SCANFIL

Annual Report 2022

Trusted manufacturing partner

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Scanfil enables customers to succeed by providing effective and innovative solutions that bring products to life and to market.

Scanfil in brief

Scanfil is a trusted manufacturing partner and system supplier with over 45 years of experience in demanding manufacturing. Scanfil provides its customers an extensive array of services, ranging from product design to product manufacturing, material procurement, and logistics solutions. Scanfil's competitive advantages are speed, flexibility and reliability.

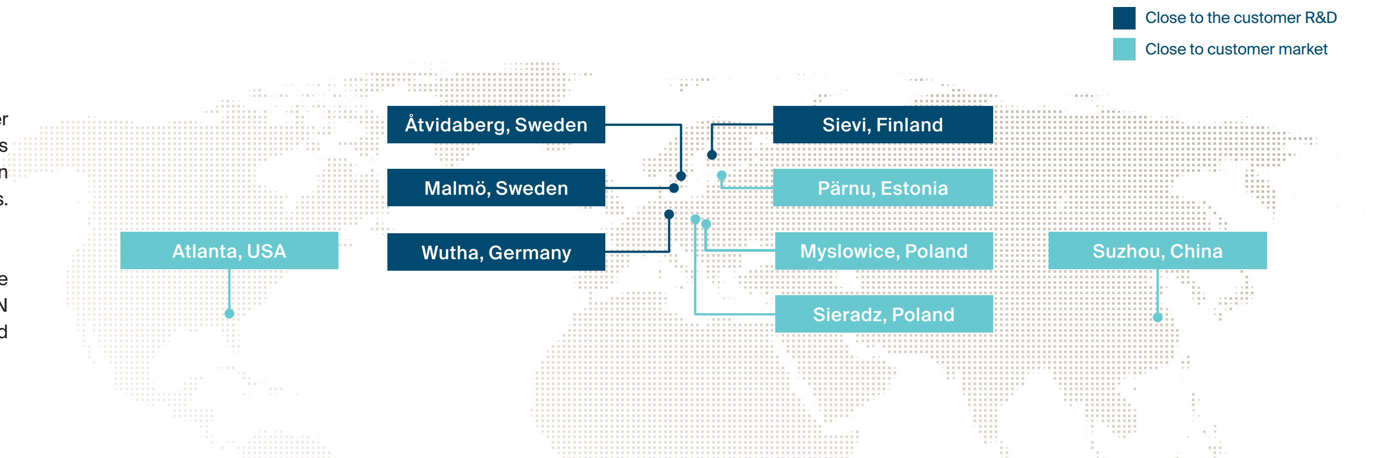
Scanfil has a strong focus on sustainability and responsibility. We are committed to UN Global Compact and have identified seven key UN Sustainable Development Goals. We have EcoVadis silver rating and aim for gold in 2023.

Factory network

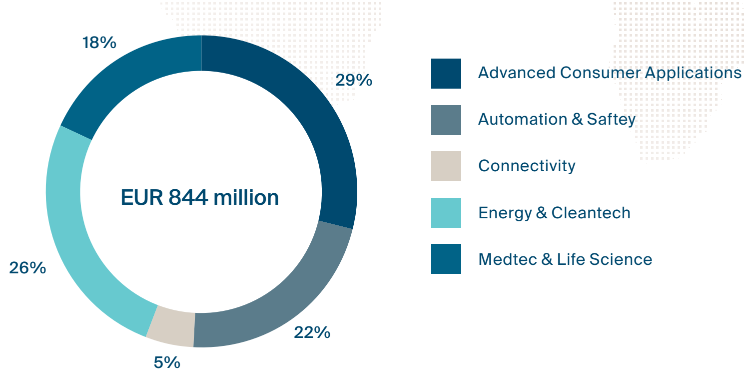
Scanfil has a global factory network with different roles: close to customer R&D and close to customer market. All factories are self-governing and profit and loss responsible, but benefits from the group operations such as sales, global sourcing, financial resources, IT systems, unified machinery, and processes. This enables us to react fast to changing customer needs and benefit from our scale in procurement and investments.

Close to customer R&D factories are enable fast product development and rapid prototyping.

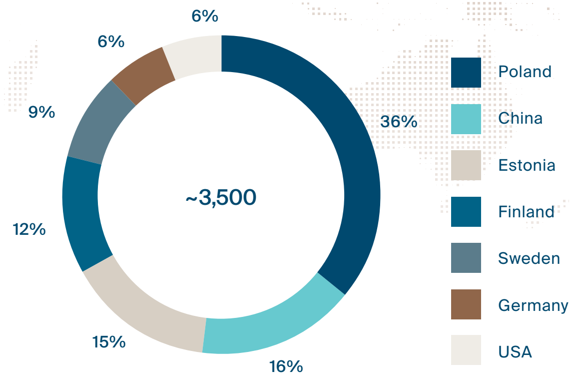
Close to customer market factories are in or close the customers' geographical end market. This enables lower transportation costs and time, and possible benefits from avoiding some import-related costs such as customs.



Turnover



Personnel



CEO's review

"I am satisfied with our performance in 2022. At the start of the year we had a strong customer demand which strengthened further during the year. The year progressed upward both in terms of turnover and operating profit and ended with a record-breaking last quarter.

Our focus was clear and we concentrated on organic growth and managing the risks of cost inflation and operating environment. The operating environment was demanding and headwinds were brought by the availability challenges of electronic components, cost inflation, the corona situation especially in China. To meet the growing customer demand, we invested in production capacity at the factories in Suzhou, Malmö and Wutha. As a whole, we made strong progress! I would like to thank our dedicated employees for their good work and our customers for their support and trust.

The turnover in 2022 increased by 21.3% from a year ago and was EUR 843.8 million. The component availability challenges partially eased towards the end of the year, which was reflected in reduced spot market purchases. The operating profit for 2022 increased by 14.6% compared to a year ago and was EUR 45.4 million. The positive development of the operating profit was influenced by the increase in turnover and the efficiency of operations resulting from the easing of challenges in the availability of components. The impact of exchange rate changes on the operating profit was EUR 2.5 million negative. Situation improved significantly towards the year end driven by the improved hedging process and lower currency volatility..

The net cash flow from operations turned positive in the second quarter of the year, continued to strengthen towards the year end and was EUR 10,2 million positivie in 2022. Strengthening the net cash flow and related inventory management will continue to be a key development area.

Scanfil's financial position and balance sheet are stable and enable the necessary investments and the implementation of the dividend policy. The board proposes to pay a dividend of 0.21 euros per share for 2022, which is a 10.5% increase compared to a year ago. If implemented according to the proposal, Scanfil's dividend will increase for the tenth year in a row.

Scanfil's customers' demand outlook for 2023 continues to be strong and gives us a good base for organic growth and positive profitability development towards the target level of a 7% operating profit margin. The near-term risks of the business are mainly related to the development of the economy both in Europe and globally, and, despite the improved situation, the availability of semiconductors, which we believe will partly continue to be challenging.

We expect our turnover to be EUR 820–890 million this year and the adjusted operating profit will grow to EUR 49–55 million. We also believe that the number of spot market purchases will decrease significantly from 2022.

In the longer term, we aim for organic 5–7% annual growth and a 7% operating profit level. In 2023, key investments to increase production capacity are investments in electronics manufacturing lines for the Atlanta factory in the United States and the Sieradz factory in Poland. For both factories, the new production lines are expected to be in use in the third quarter of 2023. We have also started preliminary planning to expand the Sieradz factory with a production building of about 8,000 m^2.

In the longer term, we see the North American and Asian markets as interesting expansion areas."

PETTERI JOKITALO
CEO

Strategy

Scanfil was founded in 1976. Throughout the decades, we have adjusted our strategy according to the prevailing market situation, but the focus remains the same – manufacturing of products with electronics.

We pursue profitable growth in our key market areas: Nordics, Central Europe and The USA, and China.

Customers

Scanfil serves a wide range of customers from start-ups to global leaders. The focus is on industrial and medtech customers, which fit Scanfil's production and service platform. They tend to have lower production volumes than those in consumer markets and product life cycles even decades-long with refurbishing and modernization needs. Our aim is to be customers' preferred manufacturing partner. Our goal is to build long-term relations, and we have succeeded well: Scanfil's longest existing customer relationships have lasted over 40 years.

Services

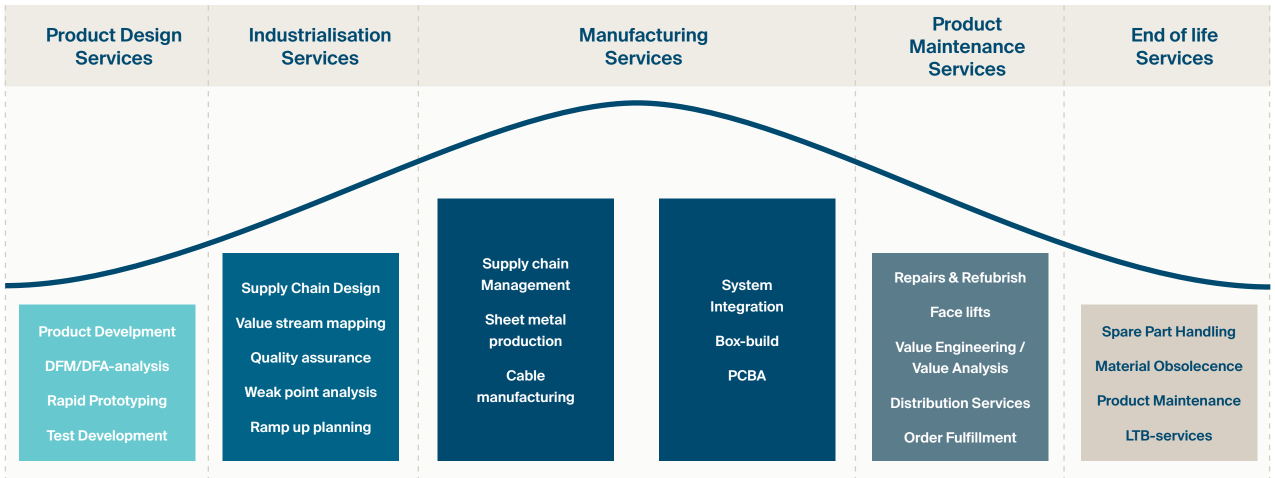
Our services cover product design and development to production and end-of-life. One of the key success factors for both Scanfil and its customers is the close collaboration in the early phases of the product design. Continuous cooperation enables customers to reduce time-to-market and costs by choosing the best materials and production technologies.

The wide spectrum of services enables Scanfil also to take full responsibility for another company's production. We are a reliable partner for companies to outsource their production to. Especially, brand owners can benefit from production outsourcing with low or no investments needed into production, flexibility when customer pays only for the manufactured products and production can be scaled up or down to correspond to the prevailing demand.

Technology

We have systematically invested in reassuring our technological leadership through a five-year program. SMART technology program has been set for 2019-2023, and it aims at fast digitalization and automation. Within the program, we have, e.g., adopted the state-of-the-art Manufacturing Execution System (MES), automated our material flow at factories, taken cobots, machine learning and AI into broader use.

Our offer throughout customers product's life cycle



Customer segments and growth drivers

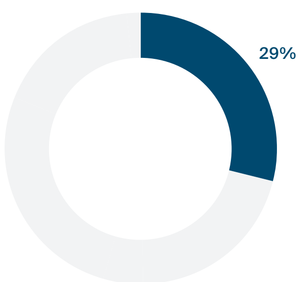
Scanfil has five customer segments that typically have different business cycles, and therefore, it balances changes in demand. We have identified Energy & Cleantech and Medtech & Life Science as high-growth potential customer segments.

Advanced Consumer Applications

End products and solutions are often used in public places. End products are ,e.g., self-service applications, handover automation (e.g. parcel lockers for logistic services) and elevators.

Driving megatrends

- Urbanization
- Growing middle class
- Modernization of households

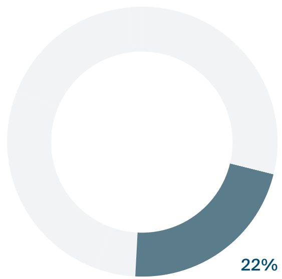


Automation & Safety

End products in this segment are, e.g., cameras for network video solutions, access control systems and automation systems.

Driving megatrends

- Industrial automation
- Robotics
- Sustainability



Connectivity

End products in this segment are, e.g. , wireless connectivity modules and radio systems.

Driving megatrends

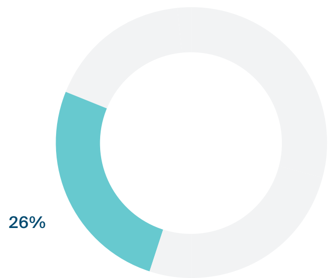
- Digitalization
- Increasing significance and use of information in society
- 5G and wireless solutions
- Industrial internet

Energy & Cleantech

End products in this segment are, e.g., reverse vending machines, air and water cleaners, indoor climate control systems, energy systems and automated collection and sorting solutions.

Driving megatrends

- Energy efficiency, renewable energy production and solutions for circular economy
- Urbanization particularly in emerging markets
- Monitoring, controlling and cleaning of water and air quality

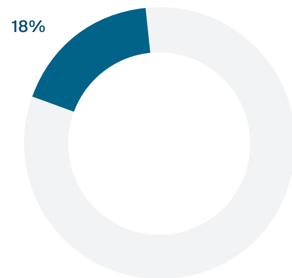


Medtech & Life Science

End products for the segment are, e.g., dental chairs, analyzers, mass spectrometers and solutions for environmental measuring.

Driving megatrends

- Ageing population
- The increasing needs for healthcare and technology in emerging markets
- Climate change and need to predict weather phenomena



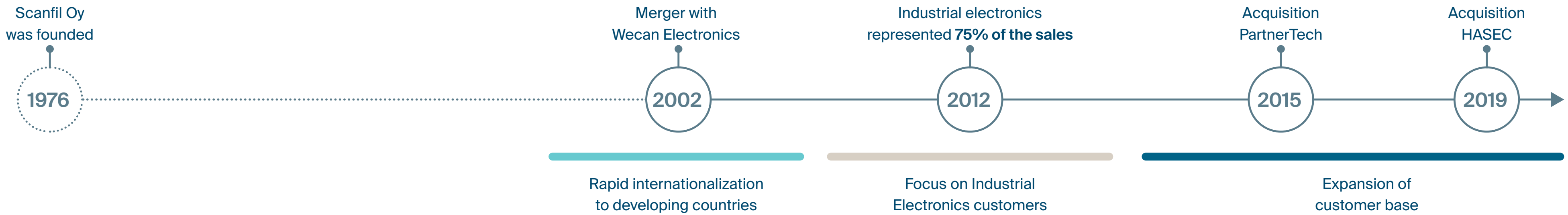
Growth drivers

Historical growth of the relevant Electronics Manufacturing Services (EMS) market to Scanfil has been 3-6% p.a. Scanfil aims to grow faster than the market and has set the annual organic growth target of turnover to 5-7%.

Scanfil has identified Energy & Cleantech and Medtech & Life Science customer segments and the Central Europe region as high-growth potential areas where the company aims to grow faster than the average.

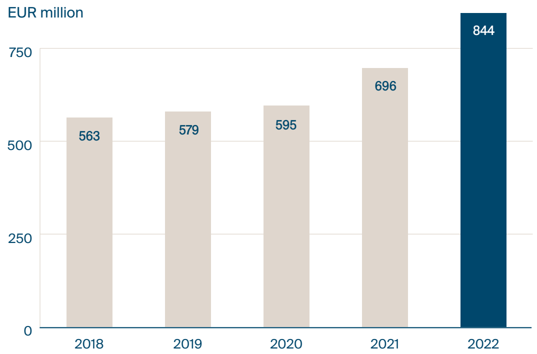
Mergers and acquisitions have been part of Scanfil's growth strategy for decades. We are actively looking for acquisition targets with a complementary customer base and geographical reach.

[Read more about Scanfil's history]

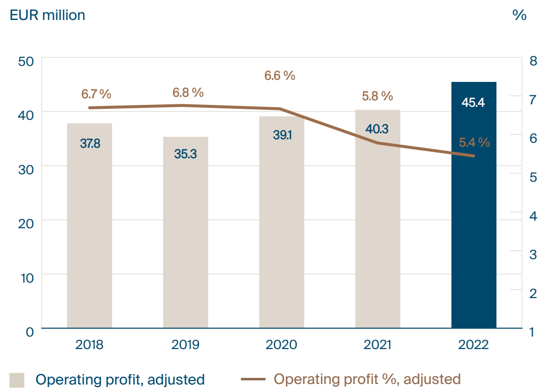


Investor information

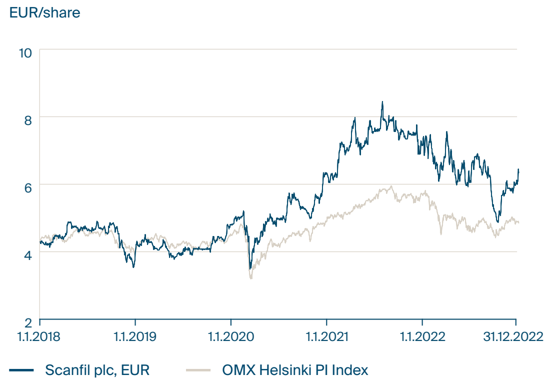
Turnover



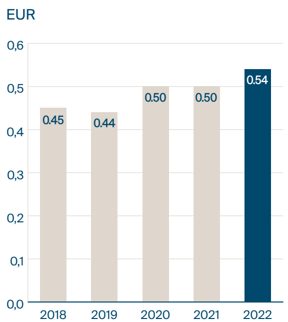
Operating profit & operating profit %, adj.



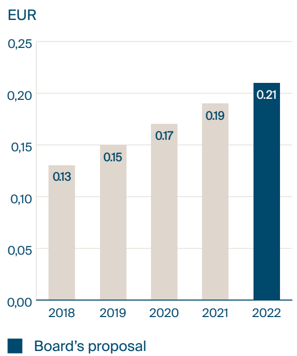
Scanfil share price



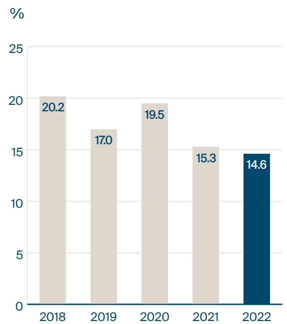
Earnings per share, adj.



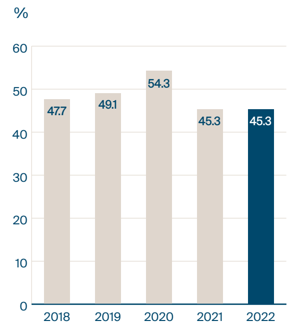
Dividend per share



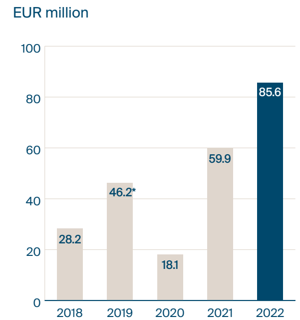
Return on investment



Equity ratio



Net debt



*The increase in net debt is due to the adaption of IFRS 16.

Scanfil as an investment

Scanfil is a company with strong culture and values. The company has been profitable since the beginning. It is a preferred manufacturing partner and systems supplier for industrial customers The company has earned a reputation for building long-term partnerships based on a mutual passion for success.

Profitable operations in all situations have made it possible to invest and secure the company's future.

Solvent and financially reliable partner

Scanfil is a solvent and financially reliable partner for its customers, suppliers, shareholders and employees.

Scanfil's goal is to work in sustainable, long-term cooperation with its customers. Like its customers, the company operates internationally, and its customers include numerous significant international automation, clean energy, recycling and health technology providers, as well as companies operating in the field of urbanization. Scanfil is the market leader in the Nordic countries, among the largest companies in its sector in Europe, and a household name in the global market.

Long-term targets

Scanfil is organically aiming for 5-7% annual turnover growth and 7% operating profit level.

Outlook for 2023

Scanfil estimates that its turnover for 2023 will be EUR 820–890 million, and its adjusted operating profit will be EUR 49–55 million.

The guidance is based on customer forecasts and Scanfil's normal forecasting process. The outlook is associated with uncertainty, especially regarding the semiconductor availability, price level, the supply chain's ability to deliver and spot market purchases. In 2022 spot market purchases increased turnover by EUR 80.7 (32.0) million. In addition, the development of the general economic situation and the war in Ukraine are causing risks and uncertainty.

Dividend

Scanfil aims to pay an increasing dividend of approximately 1/3 of the earnings per share. The level of dividends paid and the date of payment are affected by the result, financial position, need for capital and other possible factors.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.21 (0.19) per share be paid for a total of EUR 13,620,863.55 for the financial year ending on 31 December 2022. The dividend matching day is 2 May 2023 and the dividend payment date 9 May 2023. The dividend will be paid to shareholders registered in the Register of Shareholders maintained by Euroclear Finland Ltd on the matching date.

Annual General Meeting

Scanfil plc's Annual General Meeting (AGM) will be held on 27 April 2023 without a meeting venue using remote connection in real time. More information www.scanfil.com/agm

Financial publications in 2023

- Interim report for January–March, 26 April 2023
- Interim report for January–June, 4 August 2023
- Interim report for January–September, 27 October 2023

The financial publications are released in Finnish and English languages. They will be available on the company's website at scanfil.com.

Sustainability Report

Scanfil is a trusted manufacturing partner and system supplier for the electronics industry with over 45 years of experience. Scanfil provides its customers with an extensive array of services, ranging from product design to product manufacturing, material procurement, logistics solutions, and refurbish and end-of-life services.

Sustainability is essential to Scanfil. Scanfil wants to preserve the earth for future generations and be an excellent and responsible business partner for its customers and suppliers, and a reliable employer. Scanfil is committed to UN Global Compact and has identified seven key UN Sustainable Development Goals from the company perspective.

Scanfil plc is committed to developing its sustainability, sustainability targets, and its reporting and measuring. This sustainability report has been approved by the Board of Directors, and it has been compiled according to the EU's other than non-financial information reporting directive.

In 2022, the company continued to prepare for the change of EU corporate sustainability regulation and as part of preparation work Scanfil finalized double materiality assessment survey in February 2023.

We contribute to the following UN Sustainable Development Goals.

Sustainability at Scanfil

Management

The Board of Directors and members of the management of Scanfil are responsible for the management of corporate responsibility. In terms of its governance, Scanfil complies with Finnish laws and regulations, its Articles of Association, Nasdaq Helsinki's rules and guidelines, and the Finnish Corporate Governance Code. In practical work, responsibility perspectives are guided by the Group's Code of Conduct. Furthermore, in each country Scanfil has operations, it follows the national laws of that area. In addition, the policies and other ethical operating principles are approved by the Board of Directors or the Management Team.

Key themes in corporate responsibility

Ensuring and developing the sustainability of operations is vitally important for Scanfil's success. The monitoring and continuous development of corporate sustainability serve the needs of all Scanfil's stakeholders. Scanfil has defined key factors for its corporate responsibility and divided them into Environmental (Responsible Consumption and Climate Action), Social (Good Health, Gender Equality, Good Jobs and Reduce Inequalitites), and Governance (Peace, Justice and Strong Institutions).

"Sustainability is essential to us. We want to preserve the earth for future generations", Petteri Jokitalo the CEO of Scanfil plc.

Environmental

The focus areas for environmental responsibility are the efficient use of raw materials, the control and reduction of energy and water consumption, as well as the management and reduction of waste, recycling, and the reduction of the carbon footprint. All sites within Scanfil are certified according to ISO 14001.

Social

Social responsibility focuses on competence development, occupational health and safety, the development of the motivation and work satisfaction of the personnel, and equal treatment of the people. The ISO 45001 occupational health and safety management standard is being used at all Scanfil's factories. Scanfil's objective is to be an excellent place to work.

Governance

Good Governance includes the development of customer satisfaction, product quality, delivery reliability, continuous development of the community, compliance with the law and ethical principles throughout the supply chain, the prevention of corruption and bribery, and the focus is on profitability, ethical values and the transparency of operations. All the company's factories operate a quality control system observing the ISO 9001 criteria.

Sustainability risks

Scanfil's most important sustainability risks.

Supply chain

Scanfil's global supply chain includes procurement from countries with different risk levels. Potential risks in the supply chain include, e.g., compromising human rights or labor rights, risks to occupational health and safety, and causing environmental damage. Scanfil suppliers can cause notable reputation or business risks to Scanfil if they engage in such unethical behavior.

To effectively manage risks in the supply chain, Scanfil has a supplier evaluation process, and each supplier is committed to Scanfil's Supplier Code of Conduct.

Health and safety

In our operations, the greatest threats to employee health and safety, such as work-related illnesses and accidents, arise when Scanfil's health and safety processes are not followed, and risks in the work environment are not recognized and controlled.

Our employees are involved in health and safety decisions through consultation and cooperation. We comply with legal requirements and develop and implement appropriate health and safety procedures and working practices.

Scanfil has a Safety Council, which monitors all work safety aspects. Safety Council convenes quarterly to share and decide corrective actions and preventive best practices. In addition to that, sick leaves, accidents/ injuries and, serious accidents are monitored monthly.

The occupational risk analyses are performed regularly at all locations to prevent health and safety incidents related to our operations.

Unethical behavior

Employee-related risks may also arise from violations of Scanfil's Code of Conduct and related principles, such as practices related to bribery, fraud, corruption, and misconduct, which could impact the company's reputation and its financial position.

Climate-related physical risks

Due to climate change e.g., extreme weather conditions are becoming more common. For example, floods or tornadoes could pose a threat to the continuity of Scanfil's operations. The company has business continuity plans in place in all factories to manage possible impacts.

Environmental responsibility

Responsible Consumption

Scanfil produces extensive services for its customers, ranging from product design and development to material procurement, product manufacturing and distribution. It is generally estimated that approximately 80% of a product's negative environmental impacts are determined in the product design phase. Environmental impacts are taken into account throughout Scanfil's value chain, ranging from the procurement of raw materials to production, distribution, and recycling.

Scanfil promotes sustainable development by identifying, measuring and reporting the environmental impact caused by its activities. The goal is to reduce negative impacts on the environment. Scanfil's aspiration is to consider the environmental impact throughout the value chain, ranging from the procurement of raw materials to production, distribution, and recycling possibilities. All Scanfil's factories have a certified ISO 14001-compliant environmental management system. In its production, Scanfil mainly uses metals, electronic and plastic components, and chemicals. It prefers recyclable materials and eco-friendly products. Part of the materials to be used are chosen by customers. The utilization rate of all raw materials is optimized to ensure the efficient use of resources and decrease the amount of waste created. Waste materials are recycled if they cannot be re-used in the company's own production. Steel is an important raw material used by Scanfil. Its effective use is closely monitored in the production process.

The risks associated with chemicals are analyzed before their deployment, and they are handled following precise instructions and precautions. In addition, proper training and drills are arranged to prepare for any accidents.

SCANFIL

Scanfil promotes sustainable development by identifying, measuring and reporting the environmental impact caused by its activities.

Reduce carbon footprint

Scanfil commits to reducing its carbon footprint by 50% from 2020 16,853 tCO_2e to 2030 10,000 tCO_2e. This means on average 4.2% annual reduction in carbon footprint until 2030. In 2022, the result was a 39% reduction in CO_2 emission from the baseline in 2020. However, the target is challenging with the annual organic turnover growth rate target of 5 - 7% p.a.

As an internationally operating company, employees' business travel is necessary, while the company seeks to reduce it, for example, by utilizing the possibilities of the latest technology and by favoring virtual meetings. The travel practice always guides the employees to choose the most environmentally friendly alternative for travel and meetings. Emissions from daily commuting have been reduced by organizing bus transportation for personnel at several Scanfil factories. The company's updated vehicle policy favors low-emission cars, such as hybrid and electric cars.

Increasing usage of fossil-free energy

The company also commits that its energy consumption is 60% fossil-free by 2030. Target was increased from the originally 50% in 2022. In 2022 the share of fossil-free energy increased to 51,5% from 33% in 2021. Scanfil uses energy in heating, cooling, lighting, and production machinery. In 2022, Scanfil's electricity energy consumption was 27.3 million kWh and the total energy consumption was 40.8 million kWh. The total energy consumption includes the combustion of fossil fuels in on-site boilers, furnaces, vehicles, purchased electricity, district heating, and cooling. The total energy consumption increased by 2% year-on-year. This is due to higher customer demand and volumes in 2022. Energy consumption per value-add decreased by 5.1%.

Most of the increase in energy consumption came from Suzhou and Sieradz which are the largest production units at Scanfil. The increase in production resulted in a larger number of machines installed and in more shifts when the factory operated during evenings and weekends.

It is also notable, that climate change has increased the need for air cooling in several factories and increased energy consumption during the summer.

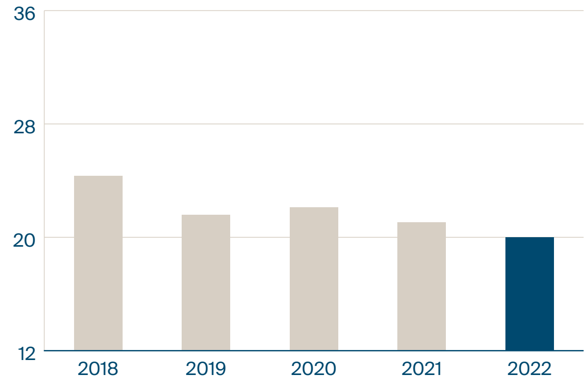
In 2022, electrical energy consumption divided by value add increased by 1.9%. Value add increased at a lower pace than electricity consumption.

Water and Waste

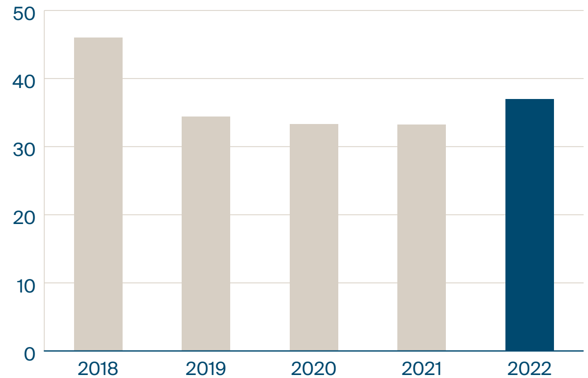
Water is used in facility cooling and maintenance, production, and sanitary facilities. Total water consumption was 55,065 (46,227) m^3. Water consumption increased by 19.1% and increase divided by added value was 11.1%. The increase in water consumption was largely related to enhanced air conditioning in Suzhou, and new paiting lines in Pärnu and Myslowice, and also distributed across all factories in relation to the production volume increases.

The amount of waste created increased by 12.6% in 2022 compared to 2021. There were some differences between factories due to changes in production and different product ranges, but majority of the increase came from increased volumes. Waste reduction is one of the focus areas in 2023. Waste divided by added value increased from 2021 by 5.1%.

Energy consumption kWh / value add



Water consumption m^3 / value add



Added value = turnover - purchases

Environmental certificate held by all

All Scanfil's factories have a certified ISO 14001:2015 -compliant environmental management system that verifies the measurement and improvement of environmental impacts on the company's management and employees, as well as on its external stakeholders. The company's management monitors the implementation of environmental practices, as well as the development of key indicators and the goals set, both locally and at group level. In addition, the employees are provided with the necessary knowledge and training to ensure they can work in accordance with the objectives of our environmental practices.

The most important actions taken in 2022 to support the above targets

- New energy agreements in Myslowice and Suzhou factories
- Energy saving activities in all factories e.g. automated power switches, runtime optimization and led lightning
- Logistics and transportation optimization
- Paintshop pre-treatment line automation upgrade in Sievi

The most important actions to be taken in 2023 to support the above target

- Detailed reporting and improvement actions per waste type
- Energy saving and transportation optimization to continue
- Green electrcity agreement in Wutha

Certificates of Scanfil's factories

Factory	ISO 9001:2015 Quality management system	ISO 14001:2015 Environmental management system	ISO 13485:2016 Medical equipment	ISO 45001:2018 Occupational health and safety assessment system	IATF 16949:2016 Quality system standard for the automobile industry, conformity document
Atlanta	●	●	●	●	
Malmö	●	●	●	●	
Myslowice	●	●	●	●	
Pärnu	●	●		●	
Sieradz	●	●	●	●	
Sievi	●	●	●	●	
Suzhou	●	●	●	●	●
Wutha	●	●	●	●	●
Åtvidaberg	●	●	●	●	

Social Responsibility

At Scanfil, social responsibility focuses on its employees' competence development, occupational health and safety, as well as the development of the personnel's motivation and employee satisfaction. Scanfil aims to be a responsible employer and an encouraging working community where every individual has the opportunity to develop their personal skills and abilities. Scanfil aims to improve the employee satisfaction to the top quartile among all companies covered by our current employee satisfaction survey service partner.

Scanfil joined the UN initiative "Global Compact" in 2021 to enhance responsible business practices. The principles are based on the UN Declaration of Human Rights, the ILO Fundamental Conventions on Human Rights at Work, the Rio Declaration, and the UN Convention against Corruption. Being part of the "Global Compact" initiative, Scanfil uses the best practice guidance, tools, resources, and training provided.

Scanfil has HR and work environment policies and the Code of Conduct to guide the daily work of the management and other employees. The Code of Conduct describes in detail the ethical and sustainable methods of operation compliant with Scanfil's values. Any updates of the Code of Conduct are consulted with all subsidiaries, also involving their non-managerial employees, in order to get full alignment and contribution from differentiated communities. A thorough review of the Code of Conduct is part of the induction process.

SCANFIL

Scanfil improves occupational safety by continuous active measures.

Scanfil Women Appreciation Team started operating in 2022 and it drives Scanfil's gender equality activities. That was initiated by Scanfil becoming an UN Women Empowerment Principles Signatory. In 2022 Scanfil also joined the UN Target Gender Equality program, which propelled new development initiatives.

Occupational health and safety

2022 was a recovery year from the global coronavirus pandemic. Sick leave rates were still high due to tails of coronavirus characterize by local epidemics and lower immunity to many normal seasonal viruses. The Group's sick leave rate was 4.4% (2021: 3.6).

There were 48 (2021: 43) occupational accidents. As a percentage of active workforce accidents declined by 0.3 percentage points, from 1.7% to 1.4% compared to 2021.

Scanfil improves occupational safety by continuous active measures. The work environment must always be safe and healthy. The ISO 45001 occupational health and safety management standard is used at all Scanfil's factories. The development of safety is also monitored by the Safety Council, which meets four times a year and consists of the HR Managers and Safety Officers of each factory.

Scanfil uses a Safety Book to record occurred occupational accidents during the year. Scanfil reacts to all occupational accidents and near-miss incidents to prevent them from recurring. Most accidents are related to the manual assembly operations and handling of materials. Challenging postures and extended sedentary work may influence workforce in assembly and office work. Their negative impact is mitigated through improved ergonomics and well-being campaigns.

The response rate to the annual personnel survey was 89% (2021: 87%). Despite the uncertainties resulting from the coronavirus pandemic and rearrangements within the company, employees' job satisfaction and motivation increased and loyalty remained high. Improvements were clearly visible in the white collars' workload, which was focus development area in 2022. The situation is still challenging with the limited availability of certain components, mainly semiconductors, together with the rising customer demand, requires special efforts of those employees responsible for customers and purchases. However, Scanfil managed to improve the situation over the year. To continue the positive trend, Group's focus on 2023 is Leadership development in order to equip direct managers with effective tools and abilities to lead people through challenging times. Based on the survey, over 400 development actions were registered within Scanfil.

Development of employee satisfaction results

Human rights

The company ensures its social responsibility through fair working conditions and practices, with an exclusive focus on human rights as expressed in Scanfil's Code of Conduct.

Human rights and equal treatment are fundamental values in Scanfil's operations, and here no compromises can ever be made. Besides the personnel, they concern all partners, and they define, among other things, the principles of respecting individuals, as well as those of preventing forced labor, child labor, and human trafficking. The Code of Conduct also includes instructions on reporting possible or suspected unethical or illegal actions. Scanfil's personnel survey includes questions about any unwanted behavior.

Scanfil has a whistleblowing channel through which the company's personnel and partners can anonymously report any observed or suspected misconduct regarding corruption, bribery, or rules described in the Code of Conduct. The company aims to ensure compliance with the Code of Conduct in its supply chain by carrying out audits and increasing supplier's awareness in this field. Compliance with the law and ethical principles is also monitored in internal control and audits. In 2022, no non-conformities pursuant to corporate governance were identified in Scanfil's global whistleblowing channels. Four cases of bullying or harassment were reported in local HR organizations. These were investigated thoroughly by local management teams, and the resulting actions were reported in the global HR organization.

Scanfil's factories are actively involved in charity activities and sponsorship of youth sports teams, and Scanfil supports UNICEF at the Group level.

Non-discrimination and diversity

We believe that the broader the pool of talent open to an employer, the greater the chance of finding the optimum person for the job. Innovation and agility are seen as the great benefits of diversity, and there is an increasing awareness of what has come to be known as 'the power of difference.' Scanfil employs around 70 different nationalities. We have over 80 employees with disabilities. The average age of our employees is 40 years, and the ratio between women and men is 49% to 51%. Board and management diversity is handled in the Scanfil's Board of Directors Report.

The most important actions taken in 2022:

- Continuously improve employee satisfaction, including employee well-being and white-collar workload
- Scanfil uses UNGP (UN guiding principles on business and human rights) as a benchmark tool for measuring human rights

The most important actions to be taken in 2023:

- Safety council improvement actions
- Improve Working Conditions (EES actions) and well-being campaign promoting healthy living habits
- Gender equality action plan (brand, career and recruitment) and enhance diversity & inclusion awareness
- Improve EES action plans quality with targeted development for selected managers

Good governance

Scanfil's governance is divided into good and sustainable business practices, customer satisfaction, and a sustainable supply chain. Topics concerning Board and Management are handled in the Board of Directors Report and in addition to this in the Remuneration report.

Good corporate citizen

Scanfil has operations in seven countries, and it co-operates with suppliers and subcontractors around the world. Scanfil is committed to being a good corporate citizen both internationally and locally, which is why all its functions must respect different cultures and cultural heritage, as well as local methods of operations compliant with national laws. Scanfil's Code of Conduct defines the ethical principles and commitment to anti-bribery, honesty, fair methods of operation, and the behavior expected of Scanfil's employees business partners and other stakeholders. Human rights and equal treatment are basic values in Scanfil's operations, and they cannot be compromised. People must be treated with dignity and respect in the manner approved by the international community.

Anti-corruption and anti-bribery measures

As part of its corporate responsibility management, Scanfil is also developing its activities to fight corruption and bribery. Compliance with corporate responsibility is raised more often than previously in talks with customers. Scanfil has defined responsible operating guidelines in its' Code of Conduct. This covers, for example, the equal treatment of people and prohibits corruption and bribery. The Group's operating methods, such as transparent and cost-based pricing, reduce the possibility of non-compliant activities. No deviations from Scanfil's Code of Conduct were identified in 2022.

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SCANFIL

Whistleblowing

Scanfil has a whistleblowing channel through which the company's personnel and partners can anonymously report any observed or suspected misconduct regarding corruption, bribery, or rules described in the Code of Conduct. More information about Whistleblowing is found in the Social Responsibility section.

Anti-Competitive

Scanfil is committed to not take part in decisions and practices that are anti-competitive. These actions are, e.g., price-fixing, bid-rigging, market sharing, production controlling, or miss-use of market power.

Facilitating Customer sustainability

Customer satisfaction is one of the company's core values, and everybody at Scanfil understands that success depends on satisfied and loyal customers. Maintaining active contacts regarding the customer's requirements and Scanfil's plans is an essential element of cooperation. It allows the correct business decisions to be made and the competitiveness and responsibility of production services to be developed. Continuous development of operations in cooperation with customers is in both parties' best interest.

Continuous contact with customers is based on the key account management model. It includes a plan on cooperation, systematic and regular meetings at several levels, and a standardized reporting model presenting the most important key performance indicators (KPIs). Development projects are also implemented based on customer feedback. For example, they may be related to quality matters or the expansion of the service offering. High-quality and cost-effective production is one of Scanfil's key competitive advantages. The continuous development of production processes, utilization of the right technologies, and verified quality of the materials used are key factors in the continuous improvement of competitiveness.

Satisfied customers

Customer satisfaction (Net Promoter Score, NPS) is measured regularly by conducting a customer satisfaction survey twice a year. Feedback helps us to monitor our operational performance in terms of our delivery capacity and our ability to produce quality, as well as our flexibility, competitive prices, the organization's ability to react, and the coverage and performance of our services. Based on the survey, we will define a factory- and/or function-specific development program, including relevant measures. These measures will be monitored actively in cooperation with customers. NPS, which shows the probability of our customers recommending Scanfil as a manufacturing partner, decreased from the previous year. This was due to challenging material situations and us not being able to live up to customers' expectations on-time delivery. Scanfil has started corrective actions to improve customer experience.

How probable is it that you would recommend Scanfil's services?

NPS-scale from -100 to +100.

	Q2 2021	Q4 2021	Q2 2022	Q4 2022
NPS Score	25	22	5	-5

Quality and performance

All Scanfil's factories operate a quality control system observing the ISO 9001 criteria. In addition, certain factories have other certified quality management systems applicable to specific industries. All Scanfil's factories observe the Lean Six Sigma process development methodology and analysis (FMEA) that identifies the supply chain and production risks. The objective is to identify the deficiencies and risks in processes and production at an early stage, continuously make improvements, and carry out preventive measures. Performance is measured by KPIs, the most important being delivery punctuality and customer quality, measured as Defective Parts Per Million (DPPM). In 2022, customer quality improved, while delivery punctuality was negatively impacted due to continued challenges with electronics components availability and long lead time.

Scanfil is committed to continuously develop its operational performance. The company has made significant investments in the digitalization and automation of its operations. The technology investments have been made to further develop production processes and by that improve company's competitiveness. Scanfil's gross investments totaled 2.3% of company's turnover.

Towards Sustainable Supply Chain

Material purchases represent approximately two-thirds of turnover, which is why efficient procurement is a significant competitive factor for Scanfil. Scanfil has a broad network of local, regional, and international suppliers and partners, which it seeks to develop to ensure good quality and cost-effectiveness.

EcoVadis tool for sustainable procurement

EcoVadis platform has become a key tool for Scanfil to assess its suppliers, subcontractors and other business partners. The target is to assess 80% of the biggest and preferred suppliers, and selected suppliers with an increased risk profile.

Supplier selection and Supplier Code of Conduct

Scanfil requires that all its partners comply with the law and agreements and operate according to Scanfil's Code of Conduct. Scanfil Supplier Code of Conduct sets the standards we expect our suppliers to follow. It is the starting point for any new or existing business relationship, and it covers areas such as health and safety, child and forced labor, human rights, anti-corruption, compliance with laws and regulations, environment and climate change, and more. We expect our suppliers to comply with our Supplier Code of Conduct and be transparent in their ESG. Scanfil strongly recommends all its suppliers and business partners to use the EcoVadis platform.

The Supplier Code of Conduct constitutes part of purchase agreements signed with major suppliers. In addition, the Code of Conduct is signed with all suppliers when operating in the Asian market. Scanfil selects its suppliers carefully, and cooperation with its key suppliers is long-term. Scanfil only uses approved suppliers that fulfill Scanfil's strict criteria in terms of quality, delivery reliability and cost-efficiency. Scanfil audits its suppliers systematically and monitors their compliance with the terms and conditions of agreements. It also prevents any misconduct through the verification of orders and training. Once cooperation has started, quality assurance is carried out continuously. This means that incoming material is inspected, any non-conformities are kept under control, any errors in quality are corrected and the general performance of suppliers is evaluated. When new components or materials enter production, Scanfil always uses a separate inspection process to ensure quality. Making use of Scanfil's global position and volume in procurement processes helps to maintain competitive prices and control the supplier network. This is why Scanfil aims to focus its purchases on a few selected suppliers.

The most important actions taken in 2022:

- Preparation for EU level CSRD and EU taxonomy
- Ecovadis Gold preparations
- Code of Conduct update with business ethic topics
- Preparations for Code of Conduct online training

The most important actions to be taken in 2023:

- CSRD driven double materiality assessment and actions based on the results
- Achieving EcoVadis Gold
- Updated Code of Conduct training for all employees

Scanfil value add creation 2022, EUR million

Sales to customer	−	Purchases from suppliers	=	Value add
844		694		149
(2021: 695)		(558)		(138)

Business partners and society

Scanfil's sales to customers totaled EUR 844 million, of which purchases from external suppliers accounted for EUR 694 million. The difference, EUR 149 million, was the added value produced by Scanfil. The added value produced increased by EUR 11 million (+8.6%) from the previous year. Scanfil produces added value for employees, creditors, shareholders, and for the company's further development. Most of the added value was produced by the employees. During the year, Scanfil had an average of 3,400 employees and paid them EUR 83 million in salaries and wages. Salaries and wages increased by EUR 6 million, or 6%, year-on-year. Scanfil paid a total of EUR 28 million in other statutory staff costs and income taxes.

The company's subsidiaries are located in seven different countries. The location of these companies is based purely on business-related factors, such as the customers' market areas or their research and development centers. Scanfil is committed to paying taxes and other statutory expenses in each of its countries of operation. Scanfil has solvent financial partners. The company's financial position is strong. The company's credit and financial expenses totaled EUR 4 (2021: 2) million. The company aims to pay approximately a third of its net result as annual dividends. In keeping with this principle, Scanfil paid EUR 12.3 million in dividends in 2022. The dividend per share paid by the company has increased every year for the last nine years. Correspondingly, the company aims to use two-thirds of its result for investments, future growth and the general development of business. The company's return on equity was 16.1% in 2022, which clearly shows that the investments made in the company have repaid themselves well.

EU taxonomy

The EU taxonomy is a classification system for sustainable economic activities. It aims to provide robust definitions and transparent reporting to support increased finance for activities that substantially contribute to solving the climate and environmental crisis.

The EU taxonomy is reported in financial terms as the proportion of economic activities that are determined non-eligible, eligible and aligned in turnover, Capital Expenditure (CapEx) and Operating Expenditure (OpEx).

The EU taxonomy is intended to encourage financial markets to invest and finance more sustainably and avoid green washing. It sets the criteria for activities that the EU has classified as environmentally sustainable. Activities that are described in the taxonomy are referred to as eligible activities. Eligible activities that also meet set criteria are referred to as aligned activities in the taxonomy.

Scanfil has activities that qualify as environmentally sustainable according to the EU Taxonomy as per EU Regulation 2020/852. Scanfil has activities that are in the scope of Technical Screening Criteria (TSC) 3.1 Manufacture of renewable energy technologies, 3.4 Manufacture of batteries and 3.5 Manufacture of energy efficiency equipment for buildings. According to Article 16 of the Taxonomy Regulation, these activities are enabling substantial contribution towards climate change mitigation, which is one of the environmental objectives defined in Article 9 of the Regulation.

Assessment of compliance with the taxonomy regulation

Scanfil has carried out an assessment regarding its economic activities against the EU Sustainable Finance Taxonomy's first Delegated Act on Climate, as required by the Delegated Act on Article 8. The purpose of this assessment was to define the taxonomy-eligibility and alignment. Scanfil's approach to identifying and reporting sustainable economic activities consisted of:

1. Eligibility assessment: mapping of economic activities to taxonomy activity descriptions and NACE codes.

2. Substantial contribution assessment: screening of activities against technical screening criteria.

3. Do no significant harm (DNSH) assessment: screening of Scanfil's procedures to ensure that our operations do not cause significant harm to relevant environmental objectives. Screening conducted at an appropriate level for each environmental objective. The company has established management procedures that address different environmental issues, including waste disposal and pollution control. These procedures are primarily carried out using environmental management systems that are certified by ISO 14001.

4. Minimum safeguards assessment: A review of Scanfil's social safeguards to ensure that our operating instructions, company policies, and management system are compliant with the UN Declaration of Human Rights, the ILO Fundamental Conventions on Human Rights at Work, the Rio Declaration, and the UN Convention against Corruption

As a result of the 2022 assessment, the following economic activities were identified as taxonomy eligible and aligned for Scanfil with the objective of Climate Change Mitigation (CCM) according to the Technical Screening Criteria of 3.1 Manufacture of renewable energy technologies, 3.4 Manufacture of batteries and 3.5 Manufacture of energy efficiency equipment for buildings.

Scanfil continues to develop taxonomy assessment and reporting in 2023 as the final technical screening criteria for the four remaining objectives will be finalized. Scanfil Taxonomy KPIs for the year 2022 are presented in the tables of the following pages.

Double counting has been avoided by classifying external revenue streams into taxonomy-eligible economic activities only once. The shares of eligible and aligned net sales have been used as key to calculate eligible and aligned Opex and Capex.

Turnover

Scanfil is an electronics manufacturing service ("EMS") company. It manufactures components and products for its customers. Most of Scanfil's operations fall under NACE code 26 (Manufacturing of computers and electronic and optical products), which is currently not covered in the first Delegated Act on Climate. Scanfil has approximately 110 active customers and it manuafactures approximately 10,000 different products annually. To describe the complexity, customers' end products can vary from heat pumps and recycling solutions to elevators and industrial pumps and frequency converters. For now, Scanfil's taxonomy-eligible and aligned economic activities are conducted predominantly in the Energy & Cleantech segment customers while other businesses are currently not described in the Taxonomy Regulation. Only customers and their line of business is assessed.

				Contribution criteria		Do no significant harm -criteria									
Ecomonic activities	Codes	Absolute turnover	Portion of turnover	Climate change mitigation	Climate change adaptation	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy aligned % of turnover in 2022	Enabaling activity	Transitional activity
A. TAXONOMY ELIGIBLE ACTIVITIES		MEUR	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
Taxonomy aligned activities (A.1.)															
Manufacture of renewable energy technologies	3.1	4	0.5%	100%	-	-	Y	Y	Y	Y	Y	Y	0.5%	E	-
Manufacture of batteries	3.4	13	1.5%	100%	-	-	Y	Y	Y	Y	Y	Y	1.5%	E	-
Manufacture of energy efficiency equipment for buildings	3.5	55	6.0%	100%	-	-	Y	Y	Y	Y	Y	Y	6.0%	E	-
Turnover (A.1.)		**72**	**8.0%**												
Eligible, but not aligned activities (A.2.)															
Manufacture of renewable energy technologies	3.1	3	0.4%	100 %											
Turnover (A.2.)		**3**	**0.4%**												
TOTAL (A)		**76**	**8.4%**												
B. TAXONOMY NON-ELIGIBLE ACTIVITIES															
Turnover (B)		**768**	**91.6%**												
Total (A+B)		**844**	**100%**												

Capital Expenditure

The idea of an EMS company is to share assets in the production with other customers e.g. SMT lines are used for multiple customers and therefore identifying or separating investments in these assets based on taxonomy eligibility or alignment cannot be done. In cases, where assets cannot be shared i.e. they are customer specific, customer typically owns the assets.

Taxonomy CapEx is presented and measured in line with the CapEx presented in the Group's financial statements. It consists of purchases of property, plant and equipment, and intangible assets and right-of-use assets.

Breakdown of CapEx KPI

MEUR	
Additions to property, plant and equipment	18
Additions to intangible assets	1
Additions to capitalized right-of-use assets	6
Total	**25**

				Contribution criteria		Do no significant harm -criteria									
Ecomonic activities	Codes	Absolute CapEx	Portion of CapEx	Climate change mitigation	Climate change adaptation	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy aligned % of tCapEx in 2022	Enabaling activity	Transitional activity
A. TAXONOMY ELIGIBLE ACTIVITIES		MEUR	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
Taxonomy aligned activities (A.1.)															
Manufacture of renewable energy technologies	3.1	0	0.5%	100 %	-	-	Y	Y	Y	Y	Y	Y	0.5%	E	-
Manufacture of batteries	3.4	0	1.5%	100 %	-	-	Y	Y	Y	Y	Y	Y	1.5%	E	-
Manufacture of energy efficiency equipment for buildings	3.5	2	6.0%	100 %	-	-	Y	Y	Y	Y	Y	Y	6.0%	E	-
CapEx(A.1.)		**2**	**8.0%**												
Eligible, but not aligned activities (A.2.)															
Manufacture of renewable energy technologies	3.1	0	0.4%	100 %											
CapEx (A.2.)		**0**	**0.4%**												
TOTAL (A)		**2**	**8.4%**												
B. TAXONOMY NON-ELIGIBLE ACTIVITIES															
CapEx (B)		**23**	**91.6%**												
Total (A+B)		**25**	**100%**												

Operating Expenditure

The Taxonomy regulation's definition of OpEx relates to assets and economic activities that generate taxonomy eligible net sales. It consists of expenses relating directly to maintenance and servicing of assets including e.g., facility improvements. Scanfil has applied a conservative interpretation of the Taxonomy OpEx definition. Raw materials, and salaries of employees performing repairs, maintenance, and services of eligible fixed assets, are excluded.

Breakdown of OpEx KPI

MEUR	
Costs of maintenance, repair and equipment	10
Total	**10**

				Contribution criteria		Do no significant harm -criteria									
Ecomonic activities	Codes	Absolute OpEx	Portion of OpEx	Climate change mitigation	Climate change adaptation	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy aligned % of opEx in 2022	Enabaling activity	Transitional activity
A. TAXONOMY ELIGIBLE ACTIVITIES		MEUR	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
Taxonomy aligned activities (A.1.)															
Manufacture of renewable energy technologies	3.1	0	0.5%	100%	-	-	Y	Y	Y	Y	Y	Y	0.5%	E	-
Manufacture of batteries	3.4	0	1.5%	100%	-	-	Y	Y	Y	Y	Y	Y	1.5%	E	-
Manufacture of energy efficiency equipment for buildings	3.5	1	6.0%	100%	-	-	Y	Y	Y	Y	Y	Y	6.0%	E	-
OpEx (A.1.)		**1**	**8.0%**												
Eligible, but not aligned activities (A.2.)															
Manufacture of renewable energy technologies	3.1	0	0.4%	100%											
OpEx (A.2.)		**0**	**0.4%**												
TOTAL (A)		**1**	**8.4%**												
B. TAXONOMY NON-ELIGIBLE ACTIVITIES															
OpEx (B)		**9**	**91.6%**												
Total (A+B)		**10**	**100%**												

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BOARD OF DIRECTORS' REPORT

Scanfil plc is an international listed (Nasdaq Helsinki, SCANFL) manufacturing partner and system supplier for the electronic industry, with more than 45 years of experience in demanding contract manufacturing. Overall management is one of the Group's strengths. Its services range from product design and production suitability planning to prototype and pre-serial production, the volume manufacturing of products and aftersales services such as maintenance and spare parts services. On December 31, 2022, the Group employed some 3,500 people. At the end of 2022, Scanfil had a total of nine factories in seven countries on three continents.

Key elements of Scanfil's operations include a vertically integrated production system and the provision of services and supply chain management for customers over the entire lifecycle of products. These provide a solid foundation for Scanfil's competitive advantages: speed, flexibility and reliability. The company's customers include international operators in sectors such as automation, energy, cleantech, and health technology, and companies operating in fields related to urbanization.

Year 2022

The last two years have been characterized by strong customer demand and material availability challenges. Customer demand continued to be strong throughout 2022 and it became a year of record growth and turnover for Scanfil. Turnover increased 21.3% compared to last year and it was EUR 843.8 (695.7) million. Scanfil strives 5–7% annual revenue growth, so the goal was clearly met.

Challenges in material availability affected Scanfil in two ways: first of all, material shortages reduced the labour productivity by causing breaks and delays in planned production. Secondly, Scanfil was forced to purchase materials from the spot market with higher than planned prices, which were mainly invoiced from customers without material margin.

Scanfil has a SMART technology program for the years 2019–2023, the goal of which is to secure the company's technological leadership. During 2022, investments in production to the automation and digitalization of production processes and material management continued in accordance with the SMART program at several factories. In addition, the amount of total investments raised increased customer demand, which was answered by increasing production capacity. Scanfil invested, among other things, in the new SMT lines of the factories in Suzhou and Sieradz, Sieradz's printing and wave soldering line, as well as testing equipment at several different factories. A significant investment in production, warehouse and office space reorganizations was made in Suzhou. In addition, the company invested in mechanics manufacturing in Pärnu and Myslowice factories' painting lines and automatic punching and bending machines.

Turnover and result

The group's turnover for January–December was EUR 843.8 (695.7) million, growth of 21.3% compared to last year. Turnover includes EUR 80.7 (32.0) million of spot-market purchases and some other costs related to securing customer deliveries. To ensure the availability and reliability of delivery of materials and components the company had to buy semi-conductor components in particular at a significantly higher than normal price on the spot market. The company invoiced customers for the additional costs that arose in this way, but as a rule without a material margin. This invoicing was low-margin or no-margin for Scanfil.

Operating profit for January–December was EUR 45.4 (39.6) million, 5.4% (5.7%) of turnover. In the reporting period for 2022 there were no adjustment items. In the comparison year adjusted operating profit was EUR 40.3 million, 5.8% of turnover. The operating profit was positively affected by good customer demand. Component availability in the market improved gradually during the year and the performance of factories was mostly developing positively or remaining at good level. COVID lockdowns, in China, in April had a negative effect on the profitability. Generally, we were successfully moving the cost inflation to customer prices, but in some cases the price changes were realized with delay. The foreign exchange rate changes had a negative impact of EUR -2.5 million on operating profit, but situation improved significantly towards the year end driven by the improved hedging process and lower currency volatility. The operating margin was also negatively impacted by the separately agreed customer invoicing with low or no margin.

The net profit for January–December was EUR 35.0 (29.8) million. In the comparison year adjusted net profit was EUR 32.0 million. Net profit in comparison year was negatively impacted by a non-recurring tax adjustment of EUR 1.6 million and closure cost EUR 0.7 million of Hamburg factory. Earnings per share was EUR 0.54 (0.46). The adjusted earnings per share for 2021 was EUR 0.50.

The effective tax rate in January–December was 16.0% (21.0%). Mostly, the tax rate was positively affected by the revaluation of the dividend payment timing of the deferred taxes paid by the subsidiary to the parent company. The tax rate for the comparison year was negatively affected by a tax adjustment of EUR 1.6 million.

The Group's key figures over five years are presented under "The Group's key figures" in the financial statements.

Financing position and investments

The Group has a stable financing position. The consolidated balance sheet total was EUR 525.5 (473.8) million at the end of the review period. Cash and cash equivalents totaled EUR 20.8 (25.3) million. Liabilities amounted to EUR 298.9 (266.4) million, of which non-interest-bearing liabilities totaled EUR 192.6 (181.2) million and interest-bearing liabilities totaled EUR 106.3 (85.2) million. Interest-bearing liabilities consisted of EUR 81.5 (62.1) million of financial liabilities and EUR 24.8 (23.1) million of leasing liabilities. The increase in non-interest-bearing liabilities was caused by the increase in accounts payables.

Loan payments were EUR 6.0 (6.0) million. The Group has EUR 59.2 million of unused credit facilities.

The equity ratio was 45.3% (45.3%), and net gearing was 37.8% (28.9%). Equity per share was EUR 3.49 (3.19).

The Group's financial arrangement includes discharge covenants related to equity ratio and interest-bearing net debt/EBITDA ratio. The terms of the covenants are reviewed quarterly. At the end of the period under review, the terms have been clearly complied with.

The net cash flow from operating activities for the review period January–December was EUR 10.2 (-12.5) million. The net cash flow from operating activities turned positive during the second quarter and totaled EUR 21.9 million in the second half of the year. The positive cash flow is resulting from improved profitability and the improved control on working capital. In January–December the effect of working capital growth was EUR -43.1 (-52.7) million. Growth was mainly due to the turnover growth and spot market purchases. Also, the challenges in material purchases were still impacting on the inventory levels. Working capital consisted of the following items: short-term non-interest-bearing receivables increased by EUR 18.1 (34.6) million, inventories increased by EUR 39.6 (88.3) million, and short-term non-interest-bearing liabilities increased by EUR 14.6 (70.3) million. In October–December the improvement actions in the supply chain management stabilized the inventory level and working capital increased only by EUR 3.3 million from the third quarter and the growth was driven by the increasing volumes.

The net cash flow in January–December from investing activities was EUR -18.5 (-12.5) million. The cash flow from financing activities was EUR 3.9 (24.3) million, including a EUR -12.3 (-11.0) million dividend payment, EUR -6.0 (-6.0) million in repayments of long-term loans, change in short term loans EUR +25.7 (+13.7) million and repayment of lease liabilities EUR- 3.7 (-3.7) million.

Gross investments in January–December totaled EUR 19.0 (15.5) million, which was 2.3% (2.2%) of the turnover. The increase in investments was mainly attributable to strong demand and need to increase the production capacity. The Group acquired more space, machinery and equipment to respond to high demand. Depreciation totaled EUR 17.5 (15.4) million.

The Board of Directors' authorizations

Scanfil plc's Annual General Meeting was held on April 21, 2022, at the premises of Borenius Attorneys Ltd. Due to the COVID-19 pandemic, shareholders and their proxies had to vote in advance and physical attendance at the Meeting was not possible.

The Meeting authorized the Board of Directors to decide on the acquisition of the company's own shares and to decide on share issues through one or more issues.

The Board of Directors' proposals to the General Meeting and the minutes of the Annual General Meeting are available on the company website at scanfil.com/agm.

Option schemes

The Group has three valid option schemes. On April 12, 2016, the Annual General Meeting accepted Scanfil plc's 2016 option scheme (A)–(C), and on April 24, 2019, the Annual General Meeting accepted the 2019 option scheme (A–C) and on the 21 April 2022 the Annual General Meeting authorized the Board to decide on the issue of option rights to the Scanfil Group 's key personnel and to decide on the terms and conditions of the option scheme. Based on the authorization on 27 October 2022, the Board decided on the option scheme 2022 (AI/AII) – (CI/CII).) On the basis of the 2016 option scheme, a maximum of 900,000 option rights can be granted, while on the basis of the 2019 option scheme, a maximum of 900,000 option rights can be granted and on the basis of the 2022 option scheme, a maximum of 1,200,000 option rights can be granted Each option right enables its holder to subscribe to one Scanfil plc share.

During the period under review, a total of 60,000 treasury shares were subscribed under Scanfil Plc's stock options 2016(C) and 2019(A). The whole subscription price of EUR 260,000 for subscriptions made with the stock options was recognized in the company's reserve for invested unrestricted equity.

Share

Scanfil plc has a total of 64,959,993 shares. The company's registered share capital is EUR 2,000,000. The company has one series of shares, and each share entitles the holder to one vote and an equal right to receive dividends. Scanfil plc's shares are quoted on Nasdaq Helsinki Ltd. The shares have been publicly traded since January 2, 2012. The trading code of the shares is SCANFL. The shares are included in the book-entry securities system maintained by Euroclear Finland Oy.

Members of the Board of Directors of Scanfil plc, the CEO and members of the Group's Management Team held a total of 10,503,488 shares on December 31, 2022, comprising 16.2% of the company's shares and votes. A total of 1,040,000 option rights has been granted for the CEO and members of the Group's Management Team, of which 810,000 are still unsubscribed. To the other key management has been granted 96,000 option rights under 2022(AI/AII) option scheme. The total of 1,360,000 corresponds 1.7% of all shares in Scanfil plc.

The highest trading price during the financial year was EUR 8.06, and the lowest was EUR 4.90, with the closing price for the period standing at EUR 6.58. A total of 4,165,768 shares were traded during the period, corresponding to 6.4% of the total number of shares. As of December 31, 2022, the market value of the shares was EUR 427.4 million.

More detailed information on the distribution of shareholdings, shareholders and the share price development is presented under "Shares and shareholders" in the financial statements.

Own shares

On December 31, 2022, the company owned 98,738 of its own shares, representing 0.2% of all shares.

Personnel

At the end of the financial period, the Group employed 3,497 (3,282) people, of whom 3,189 (2,970) worked outside Finland and 308 (312) in Finland.

PERSONNEL, AVARAGE	2022	2021	2020
Parent company	13	13	13
The Group	3,403	3,267	3,387

PAID SALARIES, WAGES AND FEES EUR MILLION	2022	2021	2020
Parent company	1.9	1.8	1.7
The Group	82.5	77.8	77.3

Board of Directors and CEO

At the Annual General Meeting on April 21, 2022, Harri Takanen, Bengt Engström, Christina Lindstedt and Juha Räisänen were re-elected to the Board of Directors. At its organising meeting on April 21, 2022, the Board of Directors elected Harri Takanen as its chair.

In addition, the Board of Directors made the following decisions on the organisation of committees: the members of the Audit Committee are Juha Räisänen, Christina Lindsted and Harri Takanen, and the members of the Nomination and Remuneration Committee are Harri Takanen and Bengt Engström.

Petteri Jokitalo (b. 1963), M.Sc. (Tech.), served as the company's CEO between January 1 and December 31, 2022.

Risks

Scanfil has determined the most significant risks in its operations. Risks related to sustainability have been discussed in the Sustainability Report. The Group monitors and follows all identified and potential risks. The Board of Directors steers the risk management processes and Audit Committee supervises the implementation. Operative management of the risk management is led by CFO. More information can be found in the Corporate Governance Statement's risk management section.

Near-future business risks and uncertainties

In this section, the most essential risk factors, that may have an impact on Scanfil's ability to achieve its targets and means to manage related risks, are discussed briefly. Scanfil seeks actively to reduce the impact of these risk factors by preventive actions.

STRATEGIC RISKS

The weakening of the global economy and the declining demand of investment goods might have a negative impact on the development of business of Scanfil's customers and weaken the demand in the contract manufacturing market.

Scanfil doesn't have sales to Russia or material purchases from Russia and therefore the war in Ukraine doesn't have direct impact on Scanfil revenue or profitability. However, expansion of war could have a significant effect on Scanfil's business environment. Also, political and trade political tense and related actions may impact on the Scanfil business environment. This risk is eliminated by Scanfil's global factory network and its development.

Scanfil is responsible for developing and adopting technologies needed for customer production in an efficient manner as an integral part of its operations. It is possible, that if the Group cannot develop its production with a tight schedule, its customers could change the manufacturing partner. Scanfil has systematically mitigated this risk by investing in new manufacturing technologies and systems, machines and equipment that are both modern and optimal for the production.

OPERATIONAL RISKS

The vast majority of materials and components used in the supply chain are purchased from external suppliers or subcontractors. This exposes the Group to the availability and cost risks related to materials, components and other subcontracted products in addition to the contingency of the business relationship.

The group has a global procurement unit whose task is to ensure the availability of materials using trusted suppliers. With its purchasing power and procurement organization, Scanfil is able to influence suppliers' delivery reliability and pricing to a reasonable extent.

There have been challenges in the availability of certain materials, especially semiconductors, since 2021. The situation has improved at the end of 2022, but has not returned to the pre-2021 level. To solve the problem, Scanfil has used, for example, spot market purchases to ensure customer deliveries.

Obsolete materials and components may create a financial risk for the group limited to their book value. Material responsibilities are agreed upon in customer contracts.

Scanfil needs electricity and heat in its production. The risk of rising energy availability and costs is believed to be small in the short term in Europe, and will not have a significant impact on short-term revenue or profitability expectations. In the longer term, there may still be risks to the availability of energy.

CUSTOMER RISKS

The Group has approximately 110 active customers, of which the largest customers are Nordic companies that are leaders in their respective industries. The client companies are spread over several different industries and geographical areas. In general, the business of the Group's key customers is not particularly sensitive to economic cycles and the life cycles of products are often long. During 2022, the largest customer's share of turnover was 19% (18%), and the ten largest customers' share of turnover was approximately 55% (59%).

FINANCIAL AND EXCHANGE RATE RISKS

Scanfil operates internationally and is thus exposed to exchange rate risks. The group's exchange rate risks consist of transaction risks related to business and financing cash flows, translation risks related to foreign subsidiaries, and financial risks caused by exchange rate changes. Currency futures can be used to hedge the transaction risk. The Group's finance function is responsible for ensuring that all hedging measures are implemented in accordance with the Group's hedging process. Investments in foreign subsidiaries are not protected.

Interest rate risk is included in the return on financial investments and interest-bearing debts. Changes in the interest rate have an impact on the Group's result. The interest rate risk of loans can be managed with credit swaps and by adjusting the relative shares of fixed and variable rate loans. The prevailing interest rate risk is moderate with current contracts and credit levels.

Credit risks are related to trade receivables from customers. The Group's largest customers are solvent Nordic market leaders in their industries. Overdue trade receivables are monitored regularly on a monthly basis at the Group level. The creditworthiness of new customers is checked and only standard payment terms are granted to customers. The customers' credit ratings are monitored and most of Scanfil's largest customers have a good credit rating. Trade receivables do not include significant credit loss risk.

Financial risk is mainly related to securing the Group's financing. The management of the Group's finances and the management of financial risks are managed in accordance with the principles approved by the Board of the Group's parent company. Scanfil's finance function, which is part of the Group's financial administration, is responsible for ensuring that financial services and financial transactions are carried out in a way that aims to enable the availability of sufficient funding under all circumstances. Scanfil's debt level is moderate and the credit rating is good.

INFLATION RISK

Overall inflation has an impact on the Group's cost structure. Especially in 2022, inflation has increased significantly. Scanfil has had to raise and will continue to raise customer prices in line with the general development of the cost level.

PANDEMIC RISKS

The COVID-19 pandemic experienced after 2020 affected the company's business especially in 2020 and 2021. However, the current COVID-19 situation is no longer considered a significant risk.

Similar pandemics could affect the Group's business. The effects can include, for example, factory closings, increased staff sick leave and quarantines, the costs of protective measures, even a temporary stoppage of production and/or delays in the delivery of materials and manufactured products.

CYBER SECURITY RISK

Cyber security is recognized as a growing risk. Scanfil continuously monitors and develops the ICT environment and systems to reduce risks.

The Group's risks and risk management are described in more detail on the company's website in the Corporate Governance section and in the notes to the consolidated financial statements.

Changes in the Group structure

There have been no changes in the Group structure during the reporting period.

Research and development

As a result of the nature of the company's business operations, R&D activities are primarily carried out with customers, and the company's R&D activities do not account for any significant part of the company's cost structure.

Proposals by the Board of Directors to the Annual General Meeting

Scanfil plc's Annual General Meeting has been planned to be held on April 27, 2023.

Dividend for 2022

The parent company's distributable assets total EUR 63,779,792.03, including undistributed profits of EUR 30,011,400.49. The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.21 (0.19) per share, totalling EUR 13,620,863.55 be paid for the financial year ending on December 31, 2022. The dividend will be paid to shareholders, who are recorded on May 1, 2023, in the company's list of shareholders maintained by Euroclear Finland Oy. The dividend will be paid on May 8, 2023.

No significant changes have taken place in the company's financial position since the end of the financial year. In the view of the Board of Directors, the proposed dividend pay-out will not put the company's liquidity at risk.

The proposal of Scanfil plc's nomination committee to the General Meeting for the composition of Scanfil plc's Board of Directors will be published in connection with the invitation to the General Meeting.

Future Outlook

Scanfil estimates that its turnover for 2023 will be EUR 820–890 million, and its adjusted operating profit will be EUR 49–55 million.

The outlook is based on customer forecasts and Scanfil's normal forecasting process. The outlook is associated with uncertainty, especially regarding the semiconductor availability, price level, the supply chain's ability to deliver and spot market purchases. In 2022 spot market purchases increased turnover by EUR 80.7 (32.0) million. In addition, the development of the general economic situation and the war in Ukraine are causing risks and uncertainty.

Long-term targets

Scanfil is organically aiming for 5%–7% annual turnover growth and 7% operating profit level. Scanfil aims to pay an increasing dividend of approximately 1/3 of the earnings per share.

Events after the reporting period

January 31, 2023, Scanfil announced capacity investment in Sieradz factory

February 11, 2023, Scanfil announced the signing of the agreement of the new CEO, Christophe Sut.

Corporate Governance Statement

The Corporate Governance Statement will be published with the financial statements separately from the annual report.

Report on non-financial information

Scanfil reports its non-financial information as a part of its sustainability report, which will be published as a part of the annual report.

SHARES AND SHAREHOLDERS

Shares and share capital

Scanfil plc has a total of 64,959,993 shares. The company's registered share capital is EUR 2,000,000. The company has one series of shares, and each share entitles the holder to one vote and an equal right to receive dividends.

Scanfil plc's shares are quoted on Nasdaq Helsinki Ltd. The shares have been publicly traded since January 2, 2012. The trading code of the shares is SCANFL. The shares are included in the book-entry securities system maintained by Euroclear Finland Ltd.

Board's authorizations in force

The Scanfil plc's Board of Directors did not have any authorizations to issue convertible bonds or bonds with warrants.

The Annual General Meeting ("AGM") of Scanfil plc held on April 21, 2022 authorized the Board of Directors to decide on the acquisition of at most 5,000,000 treasury shares. The authorization will remain in force for 18 months after its issuance.

The AGM authorized the Board of Directors to decide on share issue, granting shares and issue of special rights entitling to shares. Shares and special rights can be given through one or more issues with or without a consideration. The number of shares to be issued based on the authorization can be no more than 11,800,000 shares, including special rights entitling to shares. The authorization is valid until 30 June 2023.

The AGM also authorized the Board of Directors to decide on share issues and granting of option rights to the key personnel. Shares and option rights can be given through one or more issues with or without a consideration. The number of shares to be issued or given under the authorization, including shares subscribed on the basis of option rights, may not exceed 1,200,000 shares. The Board of Directors can decide on the terms and conditions of all share based transactions considering the authorizations given by the AGM.

Own shares

The company held 98,738 of its own shares on December 31, 2022.

Dividend distribution policy

The company aims to pay dividends annually. The level of dividends paid and the date of payment are affected, inter alia, by the group's results, financial position, need for capital and other possible factors. The aim is to distribute approximately one-third of the Group's annual profit as dividend to shareholders.

Dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.21 per share, totalling EUR 13,620,863.55 be paid for the financial year ending on December 31, 2022.

Share price development, trading and market value

During 2022, the number of Scanfil plc shares traded on Nasdaq Helsinki Ltd was 4,165,768, comprising 6.4% of all outstanding shares. The value of shares traded was EUR 27.4 million and the average price was EUR 6.59. The market value of the share capital was EUR 427.4 million on December 31, 2022. The highest trading price was EUR 8.06 and the lowest EUR 4.90. The closing price was EUR 6.58.

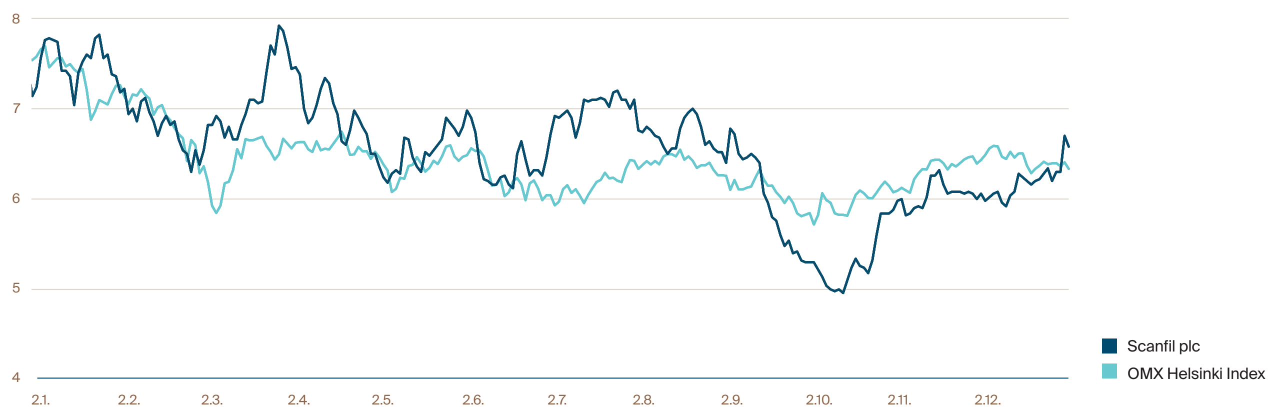
Information on shareholders

On December 31, 2022, Scanfil plc had a total of 7,372 shareholders, 83.8% of whom owned a maximum of 1,000 shares in the company. The ten major shareholders owned 72.2% of the shares. Nominee-registered shares accounted for 3.8% of the shares.

Shares held by management

Members of the Board of Directors of Scanfil plc, the CEO and members of the Group's Management Team held a total of 10,503,488 shares on December 31, 2022, comprising 16.2% of the company's shares and votes.

SHARE PRICE DEVELOPMENT IN 2022 COMPARED TO THE GENERAL INDEX



BREAKDOWN OF SHARE OWNERSHIP

BREAKDOWN OF SHARE OWNERSHIP BY NUMBER OF SHARES HELD ON DECEMBER 31, 2022

Number of shares	Number of shares pcs	Percentage of owners %	Total number of shares and votes pcs	Percentage of shares and votes %
1–100	2,191	29.72	103,737	0.16
101–1,000	3,990	54.12	1,576,239	2.43
1,001–10,000	1,027	13.93	2,775,131	4.27
10,001–100,000	128	1.74	3,965,318	6.10
100,001–9,999.999	36	0.49	56,539,568	87.04
Total	**7,372**	**100.00**	**64,959,993**	**100.00**

BREAKDOWN OF SHARE OWNERSHIP BY OWNER CATEGORY ON DECEMBER 31, 2022

	Number of shareholders	Share %	Number of shares	Share %
Corporations	274	3.72	9,318,372	14.34
Financial and insurance institutions	26	0.35	5,556,269	8.55
Public entities	4	0.05	1,757,038	2.70
Non-profit-making organisations	22	0.30	2,096,914	3.23
Households	7,023	95.27	45,727,720	70.39
Non-Finnish owners	23	0.31	503,680	0.78
Total	**7,372**	**100.00**	**64,959,993**	**100.00**
Of which nominee-registered	10		2,435,895	3.75

INFORMATION ON SHAREHOLDERS

MAJOR SHAREHOLDERS ON DECEMBER 31, 2022

	shares	Share % of shares and votes
1. Takanen Harri	9,913,146	15.26
2. Takanen Jarkko	8,251,169	12.70
3. Varikot Oy	7,606,442	11.71
4. Takanen Jorma Jussi	6,474,305	9.97
5. Tolonen Jonna	3,351,950	5.16
6. Pöllä Reijo	3,328,745	5.12
7. Laakkonen Mikko	2,531,187	3.90
8. Sijoitusrahasto Aktia Capital	1,918,000	2.95
9. Riitta ja Jorma J. Takasen säätiö	1,900,000	2.92
10. Takanen Martti	1,647,018	2.54

KEY RATIOS

	2022	2021	2020	2019	2018	2017
Financial key ratios						
Turnover, EUR m	843.8	695.7	595.3	579.4	563.0	529.9
Turnover, growth from previous year, %	21.3	16.9	2.7	2.9	6.3	4.3
Operating profit, EUR m	45.4	39.6	44.4	35.3	37.8	31.3
Operating profit, % of turnover	5.4	5.7	7.5	6.1	6.7	5.9
Profit/loss for the period, EUR m	35.0	29.8	36.9	28.1	28.9	25.8
Profit/loss for the period, % of turnover	4.2	4.3	6.2	4.8	5.1	4.9
Return on equity, %	16.1	15.2	21.1	18.0	21.5	22.2
Return on investment, %	14.6	15.3	19.5	17.0	20.2	19.4
Interest-bearing liabilities, EUR m	106.3	85.2	44.0	66.6	47.3	61.3
Gearing, %	37.8	28.9	9.9	27.7	19.5	32.6
Equity ratio, %	45.3	45.3	54.3	49.1	47.7	40.7
Gross investments in fixed assets, EUR m	19.0	15.5	9.4	21.1	10.1	18.6
Gross investments in fixed assets, % of turnover	2.3	2.2	1.6	3.6	1.8	3.5
Average number of employees for the period	3,403	3,267	3,387	3,530	3,414	3,254

	2022	2021	2020	2019	2018	2017
Key indicators per share						
Earnings per share, EUR	0.54	0.46	0.57	0.44	0.45	0.40
Shareholders’ equity per share, EUR	3.49	3.18	2.82	2.58	2.26	1.95
Dividend per share, EUR	0.21	0.19	0.17	0.15	0.13	0.11
Dividend per earnings, %	38.9	41.3	29.8	34.3	28.7	27.2
Effective dividend yield, %	3.19	2.55	2.61	3.07	3.47	2.59
Price-to-earnings ratio (P/E)	12.2	16.2	11.4	11.2	8.3	10.5
Share trading						
No. of shares traded, thousands	4,166	4,415	6,290	3,526	3,341	3,296
Percentage of total shares, %	6.4	6.8	9.7	5.4	5.2	5.2
Share performance						
Lowest price for year, EUR	4.90	6.24	3.26	3.73	3.45	3.42
Highest price for year, EUR	8.06	9.02	6.70	4.96	5.16	4.53
Average price for year, EUR	6.59	7.61	5.07	4.16	4.44	3.92
Price at the end of year, EUR	6.58	7.46	6.52	4.89	3.75	4.25
Market value of share capital at the end of financial year, EUR million	427.4	484.6	422.7	316.4	240.1	271.6
Share-issue adjusted number of shares						
At the end of the period, thousands	64,960	64,960	64,830	64,700	64,035	63,895
On average during the period, thousands	64,830	64,701	64,387	64,296	63,945	63,757

The adoption of IFRS 16 in 2019 has affected the comparability of some key figures. The effect mainly concerns the equity ratio and gearing ratio.

DEFINITIONS OF KEY RATIOS

Ratio	Numerator	Denominator
Return on equity, %	Net profit for the period x 100	Shareholders’ equity (average)
Adjusted return on equity, %	Adjusted net profit for the period x 100	Adjusted shareholders’ equity (average)
Return on investment, %	(Profit before taxes + interest and other financial expenses) x 100	Balance sheet total - non-interest-bearing liabilities (average)
Gearing (%)	(Interest-bearing liabilities - cash and other liquid financial assets)	Shareholders’ equity
Equity ratio (%)	Shareholders’ equity x 100	Balance sheet total - advance payments received
Earnings per share	Net profit for the period	Average adjusted number of shares during the year
Shareholders’ equity per share	Shareholders’ equity	Adjusted number of shares at the end of the financial period
Dividend per share	Dividend to be distributed for the period (Board’s proposal)	Number of shares at the end of year
Dividend per earnings (%)	Dividend per share x 100	Earnings per share
Effective dividend yield (%)	Dividend per share x 100	Share price at the end of year
Price-to-earnings ratio (P/E)	Share price at the end of year	Earnings per share
Average share price	Total share turnover	Number of shares traded

Market capitalization	Number of shares x last trading price of the financial period
Adjusted item	A non-recurring significant item that deviates from normal business operations, which affects the comparability between different periods.

CONSOLIDATED FINANCIAL STATEMENT, IFRS

Consolidated Income Statement

EUR THOUSAND	Note	1.1.-31.12.2022	1.1.-31.12.2021
Turnover	1.1	**843,756**	**695,735**
Other operating income	1.2	855	1,167
Changes in inventories of finished goods and work in progress		273	2,978
Use of materials and supplies	1.3	-610,201	-491,339
Employee benefit expenses	1.4	-104,045	-97,474
Depreciation and amortisation	3.5	-17,456	-15,376
Other operating expenses	1.5	-67,801	-56,108
Operating profit		**45,381**	**39,583**
Financial income	4.2	366	61
Financial expense	4.2	-4,033	-1,988
Profit before tax		**41,714**	**37,656**
Income tax	1.6	-6,670	-7,901
Net profit for the period		**35,044**	**29,756**
Attributable to:			
The parent company owners		35,044	29,756
Earnings per share calculated on the profit attributable to shareholders of the parent company:			
undiluted earnings per share	1.7	0.54	0.46
diluted earnings per share	1.7	0.53	0.46

Consolidated Statement of Comprehensive Income

EUR THOUSAND	Note	1.1.-31.12.2022	1.1.-31.12.2021
Net profit for the period		**35,044**	**29,756**
Other comprehensive income			
Items that may later be recognised in profit or loss			
Translation differences	4.8	-5,203	3,706
Cash flow hedges	4.8	1,029	488
Other comprehensive income, net of tax		-4,173	4,194
Total comprehensive income		**30,871**	**33,950**
Total comprehensive income attributable to:			
The parent company owners		30,871	33,950

Consolidated Statement of Financial Position

EUR THOUSAND	Note	31.12.2022	31.12.2021
ASSETS			
Non-current assets			
Property, plant and equipment	3.3	55,564	49,792
Right-of-use-assets	3.4	24,141	22,240
Goodwill	3.1	7,664	8,166
Other intangible assets	3.2	10,799	12,906
Other investments	4.6	529	535
Deferred tax assets	1.6	7,843	8,501
		106,540	102,141
Current assets			
Inventories	2.2	229,291	193,358
Trade and other receivables	2.3	164,817	149,027
Advance payments		2,292	1,303
Current tax		1,776	2,641
Cash and cash equivalents	4.1	20,779	25,345
		418,954	371,674
Total assets		**525,494**	**473,814**

EUR THOUSAND	Note	31.12.2022	31.12.2021
EQUITY AND LIABILITIES			
Shareholder's equity and liabilities	4.8		
Share capital		2,000	2,000
Reserve for invested unrestricted equity fund		33,425	33,165
Fair Value Reserve		959	-71
Other reserves		2,650	2,650
Translation differences		-7,560	-2,357
Retained earnings		195,120	172,043
		226,594	207,430
Total equity		**226,594**	**207,430**
Non-current liabilities			
Provisions	5.1	801	665
Interest bearing liabilities	4.3	36,000	42,078
Lease liabilities	4.3	20,439	19,903
Deferred tax liabilities	1.6	4,615	5,290
		61,854	67,935
Current liabilities			
Trade and other liabilities	2.4	183,685	172,290
Current tax		3,084	1,376
Provisions	5.1	378	1,560
Interest bearing liabilities	4.3	45,538	20,041
Lease liabilities	4.3	4,360	3,182
		237,046	198,449
Total liabilities		**298,900**	**266,385**
Total shareholder's equity and liabilities		**525,494**	**473,814**

Consolidated Statement of Cash Flow

EUR THOUSAND	Note	1.1.-31.12.2022	1.1.-31.12.2021
Cash flow from operating activities			
Net profit		35,044	29,756
Adjustments for the net profit			
Transactions without payment:			
Change in provisions		-1,031	-2,506
Capital gain / loss for fixed assets		-169	-289
Exchange rate differences		-2,311	37
Other adjustments		395	301
Depreciation and amortisation		17,456	15,376
Financial income		-366	-61
Financial expenses		4,033	1,988
Taxes		6,624	7,859
Change in net working capital:			
Change in accounts receivable and other receivables		-18,099	-34,644
Change in inventories		-39,584	-88,340
Change in accounts payable and other liabilities		14,568	70,292
Change in net working capital total		-43,115	-52,692
Paid interests and other financial expenses		-2,304	-1,046
Interest received		364	44
Taxes paid		-4,431	-11,304
Net cash from operating activities		**10,189**	**-12,537**

EUR THOUSAND	Note	1.1.-31.12.2022	1.1.-31.12.2021
Cash flow from investing activities			
Investments in tangible and intangible assets	3.2, 3.3	-18,975	-12,901
Sale of tangible and intangible assets		461	356
Net cash from investing activities		**-18,515**	**-12,546**
Cash flow from financing activities			
Share subscriptions based on stock options	1.4	260	1,333
Proceeds from short-term loans		25,917	13,851
Repayment of short-term loans		-190	-161
Proceeds from long-term loans			30,000
Repayment of long-term loans		-6,000	-6,000
Repayment of lease liabilities		-3,742	-3,742
Paid dividends		-12,316	-10,987
Net cash from financing activities		**3,929**	**24,293**
Net increase/decrease in cash and cash equivalents		**-4,397**	**-789**
Cash and cash equivalents at beginning of period		25,345	25,845
Changes in exchange rates		-169	290
Cash and cash equivalents at end of period		**20,779**	**25,345**

Consolidated Statement of Changes in Equity

Equity attributable to equity holders of the parent company

EUR THOUSAND	Share capital	Reserve for invested unrestricted equity fund	Fair value reserve	Other reserves	Translation differences	Retained earnings	Equity total
Equity 1.1.2022	**2,000**	**33,165**	**-71**	**2,650**	**-2,357**	**172,043**	**207,430**
Comprehensive income							
Net profit for the period						35,044	35,044
Other comprehensive income (net of tax)							
Translation differences					-5,203		-5,203
Cash flow hedges			1,029				1,029
Total comprehensive income			**1,029**		**-5,203**	**35,044**	**30,871**
Transactions with owners							
Option Scheme						349	349
Paid dividends						-12,316	-12,316
Share options exercised		260					260
Equity 31.12.2022	**2,000**	**33,425**	**959**	**2,650**	**-7,560**	**195,120**	**226,594**

Equity attributable to equity holders of the parent company

EUR THOUSAND	Share capital	Reserve for invested unrestricted equity fund	Fair value reserve	Other reserves	Translation differences	Retained earnings	Equity total
Equity 1.1.2021	**2,000**	**31,832**	**-558**	**2,650**	**-6,063**	**153,015**	**182,876**
Comprehensive income							
Net profit for the period						29,756	29,756
Other comprehensive income (net of tax)							
Translation differences					3,706		3,706
Cash flow hedges			488				488
Total comprehensive income			**488**		**3,706**	**29,756**	**33,950**
Transactions with owners							
Option Scheme						259	259
Paid dividends						-10,987	-10,987
Share options exercised		1,333					1,333
Equity 31.12.2021	**2,000**	**33,165**	**-71**	**2,650**	**-2,357**	**172,043**	**207,430**

ACCOUNTING PRINCIPLES FOR CONSOLIDATED FINANCIAL STATEMENTS

Basic details of the group

Scanfil plc is a Finland-based public limited company domiciled in Sievi. Theparent company Scanfil plc and the subgroups Scanfil EMS Oy, Scanfil Sweden AB and Scanfil Holding Germany GmbH make up Scanfil Group (hereinafter 'Scanfil' or 'the group'). The shares of parent company Scanfil plc have been quoted on the Main List of Nasdaq Helsinki Ltd since January 2, 2012.

Scanfil is an international contract manufacturer and system supplier for the electronics industry with over 45 years of experience in demanding contract manufacturing. Scanfil provides its customers with an extensive array of services, ranging from product design to product manufacturing, material procurement and logistics solutions. Typical Scanfil products include automation system modules, frequency converters, elevator control systems, analysers, various vending machines, and devices related to medical technology and meteorology. Scanfil's network of factories consists of 9 production units in Europe, Asia and North America. The total number of employees is approximately 3,500.

Accounting principles

Scanfil's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), applying the IAS and IFRS effective on December 31, 2022, as well as the SIC and IFRIC interpretations. "IFRS" refers to the standards and their interpretations in the Finnish Accounting Act and the provisions issued thereunder in accordance with the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards within the Community. The notes to the consolidated financial statements are also in compliance with Finnish accounting and corporate legislation.

The consolidated financial statements have been prepared for the period January 1 – December 31, 2022.

In its meeting held on February 20, 2023, the Board of Directors of Scanfil plc approved the consolidated financial statements for publication.

According to the Finnish Limited Liability Companies Act, the ordinary general meeting has the right to adopt, reject or amend the financial statements after their publication.

Unless otherwise stated, the financial statements are presented in thousands of euros, and the information is based on historical costs of transactions, unless otherwise stated in the accounting principles.

All individual figures and totals presented in the financial statements have been rounded, due to which the total sum of single figures may differ from the sum presented. The key figures were calculated using precise values.

Accounting principles for consolidated financial statements

The general accounting principles used for consolidated financial statements are described in this section. More detailed accounting principles are shown below in connection with each item.

The table below shows the accounting principles used for the consolidated financial statements of Scanfil plc, the associated notes and references to the most important IFRS regulating the financial statement items.

Accounting principle	Note	IFRS standard
Turnover and details of business segments	1.1	IFRS 15, IFRS 8, IAS 18
Employee benefit expenses	1.4	IAS 19, IFRS 2
Income taxes and deferred taxes	1.6	IAS 12
Inventories	2.2	IAS 2
Goodwill and impairment testing	3.1	IAS 36
Intangible assets	3.2	IAS 38, IFRS 3
Property, plant and equipment	3.3	IAS 16, IAS 23
Right-of-use-assets	3.4	IFRS 16
Financial income and expenses	4.2	IFRS 9, IAS 32, IAS 39, IFRS 7
Financial liabilities and Cash and cash equivalents	4.1, 4.3	IFRS 9, IAS 32, IAS 39, IFRS 7, IFRS 13
Provisions	5.1	IAS 37

SUBSIDIARIES' COMBINATION PRINCIPLES

Subsidiaries are companies controlled by the group. Control emerges when the group controls more than one half of the votes or otherwise has control. The group has controlling interest in an entity when it has the right and ability to control significant operations in the entity and when it is exposed to or has the right to variable returns from the entity through its power over the entity. The existence of potential voting rights is also taken into account when estimating the criteria for control when the instruments entitling to potential voting rights can be realised at the time of the assessment. In Scanfil Group, all subsidiaries are wholly-owned, and control is created by the voting powers.

Intra-group shareholdings have been eliminated using the acquisition cost method. Consideration transferred and the identifiable assets and assumed liabilities of the acquired company are measured at fair value at the time of the acquisition. Acquisition-related expenses, apart from expenses related to the issue of debt or equity securities, have been recorded as expenses. Consideration transferred does not include business operations handled separately from the acquisition. Their impact has been taken into account in connection with the acquisition through profit or loss. Any conditional additional purchase price is measured at fair value at the time of the acquisition and classified as either debt or equity. Additional purchase price classified as debt is measured at fair value at the balance sheet date of each reporting period, and the resulting profit or loss is recognised through profit or loss. Additional purchase price classified as equity is not re-valued.

Acquired subsidiaries are consolidated from the moment the group has gained control, and divested subsidiaries until control ceases to exist. All intra-group transactions, receivables, liabilities and unrealised gains and internal profit distribution are eliminated upon preparing the consolidated financial statements. Unrealised losses are not eliminated when the loss is due to impairment.

Shareholders' equity attributable to non-controlling interest is presented as a separate item under shareholders' equity in the balance sheet. There were no non-controlling interests during the financial periods 2021 and 2022.

Should the group lose control of a subsidiary, the remaining holding is measured at fair value on the date of losing control, and the resulting difference is recognised through profit or loss. Acquisitions made prior to January 1, 2010 are handled in accordance with the regulations effective at the time.

CONVERSION OF ITEMS IN FOREIGN CURRENCY

The figures concerning the result and financial position of group units are measured in the currency that is the currency of each unit's main operating environment (the operating currency). The consolidated financial statements are presented in euros, which is the operating and reporting currency of the group's parent company.

Foreign currency-denominated transactions are recorded in the operating currency using the foreign exchange rates on the transaction date. In practice, a rate that is sufficiently close to the rate of the transaction date is often used. The resulting exchange rate differences are recognised through profit or loss. Foreign exchange gains and losses related to business operations are recognised as adjusted sales and purchase items. Rate differences in financing are presented under financial income and expenses.

In the consolidated financial statements, the income statements of foreign group companies are translated into euros using the average annual rates published by the European Central Bank. The companies' balance sheets are translated into euros using the rates in force on the balance sheet date.

Translation differences owing to the different exchange rates used in the income statement and balance sheet as well as translation differences attributable to the use of the acquisition method and equity balances accrued after the acquisition have been recorded in group equity, and the change in translation difference are presented in the statement of comprehensive income.

NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

The assets and liabilities of major operations that are classified as held for sale or to be discontinued are presented separately in the balance sheet. The net operating result for discontinued operations and the net result arising from their sale or discontinuation are shown in the income statement separately from the profit or loss for continued operations. Non-current assets classified as held for sale or groups of assets to be disposed of are measured at the lower of carrying amount and fair value less costs to sell. The group did not have such items for the financial periods 2021 and 2022.

OPERATING PROFIT

IAS 1 Presentation of Financial Statements does not specify the concept of operating profit. The group has defined it as follows: operating profit is the net sum of turnover plus other operating income less acquisition costs adjusted for the change in inventories of finished goods and work in progress as well as costs arising from production for own use, less employee benefit expenses, depreciation and any impairment losses and other operating expenses. All of the items in the income statement apart from those specified above are presented under operating profit. Exchange rate differences are included in the operating profit if they arise from operations-related items; otherwise, they are recognised in financial items.

DIVIDEND

The dividend proposed to the Annual General Meeting by the Board of Directors has not been deducted from distributable equity prior to the AGM's approval.

CLOUD SERVICE ARRANGEMENTS

The accounting treatment of cloud service arrangements depends on whether the cloud-based software is classified as an intangible asset or a service contract. Those arrangements in which the company does not have control over the software in question are treated in accounting as service contracts, which give the group the right to use the cloud service provider's application software during the contract period. The ongoing license fees for the application software, as well as the configuration or customization costs related to the software, are recorded in the income statement when the services are received.

ACCOUNTING PRINCIPLES REQUIRING THE DISCRETION OF MANAGEMENT AND MAJOR UNCERTAINTY FACTORS ASSOCIATED WITH THE ESTIMATES

The preparation of financial statements in accordance with international accounting standards requires the company's management to make estimates and assumptions that affect the contents of the financial statements. The estimates and assumptions made are based on previous experience and assumptions, which in turn are based on the circumstances prevailing at the time the financial statements are prepared and future prospects. Even though the estimates are based on the most recent information available and the management's best judgment, the actual outcome may differ from the estimates. COVID-19 pandemic caused uncertainty during the financial period but it has not remarkable impact on management assessment and estimates. The war in Ukraine and the covid-19 pandemic in the previous economic period caused uncertainty, but it did not have a significant impact on the management's judgment and estimates.

The following lists the most significant items that require the management's assessment.

The group annually performs testing for impairment of goodwill and other intangible rights. The recoverable amounts for cash-generating units have been determined with calculations based on value in use. These calculations require the use of estimates from the management. More information on impairment testing of goodwill is available in Note 3.1, "Goodwill".

Potential obsolescence included in the value of inventories is regularly examined and, if necessary, the value of inventories is depreciated to match their net realisable value. These examinations require estimates on the future demand for products. Inventories are presented in Note 2.2, "Inventories".

Estimates are also required when assessing the amount of provisions associated with business operations. Note 5.1, "Provisions", presents the provisions made within the group.

Estimates by the management are also included in the assessment of possible credit loss risks included in trade receivables.

Furthermore, the management also uses its discretion when recognising and measuring corporate tax and deferred tax assets.

New and amended standards applied in the financial year ended 31 December 2022

Scanfil Group has observed the following new and amended standards from the beginning of 2022:

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 ***Provisions, Contingent Liabilities and Contingent Assets*** (effective for financial years beginning on or after 1 January 2022)

When an onerous contract is accounted for based on the costs of fulfilling the contract, the amendments clarify that these costs comprise both the incremental costs and an allocation of other direct costs.

Annual Improvements to IFRS Standards 2018–2020 (effective for financial years beginning on or after 1 January 2022)

The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments clarify the following standards:

- IFRS 9 *Financial Instruments* – Fees in the '10 per cent' test for derecognition of financial liabilities: This amendment clarifies that – for the purpose of performing the ''10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
- IFRS 16 *Leases* – Lease incentives – Example 13. The amendment removes the illustration of payments from the lessor relating to leasehold improvements. The example was not clear as to why such payments are not a lease incentive.

Property, Plant and Equipment — Proceeds before Intended Use – **Amendments to IAS 16 *Property, Plant and Equipment*** (effective for financial years beginning on or after 1 January 2022)

Under the amendments, proceeds from selling items before the related item of PPE is available for use should be recognised in profit or loss, together with the costs of producing those items.

Reference to the Conceptual Framework — Amendments to IFRS 3 Business Combinations (effective for financial years beginning on or after 1 January 2022)

The amendments update a reference in IFRS 3 and makes further reference related amendments.

Above mentioned amended standards have no impact on Scanfil plc's financial statements.

Adoption of new and amended standards in future financial years

Scanfil has not yet applied the following new or revised standards and interpretations already published by the IASB. The group will adopt them as of the effective date of each standard and interpretation, or if the effective date is not the first day of the financial period, as of the beginning of the first financial period after the effective date.

* = not yet endorsed for use by the European Union as of 31 December 2022

Disclosure of Accounting Policies – Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements (effective for financial years beginning on or after 1 January 2023, early application is permitted)
The amendments clarify the application of materiality to disclosure of accounting policies.

Definition of Accounting Estimates – Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for financial years beginning on or after 1 January 2023, early application is permitted)

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 Income Taxes (effective for financial years beginning on or after 1 January 2023, early application is permitted)

The amendments narrow the initial recognition exemption (IRE) and clarify that the exemption does not apply to transactions such as leases and decommissioning obligations which give rise to equal and offsetting temporary differences.

Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 Leases* (effective for financial years beginning on or after 1 January 2024, early application is permitted)

The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019.

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 (effective for financial years beginning on or after 1 January 2024, early application is permitted)

The amendments are to promote consistency in application and clarify the requirements for determining if a liability is current or non-current. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. The amendments require to disclose information about these covenants 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 * (available for optional adoption, effective date deferred indefinitely)

The amendments address the conflict between the existing guidance on consolidation and equity accounting and require the full gain to be recognised when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ITEMS AFFECTING THE RESULT

1.1 Turnover and details of business segments

ACCOUNTING PRINCIPLE

Revenue recognition

The Group's turnover mainly consists of customer agreements that only include the sale of goods. Typical Scanfil products include automation system modules, frequency converters, elevator control systems, analysers, various vending machines, and devices related to medical technology and meteorology.

Revenue is recognised when a company transfers control of goods or services to a customer either over time or at a point in time. The Group mainly fulfils the performance obligation at a certain point in time when control of an asset item is transferred to the customer. Typically, control is transferred when goods are delivered in compliance with the terms of delivery. Revenue arising from the sale of products is recognised when the significant risks and rewards of ownership, right of possession and actual control of the products sold have been transferred to the buyer. A small part of the group's turnover comes from service sales. Service sales include prototype manufacturing, productisation, component, storage and logistics services, as well as after-sales services, including repair and updating services for products. Some revenue from services is recognised over time in accordance with the completion of the services.

With regard to customers' consignment stocks, revenue is recognised when control is transferred to the customer, i.e. when goods are transferred to the consignment stock.

Variable considerations include cash and quantity discounts and consequences of delayed deliveries. Variable considerations are included in the performance obligation sales price of the receivable.

Scanfil provides a product warranty on the basis of customer contracts. The warranty period typically ranges from 12 to 24 months, and it can be at most 36 months. The warranty is not a separate performance obligation. Payment terms are customer-specific, ranging from 30 to 90 days.

Scanfil reports single business segment.

TURNOVER

The company's customers include international operators in the automation, energy, data transmission and health technology sectors, among other industries, and companies operating in fields related to urbanisation.

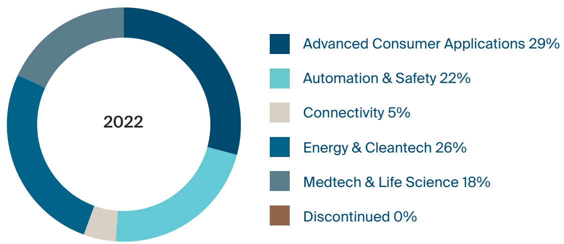
Markets and customer segments

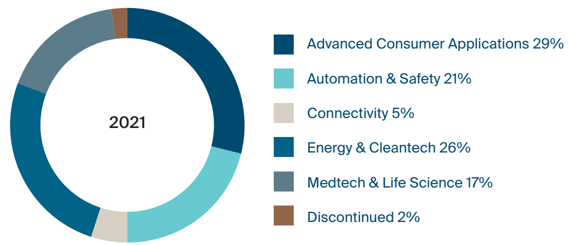
Scanfil has divided its customers into segments on the basis of their respective fields of activity and monitors the development of sales by customer segment.

The customers are divided into the following segments:

- **Advanced Consumer Applications:** End products and solutions are often used in public places. End products are e.g. self-service applications, handover automation (e.g. parcel lockers for logistic services) and elevators.
- **Automation & Safety:** End products in this segment are e.g. cameras for network video solutions, access control systems and automation systems.
- **Connectivity:** End products in this segment are e.g. wireless connectivity modules and radio systems.
- **Energy & Cleantech:** End products in this segment are e.g. reverse vending machines, air and water cleaners, indoor climate control systems, energy systems and automated collection and sorting solutions.
- **Medtech & Life Science:** End products for the segment are e.g. dental chairs, analysers, mass spectrometers and solutions for environmental measuring. Medtech & Life Science

BREAKDOWN OF TURNOVER BY CUSTOMER SEGMENT IN 2022 AND 2021





Turnover by customer segment and quarter

EUR MILLION	2021	Q1 22	Q2 22	Q3 22	Q4 22	2022	% of turnover 2022
Advanced Consumer Applications	**204.6**	55.0	68.7	67.8	56.3	**247.8**	29.4 %
Automation & Safety	**144.9**	42.6	45.6	44.2	51.4	**183.8**	21.8 %
Connectivity	**33.0**	10.8	9.1	7.8	10.8	**38.5**	4.6 %
Energy & Cleantech	**182.1**	54.6	53.5	53.1	61.3	**222.4**	26.4 %
Medtech & Life Science	**120.6**	33.7	36.0	39.0	42.5	**151.2**	17.9 %
Discontinued	**10.5**	0.0	0.0	0.0	0.0	**0.0**	0.0 %
Total	**695.7**	196.6	212.9	211.9	222.3	**843.8**	100.0

In 2022, the Group's turnover was EUR 843.8 (695.7) million, an increase of 21.3% compared to the previous year. Turnover includes EUR 80.7 (32.0) million of spot-market purchases and some other costs related to securing customer deliveries. In order to ensure the availability of materials and components and reliability of delivery, the company had to buy especially semiconductor components at a significantly higher price than the normal price on the spot market. The extra costs incurred have been invoiced to the customers. This invoicing was low-margin or no-margin for Scanfil. Profit is realized at a point of time, when the products in which the materials have been used are transferred to the customer's ownership.

Turnover by customer segment developed as follows:

ADVANCED CONSUMER APPLICATIONS

Turnover in 2022 was EUR 247.8 (204.6) million, an increase of 21.1% compared to previous year. The key driver was good demand for elevator and smart home control products. Separately agreed customer invoicing was EUR 36.1 (14.6) million.

AUTOMATION & SAFETY

Turnover in 2022 was EUR 183.8 (144.9) million, an increase of 26.8% compared to previous year. The key driver was good demand in process automation solutions and detector products, among others. Separately agreed customer invoicing was EUR 12.0 (4.9) million.

CONNECTIVITY

Turnover was EUR 38.5 (33.0) million, an increase of 16.5% compared to previous year. The key driver was good demand for communication and advanced hearing protection systems. Separately agreed customer invoicing for the segment was EUR 1.2 (0.1) million.

ENERGY & CLEANTECH

Turnover was EUR 222.4 (182.1) million, an increase of 22.2% compared to previous year. The key driver behind the strong growth was good demand for recycling systems and energy-saving solutions, e.g. for indoor climate. Separately agreed customer invoicing was EUR 18.4 (8.9) million.

MEDTECH & LIFE SCIENCE

Turnover was EUR 151.2 (120.6) million, an increase of 25.4% compared to previous year. The key driver behind the strong growth was good demand for diagnostics and analytical test solutions. Separately agreed customer invoicing was EUR 13.0 (3.5) million.

In 2022, the largest customer accounted for about 19% (18%) of turnover and the top ten customers accounted for about 55% (55%) of turnover.

Impact of the war in Ukraine and the covid-19 pandemic in the financial year

The war in Ukraine had no significant impact on the group's turnover or profitability in the 2022 financial year. Before the start of the war in Ukraine, Scanfil had only a few suppliers and subcontractors in Russia and Ukraine. The company has replaced them with new suppliers operating in other countries. Scanfil had no customers in Russia and therefore the imposed sanctions had no direct impact on sales. The availability and price of energy may cause increasing price pressure and increase profitability risk.The availability of materials, especially semiconductors, has been challenging since 2021. The situation started to improve at the end of 2022, but it has not returned to the pre-2021 level. The material shortage led to an increase in semiconductor prices and challenges in getting the ordered products on time and in full. To solve these challenges, Scanfil used the spot market to get the materials needed for customer deliveries.

The Covid-19 pandemic did not have a significant impact on the 2022 financial year, although China's corona lockdown in April had a somewhat negative effect on profitability. In 2022, the covid-19 situation has improved and the current situation of the pandemic is no longer considered a significant risk.

Grouping of revenue

Revenue is grouped into product and service sales by customer segment. The majority, more than 90%, of the company's revenue comes from sales of manufactured products.

	2022			2021		
EUR MILLION	Goods	Services	Total	Goods	Services	Total
Customer Segments						
Advanced Consumer Applications	241.7	6.1	247.8	197.5	7.1	204.6
Automation & Safety	157.4	26.4	183.8	124.6	20.3	1449
Connectivity	35.0	3.5	38.5	30.7	2.4	33.0
Energy & Cleantech	218.3	4.2	222.4	177.8	4.3	182.1
Medtec & Life Science	142.3	8.9	151.2	114.9	5.7	120.6
Discontinued				10.5	0.0	10.5
Total	**794.7**	**49.1**	**843.8**	**655.9**	**39.8**	**695.7**

Timing of revenue recognition						
Goods and services transferred at a point of time	794.7	44.9	839.5	655.9	37.3	693.2
Services transferred over time		4.2	4.2		2.5	2.5
Total	**794.7**	**49.1**	**843.8**	**655.9**	**39.8**	**695.7**

Major customers

EUR THOUSAND	2022	% of turnover	2021	% of turnover
Customer 1	157,835	19 %	122,210	18 %
Customer 2	71,078	8 %	57,681	8 %
Customer 3	53,775	6 %	48,396	7 %
Total	**282,688**		**228,287**	

The same customers are not necessarily shown in the table above for the reporting period and for the comparison period.

Contractual amounts recognised on the balance sheet

The table below presents contractual receivables, assets and liabilities recognised on the balance sheet.

EUR THOUSAND	2022	2021
Trade receivables, which are included in "Trade and other receivables"	149,576	132,613
Contract assets	143	
Contract liabilities	25,029	15,498

Trade and other receivables

Current	149,576	132,613
Total	149,576	**132,613**

Significant changes in the contract assets and the contract liabilities balances during the period are as follows:

EUR THOUSAND	2022	2021
Contract assets		
Transferred to trade receivables	-87	-161
Contract liabilities		
Recognised in Profit and Loss	-15,498	-2,371
Increase in advances received from customer	25,029	15,498

Information about the whole entity

Of the segment information, the assets are shown by their location and distribution of sales is shown by the location of customers.

Distribution of segment assets

The segment assets mainly consist of goodwill, intangible and tangible assets, inventories, trade receivables as well as cash and cash equivalents.

Assets on geographical areas

EUR THOUSAND	2022	2021
Domicile		
Finland	27,616	38,030
Sweden	65,937	55,903
Poland	181,921	153,512
China	114,423	110,570
Germany	45,664	37,514
Estonia	60,974	52,498
USA	20,985	17,163
Hungary	131	123
Total	**517,652**	**465,313**

Turnover by location of customers (delivery address)

EUR THOUSAND	2022	2021
Domicile		
Finland	123,421	111,038
Sweden	151,724	129,094
Germany	101,373	95,282
Poland	32,016	22,765
Rest of Europe	201,864	157,759
Asia	159,341	116,934
USA	68,917	57,907
Other	5,099	4,956
Total	**843,756**	**695,735**

1.2 Other operating income

ACCOUNTING PRINCIPLE

Income other than that associated with actual business operations is recognised under other operating income. Such items include capital gains from the sales of tangible fixed assets, rental income, insurance compensation payments and public subsidies.

Government grants related to tangible and intangible assets are deducted from an asset's acquisition cost, and the net acquisition cost is capitalised on the balance sheet. Other financial contributions are recognised in other operating income through profit or loss.

OTHER OPERATING INCOME, EUR THOUSAND	2022	2021
Proceeds from sale of property, plant and equipment	169	306
Allowances and compensations	381	246
Rental income	20	185
Other	285	429
Total	**855**	**1,167**

1.3 Use of materials and supplies

USE OF MATERIALS AND SUPPLIES, EUR THOUSAND	2022	2021
Materials, supplies and goods		
Purchases during the period	621,193	543,913
Change in inventories	-10,992	-52,574
Total	**610,201**	**491,339**

1.4 Employee benefit expenses

Employee benefits

Employee benefits include short-term employee benefits, post-employment benefits and share-based payments. Short-term employee benefits are posted as expense for the financial period during which the work was performed.

ACCOUNTING PRINCIPLE

Short-term employee benefits

Short-term employee benefits include salaries and fringe benefits, annual holidays and performance bonuses.

Post-employment benefits

Pension arrangements related to post-employment benefits are classified as defined benefit or defined contribution plans. The group does not have significant defined benefit pension plans. Most of Scanfil's obligations towards its employees are comprised of various defined contribution pension plans. The pension contributions for defined contribution pension plans are posted as expense for the financial period during which they were accrued. In Finland, the defined contribution pension plans are based on the Employees Pensions Act, according to which the pension contributions are based directly on the beneficiary's earnings.

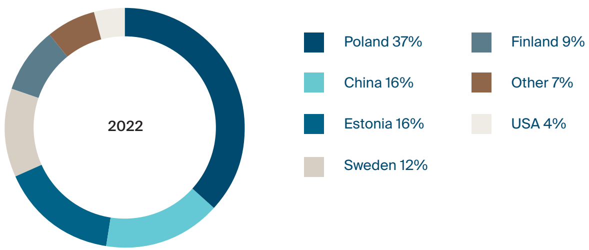
There is a multi-employer supplementary defined benefit pension plan for employees in industry and commerce secured by Alecta in Sweden. Because Alecta is unable to furnish Scanfil with information that would enable the plan to be reported as a defined benefit plan in accordance with IAS 19 Employee Benefits, it is reported as a defined contribution plan.

PERSONNEL EXPENSES, EUR THOUSAND	2022	2021
Salaries, wages and fees	82,384	76,769
Taxable income from option scheme	146	1,010
Pension costs - defined-contribution schemes	12,508	10,950
Other indirect employee expenses	9,007	8,745
Total	**104,045**	**97,474**

Management's employee benefits are reported in note 5.3, "Details of related parties and Group structure".

AVERAGE NUMBER OF GROUP EMPLOYEES DURING THE PERIOD	2022	2021
Europe	312	321
Abroad	3,091	2,946
Total	**3,403**	**3,267**

PERSONNEL BY COUNTRY ON DECEMBER 31, 2022, IN TOTAL, 3,497 EMPLOYEES



Share-based payments

ACCOUNTING PRINCIPLE

The Group has two option schemes in place. Option rights are valued at their fair value at the time they were granted and recognised as an expense in the income statement under employee benefits in equal portions during the vesting period. The expense defined at the time the options were granted is based on the group's estimate of the amount of options assumed to be vested at the end of the vesting period. The fair value of options has been defined based on the Black-Scholes pricing model. Assumptions concerning the final amount of options are updated on each reporting date. Changes in the estimates are recognised in profit or loss. When option rights are exercised, proceeds from share subscriptions, adjusted with potential transaction costs, are entered under equity.

Option schemes 2016 and 2019

On April 12, 2016, the Annual General Meeting accepted Scanfil plc's 2016 option scheme (A)–(C) and on April 24, 2019, the Annual General Meeting accepted the 2019 option scheme (A)–(C). On the basis of the 2016 and 2019 option schemes, maximum of 900,000 option rights per option scheme can be granted. Each option right enables its holder to subscribe one Scanfil plc share. The start of the option rights subscription period requires that the group's production and financial goals and conditions specifically determined by the Board for exercising the option rights are met. The subscription price of shares is determined on the basis of the Company's trading volume weighted average share price in Nasdaq Helsinki Ltd during the period March 1 to March 31 three years before start of the option rights subscription period. On the basis of the authorisation granted by the Annual General Meeting, the Board of Directors decides on providing option rights to the group's President and to the members of the Management Team. All option rights granted from the 2016 option program have been marked.

Option scheme 2022

On 21 April 2022, the Annual General Meeting of Scanfil plc decided to authorize the Board of Directors to decide on granting stock options rights to key personnel of the Scanfil Group and to decide on the terms and conditions of the maximum amount of 1,200,000 option rights.Based on the authorization, the Board of Directors has on 28 October 2022 decided on general terms and conditions of option plan "Option plan 2022", and issuing 1,200,000 option rights.

The CEO, the members of the Management Group and other 17 key personnel were distributed in total 316,000 option rights 2022AI and 2022AII of which the CEO Petteri Jokitalo 120,000 pcs, and the members of the Management Group 20,000 pcs each and other 17 key personnel 96,000 pcs in total.

Each option right gives the right to subscribe for one (1) Scanfil Oyj's new or held shares. The subscription period for option right 2022AI and 2022AII is 1 May 2025 – 30 April 2027. The start of the option rights subscription period requires that the group's production and financial goals and conditions specifically determined by the Board for exercising the option rights are met.

The option rights whose goals are not met will expire as determined by the Board. The stock options were granted without compensation. The share subscription price for 2022AI and 2022AII are the Company's trading volume weighted by the Company's average share price on the Nasdaq Helsinki 1 November 2022 – 30 November 2022

The total amount of the option program is a maximum of 1,200,000 option rights and they are given free of charge. Of these options, 400,000 will be marked with the codes 2022AI and 2022AII, 400,000 2022BI and 2022BII and 400,000 2022CI and 2022CII. The options entitle the holder to subscribe for a maximum of 1,200,000 of the company's new or existing shares.

The subscription period for option right 2022AI and 2022AII is 1 May 2025 – 30 April 2027, for option right 2022BI and 2022BII 1 May 2026 – 30 April 2028, and for option right 2022CI and 2022CII 1 May 2027 – 30 April 2029. The total number of option rights can be 1,200,000 and they entitle the key personnel to subscribe for a combined total of 1,200,000 of the company's new shares or shares in company's possession.

The share subscription price for 2022AI and 2022AII are the Company's trading volume weighted by the Company's average share price on the Nasdaq Helsinki 1 November 2022 – 30 November 2022, for option rights 2022BI and 2022BII the trading volume weighted by the Company's average share price on the Nasdaq Helsinki 1 November 2023 – 30 November 2023, and for 2022CI and 2022CII the trading volume weighted by the Company's average share price on the Nasdaq Helsinki 1 November 2024 – 30 November 2024. The share subscription price is entered in the Company's reserve for invested non-restricted equity.

The board decides on the granting of stock options and all related conditions.

In 2022, the expense recognition of the option scheme was EUR 348,902 (EUR 259,201 in 2021).

In 2022, a total of 40,000 Company's shares were subscribed under option rights 2016(C). The subscription price of EUR 179,200 of subscriptions made under the option rights has been recognised in the invested unrestricted equity fund. The Company transferred a total of 40,000 treasury shares held by the company to the subscribers.

In 2022, a total of 20,000 Company's shares were subscribed under option rights 2016(A). The subscription price of EUR 80,800 of subscriptions made under the option rights has been recognised in the invested unrestricted equity fund. Scanfil transferred 2,000 treasury shares held by the company to subscribers on the basis of the subscriptions made under the option rights.

OPTION ARRANGEMENT 31.12.2022	2022AI and 2022AII	2019C	2019B	2019A	2016C
Grant date	27.10.2022	25.10.2021	27.10.2020	27.11.2019	26.6.2019
Amount of granted instruments (pcs)	316,000	220,000	200,000	190,000	210,000
Subscription price (EUR)	6.12	7.37	4.34	4.04	4.48
Fair value (EUR)	1.64	1.66	1.79	1.08	0.54
Share price at time of granting (EUR)	5.98	7.74	5.16	4.42	3.88
Term of validity (years)	4.5	4.5	4.5	4.4	3.9
Subscription period	1.5.2025-30.4.2027	1.5.2024-30.4.2026	1.5.2023-30.4.2025	1.5.2022-30.4.2024	1.5.2021-30.4.2023
Excercised options, pcs				20,000	210,000
Returned options to company, pcs					
Number of options outstanding	**316,000**	**220,000**	**200,000**	**170,000**	**0**

1.5 Other operating expenses

Other operating expenses include the following significant items:

OTHER OPERATING EXPENSES, EUR THOUSAND	2022	2021
Hired labour	23,881	19,514
Subcontracting	1,736	1,531
Sales freight	5,603	5,771
Energy	4,589	3,647
Tools & repair and maintenance of tools	7,319	6,812
Rents	1,315	853
Maintenance expenses	4,539	3,482
Travel, marketing and vehicle expenses	2,461	2,133
Other employee expenses	4,079	3,161
Bought services	5,558	3,940
ICT expenses	3,257	2,367
Other operating expenses	3,464	2,898
Total	**67,801**	**56,108**

During the 2022 and 2021 financial periods, the company's main auditor was the auditing company KPMG Oy Ab.

AUDITOR'S REMUNERATION, EUR THOUSAND	2022	2021
Audit fees	381	323
Auditors statement	17	
Tax consulting	47	54
Other services		2
Total	**445**	**379**

Services other than auditing services carried out by KPMG Oy Ab totalled EUR 47 thousand during the 2022 financial period.

1.6 Income taxes

ACCOUNTING PRINCIPLE

Income taxes

The taxes of the consolidated income statement include taxes based on the results of the group companies and calculated in accordance with local tax laws and tax rates. The taxes in the income statement also include the change in deferred tax assets and liabilities.

Deferred tax assets or liabilities are calculated on temporary differences between taxation and financial statements and differences due to group eliminations based on tax rates for the following year confirmed by the reporting date. Temporary differences arise from intercompany profits on inventories, depreciation differences and provisions, among others.

Deferred tax liabilities are recognised in full. Deferred tax assets are recognised only when it is probable that receivables can be utilised against the taxable income of future financial periods.

The purpose of the company's management assessment is to identify the company's tax positions for which the related tax legislation is open to interpretation. An adjustment is recorded on uncertain tax positions identified on the basis of the estimate if it is expected that the tax authorities will challenge the management's interpretation. The amount of the reservation is based on the estimated final tax cost.

Use of estimates

The management uses its discretion in determining the amount of income taxes and in recognizing deferred tax assets. Deferred tax assets are recognised for taxable losses and for the temporary differences between the taxation values and book values of assets and liabilities. Deferred tax assets are recognised to the extent that the group probably accumulates, according to the assessment by the management, enough taxable income against which the deferred tax assets can be utilized.

INCOME TAXES, EUR THOUSAND	2022	2021
Current tax	7,263	8,709
Tax expense of previous years	-251	1,443
Deferred taxes	-343	-2,252
Total	**6,670**	**7,901**

RECONCILIATION OF TAX EXPENSE IN THE INCOME STATEMENT AND TAXES CALCULATED AT THE TAX RATE APPLICABLE IN FINLAND OF 20% (20% IN 2021)

Earnings before taxes	**41,714**	**37,656**
Taxes calculated at domestic tax rate	8,343	7,531
Different tax rates of foreign subsidiaries	-608	-765
Tax at source on dividends paid in Estonia		576
Witholding tax of unpaid dividends		140
Cancelling witholding tax of unpaid dividends	-790	
Use of unrecognised losses in previous years		-1,057
Tax free items	-39	-59
Other	15	92
Taxes from previous years	-251	1,443
Taxes in income statement	**6,670**	**7,901**

The cancellation of the withholding tax on unpaid dividends is related to the reassessment of the subsidiary's future dividend payment date.

In the comparison year 2021, the use of unrecognised losses from previous years was related to the use of Scanfil Sweden AB's losses.

In the comparison year 2021, the taxes from previous years include a tax adjustment EUR 1.6 million related to the losses of Scanfil EMS Oy's Hungarian subsidiary.

DEFERRED TAX ASSETS AND LIABILITIES

EUR THOUSAND	1.1.2022	Recognised through profit and loss	Recognised under other comprehensive income	Translation differences	31.12.2022
Deferred tax assets:					
Investment grant to Poland	803	-788		-15	0
Inventories	669	231		-9	891
Provisions	689	80		-12	757
Fixed assets	629	42		1	672
Other	3,351	-864	-18	-74	2,396
Losses	2,360	767			3,127
Total	**8,501**	**-531**	**-18**	**-110**	**7,843**
Deferred tax liabilities:					
Long-term customer relationships	-1,759	364		60	-1,335
Unpaid dividends	-2,312	790			-1,522
Fixed assets	-1 172	95		-7	-1,084
Other	-48	-375	-237	-14	-674
Total	**-5,290**	**874**	**-237**	**39**	**-4,615**

EUR THOUSAND	1.1.2021	Recognised through profit and loss	Recognised under other comprehensive income	Translation differences	31.12.2021
Deferred tax assets:					
Investment grant to Poland	2,075	-1,264		-8	803
Inventories	408	260		1	669
Provisions	481	214		-5	689
Fixed assets	641	-12		1	629
Other	1,382	2,115	-122	-23	3,351
Losses	1,897	462			2,360
Total	**6,884**	**1,774**	**-122**	**-35**	**8,501**
Deferred tax liabilities:					
Long-term customer relationships	-2,157	376		22	-1,759
Unpaid dividends	-2,172	-140			-2,312
Fixed assets	-1,242	150		-79	-1,172
Other	-140	92		0	-48
Total	**-5,711**	**477**		**-57**	**-5,290**

The calculated tax credit of EUR 0.9 million included in other items in 2021 has been realized. Scanfil Poland Sp. z o.o's application for an Advance Pricing Agreement (APA) to the Polish Ministry of Economy has been approved in 2022.

In addition other items include EUR 1.6 (1.4) for deferred tax assets related to cost accruals in Poland.

Other items include EUR 0.9 (0.7) million for deferred tax assets related to Polish non-deductible intra-group charges. Scanfil Poland Sp. z o.o has submitted an application for an Advance Pricing Agreement (APA) to the Polish Ministry of the Finance in 2018. The process is still ongoing. The company considers that the costs can be reduced for tax purposes over the coming financial periods.

In addition other items include EUR 1.4 (0.2) for deferred tax assets related to cost accruals in Poland.

1.7 Earnings per share

ACCOUNTING PRINCIPLE
Earnings per share
Earnings per share are calculated by dividing the profit for the period attributable to equity holders of the parent company with the weighted average number of outstanding shares during the financial period. For the earnings per share adjusted for the dilution effect, the impact of possible share-based incentive schemes and option rights is taken into account. The exercise of options is not considered when calculating earnings per share if the share subscription price using the option exceeds the average market price of the share during the period.

EARNINGS PER SHARE, EUR THOUSAND	2022	2021
Net profit for the period attributable to equity holders of the parent company	35,044	29,756
Number of shares, undiluted (1,000 pcs)	64,830	64,701
Earnings per share, undiluted, EUR	**0.54**	**0.46**
Dilution effect of stock options (1,000 pcs)	906	630
Number of shares, diluted (1,000 pcs)	65,736	65,331
Earnings per share, diluted, EUR	**0.53**	**0.46**

2. NET WORKING CAPITAL

2.1 Net working capital

The company includes the following items in its net working capital: of current assets, inventories, trade receivables and other receivables, advance payments as well as deferred tax assets based on the taxable income for the financial period, and of current liabilities, trade payables and other liabilities as well as deferred tax liabilities based on the taxable income for the financial period.

The group monitors on a monthly basis the ratio of net working capital to the turnover for the previous 12 months.

Net working capital was 25.0% of net sales, compared to 24.8% at the end of the previous year. The increase in turnover generally increased the need for working capital, which has been partially reduced by the advance payments received.

NET WORKING CAPITAL, EUR THOUSAND	2022	2021
Net working capital		
Inventories	229,291	193,358
Trade receivables	149,576	132,613
Accrued income, other receivables and income tax receivables	17,017	19,054
Advance payments	2,292	1,303
Trade payables	-129,003	-127,256
Advances received	-25,029	-15,498
Accrued expenses, other liabilities and income tax liabilities	-33,116	-30,912
Total	**211 027**	**172 663**
Net working capital, % of turnover	**25.0 %**	**24.8 %**

2.2 Inventories

ACCOUNTING PRINCIPLE
Inventories

Inventories are measured at the acquisition cost and net realisable value, whichever is lower. The acquisition cost is determined on a weighted-average basis. The cost of raw materials includes the expenses incurred for purchasing and putting them into storage. The cost of finished goods and work in progress includes raw materials, direct labour costs and other direct expenditure as well as a proportion of fixed costs.

The impairment due to obsolescence, based on the management's estimate of probable net realisable value, is taken into account when determining the value of inventories. The net realisable value is the estimated selling price less sale-related costs.

Use of estimates

Potential obsolescence included in the value of inventories is regularly examined and, if necessary, the value of inventories is depreciated to match their net realisable value. These examinations require estimates on the future demand for products.

INVENTORIES, EUR THOUSAND	2022	2021
Materials and supplies	197,243	164,549
Work in progress	19,188	16,852
Finished goods	12,859	11,957
Total	**229,291**	**193,358**

Impairment losses on inventories during the financial year amounted to EUR 3.3 (2.1) million.

2.3 Trade and other receivables

ACCOUNTING PRINCIPLE
Trade receivables

Trade receivables are created when Scanfil invoices products and services delivered to customers. Trade receivables are measured at the original invoiced amount. For uncertain receivables, impairment is recognised on the basis of case-specific risk assessments.

According to the new impairment model, impairment provisions must be recognised on the basis of expected credit losses. A simplified model must be applied to trade receivables, in which the estimated amount of credit losses is based on percentages defined on the basis of the age distribution of the receivables. These percentages are based on the estimated probability of credit losses and historical information.

Use of estimates

Estimates by the management are included in the assessment of possible credit loss risks included in the trade receivables. According to the group's management, there is no significant credit loss risk in trade receivables. The group has approximately 110 active customers, of which the largest customers are Nordic market leaders in their industries. The client companies are spread over several different industries and geographical areas. In general, the business of the Group's key customers is not particularly sensitive to economic cycles and the life cycles of products are often long. Overdue accounts receivable are regularly monitored and actively collected. The creditworthiness of new customers is checked and only standard payment terms are granted to customers. Neither the war in Ukraine nor the general uncertain economic situation has had a significant impact.

TRADE AND OTHER RECEIVABLES, EUR THOUSAND	2022	2021
Trade receivables	149,576	132,613
Accrued income	9,263	5,425
Value-added tax receivables	3,394	3,360
Other receivables	2,585	7,629
Total	**164,817**	**149,027**

AGE DISTRIBUTION OF TRADE RECEIVABLES, EUR THOUSAND	2022	2021
Unmatured	123,191	115,286
Matured		
1–30 days	20,895	14,094
31–90 days	3,168	2,383
91–180 days	1,420	780
181–365 days	791	100
Over 365 days	193	
Provision for bad debt	-83	-30
Total	**149,576**	**132,613**

Expected credit losses, December 31, 2022

2022, EUR THOUSAND	Book value (gross)	Estimated credit losses	Bad debt provision
Unmatured	123,191	0.01 %	12
Matured			
1 - 30 days	20,895	0.02 %	4
31 - 90 days	3,168	0.50 %	16
91 - 180 days	1,420	2.00 %	28
181 - 365 days	791	1.14 %	9
Over 365 days	193	6.65 %	13
Total	**149,659**		**83**

2021, EUR THOUSAND	Book value (gross)	Estimated credit losses	Bad debt provision
Unmatured	115,286	0.01 %	12
Matured			
1 - 30 days	14,094	0.02 %	2
31 - 90 days	2,383	0.21 %	5
91 - 180 days	780	0.87 %	7
181 - 365 days	100	3.70 %	4
Total	**132,643**		**30**

At the end of the financial period, the credit loss provision recognised for covering uncertain receivables stood at EUR 83 (30) thousand. During the financial period, credit losses recognised from trade receivables were EUR 47 (2) thousand.

2.4 Trade and other liabilities

TRADE AND OTHER PAYABLES, EUR THOUSAND	2022	2021
Trade payables	129,003	127,256
Accrued liabilities	22,104	23,158
Advance payments received	25,029	15,498
Other creditors	7,549	6,378
Total	**183,685**	**172,290**
The most significant items included in accrued liabilities:		
Employee expenses	12,090	11,807
Interests	98	90
Financial derivatives	893	88
Other accrued liabilities	9,024	11,173
Total	**22,104**	**23,158**

3. NON-CURRENT ASSETS

3.1 Goodwill

ACCOUNTING PRINCIPLE

Goodwill

Business combinations are treated using the acquisition method. Goodwill is recognised at the amount by which the acquisition cost exceeds the group's share of the value of acquired assets and liabilities at the time of acquisition. Goodwill is created in corporate transactions, and it reflects the value of the acquired business, market share and synergies. The book value of goodwill is tested by impairment testing. The group's goodwill mainly consists of the acquisition of PartnerTech AB group in 2015 and the acquisition of German HASEC-Elektronik GmbH in 2019.

Impairment testing

No depreciation is made of goodwill; instead, goodwill is tested at least annually for possible impairment. For that, goodwill is allocated to cash generating units (CGUs). The recoverable amount of the CGU is calculated with value in use calculations. An impairment loss is recognised when the book value of an asset exceeds its recoverable amount. Impairment losses are immediately recognised as expenses in the income statement. Impairment losses recognised for goodwill cannot be later reversed. In 2021 and 2022, no goodwill impairments were recorded.

GOODWILL, EUR THOUSAND	2022	2021
Cost at 1 Jan.	8,166	8,304
Exchange rate differences	-502	-138
Carrying amount at 31 Dec.	**7,664**	**8,166**

ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS, EUR THOUSAND	2022	2021
Scanfil Oü	111	111
Scanfil Poland Sp. z o.o.	3,129	3,395
Scanfil Malmö Ab	1,181	1,281
Scanfil Åtvidaberg AB	1,594	1,730
Scanfil Electronics GmbH	1,649	1,649
Total	**7,664**	**8,166**

DISCOUNT RATE OF CASH FLOWS BEFORE TAXES	2022	2021
Scanfil Electronics GmbH	12.2 %	9.9 %
Scanfil Poland Sp. z o.o.	19.8 %	11.2 %
Scanfil Malmö Ab	11.2 %	10.9 %
Scanfil Åtvidaberg AB	11.1 %	11.0 %

The recoverable amount of a CGU is based on the value in use of a cash-generating unit, which is the present value of the future cash flows the CGU is expected to accumulate. Determination of the value in use is based on the conditions and expectations in force at the time of testing. Future cash flows are determined for a five-year forecast period, and for the period following that, a growth rate of 2% has been assumed for cash flows.

Preparing impairment testing calculations requires estimates of future cash flows. The turnover and profitability assumptions used for the forecasts are based on customer-specific forecasts and the management's estimates of the development of demand and markets.

The weighted average cost of capital (WACC) for the CGU has been used as the discount rate for cash flows. The risk-free interest rate, risk factor (beta) and risk premium parameters used for determining the discount rate of interest are based on information obtained from the market.

No need for impairment of goodwill was detected based on the impermanent testing. The recoverable amounts of all CGUs exceed their book values.

Sensitivity analysis

A sensitivity analysis was performed for CGUs by changing calculation assumptions. The table below shows the change in assumption that would be required to make the recoverable amount equal to its book value.

SENSITIVITY ANALYSIS	2022 Change % units	2021 Change % units
Discount rate before taxes		
Scanfil Poland Sp. z o.o.	+ 4.8	+ 9.3
Scanfil Malmö Ab	+18.7	+12.7
Scanfil Åtvidaberg AB	+18.6	+13.9
Scanfil Electronics GmbH	+ 1.9	+ 2.2
Profitability (EBITDA %)		
Scanfil Poland Sp. z o.o.	- 1.9	- 4.0
Scanfil Malmö Ab	- 5.3	- 4.9
Scanfil Åtvidaberg AB	- 5.5	- 3.7
Scanfil Electronics GmbH	- 1.3	- 1.6
Terminal growth rate		
Scanfil Poland Sp. z o.o.	- 29.3	N/A
Scanfil Malmö Ab	N/A	N/A
Scanfil Åtvidaberg AB	N/A	N/A
Scanfil Electronics GmbH	- 4.9	- 7.0

As regards Scanfil Poland Sp. z.o.o., Scanfil Malmö Ab and Scanfil Åtvidaberg AB, changes in terminal growth are not significant (N/A).

3.2 Other intangible assets

ACCOUNTING PRINCIPLE

Other intangible assets

Intangible assets are recognised at historical cost in the balance sheet, if the cost can be reliably determined and it is likely that the financial benefit from the asset benefits the group. Intangible assets are recognised in the income statement using straight-line depreciation within their expected useful life.

Other intangible assets include long-term customer relationships, software suites and right to land use of Chinese subsidiaries.

THE DEPRECIATION PERIODS ARE:	
Long-term customer relationships	10 years
Intangible rights	3–10 years
Other intangible assets	3–10 years
Right to land use in China	50 years

The balance sheet value of an asset is always assessed for establishing possible impairment whenever there are any indications that the value of some asset has been impaired.

Long-term customer relationships

In connection with the allocation of the purchase price related to the acquisition of PartnerTech AB in 2015 and HASEC-Elektronik GmbH in 2019, the group has allocated part of the purchase price to long-term customer relationships. Following the initial recognition, customer relationships are measured at cost less accrued depreciation and impairment.

Research and development costs

Research and development costs are recognised as expenses through profit or loss. Development costs as per IAS 38 Intangible Assets are capitalised and amortised over their useful lives. The group has no capitalised development costs.

Impairment

The balance sheet values of fixed assets are assessed for establishing possible impairment on the balance sheet date and whenever there are any indications that the value of some asset has been impaired. The recoverable amount for the asset in question is assessed in the impairment tests. The recoverable amount is the fair value of the asset less its disposal costs, or its value of use, whichever is higher. An impairment loss is recognised in the income statement, if the book value of an asset exceeds its recoverable amount. The impairment loss is included in the income statement item Depreciation, amortisation and impairment. An impairment loss related to property, plant and equipment is reversed if there has been a material change in the estimates used to determine the recoverable amount. An impairment loss is only reversed up to the asset's book value which it would have net of depreciation, if no impairment loss had been recognised in earlier years.

OTHER INTANGIBLE ASSETS, EUR THOUSAND	Customer relationships	Intangible rights	Other long-term expenses	Advance payments	Intangible assets total
Acquisition at 1 Jan. 2022	16,355	8,611	3,227	385	28,579
Additions		425	140	-211	354
Deductions		462	5		
Exchange rate differences	-985	160	229		-597
Acquisition at 31 Dec. 2022	**15,370**	**9,658**	**3,601**	**174**	**28,336**
Accumulated depreciations at 1 Jan. 2022	-9,119	-4,824	-1,729		-15,672
Depreciations	-1,591	-573	-401		-2,565
Exchange rate differences	694	-227	-234		233
Accumulated depreciations at 31 Dec. 2022	**-10,015**	**-5,624**	**-2,364**		**-18,004**
Carrying amount at 1 Jan. 2022	7,236	3,787	1,498	385	12,906
Carrying amount at 31 Dec. 2022	**5,354**	**4,034**	**1,236**	**174**	**10,799**

OTHER INTANGIBLE ASSETS, EUR THOUSAND	Customer relationships	Intangible rights	Other long-term expenses	Advance payments	Intangible assets total
Acquisition at 1 Jan. 2021	16,626	8,260	2,913	8	27,808
Additions		149	583	385	1,117
Deductions		-278	-292	-8	-578
Exchange rate differences	-271	479	23		232
Acquisition at 31 Dec. 2021	**16,355**	**8,611**	**3,227**	**385**	**28,579**
Accumulated depreciations at 1 Jan. 2021	-7,632	-4,272	-1,643		-13,548
Depreciations	-1,648	-682	-355		-2,686
Deductions		278	292		570
Exchange rate differences	162	-147	-23		-9
Accumulated depreciations at 31 Dec. 2021	**-9,119**	**-4,824**	**-1,729**		**-15,672**
Carrying amount at 1 Jan. 2021	8,994	3,988	1,270	8	14,260
Carrying amount at 31 Dec. 2021	**7,236**	**3,787**	**1,498**	**385**	**12,906**

3.3 Property, plant and equipment

ACCOUNTING PRINCIPLE

Property, plant and equipment

The main items included in this category are buildings, machinery, equipment, fixtures and fittings. They are stated in the balance sheet at historical cost less depreciation and any impairment losses. Depreciation is calculated from historical cost on a straight-line basis over the expected useful lives of the assets. No depreciation is made for land areas. The repair and maintenance costs of tangible fixed assets are recognised through profit or loss.

The residual values and useful lives of assets are reviewed annually and adjusted, if appropriate, to indicate changes in expected financial benefits.

An item of property, plant and equipment will no longer be depreciated when such an item is considered as being held for sale in accordance with IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”.

THE DEPRECIATION PERIODS ARE:

Buildings and structures	10–25 years
Machinery and equipment	3–10 years
Other tangible assets	5–10 years

Regarding machinery and equipment, a depreciation period of 8–10 years is generally used for heavy machinery (such as sheet metalwork centers) and production lines (such as surface mounting lines). Otherwise, the depreciation period for machinery and equipment is usually five years. Production tools are depreciated over three years.

The capital gains from property, plant and equipment are included in other operating income while the corresponding capital losses are included in other operating expenses.

Government grants related to tangible and intangible assets are deducted from an asset’s acquisition cost, and the net acquisition cost is capitalised on the balance sheet.

Impairment

The principle for determining impairment is shown in note 3.2, “Other intangible assets”.

PROPERTY, PLANT AND EQUIPMENT, EUR THOUSAND	Land	Buildings and con-structions	Machinery and equip-ments	Other tangible assets	Advance payments and con-structions in progress	Tangible assets total
Acquisition cost at 1 Jan. 2022	984	29,122	89,438	588	3,193	123,326
Additions	219	900	11,470	179	5,378	18,145
Deductions		-19	-959			-978
Transfers between items	-191	22	5,539	189	-6,081	-523
Exchange rate differences	-7	-385	-1,251	-99	-52	-1,795
Acquisition cost at 31 Dec. 2022	**1,006**	**29,640**	**104,237**	**856**	**2,438**	**138,176**
Accumulated depreciations at 1 Jan. 2022		-15,968	-56,994	-571		-73,534
Depreciations		-1,491	-9,220	-22		-10,734
Deductions			693			693
Exchange rate differences		195	669	99		963
Accumulated depreciations at 31 Dec. 2022		**-17,265**	**-64,854**	**-493**		**-82,612**
Carrying amount at 1 Jan. 2022	984	13,154	32,444	17	3,193	49,792
Carrying amount at 31 Dec. 2022	**1,006**	**12,376**	**39,383**	**362**	**2,438**	**55,564**

Gross investments in tangible and intangible assets totalled EUR 19.0 million, which is 2.3% of net sales. The most significant investments in the electronics manufacturing were the SMT line in Suzhou, THT line and soldering line in Sieradz, and the investments in growing the SMT line capacity in Sieradz. In addition, the investments include testing solutions in different factories. A significant investment in production, warehouse and office space reorganizations was made in Suzhou. The most significant investments in mechanics were painting line renewals in Pärnu and Myslowice and automatic punching and folding machines. In addition, the factories invested in smart warehouse and logistics solutions and cobots.

PROPERTY, PLANT AND EQUIPMENT, EUR THOUSAND	Land	Buildings and con-structions	Machinery and equip-ments	Other tangible assets	Advance payments and con-structions in progress	Tangible assets total
Acquisition cost at 1 Jan. 2021	797	28,389	80,218	582	1,845	111,831
Additions	191	96	10,057		3,011	13,355
Deductions			-3,236		-1,643	-4,879
Transfers between items		13				13
Exchange rate differences	-3	624	2,400	5	-20	3,006
Acquisition cost at 31 Dec. 2021	**984**	**29,122**	**89,438**	**588**	**3,193**	**123,326**
Accumulated depreciations at 1 Jan. 2021		-14,082	-50,827	-566		-65,475
Depreciations		-1,417	-7,525			-8,941
Deductions			2,608			2,608
Exchange rate differences		-469	-1,251	-5		-1,725
Accumulated depreciations at 31 Dec. 2021		**-15,968**	**-56,994**	**-571**		**-73,534**
Carrying amount at 1 Jan. 2021	797	14,307	29,391	17	1,845	46,356
Carrying amount at 31 Dec. 2021	**984**	**13,154**	**32,444**	**17**	**3,193**	**49,792**

Gross investments in tangible and intangible assets totalled EUR 15.5 million, which is 2.2% of net sales. Most of the investments were made in production machinery and equipment. Main investments in electronics manufacturing were new surface assembly line in Suzhou, new wave soldering machine in Sieradz and testing systems for different sites. Main investments in mechanical manufacturing were new punching, laser and bending technic to Myslowice, Parnu and Sievi. Investment in sites continued in order to automatize manufacturing processes and material handling and to digitalize production.

3.4 Right-of-use assets

ACCOUNTING PRINCIPLE

When an agreement enters into force, the group will determine whether it is a lease agreement or whether it includes a lease agreement. An agreement is a lease agreement or includes a lease agreement if it provides the right to control the use of a specific asset item for compensation for a specific period.

The group as a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. Right-of-use asset is initially measured at the original acquisition cost, including an amount equal to the original valuation of the lease liability, rents paid until the start date of the agreement and expenses for returning the right-of-use asset to its original state, less any rent incentives received.

The group leases production and office facilities. A typical lease for production facilities covers five to eight years. Five of the Group's nine production plants operate in leased premises. Some lease agreements include options to extend the lease period or to terminate the agreement before the end of the lease period. When a lease period starts, the group assesses whether it is reasonably certain to exercise different options. The group will reassess whether it is reasonably certain to exercise different options if there are changes in circumstances under its control or if significant event takes place. The group has recognised extension options based on lease agreements totalling two to four years.

In addition, the group has lease agreements on cars and other vehicles (mainly forklifts) and equipment. Lease agreements typically cover one to four years. With regard to vehicle leases, the group processes components other than lease agreement components as separate, including servicing.

Right-of-use asset items is subsequently depreciated using straight-line method, starting from the commencement date of the lease agreement until the end of the lease period or until the end of the expected useful life of each right-of-use asset, depending on which is shorter. The expected useful life of each right-of-use asset is determined using the same principles that are used to determine the depreciation periods of owned properties and equipment. In addition, right-of-use asset is reduced by impairment losses, if any, and adjustments resulting from the remeasurement of the lease liability.

The lease liability is recognised at the current value of upcoming rents using the interest rate of incremental borrowing rate as the discount rate, in which case the value of the right-of-use asset corresponds with the amount of the lease liability on the commencement date of the lease agreement.

The lease liability is measured using the effective interest method. Lease liability is remeasured if there are changes in upcoming rents due to changes in index or interest rates, if the estimated residual value guarantee to be paid changes, or if the estimate of exercising the extension or termination option changes. When lease liability is remeasured as described above, the book value of the right-of-use asset will be adjusted correspondingly or the impact of the change will be recognised through profit and loss, provided that the book value of the right-of-use asset has decreased to zero.

Short-term lease agreements and leases of low-value assets

The group applies recognition exemptions concerning short-term lease agreements of at most 12 months and assets with a low value of at most EUR 5,000. As an exception to the application of exemptions, the exemption of 12 months does not apply to leasing vehicles. Expenses related to short-term lease agreements and asset items with a low value are recognised on a straight-line basis in other operating expenses over the lease period.

EUR THOUSAND	Land	Buildings and constructions	Machinery and equipments	Right-of-use assets total
Acquisition cost at 1 Jan. 2022	-185	28,359	3,066	31,239
Additions		6,195	230	6,425
Deductions	185	55	-79	161
Exchange rate differences		-664	-58	-722
Acquisition cost at 31 Dec. 2022	**0**	**33,946**	**3,158**	**37,104**
Accumulated depreciations at 1 Jan. 2022	185	-7,148	-2,037	-9,000
Depreciations		-3,586	-572	-4,158
Deductions	-185	0	69	-116
Exchange rate differences		258	53	311
Accumulated depreciations at 31 Dec. 2022	**0**	**-10,477**	**-2,486**	**-12,963**
Carrying amount at 1 Jan. 2022	0	21,211	1,029	22,240
Carrying amount at 31 Dec. 2022	**0**	**23,469**	**672**	**24,141**

EUR THOUSAND	Land	Buildings and constructions	Machinery and equipments	Right-of-use assets total
Acquisition cost at 1 Jan. 2021	276	24,349	2,681	27,306
Additions	-198	8 482	525	8 809
Deductions	-270	-4 528	-104	-4 902
Exchange rate differences	7	57	-36	27
Acquisition cost at 31 Dec. 2021	**-185**	**28,359**	**3,066**	**31,239**
Accumulated depreciations at 1 Jan. 2021	-63	-7,716	-1,402	-9,181
Depreciations	-36	-2,963	-749	-3,749
Deductions	270	3,386	95	3,751
Exchange rate differences	15	145	20	179
Accumulated depreciations at 31 Dec. 2021	**185**	**-7,148**	**-2,037**	**-9,000**
Carrying amount at 1 Jan. 2021	213	16,633	1,279	18,125
Carrying amount at 31 Dec. 2021	**0**	**21,211**	**1,029**	**22,240**

LEASE LIABILITIES, EUR THOUSAND	2022	2021
Maturity analysis – contractual undiscounted cash flows		
Within one year	4,933	3,859
In one to two years	13,874	12,523
More than five years	8,896	9,618
Total	**27,703**	**26,000**

CARRYING AMOUNT OF LEASE LIABILITIES AT THE END OF THE FINANCIAL YEAR, EUR THOUSAND	2022	2021
Long-term liabilities	20,439	19,903
Short-term liabilities	4,360	3,182
Total	**24,798**	**23,085**

AMOUNTS RECOGNISED IN PROFIT AND LOSS, EUR THOUSAND	2022	2021
Interest on lease liabilities	563	552
Expenses relating to short-term leases	272	142
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	121	101
Total	**957**	**795**

The group as a lessor

The group has leased out one of its office buildings and classified this lease agreement as an operational lease agreement. The group therefore recognises rents received under this agreement as income on a straight-line basis throughout the lease period under “other operating income.” The lease in question has expired in early 2022. The group has no other agreements in the role of a lessor.

Operating lease agreement

LEASE INCOME, EUR THOUSAND	2022	2021
Maturity analysis – contractual undiscounted cash flows		
Within one year		17
In one to two years		
Total undiscounted lease income at 31 December		**17**

3.5 Depreciation, amortisation and impairment

ACCOUNTING PRINCIPLE

The determination principles are shown in note 3.1 “Goodwill”, 3.2 “Other intangible assets”, 3.3 “Tangible assets” and 3.4 ”Right-of-use assets”.

Depreciation and amortisation

DEPRECIATION BY ASSET CLASS, EUR THOUSAND	2022	2021
Intangible assets		
Intangible rights	573	682
Other long-term expenses	401	355
Long-term customer relationships	1,591	1,648
Total	**2,565**	**2,686**
Property, plant and equipment		
Buildings	1,491	1,417
Machinery and equipment	9,220	7,530
Other tangible assets	22	
Total	**10,734**	**8,946**
Right-of-use-assets		
Land		36
Buildings	3,586	2,959
Machinery and equipment	572	749
Total	**4,158**	**3,745**
Total depreciation	**17,456**	**15,376**

4. CAPITAL STRUCTURE

Financial items

ACCOUNTING PRINCIPLE
Financial assets and liabilities

The company classifies the Group's financial assets as financial assets recognised at amortised cost, financial assets recognised at fair value through profit or loss, or financial assets recognised at fair value in other comprehensive income items. Financial assets are classified based on the purpose of their acquisition, and they are classified at the time of their original acquisition. The classification is based on the company's business goals and agreement-based cash flows of financial assets, or it is carried out by applying the fair value option in conjunction with the original acquisition.

Financial assets recognised at amortized cost mainly consist of trade receivables. Assets classified in this group are valued at amortised cost using the effective interest method. According to the Group's business model, trade receivables are intended to be maintained in accordance with original agreements, and cash flows related to them and based only on capital and interest are to be collected. Trade receivables are current assets that the company intends to keep for a maximum of 12 months after the end of the reporting period. The carrying amount of current trade receivables is considered to materially correspond to their fair value. The accounting of impairments is described in Note 4.7 "Credit risk".

Financial assets recognised at fair value through profit or loss include financial assets acquired to be held for trading or classified as items recognised at fair value during initial recognition. Financial assets included in this item are non-quoted shares. Investments in non-quoted shares are stated at the lower of historical cost and probable realisable value because their fair values cannot be determined reliably. Quoted shares are measured at fair value, which is the market price of the date of the financial statement. This item also includes derivatives to which hedge accounting does not apply. In the 2022 financial statements, the group had no investments in non-quoted shares.

Financial assets entered at fair value in other comprehensive income are derivatives that are subject to hedge accounting.

On the date of the financial statements, the group's financial assets are evaluated to see if there are indications that the value of any of the assets might be impaired.

Cash and cash equivalents include cash at bank and in hand as well as short-term bank deposits, which can easily be exchanged for an amount known in advance and for which there is little risk of changes in value. Items classified as cash and cash equivalents have a maximum maturity of three months from the time of acquisition. Cash and cash equivalents are included in the item of financial assets recognised at amortized cost.

The group's financial liabilities are recognised at amortised cost.

The financial assets and liabilities are recognised on the value date, apart from derivative contracts, which are recognised on the transaction date.

4.1 Cash and cash equivalents

CASH AND CASH EQUIVALENTS, EUR THOUSAND	2022	2021
Cash and cash equivalents	20,779	25,345
Total	**20,779**	**25,345**

4.2 Financial income and expenses

ACCOUNTING PRINCIPLE

Interest income is recognised using the effective interest method and dividend income when the right to a dividend was created.

FINANCING INCOMES AND EXPENSES, EUR THOUSAND	2022	2021
Financing incomes		
Dividends	0	
Interest income from other financial assets	4	7
Exchange rate gains		18
Other financial income	362	37
Financing incomes total	**366**	**61**
Financing expenses		
Interest expenses	1,827	1,123
Exchange rate losses	1,719	473
Other financial expenses	487	392
Financing expenses total	**4,033**	**1,988**
Financing incomes and expenses	**-3,667**	**-1,926**

Exchange rate gains and losses have arisen from the translation of transactions and monetary items into euro. The exchange rate items are shown under financial income and expenses as their net amount, EUR -1.7 (-0.5) million. These items include EUR -0.8 million of exchange rate losses arising from Group's internal loans. The operating profit includes a total of EUR -2.5 (-2.0) million of exchange rate losses.

Interest expenses consist of interest for financial liabilities, EUR 0.3 (0.2) million, interest expenses for leases EUR 0.6 (0.6) million and interest expenses for using the overdraft facility, EUR 0.8 (0.2) million. Other financial expenses include financial liabilities commissions and loan withdrawal fees of EUR 0.2 (0.3) million.

4.3 Financial liabilities

FINANCIAL LIABILITIES, EUR THOUSAND	2022	2021
Long-term liabilities recognised at amortised cost		
Financial institutions	36,000	42,078
Lease liability	20,439	19,903
Total	**56,439**	**61,981**
Short-term liabilities recognised at amortised cost		
Financial institutions	6,079	6,190
Drawdowns from credit facilities	39,460	13,851
Lease liability	4,360	3,182
Total	**49,898**	**23,224**

In 2021, Scanfil plc raised a long-term loan of EUR 30 million from Nordea Bank Finland Plc. The loan due date is November 15, 2024.

In 2019, Scanfil plc raised a long-term loan of EUR 30 million from Nordea Bank Finland Plc. The loan is repayable in every six months, and the first instalment of EUR 3.0 million was paid on March 27, 2020 and the last instalment will be paid on September 27, 2024. In addition, Nordea's Multicurrency Global Cash Pool is available with an overdraft facility of EUR 80 million as well as a working capital facility of CNY 137 million granted to subsidiary Scanfil (Suzhou) Co. Ltd. by Nordea Bank AB Shanghai Branch.

The Group's financing arrangements include termination covenants related to the equity ratio and the ratio between interest-bearing net liabilities and the operating margin. The terms of the covenants are monitored on a quarterly basis. The Group fulfilled the covenant terms during the financial periods of 2021 and 2022.

4.4 Book values and fair values of financial assets and liabilities

BALANCE SHEET ITEM, EUR THOUSAND	Derivatives in cash flow hedging	Recognised at fair value through profit or loss	Financial assets and liabilities recognised at amortised cost	Balance sheet items total
2022				
Non-current assets				
Equity investments		529		529
Current assets				
Trade receivables			149,576	149,576
Derivatives	1,189	34		1,223
Cash and cash equivalents			20,779	20,779
Total financial assets	**1,189**	**562**	**170,355**	**172,106**
Non-current financial liabilities				
Interest-bearing liabilities from financial institutions			36,000	36,000
Lease liabilities			20,439	20,439
Current financial liabilities				
Interest-bearing liabilities from financial institutions			6,079	6,079
Drawdowns from credit facilities			39,460	39,460
Lease liabilities			4,360	4,360
Derivatives		893		893
Trade payables			129,003	129,003
Total financial liabilities		**893**	**235,340**	**236,233**

The fair values of financial assets and liabilities do not differ from their book values.

BALANCE SHEET ITEM, EUR THOUSAND	Derivatives in cash flow hedging	Recognised at fair value through profit or loss	Financial assets and liabilities recognised at amortised cost	Balance sheet items total
2021				
Non-current assets				
Equity investments		535		535
Current assets				
Trade receivables			132,613	132,613
Cash and cash equivalents			25,345	25,345
Total financial assets		**535**	**157,958**	**158,493**
Non-current financial liabilities				
Interest-bearing liabilities from financial institutions			42,078	42,078
Lease liabilities			19,903	19,903
Current financial liabilities				
Interest-bearing liabilities from financial institutions			6,190	6,190
Drawdowns from credit facilities			13,851	13,851
Lease liabilities			3,182	3,182
Derivatives, hedging	88			88
Trade payables			127,256	127,256
Total financial liabilities	**88**		**212,461**	**212,549**

The fair values of financial assets and liabilities do not differ from their book values.

4.5 Derivative financial instruments and hedge accounting

ACCOUNTING PRINCIPLE

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised in accounting at fair value on the date when the group becomes a party to the related contract and later further valued at fair value. For derivative financial instruments to which hedge accounting is not applied, changes in value are immediately recognised through profit or loss. For derivative financial instruments to which hedge accounting is applied and which are considered effective hedging instruments, the impact on the result of changes in value is presented according to the hedge accounting model employed.

The Group applies cash flow hedge accounting to currency derivatives made for hedging forecasted cash flow and to an interest rate swap made for hedging a variable-rate loan. When initiating hedge accounting, the Group documents the relationship between the hedged item and the hedging instruments, together with the Group's risk management objectives and hedging strategy. When initiating hedge accounting, the group documents the relationship between the hedged item and the hedging instruments, together with the group's risk management objectives and hedging strategy. When initiating hedging and at least every time when preparing financial statements and interim financial statements, the group documents and evaluates the effectiveness of the hedging relationships by examining the ability of the hedging instrument to negate changes in the fair value or cash flows of the hedged item. Any change in the fair value of the effective portion of derivative financial instruments fulfilling the conditions of a cash flow hedge is recognised under other comprehensive income and presented in equity hedging reserve with tax consequence considered (included in "Fair value reserves"). Profits and losses accumulated from the hedging instrument to equity are recognised through profit or loss when the hedged item affects profit or loss.

Interest swap

The Group uses an interest swap to hedge a loan. The purpose of the hedge is to offer protection against interest rate fluctuations related to the variable-rate loan. Through hedging, the interest payments of the variable-rate euro-denominated loan are changed to have a fixed rate. Scanfil pays a fixed rate of 0.15% every quarter, in addition to the bank's rate. The objective of the hedge is compliant with the Group's risk management principles.

The effectiveness of the hedge can be reliably measured, and the hedge is expected to remain fully effective throughout the validity of the hedge. The terms and conditions of the hedged object and the hedging instrument correspond to each other. Effectiveness is evaluated every quarter, and the hedge has remained effective. The impact of the derivative on results is expected to materialise during the validity of the loan.

On December 31, 2022 the rated amount of the interest swap was EUR 12.0 million, and it will expire on September 27, 2024. The fair value of the derivative was EUR 350 thousand, including accumulated interest. The interest flows of the derivative will materialise at the same time as the interest flows of the loan.

Forward exchange contracts

The group uses forward exchange contracts for hedging against currency risks. Forward exchange contracts are used both for hedging of forecasted cash flow and for hedging of accounts receivable and accounts payable. In addition, the Group hedges internal loans selectively. The Group applies cash flow hedge accounting to currency derivative contracts made for hedging of forecasted cash flows. Changes in fair value are recognised in other comprehensive income items adjusted for deferred taxes and presented in the fair value reserve under equity. Forward exchange contracts made for hedging of accounts receivable, accounts payable and internal loans are outside hedge accounting. Changes in fair value are immediately recognised through profit or loss.

Interest and currency derivatives

EUR THOUSAND	Positive	Negative	Net	Nominal value	Book value, liabilities	Changes in fair values (used in efficiency testing)
2022						
Interest rate swaps	350		350	12,000	350	297
Forward exchange contracts	866	-27	839	34,941	839	732
Forward exchange contracts, outside hedge accounting	900	-1,759	-859	113,316	-859	
Total			**330**	**160,257**	**330**	

The Group uses forward exchange contracts for hedging against currency risk and interest rate swaps for managing interest rate risk. In 2022 the group began hedging of accounts receivable and accounts payable with forward exchange contracts that are not included in hedge accounting. In addition, the currency derivatives outside hedge accounting include a forward exchange contract made for hedging an internal Polish zloty loan receivable to the parent company. The table shows the interest rate derivatives at net values and currency derivatives at gross values.

EUR THOUSAND	Positive	Negative	Net	Nominal value	Book value, liabilities	Changes in fair values (used in efficiency testing)
2021						
Interest rate swaps		-12	-12	18,000	-12	43
Forward exchange contracts	120	-197	-76	30,547	-76	444
Total			**-88**	**48,547**	**-88**	

CASH FLOW HEDGING, EUR THOUSAND	Hedging item value, liabilities	Hedging items included in balance sheet item	Cash flow hedging, share of fair value reserve
2022			
Interest rate swaps	12,000	Financial liabilities	288
Forward exchange contracts			671
Total	**12,000**		**959**

Forward exchange contracts are used to hedge expenses denominated in Polish zloty.

CASH FLOW HEDGING, EUR THOUSAND	Hedging item value, liabilities	Hedging items included in balance sheet item	Cash flow hedging, share of fair value reserve
2021			
Interest rate swaps	18,000	Financial liabilities	-9
Forward exchange contracts			-61
Total	**18,000**		**-70**

Forward exchange contracts are used to hedge expenses denominated in Polish zloty.

CASH FLOW HEDGING, EUR THOUSAND	Hedging instrument nominal value	Hedging instrument book value, liabilities	Hedging instrument included in balance sheet item
2022			
Interest rate swaps	12,000	350	Other liabilities
Forward exchange contracts	34,941	839	Other liabilities
Forward exchange contracts, outside hedge accounting	113,316	-859	Other assets / liabilities
Total	**160,257**	**330**	

CASH FLOW HEDGING, EUR THOUSAND	Hedging instrument nominal value	Hedging instrument book value, liabilities	Hedging instrument included in balance sheet item
2021			
Interest rate swaps	18,000	-12	Other liabilities
Forward exchange contracts	30,547	-76	Other assets
Total	**48,547**	**-88**	

4.6 Hierarchy of fair values

EUR THOUSAND	Level 2	Level 3
2022		
Assets measured at fair value		
Recognised at fair value through profit or loss		
Equity investments		529
Derivatives	1,223	
Liabilities measured at fair value		
Financial liabilities at fair value through profit or loss		
Derivatives	893	
Liabilities recognised at amortised cost		
Financing loan	81,538	

EUR THOUSAND	Level 2	Level 3
2021		
Assets measured at fair value		
Recognised at fair value		
Equity investments		535
Liabilities measured at fair value		
Financial liabilities at fair value		
Derivatives	88	
Liabilities recognised at amortised cost		
Financing loan	62,119	

The fair values of **Tier 2** instruments are to a significant extent based on data that can be observed indirectly (e.g. derived from the prices) for the asset or liability in question. When determining the fair value of these instruments, the group utilises widely accepted measurement models whose input data, however, is significantly based on observable market data.

The fair values of **Tier 3** instruments are based on input data concerning the asset that are not based on observable market data but significantly on the estimates of the management and their use in widely accepted measurement models. Tier 3 items are unlisted shares.

There were no transfers between tiers during the financial period.

Tier 3 items

FINANCIAL ASSETS AT FAIR VALUE, EUR THOUSAND	2022	2021
Cost at 1 Jan.	535	535
Exchange rate differences	-1	0
Deductions	-5	
Cost at 31 Dec.	**529**	**535**
Carrying amount at 31 Dec.	**529**	**535**

Financial assets measured at fair value mainly consist of shares held by Scanfil Electronics GmbH in IMG Electronic & Power Systems GmbH and EMS-Electra SRL. Other financial assets measured at fair value include golf club shares and shares in an employee brokerage agency. These are included in financial assets recognised at fair value through profit or loss.

4.7 Financial risk management

In its business operations, Scanfil Group is exposed to different financial risks. The Group's treasury operations and financial risks are managed in compliance with the principles approved by the parent company's Board of Directors. Scanfil's treasury function, part of the Group's financial management, provides that financial services and financing transactions are carried out in a manner that enables cost-efficient risk management and optimization of cash flows.

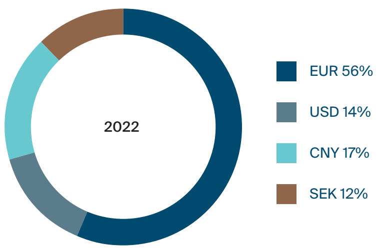
Currency risk

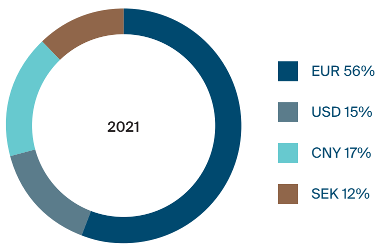
Scanfil has international operations and is therefore exposed to transaction and translation risks in several currencies. The transaction risk consists of operating and financing cash flows denominated in foreign currencies. The translation risk is related to the conversion of foreign subsidiaries' income statements and balance sheets into euro.

Transaction risk

The Group's operating currency is the euro. Scanfil's turnover is mainly generated in EUR, CNY, USD and SEK. Half of the Group's turnover is generated in the Group's operating currency.

BREAKDOWN OF TURNOVER BY CURRENCY





A significant part of the business is done in local operating currencies, which does therefore not create any transaction risk. In addition to the above currencies, the most significant transaction risk associated with the business concern the Polish zloty. Very little sales revenues are created in local currency in Poland, but the local expenses, such as salaries, taxes, etc. are zloty-denominated.

The purpose of currency risk management is to mitigate the uncertainty created by exchange rate fluctuations regarding the Group's financial results, cash flows and balance sheet. Currency risks can be hedged with forward exchange contracts.

The Group's treasury function is responsible for ensuring that all hedging transactions are carried out in accordance with the Group's hedging process.

The financial statements of December 31, 2022 include outstanding EUR/PLN forward exchange contracts made for hedging purposes. Their nominal value is EUR 34.9 (30.5) million, and the Group applies hedge accounting to them. Forward contracts are made on a monthly basis, and the final contract will expire on December 27, 2023. In addition, the financial statements include a total nominal value of EUR 113.3 million of forward exchange contracts that are outside hedge accounting and made for hedging of accounts receivable and accounts payable (EUR 97.3 million) and a Group internal loan receivable (EUR 16.0 million).

The net positions associated with financial assets and net working capital are shown below in euros for the main currencies.

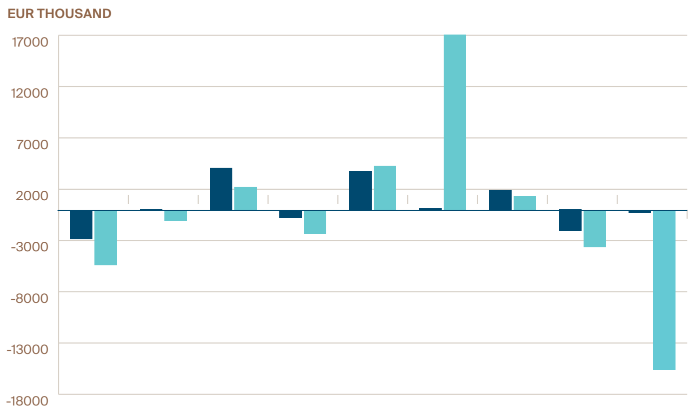
TRANSACTION RISK, EUR THOUSAND 2022

Foreign currency	USD	USD	SEK	EUR	PLN	EUR	EUR	USD	USD
Reporting currency	EUR	CNY	EUR	SEK	EUR	PLN	CNY	SEK	PLN
Cash and cash equivalents	3	2,085		0		622	506	0	103
Trade receivables	258	5,401		4,330		41,160	9,122	152	10,388
Trade payables	-7,611	-11,856	-51	-5,765	-367	-21,091	-4,569	-6,833	-16,425
Derivatives	6,548	4,407		678		-20,557	-3,140	4,627	5,665
Global Cash Pool	-2,060		4,144		4,109				
Net position	**-2,862**	**36**	**4,093**	**-756**	**3,742**	**134**	**1,919**	**-2,054**	**-269**

TRANSACTION RISK, EUR THOUSAND 2021

Foreign currency	USD	USD	SEK	EUR	PLN	EUR	EUR	USD	USD
Reporting currency	EUR	CNY	EUR	SEK	EUR	PLN	CNY	SEK	PLN
Cash and cash equivalents	4	16				470	674		61
Trade receivables	324	7,613		2,042		35,238	4,354	993	7,050
Trade payables	-7,003	-8,686	-68	-4,380	-147	-18,629	-3,745	-4,653	-22,716
Global Cash Pool	1,292		2,303		4,425				
Net position	**-5,383**	**-1,057**	**2,235**	**-2,338**	**4,278**	**17,079**	**1,283**	**-3,660**	**-15,605**

TRANSACTION RISK: NET POSITION



	EUR USD	CNY USD	EUR SEK	SEK EUR	EUR PLN	PLN EUR	CNY EUR	SEK USD	PLN USD
2022	-2 862	36	4 093	-756	3 742	134	1 919	-2 054	-269
2021	-5 383	-1 057	2 235	-2 338	4 278	17 079	1 283	-3 660	-15 605

Net position 2022
Net position 2021

The impact on the group's result of a change of 10% in the exchange rate of a foreign currency relative to the euro is shown below. Tax consequences have not been considered.

Foreign currency	USD	USD	SEK	EUR	PLN	EUR	EUR	USD	USD
Reporting currency	EUR	CNY	EUR	SEK	EUR	PLN	CNY	SEK	PLN
Change in currency % +/- 10									
Year 2022, EUR THOUSAND	+/- 286	+/- 4	+/- 409	+/- 76	+/- 374	+/- 13	+/- 192	+/- 205	+/- 27

	USD	USD	SEK	EUR	PLN	EUR	EUR	USD	USD
	EUR	CNY	EUR	SEK	EUR	PLN	CNY	SEK	PLN
Change in currency %									
Year 2021, EUR THOUSAND	+/- 538	+/- 106	+/- 224	+/- 234	+/- 428	+/- 1 708	+/- 128	+/- 366	+/- 1 560

In addition, the changes in the value of the EUR/PLN forward contracts made by the group's parent company and included in hedge accounting, which are presented above, affect the group's comprehensive income statement. The impact of a 10% change in the Polish zloty in relation to the currency is EUR +/- 2.8 million based on the situation at the end of the year.

Translation risk

The translation risk consists of the equities of foreign subsidiaries. The policy regarding the translation risk is that equity is not hedged.

The Group's translation position per currency and a sensitivity analysis, presenting the impact of a change of 10% in the exchange rate of a foreign currency, are presented below.

			Sensitivity analysis +/- 10%	
TRANSLATION RISK, EUR THOUSAND	2022	2021	2022	2021
CNY	52,841	47,483	+/- 5,284	+/- 4,748
HUF	1,456	1,455	+/- 146	+/- 145
PLN	68,446	53,817	+/- 6,845	+/- 5,382
SEK	64,882	64,750	+/- 6,488	+/- 6,475
USD	14,208	10,619	+/- 1,421	+/- 1,062
Total	**201,833**	**178,124**		

Interest rate risk

The interest rate risk is associated with interest-bearing liabilities. Changes in the interest rates mainly affect the fair values of interest-bearing liabilities in the balance sheet and the interest payments associated with these liabilities. Interest swaps are used for managing the interest rate risk.

Interest rates of Nordea's Multicurrency Global Cash Pool available to the Group as well as the working capital facility available to subsidiary Scanfil (Suzhou) Co., Ltd are impacted by currency-specific reference interest rates. Interest rate risk relating to interest payments of the group's interest-bearig net debt, caused by a rise of one percentage point in reference interest rates, was EUR 0.2 million at the end of 2022.

The Group took out a loan in 2021 of EUR 30.0 million. The loan interest rate is fixed for the whole loan period. The Group took out a loan in 2019, of which EUR 12.0 million was outstanding on December 31, 2022. The loan was hedged with an interest swap on December 28, 2020. On the basis of the interest swap, Scanfil receives a variable Euribor three-month rate and pays a fixed five-year rate.

Both of the loan interest margin includes covenant conditions. Depending on the development of the interest covenant condition (interest-bearing liabilities/EBITDA), the interest rate of the loan can increase by a maximum of 0.35 percentage points.

Credit risk

The Group's credit risk is associated with the trade receivables from its customers. Overdue trade receivables are regularly monitored at the Group level on a monthly basis. The Group companies are responsible for the credit risks of trade receivables, and they monitor trade receivables on a customer-specific basis in compliance with the Group guidelines. The creditworthiness of new customers is checked, and the customers are only granted normal payment terms. Scanfil monitors the credit rating of its customers. Most of Scanfil's major customers have a good credit rating. The Group's management is of the opinion that the company does not have any significant concentration of credit risks. The largest customer's share of the turnover in 2022 was 18.7% (17.6% in 2021), and that of the ten largest customers was 55.1% (55.2%).

Special attention has been paid to the collection of trade receivables during the pandemic, and the total overdue trade receivables are at the level before the pandemic. Customer risks are monitored regularly. The war in Ukraine or the coronavirus pandemic did not cause any bad debt during the financial period.

Trade receivables are measured at acquisition cost less the provision of any expected impairment losses. According to IFRS 9, impairment provisions must be recognised on the basis of expected credit losses. A simplified model must be applied to trade receivables, in which the estimated amount of credit losses is based on percentages defined on the basis of the age distribution of the receivables. These percentages are based on the estimated probability of credit losses and historical information. Impairment losses are recorded as expenses in the income statement. At the end of the financial period, the expected credit loss provision stood at EUR 83 (30) thousand. During the financial period, credit losses recognised from trade receivables were EUR 47 (2) thousand.

The age distribution of trade receivables is shown in note 2.3, "Trade and other receivables."

The counterparty risk associated with investments in financial markets is managed by only accepting banks with high credit ratings as counterparts.

Liquidity risk

The purpose of cash and liquidity management is to concentrate the Group's management of cash and cash equivalents, thus ensuring efficient use of the funds. The Group has a Multicurrency Global Cash Pool arrangement in place for ensuring the efficient use of cash and cash equivalents.

On December 31, 2022, liquid assets stood at EUR 20.8 (25.3 in 2021) million. The Group also has an EUR 80.0 million credit limit of which EUR 24.1 million was used at the end of the year. In addition, EUR 18.0 million of the CNY 137 million working capital facility available to subsidiary Scanfil (Suzhou) Co., Ltd was used at the end of the year. Considering the Group's balance sheet structure, the liquidity risk is small and the war in Ukraine or the COVID-19 pandemic has not had a negative impact on the Group's liquidity. The Group's financing arrangements include usual loan covenant terms. The Group has fulfilled the financing-related covenant terms during the financial periods of 2021 and 2022.

Maturity analysis based on debt agreements

The figures are undiscounted and include the interest payments and repayments of capital based on the agreements.

31.12.2022, EUR THOUSAND	Balance sheet value	Cash flow	0–6 months	2023 6 months–1/2-1 year	2024 1–2years	2025-2027 2–5 years	2028– more than 5 years
Loans from financial institutions	42,079	42,452	3,180	3,128	36,143		
Finance lease	24,798	27,726	2,549	2,394	4,492	9,395	8,896
Overdraft facility	39,460	39,460	39,460				
Derivatives	-350	-350	-350				
Derivatives, hedging	-839						
Cash flow due		34,941	26,419	8,523			
Available cash flow		-36,371	-27,379	-8,992			
Derivatives, outside hedge accounting	859						
Cash flow due		129,339	129,339	0			
Available cash flow		-127,686	-127,686	0			
Trade payables	129,003	129,003	129,003				
Total	**235,010**	**238,513**	**174,534**	**5,053**	**40,635**	**9,395**	**8,896**

31.12.2021, EUR THOUSAND	Balance sheet value	Cash flow	0–6 months	2023 6 months–1/2-1 year	2024 1–2years	2025-2027 2–5 years	2028– more than 5 years
Loans from financial institutions	48,268	48,788	3,260	3,174	6,245	36,109	
Finance lease	23,085	25,511	1,702	1,974	3,809	8,555	9 472
Overdraft facility	13,851	13,851	13,851				
Derivatives	12	12	12				
Derivatives, hedging	76						
Cash flow due		30,547	22,064	8,483			
Available cash flow		-30,471	-22,004	-8,467			
Trade payables	127,256	127,256	127,256				
Total	**212,549**	**215,495**	**146,141**	**5,164**	**10,054**	**44,664**	**9,472**

Reconciliation of changes in financial liabilities with cash flows from financing

			Changes not affecting cash flow			
EUR THOUSAND	1.1.2022	Cash flows	Changes in IFRS 16	Changes in exchange rates	Changes in fair values	31.12.2022
Long-term loans	42,078	-6,078				36,000
Short-term loans	20,041	25,497				45,538
Lease liabilities	23,085	-3,742	5,739	-283		24,798
Total liabilities in financial operations	**85,204**	**15,677**	**5,739**	**-283**	**0**	**106,337**

			Changes not affecting cash flow			
EUR THOUSAND	1.1.2021	Cash flows	Changes in IFRS 16	Changes in exchange rates	Changes in fair values	31.12.2021
Long-term loans	18,242	23,836				42,078
Short-term loans	6,188	13,854				20,041
Lease liabilities	19,565	-3,742	9,489	-2,226		23,085
Derivative assets hedging long-term loans	66				-66	0
Total liabilities in financial operations	**44,060**	**33,948**	**9,489**	**-2,226**	**-66**	**85,204**

4.8 Shareholders' equity

Shares and share capital

Scanfil plc has a total of 64,959,993 shares. The company's registered share capital is EUR 2,000,000.00. The company has one series of shares, and all shares belong to the same class. Each share entitles the holder to one vote and equal entitlement to dividends. The share has no nominal value.

Scanfil plc's shares are quoted on Nasdaq Helsinki Oy. The trading code of the shares is SCANFL. The shares are included in the book-entry securities system maintained by Euroclear Finland Ltd.

The company has not acquired its own shares during the financial year. On December 31, 2022, the company held 98,738 of its own shares.

NUMBER OF SHARES, 1000 PCS	2022
Number of shares at 1 Jan. 2022	64,960
Number of shares at 31 Dec. 2022	**64,960**

NUMBER OF SHARES, 1000 PCS	2021
Number of shares at 1 Jan. 2021	64,830
Share subscription under option rights 2016C on May 5 and 18, 2021	130
Number of shares at 31 Dec. 2021	**64,960**

Currency translation differences

Currency translation differences include differences arising from the conversion of the financial statements of foreign companies. On December 31, 2022, translation differences stood at EUR -7.6 million (EUR -2.4 million in 2021), of which EUR 4.8 (6.5) million was created by the exchange rate changes of the Chinese CNY, -10.8 (-6.2) Swedish krone and -2.0 (-2.6) Polish zloty. The translation difference, EUR -5.2 million (3.7 million) during the financial period, is mainly made up by the exchange rate changes of the Chinese currency -1.7 (4.4) million and the Swedish currency, EUR -4.6 (-1.3) million.

EUR THOUSAND	CNY	SEK	USD	PLN	HUF	Total
1.1.2022	6,524	-6,240	169	-2,602	-209	**-2,357**
Recorded in comprehensive income items	-1,698	-4,597	622	588	-118	**-5,203**
31.12.2022	**4,826**	**-10,836**	**791**	**-2,013**	**-326**	**-7,559**

Fair value reserve

The fair value reserve includes the change in value of the interest rate derivable due to cash flow hedging and the changes in fair value of currency derivatives concluded for hedging purposes. The derivative instruments recorded in the fair value reserve are discussed in closer detail in note 4.5, Derivative financial instruments and hedge accounting.

FAIR VALUE RESERVE, EUR THOUSAND	2022	2021
1.1.	-71	-558
Interest rate derivatives, change	297	43
Currency derivatives, change	732	444
Total	**959**	**-71**

Of the derivative financial instruments, EUR 2 (0) thousand has been recognised through profit or loss.

Other reserves

Other reserves include a reserve that includes transfers from retained earnings in accordance with the Articles of Association of foreign companies.

Reserve for invested unrestricted equity

The reserve for invested unrestricted equity includes other equity investments and the subscription price of shares to the extent that it is not recognised in share capital pursuant to a specific decision. The payments received from share subscriptions made on the basis of option schemes are recorded in their entirety in the reserve for invested unrestricted equity.

Dividend

In 2022, dividends of EUR 0.19 per share were paid, in total EUR 12,316,038.45.

After the reporting date, The Board of Directors has proposed a dividend of EUR 0.21 per share to be distributed, in total EUR 13,620,863.55.

4.9 Management of capital structure

The objective of the group's capital management is to ensure normal prerequisites for business operations. Development of the group's capital structure is monitored through net gearing. The capital structure is regularly reviewed. The shareholders' equity on the consolidated balance sheet is managed as capital. No external capital requirements are applied to the group.

NET LIABILITIES, EUR THOUSAND	2022	2021
Interest-bearing liabilities	106,337	85,204
Cash assets	-20,779	-25,345
Net liabilities	**85,558**	**59,859**
Equity total	**226,594**	**207,430**
Gearing, %	**37.8**	**28.9**

5. OTHER NOTES

5.1 Provisions

ACCOUNTING PRINCIPLE

A provision is recognised in the balance sheet when a past event has created an obligation that will probably be realised and when the amount of the obligation can be reliably estimated. The provisions also include a pension provision for staff benefits and a benefit based on years of service in Poland.

Use of estimates

Estimates are required when assessing the amount of provisions associated with business operations.

PROVISIONS, EUR THOUSAND	Reclamation and guarantee	Pension provision	Other provisions	Restructuring provisions	Total
1.1.2022	126	137	528	1,434	2,224
Exchange rate differences	-2	-13	-9		-25
Additions	247	41	120	16	423
Used provisions				-1,442	-1,442
Cancellation of unused provisions		-2			-2
31.12.2022	**370**	**162**	**638**	**8**	**1,179**

	2022	2021
Non-current provisions	801	665
Current provisions	378	1,560
Total	**1,179**	**2,224**

The reclamation and warranty provision includes the estimated cost of repairing defective products that is related to customer complaints and warranty obligations, and any fees resulting from delayed deliveries. Other provisions are related to a bonus agreed upon locally in Poland to be paid on the basis of service years. It applies to employees who have worked in the company for several years. The restructuring provision were related to the closure of the Scanfil GmbH's Hamburg factory.

5.2 Securities provided, contingent liabilities and other liabilities

BANK GUARANTEES GIVEN, EUR THOUSAND	2022	2021
On behalf of own company	861	670
On behalf of Group company	758	1,669
Total	**1,619**	**2,339**

In addition to the aforementioned commitments, the following guarantees have been given:

Scanfil plc has given guarantees to Nordea Bank Abp as security for payment of the liabilities which Scanfil Sweden AB has created from time to time towards Nordea Bank Abp on the basis of derivative contracts concluded, as well as to Skandinaviska Enskilda Banken AB replacing the previous liabilities of Scanfil Sweden AB. The maximum liability to Skandinaviska Enskilda Banken AB is EUR 3.6 million. Scanfil plc has provided a guarantee to Nordea Bank Abp as security for the performance and payment of obligations under the derivative contracts concluded between Scanfil Electronics GmbH and Nordea Bank Abp. Scanfil plc has given a guarantee for the lease obligations of its subsidiary Scanfil Inc.

Scanfil EMS Oy has given a guarantee to Nordea Bank AB Shanghai Branch of any obligations arising from a loan facility of CNY 137 million between the subsidiary Scanfil (Suzhou) Co., Ltd. and the Nordea Bank AB Shanghai Branch. Scanfil EMS Oy has given a guarantee of any obligations arising from the subsidiary's delivery contracts with its customers. The guarantee is limited to a maximum of EUR 7.5 million and seven years after the expiry of the last product agreement.

Scanfil Sweden AB has given a guarantee to the lessor as security for the liabilities under the lease contract regarding the premises leased by the Polish subsidiary Scanfil Poland Sp. z o.o.

Scanfil EMS Oy and Scanfil Sweden AB have provided guarantees to Nordea Bank Abp and Nordea Bank AB Shanghai Branch as security for the performance and payment of the obligations under the derivative master agreements entered into between the Group companies Scanfil Oü, Scanfil Poland Sp. z o.o, Scanfil Åtvidaberg AB, Scanfil Malmö AB, Scanfil (Suzhou) Co., Ltd.

On behalf of the group companies may be given usual parent company guarantees from time to time as security for the fulfillment of their customer agreement obligations.

In addition, the Group has binding investment orders for machinery and equipment totalling approximately EUR 5.5 million.

5.3 Details of related parties and group structure

The Group's related parties include, in addition to group companies, the key members of management, i.e., the members of the parent company's Board of Directors and the group's Management Team.

EMPLOYEE BENEFITS FOR MEMBERS OF THE MANAGEMENT, EUR THOUSAND	2022	2021
Salaries and other short-term employee benefits	1,459	1,440
Options implemented and paid in shares	146	1,010
Total	**1,605**	**2,450**

The management includes the parent company's Board of Directors, CEO and Management Team members.

SALARIES PAID TO THE PRESIDENT, EUR THOUSAND	2022	2021
Salaries and other short-term employee benefits	420	415
Options implemented and paid in shares		631
Total	**420**	**1,046**

STATUTORY PENSION EXPENDITURE, TYEL, EUR THOUSAND	2022	2021
Petteri Jokitalo	78	77

One of the Board members has a valid voluntary pension insurance policy on a payment basis.

SALARIES PAID TO THE BOARD MEMBERS, EUR THOUSAND	2022	2021
Harri Takanen	61	54
Jarkko Takanen	9	35
Bengt Engström	40	34
Juha Räisänen	38	31
Christina Lindstedt	37	34
Christer Härkönen		11
Total salaries of the Board Members	**185**	**199**

The salary information is payment-based.

Group companies	Domicile	Group's ownership	Share of vote	Parent company´s ownership
Scanfil plc, parent company;	Finland			
Scanfil EMS Oy	Finland	100%	100%	100%
Scanfil GmbH	Germany	100%	100%	100%
Scanfil Electronics GmbH	Germany	100%	100%	100%
Scanfil Holding Germany GmbH	Germany	100%	100%	100%
Scanfil Oü	Estonia	100%	100%	100%
Scanfil (Suzhou) Co., Ltd.	China	100%	100%	100%
Scanfil Poland Sp. z o.o.	Poland	100%	100%	100%
Scanfil Sweden AB	Sweden	100%	100%	100%
Scanfil Malmö Ab	Sweden	100%	100%	100%
Scanfil Åtvidaberg AB	Sweden	100%	100%	100%
Scanfil Atlanta Inc.	USA	100%	100%	100%
Scanfil Business Services Kft	Hungary	100%	100%	100%

Leases to related parties

Scanfil plc's subsidiary Scanfil EMS Oy has leased office premises from Kiinteistö Oy Pilot 1. The main shareholder of Jussi Real Estate Oy, the owner of Kiinteistö Oy Pilot 1, is Jussi Capital Oy. The main shareholders of Jussi Capital Oy are Scanfil plc's Board members Harri Takanen and Jarkko Takanen. Jarkko Takanen's board membership ended on 21 February 2022. In 2022, the market rents paid totalled EUR 29 thousand (EUR 28 thousand in 2021).

5.4 Events after the reporting period

January 31, 2023, Scanfil announced capacity investment in Sieradz factory.
February 11, 2023 Scanfil announced signed CEO agreement with Christophe Sut.

PARENT COMPANY FINANCIAL STATEMENTS, FAS

Parent Company Income Statement

EUR THOUSAND	Note	1.1.-31.12.2022	1.1.-31.12.2021
Other operating income		2,265	2,152
Personnel expenses	1		
Wages, salaries and fees		-1,866	-1,768
Pensions and statutory indirect employee costs			
Pensions		-295	-268
Statutory indirect employee costs		-49	-37
Personnel expenses total		**-2,210**	**-2,074**
Depreciation and reduction in value			
Depreciation according to plan	3	-56	-61
Depreciation and reduction in value total		**-56**	**-61**
Other operating expenses	**2**	**-1,165**	**-759**
Operating profit		**-1,166**	**-742**
Financial income and expenses			
Financial income from Group		10,000	
Other interest and financial income			
From Group		3,099	762
From other		3,435	901
Interest expenses and financial expenses			
To Group		-921	
To other		-3,147	-1,541
Financial income and expenses total		**12,466**	**122**

EUR THOUSAND	Note	1.1.-31.12.2022	1.1.-31.12.2021
Profit before appropriations and taxes		**11,300**	**-620**
Appropriations			
Depreciation difference increase		8	-13
Group contribution	4		1,500
Appropriations total		**8**	**1,487**
Profit before tax		**11,309**	**867**
Income taxes	5		
Income taxes		-259	-285
Taxes for previous years		65	
Deferred taxes		-52	111
Income taxes total		**-246**	**-173**
Net profit for the period		**11,063**	**693**

Parent Company Balance Sheet

EUR THOUSAND	Note	31.12.2022	31.12.2021
ASSETS			
Non-current assets			
Intangible assets			
Immaterial rights	6	4	7
Other non-current assets		124	153
Intangible assets total		**129**	**159**
Tangible assets			
Plant and equipment		36	52
Other tangible assets		17	17
Advance payments and construction in progress	7	133	87
Tangible assets total		**186**	**155**
Investments			
Holdings in Group companies	8	68,535	61,535
Investments total		**68,535**	**61,535**
Total non-current assets		**68,850**	**61,849**

EUR THOUSAND	Note	31.12.2022	31.12.2021
ASSETS			
Current assets			
Long-term receivables			
Loan receivables from Group companies	9	57,026	23,389
Other reveivables from Group companies	9		6
Deferred tax receivables			67
Long-term receivables total		**57,026**	**23,463**
Short-term receivables			
Receivables from Group companies	9	28,541	43,917
Accrued income		1,155	158
Short-term receivables total		**29,696**	**44,075**
Cash and cash equivalents	10	**1**	**12,789**
Total current assets		**86,723**	**80,327**
Total assets		**155,572**	**142,176**

Parent Company Balance Sheet

EUR THOUSAND	Note	31.12.2022	31.12.2021
SHAREHOLDER'S EQUITY AND LIABILITIES			
Equity			
Share capital	11	**2,000**	**2,000**
Other reserves			
Fair value reserve		671	-61
Reserve for invested unrestricted equity fund		33,768	33,508
Retained earnings		18,949	30,571
Profit for the period		11,063	693
Total Equity		**66,451**	**66,712**
Appropriations			
Cumulative accelerated depreciation	12	5	13
Total Appropriations		**5**	**13**

EUR THOUSAND	Note	31.12.2022	31.12.2021
Non-current liabilities			
Financing loan	13	36,000	42,000
Deferred tax liabilities		**168**	
Non-current liabilities total		**36,168**	**42,000**
Current liabilities			
Financing loans	13	27,432	6,000
Trade liabilities		239	113
Liabilities to Group companies	14	23,948	26,244
Other creditors		99	131
Accrued liabilities	15	1,231	963
Current liabilities total		**52,949**	**33,451**
Total liabilities		**89,117**	**75,451**
Total equity and liabilities		**155,572**	**142,176**

Parent Company Cash Flow Statement

EUR THOUSAND	1.1.-31.12.2022	1.1.-31.12.2021
Cash flow from operating activities		
Profit for the period	11,063	693
Adjustments		
Depreciation according to plan	56	61
Financial income and expenses	-12,466	-122
Other income and expenses without payment		
Deferred taxes	238	186
Group contributions received		-1,500
Exchange rate differences	-180	-153
Changes in working capital		
Inc(-)/dec(+) in short-term non-interest bearing receivables	-257	-269
Inc(+)/dec(-) in short-term non-interest-bearing liabilities	266	-59
Interest received from other financial revenues	4,185	633
Interest paid from other financial expenses	-1,223	-479
Taxes paid	-160	-17
Net cash flow from operating activities	**1,523**	**-1,027**
Cash flow from investing activities		
Investments in tangible and intangible assets	-57	-128
Investments in subsidiary shares	-7,000	
Granted loans	-52,137	
Received loan payments	17,046	7,250
Received dividends	10,000	
Net cash flow from investing activities	**-32,148**	**7,122**

EUR THOUSAND	1.1.-31.12.2022	1.1.-31.12.2021
Cash flow from financing activities		
Received group contributions	1,500	1,000
Related party investments to company shares	260	1,333
Drawdown of short-term loans	21,432	166
Repayment of short-term loans	12,961	-28,000
Drawdown of long-term loans		30,000
Repayment of long-term loans	-6,000	-6,000
Dividends paid	-12,316	-10,987
Net cash flow from financing activities	**17,837**	**-12,489**
Net increase/decrease in cash and cash equivalents	**-12,788**	**-6,394**
Cash and cash equivalents Jan 1.	12,789	19,183
Cash and cash equivalents Dec 31.	**1**	**12,789**

NOTES TO FINANCIAL STATEMENTS, FAS

The parent company's accounting principles

Scanfil plc is a Finland-based public limited company domiciled in Sievi. The company's shares are quoted on the Main List of Nasdaq Helsinki Ltd. The financial statements of Scanfil plc have been prepared in accordance with the Finnish Accounting Act and other legislation and regulations in force in Finland.

MEASUREMENT AND RECOGNITION PRINCIPLES AND METHODS

Fixed assets

Fixed assets are measured at historical cost less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis over the expected useful lives of the assets.

The depreciation periods for fixed assets are as follows:

Intellectual property rights	5 years
Other long-term expenses	5 years
Machinery and equipment	3–5 years

Subsidiary company shares

Shares in subsidiaries have been measured at the acquisition cost, which is adjusted by impairment if the future returns on the investment are expected to be permanently lower than the acquisition cost.

Financial instruments

Financial assets and liabilities are measured at the lower of cost and probable realisable value.

The group's bank account system

The assets and liabilities of the subsidiaries included in Scanfil plc's group account systems are shown as offset at Scanfil plc, either as cash and bank receivables or as short-term financial liabilities and short-term receivables from group companies or as short-term debts to group companies.

Turnover

The parent company's operations consist of group functions, and income from the sale of services is presented as turnover.

Pension costs

The pension cover of employees is provided by pension insurance companies. Pension expenses are recognised as expenses for the year during which they are accrued.

Foreign currency items

Foreign currency-denominated transactions are recognised during the financial period using the exchange rates on the transaction date. Any foreign currency-denominated balance sheet items remaining outstanding on the closing date are measured at the exchange rate valid on the closing date.

1. Personnel expenses

EUR THOUSAND	2022	2021
Salaries, wages and fees	1,866	1,768
Pension costs	295	268
Other indirect employee expenses	49	37
Total	**2,210**	**2,074**
Fringe benefits (taxable value)	**85**	**693**

Pension costs are based on defined contribution schemes. Management's employee benefits are reported in note 19.

AVERAGE NUMBER OF EMPLOYEES DURING THE PERIOD	2022	2021
Clerical employees	13	13
Total	**13**	**13**

2. Other operating expenses

EUR THOUSAND	2022	2021
Other operating expenses	1,165	759
Total	**1,165**	**759**

Other operating costs mainly consist of legal and consultation expenses, travelling expenses and statutory expenses of a listed company.

AUDITOR'S REMUNERATION, EUR THOUSAND	2022	2021
Audit fees	67	58
Auditors statement	10	
Tax consulting	47	23
Other services		2
Total	**124**	**83**

3. Depreciation and amortisation

DEPRECIATION BY ASSET CLASS, EUR THOUSAND	2022	2021
Intangible assets		
Intangible rights	2	12
Other long-term expenses	39	34
Plant and equipment	15	15
Total	**56**	**61**
Total depriciation	**56**	**61**

4. Contributions from Group companies

EUR THOUSAND	2022	2021
Group contribution from Scanfil EMS Oy		1,500
Total		**1,500**

5. Income taxes

EUR THOUSAND	2022	2021
Income taxes from group contribution		300
Income taxes from actual operations	259	-15
Income taxes from previous years	-65	
Change in deferred taxes	52	-111
Total	**246**	**173**

6. Intangible assets

EUR THOUSAND	Intangible rights	Other long-term expenses	Intangible assets total
Acquisition cost Jan 1, 2022	121	225	346
Additions		10	10
Acquisition cost Dec 31, 2022	**121**	**235**	**356**
Accumuled depreciations Jan 1, 2022	-115	-72	-187
Deprecions	-2	-39	-41
Accumuled depreciations Dec 31, 2022	**-117**	**-111**	**-228**
Carrying amount Jan 1, 2022	7	153	159
Carrying amount Dec 31, 2022	**4**	**124**	**129**

EUR THOUSAND	Intangible rights	Other long-term expenses	Intangible assets total
Acquisition cost Jan 1, 2021	121	184	305
Additions		41	41
Acquisition cost Dec 31, 2021	**121**	**225**	**346**
Accumuled depreciations Jan 1, 2021	-103	-38	-141
Deprecions	-12	-34	-46
Accumuled depreciations Dec 31, 2021	**-115**	**-72**	**-187**
Carrying amount Jan 1, 2021	18	146	164
Carrying amount Dec 31, 2021	**7**	**153**	**159**

7. Tangible assets

EUR THOUSAND	Plant and equipment	Other tangible assets	Advanced payments and construction in progress	Tangible assets total
Acquisition cost Jan 1, 2022	76	17	87	179
Additions			47	47
Acquisition cost Dec 31, 2022	**76**	**17**	**133**	**225**
Accumuled depricions Jan 1, 2022	-24			-24
Deprecions	-15			-15
Accumuled depricions Dec 31, 2022	**-39**			**-39**
Carrying amount Jan 1, 2022	52	17	87	155
Carrying amount Dec 31, 2022	**36**	**17**	**133**	**186**

EUR THOUSAND	Plant and equipment	Other tangible assets	Advanced payments and construction in progress	Tangible assets total
Acquisition cost Jan 1, 2021	76	17		92
Additions			87	87
Acquisition cost Dec 31, 2021	**76**	**17**	**87**	**179**
Accumuled depricions Jan 1, 2021	-9			-9
Deprecions	-15			-15
Accumuled depricions Dec 31, 2021	**-24**			**-24**
Carrying amount Jan 1, 2021	67	17		83
Carrying amount Dec 31, 2021	**52**	**17**	**87**	**155**

8. Holdings in Group companies

EUR THOUSAND	2022	2021
Total in the beginning of period	61 535	61 535
Scanfil Holding Germany GmbH, additions	7 000	
Total at the end of period	**68 535**	**61 535**
Carrying amount at 31 Dec.	**68 535**	**61 535**

GROUP COMPANIES, EUR THOUSAND	Domicile	Group share %	Parent company share %	Parent company book value
Scanfil EMS Oy	Finland	100	100	12,621
Scanfil Sweden AB	Sweden	100	100	48,823
Scanfil Holding Germany GmbH	Germany	100	100	7,091
Total				**68,535**

9. Receivables from Group companies

EUR THOUSAND	2022	2021
Long-term receivables		
Loan receivables	57,026	23,389
Other receivables		6
Total	**57,026**	**23,395**
Short-term receivables		
Prepayments and accrued income	215	1,809
Global Cash Pool receivables	18,973	34,269
Loan receivables	8,909	7,500
Other receivables	444	339
Total	**28,541**	**43,917**
Prepayments and accrued income		
Interest income from group	215	309
Group contribution from subsidiaries		1,500
Total	**215**	**1,809**

10. Cash and equivalent

EUR THOUSAND	2022	2021
Cash and bank balances	1	12,789
Total	**1**	**12,789**

11. Equity

EUR THOUSAND	2022	2021
Share capital		
Share capital Jan 1.	2,000	2,000
Share capital Dec 31.	**2,000**	**2,000**
Fair Value Reserve	**671**	**-61**
Total restricted shareholder's equity	**2,671**	**1,939**
Reserve for invested unrestricted equity fund		
Reserve for invested unrestricted equity fund Jan 1.	33,508	32,176
Options	260	1,333
Reserve for invested unrestricted equity fund Dec 31.	**33,768**	**33,508**
Retained earnings		
Retained earning Jan 1.	31,265	41,559
Paid dividends	-12,316	-10,987
Retained earnings Dec 31.	**18,949**	**30,571**
Profit for the period	**11,063**	**693**
Total unrestricted equity	**63,780**	**64,773**
Total equity	**66,451**	**66,712**
Calculation of distributable funds Dec 31.		
Reserve for invested unrestricted equity fund	33,768	33,508
Retained earnings	18,949	30,571
Profit for the period	11,063	693
Total	**63,780**	**64,773**

12. Depreciation difference

EUR THOUSAND	2022	2021
Depreciation difference	5	13
Total	**5**	**13**

13. Loans from financial institutions

EUR THOUSAND	2022	2021
Non-current		
Financial Institutions	36,000	42,000
Current		
Financial Institutions	6,000	6,000
Utilized overdraft facility	21,432	
Total	**63,432**	**48,000**
Interest-bearing liabilities will mature as follows:		
Year 2022		6,000
Year 2023	6,000	6,000
Year 2024	36,000	36,000
Total	**42,000**	**48,000**

In 2021, Scanfil plc withdrew a long-term loan of EUR 30 million from Nordea Bank Finland Plc. The loan due date is November 15, 2024.

In 2019, Scanfil plc withdrew a long-term loan of EUR 30 million from Nordea Bank Finland Plc. The loan is amortised every six months. The first instalment of EUR 3.0 million was paid on March 27, 2020, and it will be entirely repaid on September 27, 2024. In addition, Nordea's Multicurrency Global Cash Pool is available with an overdraft facility of EUR 80 million of which EUR 21.4 million was used on December 31, 2022.

The Group's financing arrangements include termination covenants related to the equity ratio and the ratio between interest-bearing net liabilities and the operating margin. The terms of the covenants are monitored on a quarterly basis. During the 2021 and 2022 financial periods, the Group fulfilled the covenant terms.

14. Liabilities to Group companies

EUR THOUSAND	2022	2021
Short-term liabilities to Group companies		
Accounts payable	61	22
Other liabilities	23,887	26,222
Total	**23,948**	**26,244**

15. Accrued liabilities

EUR THOUSAND	2022	2021
The most significant items included in accrued liabilities		
Employee expenses	734	635
Interests	14	11
Other accrued liabilities	483	316
Total	**1,231**	**963**

16. Commitments and contingencies

EUR THOUSAND	2022	2021
Guarantees given		
On behalf of group company	758	1,669
Total	**758**	**1,669**

In addition, the following guarantees have been given:

Scanfil plc has given guarantees to Nordea Bank Abp as security for payment of the liabilities which Scanfil Sweden AB has created from time to time towards Nordea Bank Abp on the basis of derivative contracts concluded, as well as to Skandinaviska Enskilda Banken AB replacing the previous liabilities of Scanfil Sweden AB. The maximum liability to Skandinaviska Enskilda Banken AB is EUR 3.6 million. Scanfil plc has provided a guarantee to Nordea Bank Abp as security for the performance and payment of obligations under the derivative contracts concluded between Scanfil Electronics GmbH and Nordea Bank Abp.

Scanfil plc has given a guarantee for the lease obligations of its subsidiary Scanfil Inc their customer agreement obligations.

On behalf of the group companies may be given usual parent company guarantees from time to time as security for the fulfillment of their customer agreement obligations.

17. Derivative contracts

INTEREST DERIVATIVES, EUR THOUSAND	2022	2021
Interest swap agreements, hedging		
Fair value	350	-12
Rated value of underlying asset	12,000	18,000

HEDGE ACCOUNTING, EUR THOUSAND	2022	2021
Forward exchange contracts, hedge accounting		
Fair value	671	-76
Rated value of underlying asset	34,941	30,547
Forward exchange contracts, outside of hedge accounting		
Other liabilities	123	
Rated value of underlying asset	16,023	

In 2019, Scanfil plc withdrew a long-term loan which contains an interest swap agreement to hedge the loan as of Dec 28, 2020. The purpose of the hedge is to offer protection against interest rate fluctuations related to the variable-rate loan. Through hedging, the interest payments of the variable-rate euro-denominated loan are changed to have a fixed rate. Scanfil pays quarterly a fixed rate of 0.15%, in addition to the rate of the bank. The objective of the hedge is in accordance with the Group's risk management principles.

The effectiveness of the hedge can be reliably measured, and the hedge is expected to remain fully effective throughout the validity of the hedge. The terms are corresponding to each other, regarding the hedged item and the hedging instrument. Effectiveness is quarterly evaluated and the hedge has remained effective. The impact of the derivative on results is expected to materialise during the validity of the loan.

The nominal amount of the interest rate swap agreement on December 31, 2022 was EUR 12.0 million, and maturity 27 September 2024. The fair value of the derivative was EUR 350 thousand, including accrued interest. The interest flows of the derivative occur simultaneously with the interest flows of the loan.

Forward exchange contracts outside hedge accounting consist of a forward exchange contract made for hedging an internal loan receivable. Changes in fair value are immediately recognised through profit or loss.

18. Other rental contracts

EUR THOUSAND	2022	2021
To be paid next accounting period	22	32
To be paid later	12	33
Total	**33**	**65**

Rent liabilities do not include VAT.

19. Management's employment-related benefits

SALARIES AND OTHER SHORT-TERM EMPLOYEE BENEFITS, EUR THOUSAND	2022	2021
Salaries and bonuses of the President		
Salaries, wages and fees	420	415
Shares and options		631
Salaries and bonuses of the Board members		
Harri Takanen	61	54
Jarkko Takanen	9	35
Bengt Engström	40	34
Juha Räisänen	38	31
Christina Lindstedt	37	34
Christer Härkönen		11
Total salaries of the Board Members	**185**	**199**

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

The parent company's distributable funds total EUR 63,779,792.03, including undistributed profits of EUR 30,011,400.49. The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.21 per share be paid, totalling EUR 13,620,863.55 for the financial year ending on December 31, 2022.

Signatures to the board of directors' report and financial statements

Sievi, February 20, 2023

Harri Takanen
Chairman of the Board

Bengt Engström
Member of the Board

Christina Lindstedt
Member of the Board

Juha Räisänen
Member of the Board

Petteri Jokitalo
CEO

AUDITOR'S REPORT 2022

To the Annual General Meeting of Scanfil Plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Scanfil Plc (business identity code 2422742-9) for the year ended 31 December, 2022. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

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

Our opinion is consistent with the additional report submitted to the Audit Committee and Board of Directors.

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.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 1.5 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Valuation of goodwill and acquisition-related customer relationships (Refer to Accounting principles for consolidated financial statements and note 3.1. and 3.2.)

Goodwill and acquisition-related customer relationships amounted to EUR 13 million.

Goodwill is not amortized, instead it is tested for impairment at least on an annual basis. Impairment tests are based on future cash flow forecasts and determining the underlying key assumptions require management judgment.

Scanfil's acquisition-related long-term customer relationships have finite useful lives that are estimated by management through the application of judgement.

Due to the high level of judgment related to the forecasts used in goodwill impairment tests and the significant carrying amounts involved, impairment of goodwill and acquisition-related customer relationships are considered key judgmental areas that our audit is focused on.

We assessed the key assumptions used in the calculations, such as growth of turnover, profitability and discount rate, with relation to the original forecast presented to the Board of Directors, external references and our own views.

We involved KPMG valuation specialists when assessing the technical accuracy of the calculations and comparing the assumptions used with external market and industry data.

In respect of acquisition-related customer relationships, we evaluated the recoverability of these assets by inspecting the associated calculations and underlying assumptions.

In addition, we considered the appropriateness of the Group's disclosures in respect of goodwill, acquisition-related customer relationships and impairment testing.

Valuation of inventories (Refer to Accounting principles for consolidated financial statements and note 2.2.)

Inventory management, stocktaking routines and determination of cost are the key elements of inventory valuation. The Group's carrying values of inventories amounted to EUR 229 million representing 44 percent of the consolidated total assets as at December 31, 2022.

Inventory valuation involves the exercise of judgement by management in respect of determination of cost and any impaired inventories.

Due to management judgments and the significant carrying amount involved, valuation of inventories is considered a key audit matter.

We assessed the appropriateness of the inventory valuation principles applied.

Our audit procedures comprised testing of controls over inventory management and the accuracy of inventory amounts. We also performed substantive procedures to evaluate the accuracy of inventory valuation.

We followed the execution of certain stocktaking routines in order to assess the effectiveness of the process.

Revenue recognition (Refer to Accounting principles for consolidated financial statements and note 1.1.)

The number of sales transactions processed in the IT systems is significant and pricing responsibilities for products and services are decentralized.

Due to the nature of the industry, the effectiveness of the internal controls over the IT systems and pricing are critical in respect of the accuracy of revenue recognition.

Revenue is recognized when Scanfil has satisfied performance obligations in the contract either at a point in time or over the time for services. As the revenue of the group consists mainly of the sale of products the revenue is recognized at a point in time when the control is transferred to a customer in accordance with the terms and conditions of the agreement.

Application of consistent revenue recognition principles is considered a key audit matter.

We assessed the appropriateness of the revenue recognition principles applied.

As part of our audit procedures we tested internal controls over registration of sales transactions, recording related revenues and approval of changes.

Our substantive procedures included testing of recognition of relevant transactions in the appropriate period, comparing invoice details to the received payments and assessing the appropriateness of the bad debt provision recognized.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

We also:

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We have acted as auditors appointed by the Annual General Meeting as of January 1, 2012, at which point the parent company was established as a result of a demerger of Sievi Capital Plc. Since 1999 we have acted as auditors in Sievi Capital Plc, which became a public interest entity as a result of a listing in 2000.

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 and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

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

Helsinki February 23, 2023
KPMG OY AB

Kirsi Jantunen
Authorised Public Accountant, KHT

CORPORATE GOVERNANCE STATEMENT 2022

Scanfil plc is a publicly listed company, managed in accordance with the company's Articles of Association, the Finnish Companies Act and other legislation relating to the company. In addition, the Company complies with the Finnish Corporate Governance Code (2020) published by the Securities Market Association and entered into force on January 1, 2020.

The Board of Directors has evaluated the independence of its members according to which the majority of members (Bengt Engström, Christina Lindstedt and Juha Räisänen) are independent of the company and independent of the significant shareholders of the company. The majority of the members of the Audit committee are independent of the company and its significant shareholders. One of the two members of the Nomination and Compensation Committee is independent of significant shareholders and the Company (Engström). When the Company deviates from the Corporate Governance Code with regard to the Nomination and Compensation Committee (a) the recommendation regarding the minimum number of Committee members (3 members) (Recommendation 15) and (b) the recommendation regarding the minimum number of members independent of the Company (Recommendation 17-18), taking the total number of Company Board Members (four) into account, the Company's Board of Directors has estimated that two members are sufficient to handle the tasks assigned to the Nomination and Compensation Committee, which reduces the workload per member. If necessary, other members of the Company's Board of Directors can be involved in the Committee's work. This statement has been reviewed by Scanfil plc's Board of Directors. Scanfil plc's auditing firm has verified that the summary description of the internal control and risk management associated with the financial reporting process is consistent with the financial statements.

This Corporate Governance Statement is available on the company website at scanfil.com under Investors. The Finnish Corporate Governance Code is available to the public at cgfinland.fi.

Board of Directors

Under the Companies Act, the Board of Directors is responsible for the management of the company and the proper organization of operations. The members of the Board of Directors are elected by the Annual General Meeting. According to the Articles of Association, Scanfil plc's Board of Directors shall include a minimum of three and a maximum of seven regular members. The Board of Directors elects a Chairman from among its members. The Board of Directors is responsible for deciding on the business strategy, significant matters related to investments, organization and finance, as well as supervising the company's management and operations. The Board of Directors shall also ensure that supervision of the company's accounts and asset management is properly organized.

Composition of the Board of Directors

The following Board members were elected by the Annual General Meeting held on April 21, 2022:

Harri Takanen

Harri Takanen (born 1968), Member of the Board since April 18, 2013, Professional Board Member and CEO of Jussi Capital Oy as of December 14, 2021. Harri Takanen has worked for Sievi Capital plc as CEO 2007–2011 and as the CEO of Scanfil plc and Scanfil EMS Ltd. 2012–2013. He has served Scanfil Group since 1994, e.g. as Director of operations in China, Scanfil (Hangzhou) Co., Ltd's Managing Director, Technology Director, Director of Customer Relations, Customer Service Manager and Plant Manager of Sievi mechanics. Harri Takanen holds a Master's degree in Engineering. Not independent of the company and major shareholders.

- Held 9,913,146 shares in Scanfil plc on December 31, 2022
- Chair of the Board of Directors: WellO2 Oy

Bengt Engström

Bengt Engström (born 1953), Member of the Board since August 20, 2015. Bengt Engström has held a number of executive positions at several companies, both in Sweden and globally, for example at Whirlpool, Bofors AB, Duni AB and Fujitsu. Bengt Engström holds a Mechanical Engineer's degree. Independent of the company and major shareholders.

- Held 12,929 shares in Scanfil plc on December 31, 2022
- Chair of the Board of Directors: Nordic Flanges, QleanAir AB, Qlosr AB, BEngström AB and BEngström Förvaltning AB
- Member of the Board of Directors: KTH Executive School, Real Fastigheter AB and Scandinavian Chemotech AB

Christina Lindstedt

Member of the Board since April 12, 2016. Senior advisor at QleanAir, CEO in QleanAir, Aug 2020 - Dec 2022. Christina Lindstedt has also held a number of executive positions at AB Electrolux, Sony Ericsson and Sony, both in Sweden and globally. Primarily she has served as a Business/Product area head for businesses such as e.g. smartphones, washing machines, automatic lawn mowing and New Business Areas. In addition, she has been responsible for establishing global sourcing operations in China. Christina has also held a number of board positions in listed and non-listed companies. Christina Lindstedt holds a Master's Degree of Business Administration and Commercial law. Independent of the company and major shareholders.

- Held 6,000 shares in Scanfil plc on December 31, 2022
- Member of the Board of Directors: Xplorebiz AB

Juha Räisänen

Member of the Board since 2020. Born 1958. Managing Partner at Valuenode GmbH. Juha Räisänen has held a number of executive positions globally at ICL-Fujitsu, Nokia, SanDisk, KONE and Aliaxis. He has been responsible for sales, manufacturing, supply chain, sourcing & procurement, quality and safety. Juha Räisänen holds a Master's Degree of Industrial Engineering & Management. Independent of the company and major shareholders.

- Did not hold any shares in Scanfil plc on December 31, 2022
- Member of the Board of Directors: Bluefors Oy and Valuenode GmbH, Coolbrook Oy (ended in Dec 2022) and LumiDental Ltd. (ended in Dec 2022)

Jarkko Takanen

Member of the Board of Directors of Scanfil plc until February 21, 2022.

The entities over which the Board members exercise control do not own Scanfil shares.

The term of office of the Board members expires at the close of the first Annual General Meeting following the one in which they were elected.

Activity of the Board

Board had 16 meetings in 2022 of which 5 were written resolutions without convening a meeting. The members' average attendance rate for meetings was 100%.

The duties and responsibilities of the Board of Directors of Scanfil plc are based on the Finnish Limited Liability Companies Act, other applicable legislation, the Articles of Association, good governance recommendations and the Board's charter. The Board carries out an annual review of its operations and regular reviews of the work of the CEO and the Management Team. The Scanfil Board of Directors has confirmed the charter, which lists the following key duties for the Board:

- confirming the company's business strategy and monitoring its implementation
- confirming the annual key business targets and monitoring Scanfil Group's performance
- deciding on strategically significant investments in the Group
- discussing and approving financial statements and interim reports
- appointing and dismissing the CEO and determining their terms of employment and remuneration
- deciding on incentive systems for managers and employees
- monitoring the company's key operational risks and their management
- confirming the company's values and operating principles.

Diversity Principles for the Board of Directors

Scanfil plc operates in the international contract manufacturing market and its customers include global companies in various industries. For the Board to be effective, its members must possess experience from several different industries, be well versed in international business and have insight into the global trends that affect the development of the contract manufacturing market. The Nomination Committee should consider the education and professional and international experience of the candidates, as well as their individual characteristics, when preparing the proposal for the Board's composition. The aim is to form a diverse Board with a sufficient number of members, who are able to take responsibility for developing the company's operations and strategy in its line of business, and who are competent to manage the duties and responsibilities of the Board. Scanfil plc aims to have a sufficiently diverse gender and age distribution on the Board of Directors.

The Annual General Meeting held on April 21, 2022, elected four (4) members to the Board, three of whom are men and one woman. Board members have either technical or business degree. In addition, the above-mentioned factors and characteristics relevant to the diversity of the Board were represented in the composition of the Board in 2022.

Board Committees

The Board of Directors has established two committees: a Nomination and Compensation Committee and an Audit Committee.

The task of the Nomination and Remuneration Committee is to prepare matters related to the appointment and remuneration of the members of the Board of Directors and, when necessary, find suitable members for it. The Committee has three members: Harri Takanen (chair) and Bengt Engström. The committee convened nine times in 2022. The attendance rate of its members was 100%.

The Audit Committee is responsible for monitoring the financial reporting process and the reporting of financial statements and interim reports, as well as monitoring the functionality of internal control and risk management in the company. It also evaluates the appropriateness of auditing and prepares the proposal for the appointment of an auditor. The committee has three members: Juha Räisänen (chair), Christina Lindstedt and Harri Takanen. Jarkko Takanen acted as the chair until his resignation on February 21, 2022. The committee convened four times in 2022. The attendance rate of its members was 100%.

CEO

The Board of Directors decides on the appointment and dismissal of the CEO and the terms and conditions of his employment.

The CEO is covered by the performance and profit bonus systems decided upon separately by the Board of Directors. Petteri Jokitalo has been the CEO of the company since April 1, 2013.

Petteri Jokitalo, CEO

Earlier Petteri Jokitalo has worked in Scanfil EMS Oy as Director of Sales and Marketing 2012–2013, in Meka Pro Oy as Managing Director during 2007–2011, in Scanfil Oyj in management tasks of sales and business development during 2003–2007 and in international tasks in Nokia Networks during 1998–2003. Petteri Jokitalo holds a Master's degree in Engineering.

December 31,2022, Petteri Jokitalo held 312,000 shares in Scanfil plc and he has the following option rights: option program 2019(A) for 110,000 shares, 2019(B) for 120,000 shares, 2019(C) for 120,000 shares and 2022(AI) for 120,000 shares.

Member of the Board of Directors: MSK Group Oy (as of April 2022)

The CEO's duties are determined in accordance with the Companies Act. The CEO is in charge of the company's operative management in accordance with the guidelines and orders given by the Board of Directors. The CEO shall ensure that the company's accounting practices comply with legislation and that asset management is organized in a reliable manner. The CEO is the chairman of the company's Management Team.

The CEO has a separate service contract that is valid until further notice with a mutual notice period of six months. Should the company terminate the service contract made with the CEO, an amount equivalent to the monetary salary of 12 months will be paid to the CEO as a severance package in accordance with the terms and conditions of his service contract. The CEO's retirement age is the statutory retirement age.

Other management

The principal duty of the Management Team is to assist the CEO in the company's operative management. The Team's other duties include matters relating to long-term planning, the planning and monitoring of investments and the allocation of resources to key operations.

Riku Hynninen, Chief Develoment Officer

Riku Hynninen (b. 1972) was responsible for continuous performance development, including people and technology. Riku Hynninen was previously working at Nokia Corporation (1995–2018), in charge of developing the production technology for mobile network business, creating new product delivery capability, and product portfolio lifecycle management (2014–2018). Previously, he has been responsible among others the technical functions of the Nokia Suzhou factory and the creation and management of the delivery capability of several different mobile network product families in Italy and Finland. He holds a Master's degree in Engineering.

He holds (31 Dec 2022) 26,150 shares in Scanfil plc.

Markku Kosunen, Chief Procurement Officer

Markku Kosunen (b. 1967) was responsible for Global Sourcing and Supply Chain, including inventory management. Before joining Scanfil Group he worked at Mecanova Oy as Vice President of Business Development 2005–2007, Director of Operations during 2008–2010 and in different management positions at mechanics plants of Flextronics and Ojala-yhtymä in Finland during 1993–2005. He is an undergraduate of technology.

He holds (31 Dec. 2022) 57,763 shares in Scanfil plc.

Timo Sonninen, Chief Operating Officer

Timo Sonninen (b. 1966) was responsible for factory operations. He has has previously worked for Efore Oyj as Vice President, Operations, in Suzhou, China 2006–2013. Prior to that he has worked at Incap Oyj among others as Director of Operations, Business Director of Electronics Production and Plant Director of Vuokatti Plant. He holds a Bachelor's degree of Science.

He holds (31 Dec. 2022) 153,500 shares in Scanfil plc.

Kai Valo, Chief Financial Officer

Kai Valo (b. 1965) was responsible for finance, accounting and risk management. Group's Chief Financial Officer. During 2015–2016 Kai was the CFO for Norpe Group. Prior to that he was in Lite-On Mobile Group Director of Finance and Control in Beijing, China 2009–2015. Before that (during 1999–2008) he had several finance related management positions in Perlos. He hold Master's degree in Economics.

He holds (31 Dec. 2022) 20,000 shares in Scanfil plc.

Christina Wiklund, Chief Commercial Officer (as of January 17, 2022)

Christina Wiklund (b. 1971) is responsible for sales and marketing activities and customer relations as of January 17, 2022. Christina Wiklund comes from GE Additive, where she held the Vice President/Head of Sales EMEA position. Prior to that she has worked at Flex as Vice President of sales and account management. Before that she worked at Solectron and Ericsson in business development and account management roles. She holds a Bachelor's degree of Social Science.

She holds (31 Dec. 2022) 2,000 shares in Scanfil plc.

DESCRIPTIONS OF INTERNAL CONTROL PROCEDURES AND THE MAIN FEATURES OF RISK MANAGEMENT SYSTEMS RELATED TO THE FINANCIAL REPORTING PROCESS

Risk Management

The Board of Directors of Scanfil plc is responsible for ensuring the appropriate organization of the Group's risk management and internal control and audit. Risk management is based on a risk management policy approved by the Board, aimed at managing risks in a comprehensive and proactive manner. The assessment of risks is part of the annual strategy and business planning process. There is no separate risk management organisation; risk management is incorporated into the business processes and the management system and it is coordinated by the Group's CFO.

Risk management aims to observe and analyse factors that might have a negative impact on the achievement of the company's goals and to take measures to mitigate or completely eliminate the risks. The operative units report on business risks in accordance with the management and reporting system.

Internal Control

Scanfil plc's internal control is a continuous process used to ensure profitable and uninterrupted operation. The control function aims to minimize risks by ensuring the reliability of reporting and compliance with laws and regulations.

Internal control is based on the Group's shared values, ethical guidelines and industry legislation, from which the operating principles and guidelines are derived. The guidelines cover procedures for core operations. Group and unit management hold the responsibility for the company's internal control system. Internal control forms an active part of the company's management and administration. The Group's operational management holds the responsibility for developing the harmonized business processes included in the control system. The Group's financial administration coordinates the financial management of the Group.

The controls included in Scanfil's operating processes form the basis of the company's financial control. They enable the company to swiftly identify and react to any deviations. The management's monthly reporting is a fundamental part of financial control. It includes producing a rolling forecast, the result of business operations carried out and an analysis of the differences between the forecast and the actual result. The indicators monitored in monthly reporting have been set so as to support the achievement of shared Group-level and unit-specific targets, and to identify issues that require control measures. An auditing firm supports the performance of financial control.

The interpretation and application of accounting standards are carried out centrally by the Group's financial administration. These standards form the basis for the Group's shared recognition principles and reporting and accounting standards. In order to ensure reliable financial reporting, core functions are conducted using a globally harmonized ERP system and shared reporting tools. The use of standardized tools enables continuous control and successful change management.

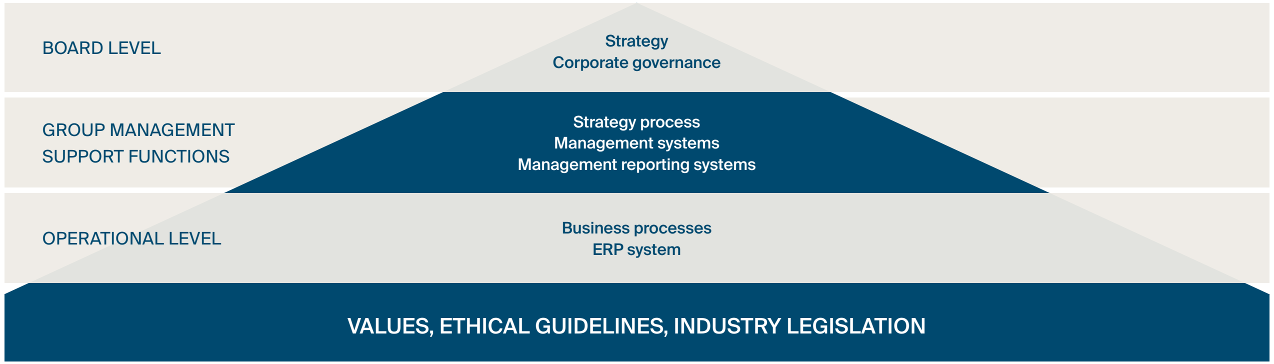
Internal Audit

The company uses internal auditing that, in co-operation with other Group functions, handles internal auditing duties and makes regular reports to the CEO and the Board.

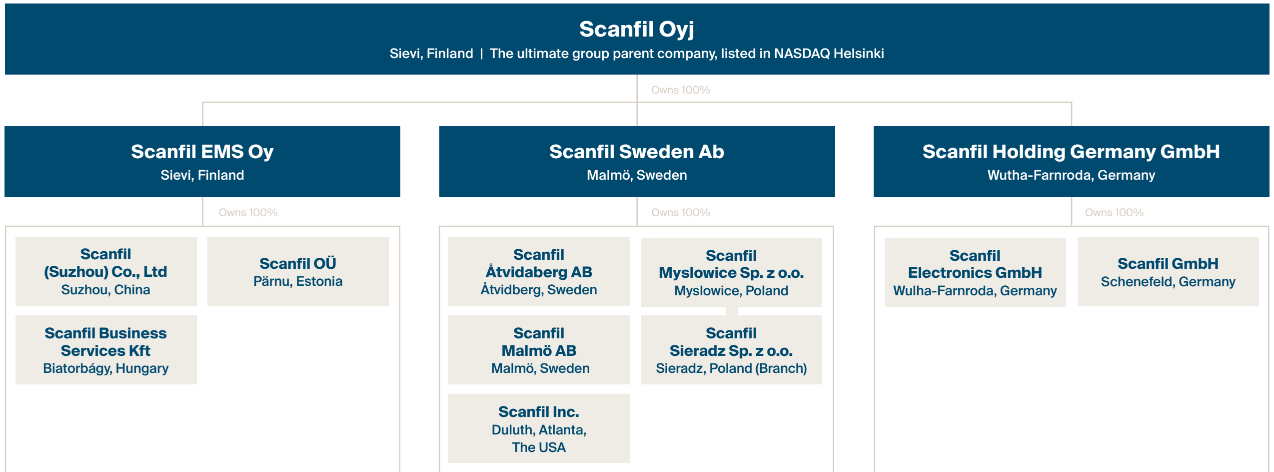
Changes in Group's structure in 2022

Scanfil plc did not have any changes in the group structure in 2022.

DESCRIPTION OF THE INTERNAL CONTROL AT SCANFIL PLC



SCANFIL PLC GROUPS STRUCTURE IN 2022



OTHER INFORMATION TO BE PROVIDED IN THE STATEMENT

Company insiders and insider administration

In its operations, the company complies with regulation EU No. 596/2014 on market abuse (MAR) and the Finnish Securities Markets Act, as well as related regulations and guidelines issued by the European Securities and Markets Authority (ESMA), the Finnish Financial Supervisory Authority and Nasdaq Helsinki.

The company's Board of Directors has confirmed the company's insider guidelines based on Nasdaq Helsinki's guidelines for insiders. The insider guidelines define certain practices and decision-making procedures to ensure that the company's insider administration is organized consistently and reliably.

The company divides insiders into two categories: a) managers with a reporting obligation; and b) project-specific insiders. Managers with a reporting obligation include members of the Board of Directors, the CEO and members of the group's Management Team. Managers with a reporting obligation cannot trade in the company's financial instruments during a period before the publication of the company's interim reports and financial statements releases, starting 30 days before the publication of the interim reports and financial statements releases ("closed window"). Project-specific insiders cannot trade in the company's financial instruments before the project in question has ended.

In addition, the company has decided that persons who are party to the preparation and drawing up of the company's interim reports and financial statements releases cannot trade in the company's financial instruments during a period before the publication of the company's interim reports and financial statements releases, starting 30 days before the publication of the interim reports and financial statements releases ("expanded closed window"). The expanded closed window also applies to persons who, as a result of their work-related tasks, have access to the group's sales figures or to sales figures of a business unit that is significant for the total results of Scanfil Group as a whole.

As a result of the entry into force of MAR, the company no longer has any public insiders. From July 3, 2016, the company will publish, in a stock exchange release, all transactions with company shares carried out by managers ("PDMR", person discharging managerial responsibilities) with a reporting obligation and their related parties in the company's financial instruments in accordance with MAR.

Related party transactions

Principles of monitoring and assessing Scanfil plc's related party transactions

The principles of Scanfil plc's related party transactions define the principles and processes by which the company identifies its related parties and monitors related party transactions, assesses the nature and terms of business transactions, and ensures that any conflicts of interest are addressed appropriately in the company's decision-making processes. The Board of Directors monitors and assesses related party transactions continuously and regularly.

The company's related parties

The company's related parties cover individuals and entities close to the Group's companies as defined in the International Financial Reporting Standards (IFRS), approved in accordance with the IAS Regulation referred to in Chapter 1, Section 4 d of the Finnish Accounting Act.

The company's related parties include its subsidiaries and the company's key management employees, consisting of the Board of Directors, the CEO and the Group's Management Team, as well as their family members. Related parties also include companies in which the aforementioned individuals hold control.

List of related parties

The company maintains a list of individuals and entities regarded as its related parties to identify related party transactions. The company ensures that the company's management is provided with sufficient related party guidelines.

The company's internal related parties are identified by maintaining and updating the list of related parties. Each individual and entity identified as a related party is entered in the list of related parties, including details of their connection to the company as a related party, such as shareholdings in other entities. Each related party is required to report or otherwise bring, on their own initiative, potential conflicts of interests to the attention of the executive management.

Identifying related party transactions

Related party transactions are identified, and a register of agreed activities is maintained. The following procedures apply to the identification of related party transactions:

- The company maintains a list of entities regarded as related parties.
- The person who approves related party transactions on the company's behalf verifies that assessments and decision-making processes regarding related party transactions are in compliance with defined criteria.
- If it becomes apparent in connection with the preparation of a related party transaction that the related party transaction is not related to the company's ordinary course of business or it is not carried out on arm's-length terms, the preparation of the transaction is handled by the Group Administration.
- In addition to the identification procedures followed by the company, individuals and entities regarded as related parties must ensure that related party transactions are entered in the register of related party transactions and carried out following the appropriate decision-making process.

Monitoring related party transactions

The company monitors and assesses how agreements and other legal transactions between the company and its related parties comply with the requirements set for the ordinary activities and for arms-length terms. Information on related party transactions will be requested regularly from related parties, at least in conjunction with regular reporting.

Assessing related party transactions and decision making

The company's main criterion for related party transactions is that it is sufficiently ensured that related party transactions comply with market terms and are favorable for the company's business operations.

When preparing decisions on related party transactions, it must be considered that (a) decisions are based on particularly careful preparations and appropriate clarifications and assessments; (b) preparations, decision-making and the assessment and approval of individual transactions are arranged considering provisions of conflicts of interests regulations and the appropriate decision-making body; and/or (c) the identification, reporting and control related to transactions have been arranged appropriately, for example, so that the company's related party transactions are monitored in accordance with the reporting practices followed by the company.

Related party transactions are assessed according to the categories to which each transaction belongs. These include:

(1) ORDINARY RELATED PARTY TRANSACTIONS

As a rule, ordinary related party transactions must be part of the company's regular business operations, and they must be carried out following arms-length terms. Related party transactions are entered in the register of related party transactions so that the company can report its related party transactions as required in IFRS.

The ordinality and arm's-length terms of the transaction shall be assessed and documented for such ordinary related party transactions that are not performed on standard terms or at a standard pricing, or for transactions with value exceeding EUR 5,000. Ordinary commercial terms may vary in different situations.

The ordinary nature of related party transactions in relation to Scanfil Group's business operations are assessed on the basis of the company's purpose, and the industry and other provisions listed in the company's Articles of Association, and the company's actual operations.

Related party transactions that are associated with the company's standard agreements or agreements provided generally for customers within the framework of standard pricing, and related party transactions that have a value of less than EUR 5,000 can be approved following the one-over-one principle. Other ordinary related party transactions must be approved by the CEO unless they are significant related party transactions, or unusual or far-reaching considering the scope and quality of the activities. However, any events involving the CEO's related parties must always be approved by the chairman of the company's Board of Directors.

(2) SIGNIFICANT RELATED PARTY TRANSACTIONS

Related party transactions that are not part of the company's ordinary business operations or that are not carried out in accordance with arms-length terms are regarded as significant related party transactions.

The company's Board of Directors decides on significant related party transactions, including agreements or other legal transactions that the company is engaged in with related parties, are not part of the company's ordinary business operations, and do not follow arms-length terms.

Members of the Board of Directors or the company's shareholders cannot participate in the approval of a decision or voting regarding a decision if they or their related parties are party to significant related party transactions.

Reporting related party transactions

When preparing and carrying out related party transactions, the company complies with specific reporting and disclosure obligations regarding related party transactions.

Auditors

The Annual General Meeting held on April 21, 2022 selected the auditing firm KPMG Oy Ab to be the company's auditor, and they named Authorized Public Accountant Kirsi Jantunen as the main auditor. The audit fees for the Finnish companies of the Group for the 2022 accounting year were EUR 97,218 in total, and the parent company's share was EUR 67,218. The audit fees for the foreign companies of the Group were EUR 283,406 in total. For services unrelated to auditing, the auditing company was paid EUR 64,522.

REMUNERATION REPORT FOR THE GOVERNING BODIES 2022

1. Introduction

Scanfil plc's Annual General Meeting held on April 23, 2020 discussed the remuneration policy regarding the company's administrative bodies. The objective of the discussed remuneration policy is to promote the long-term financial performance of the company and development of the shareholder value through the remuneration of the company's top management by having the management committed to and motivated in implementing the company's strategy in line with the interests of all shareholders of the company. The remuneration policy also aims to provide the CEO with a total remuneration package that motivates and commits the CEO to the implementation of the company's long-term strategy and its financial profitability are concerned.

According to the policy, remuneration of the Board of Directors can consist of one or several elements, such as annual fees and meeting fees. The fees can be paid in cash, or partly in cash and partly in the company's shares. Board members are not covered by the company's incentive reward schemes. In 2022, the Board's monthly fees, committee membership fees and meeting fees were paid in cash.

The remuneration of the CEO consists of a fixed base salary and variable incentives, i.e., performance-based bonuses. The variable incentive schemes include the annual incentive scheme and the stock option incentive scheme. The variable annual incentive scheme cannot exceed 100 per cent of the fixed base salary.

Details about the Remuneration policy can be found online.

KEY ELEMENTS OF REMUNERATION

Element	Target group	Target	Description
Salary	CEO (and other senior management)	Attract, keep and reward skilled managers	Number of factors are taken into account in determining the basic salary, e.g. market situation, individual qualities, skill and experience. The basic salary is typically reviewed annually.
Fixed remuneration	The Board of Directors	Attract, keep and reward skilled Board members	The remuneration of the Board of Directors is proposed by the Nomination and Remuneration Committee to the General Meeting to decide.
Annual incentive scheme (short-term)	CEO (and other senior management)	Encourage, guide and reward from achieving short-term financial, operational and strategic targets	The short-term annual incentive plan is primarily based on one-year earnings criteria, which are further based on longer-term indicators, typically three years of target settings. Structure discussed more in details in section “Remuneration of the CEO in 2022”.
Stock option incentive scheme (long-term)	CEO (and other senior management)	Link management and their rewarding to Company's shareholders.	The General Meeting decides on share-based compensation programs and authorizes the Board of Directors to decide on the details and practical implementation of the compensation programs. More details in section “Remuneration of the CEO in 2022”.

Scanfil's financial and remuneration development over the last five years

Company turnover has increased steadily over the last five years, both organically and through corporate acquisitions. The turnover increased significantly in 2022 and it was the highest in the company's history. Profit margin was slightly down due to the challenges in the supply chain, especially semiconductors.

FINANCIAL AND REMUNERATION DEVELOPMENT, 2018–2022

	2018	2019	2020	2021	2022
Turnover, EUR million	563.0	579.4	595.3	695.7	843.8
Annual turnover growth, %	6.3	2.9	2.7	16.9	21.3
Adjusted operating profit, EUR million	37.8*	39.4	39.1	40.3	45.4*
Adjusted operating profit, %	6.7*	6.8	6.6	5.8	5.4*
Share price change, VWAP, %	13.3	-6.8	21.9	50.1	-13.4

*No adjustments in the financial reporting period

Scanfil aims at 5%-7% organic annual turnover growth and 7% operating profit margin. In 2022, turnover target was clearly achived whereas the company fell behind in the profit margin target.

Throughout the period under review, the remuneration of the Board has consisted of the monthly fees and committee membership fees decided by the General Meeting.

FEES OF THE BOARD OF DIRECTORS

EUR THOUSAND	2018	2019	2020	2021	2022
Harri Takanen	47.4	49.3	51.0	54.1	61 .5
Jarkko Takanen (until 2 February 2022)	28.8	30.2	31.7	34.9	9.0
Bengt Engström	26.3	27.5	29.5	33.8	40 .0
Christina Lindstedt	27.3	28.6	30.1	33.8	36.8
Juha Räisänen (as of 23 April 2020)	-	-	17.4	33.8	37.8
Christer Härkönen (until 22 April 2021)	24.7	25.9	27.9	11.4	-
Salaries and fees of the Board of Directors, in total	**154.5**	**161.5**	**187.6**	**198.7**	**185.0**

The remuneration of the CEO has consisted of a fixed base salary with fringe benefits and variable incentives. The variable incentives have included the short-term performance bonus and long-term stock option schemes, with their terms and conditions determined by the Board.

SALARIES AND FEES OF THE CEO

EUR THOUSAND	2018	2019	2020	2021	2022
Salary	254.7	269.5	289.7	295.3	304.0
Fringe benefits	13.4	13.6	12.3	14.2	14.8
Performance bonus	168.0	258.0	85.0	105.6	101.4
In shares and payable stock options	35.0	71.2	132.2	631.3	-
In total	**471.1**	**612.3**	**519.2**	**1,046.4**	**420.1**

The development of employees' remuneration is based on the salaries and wages paid to the personnel less the employer's social security contributions divided by the average number of employees during the year.

PAID SALARIES AND WAGES/AVERAGE NUMBER OF EMPLOYEES

EUR THOUSAND	2018	2019	2020	2021	2022
In total	**19.6**	**20.8**	**22.6**	**23.1**	**24.0**

2. Remuneration of the Board of Directors in 2022

The remuneration of the Board members is decided by the General Meeting of Scanfil plc.

On April 21, 2022 the Annual General Meeting decided that:

- Members of the Board are paid EUR 2,800/month
- The Chairman of the Board is paid EUR 4,500/month.

Additionally, members of the Committee received a compensation of EUR 650/meeting and the Chair of the Audit Committee EUR 300/month. In addition, a fee of EUR 300 per face-to-face meeting held outside of the Board Members country of residence was paid.

The travel expenses of Board members were compensated in accordance with the company's travel policy. No other benefits were paid to the members of the Board on the basis of this position.

During the financial year of 2022, members of Scanfil plc's Board of Directors did not receive any company's shares or share-based benefits as remuneration.

MEETING AND COMMITTEE FEES PAID TO THE BOARD OF DIRECTORS IN 2022

EUR THOUSAND	Meeting fee	Committee fee	Fees in total
Harri Takanen	53,200	8,250	61,450
Jarkko Takanen (until 2 February 2022)	7,150	1,800	8,950
Bengt Engström	34,267	5,750	40,017
Christina Lindstedt	34,267	2,500	36,767
Juha Räisänen	34,267	3,500	37,767
In total	**163,150**	**21,800**	**184,950**

3. Remuneration of the CEO in 2022

The CEO has a service contract that is valid until further notice with a mutual notice period of six months. Should the company terminate the service contract made with the CEO, an amount equivalent to the monetary salary of 12 months will be paid to the CEO as a severance package in accordance with the terms and conditions of his service contract.

The retirement age of the CEO is the statutory retirement age.

SALARIES AND FEES OF THE CEO

EUR	Fixed	Variable
Salary	304,013	-
Fringe benefits	14,760	-
Performance bonus from the year 2021	-	101,352
Stock option scheme	-	-
In total	318,773	101,352
Salaries and fees in total	**420,125**	

In addition, the CEO was paid a performance bonus of EUR 160,484 regarding the year 2022 in 2023.

Performance bonus

The CEO is included in the scope of the management's performance bonus scheme based on the Group's operating profit and turnover. The operating profit determines 80% and turnover 20% of the bonus payable to the CEO. The final performance bonus is determined on the basis of the actual operating profit and turnover in euro compared with the targets set in the previous three years, each representing one-third of determining the bonus. The Board of Directors decides on the management remuneration scheme and its terms and conditions for the next three years.

The annual bonus cannot exceed the amount corresponding to 12 months' salary. The CEO is also included in the scope of the company's share-based incentive scheme.

The CEO does not have other benefits.

Stock option scheme

On April 24, 2019, the Scanfil plc General Meeting authorized the Board of Directors to decide on granting stock option rights to certain key personnel of the company and its subsidiaries and to decide on the terms and conditions of the option scheme. The total number of stock option rights may not exceed 900,000, and they entitle one to the subscription of a maximum of 900,000 new shares or treasury shares of the company ("Stock Option scheme 2019").

On 21 April 2022, the Annual General Meeting of Scanfil plc decided to authorize the Board of Directors to decide on granting stock options rights to key personnel of the Scanfil Group and to decide on the terms and conditions of the maximum amount of 1,200,000 option rights ("Stock Option scheme 2022").

OPTIONS HELD BY THE CEO	2019(A)	2019(B)	2019(C)	2022(AI)
Number of options	110,000	120,000	120,000	120,000
Subscription period	1 May 2022 - 30 April 2024	1 May 2023 - 30 April 2025	1 May 2024 - 30 April 2026	1 May 2025 - 30 April 2027
Fair value, in total, EUR	118,800	214,800	199,200	196,800

More details on stock option schemes can be found here.

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