVITIES	
Profit (loss) before taxes	-1 778
Adjustments:	
Financial income and expenses	1 494
Cash flow before change in working capital	**-284**
Change in working capital:	
Increase (-)/decrease (+) in short-term interest-free trade receivables	-8
Increase (+)/decrease (-) in short-term interest-free liabilities	290
Cash flow from operating activities before financial items and taxes	**-2**
Interest paid and payments on other financial expenses	-1 200
Cash flow before extraordinary items	**-1 202**
Cash flow from operating activities (A)	**-1 202**
CASH FLOW FROM INVESTMENT ACTIVITIES	
Acquisition of subsidiaries	-1 861
Cash flow from investment activities (B)	**-1 861**
CASH FLOW FROM FINANCING ACTIVITIES	
Increase of equity against payment	3 365
Proceeds from long-term liabilities	55 000
Repayment of short-term liabilities	-53 663
Cash flow from financing activities (C)	**4 703**
CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C)	**1 640**
Cash and cash equivalents at the beginning of the financial period	**0**
Cash and cash equivalents at the end of the financial period	**1 640**

Note 28 Accounting principles for the financial statements of the parent company

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

Notes to the income statement

The company did not have hired personnel during the financial period.

Financial expenses	**4.10.2019-31.12.2019**
Financial expenses	
Interest expenses	156
Other financial expenses	1 338
	1 494

Note 30 Tangible assets and investments

Investments	**2019**
Holdings in Group companies	
Acquisition cost	0
Additions	194 969
Acquisition cost on Dec 31	194 969

Increase in investments for 2019 is due to investments in subsidiaries iLOQ Oy and Hailuoto Development Oy.

Note 31 Long-term and short-term receivables

	2019
Current receivables	
Short-term receivables from other companies	
Other receivables	8
Total	8
Short-term receivables, total	8

Note 32 Equity and calculation of distributable equity

EQUITY	2019
Invested unrestricted equity fund on Oct 4	0
Issue of shares	142 778
Invested unrestricted equity fund on Dec 31	142 778
Profit for the financial period	-1 778
Unrestricted equity, total	141 001
Total equity	141 001

Calculation of distributable equity	2019
Profit for the financial period	-1 778
Reserve for invested non-restricted equity	142 778
Total	141 001

Share capital

The company does not have share capital. The number of shares is 100.

Note 33 Liabilities

Long-term liabilities	**2019**
Interest-bearing liabilities	
Bond	55 000
Long-term interest-bearing liabilities, total	55 000

Capnor Weasel Bidco Oy has issued a bond in December 2019 in the amount of EUR 55 million. The bond is secured. A coupon rate of 3-month Euribor + 5.375 percentage points, and the bond will mature on June 12, 2025. The bond can be redeemed before maturity.

Short-term liabilities

Short-term interest-free liabilities to other companies	
Account payables	282
Accrued expenses	
Interest expenses	156
Other accrued expenses	138
Current tax liabilities	0
Total	576
Short-term liabilities to Group companies	
Account payables	40
Total	40
Short-term interest-free liabilities, total	616

Note 34 Liabilities and collateral

The company has a credit agreement of EUR 15,000,000, which has not been used during the financial year 2019.

iLOQ Oy has granted a corporate mortgage in the amount of EUR 141.700.000 for the benefit of Capnor Weasel Bidco Oy.

BOARD OF DIRECTORS' SIGNATURES

Espoo April 27, 2020

Karl Petersson
Member of the Board

AUDITOR'S NOTE

Our auditor's report has been issued today.

KPMG Oy Ab

Oulu, April 30, 2020

Tapio Raappana
Authorized Public Accountant

LIST OF ACCOUNTING LEDGERS AND RECORDS

Accounting ledgers	Verifications	Storage method
Financial statements		Bound
Diary and general ledger		Electronically as a PDF file
Bank and cash documents		Electronically as a PDF file
Memo vouchers		Electronically as a PDF file

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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 Capnor Weasel Bidco Oy

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Capnor Weasel Bidco Oy (business identity code 3089585-3) for the financial period 4 October–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 for the Financial Statements

The Board of Directors is 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 is also responsible for such internal control as it determines 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 is 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' 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 is responsible for the other information. The other information comprises 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. 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, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Oulu, Finland, 30 April 2020

KPMG OY AB

TAPIO RAAPPANA
Authorised Public Accountant, KHT