

Loihde Plc: Transition to IFRS, comparative information

On 16 December 2022, Loihde Plc (also 'Loihde' or 'the Group') announced that it has decided to adopt International Financial Reporting Standards ('IFRS') for its financial reporting. Loihde Plc will prepare its consolidated financial statements and financial statements release for the financial year ended 31 December 2022 in accordance with IFRS, including comparative information under IFRS for the financial year 2021. The Group's date of transition to IFRS was 1 January 2021. The financial statements release will be published on 3 March 2023.

Until 30 September 2022, Loihde prepared its annual and half-yearly financial statements in accordance with Finnish Accounting Standards (FAS). In order to provide its investors with comparative information already before the publication of the consolidated financial statements for the financial year 2022, Loihde publishes for the financial year ended 31 December 2021 and for the six-month period ended 30 June 2022:

- Certain key figures for the Group, and
- the consolidated comprehensive income statements and balance sheets prepared in accordance with IFRS, together with the explanations for the key changes resulting from the transition to IFRS compared to FAS. Loihde has not prepared FAS-IFRS reconciliations for the key figures presented.

The financial information presented in this release has been prepared in accordance with the IFRS standards in force on 31 December 2022. In transition, Loihde applied IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The financial information presented in this release is unaudited, except for the consolidated income statement for the financial year 2021 and the consolidated balance sheets on 1 January 2021 and 31 December 2021 prepared in accordance with FAS.

The principal impacts on Loihde's reported financial information as a result of adopting IFRS arise from leases (IFRS 16), revenue recognition (IFRS 15), financial instruments (IFRS 9), investment properties (IAS 40) and share-based payment plans (IFRS 2).

Loihde has two operating segments and one reportable segment, as the segment aggregation criteria are met.

Key figures

Loihde has included in this release certain key figures to be presented that the Group has previously provided in its quarterly reports. These figures are now calculated in accordance with IFRS Standards. These indicators reflect the Group's revenue from continuing operations, breakdown of revenue by business area, EBITDA and adjusted EBITDA. Not all of the key figures provided are IFRS measures and are considered alternative performance measures. Loihde applies the Guidelines of the European Securities and Market Authority (ESMA) on alternative performance measures. Loihde management uses these indicators to monitor the performance of the Group's business. They are also frequently used by analysts, investors and other parties. All companies do not calculate alternative performance measures in a uniform way, and, therefore, the alternative performance measures provided by Loihde may not be comparable with similarly named measures presented by other companies.

Key figures	1 Jan - 30 June 2022	1 Jan - 31 Dec 2021
Revenue, continuing operations, EUR 1,000	57,394	104,418
- Security	35,892	69,287
- Digital development	21,741	35,524
- Others (incl. eliminations)	-239	-393
EBITDA, continuing operations, EUR 1,000	8,281	5,591
Adjusted EBITDA, continuing operations, EUR 1,000	4,710	7,236
Adjusted EBITDA, continuing operations, %	8.2 %	6.9 %

Impacts of IFRS transition

Reconciliation of consolidated balance sheet at 1 January 2021

	FAS	1. Leases	2. Financial instruments	3. Share-based payments	4. Revenue recognition	5. Investment property	6. Non-current assets held for sale and discontinued operations	7. Business acquisitions	8. Other adjustments	Non-controlling interests	Transition impact	IFRS
Assets												
EUR 1,000												
Non-current assets	55 187											63 911
Tangible assets	8 451					-2 928	-31		332		-2 627	5 823
Investment property		108				2 928					3 036	3 036
Right-of-use assets		6 536									6 536	6 536
Goodwill	44 781											44 781
Intangible assets	1 718						-5	-242			-246	1 472
Investments	237							-237			-237	
Other financial assets									23		23	23
Receivables									884		884	884
Deferred tax assets					412				944		1 356	1 356
Current assets	81 465											81 073
Inventories	6 724						-54				-54	6 670
Trade and other receivables	23 916						-717	-3 552			-4 270	19 646
Contract assets								3 395			3 395	3 395
Prepayments and accrued income	4 494						-119	-1 146			-1 264	3 230
Current tax assets							-20	419			399	399
Financial securities	15 418		-15 418								-15 418	
Financial assets at fair value through profit or loss			16 820								16 820	16 820
Cash and cash equivalents	30 913											30 913
Assets held for sale							946				946	946
Total assets	136 652	6 644	1 402		412				820		9 278	145 930

Equity and liabilities												
EUR 1,000	FAS	1. Leases	2. Financial instruments	3. Share-based payments	4. Revenue recognition	5. Investment property	6. Non-current assets held for sale and discontinued operations	7. Business acquisitions	8. Other adjustments	Non-controlling interests	Transition impact	IFRS
Equity attributable to owners of the parent company												
Share capital	1 504											1 504
Reserve fund	8 132											8 132
Reserve for invested unrestricted equity	49 706											49 706
Retained earnings	50 807		1 121		-1 648				654		127	50 934
Non-controlling interests										357	357	357
Total equity	110 149											110 633
Non-current liabilities	357									-357	-357	4 890
Interest-bearing financial liabilities	36											36
Lease liabilities		3 300									3 300	3 300
Contract liabilities					1 106						1 106	1 106
Other liabilities	5				-5						-5	
Pension liabilities									167		167	167
Deferred tax liabilities	2		280								280	282
Current liabilities	26 104											29 415
Interest-bearing financial liabilities	10								22		22	32
Lease liabilities		3 344									3 344	3 344
Trade and other payables	12 510						-509		-528		-1 037	11 473
Contract liabilities					959				1 867		2 826	2 826
Current tax liabilities									346		346	346
Accrued expenses and deferred income	13 584						-483		-1 707		-2 190	11 394
Liabilities associated with the assets held for sale							992				992	992
Total liabilities	26 146											35 297
Total equity and liabilities	136 652	6 644	1 402		412				820		9 278	145 930

Reconciliation of consolidated comprehensive income statement for financial year 1 January 2021 - 31 December 2021

Comprehensive income statement	FAS	1. Leases	2. Financial instruments	3. Share-based payments	4. Revenue recognition	5. Investment property	6. Non-current assets held for sale and discontinued operations	7. Business acquisitions	8. Other adjustments	Non-controlling interests	Transition impact	IFRS
EUR 1,000												
Continuing operations												
Revenue	108,079				-2,774		-887				-3,662	104,418
Production for own use and variation in inventories of finished goods and in work in progress	495											495
Other operating income	7,402						-6,589	-12			-6,601	802
Materials and services	-33,464	1,868			2,665		322				4,855	-28,609
Employee benefit expenses	-57,662			-914			578		-2		-337	-57,999
Other operating expenses	-15,462	2,339					133	-262	-263		1,947	-13,515
Depreciation, amortisation and impairment	-1,962	-4,342					3	-229	58		-4,510	-6,472
Earnings before amortisation of goodwill and consolidation goodwill (EBITA)	7,427											-881
Amortisation of goodwill and consolidation goodwill	-7,509							7,509			7,509	
Operating profit (EBIT)	-82											-881
Financial income	573		829				-1				828	1,401
Financial expenses	-136	-82			-54						-136	-271
Profit before income taxes	355											249
Income taxes	239	43	-158		33			46	32		-5	234
Profit (Loss) from continuing operations	594	-173	671	-914	-131		-6,441	7,052	-175		-111	483
Minority interest	10									-10	-10	
Discontinued operations												
Profit (Loss) from discontinued operations							6,441				6,441	6,441
PROFIT (LOSS) FOR THE FINANCIAL YEAR	603	-173	671	-914	-131			7,052	-175	-10	6,321	6,924
Other comprehensive income:												
Translation differences									-1		-1	-1
Total comprehensive income for the financial year	603	-173	671	-914	-131			7,052	-176	-10	6,320	6,923
Profit (Loss) attributable to:												
Non-controlling interests										-10	-10	-10
Owners of the parent company	603	-173	671	-914	-131			7,052	-175		6,330	6,934
												6,924
Total comprehensive income attributable to:												
Non-controlling interests										-10	-10	-10
Owners of the parent company	603	-173	671	-914	-131			7,052	-176		6,330	6,933
												6,923

Reconciliation of consolidated balance sheet at 31 December 2021

Assets	FAS	1. Leases	2. Financial instruments	3. Share-based payments	4. Revenue recognition	5. Investment property	6. Non-current assets held for sale and discontinued operations	7. Business acquisitions	8. Other adjustments	Non-controlling interests	Transition impact	IFRS
EUR 1,000												
Non-current assets	56 975											73 512
Tangible assets	7 740					-2 631	-650		313		-2 968	4 772
Investment property		96				2 631					2 728	2 728
Right-of-use assets		7 987					-42				7 945	7 945
Goodwill	47 188							6 293			6 293	53 481
Intangible assets	1 810							949	-428		521	2 331
Investments	237								-237		-237	
Other financial assets									23		23	23
Receivables									705		705	705
Deferred tax assets		43			445				1 040		1 528	1 528
Current assets	70 622											72 071
Inventories	7 287						-1				-1	7 286
Trade and other receivables	18 455								-2 821		-2 821	15 634
Contract assets									2 725		2 725	2 725
Prepayments and accrued income	4 661						-65		-910		-975	3 686
Current tax assets									290		290	290
Financial securities	15 866		-15 866								-15 866	
Financial assets at fair value through profit or loss			18 097								18 097	18 097
Cash and cash equivalents	24 354											24 354
Assets held for sale							758				758	758
Total assets	127 597	8 126	2 231		445			7 242	700		18 744	146 341

Equity and liabilities	FAS	1. Leases	2. Financial instruments	3. Share-based payments	4. Revenue recognition	5. Investment property	6. Non-current assets held for sale and discontinued operations	7. Business acquisitions	8. Other adjustments	Non-controlling interests	Transition impact	IFRS
EUR 1,000												
Equity attributable to owners of the parent company												
Share capital	1 504											1 504
Reserve fund	8 132											8 132
Reserve for invested unrestricted equity	49 320											49 320
Translation differences												
Share-based payments				914							914	914
Retained earnings	43 260	-173	1 793	-914	-1 779			7 052	478		6 458	49 718
Total equity	102 217											109 589
Non-current liabilities	90											6 490
Interest-bearing financial liabilities	38											38
Lease liabilities		4 407					-3				4 404	4 404
Contract liabilities					1 146						1 146	1 146
Accrued expenses and deferred income	46											46
Pension liabilities									169		169	169
Deferred tax liabilities	6		438					190	52		680	687
Current liabilities	25 289											30 155
Interest-bearing financial liabilities	20											20
Lease liabilities		3 892					-39				3 853	3 853
Trade and other payables	10 343						-65		-376		-441	9 902
Contract liabilities					1 077				2 333		3 411	3 411
Current tax liabilities									120		120	120
Accrued expenses and deferred income	14 926								-2 078		-2 078	12 849
Liabilities associated with the assets held for sale							107				107	107
Total liabilities	25 380											36 752
Total equity and liabilities	127 597	8 126	2 231		445			7 242	700		18 744	146 341

Reconciliation of consolidated comprehensive income statement for six-month period 1 January 2022 – 30 June 2022

Comprehensive income statement	FAS	1. Leases	2. Financial instruments	3. Share-based payments	4. Revenue recognition	5. Investment property	6. Non-current assets held for sale and discontinued operations	7. Business acquisitions	8. Other adjustments	Transition impact	IFRS
EUR 1,000											
Continuing operations											
Revenue	58,865				-1,471					-1,471	57,394
Production for own use and variation in inventories of finished goods and in work in progress	291										291
Other operating income	4,355						-310			-310	4,045
Materials and services	-18,105	1,033			1,902					2,935	-15,170
Employee benefit expenses	-31,486			-167						-167	-31,653
Other operating expenses	-7,686	1,288						-164	-64	1,060	-6,626
Depreciation, amortisation and impairment	-875	-2,268						-196	50	-2,415	-3,290
Earnings before amortisation of goodwill and consolidation goodwill (EBITA)	5,359										4,991
Amortisation of consolidation goodwill	-3,785							3,785		3,785	
Operating profit (EBIT)	1,574										4,991
Financial income	-20		-1,673							-1,673	-1,693
Financial expenses	-294	-42			-26					-67	-361
Profit before income taxes	1,260										2,937
Income taxes	-1,210	-2	447		-81			39	-190	213	-996
Profit (Loss) from continuing operations	50	8	-1,225	-167	324		-310	3,464	-204	1,891	1,941
Discontinued operations											
Profit (Loss) from discontinued operations							310			310	310
PROFIT (LOSS) FOR THE FINANCIAL YEAR	50	8	-1,225	-167	324			3,464	-204	2,201	2,251
Other comprehensive income:											
Translation differences									-5	-5	-5
Total comprehensive income for the financial year	50	8	-1,225	-167	324			3,464	-209	2,195	2,245
Profit (Loss) attributable to:											
Non-controlling interests											
Owners of the parent company	50	8	-1,225	-167	324			3,464	-204	2,201	2,251
											2,251
Total comprehensive income attributable to:											
Non-controlling interests											
Owners of the parent company	50	8	-1,225	-167	324			3,464	-209	2,195	2,245
											2,245

Reconciliation of consolidated balance sheet at 30 June 2022

	FAS	1. Leases	2. Financial instruments	3. Share-based payments	4. Revenue recognition	5. Investment property	6. Non-current assets held for sale and discontinued operations	7. Business acquisitions	8. Other adjustments	Transition impact	IFRS
Assets											
EUR 1,000											
Non-current assets	58,178										79,680
Tangible assets	6,896					-2,546			305	-2,241	4,655
Investment property		98				2,546					2,643
Right-of-use assets		8,621								8,621	8,621
Goodwill	49,075							9,435		9,435	58,509
Intangible assets	1,971							1,352	-433	919	2,890
Investments	236								-236	-236	
Other financial assets									22	22	22
Receivables									1,039	1,039	1,039
Deferred tax assets		41	9		364			16	870	1,301	1,301
Current assets	70,491										69,993
Inventories	10,930										10,930
Trade and other receivables	18,867								-2,947	-2,947	15,919
Contract assets									6,529	6,529	6,529
Prepayments and accrued income	7,434								-4,638	-4,638	2,796
Current tax assets	410										410
Financial securities	10,157		-10,157							-10,157	
Financial assets at fair value through profit or loss			10,716							10,716	10,716
Cash and cash equivalents	22,693										22,693
Total assets	128,669	8,759	567		364			10,803	511	21,005	149,673
Equity and liabilities											
EUR 1,000											
Equity attributable to owners of the parent company											
Share capital	1,504										1,504
Reserve fund	8,132										8,132
Reserve for invested unrestricted equity	50,009										50,009
Translation differences									-1	-1	-1
Share-based payments				167						167	167
Retained earnings	39,910	-165	567	-167	-1,455			10,517	275	9,572	49,482
Total equity	99,556										109,294
Non-current liabilities	136										6,456
Interest-bearing financial liabilities	23										23
Lease liabilities		4,956								4,956	4,956
Contract liabilities					841					841	841
Accrued expenses and deferred income	46										46
Pension liabilities									169	169	169
Deferred tax liabilities	67							287	68	354	421
Current liabilities	28,977										33,923
Interest-bearing financial liabilities	20										20
Lease liabilities		3,968								3,968	3,968
Trade and other payables	11,202								-1,679	-1,679	9,523
Contract liabilities					978				5,209	6,186	6,186
Current tax liabilities	831										831
Accrued expenses and deferred income	16,925								-3,530	-3,530	13,395
Total liabilities	29,113										40,379
Total equity and liabilities	128,669	8,759	567		364			10,803	511	21,005	149,673

IFRS adjustments

On transition to IFRS Loihde recognised the following adjustments. Deferred taxes were basically recognised on all adjustments, using the Finnish corporate tax rate (20 %).

1. Leases, Loihde as a lessee (IFRS 16 Leases)

Loihde leases tangible assets both for its own use and for use in service contracts for the Security business, i.e. the leased assets comprise business premises, land, vehicles as well as IT equipment and technical devices included in service contracts. In its FAS financial statements, the Group recognised rental expenses in the financial year to which they related, either under *Other operating expenses* (for assets held for own use) or under *Materials and services* (for the devices included in service contracts). Due to the IFRS transition lease payments are now apportioned between the reduction of the lease liability and the interest charge on the lease liability. Furthermore, depreciation of the right-of-use assets is recognised in profit or loss.

On transition to IFRS, Loihde recognised an adjustment, EUR 6,644 thousand, under the right-of-use assets and financial liabilities (including non-current and current portions) at 1 January 2021. At financial year-end 2021, the right-of-use assets totalled EUR 7,945 thousand and the associated lease liabilities EUR 8,258 thousand, and at 30 June 2022 respectively EUR 8,621 thousand and EUR 8,924 thousand. The increase was attributable to business expansion, commissioning of new leased premises and the business combinations effected in 2021 and in the six-month period 2022. In addition, Loihde has recognised in the balance sheet item *Investment properties* the plots leased by the Group on which some of its investment properties are located. The impact of this adjustment was small.

In the financial year 2021, the decrease in line item *Materials and services* amounted to EUR 1,868 thousand, in *Operating expenses* EUR 2,339 thousand, and the increase both in *Depreciation, amortisation and impairment* EUR 4,342 thousand and in interest expenses on leases EUR 82 thousand. The respective changes in the six-month period 2022 were EUR 1,033 thousand, EUR 1,288 thousand, EUR 2,268 thousand and EUR 42 thousand.

Loihde applied certain exemptions granted under IFRS 1. The Group measured lease liabilities by discounting the cash flows for leases using the transition-date incremental borrowing rate and the right-of-use assets were recognised at that amount. Furthermore, Loihde has elected to apply the recognition exemption for both short-term leases (a lease that, at the commencement date, has a lease term of 12 months or less), and for leases of low-value assets (each asset with a value of approximately EUR 5,000 or less when new).

2. Financial instruments (IFRS 9 Financial Instruments)

The Group holds investments in publicly traded shares, fund units and bonds. For FAS accounting purposes, Loihde measured the instruments at the lower of cost and probable replacement cost. On transition to IFRS, these instruments were classified as at fair value through profit or loss. The resulting fair value change amounted to EUR 1,402 thousand at 1 January 2021, EUR 2,231 thousand at 31 December 2021, and EUR 558 thousand at 30 June 2022. The change in fair value recognised under *Financial income* in the comprehensive income statement for the financial year 2021 amounted to EUR 829 thousand, and in the six-month period 2022 negative EUR 1,673 thousand, respectively. The increase in *Deferred tax liabilities* resulting from the change in value amounted to EUR 280 thousand at 1 January 2021 and EUR 438 thousand at 31 December 2021. The increase in *Deferred tax assets* due to the change in value was EUR 9 thousand at 30 June 2022.

3. Share-based payment plans (IFRS 2 *Share-based Payment*)

Loihde has had five share-based incentive plans for the financial year 2021, and six plans for the six-month period from 1 January to 30 June 2022, which are aimed at both the Board of Directors of the parent company, Group management and key personnel as well as at the entire Loihde personnel. The benefits under the plans are paid to the participants in shares and partly in cash. The cash component is intended to cover the taxes and tax-like charges arising from the benefits.

The IFRS accounting for the incentive plans of Loihde differs from the FAS treatment, where only payments received from share issues have been accounted for. IFRS 2 requires share-based payments be measured at the grant-date fair value and expensed over the vesting period.

On IFRS transition, the Group recognised an adjustment (expense) in the line item *Employee benefits expenses*, which totalled EUR 914 thousand for the financial year 2021, and EUR 167 thousand for the six-month period 2022. The adjustment consists of three elements, as applicable: the share-based compensation expense recognised for the incentive plans, the 10% discount on the subscription price of Loihde Plc's share granted to personnel and the members of the Board of Directors of Loihde Plc, and the cash component to be paid to the participants to cover taxes and tax-like charges. The counter-entry is recorded in *Retained earnings* under equity, so that the equity balance remains unchanged. The cost of the share-based compensation is recognised in equal quarterly instalments over the vesting period, and the 10% discount on share subscriptions is recognised as a lump sum on initial recognition of the plan. No IFRS adjustment for the 10% discount arose in the six-month period 2022 due to the fall in Loihde Plc's share price.

4. Revenue recognition (IFRS 15 *Revenue from Contracts with Customers*)

Loihde Group has two business areas: The Digital development business provides customers with digital strategy consultations, business intelligence, data analytics and digitalisation solutions that range from service and user interface design to software development. Loihde's Security business covers a wide range of corporate security services, from cyber security to locking and electronic security technology. The Group operates primarily in Finland. Loihde generates revenue from provision of the services described above and from sale of related devices.

Under FAS, Loihde recognised revenue when the goods were delivered or the service was performed and using the percentage-of-completion method for project deliveries, without taking into account principal-agent-considerations, for example. On transition to IFRS, the Group recognised the adjustments resulting from the contracts where Loihde acts as an agent for the sale of license products, and from start-up fees charged in service contracts and device installation fees.

- Acting as principal or agent: As part of its business, Loihde delivers third-party licensed products to its customers. In FAS accounting, the Group generally recognised license revenues when the licenses were delivered to customers. On transition to IFRS, Loihde has analysed whether it acts as principal or agent in relation to the customers under such contracts. This is based on the substance of the contracts with the license suppliers concerned. A principal recognises revenue on a gross basis and an agent on a net basis. The Group considers that Loihde generally acts as an agent in these contracts, as Loihde does not have control over the licenses before they are transferred to the customers. Therefore, the Group recognises revenue from these contracts on a net basis reflecting the commission or margin earned.
- Start-up fees charged in service contracts and device installation fees: In some contracts, Loihde charges its customers separately for start-up fees in service contracts or device installation fees. Under FAS accounting, the Group recognised the

installation revenue when the installation was completed, and the service start-up fee in principle when Loihde started to provide the service. Owing to the transition to IFRS, the Group now recognises these revenues over time, i.e. over each service contract term, as Loihde considers the service and the related equipment to constitute a single performance obligation. The IFRS adjustment was made to the revenues recognised for contracts where the payments had been separately recorded at a point in time under FAS. Consequently, Loihde recorded the following balance sheet adjustments: a decrease in *Retained earnings* of EUR 1,648 thousand at 1 January 2021 and EUR 1,779 thousand at 31 December 2021, an increase in *Contract liabilities* totalling EUR 2,065 thousand at 1 January 2021 and EUR 2,223 thousand at 31 December 2021 (comprising current and non-current portions), and an increase in *Deferred tax assets* of EUR 412 thousand at 1 January 2021 and EUR 445 thousand at 31 December 2021. The respective adjustments at 30 June 2022 amounted to EUR 1,455 thousand, EUR 1,818 thousand, and EUR 364 thousand.

- The two adjustments explained above resulted in the change in the line item *Revenue* totalling negative EUR 2,774 thousand, and in the line item *Materials and services* of EUR 2,665 thousand in the financial year 2021, and respectively negative EUR 1,471 thousand and EUR 1,902 thousand for the six-month period 2022. The changes are mainly attributable to the agent-principal adjustment.

5. Investment properties (IAS 40 *Investment properties*)

Prior to the transition to IFRS, Loihde treated all properties it owned as tangible assets. On transition to IFRS, the Group classified the properties it owned as either owner-occupied properties (comprising offices and warehouses) or investment properties. Investment property is land, a building or part of a building held by Loihde to earn rentals or for capital appreciation, or both. The Group measures investment property at cost. The IFRS adjustment within the balance sheet from *Tangible assets* to *Investment properties* amounted to EUR 2,928 thousand at 1 January 2021, EUR 2,631 thousand at 31 December 2021, and EUR 2,546 thousand at 30 June 2022. The related reclassification within the line item *Depreciation, amortisation and impairment* amounted to EUR 211 thousand in 2021 and EUR 104 in the six-month period 2022 (from the depreciation of tangible assets to the depreciation of investment properties).

6. Non-current assets held for sale and discontinued operations (IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*)

To sharpen its business model, Loihde has continued to divest non-core activities in 2021 and 2022.

FAS has no specific recognition, measurement or presentation provisions for assets held for sale and related liabilities, nor for discontinued operations.

Consolidated balance sheet at 1 January 2021

In February 2021, Loihde sold its entire shareholding in the TV service company Hibox Systems Oy Ab ('Hibox') to the Swedish company Accedo AB. The TV business of the Group ended with the sale of Hibox and was a strategic decision. Although Hibox's impact from a volume perspective was small for Loihde as a whole, it had a clear impact on the Group's profitability. Therefore, on transition to IFRS, the Group classified the Hibox business as a discontinued operation at 1 January 2021, and presented these assets (in total EUR 946 thousand) and liabilities (in total EUR 992 thousand) as current assets and current liabilities in the balance sheet.

Consolidated comprehensive income statements for financial year 1 January – 31 December 2021 and for six-month period 1 January – 30 June 2022

In the financial year 2021, the result from the discontinued operation comprised both the post-tax loss of the Hibox business, EUR 72 thousand, and the gain on disposal, EUR 6,514 thousand. These items have been reclassified to be presented under *Profit (Loss) from discontinued operations*. The gain on sale of the shares is tax-exempt. The adjustment recorded for the six-month period 2022, EUR 310 thousand, was due to the contingent consideration receivable that resulted in a higher payment than originally estimated.

Consolidated balance sheet at 31 December 2021

On 3 January 2022, Loihde divested its fibre networks in Kuusamo, Kemijärvi and Salla to Koillisnet Oy. On transition to IFRS, the Group classified the assets and liabilities related to the fibre networks as assets and liabilities held for sale at 31 December 2021, and presented these assets (in total EUR 758 thousand) and liabilities (in total EUR 107 thousand) as current assets and current liabilities in the balance sheet.

7. Business acquisitions (IFRS 3 Business Combinations)

Pre-transition date business combinations

On transition to IFRS Loihde applied the exemption for the accounting treatment of pre-transition date (1 January 2021) business combinations, which were not restated in accordance with IFRS 3. The related goodwill balance totalled EUR 44,781 thousand at 1 January 2021.

Business combinations effected in 2021 and in six-month period 2022

In May 2021, Loihde strengthened its digital development business by acquiring all the shares in IT consulting company Talent Base Oy. Talent Base (currently Loihde Advisory Ltd) and its subsidiaries have been consolidated as from 1 June 2021. In May 2022, Loihde also strengthened its position as a leading security technology provider by acquiring all the shares in Turvakolmio Group Oy. The company is a provider of security technology and locking services that provides companies and organisations with, for example, video surveillance and access control systems, fire safety systems and locking solutions. Turvakolmio and its subsidiary have been consolidated as from 1 June 2022.

In accordance with FAS, Loihde calculated consolidation goodwill as the excess of the cost of the acquisition of the shares over the acquisition-date equity. On transition to IFRS the assets acquired and liabilities assumed for Loihde Advisory Ltd and Turvakolmio Group Oy were measured at fair value at the acquisition dates. The intangible assets identified in the acquisitions comprised customer relationships that were separated from goodwill and recorded in the balance sheet. Consequently, the goodwill balance decreased. At 31 December 2021, the application of IFRS 3 increased the balance sheet line items *Intangible assets* by EUR 949 thousand and *Deferred tax liabilities* EUR 190 thousand, and at 30 June 2022 EUR 1,352 thousand and EUR 287 thousand, respectively. The increase in the item *Depreciation, amortisation and impairment* owing to the allocations made amounted to EUR 229 thousand in the financial year 2021, and similarly EUR 196 thousand in the six-month period 2022.

IFRS requires acquisition-related costs, such as professional fees and transfer taxes, be expensed whereas under FAS they are generally capitalised. The increase in the line item *Other operating expenses* was EUR 262 thousand in the financial year 2021, and EUR 164 thousand for the six-month period 2022.

The acquisition of Loihde Advisory Ltd was paid for in cash. Loihde Plc issued a total of 131,735 new shares in a targeted share issue for certain former owners of the acquired company. The subscription price was EUR 23.17 per share. The consideration for Turvakolmio Group Oy was also paid in cash.

Goodwill amortisation and impairment testing

Under IFRS 3 goodwill is not amortised but tested for impairment at least annually. Consequently, the goodwill amortisation recorded in the FAS consolidated financial statements was reversed. The goodwill amortisation totalled EUR 7,509 thousand in 2021 and EUR 3,785 thousand in the six-month period 2022. Based on the impairment tests carried out (as at 1 January 2021 and 31 December 2021) the goodwill was not impaired.

8. Other IFRS adjustments

Other adjustments comprise the following items:

- Leasehold improvement costs (IAS 16 *Property, Plant and Equipment*): Loihde has capitalised leasehold improvement costs for leased premises. Such capitalised costs are typically treated as intangible assets under FAS, but as tangible assets under IFRS, based on their nature. The adjustment amounted to EUR 118 thousand at 1 January 2021, EUR 99 thousand at 31 December 2021, and EUR 91 thousand at 30 June 2022.
- Cloud computing arrangements (IAS 38 *Intangible Assets*): Loihde has cloud computing arrangements where it has access to certain applications from different software vendors for a contractual period. Under FAS, software configuration and customization costs incurred in implementation of these arrangements were capitalized. On transition to IFRS, the Group has analysed its cloud computing arrangements and concluded that, in these arrangements, Loihde does not have control over the software assets concerned. Consequently, the right to use the software provider's application is a service that Loihde will receive during the contract period. As a result, the Group expenses the payments made for these services under *Other operating expenses*, and the configuration and customization expenditures previously capitalised were derecognised. The IFRS adjustment to the line item *Intangible assets* in the balance sheet totalled EUR 124 thousand at 1 January 2021, EUR 329 thousand at 31 December 2021, and EUR 342 thousand at 30 June 2022. In 2021, the increase in *Other operating expenses* was EUR 263 thousand and the decrease in *Depreciation, amortisation and impairment* was EUR 58 thousand, and for the six-month period 2022 EUR 64 thousand and EUR 50 thousand, respectively.
- Income taxes (IAS 12 *Income Taxes*): In previous financial years, Loihde has recorded depreciation which has not been deducted for tax purposes. On transition to IFRS, the Group recognised a related deferred tax asset of EUR 743 thousand at 1 January 2021, EUR 764 thousand at 31 December 2021, and EUR 604 thousand at 30 June 2022.
- Supplementary pension plans (IAS 19 *Employee Benefits*): Supplementary pension cover has been arranged for some of the Group's personnel through a life insurance company. In FAS accounting, these expenses were charged to the period in which the insurance company invoiced for these plans. On transition to IFRS Loihde recorded an increase in the balance sheet item *Pension liabilities*, in aggregate EUR 167 thousand at 1 January 2021, EUR 169 thousand at 31 December 2021, and EUR 169 thousand at 30 June 2022.
- Reclassifications (IAS 1 *Presentation of Financial Statements* and IFRS 15 *Revenue from Contracts with Customers*):

- IAS 1: Reclassification of non-current receivables from current assets to non-current assets owing to their maturity, EUR 884 thousand at 1 January 2021, EUR 716 thousand at 31 December 2021, and EUR 1,056 thousand at 30 June 2022.
- IAS 1: Reclassification of current tax assets from *Prepayments and accrued income* to *Current tax assets*, EUR 419 thousand at 1 January 2021 and EUR 290 thousand at 31 December 2021. Similarly, Loihde reclassified the current tax liabilities from *Accrued expenses and deferred income* to *Current tax liabilities*, EUR 346 thousand at 1 January 2021 and EUR 120 thousand at 31 December 2021.
- IAS 1: Reclassification of *Non-controlling interests* to equity, EUR 357 thousand at 1 January 2021 and EUR zero at 31 December 2021.
- IFRS 15: Reclassification of unbilled receivables for customer contracts, included in *Trade and other receivables* or *Prepayments and accrued income*, to *Contract assets*, in aggregate EUR 3,395 thousand at 1 January 2021, EUR 2,725 thousand at 31 December 2021 and EUR 6,529 thousand at 30 June 2022. Similarly, Loihde reclassified the unrecognised (deferred) revenue amounts under customer contracts, included in *Advance payments received* and *Accrued expenses and deferred income*, to *Contract liabilities*, totalling EUR 1,867 thousand at 1 January 2021, EUR 2,333 thousand at 31 December 2021 and EUR 5,209 thousand at 30 June 2022.

Further information

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Loihde enables business continuity. We help our customers to create growth and competitiveness through digitalisation and to protect themselves from physical and cyber threats. Loihde consists of two business areas: security solutions with the brand Loihde Trust, and digital development with the brands Loihde Advance and Loihde Factor. Cloud solutions are produced by our subsidiary Onrego. The Group has approximately 880 employees and its revenue in 2021 amounted to EUR 104.4 million.