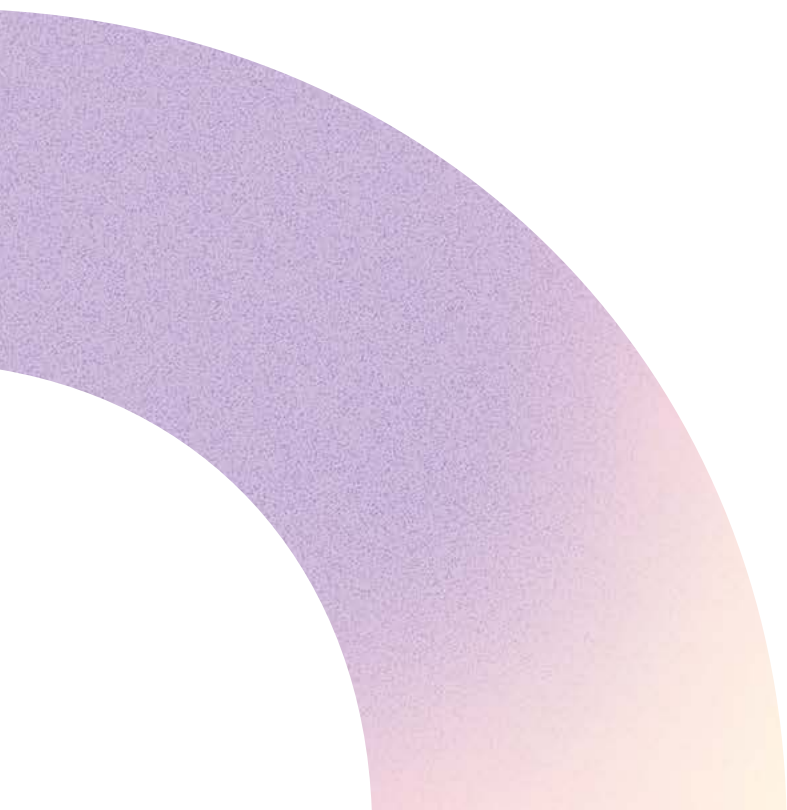


LOIHDÉ

Annual Report

2022



**THE ANNUAL REPORT OF LOIHDE
CONSISTS OF THE FOLLOWING SECTIONS:**

- **Annual Review** including the **Sustainability Report**
- **Financial Review** including the **Financial Statements** and the **Report of the Board of Directors**
- **Corporate Governance Statement**
- **Remuneration Report**

**People first
since 1882.**

ANNUAL REVIEW

FINANCIAL REVIEW

**CORPORATE GOVERNANCE AND
REMUNERATION**

Annual Review

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Loihde in brief

Loihde enables business continuity. We increase the competitiveness of our customers in the digital transformation process and protect them from both physical and cyber threats.

LOIHDE IS ONE OF FINLAND'S LARGEST SUPPLIERS OF COMPREHENSIVE CORPORATE SECURITY SERVICES.

We offer our customers integrated solutions against both physical and cyber threats. Our service portfolio covers all areas of corporate security from cyber security to corporate networks, locking solutions and surveillance systems. Our One Security concept combines digital and physical security into one integrated solution that provides the customer with both proactive protection and a clear picture of the company's total security.

WE OFFER THE ENTIRE VALUE CHAIN OF DIGITAL DEVELOPMENT.

In digital development, we produce the entire value chain, from strategy, service design, data utilisation and AI solutions to software development, project and change management.

WE HELP REDEEM THE PROMISES OF CLOUD COMPUTING.

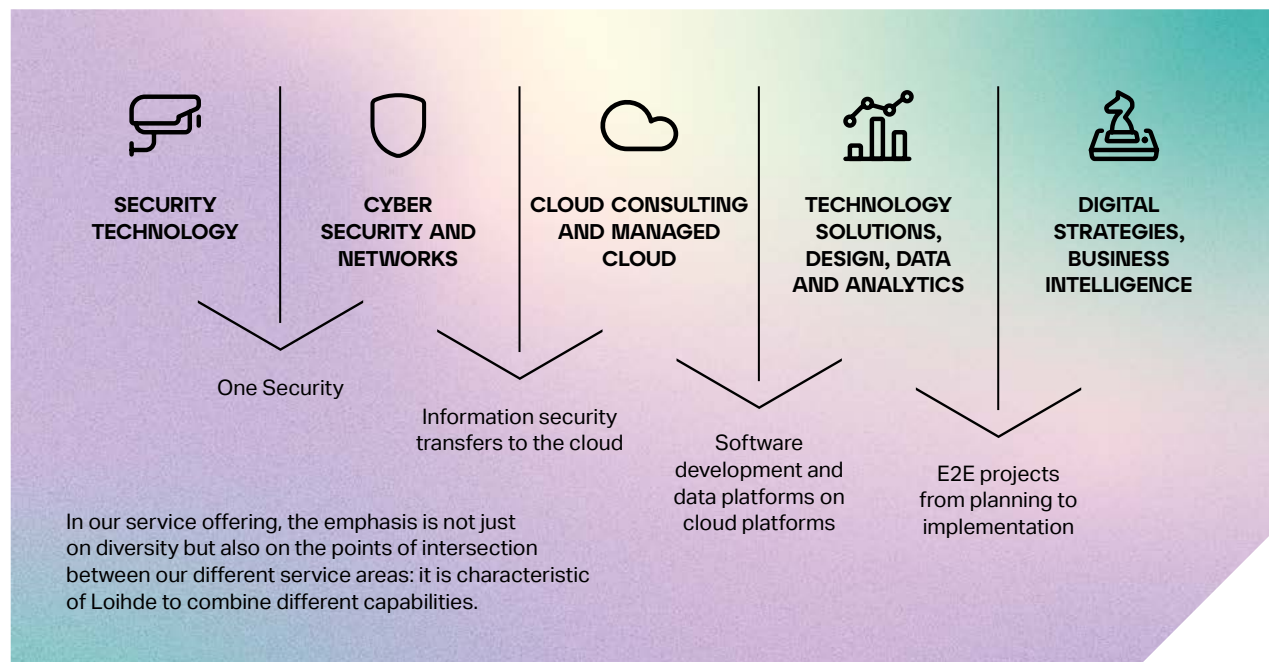
Cloud technologies are closely linked to both our security business and our digital development business. We help our customers to utilise cloud services and platforms efficiently and safely and to create new business with the help of cloud capabilities.

WE COMBINE OUR EXPERTISE INTO INTEGRATED SOLUTIONS.

By combining the expertise of our business areas, we are able to provide customers with more comprehensive service packages and innovative solutions that differentiate us from other operators on the market. For example, we have implemented customer projects in which data from security systems is utilised in the customer's business. We also have a growing number of customers to whom we deliver both digital development and security services.

PEOPLE FIRST SINCE 1882.

People are always at the heart of our work community of almost 900 experts. This includes our customers, who are the purpose of what we do, and our employees, who are the creators of our success. We want to operate near our customers, and our network of 22 locations in Finland ensures a strong nationwide service capability. In addition, we have two offices in Sweden. Our largest offices are in the Greater Helsinki Area and Oulu.



Key figures for 2022

Revenue
 EUR **123.0** million
 (104.4)

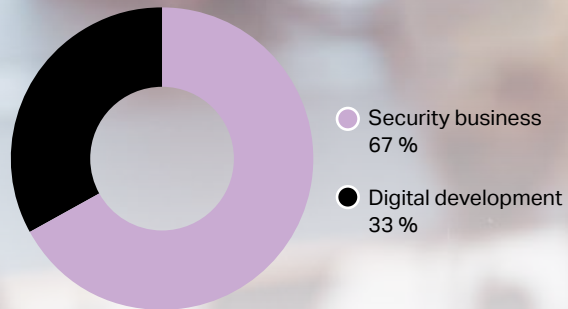
Revenue increased by
18 %

Adjusted EBITDA
 EUR **10.3** million
 (7.2)

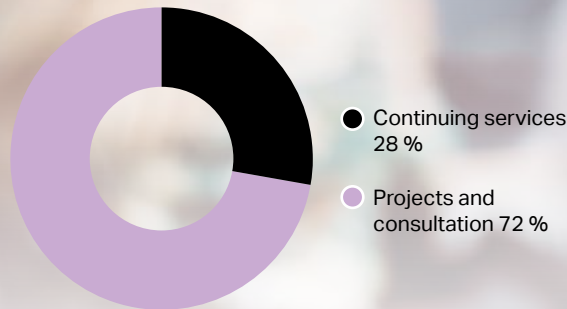
Balance sheet
 EUR **150.9** million
 (146.3)

Personnel
885 (737)

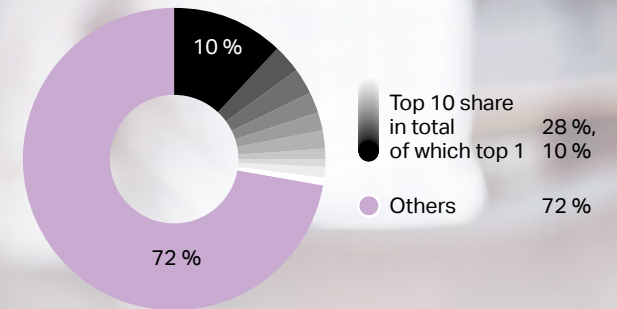
Revenue distribution by business*



Recurring invoicing 12/2022 (FAS)



Revenue distribution by customer



* The revenue distribution does not take into account the real estate business, nor does it take into account eliminations between businesses.

CEO's review

In brief, the year 2022 could be described in the words of one of our common ways of working: "growth in many directions". In addition to the financial results, we have also strengthened our offering, expertise and service capability, and we took important steps developing our internal operations and cooperation as well.

Revenue from Loihde's continuing operations increased by 18% year-on-year and adjusted EBITDA improved by 42%. In both our business areas, we grew at a faster pace than the market, and our profitability is improving with good momentum.

The reason for our growth is, in addition to our organic growth, two significant acquisitions. Turvakolmio that joined Loihde in early summer has strengthened our position in the security technology market, especially in the Helsinki Metropolitan Area and in fire safety services. In our estimation, Loihde Trust is now Finland's largest provider of electronic security technology services. During the latter part of the year, Turvakolmio has been successfully integrated with Loihde Trust, which we expect will give us scale advantages in the future and hence also provide potential for improving our profitability.

Our cloud expertise was strategically strengthened by our acquisition of Onrego Ltd. Cloud technologies are closely linked to both our security business and our digital development business, since digital development and data projects use cloud platforms and cloud security is one of the fastest

growing areas of cyber security. As a new service area, Onrego extends our offering with cloud management delivered as a continuous service. In our financial reporting, Onrego is included in the digital development business area, and in future the company will go by the name of Loihde Cloudon.

The security business grew nicely during the year. In addition to the Turvakolmio acquisition, there was good organic growth in both security technology and cyber security. We are also satisfied with the significant growth of our unique comprehensive One Security service. More and more companies have realised the advantages that centralising security technology and cyber security has for the management of comprehensive security.

We provide services for many critical operators in society, such as the social welfare and health care sector, the Finnish Defence Forces, other public administration and energy companies. In the past year, we made extensive deliveries of personal safety and security and locking systems to large hospital projects, among other things. Of our digital security services, our continuous CSOC 24/7 cyber surveillance service and our IAM consulting grew the most. Also, the demand for security services for customers' critical OT/SCADA networks has increased, and in relation to this, new customer agreements have been made.



Throughout the year, the global shortage of components hampered many of the customer projects in security technology and cyber security. Thanks to successful project management and precautionary measures related to purchases, our project deliveries did, however, succeed fairly well, and the effects of the component shortage were smaller than feared.

In the digital development business, growth slowed noticeably in the autumn compared to the strong growth in the early part of the year. The most significant reason was that two large customers decreased their purchases, which lowered the utilisation rate and hence also affected the profitability of the entire Group. There is also generally a slight decrease in the demand for digital services due to the uncertain economic situation. However, in the medium term, we do not yet see a change in the market situation, since digitalisation is progressing rapidly and companies want to actively develop their functions to better serve their own customers. The extensive offering of our digital development companies, from digital and data strategy planning to data utilisation, software development, design expertise and cloud consulting, corresponds well to the needs of the customers, and we believe that the IT service area will continue to be a good growth market for Loihde.

Loihde has a unique combination of security, digital development and cloud technology expertise, which enables an integrated service offering that stands out in the market. The cross-selling between Loihde's companies has multiplied during the year, and customer projects increasingly include experts from two or three Loihde companies. We

are also increasingly delivering customer projects as a cooperation between our units in Finland and Sweden.

Artificial intelligence is connected to many of our service areas and we are investing heavily in AI solutions and AI governance development as part of our Loihde AI cluster. Secure and sustainable AI is an important focus area when we develop our AI solutions.

We have simplified Loihde's group structure by combining some of our subsidiaries into larger units. At the turn of the year, all our other security companies merged with Loihde Trust Ltd. In our digital development business, Loihde Advisory and Loihde Analytics are about to merge and become Loihde Advance. Loihde Factor and Loihde Cloudon will remain separate companies. Characteristic of Loihde is still our network operating model, where the companies' own strengths and cultures are visible, but we can offer extensive service packages by working together.

I want to thank our customers and owners for their trust in Loihde. We have been able to do some great projects and important work to ensure the continuity of our customers' operations. All this has been enabled and realised by our skilled and committed top professionals, to whom I yet again want to extend a huge thank you.

Samu Kontinen



Revenue from Loihde's continuing operations increased by 18% year-on-year and adjusted EBITDA improved by 42%.

Our strategy supporting growth



ORGANIC GROWTH AND IMPROVING PROFITABILITY

We aim to increase revenue and improve profitability in both of its business areas. The achievement of these goals is supported by the strong digitalisation trend in society, the robust growth of the cyber security market and the company's strong market position in physical security.



WE FOCUS ON GROWTH SEGMENTS IN DIGITAL DEVELOPMENT AND THE SECURITY MARKET

In digital development, our strategic focus is on growing service areas such as data utilisation and analytics, service design, software development and artificial intelligence and cloud technology development projects.

In the security business, our focus is on cyber security and secure networks, strengthening digital features and analytics in physical security solutions, and our unique One Security total security concept.



SYNERGIES THROUGH COOPERATION WITHIN THE GROUP

We develop and harmonise the Group's operations, increase cross-selling and develop synergistic comprehensive solutions.



ACCELERATING GROWTH THROUGH SELECTED ACQUISITIONS

We aim to continue to make focused acquisitions to support the selected direction of growth. The company's strong balance sheet enables acquisitions that support its strategy.



PEOPLE MAKE LOIHDE AND ITS SERVICES

Highly competent and committed personnel enable a high level of customer satisfaction. We want to be a highly sought-after workplace, where people feel good, develop as professionals and experience that they are doing meaningful work each and every day.

FINANCIAL TARGETS FOR THE STRATEGY PERIOD 2021-2024

Average annual revenue growth

more than
10 %

taking into account acquisitions

Adjusted EBITDA margin
at the end of the strategy period

more than
10 %

Operating environment

Loihde operates on the IT and security markets, which are central to the development of society. Loihde's main market area is Finland, and it also has digital development business activities in Sweden.

The company aims to focus specifically on the growth segments of the markets, i.e. the market segment for new digital services, cloud technologies, cyber security and electronic security technology.

THE DIGITAL WORLD INTERTWINES WITH THE PHYSICAL WORLD

Strong digitalisation and phygitality, i.e. the intersection of the physical and digital worlds, are increasingly linking together Loihde's operating markets, i.e. the IT service market and the security market. This change creates significant opportunities for the development of our customers' business operations, of which one solution provided by Loihde is the analysis and utilisation of data from video surveillance.

Digital growth also introduces new threats, and for this reason, the secure development of systems and applications and comprehensive cyber security solutions are increasingly critical aspects of total security for companies. There is also an increased need for cyber security services since cybercrime is becoming increasingly professional and corporate IT environments are becoming increasingly complex, and this has increased the significance of, e.g. identity and access management. Cyber security is also increasingly linked with the protection of the physical environment, including video surveillance, access control and locking solutions.

The blurring of the boundary between the physical world and the digital world creates demand for companies like Loihde – companies that have the ability to help their customers not only to develop new digital services and leverage data but also anticipate and solve the security threats related to them. In physical security services, there has been an increase in demand especially for electronic security systems.

THE NEED FOR DIVERSE COMPETENCE IS EMPHASIZED

The demand for digital development has continued to be high, as services move online in an increasing degree and brand-new business and revenue models based on the digital world are created. When services are designed, user experience and data-drivenness are emphasised and in development projects, not only technological expertise but also the significance of customer and business insights and service design are highlighted.

One of the pioneers in service digitalisation is the banking and finance sector, which is also among Loihde's main customer sectors. Strong development is also currently under way in sectors including social welfare and health care services, retail and industry.

When it comes to the use of artificial intelligence, there is an ongoing transition from testing to production and scaling of solutions. At the same time, ChatGPT and other generative AI models have made AI solutions available to all. Both require that we put even more focus on the governance, security and sustainability of AI.

One of the major turning points in IT over the last few years has been the transition of companies' systems and data from their own servers to the cloud. For the vast majority of

organisations, cloud transformation is underway at the moment and cloud technology is being adopted at an accelerating pace. Cloud services also change the management of information security, and cloud security is one of the fastest growing areas of cyber security.

The increasing demand for IT and information security services has created a fierce competition for skilled employees, though the competition has eased slightly in the last year. The sufficiency of competent labour is also a challenge for the growth of the physical security business.

THE ECONOMIC SITUATION HAS LED TO INCREASED INSECURITY

The uncertainty caused by the COVID-19 pandemic and Russia's invasion of Ukraine has slowed down the growth rate of both the global and the Finnish economy. On the other hand, the geopolitical situation has increased the awareness of cyber threats and the preparedness level for these threats. The global component shortage makes it more difficult to deliver some types of equipment and related services. Russia's invasion of Ukraine does not directly affect Loihde's business but has increased the risk level through the above-mentioned indirect effects. The COVID-19 pandemic is anticipated to still cause sick leaves.

Runaway inflation and investments being postponed due to the uncertainty associated with the economic development affect also Loihde's businesses. Towards the end of 2022, there was a slight decrease in the demand for digital development due to the economic situation. We expect the demand to remain at a lower level than last year also in the beginning of 2023, but we do not expect a longer-term decrease in demand. On the security business, the effect of the economic fluctuations is smaller.

Sustainability

Enabling continuity and building a better, safer and more secure everyday life are the cornerstones and purpose of Loihde's operations. We always put people first. We contribute to creating a society in which digital solutions and data make people's everyday life easier, promote well-being and conserve natural resources. Our solutions protect people, information and assets. We strive to build a comfortable working life for everyone.

SAFETY AND PEACE OF MIND

Building a safe information society is at the core of Loihde's operations. Every day, we protect people, information and other assets in hundreds of customer companies and public administration bodies from physical and digital threats. Our indirect impact is even more extensive: we contribute to ensuring that society's key infrastructure, e.g. power plants and healthcare services, is prepared for cyber threats and other security threats.

The importance of cyber security as part of responsible conduct has grown in recent years as the global political situation has become more uncertain, cybercrime has

increased and the potential impact of cyberattacks has become more widely recognised. In international research on responsible investment, cyber security came second in the list of the most significant ESG risks immediately after corruption, before climate change (RBC Global Asset Management 2021).

In addition to being prepared and security, it is important to be able to react quickly and in a controlled manner in the event of a potential security attack, to ensure that corrective measures do not cause unintended additional harm. From the point of view of business continuity, it is also central to recover from the exceptional situation as quickly

OUT OF THE UN SUSTAINABLE DEVELOPMENT GOALS, WE PROMOTE IN PARTICULAR:



We promote sustainable economic growth and productivity through technology and innovation. We are a good employer and ensure our procurement chain is sustainable.



We develop solutions to promote sustainable, reliable and resource-saving infrastructure and industrial processes and ensure their uninterrupted operation.



We treat everyone equally and guarantee equal opportunities for development regardless of background. We improve the accessibility of digitalisation and its utilisation in promoting equality.



We create solutions for saving energy and materials and promoting the circular economy by utilising data and digital solutions. We support reliable reporting on sustainable development.



We reduce our own carbon footprint and produce digital solutions for our customers to reduce energy consumption and promote the circular economy.



We strengthen the physical and digital security of society. We ensure good governance, promote economic growth and combat corruption in all its forms.

as possible. This is the expertise of Loihde’s Cyber Security Operations Centre (CSOC), which monitors customers’ IT environments 24/7. Numerous examples have shown how the early detection of anomalies and the correct response have ensured the undisturbed continuity of the customer’s operations. Security, resilience and data protection also play a key role in the development of digital services.

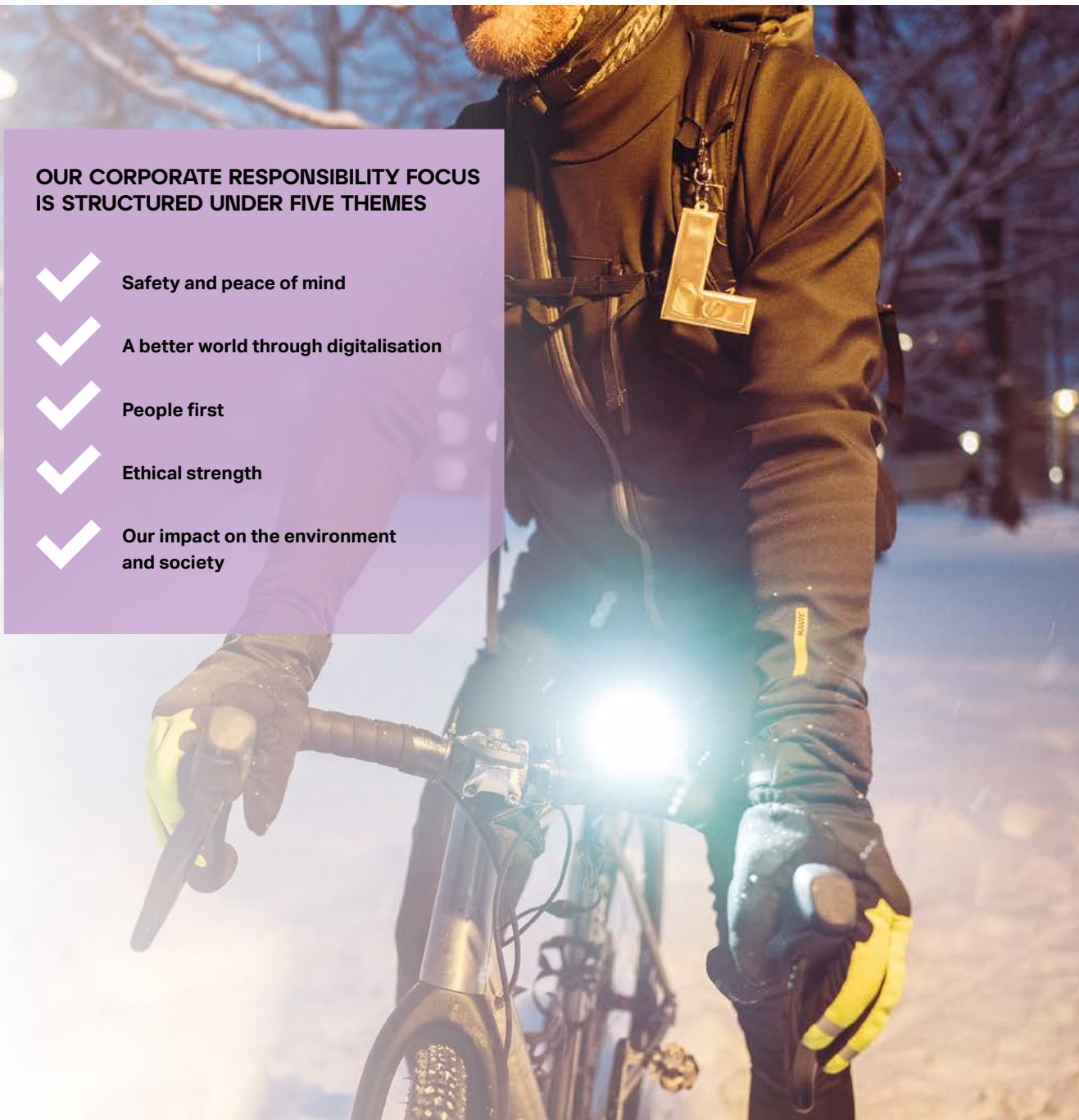
Ensuring security is not just technology. More than half of the data leaks and one fifth of the information security breaches encountered by companies occur as a result of the personnel’s own actions. That is why raising awareness of information security is paramount, but the user experience of digital services must also be designed to make it easier to act correctly instead of wrongly.

Loihde continuously trains its own personnel in matters related to information security and data protection according to the requirements for each role.

Information security certifications demonstrate our commitment to the development of information security. Loihde Trust Ltd’s information security management system is certified in accordance with the ISO/IEC 27001 information security standard, and the principles of the standard are also applied in other Group companies, where applicable.

OUR CORPORATE RESPONSIBILITY FOCUS IS STRUCTURED UNDER FIVE THEMES

- ✓ **Safety and peace of mind**
- ✓ **A better world through digitalisation**
- ✓ **People first**
- ✓ **Ethical strength**
- ✓ **Our impact on the environment and society**





A BETTER WORLD THROUGH DIGITALISATION

Digital services and the efficient use of data can save natural resources, reduce the environmental load and promote people’s well-being. Through the solutions we build for our customers, we have a positive impact on the environment and society, and we are building a more sustainable future. Examples of this include energy consumption optimisation solutions that reduce emissions and save energy, or information management models that enhance internal and mutual information management in the new wellbeing services counties.

The amount of data available to businesses is growing at an accelerating pace. The increasing and easier collection of data also exposes it to accidental or even intentional misuse, which may be due to the poor quality of the data, distortions in its processing or inadequate protection of sensitive data. We consult and support our customers in the responsible use and quality management of data and its proper protection.

There is a particular interest and future value in but also concerns about artificial intelligence, its utilisation and manageability. We have been among the first companies in Europe to develop an artificial intelligence governance and audit model as part of the AIGA project coordinated by the University of Turku. In the project, a group of companies and organisations that develop and use AI solutions together created principles and practices for the responsible use of artificial intelligence. We have also formulated AI governance principles for Loihde, which we comply with in both customer and internal projects. We offer internal training to all personnel to ensure that all employees understand the opportunities and risks of AI usage.

We use the newest technologies in a sustainable way, both in our own operations and in services implemented for customers. We always ensure that the technologies used are secure and reliable and that our customers benefit from using them. We strive to avoid unnecessary use of computing capacity in the solutions we deliver. An example of this is when we create and test artificial intelligence models and optimise them from this perspective as well.

We help our customers not only to act responsibly, but also to prove it. The regulation of sustainability reporting is increasing and stakeholder expectations are growing. Data on responsible and sustainable activities must be reported with the same accuracy and reliability as financial data. As an information management expert, we support our customers in collecting ESG data from various sources, managing it, ensuring its quality, and organising it in a reportable format.

PEOPLE FIRST

Our guiding principle is "People first". People are at the heart of everything we do: This includes our customers, who are the purpose of what we do, and our employees, who are the creators of our success.

We build our services for people and bring the technical expertise of our experts to them. Although we are sometimes charmed by new technology, we will always remember that it is only a tool that must not complicate the lives of its users.

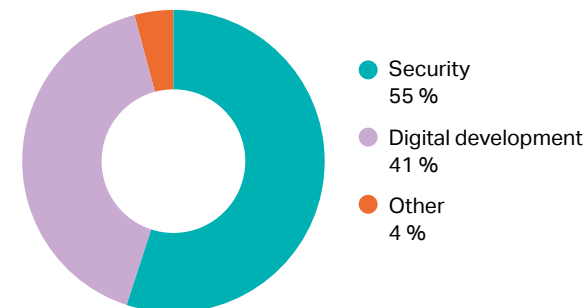
We want to create a working environment where everyone can feel comfortable. Our work community is based on trust and respect for others. All our activities are guided by our ways of working:

- Trust enables freedom
- Fair equality
- Together we are more
- Courage to do things
- Growth in many directions

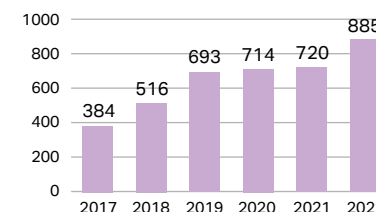
It is important for our employees to be able to do meaningful work every day. According to our employees, the most important factors for job satisfaction are rewarding work tasks, a strong team spirit, fair pay and a healthy work-life balance. In an expert organisation like Loihde, other prominent aspects include the opportunities for personal and competence development and the chance to influence one's own work. According to our personnel, we have been successful in this area. Loihde's Employee Net Promoter Score (eNPS) is at a good level. In 2022, the average eNPS of all Group companies was 25 (on a scale of -100 to +100). We continuously develop factors enabling successful work performances as well as the personnel's opportunities to influence the content of their work. In 2021, we launched a new Loihde Leader coaching programme for managers and supervisors, which has continued in 2022.

We follow the development of job satisfaction with weekly pulse surveys. Their importance has increased further as the number of informal interactions has decreased due to remote work. Pulse surveys provide not only an overview of personnel satisfaction, but also early indications of challenges in coping at work. In 2022, we introduced a series of sessions for the entire personnel on the well-being of the body and the mind. In the first session in March 2022, an expert from MIELI Mental Health Finland answered questions related to concerns caused by the war in Ukraine, and later on we have learned about the impact that sleep has on our well-being, among other things.

Personnel distribution by business 31 Dec. 2023



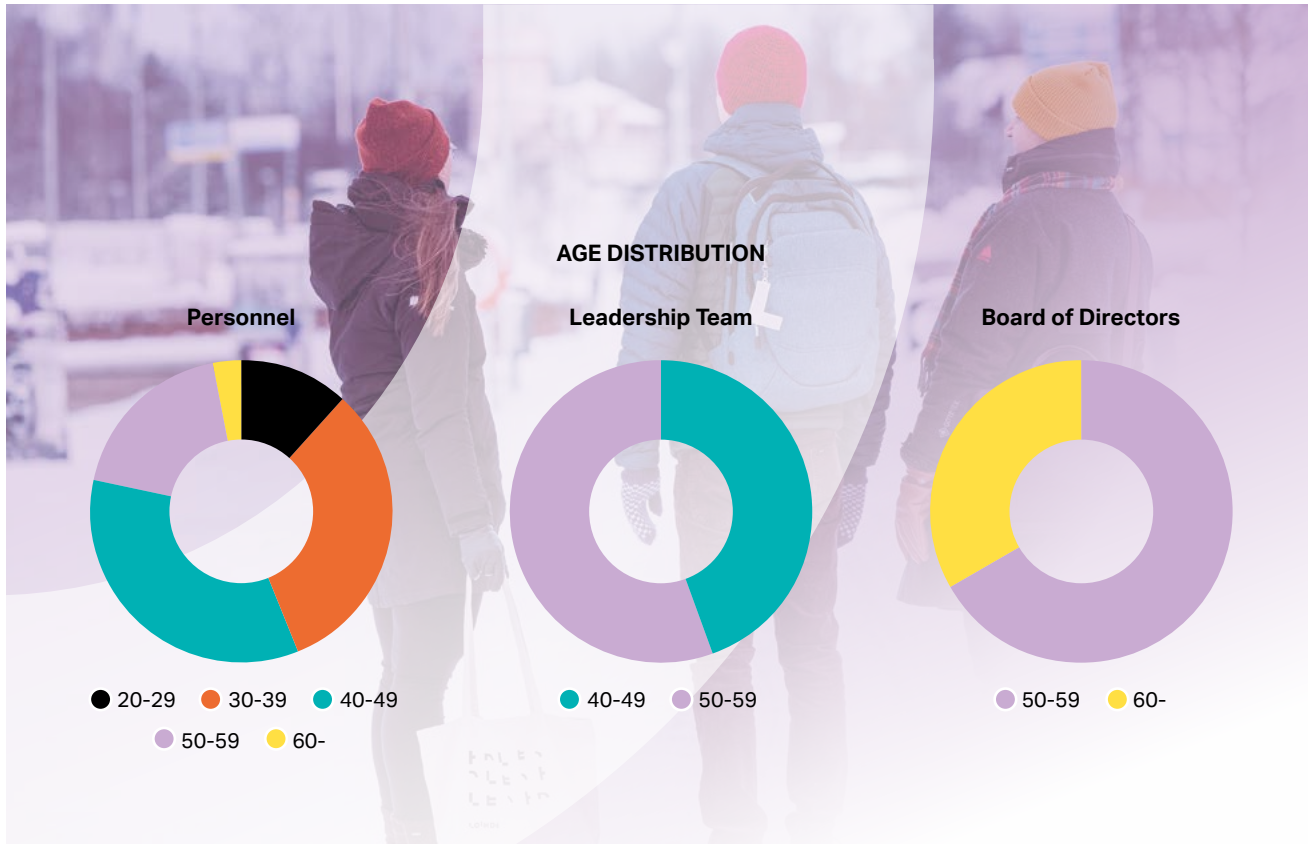
Development of the number of employees in 2017–2022



Share of women and men 31 Dec. 2022, %

	Personnel	Super-visors	Leadership Team	Board of Directors
Women	19	19	33	20
Men	81	81	67	80

Competence is our most important resource, and its continuous development is essential both for maintaining our competitiveness and for the motivation and satisfaction of our personnel. Our work community consists of a group of experts who have a strong desire to continuously develop their own expertise. Our competence develops through, e.g. on-the-job training, our own training courses and external training programmes, such as those leading to partner certifications. Loihde also encourages independent learning and pays some of the related costs.



The aim is to give every employee the opportunity to make their own working time arrangements in order to coordinate their work and family life. Remote work was possible in many jobs even before the COVID-19 pandemic, and for the last three years many employees have been working from home. As the pandemic subsided, hybrid work, or working part of the week from home and part of the week in the office, has become more common.

Loihde has addressed the challenges of coping at work by implementing an early caring model and by providing low-threshold conversational therapy in cooperation with occupational health.

From the point of view of occupational safety, our business areas differ from each other. Due to the nature of the work, the security business is more vulnerable to accidents. There were 13 accidents at work in the security business in 2022 and two accidents in the digital development business. Our goal is to have zero accidents. Sufficient safety training is an essential element in our onboarding process. Loihde Trust Ltd has an ISO 45001:2018 certified occupational health and safety system.

Loihde has zero tolerance for bullying, harassment and inappropriate behaviour. We have prepared guidelines for personnel on what to do if they experience or see bullying or harassment.

Since 2018, employees have been able to participate in a share-based incentive scheme and it has gained great popularity in all vesting periods. In 2022, a total of 144 people participated in the scheme and they subscribed for a total of 50,208 shares.

Loihde Academy is our versatile training package, which includes both trainee programmes and shorter advanced trainings for customers and personnel. In 2022, our three trainee programmes provided training and work in data analytics for 18 persons.

Loihde wants to be an equal workplace for everyone. In order to prevent discrimination and ensure equal treatment, the company has an equality and non-discrimination plan. Our goal is to ensure that Loihde implements genuinely non-discriminatory procedures in recruitment, career advancement, distribution of duties, deciding on pay and benefits, training opportunities and work community development. This objective is primarily supported by the training of supervisors. In addition, in internal communication, we highlight topics related to equality, diversity and unconscious discrimination.

The share of women in the labour force is generally low in the IT and security sector, and Loihde is no exception to this. On 31 December 2022, women made up 19 per cent of Loihde’s personnel, 19 per cent of supervisors, 13 per cent of the Leadership Team and 20 per cent of the Board of Directors. Our aim is to increase the share of women in our personnel and to encourage women and girls to seek employment in our sector in general. For example, it is important to involve different genders and people from different backgrounds in the design of digital services and the creation of artificial intelligence solutions.

We strive to ensure equal pay by regularly comparing the pay levels of women and men in the same or similar positions. No significant differences have been observed.

ETHICAL STRENGTH

Our Code of Conduct describes the operating methods and values accepted at Loihde, as well as the company's commitment to compliance with laws, official regulations and ethically sound principles. The Code of Conduct aims to ensure that all those employed by Loihde act responsibly and sustainably and with respect for others. It helps us choose the right way to act in situations that require our personal discretion and improves the transparency of our operations in relation to our stakeholders. We also require our partners to comply with equivalent ethically sound principles, and this is taken into account when partners are selected.

Our Code of Conduct also includes an anti-corruption and anti-bribery policy, which defines the rules and restrictions concerning gifts and hospitality.

In 2021, we introduced an anonymous whistleblowing channel for reporting abuse or unethical behaviour. The channel is open to both personnel and external stakeholders. No reports have been made through the channel in 2022.

We operate in sectors where trust is key. For many of our customers, data is one of the most important assets. The customers trust us with their data for processing or protection purposes. Whether the data belongs to our customers, employees or other stakeholders, we want to demonstrate our worthiness of their trust by processing data appropriately and in compliance with relevant laws and regulations, such as the EU General Data Protection Regulation.

In Loihde's administration, we voluntarily follow the Finnish Securities Market Association's Corporate Governance Code, even though it is not required of First North companies.

One of the key principles in the selection of Loihde's Board of Directors is diversity, the essential elements of which are the members' complementary education, competence and experience, as well as a broad age structure and balanced gender representation. On 31 December 2022, four (80%) of the Board members were men and one (20%) a woman. Two of the members were over the age of 60 and four were between the ages of 50 and 59.

OUR IMPACT ON THE ENVIRONMENT AND SOCIETY

Our business creates jobs and cash flows across Finland. We operate in 22 locations and serve customers nationwide. Wages, salaries and remuneration paid by Loihde in the financial year 2022 amounted to EUR 53.3 million. In addition, we create financial well-being indirectly through the subcontractors we use.

We value the Finnish welfare model and are prepared to do our share to foster it, also by paying taxes. In 2022, Loihde paid EUR 1.3 million in taxes based on the taxable profit for the period.

Loihde's quality and environmental work is certified. Loihde Trust Ltd and Loihde Analytics Ltd have an ISO 9001:2015 certified quality management system. Loihde Trust Ltd also has an ISO 14001:2015 certified environmental quality system.

Through continuous improvement, we aim to prevent the waste of resources and to reduce our energy consumption and the resulting emissions. In 2022, we traced the scope 1 and 2 emissions of Loihde's carbon footprint for the first time, and in 2023, we intend to widen the scope of the calculations and set targets for our carbon dioxide emissions.

In all devices, equipment and fleet, we emphasise safety, sustainability and efficiency in line with the lifecycle approach. We also promote the circular economy by directing waste energy from data centre cooling systems to the district heating network, whenever possible.

In 2021, we introduced a bicycle benefit as a new employee benefit in order to reduce commuting by car and to promote exercise. In the first two years, 12% of Loihde employees took advantage of the benefit and acquired a bicycle.

With regard to the climate and the environment, we believe that Loihde also has the opportunity to have a positive impact through its customers. By implementing digital solutions that save resources, we can encourage our customers and their stakeholders to actively work for the environment.

Financial impact in 2022, EUR million

Revenue 123.0	→	Wages, salaries and add-on costs	64.4
	→	Payments to suppliers and partners	50.0
	→	Dividends and interest	3.2
	→	Corporation taxes	1.3
	→	Gross investments	14.7

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**CORPORATE GOVERNANCE AND
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Report of the Board of Directors 2022

Loihde Plc is an expert organisation specialising in digital development and security solutions that enables business continuity for its customers. Loihde offers its customers physical and cyber security services, solutions related to digitalisation of services and business, change management and utilisation of data and cloud technology.

Loihde operates according to a network model, which enables a very extensive offering and unique comprehensive solutions, and at the same time, each company can position itself as a special expert in its own area of expertise, both when it comes to our customers and in the recruitment market.

MATERIAL EVENTS DURING THE FINANCIAL YEAR

During the financial year, Loihde has according to its strategy developed its digital development and security solutions businesses, both as separate business areas and by creating synergies between them, for example, through cross-selling, joint customer solutions and harmonisation of operations. The amount of cross-selling and joint customer projects has increased further since the last year.

Loihde strengthened its physical security business by acquiring the entire share capital of Turvakolmio Group Oy, and Turvakolmio joined the Group on 1 June 2022. As a result of the acquisition, Loihde Trust became Finland's largest provider of electronic security technology services and strengthened its position especially in the Helsinki Metropolitan Area and in fire safety services.

Loihde also increased its cloud expertise by acquiring the entire share capital of cloud service company Onrego Ltd. The transaction entered into effect on 1 December 2022. Cloud expertise is important to both of Loihde's business areas. Digital devel-

opment projects are nowadays mainly built on cloud platforms, and as companies transition to the cloud, cloud security has become one of the fastest growing areas of cyber security. As a new service area, Onrego extended Loihde's offering with cloud management delivered as a continuous service.

In accordance with its strategy, Loihde strives to create synergies through cooperation within the Group. All companies in the security business merged with Loihde Trust Ltd on 31 December 2022, and in the digital development business, the joint operations of Loihde Advisory and Loihde Analytics started in November 2022. In addition, Loihde has centralised its support functions during the financial year.

In December, the company announced that its transitioning to IFRS-compliant reporting starting from the financial statements for 2022.

FINANCIAL PERFORMANCE

Group revenue was EUR 123.0 (104.4) million. Revenue saw a year-on-year increase of 18%. Revenue from the security business increased by 19% and amounted to EUR 82.5 (69.3) million. Revenue from continuing operations in the digital development business grew 15% and amounted to EUR 40.8 (35.5) million. The acquisitions are included as follows: Turvakolmio Group is included in the figures of the security business as of June and Onrego Ltd is included in the figures of the digital development business as of December.

EBITDA was EUR 13.3 (5.6) million, or 10.8% (5.4%) of revenue. The EBITDA of the financial year was increased by capital gains of approximately EUR 3.9 million from the divestment of fibre networks. Adjusted EBITDA was EUR 10.3 (7.2) million, or 8.4% (6.9%) of revenue.

The Group's operating profit (EBIT) was EUR 6.4 (-0.9) million, or 5.2% (-0.8%) of revenue, and the Group's adjusted operating profit (EBIT) was EUR 3.5 (0.8) million, or 2.8% (0.7%) of revenue.

Personnel expenses totalled EUR 64.4 (58.0) million, or 52.4% (55.5%) of revenue. Other operating expenses amounted to EUR 14.2 (13.5) million, or 11.6% (12.9%) of revenue. The Group's planned depreciation totalled EUR 6.9 (6.5) million. In the financial year, taxation increased due to taxes paid on capital gains from the divestment of our fibre networks.

The profit for the financial year was EUR 3.4 (6.9) million. Undiluted EPS was EUR 0.58 (1.19) and diluted EPS was EUR 0.58 (1.18). The profit for the financial year was affected by a change in market value of the company's investment securities, which was EUR -2.4 (0.8) million. The profit for the comparative year 2021 was increased by capital gains of approximately EUR 6.5 million from the divestment of Hibox Systems Oy Ab that have been recorded as discontinued operations.

The Group's key figures (IFRS)

EUR 1,000	1-12/2022	1-12/2021	Change %
Revenue, continuing operations, EUR 1,000	122,987	104,418	18 %
Security	82,450	69,287	19 %
Digital development	40,849	35,524	15 %
Others (incl. eliminations)	-312	-393	-20 %
EBITDA	13,319	5,591	138 %
Adjusted EBITDA EUR 1,000 ¹	10,290	7,236	42 %
Adjusted EBITDA, %	8.4 %	6.9 %	
Operating profit (EBIT) EUR 1,000	6,371	-881	
Adjusted operating profit (EBIT), EUR 1,000 ¹	3,482	764	356 %
Profit for the period EUR 1,000	3,359	6,924	-51 %
Adjusted profit for the period, EUR 1,000 ¹	526	1,763	-70 %
Equity-to-assets ratio, %	73.8 %	74.9 %	
Earnings per share (EPS), EUR, undiluted ²	0.58	1.19	-51 %
Earnings per share (EPS), EUR, diluted ²	0.58	1.18	-51 %
Average number of employees	812	715	14 %

The table shows the figures for continuing operations, with the exception of the profit for the period that also includes discontinued operations, i.e. the share of the profit belonging to Hibox Systems Oy Ab that was sold in February 2021. The discontinued operations' share of the profit is presented in the consolidated income statement.

¹ The adjusted EBITDA, the adjusted operating profit (EBIT) and the adjusted profit for the period are calculated by excluding capital gains/ losses arising from the disposal of properties, fixed asset shares and businesses, insurance and other compensations and other adjustments from the respective reported figure.

FINANCIAL POSITION, FINANCING AND INVESTMENTS

The Group's balance sheet total at the end of the financial year was EUR 150.9 (146.3) million. Goodwill on the balance sheet amounted to EUR 62.8 (53.5) million. The balance sheet total increased primarily due to the acquisitions of Turvakolmio and Onrego.

The equity-to-assets ratio at the end of the financial year was 73.8% (74.9%) and the Group's return on equity was 3.0% (6.3%). During the financial year, return on equity was improved by capital gains from the divestment of fibre networks. The stronger return on equity in the comparative period is explained by capital gains from the divestment of Hibox Systems Oy Ab and a tax refund that the company received.

Cash flow from operating activities was EUR 5.1 (6.6) million. Cash flow from operating activities has been weakened by an increase in inventories due to precautionary measures relating to the component shortage and projects being delayed as well as by an increase in sales receivables.

The Group's investments totalled EUR 14.7 (14.8) million. Both in the period under review and the comparative period, the most significant investments were associated with acquisitions.

Loihde Plc paid a dividend and additional dividend of EUR 0.55 per share for 2021 in accordance with the resolution of the Annual General Meeting. The dividend record date was 9 May 2022 and the payment date 17 May 2022. The dividend totalled approximately EUR 3,1 million.

² The parent company's treasury shares (0 shares on average in October–December 2022 and 32,948 shares on average in January–December 2022) are excluded from the total number of shares.

RESEARCH AND DEVELOPMENT

The Group's direct costs related to R&D and product development totalled EUR 1.87 (1.59) million. This corresponds to 1.5% (1.5%) of revenue.

PERSONNEL

The Group's number of employees, converted into full-time equivalents (FTE), averaged 812 (in 2021: 715 for continuing operations and 720 taking into account discontinued operations) during the financial year and stood at 885 (737) at the end of the financial year. Potential part-time employment has also been taken into account when calculating the average number of employees.

Key figures: Personnel (continuing operations)	2022	2021
Average number of employees, FTE	812	715
Average number of employees, NOE	846	743
Wages, salaries and remuneration, EUR 1,000	53,263	48,228

As skilled and committed personnel is one of the key factors enabling Loihde's success, the company focuses on fostering positive corporate culture and personnel satisfaction, sustainable modes of operation and on developing competence continuously. Job satisfaction is assessed by continuously collecting feedback with pulse surveys and discussions. To encourage personnel to commit to the company's goals, Loihde offers a share-based incentive scheme for its personnel, which is presented in more detail in the section Share-based incentive schemes.

SHARES

The number of Loihde Plc's shares was 5,729,709 at the end of the financial year and 5,753,658 on average from January to December (6,010,041 at the end of the financial year 2021 and 5,905,644 on average from January to December 2021). Each share entitles its holder to one vote at the Annual General Meeting.

Key figures: shares	31 Dec. 2022	31 Dec. 2021
Number of shares	5,729,709	6,010,041
The Group's treasury shares	400	80,530
The Group's outstanding shares	5,729,309	5,929,511
Market value, EUR million	75,345,673	97,362,664
Number of shareholders	25,499	26,183
Number of nominee-registered shares	8,247	2,738

Loihde Plc's largest shareholders on 31 December 2022

Owner	Shares	% of the share capital
1 Finnish Industry Investment Ltd	275,000	4.80 %
2 Bellurum Oy	210,576	3.68 %
3 LocalTapiola Mutual Life Insurance Company	150,000	2.62 %
4 LocalTapiola General Mutual Insurance Company	150,000	2.62 %
5 Lakiasiaintoimisto Asiakasturva Oy	126,655	2.21 %
6 Sijoitusrahasto VISIO Allocator	90,000	1.57 %
7 City of Vaasa	70,400	1.23 %
8 Pelkonen Antti	68,480	1.20 %
9 Heikkilä Kimmo Juhani	58,255	1.02 %
10 Hotcom Ltd	57,850	1.01 %
10 largest owners, in total	1,257,216	21.94 %

The list of the 50 largest shareholders can be found on the company's website at loihde.com/en.

Overview of trading on Nasdaq First North Growth Market Helsinki 1 January–31 December 2022

	Shares exchanged	Total value, EUR	Highest, EUR	Lowest, EUR	Weighted average price, EUR	Last, EUR
LOIHDE	429,351	5,899,746	18.35	11.00	13.74	13.15

On 4 January 2022, Loihde Plc's Board of Directors decided to start a share buyback programme in accordance with the authorisation granted to them by the Annual General Meeting on 6 May 2021. The repurchase of shares started on 10 January 2022 and ended on 4 May 2022. During that period, Loihde acquired 25,325 own shares at a total value of EUR 0.4 million and an average price of EUR 16.57. The shares were acquired by public trading on the Nasdaq First North Growth Market Finland marketplace at the market price quoted at the time of acquisition.

On 3 May 2022, the company's Board of Directors decided to cancel the 25,088 shares that by that time had been acquired in the buyback programme. At the same time, 382,130 other treasury shares were also cancelled. Of these, 302,000 had been transferred to the company from its joint book-entry account as the rights carried by such so-called paper shares were forfeited. On 30 August 2022, the company's Board of Directors decided to cancel an additional 537 treasury shares, of which 300 had been transferred to the company from its joint book-entry account and 237 had been acquired in the share buyback programme after 3 May 2022.

SHARE ISSUES

During the financial year, the company has issued a total of 127,423 new shares. In connection with the acquisition of Onrego Ltd, Loihde Plc issued a total of 50,000 new shares in a targeted share issue for the former owner of the acquired company. The subscription price was EUR 11.99 per share.

The company has also carried out share issues in relation to share-based incentive schemes for the personnel and the Board of Directors.

SHARE-BASED INCENTIVE SCHEMES

During the financial year, the company has issued 77,423 new shares in relation to share-based incentive schemes.

Bonus shares under the 2018–2023 share-based incentive scheme for the personnel

In March, Loihde carried out a directed share issue in relation to the payment of additional shares and bonus shares under the personnel incentive scheme that began in 2019. A total of 22,093 new shares were transferred to incentive scheme participants in the share issue. The incentive scheme and its terms and conditions are described in more detail on the company's website.

Share-based incentive scheme for the personnel 2022

On 6 June 2022, the Board of Directors of Loihde decided on a long-term incentive scheme for the company's personnel (Employee matching share plan 2022). The target group for the incentive scheme includes all the personnel of Loihde Group, including the management. The purpose of the incentive scheme is to align the goals of the shareholders and personnel in order to increase the value of the company and implement the business strategy in the long term as well as to engage the personnel's commitment to the company and offer them a competitive scheme based on the earnings and value development of the company's shares.

During the subscription period, 14–22 June 2022, the participants in the scheme had the opportunity to subscribe for company shares at a reduced subscription price of EUR 12.70 per share. The subscription price was based on the volume-weighted average share price in May 2022 (EUR 14.11), with a 10 per cent discount applied.

A total of 144 people participated in the scheme and they subscribed for a total of 50,208 shares. The subscription price was entered in the company's reserve for invested un-

restricted equity in July 2022 and the new shares were entered in the Trade Register on 18 July 2022.

After the vesting period that will end on 31 December 2024, participants who have subscribed for shares will receive one additional share free of charge for each three shares they have subscribed for and still hold at the time of the payment of the bonus. In order to be eligible to receive the additional shares, the participant must own the shares he or she subscribed for in the employee share issue and still be employed by the Loihde Group at the time of the payment of the bonus.

Long-term incentive scheme for the management and key personnel (LTI)

On 3 March 2021, the company's Board of Directors decided on a performance-based long-term incentive scheme aimed at the Group's Leadership Team and selected key employees. The scheme consists of three-year vesting periods starting annually, each of which requires separate approval by the Board of Directors. The Board of Directors decided on the beginning of the second vesting period on 25 November 2021 and on the beginning of the third vesting period on 29 November 2022. The criteria for the payment of the bonus are revenue and EBITDA targets set by the Board of Directors for the vesting period in question. A prerequisite of the bonus under the incentive scheme is that the key employee's employment or service relationship has not been terminated or ended by the employee in question or by the company before the end of the vesting period.

On 29 November 2022, the Board of Directors decided on a directed share issue without payment in order to implement a bonus payment that is part of the CEO's share-based incentive scheme. In the share issue, a total of 1,455 new shares in the company were issued to CEO Samu Konttinen as part of the share-based incentive scheme agreed in his CEO contract.

Share-based incentive scheme for the Board of Directors

On 5 May 2022, the Annual General Meeting decided on a directed share issue related to the long-term share-based incentive scheme for the company's Board of Directors, in which a maximum of 3,667 shares were issued for subscription by the members of the Board of Directors at a subscription price of EUR 13.98 per share. The subscription price was based on the volume-weighted average share price in April 2022, with a 10 per cent discount applied. All five members of the Board of Directors subscribed for shares, with the total number being 3,667 shares. The subscription price was entered in the company's reserve for invested unrestricted equity and the new shares were entered in the Trade Register on 5 July 2022.

Loihde Plc's share-based incentive schemes are described on the company's website at <https://www.loihde.com/en/for-shareholders-2/corporate-governance/remuneration/>.

GROUP STRUCTURE AND BUSINESS AREAS

Loihde Plc is an expert organisation specialising in digital development and security solutions that enables business continuity for its customers. The Group has two business areas: The digital development business offers customers digital strategy consulting, business intelligence and data analytics services, solutions promoting digitalisation from service and user interface design to software development and change management as well as services related to implementing and managing cloud technologies. Loihde's security business covers a wide range of corporate security services, from cyber security and secure network connections to locking and electronic security technology. From the point of view of IFRS 8 Operating Segments, Loihde has two operating segments and one reportable segment, as the segment aggregation criteria are met.

The Group's parent company is Loihde Plc.

At the end of the financial year, the digital development business consisted of:

- Loihde Advisory Ltd and its subsidiary Loihde Advisory AB,
- Loihde Analytics Ltd,
- Loihde Factor Ltd and
- Onrego Ltd.

The security business consists of:

- Loihde Trust Ltd.

The Group also includes Loihde Properties Ltd.

CHANGES IN GROUP STRUCTURE

Loihde acquired the entire share capital of Turvakolmio Group Oy in May, and the company and its subsidiary Turvakolmio Recycling Oy joined the Group on 1 June 2022.

Loihde acquired the entire share capital of Onrego Ltd in November, and the company joined the Group on 1 December 2022.

Loihde Trust Ltd divested its fibre networks in Northern Finland to Koillisnet Oy in January 2022.

Loihde Advisory Ltd's subsidiary Altotech Oy merged with its parent company on 7 January 2022.

Turvakolmio Group Oy, Turvakolmio Recycling Oy, Loihde Trust Spellpoint Ltd and Loihde Trust Tansec Ltd merged with Loihde Trust Ltd on 31 December 2022.

The joint operations of Loihde Analytics Ltd and Loihde Advisory Ltd started in November 2022, and together they use the brand name Loihde Advance. The Board of Directors of Loihde Analytics Ltd (the receiving company) has on 28 November 2022 signed a merger plan with Loihde Advisory Ltd (the merging company). The planned registration of the merger is at the end of May.

GENERAL MEETING

Loihde Plc's Annual General Meeting was held in Vaasa on Thursday, 5 May 2022. The Annual General Meeting confirmed the company's financial statements for the financial year 2021 and discharged the persons responsible for the accounts and operations from liability.

The Annual General Meeting resolved to distribute a dividend of EUR 0.14 per share based on the profit for 2021 and an additional dividend of EUR 0.41 per share, in total EUR 0.55 per share. The dividend record date was 9 May 2022 and the payment date 17 May 2022.

The Annual General Meeting adopted the remuneration policy for governing bodies and the remuneration report for 2021.

The Annual General Meeting confirmed the number of members of the Board of Directors as five and re-elected the following current members of the Board of Directors: Kaj Hagros, Timo Kotilainen, Elina Piispanen, Matti Piri and Stefan Wikman. Timo Kotilainen was re-elected as Chairperson of the Board of Directors.

The Annual General Meeting decided that the Chairperson of the Board of Directors shall be paid an annual fee of EUR 39,600 and a meeting fee of EUR 700 per meeting, that the members of the Board of Directors shall be paid an annual fee of EUR 16,500 and a meeting fee of EUR 600 per meeting and that the meeting fee shall be EUR 700 per meeting for the Chairperson of a committee and EUR 600 per meeting for the members of a committee. The Annual General Meeting adopted the suggested changes to the terms of the long-term share-based incentive scheme for the Board of Directors. The changes were due to the listing of the company and changes in the company's corporate governance model. The Annual General Meeting confirmed that the third

vesting period for the incentive scheme is 6 May 2022–31 December 2024 and confirmed that the persons that were elected to the Board of Directors are entitled to participate in the vesting period. In addition, the Annual General Meeting resolved on a directed share issue against payment related to the incentive scheme, in which a maximum of 3,667 shares in the company can be issued at a subscription price of EUR 13.98.

KPMG Oy Ab was elected as the company's auditor, with Esa Kailiala, auditor approved by the Finnish Central Chamber of Commerce, as the principal auditor.

BOARD'S AUTHORISATIONS

The Annual General Meeting authorised the Board of Directors to decide on issuing a maximum of 683,000 shares. This authorisation applies to issuing new shares as well as the company's own shares held by it. The shares can be used for financing acquisitions or restructuring, a maximum of 483,000 shares, as part of the personnel's incentive schemes, a maximum of 200,000 shares, or for other purposes in the way and to the extent decided by the Board of Directors. The share issue authorisation with regard to shares used for acquisitions and restructuring is valid until the end of the next Annual General Meeting, but until 30 June 2023 at the latest, while the share issue authorisation with regard to shares related to the personnel's incentive schemes is valid for four years from the decision of the Annual General Meeting. The authorisation does not revoke the previous authorisations granted by the Annual General Meeting to the Board of Directors on 25 June 2020 and 6 May 2021 to the extent that the previous authorisations concern shares issued as part of the personnel incentive schemes.

The Annual General Meeting authorised the Board of Directors to decide on a donation of at most EUR 100,000 to training and research activities that support the company's business or non-profit or comparable causes.

BOARD OF DIRECTORS AND MANAGEMENT

Loihde Plc's Board of Directors consisted of Timo Kotilainen (Chairperson), Kaj Hagros, Jussi Hattula (until 5 May 2022), Elina Piispanen, Matti Piri and Stefan Wikman.

During the financial year, the members of the Group's Leadership Team were Group CEO Samu Konttinen, Loihde Trust Ltd's Managing Director Marko Järvinen, Loihde Advisory Ltd's Managing Director Tomi Bergman, Loihde Analytics Ltd's Managing Director Katja Ahola, Loihde Factor Ltd's Managing Director Juha Meronen, Onrego Ltd's Managing Director Jarno Mäki (as of 1 December 2022), CFO Pirjo Suhonen, CMO Jere Teutari, Head of People and Culture Kristiina Aaltonen (as of 1 October 2022) and EVP Strategy and Business Development Mikko Mäkelä (until 9 September 2022).

AUDITOR

The company's auditor is the audit firm KPMG Oy Ab with Esa Kailiala, auditor approved by the Finnish Central Chamber of Commerce, as the principal auditor.

RELATED PARTY TRANSACTIONS

The related parties of the Loihde Group include subsidiaries, affiliated companies and joint ventures as well as the Group's Board of Directors, CEO and Leadership Team and companies in their control. The list of subsidiaries can be found in the section Group structure and business areas.

Loihde Plc has granted loans to Group companies, which totalled EUR 3.4 million at the end of the financial year. The loan period is a maximum of 6 years. The loans are repaid according to plan and the interest is paid once a year of half-yearly. As a rule, the loan interest rate is tied to a fixed interest rate or a basis interest rate. The loans are collateral-free. In addition,

the company has granted a total of EUR 2.3 million as collateral for its subsidiaries' liabilities.

In connection with its share-based incentive scheme, the company has in 2019–2022 granted related party loans under market terms to its personnel. On 31 December 2022, these loans totalled EUR 706,000, of which the share belonging to the members of the Group's Leadership Team was EUR 85,000. The loan period is 1–3 years and the interest rate the 12-month Euribor; however, at a minimum of 0%. The collateral for the loans granted is the shares that the persons in question subscribed for with the loans.

ESTIMATE OF THE MOST SIGNIFICANT RISKS AND UNCERTAINTIES ASSOCIATED WITH OPERATIONS

The market uncertainty and runaway inflation may reduce companies' ability and willingness to make investments, or lead to such investments being postponed. They may also have negative effects on customers' financial standing. Increased costs may affect Loihde's profitability. The global component shortage makes it more difficult to deliver some types of equipment and related services. Russia's invasion of Ukraine does not directly affect Loihde's business but has increased the risk level through the above-mentioned indirect effects. The COVID-19 pandemic is anticipated to still cause sick leaves. At the same time, the COVID-19 pandemic has accelerated the implementation of new digital services and changes in how society works. This and the uncertain global political situation also increase the need for cyber security services.

A significant portion of Loihde's business consists of projects executed for customers. Mismatch problems in project resource allocation, failures in project pricing or execution or project delays may impair the company's profitability. Unfavourable terms and conditions of customer or supplier

agreements or disputes arising with regard to their content may have negative impacts on the company's profit or may generate unexpected additional costs. Other customer-related risks include the loss of one or more key customers, a considerable decrease of purchases or customers' financial problems.

Loihde is a service and expert company with business relying heavily on skilled personnel. The company's profit and the implementation of the company's strategy may be significantly impaired if the company cannot recruit and retain skilled experts and continuously develop their competence according to the customer needs at each particular moment. There is very intense competition for highly competent professionals in Loihde's business segments, which may lead to wage inflation and create upward pressure on personnel expenses.

As a security sector company, Loihde is subject to high expectations regarding the security and continuity of its services. A data breach, a data protection violation or the realisation of another security risk in the company's or a customer's environment may have significant direct or indirect negative effects.

Loihde consists of several companies and corporate acquisitions are also possible in the future. Failure in integrating companies and building synergy may complicate the attainment of Loihde's strategic targets and decrease the commitment of the management and personnel of Group companies. Potential corporate acquisitions may also lead to unforeseen risks and hidden responsibilities, for which it has been impossible to make preparations.

SIGNIFICANT LEGAL MATTERS

During the financial year, Loihde Plc had no pending legal matters.

EVENTS AFTER THE FINANCIAL YEAR

There have been no significant events after the end of the financial year.

OUTLOOK

FINANCIAL TARGETS FOR THE STRATEGY PERIOD 2021–2024

The Board of Directors of Loihde Plc has confirmed the following financial targets for the strategy period 2021–2024: Loihde Group aims to achieve average annual revenue growth of more than 10 per cent, including potential acquisitions. The profitability target is an adjusted EBITDA margin in excess of 10 per cent, calculated in accordance with the IFRS standards.

OUTLOOK FOR 2023

In 2023, Loihde expects revenue from the security business to increase more than 10% and from the digital development business to increase more than 10%. The Group's adjusted EBITDA is estimated to improve compared to 2022, when it was EUR 10.3 million.

PROPOSAL ON THE USE OF THE PROFIT FOR THE PERIOD

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.15 per share be paid from the parent company's distributable funds (EUR 110,881,942.35) based on the company's operating profit (profit for the period: EUR 57,178.31). In addition to this, the Board of Directors proposes that an additional dividend of EUR 0.65 per share be paid based on capital gains from the divestment of fibre networks. Based on the situation at the time of signing the financial statements, the dividend and additional dividend would correspond to EUR 4,583,767.20 in total.

In addition to the above-mentioned dividend distribution, the Board of Directors proposes that the General Meeting authorises the Board to, at its discretion, decide on the distribution of an additional dividend of a maximum of EUR 1.00 per share from the parent company's distributable funds, and that the authorisation in question is valid until the beginning of the following Annual General Meeting. Based on the situation at the time of signing the financial statements, the authorisation would correspond to EUR 5,729,709.00 in total. The company will publish such a decision separately and will at the same time confirm the final record and payment dates. The additional distribution of assets depends on the capital requirements of the following strategy period (2024–2027), which the company strives to announce by the end of 2023.

No material changes have taken place in the company's financial position after the end of the financial year.

CALCULATION FORMULAS:

EBITDA:

Operating profit + depreciation, amortisation and impairment

Adjustments:

The adjusted EBITDA, the adjusted operating profit (EBIT) and the adjusted profit for the period are calculated by excluding capital gains/losses arising from the disposal of properties, fixed asset shares and businesses, insurance and other compensations and other adjustments from the respective reported figure.

Return on equity, % (ROE):

$$\frac{\text{Profit/loss before appropriations - income taxes from actual operations} \times 100}{\text{Equity (average) + minority interest (average)}}$$

The divisor used is the average of the value at the beginning and the end of period, weighted by the duration of the financial period.

Equity-to-assets ratio:

$$\frac{\text{Equity} + \text{minority interest} \times 100}{\text{Balance sheet total} - \text{advances received}}$$

The values of the balance sheet date are used in the divisor and the dividend.

Investments:

Capital expenditure for the period; divestments of assets not excluded.

RECONCILIATION CALCULATIONS FOR ALTERNATIVE PERFORMANCE MEASURES

Loihde Plc discloses alternative performance measures to provide a better picture of the operational development of business operations and to improve comparability between reporting periods.

The alternative performance measures used by Loihde Plc are EBITDA, adjusted EBITDA, adjusted operating profit (EBIT) and adjusted profit for the period.

EUR 1,000	10-12 2022	10-12 2021	1-12 2022	1-12 2021
EBITDA AND ADJUSTED EBITDA				
Operating profit (EBIT)	904	-164	6,371	-881
Depreciation, amortisation and impairment	2,006	1,948	6,948	6,472
EBITDA	2,911	1,784	13,319	5,591
Capital gains from tangible and intangible assets	0	0	-3,925	-524
Restructuring expenses	160	127	274	605
Other non-recurring operating expenses	281	707	621	1,564
Non-recurring impairment losses	0	0	0	0
ADJUSTED EBITDA	3,351	2,618	10,290	7,236
ADJUSTED OPERATING PROFIT (EBIT)				
Operating profit (EBIT)	904	-164	6,371	-881
Capital gains from tangible and intangible assets	0	0	-3,925	-524
Restructuring expenses	160	127	274	605
Other non-recurring operating expenses	281	707	621	1,564
Non-recurring impairment losses	140	0	140	0
ADJUSTED OPERATING PROFIT (EBIT)	1,485	670	3,482	764
ADJUSTED PROFIT FOR THE PERIOD				
Profit for the period	1,252	965	3,359	6,924
Capital gains from tangible and intangible assets, including discontinued operations	0	0	-4,235	-7,115
Restructuring expenses	160	127	274	605
Other non-recurring operating expenses	281	707	621	1,625
Non-recurring impairment losses	140	0	140	0
Tax effects of adjustment items	-79	-167	366	-276
ADJUSTED PROFIT FOR THE PERIOD	1,754	1,632	526	1,763



Financial Statement

Consolidated comprehensive income statement

EUR 1,000	Note	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
CONTINUING OPERATIONS			
REVENUE	3.	122,987	104,418
Other operating income	4.1.	4,369	802
Changes in inventories of finished goods and work in progress		6	
Production for own use		441	495
Materials and services	4.2.	-35,838	-28,609
Employee benefits expenses	4.5.	-64,403	-57,999
Depreciation, amortisation and impairment	8.-11.	-6,948	-6,472
Other operating expenses	4.3.	-14,242	-13,515
OPERATING PROFIT (EBIT)		6,371	-881
Finance income and expenses			
Finance income	4.6.	736	1,401
Finance costs	4.6.	-3,018	-271
Finance income and expenses, total		-2,282	1,129
PROFIT/LOSS BEFORE TAXES		4,090	249
Income taxes	5.	-1,040	234
Profit/loss from continuing operations		3,049	483
DISCONTINUED OPERATIONS			
Profit/loss from discontinued operations	6.	310	6,441
PROFIT/LOSS FOR THE PERIOD		3,359	6,924

EUR 1,000	Note	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Other comprehensive income:			
Not transferred to profit or loss later			
Value remeasurements of defined benefit plans		-60	
Not transferred to profit or loss later		-60	
May be transferred to profit or loss later			
Translation differences from foreign units		-3	-1
May be transferred to profit or loss later		-3	-1
Other comprehensive income:		-63	-1
COMPREHENSIVE INCOME, TOTAL		3,296	6,923
Profit/loss attributable to:			
Owners of the parent company		3,359	6,934
Non-controlling interests			-10
		3,359	6,924
Total comprehensive income attributable to:			
Owners of the parent company		3,296	6,933
Non-controlling interests			-10
		3,296	6,923
EUR			
Earnings per share			
Earnings per share, undiluted	7.	0.58	1.19
Earnings per share, diluted	7.	0.58	1.18

Consolidated balance sheet

EUR 1,000	Note	31 Dec. 2022	31 Dec. 2021	1 Jan. 2021
ASSETS				
NON-CURRENT ASSETS				
Tangible assets	8.	4,646	4,772	5,823
Investment property	9.	2,534	2,728	3,036
Right-of-use assets	10.	8,457	7,945	6,536
Goodwill	11.	62,819	53,481	44,781
Intangible assets	11.	2,916	2,331	1,472
Other financial assets	12.	22	23	23
Receivables	13.	381	705	884
Deferred tax assets	14.	1,347	1,528	1,356
NON-CURRENT ASSETS		83,120	73,512	63,911
CURRENT ASSETS				
Inventories	15.	10,350	7,286	6,670
Trade and other receivables	16.	17,936	15,634	19,646
Contract assets	17.	3,478	2,725	3,395
Prepayments and accrued income	18.	3,409	3,686	3,230
Current tax assets	19.	254	290	399
Financial assets at fair value through profit or loss	20.	11,186	18,097	16,820
Cash and cash equivalents	21.	21,173	24,354	30,913
CURRENT ASSETS		67,785	72,071	81,073
ASSETS HELD FOR SALE	22.		758	946
ASSETS		150,905	146,341	145,930

EUR 1,000	Note	31 Dec. 2022	31 Dec. 2021	1 Jan. 2021
EQUITY AND LIABILITIES				
Owners of the parent company				
Share capital	23.	1,504	1,504	1,504
Reserve fund	23.	8,132	8,132	8,132
Reserve for invested unrestricted equity	23.	50,189	49,320	49,706
Translation differences	23.	-4		
Retained earnings	23.	51,490	50,631	50,934
Owners of the parent company		111,312	109,589	110,277
Non-controlling interests	23.			357
EQUITY		111,312	109,589	110,633
NON-CURRENT LIABILITIES				
Interest-bearing financial liabilities	24.	18	38	36
Lease liabilities	24.	4,795	4,404	3,300
Contract liabilities	25.	779	1,146	1,106
Accrued expenses and deferred income	25.	48	46	
Pension liabilities	25.	205	169	167
Deferred tax liabilities	14.	412	687	282
NON-CURRENT LIABILITIES		6,257	6,490	4,890
CURRENT LIABILITIES				
Interest-bearing financial liabilities	26.	20	20	32
Lease liabilities	26.	3,953	3,853	3,344
Trade and other payables	27.	12,155	9,902	11,473
Contract liabilities	27.	2,919	3,411	2,826
Current tax liabilities	27.	639	120	346
Accrued expenses and deferred income	27.	13,649	12,849	11,394
CURRENT LIABILITIES		33,336	30,155	29,415
LIABILITIES ASSOCIATED WITH THE NON-CURRENT ASSETS HELD FOR SALE	28.		107	992
LIABILITIES		39,593	36,752	35,297
EQUITY AND LIABILITIES		150,905	146,341	145,930

Consolidated statement of changes in equity

EUR 1,000	Share capital	Reserve for invested unrestricted equity	Reserve fund	Translation differences	Retained earnings	Treasury shares	Retained earnings (loss)	Total	Non-controlling interests	Equity, total
EQUITY 1 JAN. 2022	1,504	49,320	8,132		51,734	-1,102	50,631	109,589		109,589
Profit/loss for the period					3,359		3,359	3,359		3,359
Other comprehensive income:										
Value remeasurements of defined benefit plans					-60		-60	-60		-60
Translation differences				-4	1		1	-3		-3
COMPREHENSIVE INCOME, TOTAL				-4	3,300		3,300	3,296		3,296
Sale of shares and interests, at fair value permanently through other comprehensive income										
Transactions with owners										
Distribution of dividends, distribution of assets					-3,093		-3,093	-3,093		-3,093
Repurchase of shares		-420						-420		-420
Cancellation of shares					-1,102	1,102				
Share-based payments					531		531	531		531
Share issue		1,288						1,288		1,288
Transfer of expired dividends of joint book-entry account shares					120		120	120		120
Transactions with owners, total		869			-3,544	1,102	-2,442	-1,573		-1,573
EQUITY, TOTAL 31 DEC. 2022	1,504	50,189	8,132	-4	51,490		51,490	111,312		111,312
FAS CONSOLIDATED FINANCIAL STATEMENTS EQUITY 31 DEC. 2020	1,504	49,706	8,132		51,909	-1,102	50,807	110,149		110,149
Impact of IFRS transition					127		127	127	357	484
Adjusted equity 1 Jan. 2021	1,504	49,706	8,132		52,037	-1,102	50,934	110,277	357	110,633
Comprehensive income										
Profit/loss for the period					6,934		6,934	6,934	-10	6,924
Other comprehensive income:										
Translation differences					-1		-1	-1		-1
COMPREHENSIVE INCOME, TOTAL					6,933		6,933	6,933	-10	6,923
Sale of shares and interests, at fair value permanently through other comprehensive income										
Transactions with owners										
Distribution of dividends, distribution of assets		-5,074			-10,276		-10,276	-15,351	-36	-15,387
Share-based payments					914		914	914		914
Share issue		4,689						4,689		4,689
Transfer of expired dividends of joint book-entry account shares					2,124		2,124	2,124		2,124
Transactions with owners, total		-385			-7,239		-7,239	-7,624	-36	-7,660
Acquisition and sale of subsidiaries					3		3	3	-311	-307
Changes in subsidiary ownership					3		3	3	-311	-307
EQUITY, TOTAL 31 DEC. 2021	1,504	49,320	8,132		51,734	-1,102	50,631	109,589		109,589

More detailed information on equity is available in Appendix 23.

Consolidated cash flow statement, indirect

EUR 1,000	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Cash flow from operating activities		
PROFIT/LOSS FOR THE PERIOD	3,359	6,924
Adjustments:		
Depreciation	6,948	6,475
Unrealised changes in value and exchange gains and losses	2,441	-788
Capital gain or loss from tangible and intangible assets and companies	-4,191	-7,023
Finance income and expenses	-159	-343
Income taxes	1,040	-234
Other adjustments*	890	1,176
Adjustments, total	6,969	-737
Change in working capital		
Change in inventories	-1,875	-614
Increase/decrease in current interest-free receivables	-1,033	443
Increase/decrease in current interest-free liabilities	-1,325	918
Change in provisions	-39	2
Change in working capital, total	-4,272	748
Interest and other financial items paid	-200	-240
Interest and other financial items received	162	218
Dividends received	53	56
Other financial items	-134	-28
Taxes paid	-873	-301
Cash flow from operating activities	5,064	6,641

EUR 1,000	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Cash flow from investing activities		
Investments in tangible and intangible assets	-1,115	-1,653
Proceeds from sale of tangible and intangible assets	4,710	1,029
Acquisition of subsidiary, net of cash acquired	-10,834	-10,174
Disposal of subsidiary, net of cash disposed	1,034	5,757
Proceeds from sale of other investments	4,863	
Cash flow from investing activities	-1,342	-5,042
Cash flow from financing activities		
Share issue against payment	1,902	4,750
Acquisition of own shares	-420	
Sale of own shares		116
Proceeds from short-term loans		65
Repayments of short-term loans	-460	-10
Repayments of long-term loans	-110	
Repayment of lease liabilities	-4,610	-4,125
Repayment of loan receivables**		6,151
Dividends paid	-3,185	-15,102
Cash flow from financing activities	-6,883	-8,155
Change in cash and cash equivalents	-3,162	-6,556
Cash and cash equivalents, opening balance sheet	24,354	30,913
Change in cash and cash equivalents	-3,162	-6,556
Foreign exchange difference of cash and cash equivalents	-19	-4
Impact of currency exchange rate changes	-19	-4
Cash and cash equivalents	21,173	24,354

*) Other adjustments include share bonus periodisation and acquisition costs adjustments from consolidated goodwill to the income statement.

***) Repayments of loan receivables include the repayment of a loan related to the divestment of AB Sappa in 2018.

Notes to the consolidated financial statements

1. ACCOUNTING PRINCIPLES OF THE CONSOLIDATED FINANCIAL STATEMENTS 2022

1.1. GENERAL INFORMATION ON THE GROUP

Loihde Group is a service company for digital development and security solutions, which provides business continuity services to its customers. In digital development, Loihde offers its customers digital strategy consulting, business intelligence and data analytics services, solutions for promoting digitalisation in service and software development, and services related to change management and implementation of cloud technologies.

Loihde's security solutions cover a wide range of corporate security areas from cyber security and secure network connections to locking and electronic security technology services.

Loihde Group's parent company Loihde Plc is a Finnish public limited liability company domiciled in Seinäjoki and its registered address is Silmukkatie 6, 65100 Vaasa. Loihde Plc's shares are quoted on Nasdaq First North Growth Market Finland. Loihde Plc's Board of Directors has approved these consolidated financial statements for publication. A copy of the consolidated financial statements can be obtained from Loihde's website at <https://www.loihde.com/en/for-shareholders-2/>.

Loihde Group consists of the parent company Loihde Plc and its subsidiaries. Information on the Group structure is presented below. Information on the Group's other related parties are presented in Note 32.

GROUP STRUCTURE Ownership, %	31 Dec. 2022	31 Dec. 2022	31 Dec. 2021	31 Dec. 2021
	Group	Parent company	Group	Parent company
Group Companies				
Loihde Trust Ltd, Vaasa	100.00	100.00	100.00	100.00
Loihde Trust Tansec Ltd, Kotka*			100.00	100.00
Loihde Trust Spellpoint Ltd, Espoo*			100.00	100.00
Loihde Analytics Ltd, Helsinki	100.00	100.00	100.00	100.00
Loihde Factor Ltd, Oulu	100.00	100.00	100.00	100.00
Loihde Properties Ltd, Vaasa	100.00	100.00	100.00	100.00
Loihde Advisory Ltd, Espoo	100.00	100.00	100.00	100.00
Loihde Advisory AB, Sweden	100.00	0.00	100.00	0.00
Altotech Oy, Espoo***			100.00	0.00
Turvakolmio Group Oy, Vantaa**			0.00	0.00
Turvakolmio Recycling Oy, Helsinki**			0.00	0.00
Onrego Ltd, Espoo	100.00	100.00	0.00	0.00

*) Merged with Loihde Trust Ltd on 31 December 2022

**) Acquired on 1 June 2022, merged with Loihde Trust Ltd on 31 December 2022

***) Merged with Loihde Advisory Ltd on 7 January 2022

During the financial year 1 January - 31 December 2021, the Group and the parent company also owned 86.87% of the shares of Hibox Systems Oy Ab between 1 January and 24 February 2022.

1.2. SIGNIFICANT CHANGES IN THE FINANCIAL YEAR

Changes in the Group structure

During the financial year 1 January - 31 December 2022, the following changes occurred in the Group structure:

Loihde Plc acquired the entire share capital of Turvakolmio Group Oy. In the transaction, the entire share capital of Turvakolmio Group Oy's subsidiary Turvakolmio Recycling Oy was also transferred to the Group. The deal entered into force on 1 June 2022.

Loihde Plc acquired the entire share capital of Onrego Ltd. The deal entered into force on 1 December 2022.

Loihde Trust Spellpoint Ltd, Loihde Trust Tansec Ltd, Turvakolmio Group Oy and Turvakolmio Recycling Oy (through Turvakolmio Group Oy) merged with Loihde Trust Ltd on 31 December 2022.

Loihde Analytics Ltd's (receiving company) Board of Directors has signed a merger plan with Loihde Advisory (merging company) on 28 November 2022. The merger is planned to be registered at the end of May.

During the financial year 1 January - 31 December 2021, the following changes occurred in the Group structure:

Loihde Plc acquired the entire share capital of Talent Base Oy (now Loihde Advisory Ltd). In the transaction, the entire share capitals of Talent Base Oy's subsidiaries Talent Base AB (now Loihde Advisory AB) and Altotech Oy were also transferred to the Group. The deal entered into force on 1 June 2021. Altotech Oy merged with Loihde Advisory Ltd on 7 January 2022.

Loihde Plc sold the shares it held in Hibox Systems Oy Ab. Prior to the transaction, Loihde Plc owned 86.76% of the shares in Hibox Systems Oy Ab. The deal entered into force on 1 March 2021.

Business acquisitions

Loihde Group's subsidiary Loihde Trust Ltd sold its fibre network business in January 2022 and its alarm centre business in June 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.3. BASIS OF PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS**Accounting principles and introduction of IFRS standards**

The Consolidated Financial Statements of Loihde Plc have been prepared in accordance with the International Financial Reporting standards (IFRS) and their interpretations (IFRIC), as in force on 31 December 2022, adopted by the European Union. The notes to the financial statements also comply with Finnish accounting and company legislation.

The Consolidated Financial Statements have been prepared on the basis of initial acquisition costs, unless otherwise stated in the accounting policies. The Consolidated Financial Statements are presented in thousands of euros, which may result in rounding differences. Comparison data are presented in brackets after the data for the current financial year.

The 31 December 2022 Consolidated Financial Statements are Loihde Plc's first financial statements prepared in accordance with the IFRS standards. The date of transition to IFRS is 1 January 2021. The 31 December 2022 Consolidated Financial Statements contain comparison data for the financial year that ended on 31 December 2021. These Consolidated Financial Statements present an additional opening balance sheet for 1 January 2021 due to the first adoption of IFRS. Loihde Plc has previously applied Finnish accounting standards. Note 2. The first adoption of IFRS describes the impact of the transition to IFRS on the Group's reported financial position and financial result.

Scope of the Consolidated Financial Statements

The Consolidated Financial Statements include all the Group companies in which Loihde has control (subsidiaries). Control arises when the Group owns more than half of the voting rights or otherwise has control of the company. Control means the right to determine the financial and operating policies of the company to benefit from its activities. Acquired subsidiaries are consolidated in the Consolidated Financial Statements from the date of acquisition and the consolidation is terminated when Loihde loses control of the company.

The financial statements of the subsidiaries are adjusted, if necessary, to reflect the accounting policies of the Group. All intra-group transactions, receivables and liabilities, as well as income and expenses from transactions between Group compa-

nies, are eliminated when preparing the Consolidated Financial Statements.

The acquisition method has been applied when eliminating mutual shareholdings. The consideration transferred and the identifiable assets of the acquired business and liabilities assumed have been measured at fair value at the time of acquisition. Acquisition-related expenses are recognised as an expense.

Non-controlling interests in subsidiaries are presented in the consolidated balance sheet as part of equity, separately from the capital attributable to the shareholders. Non-controlling interest in the profit for the period is disclosed separately in the consolidated comprehensive income statement.

Segment Reporting

Loihde Plc has one reportable segment. The reported segment consists of the Group and the segment figures are consistent with Loihde Group's figures, see Note 3. Sales revenue from customer contracts.

Exchange rates and foreign Group companies

Items included in the financial statements of Group companies are measured in the currency of the main operating environment of the company in question (functional currency). The Consolidated Financial Statements are presented in euros, the parent company's functional and reporting currency. Loihde Group has a subsidiary abroad in Sweden, which has a different functional currency from the euro.

In the Consolidated Financial Statements, the income statements of subsidiaries are translated into euro using the average exchange rate of the financial year and the balance sheets using the exchange rate on the closing date. The average exchange rate difference arising from the different exchange rates in comprehensive income and the balance sheet is recognised in other comprehensive income items. Translation differences arising from consolidation of foreign subsidiaries and translation differences of equity items accumulated after the acquisition are recognised in other comprehensive income items. Foreign currency income and expenses from monetary items included in the net investments of a foreign unit are considered in other comprehensive income items and recognised in the comprehensive income statement when the foreign unit is disposed of.

Transactions in foreign currency are translated into the functional currency at the exchange rate on the transaction date. Cash items are translated into the functional currency at the exchange rate at the end of the reporting period. Non-monetary items are valued at the exchange rate on the transaction date.

Foreign exchange gains and losses related to normal business operations are presented in the income statement in the corresponding items above operating profit. Foreign exchange gains and losses related to financial items are presented in the income statement in financial expenses.

Impact of the global situation on business

Russia's military aggression on Ukraine that started in February 2022 had no direct impact on Loihde's business, but the run-away inflation and the slowdown in the global economy have increased the risk level. The COVID-19 pandemic has still occasionally caused increases in sick leaves, but its impact on the company's operations have otherwise been limited during the financial year. The company's Board and management monitor the development of the general economic situation and update their estimates as situations change.

1.4. KEY ASSESSMENTS REQUIRING MANAGEMENT DISCRETION AND DISCRETIONARY DECISIONS

Preparation of financial statements in accordance with IFRS requires the Group management to make estimates and discretion-based solutions that affect the amounts of income, expenses, assets and liabilities presented in the financial statements and related notes. Actual results may differ from these estimates.

Application of the accounting policies of the Consolidated Financial Statements also requires various estimates from the management. The main items requiring management discretion and estimates are presented in the following notes:

- Sales revenue from customer contracts (Note 3.1.5.)
- Share-based payments (Note 4.5.3)
- Lease agreements (Note 10.1.3.)
- Impairment testing (Note 11.5)
- Deferred tax assets and liabilities (Note 14.1)
- Expected credit losses Note 29.1.1.)
- Business combinations (Note 30.2.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.5. NEW OR AMENDED IFRS STANDARDS

Loihde Group applies new and amended standards and interpretations as they enter into force. Standards and amendments to standards that are applied from 1 January 2023 or later are not expected to have an effect on the information in Loihde Plc's Consolidated Financial Statements.

The following new standards and amendments to standards will enter into force in the fiscal year beginning on 1 January 2023 or later. Only the most relevant changes for Loihde Group are included in the summary below.

New and amended standards applicable in future financial years

* = The regulation has not been accepted for application in the EU by 31 December 2022.

Classification of Liabilities as Current or Non-current Amendments to IAS 1 Presentation of Financial Statements*

(Applicable for financial periods beginning on or after 1 January 2023, earlier application is allowed)

The aim of the amendments is to harmonise the application practice and to clarify the requirements for classification of liabilities as current or non-current.

Disclosure of Accounting Policies – Amendments to IAS 1 Presentation of Financial statements and IFRS Practice Statement 2 Making Materiality Judgements

(Applicable for financial periods beginning on or after 1 January 2023, earlier application is allowed) assist companies in presenting useful accounting policies.

Definition of Accounting Estimates – Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*

(Applicable for financial periods beginning on or after 1 January 2023, earlier application is allowed)

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. The amendments focus mainly on the definition and clarification of accounting estimates.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments Amendments to IAS 12 Income Taxes

(Applicable for financial periods beginning on or after 1 January 2023)

The amendments reduce the original initial recognition exception (IRE) and clarify that the exception is not applicable to individual transactions, such as lease agreements and discharge obligations, which result in equal and opposing temporary differences.

Lease liability in a Sale and Leaseback – Amendments to IFRS 16 Leases*

(Applicable for financial periods beginning on or after 1 January 2024, earlier application is allowed)

The amendments add a new accounting model for variable payments and require the seller-lessee to reassess and possibly adjust the sale and leaseback transactions from 2019 onwards.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1 Presentation of Financial Statements*: Classification of Liabilities as Current or Non-current, Classification of Liabilities as Current or Non-current - Deferral of Effective Date and Non-current Liabilities with Covenants

(Applicable for financial periods beginning on or after 1 January 2024, earlier application is allowed)

The aim of the amendments is to harmonise the application practice and to clarify the requirements for classification of liabilities as current or non-current. The amendments specify that covenants that must be met after the reporting date do not affect the classification of the liability as current or non-current on the reporting date.

The amendments require that such covenants are disclosed in the notes to the financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures*

(voluntary application is allowed, entry into force suspended for the time being)

The amendments remove the conflict between the current guidelines for consolidation and the equity method and require full profit recognition when the transferred assets meet the business definition of IFRS 3 Business Combinations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Loihde has announced that the company has decided to transition to IFRS-compliant reporting (International Financial Reporting Standards) in its financial reporting. Loihde Plc has prepared its consolidated financial statements for the financial year that ended 31 December 2022 in accordance with IFRS, including IFRS-compliant comparative figures for the financial year 2021. The Group's IFRS transition date was 1 January 2021.

2.1. ACCOUNTING PRINCIPLES FOR THE FINANCIAL STATEMENTS

In transition, Loihde applied IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Loihde recognised the following adjustments in the transition to IFRS. Deferred taxes were basically recognised on all adjustments, using the Finnish corporate tax rate (20%). The numbers in the headings indicate which columns in the adjustment tables the headings refer to.

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

Loihde leases tangible assets both for its own use and for use in service agreements for the security business, i.e. the leased assets comprise business premises, land and 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 agreements). 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 of EUR 6,644,000 under the right-of-use assets (including investment properties) and financial liabilities (including non-current and current portions) on 1 January 2021. At the end of the financial year 2021, the right-of-use assets totalled EUR 7,945,000 and the associated lease liabilities EUR 8,258,000. In addition, Loihde has in the balance sheet item Investment properties recognised 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 *Materials and services* amounted to EUR 1,868,000 and in *Operating expenses* to EUR 2,339,000, while the increase in *Depreciation, amortisation and impairment* amounted to EUR 4,342,000 and in interest expenses on leases to EUR 82,000.

Loihde applied certain exemptions granted under IFRS 1. The Group measured lease liabilities on 1 January 2021 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 the acquisition cost or the 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 1,402,000 on 1 January 2021 and EUR 2,231,000 on 31 December 2021. The change in fair value recognised under *Finance income* in the comprehensive income statement for the financial year 2021 amounted to EUR 829,000. The increase in *Deferred tax liabilities* resulting from the change in value amounted to EUR 280,000 on 1 January 2021 and EUR 438,000 on 31 December 2021.

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

Loihde has had five share-based incentive schemes for the financial year 2021, which are aimed at both the parent company's Board of Directors, the Group's management, key personnel and all employees at Loihde. The benefits under the schemes 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 Loihde's incentive schemes differs from the FAS treatment, where only payments received from share issues have been accounted for. IFRS 2 requires share-based payments to be measured at the grant-date fair value and expensed over the vesting period.

On IFRS-transition, the Group recognised an adjustment (expense) in *Employee benefits expenses*, which totalled EUR 914,000 for the financial year 2021. The adjustment consists of three elements, as applicable: the share-based bonus expense recognised for the incentive schemes, the 10% discount on the subscription price of Loihde Plc's share granted to personnel and the members of Loihde Plc's Board of Directors 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 bonus 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 scheme.

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

Loihde Group provides customers with business continuity services in the following areas and ways:

- through solutions and services related to the customers' digital environment, cloud environment and data, analytics and artificial intelligence
- through services related to the security of the customers' digital environment, cloud environment and data, such as network, cyber security and access management solutions and services
- through solutions related to the security of people, objects and buildings, such as video surveillance, access control, fire detection and fire alarm and nurse call systems as well as locking and door and gate automation solutions.

Loihde generates revenue from provision of the services described above and from sale of related devices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 licensed 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 revenue from licensed products when the licences 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 licence 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 licences 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 agreements and device installation fees: In some agreements, Loihde charges its customers separately for start-up fees or device installation fees related to service agreements. 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 agreement 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 agreements 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 1,648,000 on 1 January 2021 and EUR 1,779,000 on 31 December 2021, an increase in *Contract liabilities* totalling EUR 2,065,000 on 1 January 2021 and EUR 2,223,000 on 31 December 2021 (comprising current and non-current portions) and an increase in *Deferred tax assets* of EUR 412,000 on 1 January 2021 and EUR 445,000 on 31 December 2021.

- The two adjustments explained above resulted in the change in the line item *Revenue* totalling negative EUR 2,774,000 and in the line item *Materials and services* totalling EUR 2,665,000 in the financial year 2021. 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 2,928,000 on 1 January 2021 and EUR 2,631,000 on 31 December 2021. The related reclassification within the line item *Depreciation, amortisation and impairment* amounted to EUR 211,000 in 2021 (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 on 1 January 2021:

In February 2021, the company sold the entire share capital of the TV service company Hibox Systems Oy Ab ("Hibox") to the Swedish company Accedo AB. The TV business of the Group ended with the divestment 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 on 1 January 2021 and presented these assets (in total EUR 946,000) and liabilities (in total EUR 992,000) as current assets and current liabilities on the balance sheet.

Consolidated comprehensive income statement for the financial year 1 January – 31 December 2021:

In the financial year 2021, the result from the discontinued operation comprised both the post-tax loss of the Hibox business, EUR 72,000, and the gain on disposal, EUR 6,514,000. These items have been reclassified to be presented under *Profit/loss from discontinued operations*. The gain on sale of the shares is tax-exempt.

Consolidated balance sheet on 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 on 31 December 2021 and presented these assets (in total EUR 758,000) and liabilities (in total EUR 107,000) as current assets and current liabilities on 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 44,781,000 on 1 January 2021.

Business combinations effected in 2021:

In May 2021, Loihde strengthened its digital development business by acquiring all the shares in the IT consulting company Talent Base Oy. Talent Base (currently Loihde Advisory Ltd) and its subsidiaries have been consolidated as of 1 June 2021.

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 were measured at fair value on the acquisition dates. The intangible assets identified in the acquisitions comprised customer relationships that were separated from goodwill and recorded on the balance sheet. Consequently, the goodwill balance decreased.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On 31 December 2021, the application on IFRS 3 increased the balance sheet line items Intangible assets by EUR 949,000 and *Deferred tax liabilities* by EUR 190,000. The increase in the item *Depreciation, amortisation and impairment* owing to the allocations made amounted to EUR 229,000 in the financial year 2021. IFRS requires acquisition-related costs, such as professional fees and transfer taxes, to be expensed whereas under FAS they are generally capitalised. The increase in the line item *Other operating expenses* was EUR 262,000 in the financial year 2021.

The acquisition of Loihde Advisory was paid 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.

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 7,509,000 in the financial year 2021. Based on the impairment tests carried out (on 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 118,000 on 1 January 2021 and EUR 99,000 on 31 December 2021.
- Cloud computing arrangement (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 customisation costs incurred in implementation of these arrangements were capitalised. 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 customisation expenditures previously capitalised were derecognised. The IFRS adjustment to the line item *Intangible assets* in the balance sheet totalled EUR 124,000 on 1 January 2021 and EUR 329,000 on 31 December 2021. In the financial year 2021, the increase in *Other operating expenses* was EUR 263,000 and the decrease in *Depreciation, amortisation and impairment* was EUR 58,000.

- 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 743,000 on 1 January 2021 and EUR 764,000 on 31 December 2021.
- 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 167,000 on 1 January 2021 and EUR 169,000 on 30 June 2021.
- 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 884,000 on 1 January 2021 and EUR 716,000 on 31 December 2021.
 - IAS 1: Reclassification of current tax assets from *Prepayments and accrued income* to *Current tax assets*, EUR 419,000 on 1 January 2021 and EUR 290,000 on 31 December 2021. Similarly, Loihde reclassified the current tax liabilities from *Accrued expenses and deferred income* to *Current tax liabilities*, EUR 346,000 on 1 January 2021 and EUR 120,000 on 31 December 2021.
 - IAS 1: Reclassification of *Non-controlling interests* to equity, EUR 357,000 on 1 January 2021 and EUR 0 on 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 3,395,000 on 1 January 2021 and EUR 2,725,000 on 31 December 2021. 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 1,867,000 on 1 January 2021 and EUR 2,333,000 on 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.2. IMPACTS OF IFRS TRANSITION: OPENING BALANCE SHEET 1 JANUARY 2021 AND CONSOLIDATED BALANCE SHEET 31 DECEMBER 2021

Opening consolidated balance sheet on 1 January 2021

Assets, 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
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
Assets, total	136,652	6,644	1,402		412				820		9,278	145,930

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
Equity, total	110,149											110,633
Minority interest	357									-357	-357	
Non-current liabilities	42											4,890
Interest-bearing financial liabilities	36											36
Lease liabilities		3,300									3,300	3,300
Contract liabilities					1,106						1,106	1,106
Accrued expenses and deferred income												
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 non-current assets held for sale							992				992	992
Liabilities, total	26,146											35,297
Equity and liabilities, total	136,652	6,644	1,402		412				820		9,278	145,930

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet on 31 December 2021

Assets, 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
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
Assets, total	127,597	8,126	2,231		445			7,242	700		18,744	146,341

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	49,320											49,320
Share-based payments				914							914	914
Retained earnings	43,260	-173	1,793	-914	-1,779			7,052	478		6,458	49,718
Equity, total	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
Liabilities, total	25,380											36,752
Equity and liabilities, total	127,597	8,126	2,231		445			7,242	700		18,744	146,341

Notes to the income statement

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

3.1. ACCOUNTING POLICIES

3.1.2. Segment information

An operating segment is a part of the Group that carries out business activities from which it can generate income and incur costs, and from which separate financial information is available. Loihde has two operating segments: security solutions and digital development, and one reportable segment because the segment aggregation criteria are met. Loihde's management has assessed the operating segments based on the aggregation criteria and found that they meet the criteria for aggregation:

- Both of Loihde's operating segments provide business continuity services.
- Both solve customers' continuity needs with technology-based solutions that combine strong expertise, understanding of customers' needs and building the best solution for every need in a technology-independent manner.
- The solutions also use synergistic components and joint deliveries of the operating segments.
- Both operating segments serve mainly Finnish customers and in the same industries.
- In addition, the long-term profitability targets are similar for both operating segments.
- The Group's business operations are examined as a whole, both to assess performance and manage resources.
- Only the results of the entire Group are monitored at a more detailed income statement level, and the operating segment level is reported in less detail.

Loihde's chief operational decision maker is the CEO of Loihde Group.

Sales income from one customer group exceeds 10% of Loihde Group's total income and was about EUR 14.8 million for the financial year 2022 (EUR 12.5 million for the financial year 2021).

3.1.3. Income recognition principles

Income from sales contracts is recognised when goods and services are transferred to the control of the customer in proportion to the amount of consideration the Group expects to be entitled to in return for the goods or services. Recognition as

income takes place at a point in time or over time.

Loihde primarily acts as the principal of the sold products, because it typically manages the products and services transferred to the customer. However, in some services, Loihde acts as an agent on behalf of third parties. These services are described in more detail in the next section.

3.1.4. Net sales recognition

Loihde Group provides business continuity services to its customers in the following areas and ways:

- solutions and services for customers' digital environment, cloud environment, data, analytics and AI
- services related to the security of customers' digital environment, cloud environment and data, such as network, cybersecurity and access management solutions and services
- solutions for securing people, objects and buildings, including video surveillance, access control, fire detection and nurse call systems, locking, door and gate automation solutions.

Loihde Group's net sales consist mainly of the following revenue streams: Hourly-based services and projects, fixed-price projects, continuous services, licensed products, product sales and installation services.

Loihde Group recognises income from different revenue streams mainly over time. At one point in time, revenues are separately recognised for sold equipment and supplies and their installations, as well as licensed products for which the customer obtains control at a point in time.

Projects based on hourly fees are recorded monthly as revenue based on the hours worked. In fixed-price projects, revenue is recognised over time based on percentage of completion either based on the actual costs or hours recorded relative to the estimated total costs or total working hours.

Loihde also supplies its customers with third-party licensed products where Loihde acts as an agent and recognises only the portion of the margin received as revenue. By contrast, in continuous service contracts, Loihde provides customers with a service package, which means that possible licensed products

and equipment used in the service and their installation, as well as possible start-up fees of the service are considered a performance obligation and the service package is recognised over time on a gross basis. In these contracts, the customer simultaneously receives and consumes the benefits as Loihde supplies the service.

If Loihde provides services to the customer before the customer pays the consideration or the payment falls due, the contract is presented as a contractual asset, excluding amounts that are recorded as trade receivables. If Loihde receives advance payments, they are recognised as a liability based on customer contracts and the revenue is recognised when the services have been delivered.

3.1.5. Material solutions based on discretion

When revenue recognition is based on percentage of completion, the final result of the contract is assessed regularly and reliably. Revenue recognition based on percentage of completion is based on assessment of the expected probable sales income and costs from the project, as well as reliable measurement of the percentage of completion of the project. The estimates made are reviewed on each reporting date and any changes are recognised through profit or loss in the period in which the change is first known and assessed. If it is probable that the total costs necessary to complete the project will exceed the total revenue, the expected loss is immediately recognised as an expense. Due to the estimates included in the income recognition of percentage of completion contracts, actual income and expenses are, in principle, different from the estimate.

Loihde's management also assesses whether Loihde acts as an agent or principal when selling third party licensed products. Loihde considers that it acts as an agent for third party licensed products when they are distinguishable and when management considers that Loihde has no principal responsibility toward the end customer.

NOTES TO THE INCOME STATEMENT

3.2. BREAKDOWN OF SALES REVENUE

Revenue by business area

EUR 1,000	2022	2021
Security	82,450	69,287
Digital development	40,849	35,524
Others	4,318	2,807
Revenue between business areas	-4,630	-3,200
Total	122,987	104,418

Revenue by market

EUR 1,000	2022	2021
Domestic	121,567	102,796
Others	1,419	1,622
Total	122,987	104,418

3.3. CONTRACTUAL AMOUNTS RECORDED IN THE BALANCE SHEET

3.3.1. Contractual assets recorded in the balance sheet

EUR 1,000	2022	2021
Trade receivables, Note 16	17,177	14,480
Assets based on customer contracts (current), Note 17	3,478	2,725
Total	20,655	17,205

3.3.2. Contractual liabilities recorded in the balance sheet

EUR 1,000	2022	2021
Liabilities based on customer contracts (non-current), Note 25	779	1,146
Liabilities based on customer contracts (current), Note 27	2,919	3,411
Total	3,698	4,557

3.4. TUNFULFILLED LONG-TERM CUSTOMER CONTRACTS

Transaction price allocated to outstanding performance obligations

EUR 1,000	2022	2021
Transaction price allocated to partly or fully outstanding non-current contracts	9,553	10,050

Management expects that 87% of the transaction price allocated to unfulfilled performance obligations on 31 December 2022 will be recognised as income in the following financial year (EUR 8,306,00) and the remaining 13% (EUR 1,246,00) after that.

Loihde Group applies a practical tool for the presentation of the transaction price allocated to the outstanding performance obligations at the reporting date. This tool may be applied when the Group's performance obligations that are unfulfilled at the reporting date are generally part of a contract whose initial expected duration is at most one year or the sales proceeds to be recognised correspond to the value of the performance produced by the Group for the customer by the time of review.

NOTES TO THE INCOME STATEMENT

4. OTHER INCOME AND EXPENSE ITEMS

4.1. OTHER OPERATING INCOME

4.1.1. Accounting policies

Other operating income includes, e.g., sales gains from fixed assets and business transactions and contributions received. Government subsidies are recognised through profit or loss for the periods in which the expenses to which they relate are recorded when it is reasonably certain that the conditions of the subsidies will be met and the subsidies will be received. Government subsidies related to the acquisition of property, plant and equipment are deducted from the acquisition cost of the asset. The impact on profit or loss is recognised as decreased depreciation of the acquired asset. Lohde Group's subsidiaries have received subsidies from Business Finland during the financial year 2022.

EUR 1,000	2022	2021
Gains from disposal of tangible fixed assets and business transactions	3,930	612
Grants received	230	100
Rental income	9	10
Other income	200	80
Total	4,369	802

In the financial year 2022, capital gains of EUR 3,925,000 was recognised from the sale of the fibre network business. During the financial year 2021, capital gains of EUR 160,000 was recorded for the sale of the alarm service and EUR 364,000 for the sale of a property.

4.2. USE OF MATERIALS AND SERVICES

4.2.1. Accounting policies

Purchases consist of equipment and supplies included in customer contracts, as well as licences. External services consist mainly of subcontracting purchases. The valuation of inventories is described in more detail in Note 15. 'Inventories'

EUR 1,000	2022	2021
Purchases during the period	-32,375	-26,237
Change in inventories	1,413	621
External services	-4,877	-2,993
Total	-35,838	-28,609

4.3. OTHER OPERATING EXPENSES

4.3.1. Accounting policies

Other operating expenses include acquisition costs of goods and services other than those sold and produced.

EUR 1,000	2022	2021
Voluntary indirect employee costs	-1,800	-1,572
Rents and other office costs ¹⁾	-1,997	-1,746
IT hardware and software costs ¹⁾	-3,139	-2,774
Vehicle costs ¹⁾	-1,187	-841
Travel and entertainment expenses	-1,446	-798
Administrative expenses	-3,051	-2,970
Acquisition-related costs	-358	-262
Change in expected credit losses (ECL)	-48	-139
Other fixed costs	-1,216	-2,413
Total	-14,242	-13,515

Other operating costs include amounts recognised for expected credit losses. More information on expected credit losses is presented in Note 29.1. Credit risk.

¹⁾ The lessee's expenses are specified in Note 9.2. Leases, lessee's income statement items.

4.4. AUDITOR'S FEES

EUR 1,000	2022	2021
Auditing services	-131	-119
Tax advice services		-7
Other services	-95	-134
Total	-227	-260

4.5. EMPLOYEE BENEFIT EXPENSES

4.5.1. Accounting policies

Wages, salaries and fringe benefits, annual leave and bonuses are included in current employee benefits and recorded in the period in which the work was performed. Lohde's personnel are covered by a remuneration scheme based on the achievement of the company's common and partly personal objectives. Share-based payments are described below in section 4.5.3.

Pension plans are classified either as defined-contribution or defined-benefit plans. In defined-contribution plans, the Group makes fixed payments to a separate unit. The Group has no legal or constructive obligation to pay further contributions if the beneficiary is unable to pay the pension benefits in question. All arrangements that do not meet these conditions are defined-benefit pension plans.

Lohde Group's current pension arrangements are mainly defined-contribution plans and their contributions are recognised as expenses in the income statement for the period to which the charge relates. The amount of Lohde Group's defined-benefit pension plans is not significant.

4.5.2. Employee benefit expenses

EUR 1,000	2022	2021
Wages and salaries excluding share-based bonuses	-52,730	-47,314
Share-based bonus deferrals	-534	-914
Pension expenses - defined-contribution plan	-9,183	-8,032
Pension expenses - defined-benefit plan	39	-2
Other indirect employee costs	-1,996	-1,737
Total	-64,403	-57,999

Average number of employees	2022	2021
Digital development	346	311
Security	432	392
Other	33	17
Total, continuing operations and discontinued operations	812	720
Total, continuing operations	812	715

Information on management's employee benefits is presented in Note 32. Related party transactions.

Information on share-based incentive schemes is presented in section 4.5.3. Share-based payments

NOTES TO THE INCOME STATEMENT

4.5.3. Share-based payments**Accounting policies**

An expense in accordance with IFRS 2 is recognised for share-based payments on the basis that the entire schemes is paid in equity. Share-based incentive schemes are measured at the fair value on the vesting date based on the gross amount of shares issued and recognised as an expense in the income statement during the period in which the conditions are met (vesting period) and an equivalent adjustment to equity (retained earnings). The withholding tax is partly paid by the company and the participants will therefore receive the shares free of tax in this respect. The net payment feature is applied and share-based payments are fully classified as equity-settled share-based transactions as they would have been without the net payment feature. Group employees receive remuneration in the form of share-based payments, which means the employees provide services in exchange for equity instruments (equity-settled transactions).

On each reporting date, the Group reviews its estimates of share-based payments to be realised. The impact of the revision of previous estimates is recognised as personnel costs and in equity.

The dilution effect of outstanding share bonuses is shown as an additional share dilution in the calculation of earnings per shares adjusted by the dilutive effect.

Description of share-based payment plans**Share-based incentive scheme for the personnel 2018-2023**

In the financial year 2018, Loihde launched a share-based incentive scheme for the personnel. The incentive scheme includes an additional share scheme offered to all employees of the Group's core businesses as well as a performance-based bonus scheme for the senior management and selected key employees. After a vesting period of good two years, they receive additional shares free of charge at a rate of one quarter of the number of shares subscribed. To receive additional shares, the employee must hold the shares purchased until the end of the commitment period and also be employed by the Loihde Group at the end of the commitment period. The criteria for the performance-based bonus scheme are the the Group's EBITDA and total shareholder return (TSR). The bonuses under the in-

centive scheme are paid entirely in shares or in a combination of shares and cash where the cash component is intended to cover the taxes and tax-related costs arising from the bonus.

In March 2022, Loihde carried out a directed share issue to pay additional and bonus shares in the incentive scheme for the personnel that began in autumn 2019. A total of 22,093 new shares were transferred in the share issue to the scheme participants who met the criteria. Approximately two-thirds of the number of additional and bonus shares will be paid in shares and one-third will be paid in cash for the purpose of withholding tax.

Share-based incentive scheme for the personnel 2021

On 27 May 2021, the Board of Directors of Loihde decided on a long-term incentive scheme for the company's personnel (Share-based incentive scheme for personnel 2021). The target group for the incentive scheme includes all of Loihde Group's personnel, including the management. The purpose of the scheme is to align the goals of the shareholders and personnel to increase the value of the company and implement the business strategy in the long term, as well as to engage the personnel's commitment to the company and offer them a competitive reward system based on the earnings and value development of the company's shares.

The incentive scheme consists of one vesting period, 1 June 2021–31 December 2023. After the vesting period of approximately two and a half years, participants who have subscribed for shares will receive one additional share for each three shares they have subscribed for and still hold at the time of the payment of the reward. To be eligible to receive the additional shares, the participant must still be employed by the Group at the time of the payment of the reward. Rewards based on the earning of additional shares will be paid to the eligible participants after the vesting period, tentatively in early 2024. The rewards under the incentive scheme will be primarily paid in a combination of company shares and cash, where the cash component is intended to cover the taxes and tax-related costs arising from the bonus. The Board of Directors also has the right to decide that the reward be paid fully in shares or fully in cash.

The participants in the scheme have had the opportunity to subscribe for company shares at a reduced subscription price of EUR 19.18 per share during the subscription period, 18 June–24

June 2021. The subscription price corresponds to the average price of the share on Privanet during the period 1 November 2020–30 April 2021, with a 10 % discount applied. In total 327 persons participated in the scheme and subscribed for a total of 82,842 shares. The subscription price has been paid and recorded in the company's reserve for invested unrestricted equity after the review period in July 2021 and the new shares have been registered in the Trade Register on 19 July 2021.

Share-based incentive scheme for the personnel 2022

Loihde Plc's Board of Directors has launched a new share-based incentive scheme for all personnel (Share-based incentive scheme for personnel 2022). The share-based incentive scheme consists of a personnel issue and a related matching share plan. In the share-based incentive scheme for the personnel, the company offered Loihde Plc shares for subscription to the Group's personnel and management at EUR 12.70 per share. The subscription price was based on the trade-weighted average share price in May 2022 (EUR 14.11), minus a 10% discount. The share subscription period was 14 June–22 June 2022 and the share issue was based on an authorisation given by the Annual General Meeting held on 5 May 2022.

A total of 144 Loihde employees participated in the issue and subscribed for 50,208 shares. The subscription price was recorded in the company's reserve for invested unrestricted equity.

The new shares were registered in the Trade Register on 18 July 2022 and the new shares were traded on Nasdaq First North Growth Market Finland together with the old shares on 19 July 2022.

After the vesting period ending at the end of 2024, the participants in the scheme will receive additional shares, the gross amount of which is one share for each of three shares now acquired, i.e., a maximum of 16,741 shares. The additional shares will be paid to the persons primarily in net and the withholding tax on the reward is paid in cash. To receive additional shares, the employee must hold the shares purchased under the scheme until the end of the commitment period and also be employed by the Loihde Group at the end of the commitment period.

NOTES TO THE INCOME STATEMENT

Long-term incentive scheme for the management and key personnel 2021 (LTI)

On 3 March 2021, the company's Board of Directors decided on a performance-based long-term incentive scheme aimed at the Group Leadership Team and selected key employees. The scheme consists of three-year vesting periods starting annually, each of which requires separate approval by the Board of Directors. The criteria for the payment of the reward consist of revenue and EBITDA targets set by the Board of Directors for the vesting period. The potential share rewards to be paid based on the first vesting period, 2021–2023, will be paid in spring 2024 and the total amount will be at most 48,000 shares. The condition for the payment of the reward is that the key employee's employment or service relationship has not been terminated by the key employee or the company before the end of the vesting period.

On 25 November 2021, Loihde Plc' Board of Directors decided to continue the long-term incentive scheme for the management and key personnel 2021 (LTI) with the new vesting period for 2022–2024. During the vesting period 2022–2024, the incentive scheme includes a maximum of 25 persons. The criteria for the payment of the reward consist of revenue and EBITDA targets set by the Board of Directors for the vesting period. The total number of potential share rewards corresponds to a maximum of 63,864 Loihde Plc shares. This amount of shares corresponds to the gross earning, less the cash portion covering taxes and tax-related costs arising from the bonus, after which the remaining net amount will be paid to the persons covered by the incentive scheme as Loihde Plc's shares. Potential rewards for the vesting period 2022–2024 will be paid in spring 2025. The condition for the payment of the reward is that the key employee's employment or service relationship has not been terminated by the key employee or the company before the end of the vesting period.

On 29 November 2022, Loihde Plc' Board of Directors decided to continue the long-term incentive scheme for the management and key personnel 2021 (LTI) with the new vesting period for 2023–2025. During the vesting period 2023–2025, the incentive scheme includes a maximum of 27 persons. The criteria for the payment of the reward consist of revenue and EBITDA targets set by the Board of Directors for the vesting period. The total number of potential share rewards corresponds to a maxi-

imum of 102,000 Loihde Plc shares. This amount of shares corresponds to the gross earning, less the cash portion covering taxes and tax-related costs arising from the bonus, after which the remaining net amount will be paid to the persons covered by the incentive scheme as Loihde Plc's shares. Potential rewards for the vesting period 2023–2025 will be paid in spring 2026. The condition for the payment of the reward is that the key employee's employment or service relationship has not been terminated by the key employee or the company before the end of the vesting period.

Share-based incentive scheme for the CEO 2021

In November 2020, the company also carried out a directed paid share issue of 6,000 shares to the company's new CEO Samu Konttinen as part of the CEO's share-based incentive scheme. The subscription price was EUR 16.09 per share, based on the average price of the company's share on Privanet for the period 24 May–23 November 2020, on which a discount of 10% was applied. Under the terms of the incentive scheme, Konttinen has the right to receive 3,000 shares after one year and 3,000 shares after two years if he at the time in question still works as Loihde Plc's CEO.

In the directed share issue in 2021, the company issued 3,000 new shares and transferred them to Samu Konttinen free of charge. In the free directed share issue in 2022, the company transferred 1,455 shares to Samu Konttinen, which corresponds to the gross earnings of 3,000 shares less the cash component covering taxes and other possible tax-like charges.

Share-based incentive scheme for the Board of Directors 2020

On 25 June 2020, the Board of Directors resolved to adopt a long-term share-based incentive scheme for the members of the Board of Directors and resolved on a related share issue. Under the incentive scheme, the members of the Board of Directors can subscribe for Loihde Plc's shares at an amount corresponding to half of their annual fee at a maximum. The subscription price is the average share price of Loihde Plc for the six-month period preceding the resolution on the share issue, with a 10 % discount applied. In the program which started in 2020, the subscription price was EUR 15.62. The Annual General Meeting may resolve on issuing commitment shares to the

participants in the scheme based on their share ownership after a specified vesting period. Eligibility for the commitment shares is conditional on the participant still being a member of Loihde Plc's Board of Directors. In 2020, two members of the Board of Directors participated in the incentive scheme and subscribed for 960 shares in total.

Share-based incentive scheme for the Board of Directors 2021

On 6 May 2021, the Board of Directors resolved on a share issue related to the long-term share-based incentive scheme for the members of the Board of Directors, in which a maximum of 3,168 shares were issued for subscription by the members of the Board of Directors at a subscription price of EUR 17.50 per share. The subscription price corresponds to the average price of the share on Privanet during the period 1 October 2020–31 March 2021, with a 10 % discount applied. Five Board members subscribed for a total of 2,740 shares. The subscription price has been entered in the reserve for invested unrestricted equity.

Share-based incentive scheme for the Board of Directors 2022

On 5 May 2022, the Board of Directors resolved on a share issue related to the long-term share-based incentive scheme for the members of the Board of Directors, in which a maximum of 3,667 shares were issued for subscription by the members of the Board of Directors at a subscription price of EUR 13.98 per share. The subscription price was based on the trade-weighted average share price in April 2022, with a 10 % discount applied. Five Board members subscribed for a total of 3,667 shares. The subscription price has been entered in the reserve for invested unrestricted equity.

NOTES TO THE INCOME STATEMENT

Plan	Share-based incentive scheme for the personnel 2018-2023			Share-based incentive scheme for the personnel 2021	Share-based incentive scheme for the personnel 2022	Long-term incentive scheme for the management and key personnel LTI 2021-2023		Share-based incentive scheme for the CEO 2021	Share-based remuneration scheme of the Board of Directors 2020-2027			Total
	Matching vesting period 2019-2021	Performance-based vesting period 2019-2021	Matching vesting period 2020-2022	Matching vesting period 2021-2023	Matching vesting period 2022-2024	LTI 2021	LTI 2022	Delivery CEO's incentive scheme 2021	Board's incentive scheme 2020-2022	Board's incentive scheme 2021-2023	Board's incentive scheme 2022-2024	
Instrument												
Maximum number of shares	20,947	49,972	20,286	27,614	16,736	48,000	63,864	3,000	240	685	916	252,260
First date of issue	18.9.2019	18.9.2019	18.12.2020	8.7.2021	6.7.2022	28.6.2021	5.7.2022	24.11.2020	14.7.2020	8.7.2021	22.6.2022	
Vesting period begins	1.1.2019	1.1.2019	30.11.2020	1.6.2021	6.7.2022	1.1.2021	1.1.2022	1.1.2021	26.6.2020			
Vesting period ends	31.12.2021	31.12.2021	31.12.2022	31.12.2023	31.12.2024	31.12.2023	31.12.2024	11.12.2022	31.12.2022	31.12.2023	31.12.2024	
Release date	31.3.2022	31.3.2022	30.4.2023	31.12.2023	31.12.2024	31.12.2023	31.12.2024	12.12.2022	30.6.2023	30.6.2024	30.6.2025	
Earning criteria	Ownership and employment obligation	EBITDA & TSR Ownership and employment obligation	Ownership and employment obligation	Ownership and employment obligation	Ownership and employment obligation	Revenue & EBITDA Employment obligation	Revenue & EBITDA Employment obligation	Employment obligation	Ownership and employment obligation	Ownership and employment obligation	Ownership and employment obligation	
Maximum period of validity, year	3.2	3.2	2.4	2.6	2.5	3.0	3.0	1.9	3.0	3.0	3.0	
Remaining maturity, year	0.0	0.0	0.3	1.0	2.0	1.0	2.0	0.0	0.5	1.5	2.5	
Persons at the end of the financial year	0	0	236	280	143	13	21	0	2	5	5	
Implementation method	Share and cash	Share and cash	Share and cash	Share and cash	Share and cash	Share and cash	Share and cash	Share and cash	Share	Share	Share	
Changes during the financial year												
1 Jan.												
Outstanding shares at the beginning of the financial year	17,645	48,274	18,456	26,750		45,600		3,000	240	685		160,650
Changes during the financial year												0
Granted during the period					16,741		61,264				916	78,921
Lost during the period	1,100	36,973	3,248	3,785	210	7,800	2,000					55,116
Paid during the period 31 Dec.	16,545	11,301						3,000				30,846
Outstanding shares at the end of the financial year			15,208	22,965	16,531	37,800	59,264		240	685	916	153,609

NOTES TO THE INCOME STATEMENT

Determination of fair value

The key parameters of the fair value of share bonuses granted during the financial year are presented in the table below.

	2022	2021
Share price at the time of issue	11.32	24.00
Share price at the end of the financial year	13.15	16.20
Expected dividends *	1.11	2.01
Fair value of the share bonus at the time of issue	10.21	21.99

*) The expected dividend includes the entire cumulative expected dividend for the vesting period.

Impact of share-based incentive schemes on the result and financial situation

EUR 1,000	2022	2021
Costs for the financial year, share-based payments, result	-534	-914
Costs for the financial year, share-based payments, equity	531	914
Liability arising from share-based payments*	2	

*) The liability arising from share-based payments includes an estimate of the indirect costs related to the share bonuses to be paid for Loihde Group's Swedish subsidiary. In Finland, no indirect costs are paid on share bonuses.

Key estimates and assumptions requiring management discretion

The number of shares to be issued is estimated in connection with each financial statement. The assessment considers changes in Loihde's earnings estimates, attrition of employees covered by share-based incentive schemes and other factors affecting the number of shares to be issued.

4.6. FINANCIAL INCOME AND EXPENSES

4.6.1. Accounting policies

Financial income and expenses are recognised for the period in which they incurred.

4.6.2. Financial income and expenses

EUR 1,000	2022	2021
Financial income		
Income from assets recognised at amortised cost	15	15
Income from assets recognised at fair value through profit or loss	618	1,290
Other interest income	51	41
Other financial income	53	55
Total	736	1,401
Financial expenses		
Expenses for liabilities recognised at amortised cost	-104	-9
Losses from liabilities recognised at fair value through profit or loss	-2,676	-4
Other interest expenses	-234	-256
Other financial expenses	-4	-3
Total	-3,018	-271
Net financial income and expenses	-2,282	1,129
Other exchange rate differences included in the income statement by line		
Revenue	-1	9
Use of materials and services	-14	-5
Other operating expenses	-28	-1
Total	-44	2

5. INCOME TAXES

5.1. ACCOUNTING POLICIES

Tax based on the taxable income for the period

Income taxes consist of current income tax and deferred taxes. The tax based on taxable income is calculated based on the regulations of each country and the applicable tax rate. The current income tax and deferred taxes are recognised through profit or loss except in so far as it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

5.2. INCOME TAXES IN THE INCOME STATEMENT

EUR 1,000	2022	2021
Taxes on ordinary activities based on the taxable income for the financial period	-1,335	-696
Taxes from previous financial periods		928
Deferred taxes	295	2
Total	-1,040	234
Effective tax rate -%	-23,6 %	3,5 %

5.3. TAX RATE RECONCILIATION

EUR 1,000	2022	2021
Profit before taxes	4,402	6,690
Taxes calculated at the Finnish tax rate 20% (2021:20%)	-880	-1,338
Deviating tax rates of foreign subsidiaries	1	
Tax-free income	63	1,321
Non-deductible expenses	-220	-685
Losses for the financial year not recognised in income taxes	-36	-15
Taxes from previous fiscal periods		928
Other taxes	33	23
Taxes in the income statement	-1,040	234

NOTES TO THE INCOME STATEMENT

5.4. ADDITIONAL INFORMATION RELATED TO TAXES RECOGNISED THROUGH PROFIT OR LOSS

Income tax relating to all other comprehensive income items

EUR 1,000	2022	2021
Items not subsequently reclassified to profit or loss	-75	
Recognised deferred tax	15	
Items that may be reclassified subsequently to profit or loss	-3	-1

Deferred tax assets and liabilities see Note 14

Deferred taxes recognised directly in equity, see Note 14.2

No deferred tax assets have been recognised for accumulated losses, see Note 14.2

6. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

6.1. ACCOUNTING POLICIES

A discontinued operation refers to a part of the company that has been transferred or classified as held for sale. In addition, it represents separate core business area or geographical area, is part of a coordinated plan to divest a separate core business area, or is a subsidiary acquired exclusively for the purpose of resale. The result of discontinued operations is presented in a separate line in the consolidated income statement and the figures for the comparison period are duly adjusted.

Non-current assets and assets and liabilities related to discontinued operations are classified as held for sale if an amount corresponding to their book values is expected to be primarily accrued from sales rather than as a result of continuing use. Classification as held for sale is subject to the following conditions: the sale must be highly probable, the asset item must be available for immediate sale in its current shape and under normal conditions, the management must be committed to selling

the asset and the sale can be expected to take place within one year of the classification.

Before an asset item or assets belonging to a group of disposal items is classified as held for sale, their book values are determined based on applicable IFRS standards. From the date of classification, non-current assets held for sale are measured at book value or at fair value less the cost of disposal, whichever is lower. At the same time, depreciation and amortisation must stop. Assets held for sale are presented in the consolidated balance sheet in a separate line, without adjusting the figures for the comparison period.

6.2. INCOME OR LOSSES OF NON-CURRENT ASSETS HELD FOR SALE

Loihde Group's subsidiary sold its fibre network business in January 2022. The capital gain from the sale is presented in Note 4.1. Other operating income. The asset items held for sale at the end of the financial year 2021 related to these business activities are presented in Note 22. Related to assets held for sale in Note 28. Liabilities related to non-current assets held for sale.

6.3. BASIC INFORMATION ABOUT DISCONTINUED OPERATION

Loihde sold the entire share capital of Hibox Systems Oy Ab to Swedish Accedo AB in February 2021. The deal entered into force on 1 March 2021. Hibox Systems Oy Ab has been consolidated in the consolidated financial statements 1 January-28 February 2021.

With the Hibox divestment, the Group's TV business ended and it was a strategic decision by Loihde. Although Hibox's impact from a volume perspective was small for the Group as a whole, Hibox had a clear impact on the Group's profitability. Thus, in the IFRS transition, the Group classified the Hibox business as a discontinued operation on 1 January 2021 and presented these assets and related liabilities in the balance sheet as current items.

6.4. INFORMATION ON FINANCIAL INCOME AND CASH FLOWS FROM DISCONTINUED OPERATIONS

The financial result and cash flows of Hibox Systems Oy Ab are presented in the comparison data for a two-month period 1 January-28 February 2021.

EUR 1,000	2022	2021
Revenue	0	887
Other operating income	0	18
Operating expenses	0	-976
Depreciation	0	-3
Financial income and expenses	0	1
Profit/ loss before taxes		-72
Income taxes	0	0
Profit/loss after taxes		-72
Sales gain from subsidiary after tax	310	6,514
Profit from discontinued operations	310	6,441
Net cash flow from operating activities	0	-113
Net cash flow from/to investments	310	7,584
Net cash flow from/to financing	0	-273
Accumulated increase in cash flow from subsidiaries	310	7,198

NOTES TO THE INCOME STATEMENT

6.5. DETAILED INFORMATION ON THE DIVESTMENT OF THE SUBSIDIARY

EUR 1,000	2022	2021
Consideration received		
Cash assets	310	8,134
Fair value of contingent consideration	0	724
Total consideration	310	8,857
Book value of sold net assets	0	-2,344
Sales gain before tax	310	6,514
Tax on sales gain	0	0
Sales gain after tax	310	6,514

The Oy Hibox Systems Ab transaction was completed on 1 March 2021. According to the sales contract, in addition to the basic purchase price, the purchase price also consisted of an earnings-based additional purchase price. The additional purchase price has been allocated in the financial statements 31 December 2021 based on expected outcome. The EUR 310,000 item recognised in the result for the financial year 1 January-31 December 2022, consisted of the difference between the actual and estimated additional purchase price.

The book values of Hibox Systems Oy Ab's assets and liabilities at the time of sale were:

EUR 1,000	2021
Intangible and tangible property, plant and equipment	33
Trade receivables	1,193
Inventories	51
Tax receivables	48
Cash and cash equivalents	2,373
Total assets	3,698
Trade payables and other liabilities	743
Obligations arising from employee benefits	588
Total liabilities	1,331
Net assets	2,367

7. EARNINGS PER SHARE

7.1. ACCOUNTING POLICIES

Undiluted earnings per share is calculated by dividing the profit or loss belonging to the shareholders of the parent company by the weighted average number of outstanding shares during the financial year.

The company's treasury shares are deducted from the total number of outstanding shares when calculating the weighted average number of outstanding shares. The impact of the share-based incentive scheme has been considered when calculating the diluted earnings per share.

7.2. EARNINGS PER SHARE

EUR 1,000	2022	2021
Profit for the review period to shareholders	3,359	6,934
Weighted average undiluted number of shares during the period	5,754	5,826
Earnings per share, EUR/share, undiluted	0.58	1.19
Weighted average diluted number of shares during the period	5,794	5,878
Earnings per share, EUR/share, diluted	0.58	1.18

Notes to the balance sheet

NON-CURRENT ASSETS

8. TANGIBLE ASSETS

8.1. ACCOUNTING POLICIES

Tangible property, plant and equipment is valued at the original acquisition cost less accumulated depreciation and impairment. Land is not depreciated. The acquisition cost of other asset items is allocated as straight-line depreciation over the estimated useful life of the asset. The residual value and useful life of property, plant and equipment are reviewed at least at the end of each financial period and adjusted, if necessary, to reflect changes in the expected economic benefits. Capital gains and losses on the disposal of property, plant and equipment are included in other operating income or other operating expenses.

Depreciation times

Buildings and structures	15-25 years
Machinery and equipment	3-5 years
Other tangible assets and networks	3-10 years

2022 EUR 1,000	Land areas in own use	Buildings and structures in own use	Machinery and equipment in own use	Other tangible assets and networks	Advance payments and procurement in progress	Total
Acquisition cost, 1 Jan.	1,636	6,148	6,998	307	76	15,165
Acquisition of a subsidiary			138	2		140
Other increases		72	455	91	30	649
Other decreases and disposals			-4	-1,365		-1,369
Transfer to assets classified as held for sale				1,365		1,365
Acquisition cost, 31 Dec.	1,636	6,220	7,587	400	106	15,950
Accumulated depreciation and impairment 1 Jan.		-4,188	-6,090	-116		-10,393
Accumulated depreciation from the acquisition of the subsidiary			-15			-15
Other decreases and disposals, accumulated depreciation				715		715
Accumulated depreciation for transfer to assets classified as held for sale				-715		-715
Depreciation for the period		-250	-542	-62		-853
Impairment			-43			-43
Accumulated depreciation and impairment 31 Dec.		-4,438	-6,689	-178		-11,304
Book value, 1 Jan.	1,636	1,960	908	191	76	4,772
Book value, 31 Dec.	1,636	1,783	898	223	106	4,646

NOTES TO THE BALANCE SHEET

NON-CURRENT ASSETS

2021	Land areas in own use	Buidings and structures in own use	Machinery and equipment in own use	Other tangible assets and networks	Advance payments and procurement in progress	Total
EUR 1,000						
Acquisition cost, 1 Jan.	1,636	6,148	6,803	1,174	47	15,808
Acquisition of a subsidiary			38			38
Other increases			228	498	29	755
Other decreases and disposals			-72			-72
Transfers to asset items classified as held for sale				-1,365		-1,365
Transfers between other asset items			1			1
Acquisition cost, 31 Dec.	1,636	6,148	6,998	307	76	15,165
Accumulated depreciation and impairment 1 Jan.		-3,939	-5,395	-651		-9,985
Accumulated depreciation from the acquisition of the subsidiary			-8			-8
Transfers to asset items classified as held for sale, accumulated depreciation				715		715
Accumulated depreciation from decreases and other transfers			3			3
Depreciation for the period		-249	-689	-179		-1,117
Accumulated depreciation and impairment 31 Dec.		-4,188	-6,090	-116		-10,393
Book value, 1 Jan.	1,636	2,209	1,408	523	47	5,823
Book value, 31 Dec.	1,636	1,960	908	191	76	4,772

9. INVESTMENT PROPERTIES

9.1. ACCOUNTING POLICIES

Investment properties are mainly office buildings that generate long-term rental income and are not used by the Group. Investment properties are measured at original acquisition cost less depreciation and possible impairment losses. Rented plots of land have also been classified as investment properties, accounting for EUR 91,000 of the book value at the end of the financial year (2021: EUR 96,000).

Depreciation times

Investment properties	15-25 years
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Investment properties

EUR 1,000	2022	2021
Acquisition cost, 1 Jan.	8,676	8,830
Increases	29	45
Decreases		-199
Acquisition cost, 31 Dec.	8,705	8,676
Accumulated depreciation and impairment 1 Jan.	-5,948	-5,793
Depreciation for the period	-222	-223
Accumulated depreciation from decreases and transfers		68
Accumulated depreciation and impairment 31 Dec.	-6,170	-5,948
Book value, 1 Jan.	2,728	3,036
Book value, 31 Dec.	2,534	2,728

NOTES TO THE BALANCE SHEET

NON-CURRENT ASSETS

9.2. RENTAL ARRANGEMENTS

Investment properties have been leased with operational lease agreements according to which the rent is paid monthly. Some contracts include increases based on the consumer price index, but there are no other variable rents depending on indices or prices. The Group may obtain bank guarantees for the lease period if it is considered necessary to reduce credit risk. Although the Group is exposed to changes in residual value as existing leases expire, it generally enters into new operational lease agreements and therefore does not realise the potential decrease in the residual value at the end of these agreements. The expected residual value is considered in the fair values of the properties.

Minimum rents from investment properties are as follows:

after 0-1 years	506
after 1-2 years	119
after 2-3 years	48
after 3-4 years	43
after 4-5 years	43
After more than 5 years	239

Notes on contractual obligations relating to the purchase, construction or development of investment properties, or their repairs, maintenance or improvements are found in section 31. Contingent liabilities, assets and commitments.

9.3. FAIR VALUE OF AN INVESTMENT PROPERTY MEASURED AT ACQUISITION COST

EUR 1,000	Book value		Fair value	
	2022	2021	2022	2021
Investment properties	2,534	2,728	3,733	3,451
31 Dec.	2,534	2,728	3,733	3,451

The estimate of the fair value is based on the market cap used in the review of fair value at the end of the financial year or the present value of future cash flows.

9.4. AMOUNTS RECOGNISED THROUGH PROFIT OR LOSS ON INVESTMENT PROPERTY

EUR 1,000	2022	2021
Rental income from operational leases	579	547
Direct management costs for properties generating rental income	-430	-470
Profit + or loss - from sale recognised through profit or loss		364
Book value, 31 Dec.	149	441

10. LEASE AGREEMENTS

10.1. GROUP AS LESSEE

10.1.2. Accounting policies

Loihde Group's leases consist mainly of premises, land, vehicles and IT equipment, as well as technical equipment included in service contracts. Leases of premises are mainly contracts of indefinite duration and other contracts are fixed-term contracts. The lease term is defined as the period during which the lease cannot be cancelled. The lease term is extended to include the period included in any renewal or termination option if it is reasonably certain that the Group will exercise the renewal option and not exercise the termination option.

At the time of the IFRS transition, Loihde has measured lease liabilities by discounting the cash flows of the lease agreements at the incremental borrowing rate and the right-of-use assets were recognised at an amount corresponding to the lease liabilities. After initial valuation, right-of-use assets are valued at the acquisition cost model less accumulated depreciation impairment. Depreciation on right-of-use assets are recognised as an expense in the income statement. In addition, the book value of right-of-use asset is adjusted to reflect the value of the lease liability if the value of the lease liability is redefined during the lease period.

The initial nominal value of the lease liability is the present value of the payments made during the lease period. Lease payments include the amount of the fixed payment and the variable rental payments based on price changes and payments resulting from penalties for lease termination. Some leases on premises involve index terms that are not considered in lease liabilities until they are realised. Loihde measures the lease liability in subsequent periods using the effective interest method. The lease liability is redefined if future lease payments change due to an index increase or price change or rents payable under the residual value guarantee are subject to change. In addition, changes in the estimates of the option to buy, continue or terminate the underlying item can lead to reassessment of the lease liability.

Lease payments are discounted using the Group's interest rate for additional credit because interest rates are not available for lease contracts. The interest rate for the Group's additional credit is determined based on financial offers received and market conditions and it is reviewed at least annually.

The maturity breakdown of lease liabilities is presented in Note 29. Management of financial risks and capital.

Loihde applies the exceptions of the standard concerning short-term and low-value leases. A short-term lease is a contract with a lease period of 12 months or less. Low-value assets include IT equipment in own use and company bicycles. Low-value and short-term leases are not recognised in the balance sheet, but payments from these contracts are recognised as expenses on a straight-line basis. In leases for premises, Loihde does not separate service components from lease components.

10.1.3. Key solutions based on discretion

The key management discretion relates to leases valid until further notice in which Loihde's management assesses the length of the lease period, which can have a material effect on the recognised amount of the right-of-use asset and the lease liability, as well as the related depreciation and interest expenses. Management discretion is also relevant for determining the interest rate of the additional credit used to calculate the present value of rent payments.

NOTES TO THE BALANCE SHEET

NON-CURRENT ASSETS

10.1.4. The lessee's right-of-use assets

2022		Right-of-use land areas	Right-of-use buildings and structures	Right-of-use machinery and equipment	Total
EUR 1,000					
Acquisition cost, 1 Jan.		111	4,958	7,126	12,195
Increase/decrease due to revaluation		5	838	-81	763
Increases			28	4,265	4,293
Decreases			-259	-1,428	-1,687
Transfer to assets classified as held for sale				42	42
Exchange rate differences			-9		-9
Acquisition cost, 31 Dec.		116	5,555	9,925	15,596
Accumulated depreciation and impairment 1 Jan.		-14	-1,846	-2,389	-4,250
Depreciation for the period		-15	-1,770	-2,796	-4,581
Accumulated depreciation from decreases and transfers			259	1,428	1,687
Exchange rate differences			4		4
Accumulated depreciation and impairment 31 Dec.		-29	-3,353	-3,758	-7,140
Book value, 1 Jan.		96	3,111	4,737	7,945
Book value, 31 Dec.		87	2,202	6,168	8,457

2021		Right-of-use land areas	Right-of-use buildings and structures	Right-of-use machinery and equipment	Total
EUR 1,000					
Acquisition cost, 1 Jan.		109	2,013	4,413	6,536
Increase/decrease due to revaluation		1	1,226		1,227
Increases			1,719	2,835	4,554
Decreases				-80	-80
Transfers to asset items classified as held for sale				-42	-42
Exchange rate differences			-1		-1
Acquisition cost, 31 Dec.		111	4,958	7,126	12,195
Accumulated depreciation and impairment 1 Jan.		0	0	0	0
Depreciation for the period		-14	-1,847	-2,469	-4,330
Accumulated depreciation from decreases and transfers				80	80
Accumulated depreciation and impairment 31 Dec.		-14	-1,846	-2,389	-4,250
Book value, 1 Jan.		109	2,013	4,413	6,536
Book value, 31 Dec.		96	3,111	4,737	7,945

10.1.5. Comprehensive income statement and cash flow statement items of the lessee

EUR 1,000	2022	2021
Interest expenses on lease liabilities	-86	-82
Rental expenses for short-term leases	-177	-494
Rental expenses for low-value leases	-536	-332
Total	-799	-908

Outgoing cash flow from leases for the financial year 2022 totalled EUR 4,610,000 (2021: EUR 4,125,000).

10.1.6. Liabilities recognised in the balance sheet from leases

Group as lessee

EUR 1,000	2022	2021
Non-current lease liabilities	4,795	4,404
Current lease liabilities	3,953	3,853
Total	8,748	8,258

10.2. GROUP AS LESSOR

10.2.1. Accounting policies

Loihde Group acts as a lessor through its real estate subsidiary. The Group leases properties it owns to enterprises. Leases in which the Group acts as a lessor are classified as operational leases. Leased properties are included in the balance sheet in investment properties or tangible assets depending on their nature and is depreciated over their useful life. Properties where the company's own use is less than 5% of the area available for rent are considered investment properties. Rental income is recognised in the income statement on a straight-line basis over the lease term. The Group's role as lessor is of minor importance.

NOTES TO THE BALANCE SHEET

NON-CURRENT ASSETS

10.2.2. Lessor's operational leases

Items recorded in the income statement

EUR 1,000	Fixed rental income	Variable rental income	2022 Total
Buildings and structures	649	194	843
Investment properties	484	95	579
Total	1,132	290	1,422
Buildings and structures	710	187	897
Investment properties	428	119	547
Total	1,138	307	1,444

10.2.3. Receivables recognised in the balance sheet from leases

Group as lessor

EUR 1,000	2022	2021
Short-term leases, operational leases	62	1
Total	62	1

11. GOODWILL AND OTHER INTANGIBLE ASSETS

11.1. Accounting policies

An intangible asset is initially recognised at acquisition cost when the cost can be measured reliably and it is expected that the intangible asset will generate economic benefits for the Group. Intangible assets with a known or estimated limited useful life are recognised as depreciated on a straight-line basis as an expense in the income statement over their useful life.

Depreciation times

Development expenditure	3-5 years
Intangible rights	3-5 years
Other intangible assets	3-10 years
Customer relationships	3-5 years

11.1.1. Goodwill and other intangible assets acquired in a business combination

The accounting policies for goodwill acquired in a business combination are described in Note 30.

Other intangible assets acquired in connection with acquisitions are recognised in the balance sheet separately from goodwill if they meet the definition of an intangible asset; they are distinguishable or based on contracts or legal rights. Intangible assets recognised in connection with acquisitions consist of the value of customer contracts and related customer relationships, acquired technologies and brand. The value of customer agreements and related customer relationships is determined by the estimated cash flows based on the expected retention and duration of customer relationships.

11.1.2. R&D costs

Loihde records research related costs as an expense for the research period. Development costs arising from the design of new products or services are generally recognised as an expense during the development period. The Group may receive development costs in connection with acquisitions that are re-

lated to projects launched before the acquisition that are handled as capitalised intangible assets. They are capitalised as intangible assets for the duration of the project if the requirements of IAS 38 are met.

Depreciation is recognised on the capitalised asset from the moment it is ready for use. An asset that is not yet ready for use is tested annually for impairment. Capitalised development costs are after initial recognition measured at acquisition cost less accumulated depreciation and impairment. The useful life of capitalised development costs is 3-5 years, during which capitalised costs are recognised as straight-line costs.

11.1.3. Cloud-service arrangements

In April 2021, IFRIC issued an agenda decision concerning so-called SaaS arrangements and their implementation, configuration, customisation and purchasing services. The accounting treatment of cloud-based arrangements is dependent on whether the cloud-based software is classified as an intangible asset or a service contract. Arrangements where the company does not control the software in question are treated as service contracts that give the company the right to use the application software of the cloud service provider during the contract period. The continuing licence fees for the application software, as well as the configuration or customisation costs related to the software, are recognised as other operating expenses when the services are received. Any advance payments to the cloud service provider for the customisation of the software that is not distinguishable are recognised as an expense during the term of the contract. The importance of cloud service arrangements is small for the Group.

11.1.4. Intangible rights and Other intangible assets

Intangible rights and other intangible assets mainly include software with a limited useful life.

NOTES TO THE BALANCE SHEET

NON-CURRENT ASSETS

11.2. GOODWILL AND INTANGIBLE ASSETS

2022								
EUR 1,000	Development costs	Intangible rights	Other intangible assets without customer relationship	Customer relationships	Advance payments and procurement in progress	Intangible assets Total	Goodwill	Total
Acquisition cost, 1 Jan.	272	1,554	2,495	1,178		5,499	53,481	58,979
Acquisition of subsidiary	196		113	1,164		1,474	9,338	10,811
Other increases	82	-2	365			446		446
Transfers between other asset items			-7			-7		-7
Acquisition cost, 31 Dec.	551	1,552	2,966	2,342		7,410	62,819	70,229
Accumulated depreciation, 1 Jan.	-164	-1,475	-1,299	-229		-3,168		-3,168
Accumulated depreciation from the acquisition of the subsidiary	-62		-23			-85		-85
Depreciation for the period	-11	-60	-621	-482		-1,173		-1,173
Impairment			-76			-76		-76
Accumulated depreciation from decreases and transfers			7			7		7
Accumulated depreciation, 31 Dec.	-237	-1,535	-2,011	-711		-4,495		-4,495
Book value, 1 Jan.	108	78	1,196	949		2,331	53,481	55,811
Book value, 31 Dec.	313	17	955	1,631		2,916	62,819	65,734

During the financial year, the Group recorded a total of EUR 1,784,000 in R&D expenditure.

2021								
EUR 1,000	Development costs	Intangible rights	Other intangible assets without customer relationship	Customer relationships	Advance payments and procurement in progress	Intangible assets Total	Goodwill	Total
Acquisition cost, 1 Jan.	164	1,535	1,926		213	3,839	44,781	48,620
Acquisition of subsidiary	32			1,178		1,209	8,926	10,135
Divestment of the subsidiary							-230	-230
Other increases	76	27	704		21	829	4	833
Other decreases		-9	-86		-283	-378		-378
Transfers between other asset items			-49		49			
Acquisition cost, 31 Dec.	272	1,554	2,495	1,178		5,499	53,481	58,979
Accumulated depreciation, 1 Jan.	-164	-1,360	-843			-2,367		-2,367
Depreciation for the period		-116	-457	-229		-801		-801
Accumulated depreciation, 31 Dec.	-164	-1,475	-1,299	-229		-3,168		-3,168
Book value, 1 Jan.		176	1,083		213	1,472	44,781	46,253
Book value, 31 Dec.	108	78	1,196	949		2,331	53,481	55,811

During the financial year, the Group recorded a total of EUR 1,389,000 in R&D expenditure.

NOTES TO THE BALANCE SHEET

NON-CURRENT ASSETS

11.3. IMPAIRMENT OF GOODWILL AND TANGIBLE AND INTANGIBLE ASSETS

On each reporting date, the Group assesses whether there are any indications that an asset item has been impaired. If there are any such indications, the recoverable amount of said asset item is estimated. In addition, the recoverable amount of goodwill and intangible assets in progress is estimated annually, regardless of whether there are indications of impairment. If the book value of an asset item is greater than its recoverable amount, it has been impaired. The recoverable amount is the fair value of the asset item less costs from selling or value in use, if higher. The value in use refers to the estimated net future cash flows from the asset or cash-generating unit that are discounted to their current value.

An impairment loss is recognised in the income statement. An impairment loss is only reversed if there has been a change in the estimates used to determine the recoverable amount of the asset after the last recorded impairment loss. However, the impairment loss may not be reversed in excess of what the asset's book value including depreciation would be without the recognition of the impairment loss. An impairment loss recognised for goodwill is not reversed in subsequent financial periods.

11.4. THE ALLOCATION OF GOODWILL ACQUIRED IN LOIHDE GROUP'S BUSINESS COMBINATION TO CASH-GENERATING UNITS

Goodwill arising from business combinations is recognised and measured at the time of acquisition in accordance with the principles outlined above. Goodwill is not depreciated. Instead, it is tested for impairment at least annually and whenever there is any indication of impairment. In impairment testing, goodwill is allocated to cash-generating units. If the recoverable amount of a cash-generating unit is less than the book value of the unit, the impairment is first allocated to goodwill and then to other assets of the unit. If goodwill has been impaired, it will not be reversed in future periods. Goodwill is measured at acquisition cost less accumulated impairment.

Goodwill

EUR 1,000	31 Dec. 2022	31 Dec. 2021	1 Jan. 2021
Digital development	43,097	38,788	30,092
Security	19,722	14,693	14,689
Total	62,819	53,481	44,781

11.5. IMPAIRMENT TESTING

The recoverable amount in impairment testing is the fair value of the asset item less the cost of disposal or value in use, if higher. For goodwill testing, Loihde has used the value-in-use method.

Impairment testing is carried out annually during the last quarter of the year, using the company's established practice. Impairment testing is also performed immediately if there are indications of possible impairment. The cash flow projections used in the testing of recoverable amounts are based on budgets and business plans approved by the Board of Directors for a period of 3 years. The budgets and business plans used are based on management's view of market and business development and historical performance. The cash flow growth rate used after the budget and business plan period is 1.5% (31 Dec. 2021: 1.5 %, 1 Jan. 2021: 1.5%).

The company uses the average cost of capital (WACC) as the discount rate for impairment testing. The WACC used in the calculations for the Security business is 11.1% (31 Dec. 2021: 8.2%, 1 Jan. 2021: 8.0%) and for the Digital development business it is 10.7% (31 Dec. 2021: 8.3 %, 1 Jan. 2021: 9.1%).

The impairment test carried out showed that the recoverable amounts of cash-generating units significantly exceed the corresponding book values and there is no need to write down goodwill. Based on the sensitivity analysis the company performed to test the impact of changes in the EBITDA margin and the average cost of capital in the residual period on the recoverable amount, the likelihood of impairment was low, as management estimates that possible changes in the key assumptions used would not result in the book value exceeding the recoverable amount.

12. OTHER FINANCIAL ASSETS

EUR 1,000	2022	2021
Non-current assets		
Other shares and holdings	22	23
Total	22	23

13. NON-CURRENT RECEIVABLES

EUR 1,000	2022	2021
Long-term loan receivables	132	523
Other receivables	248	181
Total non-current assets	381	705

Non-current loan receivables consist of loans granted to personnel under the share-based incentive scheme. Share-based incentive schemes are described in section 4.5.3 Share-based payments. Other receivables are paid security deposits, mainly rental deposits.

14. DEFERRED TAX ASSETS AND LIABILITIES**14.1. ACCOUNTING POLICIES**

Deferred taxes are calculated on all temporary differences between the book value and the taxable value using valid tax rates sheet date. However, no deferred tax liability is recognised for taxable temporary differences where a deferred tax liability would at the balance arise from the initial recognition of goodwill, or if it arises from the initial recognition of an asset or liability, in the absence of a business combination and the transaction does not affect the accounting result or taxable income (or tax losses) at the time of the transaction. A deferred tax asset is recognised up to the amount corresponding to the likely taxable income arising in the future against which the difference can be offset. The most significant temporary differences arise from customer contracts, business combinations, items measured at fair value through the income statement, property, plant and equipment and intangible fixed assets.

NOTES TO THE BALANCE SHEET

NON-CURRENT ASSETS

The book value of deferred tax assets is reviewed at each reporting date and it is reduced to the extent that it is no longer probable that sufficient taxable income is available to use all or part of deferred tax assets. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that future taxable income allow for deferred tax asset recognition. Deferred tax assets and liabilities are deducted from each other when there is a legally enforceable right to set off tax assets against tax liabilities based on taxable income for the year and when deferred taxes are related to the same fiscus. Current tax assets and liabilities are deducted from each other when the enterprise has a legally enforceable right to set them off against each other and intends either to settle the debt in net or liquidate the asset and settle the liability at the same time.

14.2. DEFERRED TAX ASSETS AND LIABILITIES

2022 EUR 1,000	1 Jan.	Recognised in income statement	Recognised in other comprehensive income	Business combinations	31 Dec.
Deferred tax assets					
On customer contracts	445	-106			338
On depreciation not deducted for tax purposes	764	-95			669
On cloud-service arrangements	66	26		16	108
On Group consolidation and elimination	254	-38	15		231
Total	1,528	-213	15	16	1,347
Deferred tax liabilities					
Measurement at fair value	242	-63		233	412
On items measured at fair value through the income statement	438	-486			-48
On Group consolidation and elimination	6	42			48
Total	687	-507		233	412
Deferred taxes, net	842	295	15	-217	935

2021 EUR 1,000	1 Jan.	Recognised in income statement	Recognised in other comprehensive income	Business combinations	31 Dec.
Deferred tax assets					
On customer contracts	412	33			445
On depreciation not deducted for tax purposes	743	21			764
On cloud-service arrangements	25	41			66
On Group consolidation and elimination	176	78			254
Total	1,356	172			1,28
Deferred tax liabilities					
Measurement at fair value		7		236	242
On items measured at fair value through the income statement	280	158			438
On Group consolidation and elimination	2	5			6
Total	282	169		236	687
Deferred taxes, net	1,074	3		-236	842

Deferred tax assets have not been recognised for the loss incurred EUR 179,000 (2021: EUR 83,000).

NOTES TO THE BALANCE SHEET

CURRENT ASSETS

CURRENT ASSETS

15. INVENTORIES

15.1. ACCOUNTING POLICIES

The acquisition cost of inventories is determined using the FIFO method (first in-first out) or the weighted average price method. Inventories are measured either at acquisition cost or a lower net realisable value, which is the estimated selling price in the ordinary course of business, less the estimated costs necessary to realise the sale. The acquisition cost of materials and supplies includes the purchase price. Work in progress includes installation costs of the work in progress.

EUR 1,000	2022	2021
Materials and supplies, finished products	9,844	7,269
Work in progress	50	
Advance payments	456	17
Total inventories	10,350	7,286

Inventories include advance payments to the principal related to the business. Inventories held by the principal and used for Loihde's deliveries are used as collateral. The advance payment will be repaid during the financial year 2023. During the financial year, a EUR 162,000 (115,000) write-down was made in inventories. No write-downs were reversed during the financial year (2021: no reversal).

16. TRADE AND OTHER RECEIVABLES

16.1. ACCOUNTING POLICIES

Receivables arising from products sold to or services produced for customers in the ordinary course of business are classified as trade receivables. They normally fall due within 30 days and are therefore classified as current. Trade receivables are initially measured at the amount of consideration to which the entity expects to be entitled in exchange for the delivery of the promised goods or services to the customer. Due to the nature of current trade receivables, their book value is assumed to be the same as the fair value.

EUR 1,000	2022	2021
Trade receivables	17,223	14,664
Expected credit losses	-47	-184
Loan receivables	574	796
Other receivables	185	358
Total trade and other receivables	17,936	15,634

Determination of expected credit losses is described in Note 29.1 Credit risk, which also presents the age distribution of trade receivables.

17. ASSETS FROM CUSTOMER CONTRACTS

17.1. ACCOUNTING POLICIES

The invoicing schedule in Loihde Group may differ from the schedule of income recognition. When income is recognised before the customer is invoiced, Loihde recognises an asset item based on contracts.

EUR 1,000	2022	2021
Assets from customer contracts	3,478	2,725

18. ACCRUED INCOME

Current

EUR 1,000	2022	2021
Accrued income on purchases	1,865	2,073
Receivables arising from employee benefits	107	63
Other accrued income	1,437	1,549
Total	3,409	3,686

19. CURRENT TAX ASSETS

EUR 1,000	2022	2021
Tax allocation based on the profit/loss for the financial year	254	290

NOTES TO THE BALANCE SHEET

CURRENT ASSETS

20. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR 1,000	2022 Fair value	Profit+/- Loss	2021 Fair value	Profit+/- Loss
Shares and holdings in listed companies	42	35	49	41
Shares in mutual funds	11,144	-275	18,048	2,150
Total	11,186	-240	18,097	2,191

Fair values of investments measured at fair value through profit or loss are based on prices quoted in an active market (classified at level 1 of the fair value hierarchy).

Changes in fair value are recognised under financial income or expenses.

21. CASH AND CASH EQUIVALENTS

EUR 1,000	2022	2021
Cash and cash equivalents	21,173	24,354
Total	21,173	24,354

Cash and cash equivalents in the cash flow statement consist of cash and cash equivalents in the balance sheet.

22. ASSETS CLASSIFIED AS HELD FOR SALE

EUR 1,000	2022	2021
Non-current assets		
Tangible assets	0	692
Total non-current assets	0	692
Current assets		
Inventories	0	1
Trade and other receivables	0	65
Total current assets	0	66
Total	0	758

Loihde Group's subsidiary sold its fibre network business in January 2022. In the financial statements 31 December 2021, non-current and current items related to the business in question were presented as assets held for sale. Liabilities classified as held for sale are presented in Note 28. Liabilities related to non-current assets held for sale. The capital gain from the sale is presented in Note 4.1. Other operating income.

23. EQUITY

23.1. SHARES AND CHANGES IN EQUITY

Loihde Plc's shares are quoted on Nasdaq First North Growth Market Finland. Loihde Plc has one share class. All shares have equal rights to vote, to dividends and company assets. The shares do not have any par value. All issued shares have been paid in full.

NOTES TO THE BALANCE SHEET

23.1.1. Shares and changes in equity

EUR 1,000	Share capital	Reserve for invested un-restricted equity	Contingency reserve	Translation differences	Retained earnings	Treasury shares	Non-controlling interests	Total equity
1 Jan. 2022	1,504	49,320	8,132		51,734	-1,102		109,589
Comprehensive income for the financial period					3,359			3,359
Value remeasurements of defined benefit plans					-60			-60
Translation differences				-4	1			-3
Dividend distribution, allocation of funds					-3,093			-3,093
Repurchase of shares		-420						-420
Cancellation of treasury shares					-1,102	1,102		
Profits from share-based payments					531			531
Share issue		1,288						1,288
Expired dividends on shares in the joint account					120			120
31 Dec. 2022	1,504	50,189	8,132	-4	51,490			111,312
1 Jan. 2021	1,504	49,706	8,132		52,037	-1,102	357	110,633
Comprehensive income for the financial period					6,934		-10	6,924
Translation differences					-1			-1
Dividend distribution, allocation of funds		-5,074			-10,276		-36	-15,387
Profits from share-based payments					914			914
Share issue		4,689						4,689
Expired dividends on shares in the joint account					2,124			2,124
Acquisition and divestment of subsidiary					3		-311	-307
31 Dec. 2021	1,504	49,320	8,132		51,734	-1,102		109,589

	Number of shares all shares	Number of outstanding shares from parent company
1 Jan. 2022	6,010,041	5,929,911
Repurchase of shares		-25,325
Transfer of shares in the joint account to own shares		-302,300
Cancellation of treasury shares	-407,755	
Share issue	127,423	127,423
31 Dec. 2022	5,729,709	5,729,709
1 Jan. 2021	5,764,428	5,684,298
Share issue	245,613	245,613
31 Dec. 2021	6,010,041	5,929,911

NOTES TO THE BALANCE SHEET

CURRENT ASSETS

23.1.2. Transactions related to shares**Transactions related to shares 1 Jan.-31 Dec. 2022****Share issues 1 Jan.-31 Dec. 2022**

The Annual General Meeting authorised the Board of Directors to decide on the issue of a maximum of 683,000 shares. The authorisation concerns both issue of new shares and transfer of treasury shares held by the company. A maximum of 483,000 shares can be issued as consideration in M&A transactions, a maximum of 200,000 shares as part of employee incentive schemes or for other purposes in the manner and to the extent decided by the Board of Directors. The authorisation to issue shares to be used in M&A transaction remains valid until the closing of the next Annual General Meeting but no longer than until 30 June 2023, and for the shares related to the employee incentive scheme for a period of 4 years from the decision of the Annual General Meeting. The authorisation does not revoke previous authorisations granted by the Annual General Meeting on 25 June 2020 and 6 May 2021 to the Board of Directors to the extent that previous authorisations concern shares issued as part of employee incentive schemes.

The company has issued a total of 127,423 new shares during the financial year as follows:

The Annual General Meeting approved a directed share issue against payment for the members of the Board of Directors related to the long-term share-based incentive scheme where a maximum of 3,667 shares were issued for subscription by the Board of Directors.

The company issued 3,667 shares at a subscription price of EUR 13.98 per share in connection with the share-based incentive scheme for the Board of Directors.

In March 2022, the Board of Directors decided on a directed share issue to pay additional and bonus shares in the staff incentive scheme that began in autumn 2019. A total of 22,093 new shares were transferred free of charge in the share issue to the scheme participants.

In June 2022, the Board of Directors decided on a directed share issue against payment related to the share-based incentive scheme for the staff, where 50,208 shares were issued at a subscription price of EUR 12.70 per share.

In November 2022, the Board of Directors decided on a directed share issue to pay the bonus item of the CEO's share-based incentive scheme. In the issue, 1,455 shares were transferred free of charge.

The incentive schemes and their terms are described in more detail in Note 4.5.3.

In the share issue directed at the former owner of the company in connection with the Onrego Ltd acquisition, Loihde Plc issued 50,000 new shares at a subscription price of EUR 11.99 per share.

Transactions related to treasury shares 1 Jan.-31 Dec. 2022

The AGM authorised the Board of Directors to resolve on the repurchase of a maximum of 230,000 own shares in one or several tranches using the company's unrestricted shareholders' equity. The authorisation entitled the Board of Directors to decide on the acquisition also deviating from the pro rata holdings of shareholders (directed acquisition). The authorisation consisted of acquiring the shares either from the First North marketplace in accordance with its rules and instructions, in which case the purchase price is determined by price at the time of acquisition or in a bid to shareholders, in which case the purchase price must be the same for all shareholders. It was decided to acquire own shares for the purpose of implementing acquisitions or other arrangements relating to the company's business, improving the company's financial structure, as part of implementing the company's incentive scheme or otherwise for further transfer or cancellation. The authorisation included the right of the Board of Directors to decide on all other terms and conditions for acquiring own shares. The authorisation was in force until the end of the next Annual General Meeting, but no longer than until 30 June 2022.

On 4 January 2022, Loihde Plc's Board of Directors decided to launch a share buyback program in accordance with the authorisation given by the Annual General Meeting to the Board on 6 May 2021. The buyback of shares began on 10 January 2022 and ended on 4 May 2022. During this period, Loihde acquired 25,325 own shares with a total value of EUR 420,000 and an average price of EUR 16.57. The shares were acquired in a trading on Nasdaq First North Growth Market Finland at the market price at the time of acquisition.

On 6 May 2021, Loihde Plc's Annual General Meeting resolved that the shares held in the Company's joint account and the rights related to them such as dividends would be forfeited. The forfeiture concerned paper shares whose entry into the shareholder's book-entry account had not been validly requested by 30 June 2021. If the share certificate or other similar document had disappeared, the decision of its nullification had to be requested and the other measures required for the entry of the shares into the shareholder's book-entry account had to be completed by 31 December 2021. After processing the entry requests submitted as described above, 302,300 shares were transferred from the joint account of Loihde Plc.

In accordance with the decision of the Annual General Meeting, the shares in the joint account lost the rights to unpaid dividends. In the financial statements 31 December 2021, the portion of the lost dividend for which no request had been made by 30 June 2021 was transferred to retained earnings. In this context, EUR 2,124,000 was transferred to profit. In the financial statements 31 December 2022, the final amount was transferred to retained earnings to the extent that the transfer did not take place on 31 December 2021. In 2022, the amount transferred to retained earnings was EUR 120,000.

During the review period, the Board of Directors decided to cancel a total of 407,755 of treasury shares. Of these, 25,325 shares had come into possession of the company through the share buyback scheme, 302,300 shares had been transferred from the joint account and the company previously held 80,130 shares.

The parent company did not have any own shares at the end of the review period. At the end of the review period, the subsidiaries had 400 shares in Loihde Plc, which represents 0.0% of the total share capital.

Transactions related to shares 1 Jan.-31 Dec. 2021**Share issues 1 Jan.-31 Dec. 2021**

The Annual General Meeting authorised the Board of Directors to decide on the issue of a maximum of 660,000 shares. The authorisation concerned both the issue of new shares and transfer of treasury shares held by the company. A maximum of 580,000 shares can be issued as consideration in M&A transactions, a maximum of 80,000 shares as part of employee incentive

NOTES TO THE BALANCE SHEET

CURRENT ASSETS

schemes or for other purposes in the manner and to the extent decided by the Board of Directors. The authorisation to issue shares to be used in M&A transaction remains valid until the closing of the next Annual General Meeting but no longer than until 30 June 2022, and for the shares related to the employee incentive scheme for a period of 4 years from the decision of the Annual General Meeting. The authorisation does not revoke previous authorisations granted by the Annual General Meeting on 9 May 2019 and 25 June 2020 to the Board of Directors to the extent that previous authorisations concern shares issued as part of employee incentive schemes.

The company has issued a total of 245,613 new shares during the comparison period 1 January-31 December 2021 as follows:

The Annual General Meeting approved a directed share issue against payment for the members of the Board of Directors related to the long-term share-based incentive scheme where a maximum of 3,168 shares were issued for subscription by the Board of Directors. The company issued 2,740 shares at a subscription price of EUR 17.50 per share in connection with the share-based incentive scheme for the Board of Directors.

In March 2021, the Board of Directors decided on a directed share issue to pay additional and bonus shares in the staff incentive scheme that began in autumn 2018. A total of 25,296 new shares were transferred free of charge in the share issue to the scheme participants.

In May 2021, the Board of Directors decided on a directed share issue against payment related to the share-based incentive scheme for the staff, where 82,842 shares were issued at a subscription price of EUR 19.18 per share.

In November 2021, the Board of Directors decided on a directed share issue to pay the bonus item of the CEO's share-based incentive scheme. In the issue, 3,000 shares were transferred free of charge.

In the share directed share issue in connection with the Talent Base Oy (now Loihde Advisory Ltd) acquisition directed at the former owners of the company Loihde Plc issued 131,735 new shares at a subscription price of EUR 23.17 per share.

Transactions related to treasury shares 1 Jan.-31 Dec. 2021

The AGM authorised the Board of Directors to resolve on the repurchase of a maximum of 230,000 own shares in one or several tranches using the company's unrestricted shareholders' equity. The authorisation entitled the Board of Directors to decide on the acquisition also deviating from the pro rata holdings of shareholders (directed acquisition). The authorisation consisted of acquiring the shares either from the First North marketplace in accordance with its rules and instructions, in which case the purchase price is determined by price at the time of acquisition or in a bid to shareholders, in which case the purchase price must be the same for all shareholders. It was decided to acquire own shares for the purpose of implementing acquisitions or other arrangements relating to the company's business, improving the company's financial structure, as part of implementing the company's incentive scheme or otherwise for further transfer or cancellation. The authorisation included the right of the Board of Directors to decide on all other terms and conditions for acquiring own shares. The authorisations were valid until the end of the next Annual General Meeting, but no longer than until 30 June 2022.

During the comparison period 1 January-31 December 2021, there were no changes in the number of treasury shares. At the end of the comparison period 1 January-31 December 2021, the parent company had 80,130 treasury shares, representing 1.3% of the total share capital. The subsidiaries had 400 shares in Loihde Plc, representing 0.0% of the total share capital.

23.2. CONTINGENCY RESERVE

The contingency reserve contains the amount transferred from unrestricted equity in accordance with the articles of association or a decision by the Annual General Meeting.

23.3. RESERVE FOR INVESTED UNRESTRICTED EQUITY

The reserve for invested unrestricted equity includes the subscription price of investments made by the shareholders in the company under the Limited Liability Companies Act, unless the company has expressly decided otherwise.

23.4. TRANSLATION DIFFERENCES

Translation differences include the conversion of the foreign subsidiary's financial statements into the parent company's functional currency.

23.5. DIVIDENDS

The Annual General Meeting decided to distribute a dividend of EUR 0.14 per share and an additional dividend of EUR 0.41 per share, totalling EUR 0.55 per share, for the financial year that ended on 31 December 2021. The record date for dividends was 9 May 2022 and the dividend was paid on 17 May 2022.

For the financial year that ended on 31 December 2022, the Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.15 per share be distributed on the Parent Company's distributable assets (EUR 110,881,942.35) of which the profit for the financial year is EUR 57,178.31. In addition, the Board of Directors proposes an additional dividend of EUR 0.65 per share based on the sales gain from the fibre network business. The dividend and additional dividend would correspond to a total of EUR 4,583,767.20, based on the situation at the date of signature of the financial statements. No dividend is paid for treasury shares. The dividend will be paid to shareholders that are registered as shareholders in the list maintained by Euroclear Finland Oy on the dividend record date, 8 May 2023. The Board of Directors proposes that the dividend be paid on 16 May 2023.

In addition to the above-mentioned dividend distribution, the Board of Directors proposes that the Annual General Meeting authorise the Board of Directors to decide, at its discretion, on the distribution of an additional dividend of up to EUR 1.00 per share from the Parent Company's distributable assets, with the authorisation being valid until the beginning of the next Annual General Meeting. According to the situation at the date of signature of the financial statements, the authorisation would correspond to EUR 5,729,709.00. The company publishes such a decision separately and confirms the final record and payment dates at the same time. The distribution of additional assets will depend on the capital needs in the next strategy period 2024-2027, which the company aims to report by the end of 2023.

NOTES TO THE BALANCE SHEET

NON-CURRENT LIABILITIES

24. INTEREST-BEARING FINANCIAL LIABILITIES

EUR 1,000	2022	2021
Interest-bearing financial liabilities	18	38
Lease liabilities	4,795	4,404
Total interest-bearing liabilities	4,813	4,443

Interest-bearing financial liabilities consist of instalment liabilities and a State Treasury loan. Fair value is not presented because the book value of interest-bearing loans is reasonably close to the fair value. Lease liabilities are presented in Note 10. Rental agreements

25. INTEREST-FREE LIABILITIES

EUR 1,000	2022	2021
Liabilities from customer contracts	779	1,146
Accrued expenses and deferred income		
Liabilities arising from employee benefits	48	46
Pension liabilities, defined-benefit plans	205	169
Deferred tax liability, detailed in Note 14.2.	412	687
Total interest-free liabilities	1,444	2,048
Total non-current liabilities	6,257	6,490

Contractual liabilities refer to the obligation to deliver goods or services to a customer from whom the Group has received consideration (or is required to pay consideration). A contractual liability is recognised when Lohde has received payment or the payment falls due but income has not yet been recognised. Contractual liabilities are recognised as revenue when the Group's performance is in accordance with the contract.

CURRENT LIABILITIES

26. INTEREST-BEARING FINANCIAL LIABILITIES

EUR 1,000	2022	2021
Interest-bearing financial liabilities	20	20
Lease liabilities	3,953	3,853
Total interest-bearing liabilities	3,973	3,873

Interest-bearing financial liabilities consist of instalment liabilities and a State Treasury loan. Fair value is not presented because the book value of interest-bearing loans is reasonably close to the fair value. Lease liabilities are presented in Note 10. Rental agreements

27. INTEREST-FREE LIABILITIES

EUR 1,000	2022	2021
Trade payables and other liabilities		
Trade payables	6,800	4,732
Other short-term liabilities	5,355	5,170
Total	12,155	9,902
Liabilities from customer contracts	2,919	3,411
Current tax liabilities		
Tax allocation based on the profit/loss for the financial year	639	120
Accrued expenses and deferred income		
Liabilities arising from employee benefits	12,288	11,347
Accrued expenses and deferred income on purchases	1,230	1,399
Other accrued expenses and deferred income	131	102
Total accrued expenses and deferred income	13,649	12,849
Total interest-free liabilities	29,363	26,281
Total current liabilities	33,336	30,155

Trade payables are unsecured and normally payable within 30 days of being recorded. The book values of trade payables and other interest-free liabilities are assumed to correspond to their fair values due to their short-term nature. Other current liabilities consist mainly of VAT liabilities and liabilities related to employee contributions.

Contractual liabilities refer to the obligation to deliver goods or services to a customer from whom the Group has received consideration (or is required to pay consideration). A contractual liability is recognised when Lohde has received payment or the payment falls due but income has not yet been recognised. Contractual liabilities are recognised as revenue when the Group's performance is in accordance with the contract.

NOTES TO THE BALANCE SHEET

28. LIABILITIES RELATED TO NON-CURRENT ASSETS HELD FOR SALE

EUR 1,000	2022	2021
Non-current liabilities		
Interest-bearing financial liabilities	0	3
Total non-current liabilities	0	3
Current liabilities		
Trade payables and other liabilities	0	65
Interest-bearing financial liabilities	0	39
Total current liabilities	0	104
Total	0	107

Loihde Group's subsidiary sold its fibre network business in January 2022. In the financial statements 31 December 2021, liabilities related to the business in question were classified as liabilities related to non-current asset items held for sale. The capital gain from the sale is presented in Note 4.1. Other operating income.

29. MANAGEMENT OF FINANCIAL RISKS AND CAPITAL

The aim of Loihde's financial risk management is to reduce the impact of factors arising from changes in financial markets on the company's performance, operations and balance sheet structure. Financial risks are mainly caused by counterparty related credit risk, liquidity risk, and fluctuations in market interest rates and exchange rates. The CEO, management and ultimately the Board of Directors are responsible for risk management. Loihde Group's financial administration assesses the Group's financial risks and the measures with which the Group intends to hedge against potential risks. The Group's financial administration also supports subsidiaries in managing financing and financial risks. Subsidiaries provide the Group's financial administration with up-to-date information on their financial position and credit risk.

29.1. CREDIT RISK

Loihde's credit risk relates to customers with which the Group has open receivables or with whom long-term agreements have been made. A credit risk may occur if the customer is unable to meet their contractual obligations. Loihde only deals with identified, creditworthy parties. Receivable balances are monitored and receivables are actively collected.

29.1.1. Expected credit losses

Loihde estimates the amount of trade receivables and the risk of credit loss quarterly in connection with reporting. Loihde's credit losses have historically been limited, so the expected credit loss is assessed on risk-basis according to the general model.

The following factors are used in the assessment:

- Information on issues affecting the economy of the customer and industry
- The amount and duration of outstanding payments
- The customer's financial situation and payment behaviour
- Received individual guarantees

A credit loss provision is recognised for overdue payments based on the overall estimated risk using case-by-case assessment. In principle, if the trade receivable is more than 90 days overdue and there is no security for it, it is recognised as a credit loss provision.

Contractual assets relate to uninvoiced work in progress and have the same risk characteristics as trade receivables arising from similar contracts. Therefore, Loihde's management has assumed that the expected loss rate of trade receivables not yet due is reasonably close to the loss rate of the contractual assets.

The recognised deduction for expected credit losses are presented in the balance sheet as a decrease in the gross book value of trade receivables. The amount of expected credit losses is recognised through profit or loss as a change in the credit loss provision in other operating expenses.

Loihde derecognises trade receivables as final credit losses when recovery has proved unsuccessful. For example, a final credit loss is recognised when the debt collection partner issues a credit loss recommendation or the debtor seeks bankruptcy or the company cannot reach an agreement on the payment plan with the customer with financial difficulties.

Below is the age distribution of trade receivables and the amount of the credit loss provision.

29.1.2. Breakdown of trade receivables by maturity

EUR 1,000	2022	2021
Not overdue	16,431	12,312
Matured 1-30 days ago	558	715
Matured 31-60 days ago	124	1,339
Matured 61-90 days ago	41	210
Matured more than 90 days ago	70	90
Total	17,223	14,666
Reservations for credit losses	-47	-186
Total	17,177	14,480

29.1.3. Credit risk of other financial assets

Cash and cash equivalents are invested in financially sound banks and financial institutions and the company does not consider them to involve material credit risk. Funds invested in equity and fixed income funds are managed by reliable asset managers and are distributed between several market-quoted instruments so the company does not consider them to include material credit risk.

Loihde has granted credits to its personnel for payment of the subscription price related to the share-based incentive scheme for the personnel. They are secured by shares subscribed for in the share-based incentive scheme and the company does not consider them to involve material credit risk.

29.2. LIQUIDITY RISK

Loihde's liquidity risk is related to material changes occurring in the operating environment with a significant impact on Loihde's profitability and cash flow. Loihde makes monthly business estimates related to profitability and reviews its financial situation through the cash flow statement.

The financing of Loihde's subsidiaries is mainly handled with intra-group loans. In addition, Loihde uses credit facilities for the short-term financing needs of its subsidiaries.

NOTES TO THE BALANCE SHEET

29.2.1. Sources of financing

EUR 1,000	2022	2021
Financial securities	11,186	18,097
Cash in hand and in banks	21,173	24,354
Total	32,358	42,451
Credit facilities		
Unused overdraft limits	20	
Total	20	

29.2.2. Maturity of financial liabilities

The following tables describe the undiscounted maturity breakdown of remaining financial liabilities on the balance sheet date.

2022 EUR 1,000	Accounting value	Agreement-based cash flows total	2023	2024	2025	2026	Over 4 years
Interest-bearing financial liabilities *)	38	38	20	18			
Lease liabilities	8,748	8,863	4,080	2,778	1,445	393	168
Trade payables	6,800	6,800	6,800				
Other financial liabilities **)	86	86	86				
Total	15,672	15,788	10,986	2,796	1,445	393	168

*) Interest-bearing liabilities consist of hire-purchase debts and a State Treasury loan.

***) Other financial liabilities consist of a net cash adjustment related to the purchase of Onrego Ltd that was paid in January 2023

2022 EUR 1,000	Accounting value	Agreement-based cash flows total	2022	2023	2024	2025	Over 4 years
Interest-bearing financial liabilities *)	58	58	20	20	18		
Lease liabilities	8,258	8,365	3,969	2,316	1,251	666	163
Trade payables	4,732	4,732	4,732				
Total	13,048	13,155	8,721	2,336	1,269	666	163

*) Interest-bearing liabilities consist of hire-purchase debts and a State Treasury loan.

29.3. MARKET RISKS

29.3.1. Foreign exchange rate risks

A significant part of the Group's purchases and sales and other monetary items are denominated in euro. Therefore, the Group is not significantly exposed to exchange rate risk.

Loihde's exchange rate risk is mainly related to the Swedish krona due to a Swedish subsidiary. The Swedish subsidiary has, e.g., SEK-denominated sales revenue and trade receivables, purchases and accounts payable, personnel expenses and liabilities related to personnel expenses. Loihde does not have foreign currency bank loans. Loihde does not actively hedge against currency risks. The operating income and local expenses of the Swedish company are in the same currency and are subject to natural hedging.

The Swedish subsidiary buys services not only from local activities but to some extent also from Finnish subsidiaries in euros, which creates a transaction risk whose amount is not material. Loihde's other subsidiaries may occasionally have individual currency-based purchases or sales, the hedging of which is considered on a case-by-case basis if the amount is material.

The company is exposed to translation risk as the Swedish subsidiary's equity is denominated in a currency other than the functional currency of the parent company. The company's exposure to the translational risk is not significant. The company is not hedged against the translational risk.

29.3.2. Interest rate risk, equity and financial market risk

In its activities, Loihde is exposed to interest rate risks and equity and financial market risks through the valuation of its investment portfolio. Changes in the macroeconomic environment or the general situation of the financial markets may have a negative impact on the value of the portfolio. Loihde follows the principles of the asset management strategy adopted by the Board of Directors.

Loihde's interest-bearing financial liabilities amount to EUR 38,000 and are not subject to interest rate risk. Interest-bearing liabilities consist of instalment liabilities and a State Treasury loan.

29.4. CAPITAL MANAGEMENT

The purpose of Loihde's capital management is to ensure return on the capital invested by the shareholders and to ensure normal business conditions and increase shareholder value in the long term. The equity capital in the consolidated balance sheet is managed as capital and its structure can be affected by, e.g., income financing, dividend distribution and share issues. The Board of Directors monitors the Group's equity ratio and the development of the balance sheet on a quarterly basis. Loihde's equity ratio on 31 December 2022 was 73.8% (74.9%)

29.5. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

A financial instrument is any contract that generates financial assets for one party and a financial liability or an equity instrument for the other party. The book values and fair values of financial assets and liabilities are estimated to be equivalent.

NOTES TO THE BALANCE SHEET

29.5.1. Financial assets

Financial assets are derecognised when the right to cash flows of a financial asset ceases to exist or an item included in financial asset has been transferred out of the Group and the associated risks have been transferred out of the Group.

The expected credit loss on trade receivables is recognised in accordance with IFRS 9. The amount of the expected credit loss amount is updated quarterly to reflect the change in the credit risk. Loihde's credit losses relative to the amount of trade receivables have historically been minor, so the expected credit loss is assessed on risk-basis according to the general model. Credit losses are presented under other operating expenses in the income statement.

The credit risk of financial assets, credit risk management and the determination of the expected credit loss from trade receivables are described in Note 29.1. Credit risk.

Financial assets are initially recognised at fair value. Trade receivables are initially recognised at transaction price and subsequently at amortised acquisition cost less expected credit losses. Investments in quoted shares and equity and fixed income funds are measured at fair value through profit or loss. They are recognised at fair value in the balance sheet and net changes in fair value are recognised in the income statement.

29.5.2. Financial liabilities

Financial liabilities are initially recognised at fair value less transaction costs. After initial recognition, financial liabilities are measured at amortised acquisition cost using the effective interest method. A financial liability is classified as current when it is settled within 12 months of the balance sheet date, or if the Group has no unconditional right to defer the payment of the liability over 12 months from the balance sheet date. A financial liability is derecognised from the balance sheet when it is settled, cancelled or it expires.

29.5.3. Financial assets and liabilities by valuation group

EUR 1,000	Fair value hierarchy	2022	2021
Financial assets			
Financial assets recognised at amortised cost			
Non-current			
Other financial assets	2	22	23
Non-current interest-bearing receivables	2	132	523
Other non-current receivables	2	248	181
Current			
Trade receivables		17,177	14,480
Current interest-bearing receivables	2	574	796
Other current receivables	2	185	358
Cash and cash equivalents		21,173	24,354
Total		39,511	40,715
Financial assets recognised at fair value through profit or loss			
Investments	1	11,186	18,097
Total		11,186	18,097
Total financial assets		50,696	58,812
Financial liabilities			
Financial liabilities recognised at amortised cost			
Non-current			
Interest-bearing financial liabilities	2	18	38
Lease liabilities		4,795	4,404
Current financial liabilities			
Interest-bearing financial liabilities	2	20	20
Lease liabilities		3,953	3,853
Trade payables		6,800	4,732
Other financial liabilities		86	
Total		15,672	13,048
Total financial liabilities		15,672	13,048

The book values and fair values of financial assets and liabilities are estimated to be equivalent.

29.6. FINANCIAL ASSETS AND LIABILITIES

29.6.1. Trade and other receivables

Trade receivables and other receivables are recognised at amortised acquisition cost. The original book value of the receivables corresponds to their fair value because the effect of discounting is not material considering the maturity of the receivables.

29.6.2. Financial assets recognised at fair value through profit or loss

Loihde measures investments in quoted shares and equity and fixed income funds at fair value through profit or loss. They are recognised at fair value in the balance sheet and net changes in fair value are recognised in the income statement.

29.6.3. Trade payables and other liabilities

Trade payables and other liabilities are recognised at amortised acquisition cost. The original book value of trade payables and other liabilities corresponds to their fair value, since the effect of discounting is not material considering the maturity of the liabilities.

29.6.4. Hierarchy levels

Level 1: Fair values are based on quoted (unadjusted) prices of identical assets or liabilities in an active market.

Level 2: The fair values of level 2 instruments are substantially based on inputs other than quoted prices, but nevertheless information that can be observed, directly or indirectly, for the asset or liability in question.

Level 3: If one or more significant factors are not based on observable market data, the instrument is included in level 3.

NOTES TO THE BALANCE SHEET

30. BUSINESS COMBINATIONS**30.1. ACCOUNTING POLICIES**

Acquired subsidiaries are consolidated in the consolidated financial statements from the date when Loihde acquires control of the company. Business combinations are treated using the acquisition method in accordance with IFRS 3. The consideration given in business combinations is measured at fair value determined at the acquisition date as the sum of the fair values of the assets transferred from the Group on the acquisition date and the liabilities arising for the earlier owners of the acquired target considering the possible non-controlling interests in the acquisition target. Goodwill is recognised in the amount by which the acquisition cost exceeds the net value of the acquired assets and liabilities at the time of acquisition. Goodwill is considered to include acquired labour, future customers, wider product and service offerings, and strengthened market position.

The determination of the fair value of acquired net assets is based on the fair value of a similar asset item, the estimated expected cash flows from the acquired asset items, or the estimate of the payments needed to meet the obligation. The determination of the fair value of the additional purchase price is based on estimates concerning the parameters of the additional purchase price 's terms over a period of time specified in the terms. Deferred taxes are measured in accordance with the principles of IAS 12

Acquisition-related expenses are recognised in other operating expenses in the income statement.

After initial recognition, goodwill is measured at acquisition cost less any accumulated impairment losses. For impairment testing, goodwill acquired in a business combination is allocated from the acquisition date to the Group's cash-generating unit, which is expected to benefit from the business combination, regardless of whether other assets and liabilities of the acquisition target are allocated to this unit. More information on goodwill and impairment testing, see Note 11.5 Impairment testing.

Contingent considerations from business combinations are measured at fair value and included in the total consideration. It is subsequently measured in accordance with the requirements set out in IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Changes in the fair value of contingent consideration that do not arise within one year of the acquisition and relate

to facts and circumstances that existed at the time of acquisition are recognised in the income statement.

30.2. Key estimates and assumptions requiring management discretion

Net assets acquired in a business combination are measured at fair value, determined based on an estimate of the market cap of similar asset items or expected future cash flows of intangible assets. Valuation at fair value has required management estimates. Management believes that the estimates and assumptions used are sufficiently reliable for determining the fair value.

30.3. BASIC INFORMATION ABOUT THE SUBSIDIARY ACQUISITION**Acquisitions 2022**

In May 2022, Loihde Plc acquired the entire share capital of Turvakolmio Group Oy. Turvakolmio has had a strong position in the Helsinki metropolitan area and in fire safety services, so it complements Loihde's offering and service ability well. We believe that as a result of the acquisition, Loihde Trust became Finland's largest service provider of electronic security solutions. Turvakolmio also introduced interesting digital solutions for the automation of circular economy processes to Loihde's offering. Turvakolmio Group Oy has been consolidated into the Group's figures as of 1 June 2022, when control was transferred to Loihde Plc. The debt-free purchase price of the purchased share capital on 1 June 2022 was EUR 6.85 million, which was paid in full in cash. Considering net debt and net working capital adjustments, the financial impact was EUR 4.0 million. In connection with the transaction, Loihde paid the seller the portion of the subordinated loan that came with the transaction EUR 2.2 million. The Group has recorded EUR 182,000 in transaction costs related to the acquisition. Transaction costs are included in other operating expenses in the income statement.

In November 2022, Loihde Plc acquired the entire share capital of Onrego Ltd. Onrego Ltd is a Finnish company specializing in cloud platforms and cloud technologies that offers services for deployment of cloud services, management and security of cloud environments, and utilising automation. The purpose of the acquisition is to strengthen Loihde's cloud expertise, which is important in the production of both digital services and security solutions and expands its service offering with cloud management services. Onrego Ltd has been consolidated into

the Group's figures as of 1 December 2022, when control was transferred to Loihde Plc. The debt-free purchase price of the purchased share capital on 1 December 2022 was EUR 4.3 million, which was paid in full in cash. Considering net debt and net working capital adjustments, the financial impact was EUR 5.1 million. The Group has recognised EUR 176,000 in transaction costs related to the acquisition. Transaction costs are included in other operating expenses in the income statement.

Acquisitions 2021

In May 2021, Loihde Plc acquired the entire share capital of the IT consulting company Talent Base Oy (now. Loihde Advisory Ltd). The company strengthens Loihde's digital development business, especially with its expertise in data-driven management consulting and solution planning expertise. Together with the other companies in the business area, it forms a versatile network of digital development employing over 300 top professionals. Talent Base Oy has been consolidated into the Group's figures as of 1 June 2022, when control was transferred to Loihde Plc. The purchase price of the purchased share capital on 1 June 2022 was EUR 10 million, which was paid in full in cash. Considering net debt and net working capital adjustments, the financial impact was EUR 10.5 million. The Group has recognised EUR 262,000 in transaction costs related to the acquisition. Transaction costs are included in other operating expenses in the income statement.

30.4. THE CONSIDERATION PAID AND CASH FLOW EFFECT OF THE ACQUISITION

EUR 1,000	2022	2021
Cash consideration	9,124	10,503
Subtract: amounts acquired		
Cash assets	991	575
Net cash flow - investments	8,133	9,927

Acquisition-related expenses are included in other operating expenses in the comprehensive income statement and in cash flow from investments in the cash flow statement.

EUR 1,000	2022	2021
Administrative expenses	212	94
Asset transfer tax	146	168
Total	358	262

NOTES TO THE BALANCE SHEET

Fair values of the acquired assets and liabilities on the day of acquisition

EUR 1,000	2022	2021
Assets		
Intangible assets		
Customer relationships	1,164	1,178
Other intangible assets	221	32
Total intangible assets	1,385	1,209
Tangible assets	128	30
Inventories	1,188	
Trade receivables	2,037	1,698
Deferred tax receivable	16	25
Other assets	853	134
Cash and cash equivalents	991	575
Total assets	6,598	3,671
Liabilities		
Interest-bearing liabilities	2,710	52
Deferred tax liability	233	236
Interest-free liabilities	3,869	1,807
Total liabilities	6,812	2,094
Acquired identifiable net assets	-213	1,578
Goodwill	9,338	8,925
Acquired net assets = total consideration	9,124	10,503

30.5. THE IMPACT OF THE ACQUISITION ON NET SALES AND PROFIT

The net sales of acquired businesses consolidated into the Group were EUR 8,847,000 during the financial year (2021: EUR 4,544,000) and they accumulated losses of EUR -108,000 (2021: profit of EUR 722,000).

If the acquisitions had taken place on 1 January the pro forma net sales of the Group for the financial year would have been EUR 132,769,000 (2021: EUR 108,516,00) and profit EUR 3,398,000 (2021: EUR 7,190,000).

31. CONTINGENT LIABILITIES, ASSETS AND COMMITMENTS

31.1. CONTINGENT LIABILITIES

31.1.1. Accounting policies

Contingent liabilities are possible obligations resulting from previous events, the existence of which will only be ascertained once an uncertain event that is beyond the Group's control materialises. Existing obligations that are not likely to require the fulfilment of a payment obligation or the amount of which cannot be reliably determined are also deemed to constitute contingent liabilities. The contingent liability is presented in the notes to the financial statements.

31.1.2. Contingent liabilities

Loihde Group has a contingent liability of EUR 510,000 for the City of Vaasa related to a land use contract that is secured by a bank guarantee of EUR 612,000. The realisation of the debt is conditional on the acceptance of the plan related to the land use contract being approved and the building permit becoming final.

31.2. COLLATERAL AND CONTINGENT LIABILITIES

EUR 1,000	2022	2021
Enterprise mortgages	84	84
Lease collateral	516	347
Work and warranty period collateral, amount in use	971	783
Bank guarantees	612	
Other commitments	105	73
Total	2,288	1,287
VAT liability on real estate investments	67	74
Total guarantees and contingent liabilities	2,355	1,361

Loihde Group's parent company has given a guarantee to some of the guarantees provided by Group companies in respect of work and warranty period collateral, as well as bank guarantees.

Loihde Group also has a lease commitment related to office rental, with a lease term starting on 1 January 2023 and payment obligation starting on 1 March 2023. The period of notice for the contract is 6 months and the first possible start date for the notice period is 30 June 2027. The undiscounted lease liability related to the lease is EUR 1,220,000 on 31 December 2022.

31.3. RDISPUTES AND LITIGATIONS

Loihde Group has no open disputes or litigations.

32. RELATED PARTY TRANSACTIONS

The subsidiaries, key management personnel (members of the Board, the CEO and members of the Leadership Team) and their close family members and entities in which these persons have either control or joint control constitute Loihde Plc's related parties.

A list of subsidiaries is presented in section 1. Accounting policies

32.1. SALARIES AND FEES PAID TO MANAGEMENT

The key personnel of Loihde Group consist of the members of the Board, the CEO of the Group, and members of the Leadership Team. The remuneration of the Supervisory Board for 2021 and the remuneration of the Nomination Board are also presented in the salaries and fees of the management. The amounts shown in the tables are the compensation paid to management during the reporting period.

NOTES TO THE BALANCE SHEET

32.2. SALARIES AND FEES OF THE BOARD OF DIRECTORS

EUR 1,000	Monetary wages 2022	Monetary wages 2021	Share-based payments 2022	Share-based payments 2021
Timo Kotilainen (Chairman of the Board)	56	59	2	2
Jussi Hattula (until 5 May 2022)	22	32		
Kaj Hagros	31	32	1	1
Samu Konttinen		3		
Elina Piispanen	32	31	1	1
Matti Piri	33	28	1	1
Katriina Valli		2		
Stefan Wikman	29	28	1	1
Total	204	215	6	5

The share-based payments included in the salaries and fees paid to the Board of Directors derive from the 10% discount on the shares sold under the incentive scheme.

The Board fee paid in 2021 to Samu Konttinen relates to the fee earned in the Board role during 2020.

32.3. SALARIES AND FEES PAID TO OTHER GOVERNING BODIES

EUR 1,000	2022	2021
Supervisory Board	0	46
Nomination Committee	14	0
Total	14	46
Salaries and fees of the Group's CEO		
Samu Konttinen (CEO since 1 January 2021)		
Salaries and fees	387	291
Share-based payments	38	49
Total	425	340

EUR 1,000	2022	2021
Salaries and fees of the Group Leadership Team (excluding the CEO)		
Salaries and fees	1,137	939
Share-based payments	37	49
Total	1,174	988
Loans granted to members of the Group's Leadership Team		
At the beginning of the financial year	48	35
Loan repayments	-39	-20
Withdrawals of new loans	76	33
At the end of the financial year	85	48

In addition to the above, the Group did not have any material related party transactions other than intra-Group related party transactions.

32.4. MANAGEMENT'S PENSION COMMITMENTS

Some of the members of the Group's Leadership Team have a retirement age of 62 years and some a retirement age of 63 years. Members of the Leadership Team are not involved in defined-benefit pension plans.

33. EVENTS AFTER THE FINANCIAL YEAR

No material events after the financial year.

Parent company's income statement (FAS)

EUR 1,000	Note	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
REVENUE	3	2,831	1,289
Other operating income	5	318	6,601
Personnel expenses	6	-3,183	2,751
Depreciation, amortisation and impairment	7	-274	-162
Other operating expenses		-2,889	-3,927
OPERATING PROFIT/LOSS (EBIT)		-3,196	1,050
Finance income and expenses	9	-187	761
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES		-3,382	1,811
Appropriations	10	3,621	3,002
Income taxes	11	-182	978
PROFIT/LOSS FOR THE PERIOD		57	5,791

Parent company's balance sheet (FAS)

EUR 1,000	Note	31 Dec. 2022	31 Dec. 2021
ASSETS			
NON-CURRENT ASSETS	12		
Intangible assets		82	335
Tangible assets		272	292
Investments		99,812	87,831
NON-CURRENT ASSETS, TOTAL		100,165	88,458
CURRENT ASSETS			
Non-current receivables	14	632	2,623
Current receivables	15	7,747	8,571
Financial securities	16	10,647	15,866
Cash in hand and at bank		6,356	11,087
CURRENT ASSETS, TOTAL		25,382	38,147
ASSETS, TOTAL		125,547	126,605
EQUITY AND LIABILITIES			
EQUITY	17		
Share capital		1,504	1,504
Reserve fund		8,132	8,132
Reserve for invested unrestricted equity		50,189	49,320
Retained earnings		60,636	57,818
Profit/loss for the period		57	5,791
EQUITY, TOTAL		120,518	122,566
CUMULATIVE APPROPRIATIONS	18		6
LIABILITIES			
Non-current liabilities	19	3,042	2,590
Current liabilities	20	1,987	1,443
LIABILITIES, TOTAL		5,028	4,033
EQUITY AND LIABILITIES, TOTAL		125,547	126,605

Parent company's cash flow statement (FAS)

EUR 1,000	Note	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Cash flow from operating activities			
Profit/loss for the period		57	5,791
Adjustments to the profit for the period		-3,289	-11,171
Cash flow from operating activities before the change in working capital		-3,232	-5,379
Change in working capital:			
Current receivables increase (-)/decrease (+)		129	-292
Current liabilities decrease (-)/increase (+)		137	240
Cash flow from operating activities before financial items and taxes		-2,966	-5,431
Dividends received		51	293
Interests and other finance income		172	247
Finance costs		-57	-91
Taxes		-40	959
Change in consolidated account receivable/liability		451	-669
Cash flow from operating activities		-2,389	-4,691
Cash flow from investing activities			
Purchase of shares		-11,825	-10,765
Investments in tangible and intangible assets			-321
Proceeds from sale of tangible and intangible assets			283
Sale of shares and repayment of capital		667	8,590
Loans granted		-1,000	
Repayment of loan receivables		3,300	1,800
Cash flow from investing activities		-8,858	-412

EUR 1,000	Note	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Cash flow from financing activities			
Share issue against payment		1,902	4,750
Group contributions received		3,000	3,000
Sale of own shares			116
Repurchase of shares		-420	
Dividends paid and other profit distribution		-3,186	-15,069
Loans granted			
Repayment of loan receivables			6,151
Cash flow from financing activities		1,297	-1,052
Change in cash and cash equivalents according to the statement			
		-9,950	-6,155
Cash and cash equivalents 1 Jan.		26,953	33,108
Cash and cash equivalents 31 Dec.*		17,003	26,953
Change in cash and cash equivalents		-9,950	-6,155

* In the cash flow statement, financial securities are treated as cash and cash equivalents.

Accounting principles for the parent company's financial statements 2022

Loihde Plc (registered office: Seinäjoki) is the parent company of the Loihde Group (former Viria Group). Copies of the consolidated financial statements are available at Loihde Plc's office at Silmukkatie 6, 65100 Vaasa, Finland or online at www.loihde.com/en.

1. ACCOUNTING PRINCIPLES FOR THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the Finnish Accounting Standards (FAS).

2. VALUATION PRINCIPLES

2.1. Valuation of non-current assets

Intangible and tangible non-current assets are recognised in the balance sheet at variable acquisition cost minus depreciation and amortisation according to plan.

Planned depreciation and amortisation periods are:

Intangible rights	5 years
Other expenses with long-term effects	3-10 years
Buildings and structures	15-25 years
Machinery and equipment	3-5 years

Investments under non-current assets are valued at the lower of the acquisition cost or the probable fair value.

2.2. Items denominated in foreign currency

Income statement items denominated in foreign currency have been converted into the Finnish currency at the average exchange rate of the financial period.

Balance sheet items denominated in foreign currency have been converted into the Finnish currency at the exchange rate of the balance sheet date.

2.3. Valuation of financial securities

Financial securities under current assets are valued at the lower of the acquisition cost or the probable replacement cost.

Impairments or reversals of impairment of investments and financial securities are presented under financial items.

2.4. Pensions

The pension security of the parent company's personnel has been arranged through external pension insurance companies. Pension contributions and expenses allocated to the financial period are based on the calculations made by the insurance company. Pension expenses are recognised as expenses in the year in which they are accrued.

2.5. Comparability of the information of the previous financial period

In the financial year 2021, other operating income includes capital gains of approximately EUR 6.6 million from the divestment of a subsidiary. In the financial year 2021, other operating expenses includes non-recurring expenses for the listing on First North and the rebranding. The income taxes for the financial year 2021 also include adjustments concerning tax refunds for previous tax years, amounting to EUR 1.0 million.

Notes to the parent company's income statement (FAS)

Parent company EUR 1,000	2022	2021	Parent company EUR 1,000	2022	2021	Parent company EUR 1,000	2022	2021
3. REVENUE			6. PERSONNEL EXPENSES			9. FINANCE INCOME AND EXPENSES		
By business area			Wages, salaries and remuneration	-2,752	-2,353	Dividend income		
Management services	2,831	1,289	Pension expenses	-374	-351	From companies in the same Group	239	
Revenue, total	2,831	1,289	Other social security expenses	-57	-46	From others	51	54
By market			Personnel expenses, total	-3,183	-2,751	Finance income, total	51	293
Finland	2,818	1,280	Management salaries and remuneration			Other interest and finance income		
Rest of Europe	13	9	CEO and governing bodies, total	-649	-607	From companies in the same Group	140	49
Revenue, total	2,831	1,289	Average number of parent company employees during the period	35	17	From others	664	553
4. TRANSACTIONS BETWEEN GROUP COMPANIES			of whom white-collar employees	35	17	Other interest and finance income, total	804	602
Transactions between Group companies are based on the Group's internal transfer pricing guidelines, in which the starting point is the arm's length principle.			Average number of employees when part-time employment is taken into account	35	19	Impairments and reversals of impairment of financial securities	-739	-39
Services and products sold to Group companies	2,831	1,288	of whom white-collar employees	35	19	Interest expenses and other finance costs		
Services and products bought from and rents received from Group companies during the financial period	631	473	7. DEPRECIATION, AMORTISATION AND IMPAIRMENT			To companies in the same Group	-9	
Interest income from Group companies	140	49	Depreciation and amortisation on tangible and intangible assets	-274	-162	To others	-293	-94
Interest expenses to Group companies	9		Depreciation and amortisation, total	-274	-162	Interest expenses and other finance costs, total	-302	-94
Dividend income from Group companies		239	A breakdown of depreciation and amortisation by balance sheet item can be found under Non-current assets.			Finance income and costs, total	-187	761
Group contributions from Group companies	3,616	3,000	8. AUDITOR'S FEES			10. APPROPRIATIONS		
5. OTHER OPERATING INCOME			Audit firms			Group contributions received	3,925	3,000
Gains from the disposal of fixed assets	310	6,591	Auditing fees	-59	-60	Group contributions made	-309	
Rental income	8	10	Tax advice		-7	Difference between planned depreciation and depreciation in taxation	5	2
Other operating income, total	318	6,601	Other fees	-97	-134	Appropriations, total	3,621	3,002
			Auditor's fees, total	-156	-200	11. INCOME TAXES		
						Income taxes from the previous financial year		1,018
						Income taxes from the financial year	-182	-40
						Income taxes, total	-182	978

Notes to the parent company's balance sheet (FAS)

ASSETS

12. NON-CURRENT ASSETS

Intangible assets EUR 1,000	Intangible rights	Other intangible assets	Total
Acquisition cost 1 Jan. 2022	298	734	1,032
Acquisition cost 31 Dec. 2022	298	734	1,032
Cumulative depreciation and impairment 1 Jan. 2022	289	407	696
Depreciation for the period	6	247	254
Cumulative depreciation 31 Dec. 2022	295	655	950
Book value 31 Dec. 2022	3	79	82

Tangible assets EUR 1,000	Land	Buildings and structures	Machinery and equipment	Total
Acquisition cost 1 Jan. 2022	87	204	60	351
Acquisition cost 31 Dec. 2022	87	204	60	351
Cumulative depreciation and impairment 1 Jan. 2022	39	21	59	
Depreciation for the period		8	12	20
Cumulative depreciation 31 Dec. 2022		47	33	80
Book value 31 Dec. 2022	87	157	27	272

Investments EUR 1,000	Shares Group companies	Shares Associated companies	Total
Book value 1 Jan. 2022	87,617	214	87,831
Additions	11,981		11,981
Book value 31 Dec. 2022	99,598	214	99,812

13. THE GROUP'S AND THE PARENT COMPANY'S OWNERSHIP PERCENTAGES 31 DEC. 2022

Ownership, %	Group	Parent company	
Group companies			
Loihde Trust Ltd, Vaasa	100.00	100.00	
Loihde Trust Tansec Ltd, Kotka	0.00	0.00	Has merged with Loihde Trust Ltd on 31 Dec. 2022
Loihde Trust Spellpoint Ltd, Espoo	0.00	0.00	Has merged with Loihde Trust Ltd on 31 Dec. 2022
Loihde Analytics Ltd, Helsinki	100.00	100.00	
Loihde Factor Ltd, Oulu	100.00	100.00	
Loihde Kiinteistöt Ltd, Vaasa	100.00	100.00	
Loihde Advisory Ltd, Espoo	100.00	100.00	
Loihde Advisory AB, Sweden (through Loihde Advisory Ltd)	100.00	0.00	
Altotech Oy, Espoo (through Loihde Advisory Ltd)	100.00	0.00	Has merged with Loihde Advisory Ltd on 7 Jan. 2022
Turvakolmio Group Oy, Vantaa			Has merged with Loihde Trust Ltd on 31 Dec. 2022
Turvakolmio Recycling Oy, Helsinki	0.00	0.00	Has merged with Loihde Trust Ltd on 31 Dec. 2022
Onrego Ltd, Espoo	100.00	100.00	
Associated companies			
Fast. Ab Jakobstads Bottenvikvägen 31, Pietarsaari	25.62	25.62	

NOTES TO THE PARENT COMPANY'S BALANCE SHEET (FAS)

CURRENT ASSETS

14. NON-CURRENT RECEIVABLES

Parent company EUR 1,000	2022	2021
Loan receivables	132	523
Loan receivables from Group companies	500	2,100
Non-current receivables, total	632	2,623

15. CURRENT RECEIVABLES

Parent company EUR 1,000	2022	2021
Sales receivables	4	3
Sales receivables from Group companies	77	24
Loan receivables	574	796
Loan receivables from Group companies	2,900	3,600
Other receivables	50	252
Other receivables from Group companies	3,925	3,000
Prepayments and accrued income	200	880
Prepayments and accrued income from Group companies	17	16
Current receivables, total	7,747	8,571
Breakdown of prepayments and accrued income:		
Prepayments and accrued income from trade	181	148
Others	19	732
Prepayments and accrued income, total	200	880

16. FINANCIAL SECURITIES

Financial securities consist of publicly traded shares, fund units and bonds.

Parent company EUR 1,000	2022	2021
Replacement cost	11,186	18,097
Book value	10,647	15,866
Difference	539	2,231

EQUITY AND LIABILITIES

17. EQUITY

Parent company EUR 1,000	2022	2021
Share capital 1 Jan.	1,504	1,504
Share capital 31 Dec.	1,504	1,504
Reserve fund 1 Jan.	8,132	8,132
Reserve fund 31 Dec.	8,132	8,132
Share issue 1 Jan.		1,310
Change for the period		-1,310
Share issue 1 Dec.		
Reserve for invested unrestricted equity 1 Jan.	49,320	48,396
Transfer from share issue		1,310
Share issue	1,288	
Repurchase/sale of shares	-420	4,689
Distribution of assets	-5,074	
Reserve for invested unrestricted equity 31 Dec.	50,189	49,320
Retained earnings 1 Jan.	63,609	65,971
Profit distribution	-3,094	-10,277
Other changes in equity	120	2,124
Retained earnings 31 Dec.	60,636	57,818
Profit for the period	57	5,791
Equity, total	120,518	122,566

CALCULATION OF DISTRIBUTABLE FUNDS 31 DEC.

Reserve for invested unrestricted equity	50,189	49,320
Retained earnings	60,636	57,818
Profit for the period	57	5,791
Distributable funds, total	110,882	112,930

NOTES TO THE PARENT COMPANY'S BALANCE SHEET (FAS)

18. CUMULATIVE APPROPRIATIONS

Cumulative appropriations in the parent company consist of the cumulative amortisation difference.

19. NON-CURRENT LIABILITIES

Parent company EUR 1,000	2022	2021
Consolidated account liabilities to Group companies	3,042	2,590
Non-current liabilities, total	3,042	2,590

20. CURRENT LIABILITIES

Parent company EUR 1,000	2022	2021
Trade payables	445	241
Trade payables to Group companies	91	56
Other liabilities	111	306
Other payables to Group companies	309	
Accrued expenses and deferred income	1,016	840
Accrued expenses and deferred income to Group companies	15	
Current liabilities, total	1,987	1,443
Breakdown of accrued expenses and deferred income:		
Accruals of social security expenses	658	652
Unpaid income taxes	182	40
Others	176	148
Total	1,016	840

Notes to the Report of the Board of Directors

MATERIAL EVENTS DURING THE FINANCIAL YEAR

The company acquired the entire share capital (100%) of Turvakolmio Group Oy on 1 June 2022. Through the acquisition, Turvakolmio Recycling Oy that is a wholly-owned subsidiary (100%) of Turvakolmio Group Oy joined the Group as well. The acquired companies merged with their sister company Loihde Trust Ltd on 31 December 2022.

Loihde Plc acquired the entire share capital (100%) of Onrego Ltd on 1 December 2022.

Russia's invasion of Ukraine has not directly affected Loihde's business, but the runaway inflation and the slowdown in the global economy have increased the risk level. The COVID-19 pandemic has still occasionally caused increases in sick leaves, but its impact on the company's operations have otherwise been limited during the financial year.

Closer information on the company's financial position and development is included in the Report of the Board of Directors.

COMPANY SHARES

The number of company shares was 5,729,709 at the end of the financial year. During the financial year, the company has issued a total of 127,423 new shares. The company cancelled the treasury shares that it held at the beginning of the financial year or acquired during the year and the shares transferred from its joint book-entry account, in total 407,755 shares.

Loihde Plc's shares have been listed on Nasdaq First North Growth Market Helsinki. Loihde Plc only has one share class. All shares have equal voting rights, dividend rights and rights to company assets. The shares have no nominal value. All issued shares have been paid for in full.

During the financial year, the company has issued a total of 127,423 new shares as follows:

The Annual General Meeting approved a directed share issue against payment related to the long-term share-based incentive scheme for the members of the Board of Directors, in which a maximum of 3,667 shares could be issued for subscription by members of the Board of Directors. The company issued 3,667 shares at a subscription price of EUR 13.98 per share in relation to the share-based incentive scheme for the Board of Directors.

In March 2022, the Board of Directors decided on a directed share issue in relation to the payment of additional shares and bonus shares under the personnel incentive scheme that began in autumn 2019. A total of 22,093 new shares were transferred to incentive scheme participants in the share issue.

In June 2022, the Board of Directors decided on a directed share issue against payment related to the share-based incentive scheme for the personnel, in which a total of 50,208 shares were issued at a subscription price of EUR 12.70 per share.

In November 2022, the Board of Directors decided on a directed share issue in order to implement a bonus payment that is part of the share-based incentive scheme of the company's CEO. In the share issue, a total of 1,455 shares were transferred without payment.

In connection with the acquisition of Onrego Ltd, Loihde Plc issued a total of 50,000 new shares at a subscription price of EUR 11.99 in a targeted share issue for the former owner of the acquired company.

TREASURY SHARES

On 31 December 2022, the subsidiaries held 400 shares in the parent company (0.0% of all shares). At the time of the financial statements, on 31 December 2022, the parent company did not hold any treasury shares.

On 4 January 2022, Loihde Plc's Board of Directors decided to start a share buyback programme in accordance with the authorisation granted to them by the Annual General Meeting on 6 May 2021. The repurchase of shares started on 10 January 2022 and ended on 4 May 2022.

During that period, Loihde acquired 25,325 own shares at a total value of EUR 419,709.35 and an average price of EUR 16.57. The shares were acquired by public trading on the Nasdaq First North Growth Market Finland marketplace at the market price quoted at the time of acquisition.

On 6 May 2021, Loihde Plc's Annual General Meeting decided that the rights to shares in the company's joint book-entry account and the rights carried by those shares, such as dividends, are forfeited. The forfeiture concerned shares in paper form, if the registration of the shares in a shareholder's book-entry account had not been validly requested by 30 June 2021. If a share certificate or corresponding document had been lost, a district court decision on the cancellation of the share certificate or corresponding document had to be presented and the other measures required for registering shares in a shareholder's book-entry account had to be completed

by 31 December 2021. After the processing of registration requests in the afore-mentioned manner, a total of 302,300 shares have been transferred to Loihde Plc from the joint book-entry account.

During the financial year, the company decided to cancel a total of 407,755 treasury shares. Of these shares, 25,325 shares were acquired by the company in the share buyback programme, 302,300 shares were transferred from the joint book-entry account and 80,130 shares were already held by the company. At the end of the financial year, the company held no treasury shares.

PROPOSAL ON THE USE OF THE PROFIT FOR THE PERIOD

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.15 per share be paid from distributable funds (EUR 110,881,942.35) based on the company's operating profit (profit for the period: EUR 57,178.31). In addition to this, the Board of Directors proposes that an additional dividend of EUR 0.65 per share be paid based on capital gains from the divestment of fibre networks. Based on the situation at the time of signing the financial statements, the dividend and additional dividend would correspond to EUR 4,583,767.20 in total. No dividend is paid on treasury shares. The dividend is paid to shareholders who on the dividend record date 8 May 2023 are registered in the company's shareholder register held by Euroclear Finland Oy. The Board of Directors proposes that the dividend be paid on 16 May 2023. In addition to the above-mentioned dividend distribution, the Board of Directors proposes that the General Meeting authorises the Board to, at its discretion, decide on the distribution of an additional dividend of a maximum of EUR 1.00 per share from distributable funds, and that the authorisation in question is valid until the beginning of the following Annual General Meeting. Based on the situation at the time of signing the financial statements, the authorisation would correspond to EUR 5,729,709.00 in total. The company will publish such a decision separately and will at the same time confirm the final record and payment dates. The additional distribution of assets depends on the capital requirements of the following strategy period (2024–2027), which the company strives to announce by the end of 2023.

No material changes have taken place in the company's financial position after the end of the financial year.

EVENTS AFTER THE FINANCIAL YEAR

There have been no significant events after the end of the financial year.

Other notes

Parent company EUR 1,000	2022	2021
Collateral		
Collateral and guarantees granted on behalf of Group companies		
Amount drawn	1,482	783
Maximum amount granted	2,312	900
Contingent liabilities		
Rental and leasing commitments		
Payable in the next 12 months	275	70
Payable later	1,100	132
Total	1,375	202
Other commitments and collateral		
Total collateral amount granted	82	3
Drawn	82	3
Collateral and contingent liabilities, total	2,939	988

Date and signatures of the Financial Statements and the Report of the Board of Directors

Vaasa, 2 March 2023

Timo Kotilainen Kaj Hagros
Chairperson

Elina Piispanen Matti Piri

Stefan Wikman Samu Konttinen
CEO

AUDITOR'S REPORT

Our Auditor's report has been issued today.

Vaasa, on the date of the electronic signature

KPMG Oy Ab
Esa Kailiala
KHT

Auditor's Report

To the Annual General Meeting of Loihde Plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Loihde Plc (business identity code 0747682-9) for the year ended 31 December, 2022. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

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

Basis for Opinion

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

OTHER REPORTING REQUIREMENTS

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information 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.

Turku, 2 March 2023

KPMG OY AB

Esa Kailiala

Authorised Public Accountant, KHT

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Loihde Plc's Corporate Governance Statement

Loihde Plc's corporate governance complies with valid legislation, the rules and regulations of the Nasdaq First North Growth Market Finland marketplace (First North), the company's Articles of Association and the governance principles confirmed by the company's Board of Directors.

Loihde complies with the Finnish Corporate Governance Code 2020 for listed companies in its entirety as formulated by the Finnish Securities Market Association. The Finnish Corporate Governance Code is publicly available on the Securities Market Association's website cgfinland.fi/en.

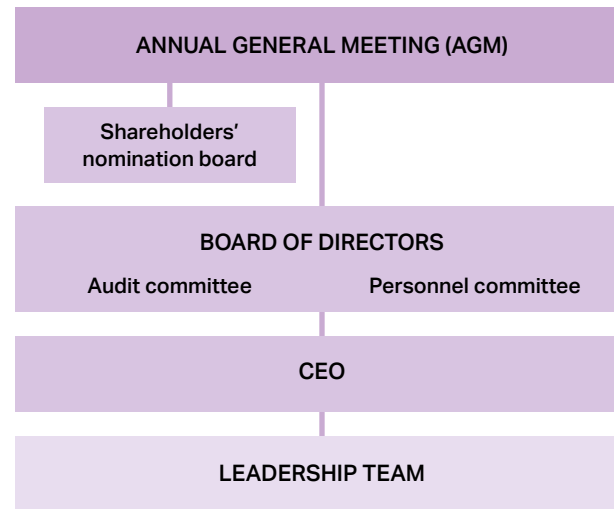
Even though compliance with the Finnish Corporate Governance Code is not required of First North companies, Loihde wants to promote good corporate governance and transparency for shareholders and other stakeholders by complying with its recommendations.

The Corporate Governance Statement is given separately from the company's Report of the Board of Directors.

LOIHDE'S CORPORATE GOVERNANCE STRUCTURE

In accordance with the Finnish Limited Liability Companies Act and the Articles of Association, the management of the company is divided between the General Meeting, the Board of Directors and the CEO. Shareholders participate in the management and supervision of the company through the decisions made at the General Meetings. In addition to the Articles of Association, the management is regulated by

the rules of procedure, which define the central duties of the Board of Directors, the committees and the CEO as well as the meeting policies followed by the company.



GENERAL MEETING

The General Meeting is Loihde Plc's highest decision-making body. At the General Meeting, the shareholders' decisions include:

- the adoption of the financial statements and the use of the profit shown on the balance sheet,
- the discharge from liability of the members of the Board of Directors and the CEO,

- the appointment and remuneration of the members of the Board of Directors,
- the election and remuneration of the auditor,
- changes to the Articles of Association, and
- acquisition and transfer of treasury shares.

The Annual General Meeting is held annually before the end of June on a date decided by the Board of Directors and considers matters that according to the Limited Liability Companies Act and the Articles of Association belong to the Annual General Meeting and other possible proposals mentioned in the notice. An Extraordinary General Meeting is convened if necessary.

A shareholder shall according to the Limited Liability Companies Act have the right to have a matter falling within the competence of the General Meeting dealt with by the General Meeting, if he or she so demands in writing from the Board of Directors well in advance of the meeting, so that the matter can be mentioned in the notice.

GENERAL MEETING 2022

Loihde Plc's Annual General Meeting was held in Vaasa on 5 May 2022. 2,005,761 shares, or approximately 33% of all shares, were represented at the meeting. The members of the Board of Directors, the CEO and the auditor were present at the meeting, either in person or through remote access.

BOARD OF DIRECTORS

The Board of Directors has general responsibility for the management of the company and for the proper organisation of the operations of the company. The Board of Directors has adopted written rules of procedure for the management, where matters that shall be dealt with by the Board of Directors, meeting practices and decision-making procedures are defined.

According to the Articles of Association, the company's Board of Directors consists of five to seven ordinary members, which are appointed by the General Meeting for one year at a time. The Chairperson of the Board of Directors is also elected at the General Meeting, and the Board of Directors elects a Vice-Chairperson from among its members. The proposal to the General Meeting on the number of members, the members and the Chairperson of the Board of Directors as well as their remuneration is prepared by the Shareholders' Nomination Board. The majority of the members of the Board of Directors has to be independent of the company, and at least two members have to be independent of the company's major shareholders as well.

The Board of Directors is convened by the Chairperson on a regular basis, at least six times a year. A quorum of more than half of the members of the Board of Directors must be present at the meetings.

The Board of Directors regularly assesses their operations and working methods through self-evaluation once a year.

MAIN DUTIES OF THE BOARD OF DIRECTORS

According to the rules of procedure, the main duties of the Board of Directors are among other things to:

- approve the long-term targets and strategies of the Group and its business areas,

- approve the business, financial and investment plans of the Group and its business areas for the financial period,
- ensure that the external financial statements of the Group and its companies are duly made as required by law,
- create the necessary organisational structure for the company's operations,
- appoint and discharge the CEO, the Managing Directors of the Group's business areas and the Directors in charge of the Group's administrative support functions, and decide on their remuneration and benefits,
- decide on the general principles for the Group's incentive schemes,
- approve the Group's values and follow their fulfilment,
- organise internal audits, follow external audits and take measures following from these together with the CEO,
- define the acquisition strategy and approve acquisitions,
- decide on significant investments by Group companies, other long-term expense items, transfers of property and funding vehicles,
- decide on significant expansion and reduction of operations, and
- prepare the matters to be dealt with by the General Meeting and see to their execution.

DIVERSITY OF THE BOARD OF DIRECTORS

Diversity is a central principle when Loihde's Board of Directors is elected. It supports the company's business development and achievement of targets. The diversity of know-how, experience and viewpoints among the members of the Board of Directors enables an open and innovative approach to business development, supports an improvement of customer understanding and promotes good governance.

Essential factors for diversity in the Board of Directors are the members having complementary education, know-how and experience from different industries and different devel-

opment stages of business management, and the personal qualities of the members of the Board of Directors. Diversity is supported by the Board of Directors having a wide age distribution, well-balanced gender representation and member experience from international business environments and different cultures.

The Shareholders' Nomination Board takes the diversity principles into account when planning the composition of the Board of Directors. As a part of the election and evaluation process, they look for representatives of both genders. Persons that are appointed to the company's Board of Directors must, in addition to the required qualifications for the role, also have enough time to take on the role. When preparing the composition of the Board of Directors, long-term needs and successor planning is also acknowledged.

MEMBERS AND MEETINGS OF THE BOARD OF DIRECTORS IN 2022

In 2022, Loihde's Board of Directors consisted of Timo Kotilainen (Chairperson), Kaj Hagros, Elina Piispanen, Matti Piri, Stefan Wikman and Jussi Hattula (until 5 May 2022).

All members were independent of Loihde and its major shareholders. The Board of Directors convened 21 times during the year. In 2022, the work of the Board of Directors centred on the development of the company's extensive offering and the structural changes that this required, acquisitions, development of competitiveness in the employee market and strategic guidance related to IFRS reporting.

Secretary of the Board of Directors was lawyer Teresa Kauppila from Castrén & Snellman Attorneys Ltd (until 5 May 2022) and thereafter the company's general counsel Juri Viitaniemi.

Members of the Board of Directors in 2022

	Year of birth	Education	Main occupation	Ownership 31 Dec. 2022	Member since
Timo Kotilainen (Chairperson)	1959	M.Sc.Eng.	Founding Partner, KASIN Consulting Oy, Board professional	3,483	2019
Kaj Hagros	1970	M.Sc.Eng., MBA	Equity investor, Managing Partner of Redstone Nordics Oy	5,501	2021
Jussi Hattula ¹	1968	M.Sc.Eng.	Director, Finnish Industry Investment Ltd (Tesi)	-	2018
Elina Piispanen (Vice-Chairperson)	1963	M.Sc.Econ.	Board professional, CEO of Fit Advice Oy	1,581	2019
Matti Piri	1969	M.Sc.Econ.	CFO, Accountor Group	1,001	2021
Stefan Wikman	1956	LLM (with court training)	Senior Advisor, Stewicon Ltd	1,101	2021

¹ Member of the Board of Directors until 5 May 2022

COMMITTEES OF THE BOARD OF DIRECTORS

In 2022, the Audit Committee and the Personnel Committee, working under the Board of Directors, have prepared matters that fall under the responsibility of the company's Board of Directors.

Audit Committee

It is the duty of the Audit Committee to among other things follow the financial reporting process for the interim financial statements, the financial statements and the consolidated financial statements and oversee the accuracy of Loihde Group's financial statements, the financial reporting process and the statutory audit. The committee follows the efficiency of Loihde Group's internal control, internal audit and risk management systems and oversees the Group's risks and the quality and coverage of the risk management. In addition, it is the duty of the Audit Committee to prepare proposals to the Board of Directors on matters relating to the development of corporate governance.

The Audit Committee consists of members that are appointed by the Board of Directors and that are not part of the company's management. The members shall be independent of the company and at least one of them shall be independent of the company's major shareholders.

In 2022, the Audit Committee consisted of Matti Piri (Chairperson), Stefan Wikman and Timo Kotilainen. The committee convened a total of seven times during the year. Each member's participation in meetings is shown in the table below. Secretary of the Audit Committee was Group CFO Pirjo Suhonen.

Personnel Committee

It is the duty of the Personnel Committee to among other things prepare proposals for Loihde's Board of Directors on the appointment of the CEO and other Directors that are members of Loihde Group's Leadership Team and to chart their successors when required. Additionally, the Personnel

Committee prepares proposals on the principles of remuneration for and compensation of the personnel and the Leadership Team and on share-based incentive schemes. The committee prepares the remuneration policy and remuneration report of Loihde's governing bodies.

The Personnel Committee consists of members that are appointed by the Board of Directors. In 2022, the Personnel Committee consisted of Elina Piispanen (Chairperson), Kaj Hagros, Jussi Hattula (until 5 May 2022) and Timo Kotilainen (as of 5 May 2022). The committee convened a total of six times during the year. Secretary of the Personnel Committee was Group HR Director Jaana Mäkinen (until 13 November 2022) and Kristiina Aaltonen (as of 14 November 2022).

PARTICIPATION IN MEETINGS

Name	Position	Board of Directors	%	Audit Committee	%	Personnel Committee	%
Timo Kotilainen	Chairperson of the Board of Directors	21	100	7	100	6	100
Elina Piispanen	Vice-Chairperson of the Board of Directors, Chairperson of the Personnel Committee	21	100			6	100
Matti Piri	Chairperson of the Audit Committee	21	100	7	100		
Kaj Hagros	Member	21	100			6	100
Jussi Hattula ¹	Member	11	100			2	100
Stefan Wikman	Member	21	100	7	100		

¹ Member of the Board of Directors until 5 May 2022

SHAREHOLDERS' NOMINATION BOARD

On 6 May 2021, the Annual General Meeting of Loihde Plc resolved to establish a Shareholders' Nomination Board to prepare proposals on the election and remuneration of the members of the Board of Directors for the General Meeting and confirmed the rules of procedure for the Nomination Board.

The Shareholders' Nomination Board is the governing body of the company's shareholders or their representatives, the duty of which it is to annually prepare the proposals regarding the election and remuneration of the Chairperson and members of the Board of Directors for the Annual General Meeting, and for the Extraordinary General Meeting when required. It is the main duty of the Nomination Board to ensure that the Board of Directors and its members have sufficient expertise, know-how and experience that correspond to the company's needs and to prepare well-founded proposals on the matter to the General Meeting.

According to the rules of procedure of the Nomination Board, during the first two terms of office, the members of the Nomination Board are appointed so that the association Virian pienosakkaat ry has the right to appoint three members, Finnish Industry Investment Ltd ("Tesi") has the right to appoint one member, LocalTapiola Mutual Life Insurance Company and LocalTapiola General Mutual Insurance Company (jointly "LocalTapiola") has the right to jointly appoint one member and Katja Ahola and Janne Tuomikoski has the right to jointly appoint one member. The term of office of the Nomination Board ends annually when new members have been appointed to the Nomination Board.

In October 2021, the above mentioned appointed the following members to the Shareholders' Nomination Board:

- Kalervo Haapoja, Piia Uusi-Kakkuri and Christian Wetterstrand, appointed by Virian pienosakkaat ry,
- Jussi Hattula, appointed by Tesi,
- Juha Malm, appointed by LocalTapiola, and
- Antti Pelkonen, appointed by Katja Ahola and Janne Tuomikoski.

In September 2022, the following members were appointed to the Shareholders' Nomination Board:

- Tuulia Holkkola, Matti Kulmakorpi and Christian Wetterstrand, appointed by Virian pienosakkaat ry,
- Jussi Hattula, appointed by Tesi,
- Juha Malm, appointed by LocalTapiola, and
- Juha Koivisto, appointed by Katja Ahola and Janne Tuomikoski.

The Chairperson of Loihde's Board of Directors Timo Kotilainen participated in the work of the Nomination Board as an expert without the right to participate in the decision-making. Chairperson of the Nomination Board was Christian Wetterstrand and secretary the Group's Director of Communications Tiina Nieminen.

The Shareholders' Nomination Board convened four times during the year. The combined meeting participation rate of the members were 100 per cent.



CEO

It is the duty of the CEO to be in charge of the day-to-day management of the company in accordance with the law and the instructions and orders issued by the company's Board of Directors. The Board of Directors appoints and discharges the CEO, decides on the salary and remuneration of the CEO and other terms of the employment relationship and supervises the operations of the CEO. The CEO ensures that the company's accounting practices are in compliance with the law and that the financial matters are organised in a reliable way.

Samu Konttinen has served as CEO of Loihde since 1 January 2021.

LEADERSHIP TEAM

The Leadership Team assists the CEO with the planning and operational management of the business. Among other things, it prepares Loihde's strategic planning and annual planning, follows the fulfilment of plans and financial reporting and prepares significant investments and acquisitions and divestments. One of the main duties of the Leadership Team is also to develop the internal cooperation within the Group and promote joint development projects. The members of the Leadership Team are appointed by the Board of Directors. Loihde's Leadership Team convenes regularly approximately twice a month. The CEO is responsible for the decisions made by the Leadership Team. It is the duty of the members of the Leadership Team to execute the decisions in their own areas of responsibility.

Members of the Leadership Team 31 December 2022

Name	Year of birth	Education	Role	Ownership 31 Dec. 2022	Member since
Samu Konttinen	1973	MBA	CEO	19,165	2021
Katja Ahola	1976	MA	Managing Director of Loihde Analytics Ltd EVP Business Development	213,331 ¹	2017
Tomi Bergman	1974	M.Sc.Econ.	Managing Director of Loihde Advisory Ltd	35,105	2021
Marko Järvinen	1970	M.Sc.Eng., eMBA	Managing Director of Loihde Trust Ltd	7,550	2014
Juha Meronen	1972	M.Sc.Pol.	Managing Director of Loihde Factor Ltd	1,368	2021
Mikko Mäkelä ²	1973	M.Sc.Eng.	EVP Strategy and Business Development	1,668	2021
Pirjo Suhonen	1965	M.Sc.Econ.	Chief Financial Officer	6,540	2018
Jere Teutari	1972	BBA	Chief Marketing Officer	590	2021
Kristiina Aaltonen ³	1966	Business college graduate, eMBA	Head of People and Culture	157	2022
Jarno Mäki ⁴	1978	M.Sc.Eng.	Managing Director of Onrego Ltd	5 ⁵	2022

¹ Directly owned shares 2,755, shares through Bellurum Oy 210,576

² Until 9 September 2022

³ as of 1 October 2022

⁴ as of 1 December 2022

⁵ In addition, Mäki owns 31.9% of Roaring Aspen Hill Ltd that has 50,000 Loihde shares.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors of Loihde Plc has confirmed the principles of risk management, internal control and internal audit that the Group shall comply with.

RISK MANAGEMENT

The aim of Loihde's risk management is to support the implementation of the strategy and the achievement of the targets as well as to promote business continuity by reducing business vulnerability and protecting functions that are critical to business operations.

Risk management is an integral part of Loihde's daily business management. The Board of Directors of each Group company ensures that risk management is taken into account in the company's business operations, on both a strategic and operational level. The organising of risk management in practice is lead on a strategic and Group level by Loihde Plc's EVP Business Development and on an operational level by the person in charge of the company's risk management. The actual risk management is performed by every employee and supervisor in the company in their day-to-day work.

Risks are identified and assessed with the help of strategy risk mapping in connection with strategy, with the help of project risk assessment in connection with projects and in connection with annual structural risk mapping. When identifying risks, a comprehensive view of the internal and external environment of the Group, the business area and the unit and possible events that could affect the reaching of the targets is formed.

In the annual risk assessment, risks are assessed based on the probability of fulfilment and the impact they would have. From the point of view of reaching the targets, risks seen as particularly significant are defined as key risks and these are examined and approved annually by Loihde's Board of Directors, and the resources and actions of the risk management are primarily aimed at these. For key risks, a risk owner is appointed. The key risk owner plans and organises adequate actions for controlling the risk and is responsible for the implementation and reporting of these.

THE MOST SIGNIFICANT RISKS

The most significant risks and uncertainties that affect the operations of the Loihde Group are described in the company's financial statements release and the report of the Board of Directors.

INTERNAL CONTROL

Internal control is a part of Loihde's risk management system. It is the duty of internal control to adequately ensure the accuracy of processes and control risks that can have a negative effect on the accuracy of financial reporting or business functionality and efficiency or that can be linked to compliance with external laws and internal operating principles and guidelines.

The internal control procedures include, for example, policies and guidelines, risk identification and control measures to reduce risks, as well as the ensuring of the functionality of the controls.

The person most responsible for the Group's internal control is the CEO of Loihde Plc and on a business or company level the Business Director or Managing Director of the company. They take responsibility for that there are adequate internal control procedures to control risks and prevent adverse events. Operational management is responsible for risks and controls relating to them as well as for implementing corrective measures relating to controls.

The management with the above-mentioned responsibilities and the entire personnel constitute the so-called first line of defence of internal control. The second line of defence is the financial organisation of the Group and its subsidiaries. Internal control, auditors and supervisory authorities function independently as independent organisations constituting the third line of defence.

The Audit Committee supervises the internal control and the development and implementation of internal audit by authorisation of the Board of Directors. The CFO reports to the Audit Committee at least annually about the implementation of internal control and the results of internal audits.

INTERNAL AUDIT

Internal audit is a function that is intended to verify the fulfilment of the management and control environment and to recommend the development of the control environment on the basis of the conducted audits. Loihde does not have a separate function for internal audit. The Board of Directors assesses the need for internal audit annually and decides on the tasks needed for internal audit and the organising of these based on the assessment. The Board of Directors can use external help for implementing audits.

INSIDER MANAGEMENT

In matters related to inside information, Loihde complies with applicable legislation, like requirements in compliance with the Market Abuse Regulation and the guidelines for insiders published by Nasdaq Helsinki Ltd. In addition, the company has formulated its own insider guidelines, where instructions and regulations relating to inside management, publication of inside information, maintenance of insider lists and transactions of the management are defined.

Loihde maintains a project-specific non-public insider list for projects that have inside information. All people that have access to inside information specific to the project or event are listed as insiders. The people that are on the insider list cannot trade nor recommend trading in the company's financial instruments during the project in question. Persons that are on the insider list are informed in writing of this and of the obligations consequent on this, as well as of the applicable consequences of insider trading and illegally expressing inside information.

The management of Loihde must schedule its trading in the company's financial instruments so that it does not reduce general trust in the securities market. Management refers to members of Loihde's Board of Directors and Leadership Team. Management cannot trade during a closed window of 30 days preceding the publication of the financial statements release, business report or half-year report, nor can they trade on the day of publication. The restriction on trading also includes persons that participate in the preparation of profit reports or get information of their forthcoming content before the information is published.

On the grounds of the Market Abuse Regulation, Loihde Plc's management and their related parties must report trading in the company's financial instruments made for their own account both to the company and to the Financial Supervisory

Authority without delay and no later than within three working days of the trading. As for the company, it has to publish the transactions in question as company announcements without delay and no later than within two working days of receiving the information.

Loihde's general counsel is responsible for the coordination and supervision of matters related to inside information.

TRANSACTIONS OF RELATED PARTIES

In accordance with the IAS 24 standard, Loihde assesses and follows transactions made by its defined related parties. The company's related parties consist of its subsidiaries and the Board of Directors, the CEO and the Group's Leadership Team, as well as the family members of these and legal entities over which the mentioned persons exercise a controlling interest. Loihde maintains a list of parties that belong to the company's related parties and regularly follows, handles and assesses transactions made with its related parties in accordance with principles and regulation approved by the Board of Directors.

The company's financial management follows and supervises transactions of related parties as a part of the company's normal reporting and supervisory praxis and reports transactions of related parties to the Audit Committee on a regular basis. The company's Board of Directors decides on transactions of related parties that are not part of the company's normal business or that are not carried out under ordinary terms of trade. Members of the company's Board of Directors and Leadership Team and persons and parties that belong to their related parties are obligated to report potential transactions of related parties to the company. Transactions of related parties that have been made under different terms than the normal terms of trade are reported in the appendices of the financial statements.

AUDIT

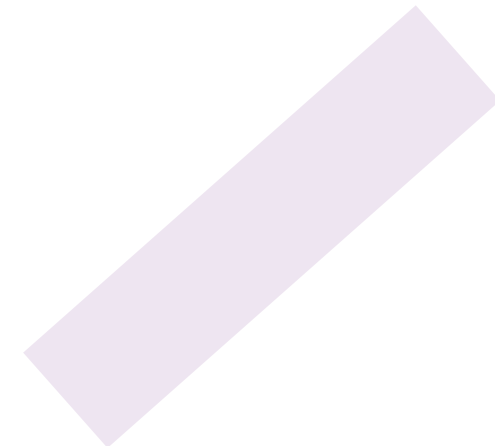
Loihde's auditor must be an audit firm with an auditor in charge that is approved by the Finnish Central Chamber of Commerce.

The General Meeting elects the auditor based on the proposal by the Board of Directors. The Audit Committee of the Board of Directors prepares the proposal for the election of the auditor. The term of the auditor ends with the conclusion of the Annual General Meeting following the appointment. It is the duty of the auditor to audit the company's accounting, financial statements and management for the financial period. The auditor of the parent company must also audit the consolidated financial statements. The auditor reports regularly to the Board of Directors and its Audit Committee and gives the company's shareholders an auditor's report as required by law.

The company's auditor is the audit firm KPMG Oy Ab with Esa Kailiala, auditor approved by the Finnish Central Chamber of Commerce, as the principal auditor. In accordance with the decision of the General Meeting, the auditor's fee is paid according to the invoice approved by the company. In 2022, the auditor was paid a total fee of EUR 226,555 of which EUR 95,428 was paid for services not related to the audit.

CERTIFIED ADVISER

Loihde's certified adviser in accordance with First North's regulations is Aktia Alexander Corporate Finance Oy.



Board of Directors

Timo Kotilainen

Chairperson of the Board of Directors

Born 1959
 Founding Partner, KASIN Consulting Oy, Board professional
 Member of the Board of Directors since 2019

Primary work experience:

CEO, Nixu 2006–2014
 Board professional 2003–2006
 Several managerial positions, Nokia Networks 1993–2003

Positions of trust:

KASIN Consulting Oy, Chairman of the Board 2014–
 NSW Global Oy, Chairman of the Board 2022–



Kaj Hagros

Born 1970
 Equity investor, Managing Partner of Redstone Nordics Oy
 Member of the Board of Directors since 2021

Primary work experience:

CEO, Pivot5 2014–2017
 CEO, Tecnotree Oyj 2009–2013
 COO, FOX Mobile 2008–2009
 Managerial positions, First Hop 2001–2008

Positions of trust:

Heltti Oy, Chairman of the Board of Directors 2017–
 Inderes Plc, Chairman of the Board of Directors 2016–



Elina Piispanen

Born 1963
 Board professional, CEO of Fit Advice Oy
 Member of the Board of Directors since 2019

Primary work experience:

Transformation Director, Sanoma Media Finland 2016–2018
 CEO, Fit Advice 2015–
 Managing Director, Technology – Nordic Mobility, Accenture 2011–2014
 Several managerial positions, Accenture 1995–2014

Positions of trust:

Punainen Risti Ensia Oy, Chairperson of the Board of Directors 2020–
 Sitowise, member of the Board of directors 2017–
 Telko, member of the Board of directors 2017–



Matti Piri

Born 1969
 Group CFO, Accountor Group
 Member of the Board of Directors since 2021

Primary work experience:

Group CFO, Altia 2013–2018
 VP Finance & Control, Neste Oil 2011–2013
 Finance Director and other positions in finance, Mars Inc 1994–2011



Stefan Wikman

Born 1956
 Senior advisor, Stewicon Oy
 Member of the Board of Directors since 2021

Primary work experience:

Lawyer, Roschier 1994–, Partner 1996–2016
 Senior Advisor 2016–2022
 Managerial positions in KWH Group 1986–1994
 Manager, SYP 1983–1985

Positions of trust

KWH Group, member of the Board of Directors 2019–
 Harry Schaumans Stiftelse, Chairman of the Board of Directors 2009–



All members of the Board of Directors are independent of the company and its major shareholders.

Leadership Team

Samu Konttinen

Loihde Group CEO
MBA
b. 1973
Employed by the Group since 2021
(member of the Board since 2019)



Marko Järvinen

Loihde Trust Ltd's
Managing Director
M.Sc. (Eng), eMBA
b. 1970
Employed by the Group since 2014



Katja Ahola

Loihde Analytics Ltd's
Managing Director,
EVP Business
Development
MA
b. 1976
Employed by the Group since 2017



Juha Meronen

Loihde Factor Ltd's
Managing Director
M.Soc.Sci.
b. 1972
Employed by the Group since 2021



Tomi Bergman

Loihde Advisory Ltd's
Managing Director
M.Sc. (Econ.).
b. 1974
Employed by the Group since 2021



Pirjo Suhonen

CFO
M.Sc. (Econ.)
b.1965
Employed by the Group since 2018



Jere Teutari

CMO
BBA
b. 1972
Employed by the Group since 2021



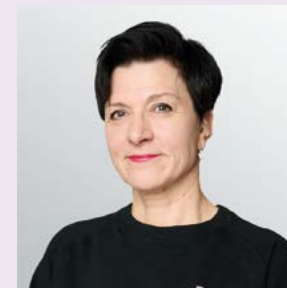
Jarno Mäki

Managing Director of
Onrego Ltd
M.Sc.Eng.
b. 1978
Employed by the Group since 2022



Kristiina Aaltonen

Head of People and
Culture
Business college
graduate, eMBA
b. 1966
Employed by the Group since 2021



More detailed information on the members of the Leadership Team is available on the company's website loihde.com.

Loihde Plc's remuneration report 2022

1. INTRODUCTION

The remuneration of governing bodies of Loihde Plc (below Loihde) is based on the remuneration policy that the Annual General Meeting approved on 5 May 2022. It is the objective of the remuneration policy to promote Loihde's business strategy, long-term growth and profitability and sustainable growth of shareholder value.

The remuneration report is formulated in accordance with the Finnish Corporate Governance Code 2020 for listed companies, which entered into force on 1 January 2020. It is the purpose of this report to paint a clear and understandable picture of the implementation of the remuneration of Loihde's Board of Directors, Shareholders' Nomination Board, CEO, and the potential deputy of the CEO, and also of the implementation of the remuneration policy.

FIVE-YEAR DEVELOPMENT OF REMUNERATION AND THE COMPANY'S FINANCIAL RESULT

Loihde Plc has transitioned to IFRS-compliant reporting starting from the financial year 2022, with 2021 being the comparative period. For this reason, all figures from the

above-mentioned years are not entirely comparable to those of previous years.

EUR 1,000	2018 FAS	2019 FAS	2020 FAS	2021 ³ IFRS	2022 ³ IFRS
Revenue	104,924	103,104	106,823	104,418	122,987
Change compared to the previous year, %	19 %	-2 %	4 %	N/A ⁴	18 %
Adjusted EBITDA	6,309	5,492	6,160	7,236	10,290
Change compared to the previous year, %	20 %	-13 %	12 %	N/A ⁴	42 %
Remuneration of the Board of Directors¹	165	159	179	215	204
Change compared to the previous year, %	1 %	-3 %	12 %	N/A ⁴	-5 %
Base + benefits of the Group CEO	242	258	273	291	300
Change compared to the previous year, %	9 %	6 %	6 %	7 %	3 %
Total remuneration of the Group CEO	345	331	307	340	425
Change compared to the previous year, %	41 %	-4 %	-7 %	N/A ⁴	25 %
Average wages and salaries of the employees²	57	61	61	67	65
Change compared to the previous year, %	16 %	6 %	1 %	N/A ⁴	-3 %

¹ The remuneration of the Board of Directors includes meeting fees for the members of the Board of Directors when they have participated in the meetings of committees and the Nomination Board and meeting fees for the members of the Board of Directors when they have participated in the meetings of the Supervisory Board in 2018–2021.

² The average wages and salaries of the employees include cash wages and salaries without add-on costs, divided by the average number of employees (FTE) during the year. The wages, salaries and remuneration information presents the wages, salaries and remuneration paid during each financial year. The remuneration paid as part of the short-term and long-term incentive schemes is paid during the year following the end of the vesting period.

³ Continuing operations without Hibox Systems Oy Ab

⁴ All percentage changes for 2021 cannot be calculated, since it is the first year calculated in accordance with IFRS.

2. REMUNERATION OF THE SHAREHOLDERS' NOMINATION BOARD AND THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR 2022

SHAREHOLDERS' NOMINATION BOARD

On 6 May 2021, the Annual General Meeting decided that a meeting fee of EUR 400 per meeting shall be paid to the members of the Shareholders' Nomination Board and a meeting fee of EUR 700 per meeting to the Chairperson of the Nomination Board. The Chairperson of the Board of Directors that participates in the meetings of the Nomination Board as an expert is paid a meeting fee of EUR 400 per meeting.

The remuneration earned by the Nomination Board in 2022 was as follows:

Meeting fees	EUR 1,000
Chairperson	4
Others, in total	10

BOARD OF DIRECTORS

The amount of remuneration of the Board of Directors has been decided at the Annual General Meeting on 5 May 2022.

It was decided that the Chairperson of the Board of Directors will be paid an annual fee of EUR 39,600 and a meeting fee of EUR 700 per meeting and that each member of the Board of Directors will be paid an annual fee of EUR 16,500 and a meeting fee of EUR 600 per meeting. It was also decided that the Chairperson of a committee will be paid a meeting fee of EUR 700 and the members of a committee a meeting fee of EUR 600 per meeting.

The remuneration earned by the Board of Directors in 2022 was as follows:

	Annual fees ¹ EUR 1,000	Meeting fees ¹ EUR 1,000	Total EUR 1,000	Number of shares subscribed for in the share-based incentive scheme in 2022	Committee memberships
Timo Kotilainen	34	22	56	1,375	Audit Committee, member, Personnel Committee, member
Kaj Hagros	16	15	31	573	Personnel Committee, member
Jussi Hattula ²	14	8	22		Personnel Committee, member
Elina Piispanen	16	16	32	573	Personnel Committee, Chairperson
Matti Piri	16	17	33	573	Audit Committee, Chairperson
Stefan Wikman	13	16	29	573	Audit Committee, member

¹ The annual fees and meeting fees of the Board of Directors are paid retrospectively, therefore in 2022, the Chairperson of the Board of Directors has received fees of EUR 4,000 earned in 2021 and the members of the Board of Directors have received fees of EUR 11,000 earned in 2021. As for the fees earned in 2022, the Chairperson of the Board of Directors is paid EUR 8,000 and the members of the Board of Directors are paid EUR 13,000 in 2023.

² Member of the Board of Directors until 5 May 2022

The company's Annual General Meeting held on 25 June 2020 resolved to adopt a long-term share-based incentive scheme for the members of the Board of Directors. Under the incentive scheme, the members of the Board of Directors can subscribe for company shares at an amount corresponding to half of their annual fee at a maximum. In 2022, there was a 10% discount on the price of the shares subscribed for. The sum of the discount has been added to the taxable income of the members of the Board of Directors. The Annual General Meeting may resolve on issuing commitment shares to the participants in the scheme based on their share ownership after a specified vesting period. Eligibility for the commitment shares is conditional on the participant still being a member of the company's Board of Directors.

3. REMUNERATION OF THE CEO FOR THE FINANCIAL YEAR 2022

The Board of Directors decides on the remuneration and bonuses of the CEO, as well as other terms of the CEO contract. The CEO contract also specifies financial benefits, including severance pay and other possible compensations.

The remuneration of the CEO consists of fixed basic salary (including fringe benefits), life insurance, annual performance bonus (STI), a personal share bonus related to the CEO contract and a long-term share-based incentive scheme (LTI). The share-based incentive schemes are described in more detail on the page Remuneration in the For Shareholders section on the company’s website.

The CEO is entitled to statutory pension. The retirement age of the CEO is defined in the statutory employee pension scheme.

The period of notice for the CEO contract is 6 months on both sides. If the company terminates the CEO contract, the CEO is under certain conditions entitled to a one-time payment corresponding to 12 months’ monthly salary.

The remuneration earned by Samu Konttinen in 2022:

	EUR 1,000	Per cent of the maximum amount
Paid in 2022		
Fixed annual salary including holiday pay and holiday bonus	300	
Short-term incentive (STI) for 2021	87	49 %
Share bonus, paid in shares ¹	18	
Share bonus, paid in cash ¹	20	
Paid in 2023		
Short-term incentive (STI) for 2022	56	28 %

¹ The CEO contract includes an agreement on a personal share-based incentive scheme, on the grounds of which the CEO had the right to acquire 6,000 (six thousand) shares between 1 December 2020 and 30 June 2021 and in one year’s time receive 3,000 shares as remuneration for the share purchase and in two years’ time another 3,000 shares, providing that he still is CEO. The subscription price was based on the average price of Loihde’s share on Privanet during the period 24 May–23 November 2020, on which a discount of 10 per cent was applied. The share bonus for 2022, paid based on the CEO contract, is 3,000 shares, which at the time of payment were worth EUR 38,000.

SHORT-TERM INCENTIVE (STI) BONUS FOR 2022:

The targets of the short-term incentive (STI) bonus to be paid for the financial year 2022 were based on Loihde Group’s revenue (weight 50%) and adjusted EBITDA (weight 50%). The short-term incentive (STI) bonus has been paid in March 2023. The short-term incentive (STI) bonus paid to the CEO for 2022 is EUR 56,000 in total (56% of the target level and 28% of the maximum amount of the bonus).



Information for investors

ANNUAL GENERAL MEETING

The planned date for Loihde Plc's next Annual General Meeting is Thursday, 4 May 2023. The meeting will be held in Seinäjoki. The notice of the AGM will be published in a company announcement and on the company's website at loihde.com/agm.

GUIDANCE FOR 2023

In 2023, Loihde expects revenue from the security business to increase more than 10% and from the digital development business to increase more than 10%. The Group's adjusted EBITDA is estimated to improve compared to 2022, when it was EUR 10.3 million.

DIVIDEND POLICY

Previously, Loihde's dividend distribution was largely based on the distribution of funds to shareholders accumulated from capital gains from selling businesses or other assets. The company's Board of Directors wants to develop the company with a long-term view and it considers acquisitions

to be an important element of the strategy of profitable growth. The dividend policy has been revised to correspond to the company's strategic objectives and, going forward, the company intends to distribute dividends primarily as its operational activities allow.

The company's Board of Directors has confirmed the dividend policy, according to which Loihde aims to distribute dividends annually in an amount representing at least 30 per cent of the Loihde Group's profit for the financial year. The company will assess the conditions for the distribution of dividends annually, taking into account the company's financial position, the achievement of growth and development targets and the investments necessary for that purpose as well as other material factors influencing the distribution of dividends.

SHARES

Loihde Plc's shares are listed on Nasdaq First North Growth Market Helsinki. The ticker symbol of the share is LOIHDE and the ISIN number is FI4000014238.



LOIHDE

**People first
since 1882.**