FINANCIAL STATEMENTS 2017

PROVENTIA

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These financial statements must be stored until 31 December 2027.

Financial statements

Board of Directors’ report for the financial year 1 January – 31 December 2017

Operating environment

Air pollution is a major global problem. Poor air quality is not only a problem for developing countries, but also a serious health threat in industrialised countries. Major sources of emissions to air include transport and diesel engines in particular. Transport has a significant effect on air quality, as emissions are generated near areas where large numbers of people live and move about. Of the emissions generated by diesel engines, particulates and nitrogen oxides are most hazardous to health, with the latter being the most problematic.

In recent years, diesel engines have attracted negative publicity, as not enough attention has been paid to vehicles’ actual nitrogen oxide emissions and purification technology has not been used effectively enough. Exhaust aftertreatment systems can be used to minimise the hazardous emissions generated by diesel engines, which makes diesel engines very competitive with other power sources in terms of carbon dioxide emissions and other aspects, particularly in applications that require high power.

Diesel engines will continue to be used as power sources in off-road machines for a long time, but they will become cleaner. Emission limits for off-road machines will become considerably stricter with the implementation of the EU Stage V standards in 2019–2020.

Diesel engines also continue to be by far the most popular power sources for heavy-duty vehicles, such as trucks and buses. Poor air quality in metropolises globally and the exceedance of the limit values for nitrogen oxides in Europe have forced cities to make quick decisions to improve air quality. In many metropolises around the world, installing a new exhaust aftertreatment system on city buses has been found to be the quickest and most cost-efficient way to reduce emissions from nearby sources and improve air quality.

Electric traffic will increase in the near future, particularly with regard to private cars. Buses will increasingly run on electricity in city centres in the future, but diesel engines will remain the primary power source for intercity buses and trucks.

Demand for a new type of test equipment will grow due to the increasing testing of automotive engines and powertrains. The number of electric vehicles is also expected to increase and testing their batteries will require test units developed particularly for this purpose.

Proventia’s business operations

In line with its strategy, Proventia focuses on two business areas: Emission Control and Test Solutions. The Emission Control business is divided into two customer segments: OEM and retrofit customers. Proventia’s OEM customers are manufacturers of diesel engines or off-road machines. Company develops, produces and delivers exhaust aftertreatment systems for the OEM customers. Proventia focuses on a narrow niche market, with customers with low or medium production volumes. In these markets, Proventia’s strengths include flexible customisation and high-quality products. In addition to delivering integrated systems, Proventia provides its customers with product development, simulation and validation services.

Proventia’s retrofit customers include bus operators for example. Proventia provides bus operators with exhaust aftertreatment systems. Company’s products are optimised in particular for urban traffic. In the product development of retrofit systems, Proventia utilizes technologies and expertise developed for the OEM market.

The Test Solutions business is Proventia’s newest business area. The need for testing is increasing continuously, as the automotive industry is undergoing a transition and engines and power transmission are becoming more and more complex and electric. The development of alternative fuels and the reduction of emissions are also increasing the need for product development and testing. The benefits of the modular test concept developed by Proventia include flexibility and versatility. Proventia’s modular test units are easy to adopt and can be transferred or modified later in response to changing test needs. Proventia’s test units are suitable for testing engines, powertrains and hybrid systems. The modular test concept can also be applied to the testing of electric powertrains and batteries.

Performance and financial position

In 2017, Proventia's net sales grew by 62.1% year-on-year and were EUR 19.6 million (12.1 million in 2016). The operating profit improved by 74.5% to EUR 2.3 million (1.3 million in 2016).

At the end of December 2017, the consolidated balance sheet total stood at EUR 14.9 million (7.1 million at the end of December 2016). The Group's equity ratio was 52.89% at the end of 2017 (72.1% in 2016). The Group's cash flow from operating activities was EUR 0.6 million (1.4 million in 2016). The Group's liquid assets amounted to EUR 1.0 million at the end of 2017 (0.6 million in 2016). The Group has an overdraft facility of EUR 1.5 million, which was unused on the balance sheet date. On 31 December 2017, the Group's interest-bearing liabilities stood at EUR 1.8 million (0.2 million in 2016).

EUR	2017	2016	2015
KEY FIGURES: PERFORMANCE AND FINANCIAL POSITION			
Proventia Group's key figures			
Net sales	19,635,779	12,110,730	14,618,582
Operating profit	2,325,725	1,332,702	2,159,133
Operating profit, %	11.8%	11.0%	14.8%
Return on equity (ROE), %	31.8%	22.9%	54.7%
Equity ratio, %	52.9%	72.1%	61.1%
Return on capital employed (ROCE), %	34.7%	28.4%	51.6%
Net debt	860,139	-372,677	-95,844
Parent company's key figures			
Net sales	799,462	609,002	635,288
Operating profit/loss	-53,271	-73,350	-57,282
Operating profit, %	-6.7%	12.0%	-9.0%
Return on equity (ROE), %	-0.9%	-3.1%	-3.4%
Equity ratio, %	96.8%	97.3%	90.7%
Return on capital employed (ROCE), %	-0.8%	-1.1%	-0.9%
Net debt	-6,676	56,928	427,782

The key figures have been calculated as follows:

Return on equity (ROE), %	= (Profit before appropriations and taxes + taxes) / Average shareholders' equity during the year * 100
Equity ratio, %	= Shareholders' equity / (Balance sheet total – advances received) * 100
Return on capital employed (ROCE), %	= (Profit before appropriations and taxes + financial expenses) / (Average shareholders' equity during the year + average interest-bearing liabilities during the year) * 100
Net debt	= Interest-bearing liabilities – cash and cash equivalents

Research and development

Proventia continued to invest in product development to ensure a competitive range of products and services. Its research and development expenses totalled EUR 0.7 million (2016: 0.8 million; 2015: 1.2 million), or 3.32% of the Group's net sales (2016: 6.43%; 2015: 8.5%). Product development costs capitalised as development expenses on the balance sheet totalled EUR 0.4 million (2016: 0.4 million; 2015: 0.5 million). Research and development expenses recognised through profit or loss totalled EUR 0.4 million (2016: 0.2 million; 2015: 0.3 million).

Significant events during the financial year

The year 2017 marked a period of strong development and growth for the company. Proventia's new international OEM customers included manufacturers of diesel engines and off-road machines. Demand increased in the European retrofitting market, and Proventia was approved as a supplier to the City of London's Clean Air project.

During 2017, the company delivered its first modular test unit to a customer.

Proventia Emission Control Oy, which is a subsidiary of the Group, changed its name to Proventia Oy on 13 October 2017. The change arose from an expansion of business operations from the emission control into the testing of engines and powertrains.

Events after financial year

On 14 February 2018, Proventia announced its plan to establish a production plant in the Czech Republic. Located in the Brno region, the new plant will be the company's first production unit outside Finland. The new plant will start operating during 2018.

Outlook

The international environmental and emission laws concerning the company's Emission Control business continue to become stricter. The EU Stage V standards for off-road machines will be implemented gradually in 2019–2020. Engines and aftertreatment systems that meet the Stage V requirements are in the process of being developed. In addition to developing technologies, Proventia is designing and testing Stage V product applications for several manufacturers of off-road machines. In its OEM business, the company is focusing on delivering current Stage IV systems, as well as developing Stage V systems and starting their production in the near future.

Retrofit projects in various cities and countries are progressing according to their specific schedules. There continues to be a need for a quick improvement in urban air quality. In Europe, the United Kingdom and Germany in particular will be important markets for Proventia. New retrofit projects are also starting outside Europe. In addition to particulates, retrofitting projects focus on the reduction of nitrogen oxides, which is a core competency of Proventia's Emission Control business.

The market need for modular test solutions is increasing, and Proventia is strongly investing in the development of this business. The company believes that the testing of electrical components and batteries in particular will increase rapidly. In line with its strategy, the company is developing its Test Solutions business into a significant business area alongside its Emission Control business.

The company expects its net sales and operating profit to increase in 2018 in comparison with 2017. In 2017, its net sales were EUR 19.6 million, with its operating profit being EUR 2.3 million.

Key risks and uncertainties

The Group's most significant strategic risks are related to the demand for its products and the competitive situation in the market, as well as to its dependence on its major customers and main component suppliers. Uncertainty may also be caused by the development of local and international environmental or emission laws or delays in their implementation. The most significant operational risks are related to major fluctuations in demand as a result of the timing of customer and delivery projects, as well as to interruptions in the supply chain. Customer and delivery projects also involve liability risks, such as liability for compensation to customers or third parties as a result of delays, defective products, design or product rights. Strategic and operational risks are reduced by means of new customer acquisition, product development operations, alternative suppliers, supplier audits and outsourced resources. Liability risks are sought to be reduced through IPR studies and investments in the quality of design and products.

Financial risk management aims to support the achievement of the targets set, to protect the Group against major unfavourable changes in the financial market and to help secure the Group's performance, shareholders' equity and liquidity. The Group's financing activities and financial risk management have been centralised in the parent company, with the aim of managing risks effectively, achieving costs savings and optimising cash flows. The credit risk related to trade receivables is managed through effective debt collection and by only giving normal payment times to customers.

Liquidity risk means the continuous risk related to the availability of financing. The parent company is responsible for the Group's liquidity and the sufficiency of financing for the Group. Sufficient liquidity is maintained through effective cash management and is monitored by means of cash flow projections.

The Group operates in the international markets and can therefore be exposed to a currency risk arising from changes in exchange rates. Sales and purchases denominated in foreign currencies (transaction risk) and balance sheet items constitute the currency risk. Currency risks are hedged against by means of forward contracts and currency options, if necessary. Derivatives are only used for hedging purposes. Currently, the most commonly used currencies are the euro and the pound sterling. Financial risks are discussed in more detail in the notes to the financial statements (6.4 Financial risk management).

The Group is prepared for property, interruption, transport and liability risks, including product, operational and management liabilities, by means of insurance policies covering the entire Group, as well as supplementary local policies. It is possible, however, that the Group must compensate for damage not covered by insurance because of its scope or quality. Insurance coverage is maintained continuously.

Group structure

No changes took place in the Group structure during the financial year.

Personnel

During the financial year, the Group had an average of 54 employees (2016: 43 employees; 2015: 39 employees). At the end of the financial year, the Group had 65 employees (2016: 43 employees; 2015: 41 employees).

Option schemes for key personnel

The company has two option schemes, both of which are divided into three series. Each option entitles its holder to subscribe for one share in the company in a share issue. This deviation from the shareholders' pre-emptive subscription rights is due to a weighty financial reason, as the option rights are intended to be part of the company's incentive system. The option rights involve conditions; for example, the option rights holder must remain in an employment or equivalent relationship with the company (with the exception of retirement or permanent incapacity for work). The subscription price must be paid in full in conjunction with the subscription, and it will be recognised in the invested unrestricted equity reserve.

Option schemes	Subscription price	Number of option rights	Subscription period
2016D	EUR 0.5 per share	397,934	28 Feb 2019 to 28 Feb 2022
2016E	EUR 0.5 per share	397,932	28 Feb 2020 to 28 Feb 2023
2016F	EUR 0.5 per share	397,934	28 Feb 2021 to 28 Feb 2024
2015A	EUR 0.36 per share	156,665	28 Feb 2016 to 28 Feb 2019
2015B	EUR 0.36 per share	156,665	28 Feb 2017 to 28 Feb 2020
2015C	EUR 0.36 per share	156,670	28 Feb 2018 to 28 Feb 2021

Information about the management's option system is provided in Note 3.2.

Board of Directors and Management

Jukka Harju, Jukka Jokinen, Raisa Lesonen and Arto Ylimartimo were elected as the members of the Board of Directors at the Annual General Meeting on 27 April 2017. The Board selected Arto Ylimartimo as its Chairman.

Jari Lotvonen has served as President and CEO. PricewaterhouseCoopers Oy has served as the auditor, with Sami Posti, APA, as its principal auditor.

The extraordinary general meeting of 5 January 2018 elected Lauri Antila, Jukka Jokinen, Raisa Lesonen, Pekka Sipola and Harri Suutari as the members of the Board. On the date of signing the financial statements, the company's Board of Directors consisted of Harri Suutari (Chairman), Lauri Antila, Raisa Lesonen and Pekka Sipola.

Share capital

The Annual General Meeting of 27 April 2017 authorised the company's Board of Directors to decide on one or more share issues and the provision of special rights in accordance with chapter 10, section 1 of the Limited Liability Companies Act. The authorisation can be used for financing business acquisitions or other business arrangements and investments, carrying out cooperation between companies or other similar arrangements, or strengthening the company's financial and capital structure. A maximum of 4,000,000 shares may be issued or subscribed for based on the authorisation. The authorisation includes the right to implement directed measures if a weighty financial reason exists in accordance with the Limited Liability Companies Act. The authorisation is valid until the next Annual General Meeting, but for no longer than 18 months.

The Annual General Meeting of 27 April 2017 authorised the Board of Directors to decide on the acquisition of treasury shares using the company's unrestricted equity in accordance with chapter 15, section 5, subsection 2 of the Limited Liability Companies Act. The authorisation concerns the acquisition of no more than 500,000 treasury shares in one or more instalments. The authorisation can be used for financing and carrying out business arrangements and investments, or for other purposes determined by the Board of Directors. The authorisation is valid until the next Annual General Meeting, but for no longer than 18 months.

The Annual General Meeting of 27 April 2017 authorised the Board of Directors to decide on the transfer of treasury shares in accordance with chapter 9, section 1, subsection 1 of the Limited Liability Companies Act. The authorisation concerns the transfer of no more than 500,000 treasury shares. The Board is authorised to decide to whom and in which order treasure shares are transferred, as well as determining the transfer price and other terms and conditions of the transfer. The authorisation is valid until the next Annual General Meeting, but for no longer than 18 months.

During the 2017 financial year, the Board did not exercise the authorisation issued by the Annual General Meeting on 27 April 2017 to issue shares or special rights or to acquire or transfer treasury shares.

On 31 December 2017, Proventia Group Oy's registered share capital was EUR 1,090,281.04 and its total number of shares was 13,947,421. The company's shares are registered in the book-entry system maintained by Euroclear Finland Oy.

Board of Directors' proposal for distribution of profit

The Proventia Group Oy's distributable funds total EUR 5,290,800.98. The Board proposes that the profit for the period (EUR 21,270.84) be transferred to retained earnings and that no dividend be paid.

Consolidated income statement

EUR	Note	1 Jan 2017 –31 Dec 2017	1 Jan 2016 –31 Dec 2016
Net sales	**2.1**	**19,635,779**	**12,110,730**
Change in inventories of finished goods and work in progress		723,176	152,155
Other operating income	2.3	25,561	13,321
Materials and services	2.2	-10,584,287	-6,051,753
Personnel expenses	3.1	-3,894,190	-2,444,433
Depreciation and impairment	2.4	-1,060,567	-811,223
Other operating expenses	2.3	-2,519,746	-1,636,095
Operating profit		**2,325,725**	**1,332,702**
Financial income and expenses	6.3	-33,915	-73,400
Profit before taxes		**2,291,810**	**1,259,302**
Income tax	2.5	-455,584	-250,123
Profit for the period		**1,836,226**	**1,009,179**

Consolidated balance sheet

EUR	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets	4.1	1,511,879	1,110,914
Tangible assets	4.2	1,593,729	1,185,368
Non-current assets, total		**3,105,608**	**2,296,282**
Current assets			
Inventories	5.1	3,602,467	1,942,752
Non-current receivables			
Other receivables	5.2	58,780	659
Non-current receivables, total		58,780	659
Current receivables			
Trade receivables	5.2	4,602,567	2,037,291
Other receivables and accrued income	5.2	2,550,652	194,174
Current receivables, total		7,153,220	2,231,465
Cash and cash equivalents	6.2	961,178	612,875
Current assets, total		**11,775,645**	**4,787,751**
TOTAL ASSETS		**14,881,253**	**7,084,033**

EUR	Note	31 Dec 2017	31 Dec 2016
EQUITY AND LIABILITIES			
Shareholders' equity	6.1		
Share capital		1,090,281	1,090,281
Invested unrestricted equity reserve		4,562,371	4,562,371
Retained earnings (loss)		-779,142	-1,809,980
Profit for the period		1,836,226	1,009,179
Shareholders' equity, total		**6,709,736**	**4,851,850**
Provisions	7.1	219,436	108,297
Liabilities			
Non-current liabilities			
Loans from financial institutions	6.2	187,555	68,575
Non-current liabilities, total		187,555	68,575
Current liabilities			
Loans from financial institutions	6.2	1,633,762	171,623
Advances received	5.3	2,202,128	354,869
Trade payables	5.3	2,001,279	894,547
Other payables and deferred income	5.3	1,927,358	634,271
Current liabilities, total		7,764,527	2,055,310
Liabilities, total		**7,952,082**	**2,123,885**
TOTAL EQUITY AND LIABILITIES		**14,881,253**	**7,084,033**

Consolidated statement of changes in equity

EUR	Note	Share capital	Invested unrestricted equity reserve	Retained earnings	Total
Shareholders' equity, 1 Jan 2016		**1,090,281**	**4,493,354**	**-1,609,619**	**3,974,016**
Profit for the period				1,008,556	1,008,556
Dividend				-199,739	-199,739
Share issue			69,017		69,017
Shareholders' equity, 31 Dec 2016	**6.1**	**1,090,281**	**4,562,371**	**-800,802**	**4,851,850**
Shareholders' equity, 1 Jan 2017		**1,090,281**	**4,562,371**	**-779,142**	**4,873,509***
Profit for the period				1,836,226	1,836,226
Shareholders' equity, 31 Dec 2017	**6.1**	**1,090,281**	**4,562,371**	**1,057,084**	**6,709,736**

* The difference between shareholders' equity on 1 January 2017 and 31 December 2016 is due to a change in the accounting principles. The deferred tax assets related to warranty provisions made in 2016 were recognised as an adjustment to retained earnings in the opening balance of 1 January 2017.

Consolidated cash flow statement

EUR	2017	2016
Cash flow from operating activities:		
Profit before taxes	2,291,810	1,258,678
Adjustments:		
Depreciation and impairment	1,060,567	811,223
Financial income and expenses	33,915	83,985
Cash flow before changes in working capital	3,386,292	2,153,886
Changes in working capital		
Changes in current non-interest-bearing trade receivables	-4,933,467	-64,047
Change in inventories	-1,659,715	-407,987
Changes in current non-interest-bearing liabilities	4,139,128	-148,888
Interest paid and payments on other operating financial expenses	-32,161	-83,906
Direct taxes paid	-263,000	-20,827
Cash flow from operating activities (A)	637,077	1,428,232

EUR	2017	2016
Cash flow from investing activities:		
Investments in tangible and intangible assets	-1,869,893	-1,020,677
Cash flow from investing activities (B)	-1,869,893	-1,020,677
Cash flow from financing activities:		
Share issue	0	69,017
Withdrawals of non-current and current loans	1,805,208	68,051
Repayments of non-current loans	-224,090	-439,287
Dividends paid and other distribution of profit	0	-199,738
Cash flow from financing activities (C)	1,581,118	-501,958
Changes in cash and cash equivalents (increase +, decrease -) (A+B+C)	348,303	-94,404
Cash and cash equivalents at the beginning of the period	612,875	707,278
Cash and cash equivalents at the end of the period	961,178	612,875

Notes to the consolidated financial statements

1 INFORMATION ABOUT THE FINANCIAL STATEMENTS

1.1 General information

These financial statements concern Proventia Group Oy (hereinafter the "company") and its subsidiaries (collectively "Proventia" or the "Group").

The Group's parent company is Proventia Group Oy, which is a Finnish limited liability company. Its business ID is 1612236-0, its domicile is Oulu and its headquarters' registered address is Tietotie 1, 90460 Oulunsalo. Copies of the financial statements are available from Proventia Group Oy's headquarters.

The Group's subsidiaries include Proventia Oy, Proventia Americas LLC and Proventia Emission Control GmbH, of which Proventia Oy engages in business operations.

The Proventia Group is part the Head Invest Group, which is a group of technology companies. The Proventia Group is consolidated into Head Invest Oy's financial statements.

1.2 Accounting principles

The consolidated financial statements have been prepared in accordance with the Finnish Accounting Act and good accounting practices. The consolidated financial statements have been prepared using the original acquisition cost, unless otherwise mentioned.

The company's functional currency is the euro, which is also the currency in which its financial statements are presented. Business transactions denominated in foreign currencies are converted into euros using the exchange rate of the transaction date. Receivables and liabilities denominated in foreign currencies are converted into euros using the exchange rate of the balance sheet date. Exchange differences are recognised in financial income and expenses.

The notes to Proventia's financial statements are divided into seven sections: "Information about the financial statements", "Key performance information", "Research, development and investment", "Working capital", "Shareholders' equity and net debt" and "Other notes". These sections include the significant accounting principles related to them.

Due to a change in the accounting principles, shareholders' equity on 1 January 2017 differs from shareholders equity on 31 December 2106. The deferred tax assets (EUR 21,659.47) related to warranty provisions made in 2016 were recognised as an adjustment to retained earnings in the opening balance of 1 January 2017.

1.3 Accounting principles requiring estimation and judgment

When preparing financial statements, certain decisions must be made based on judgment, in addition to estimates and assumptions, which may affect the amount of assets and liabilities on the balance sheet, as well as the amount of income and expenses. Even though these estimates and assumptions are based on the management's best knowledge on the balance sheet date, it is possible that the actual results will differ from the estimates and assumptions used in the financial statements. When preparing the financial statements, judgment has been used with regard to estimating the effects of uncertainties and applying the accounting principles.

The management's estimates and assumptions are discussed in the following notes:

Decisions and estimates based on judgment	Note
Recognition based on the stage of completion	2.1
Other intangible assets (capitalised development expenses)	4.1
Useful lives of tangible assets	4.2
Receivables	5.2
Warranty provisions	7.1

2 KEY PERFORMANCE INFORMATION

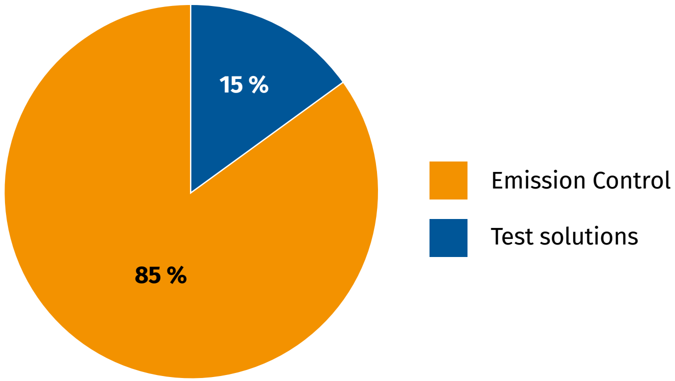
2.1 Distribution of net sales

Proventia's business operations consist of two business areas: Emission Control and Test Solutions. The Emission Control business is divided into two customer segments: OEM and retrofit customers. The company provides its OEM customers with exhaust aftertreatment systems and product development, simulation and validation services, and it provides its retrofit customers with retrofit products related to exhaust aftertreatment. In the Test Solutions business area, Proventia offers test units and centres for engines, powertrain and hybrid systems.

The Group's net sales in 2017 were EUR 19.6 million (12.1 million in 2016). The Emission Control business area's net sales in 2017 were EUR 16.7 million, or 85% of the Group's net sales (2016: 12.1 million, or 100% of net sales). The Test Solutions business area's net sales in 2017 were EUR 2.9 million, or 15% of the Group's net sales.

EUR	2017	2016
NET SALES BY BUSINESS AREA		
Emission Control	16,732,435	12,110,730
Test Solutions	2,903,344	0
Total	**19,635,779**	**12,110,730**

Distribution of net sales in 2017



EUR	2017	2016
NET SALES BY MARKET AREA		
Europe	18,130,371	10,274,008
Other continents	1,505,408	1,836,722
Total	**19,635,779**	**12,110,730**

EUR	2017	2016
BREAKDOWN OF NET SALES		
Sales recognized based on the stage of completion	2,900,384	0
Other net sales	16,735,395	12,110,730
Total	**19,635,779**	**12,110,730**
LONG-TERM PROJECTS		
Amount of income from long-term projects in consolidated net sales	2,900,384	0
Amount of income recognised based on the stage of completion of long-term projects not yet delivered to customers in the review period and previous periods	2,127,157	0
Amount of prepayments recognised for long-term projects in progress on the balance sheet	1,819,633	0
Amount of receivables recognised for long-term projects in progress on the balance sheet	2,127,157	0

Accounting principles: recognition of sales

Income from the sale of products and services is presented as net sales. Income from the sale of goods is recognised once the significant risks related to the ownership of the goods have been transferred to the buyer. Sales are recognised in net sales in accordance with the terms of delivery. Sales related to projects are recognised once the product has been installed. Income from product development and test services is recognised in the financial period during which the service is performed.

Income and expenses related to long-term projects have been recognised as income and expenses based on the stage of completion (percentage-of-completion method, POC). The stage of completion of long-term projects has been determined based on the expenses incurred in relation to the estimated total expenses of the project. Receivables from customers with regard to long-term projects that are included in accrued income, as well as advances received that are included in deferred income, are related to projects subject to the POC method. The POC method is only applied to sales of test units related to projects in the Test Solutions business area. The POC method is used in accordance with the prudence principle as described in the Accounting Act.

Decisions and estimates based on judgment: recognition based on the stage of completion

Long-term projects are recognised based on the stage of completion. The stage of completion and the result of a project are based on the management's estimates of the implementation of the project. These estimates are reviewed on a regular basis. Recognised sales income and expenses are adjusted during the project when the assumptions of the outcome of the entire project are updated. Changes in assumptions are primary related to changes in schedules and expenses and any other factors. The management's judgment is also needed for estimating the duration of the completion of any loss-making projects, as well as for estimating the total loss.

2.2 Materials and services

Materials and services consist of purchases of raw materials and services purchased from subcontractors.

EUR	2017	2016
MATERIALS AND SERVICES		
Materials, supplies and goods		
Purchases during the financial year	10,749,745	5,961,720
Change in inventories	-993,932	-310,150
External services	828,475	400,182
Total	**10,584,287**	**6,051,753**

2.3 Other operating income and expenses

EUR	2017	2016
OTHER OPERATING INCOME		
Other operating income	25,561	13,321
Total	**25,561**	**13,321**
OTHER OPERATING EXPENSES		
Facility expenses	585,646	454,833
Maintenance, IT, device and equipment expenses	353,066	260,315
Travel expenses	347,109	185,020
Sales and marketing expenses	543,708	269,510
Administrative services and other administrative expenses	372,163	230,442
Other expense items	318,055	235,975
Total	**2,519,746**	**1,636,095**

Auditors' fees (included in administrative services and other administrative expenses in the table above)

EUR	2017	2016
Auditing	21,669	15,979
Tax consultancy services	15,171	4,411
Other services	9,389	0
Total	**46,228**	**20,390**

2.4 Depreciation and impairment

EUR	2017	2016
DEPRECIATION BY ASSET GROUP		
Development expenses	296,700	244,833
Intellectual property rights	55,240	34,806
Other capitalised long-term expenses	69,617	22,368
Machinery and equipment	502,270	509,216
Depreciation, total	**923,827**	**811,223**
Impairment of non-current assets	136,739	0
Depreciation and impairment, total	**1,060,567**	**811,223**

Accounting principles: depreciation
Property, plant and equipment, as well as intangible assets, are capitalised in the balance sheet at the original acquisition cost deducted by accumulated depreciation and any impairment charges. Depreciation according to plan is calculated on a straight-line basis over the expected useful lives of the assets. Small purchases are recognised as expenses for the financial year. The useful lives are presented in Notes 4.1 and 4.2.

2.5 Income tax

EUR	2017	2016
Income tax	-477,811	-250,123
Deferred tax	22,228	0
Total	**-455,584**	**-250,123**

Accounting principles: income tax
Income tax for the financial year consists of taxes based on taxable income and deferred tax. Taxes based on taxable income for the financial year are calculated in accordance with current tax regulations.

Deferred tax is recognised for temporary differences between taxable amounts and book values of assets and liabilities. Deferred tax assets are recognised to the extent that it is probable that they can be used against taxable income. Deferred tax is discussed in more detail in Note 7.3.

3 PERSONNEL

3.1 Number of employees and personnel expenses

EUR	2017	2016
NUMBER OF EMPLOYEES		
Average number for the period	54	43
Number of employees at the end of the period	65	43
BREAKDOWN OF PERSONNEL EXPENSES		
Salaries and wages	3,186,217	1,997,999
Pension expenses	606,648	360,347
Other indirect personnel expenses	101,325	86,086
Total	**3,894,190**	**2,444,432**

The employees are paid a monthly salary or are paid by the hour. The company has a bonus scheme. The Board of Directors determines the terms and conditions of the bonus scheme annually. Bonuses are paid based on the achievement of the targets set for the financial year. Personnel expenses are recognised on an accrual basis. In 2017, personnel expenses included EUR 756,000 in expenses related to bonuses (EUR 16,000 in 2016).

Pension arrangements

Pension security for the company's employees is arranged with an external pension insurance company in accordance with the Employees Pensions Act. Pension expenses are recognised in the period during which they were incurred and are included in personnel expenses..

3.2 Related-party transactions

Related parties of the Group consist of the parent company and the subsidiaries mentioned in Note 7.2, as well as the companies belonging to the Head Invest Group. Related parties are also the members of the Board of Directors, as well as key executives and their immediate family members and any companies controlled by them. Key executives include the CEO and the members of the Management Team.

The most significant related-party transactions in the 2017 financial year were carried out with companies of the Head Invest Group and totalled EUR 407,000 (399,000 in 2016). Of these, the most significant item consists of rents for facilities, totalling EUR 321,000 (319,000 in 2016). Transactions with related parties are with similar terms than transactions carried out with independent parties. The Group does not have related-party loans.

The management's salaries and wages

The Board of Directors decides on the remuneration of the CEO and the members of the Management Team, as well as the grounds for their remuneration. The CEO's and the Management Team members' salaries consist of a monthly salary and a bonus. The Board of Directors determines the terms and conditions of the bonus annually. Bonuses are paid to the CEO and the Management Team members based on the achievement of the targets set for the financial year. The CEO's, Management Team members' and Board members' salaries and wages in 2017 and 2016 were as follows:

EUR	2017	2016
CEO's and Management Team members' salaries and wages	1,042,316	584,445
Board members' salaries and wages	58,500	67,500
Total	**1,100,816**	**651,945**

The management's share option system

Proventia currently has two share option schemes for its key personnel. In addition to serving as incentives, the share option schemes are intended to increase commitment. The share option scheme implemented by the company's Board of Directors in 2015 entitles its key personnel to subscribe for a total of 470,000 shares at a price of EUR 0.36 per share in 2016–2021. The share option scheme implemented in 2016 entitles the company's key personnel to subscribe for a total of 1,193,800 shares at a price of EUR 0.50 per share in 2019–2024. The option rights involve conditions; for example, the option rights holder must remain in an employment or equivalent relationship with the company (with the exception of retirement or permanent incapacity for work).

4 RESEARCH, DEVELOPMENT AND INVESTMENT

4.1 Research and development expenses, other intellectual property rights and capitalised long-term expenses

EUR	2017	2016
Research and development expenses, total	651,296	779,066
Amount of product development costs capitalised as development expenses on the balance sheet	368,889	439,998
Amount of product development costs capitalised as equipment	0	93,789
Impairment of research and development expenses	136,739	0
Depreciation of research and development expenses	296,700	244,833
Research and development expenses recognised through profit or loss	367,083	245,279
Research and development expenses, % of net sales	3.32%	6.43%

The impairment of research and development expenses is related to a product that did not meet the requirements for approval in its target markets. For this reason, it was recognised as a write-off during the financial year.

Accounting principles: intangible assets

Intangible assets are recognised on the balance sheet at acquisition cost less depreciation according to plan and impairment. Depreciation according to plan is calculated on a straight-line basis over the useful lives of the assets.

The following depreciation methods and periods are used when calculating depreciation according to plan:

Development expenses	Straight-line depreciation, 5 years
Intellectual property rights	Straight-line depreciation, 5 years
Capitalised long-term expenses	Straight-line depreciation, 3–10 years

The expected useful lives of assets are reviewed at the end of each financial year and are adjusted accordingly, if necessary.

Development expenses

Expenses related to development operations carried out during the financial year have been capitalised on the balance sheet. Development expenses related to products intended for sale have been capitalised in accordance with the Accounting Act. The capitalised expenses consist of expenses related to materials and employees.

Decisions and estimates based on judgment: capitalised development expenses

The management has used its judgment and made assumptions when estimating whether the expenses generated during the development phases of development projects meet the criteria for being capitalised as intangible assets. The management's judgement has been applied to the determination of acquisition costs and useful lives. The management's judgment has also been used when estimating the income to be expected from development projects. These estimates concern future net sales and the corresponding expenses. They involve uncertainties, and it is possible that the income to be expected from development projects changes if the conditions change. Any indications of impairment related to development projects are estimated by taking all relevant factors into account. If the expected income changes, the value of capitalised development projects may decrease.

Changes in intangible assets are presented in the following table:

EUR	2017	2016
Development expenses		
Acquisition cost, 1 Jan	4,958,788	4,518,790
Increase	368,889	439,998
Decrease	-136,739	0
Acquisition cost, 31 Dec	5,190,937	4,958,788
Accumulated depreciation according to plan	-4,055,374	-3,810,541
Depreciation for the period	-296,700	-244,833
Book value, 31 Dec	838,863	903,414
Intellectual property rights		
Acquisition cost, 1 Jan	1,352,603	1,280,615
Increase	123,252	71,988
Acquisition cost, 31 Dec	1,475,855	1,352,603
Accumulated depreciation according to plan	-1,205,766	-1,170,960
Depreciation for the period	-54,878	-34,806
Book value, 31 Dec	215,211	146,837
Other capitalised long-term expenses		
Acquisition cost, 1 Jan	146,428	107,396
Increase	467,121	39,032
Acquisition cost, 31 Dec	613,549	146,428
Accumulated depreciation according to plan	-85,764	-63,396
Depreciation for the period	-69,980	-22,368
Book value, 31 Dec	457,805	60,663
Intangible assets, total	**1,511,879**	**1,110,914**

4.2 Machinery and equipment

Tangible assets consist of office furniture, as well as machinery and equipment, which are depreciated using the straight-line method over useful lives of 3–10 years.

EUR	2017	2016
Machinery and equipment		
Acquisition cost, 1 Jan	3,814,915	3,345,255
Increase	911,112	470,005
Decrease	-481	-345
Acquisition cost, 31 Dec	4,725,546	3,814,915
Accumulated depreciation according to plan	-2,629,547	-2,120,331
Depreciation for the period	-502,270	-509,216
Book value, 31 Dec	1,593,729	1,185,368
Tangible assets, total	**1,593,729**	**1,185,368**

Accounting principles: tangible assets

Non-current assets are measured at direct acquisition cost. Small purchases, as well as commodities with useful lives shorter than three years, are recognised as expenses for the financial year. With regard to commodities recognised in non-current assets on the balance sheet, depreciation according to plan is recognised as of the month immediately following the acquisition month, or as of the month of implementation, depending on which comes later.

Decisions and estimates based on judgment: useful lives of tangible assets

Depreciation is based on the management's estimates of the useful lives of tangible assets. The estimates may change due to technological development and other factors, which may cause changes to the estimated useful life and depreciation recognised in the income statement.

5 WORKING CAPITAL

5. 1 Inventories

EUR	2017	2016
Materials and supplies	2,211,451	1,338,552
Work in progress	248,043	51,016
Finished products	1,078,049	553,184
Prepayments on inventories	64,924	0
Inventories, total	**3,602,467**	**1,942,752**

Accounting principles: inventories

Inventories are measured at the lower of acquisition cost and selling price. The acquisition cost includes purchasing expenses, production expenses and other expenses arising from the achievement of the current condition of inventories. Purchasing expenses include the purchase price, transportation costs and other costs directly attributable to the acquisition of services. Production expenses include direct costs arising from materials and work performance.

5.2 Trade and other receivables

Trade receivables consist of products sold or services delivered to the customer in the ordinary course of business. Credit losses on trade receivables are included in other operating expenses in the income statement.
Current receivables mainly include accrued income arising from the Group's ordinary operations. On 31 December 2017, non-current receivables totalled EUR 59,000 (1,000 on 31 December 2016) and consisted of rent deposits.

Current trade receivables and other receivables consisted of the following items:

EUR	2017	2016
Trade receivables	4,602,567	2,037,292
Other receivables	102,832	69,217
Accrued income	2,403,933	121,615
Deferred tax assets	43,887	3,342
Total	**7,153,220**	**2,231,466**

Material items included in accrued income		
Receivables from customers with regard to long-term projects (POC method)	2,127,157	0
Other accrued income	276,776	121,615
Total	**2,403,933**	**121,615**

Decisions and estimates based on judgment: receivables
With regard to receivables, it has been estimated whether there is any indication of impairment. Trade receivables are measured at the amount of the original receivable. Credit losses recognised for individual trade receivables are based on the company's best knowledge of the credit risk related to the customer. Proventia's credit losses on trade receivables have remained minimal.

5.3 Trade and other payables

EUR	2017	2016
Trade payables	2,001,279	894,547
Other current liabilities	102,556	87,141
Deferred income	1,824,802	547,131
Advances received	2,202,128	354,869
Total	**6,130,765**	**1,883,688**

Material items included in deferred income		
Accrued personnel expenses	1,295,711	384,806
Accrued interest expenses	2,053	175
Other deferred income	527,038	162,150
Total	**1,824,802**	**547,131**

Trade payables are non-interest-bearing and are mainly paid within 14–45 days. Advances received consist of sales related to long-term projects or are prepayments on projects to be recognised based on commissioning. Advances received are mainly receivables recognised using the POC method that are related to the Test Solutions business.

6 SHAREHOLDERS' EQUITY AND NET DEBT

6.1 Shareholders' equity

Proventia's shareholders equity consists of share capital, invested unrestricted equity reserve and retained earnings.

On 31 December 2017, Proventia's registered share capital was EUR 1,090,281.04 and its total number of shares was 13,947,421. The company has one series of shares, and each share entitles its holder to one vote. The company's shares are registered in the book-entry system maintained by Euroclear Finland Oy.

According to the shareholder register on 31 December 2017, Head Invest Oy's holding of shares and votes in Proventia Group Oy is 67.65%. The Proventia Group is consolidated into Head Invest Oy's financial statements.

During 2016, the invested unrestricted equity reserve increased by EUR 69,017 as a result of a directed share issue for employees. During the 2016 financial year, the Board of Directors exercised its share issue authorisation to the extent of 76,686 shares at a price of EUR 0.90 per share. No changes took place in the invested unrestricted equity reserve during 2017.

6.2 Debt and cash and cash equivalents

The Group's loans include bank loans and hire purchase liabilities. Its bank loans are floating-rate loans.

EUR	2017	2016
FINANCIAL LIABILITIES		
Long-term loans		
Hire purchase liabilities	187,555	68,575
Long-term loans, total	187,555	68,575
Short-term loans		
Bank loans	1,500,000	85,938
Hire purchase liabilities	133,762	85,685
Short-term loans, total	**1,633,762**	**171,623**
Financial liabilities, total	**1,821,317**	**240,198**
Cash and cash equivalents	**961,178**	**612,875**

In 2017, the Group's loans consisted of a bank loan and six hire purchase liabilities. The Group withdrew a bank loan of EUR 1.5 million in December 2017. The loan is a bullet loan and will mature on 31 May 2018. The bank loans are secured. The company has an overdraft facility of EUR 1.5 million, which was unused on the balance sheet date.

Cash and cash equivalents consist of cash assets.

6.3 Financial income and expenses

EUR	2017	2016
Financial income		
Other interest and financial income	3,418	2,323
Exchange rate gains	35,477	41,130
Financial income, total	**38,895**	**43,453**
Financial expenses		
Interest and other financial expenses	-40,107	-39,222
Exchange rate losses	-32,703	-77,631
Financial expenses, total	**-72,810**	**-116,853**
Financial income and expenses, total	**-33,915**	**-73,400**

Accounting principles: financial income and expenses

Financial expenses consist of interest on bank loans, hire purchase liabilities and credit facilities, as well as of exchange differences related to business operations. Transaction costs related to loans are recognised through profit or loss.

6.4 Financial risk management

Liquidity risk

The purpose of financial risk management is to ensure that financial assets are sufficient for the needs of business operations and financing at all times. The Group's financial department is responsible for the operational monitoring and management of the liquidity risk, and it manages the sufficiency of financing based on a rolling forecast.

Interest rate risk

The Group's bank loans consist of floating-rate loans. Its loans are tied to the Euribor rate, which exposes Proventia to the cash flow risk arising from floating-rate loans.

To manage the interest rate risk, the company may tie up to 50% of the Group's loans to fixed-rate loans with maturities of two to five years. The parent company monitors the interest rate risk related to the loan portfolio and may change the interest rate maturity of its loans by means of forward contracts, interest rate options and interest rate swaps.

Currency risk

The Group operates in the international markets and can therefore be exposed to a currency risk arising from changes in exchange rates. Its currency risk arises from the transaction risk related to the pound sterling and the Swedish krona in particular. Apart from that, nearly all of the Group's income and expenses are generated in euros. Forward contracts may be used to hedge against currency risks.

Credit risk

Credit risk refers to the risk that the counterparty fails to meet its contractual obligations and thereby causes the company to suffer a financial loss. With regard to financing, Proventia considers all of its major counterparties to be reliable, as they represent significant and well-established financial institutions. Proventia's exposure to the credit risk is monitored continuously, especially when payments are delayed.

The credit risk related to trade receivables is managed by only giving normal payment times to customers. Before customers are approved, their creditworthiness is assessed. The company actively monitors the amounts of overdue receivables and decides on the necessary measures.

6.5 Derivatives

The company may hedge against changes in exchange rates by means of standard derivative instruments, such as forward contracts. The Group does not actively use derivatives to hedge against the currency risk. However, it may use forward contracts to hedge significant business transactions denominated in foreign currencies. Exchange differences resulting from hedges are recognised in financial income and expenses in the income statement. On the balance sheet date, a forward contract of GBP 100,000 was active.

6.6 Off-balance sheet commitments

EUR	2017	2016
PLEDGES AND CONTINGENT LIABILITIES		
Securities and mortgages for own liabilities		
Business mortgages	8,300,839	2,454,800
Own liabilities with shares as securities		
Loans from financial institutions	0	85,938
Book value of pledged shares	0	5,421,157
Amounts to be paid on leasing agreements		
To be paid during the next financial year	112,767	79,536
To be paid later	131,060	102,635
Total	**243,827**	**182,171**
Other contractual liabilities		
To be paid during the next financial year	638,087	398,496
To be paid later	1,481,327	1,593,982
Total	**2,119,414**	**1,992,478**
Liabilities for which mortgages or pledges have been given as securities		
Loans from financial institutions	1,500,000	85,938
Total	**1,500,000**	**85,938**

Other contractual liabilities consist of rental liabilities related to facilities. Rental obligations consist of future rents on Proventia's facilities. Its lease agreements are valid either until further notice or for a fixed period. They include the option to extend the agreement beyond its original end date.

7 OTHER NOTES

7.1 Provisions

EUR	2017	2016
Warranty provisions	219,436	108,297
Total	**219,436**	**108,297**

Accounting principles: provisions
A provision is recognised on the balance sheet when the Group has a legal obligation or an actual obligation to do so because of an earlier event. A provision is made when it is probable that fulfilling an obligation requires a financial performance or may cause a financial loss.

Proventia's provisions are warranty provisions based on agreements. A typical warranty is valid for one year. The amount of a warranty provision is determined based on knowledge arising from experiences of the realisation of warranty expenses. A warranty provision is calculated based on percentage of sales. This percentage is the proportion of actual warranty expenses out of net sales subject to warranties.

Decisions and estimates based on judgment: warranty provisions
Warranty provisions require decisions based on judgment. A warranty provision is based on the company's best knowledge of the level of warranty provisions required to cover the company's future warranty expenses. Products may include new, complex technologies, which may affect values and lead to a situation where earlier provisions are not sufficient.

7.2 Group companies

These consolidated financial statements include the parent company and its subsidiaries. Subsidiaries are companies in which Proventia Group Oy exercises control and in which it holds more than 50% of votes directly or indirectly, or in which it otherwise exercises actual control.

On 31 December 2017, the Group had the following subsidiaries:

Parent company	Country of registration	Group's holding (%)
Proventia Group Oy	Finland	
Subsidiaries		
Proventia Oy	Finland	100
Proventia Americas LLC	USA	100
Proventia Emission Control GmbH	Germany	100

Of the subsidiaries, Proventia Oy engages in business operations. Proventia Americas LLC and Proventia Emission Control GmbH do not engage in business operations and are in the process of being dissolved.

The consolidated financial statements include all of the Group companies. All intra-Group transactions, receivables and liabilities, as well as internal margins on inventories and fixed assets, are eliminated when preparing the consolidated financial statements.

Foreign subsidiaries

Foreign subsidiaries' financial statements have been adapted and grouped in accordance with the Finnish Accounting Act. Foreign companies' income statements have been converted into euros using the weighted average exchange rate for the financial year, and their balance sheets have been converted into euros using the exchange rate of the balance sheet date. The exchange differences resulting from the conversion, as well as the translation differences related to the conversion of shareholders' equities of foreign subsidiaries, are presented in retained earnings.

7.3 Deferred tax

EUR	2017	2016
Deferred tax assets	43,887	3,342
Total	**43,887**	**3,342**

Accounting principles: deferred tax

Deferred tax is recognised for temporary differences between taxable amounts and book values of assets and liabilities. Deferred tax is calculated using tax rates valid at the time of preparing the financial statements, or tax rates for future years, provided that the rates have been confirmed. Deferred tax assets are recognised to the extent that it is probable that they can be used against future taxable income.

The deferred tax assets for 2017 are related to provisions that are not deductible until warranty expenses are incurred in the future. The deferred tax assets for 2017 include deferred tax on warranty provisions for 2016, which has been recognised in the opening balance through shareholders' equity (EUR 21,659). The deferred tax assets for 2016 (EUR 3,342) are related to confirmed losses.

Parent company’s financial statements

Parent company's income statement

EUR	Note	1 Jan 2017 –31 Dec 2017	1 Jan 2016 –31 Dec 2016
Net sales	1	**799,462**	**609,002**
Other operating income	2	8,964	5,970
Materials and services		0	0
Personnel expenses	3	-480,426	-377,124
Depreciation and impairment	4	-21,066	-16,293
Other operating expenses	5	-360,205	-294,905
Operating loss		**-53,271**	**-73,350**
Financial income and expenses	6	-1,198	-19,227
Loss before taxes		**-54,469**	**-92,577**
Appropriations	7	80,000	600,000
Income tax	8	-4,260	-102,284
Profit for the period		**21,271**	**405,139**

Parent company’s balance sheet

EUR	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets	9	76,211	67,522
Tangible assets	9	3,486	1,543
Investment	10	5,421,157	5,421,157
Non-current assets, total		**5,500,854**	**5,490,222**
Current assets			
Current receivables	11		
Trade receivables		275,263	162,369
Other receivables and accrued income		812,379	857,245
Current receivables, total		1,087,642	1,019,614
Cash and cash equivalents		6,676	29,009
Current assets, total		**1,094,318**	**1,048,623**
TOTAL ASSETS		**6,595,172**	**6,538,846**

EUR	Note	31 Dec 2017	31 Dec 2016
EQUITY AND LIABILITIES			
Shareholders’ equity	12		
Share capital		1,090,281	1,090,281
Invested unrestricted equity reserve		4,562,371	4,562,371
Retained earnings		707,159	302,020
Profit for the period		21,271	405,139
Shareholders’ equity, total		**6,381,082**	**6,359,811**
Liabilities			
Current liabilities	13		
Loans from financial institutions		0	85,938
Advances received		28,533	0
Trade payables		0	8,060
Other payables and deferred income		185,556	85,037
Current liabilities, total		214,090	179,034
Liabilities, total		**214,090**	**179,034**
TOTAL EQUITY AND LIABILITIES		**6,595,172**	**6,538,846**

Parent company's cash flow statement

EUR	2017	2016
Cash flow from operating activities:		
Loss before taxes	-54,469	-90,816
Adjustments:		
Depreciation and impairment	21,066	16,293
Financial income and expenses	1,198	29,811
Cash flow before changes in working capital	-32,205	-44,712
Changes in working capital		
Changes in current non-interest-bearing trade receivables	7,712	669,721
Changes in current non-interest-bearing liabilities	121,117	-81,713
Interest paid and payments on other operating financial expenses	-1,323	-19,739
Cash flow from operating activities (A)	95,302	523,558

EUR	2017	2016
Cash flow from investing activities:		
Investments in tangible and intangible assets	-31,698	-21,982
Cash flow from investing activities (B)	-31,698	-21,982
Cash flow from financing activities:		
Share issue	0	69,017
Repayments of non-current loans	-85,938	-343,750
Dividends paid and other distribution of profit	0	-199,738
Cash flow from financing activities (C)	-85,938	-474,471
Changes in cash and cash equivalents (increase +, decrease -) (A+B+C)	-22,333	27,105
Cash and cash equivalents at the beginning of the period	29,009	1,905
Cash and cash equivalents at the end of the period	6,676	29,009

Parent company’s accounting principles

Proventia Group Oy’s financial statements have been prepared in accordance with the Finnish Accounting Act.

Net sales
The parent company’s net sales consist of administrative service fees. Income from services is recognised in the financial period during which the service is performed.

Valuation of non-current assets
Non-current assets are capitalised in the balance sheet at the original acquisition cost deducted by accumulated depreciation. Depreciation according to plan is calculated on a straight-line basis over the expected useful lives of the assets. Depreciation is recognised as of the month immediately following the acquisition month, or as of the month of implementation, depending on which comes later.

Depreciation periods:

Intellectual property rights	Straight-line depreciation, 5 years
Capitalised long-term expenses	Straight-line depreciation, 3–10 years
Machinery and equipment	Straight-line depreciation, 3–10 years

Items denominated in foreign currencies
Business transactions denominated in foreign currencies are converted into euros using the exchange rate of the transaction date. Receivables and liabilities denominated in foreign currencies are converted into euros using the exchange rate of the balance sheet date.

Notes to the parent company's financial statements

EUR	2017	2016
1. NET SALES BY BUSINESS AREA		
Other net sales	799,462	609,002
Total	**799,462**	**609,002**
2. OTHER OPERATING INCOME		
Rental income	5,700	5,700
Other operating income	3,264	270
Total	**8,964**	**5,970**
3. NUMBER OF EMPLOYEES AND PERSONNEL EXPENSES		
Average number for the period	5	5
Number of employees at the end of the period	6	5
Breakdown of personnel expenses		
Salaries and wages	402,211	315,367
Pension expenses	68,807	51,288
Other statutory indirect expenses	10,547	10,469
Total	**481,564**	**377,124**

EUR	2017	2016
4. DEPRECIATION AND IMPAIRMENT		
Intellectual property rights	20,234	15,448
Other capitalised long-term expenses	363	121
Machinery and equipment	469	724
Total	**21,066**	**16,293**
5. OTHER OPERATING EXPENSES		
Facility expenses	9,031	5,700
Maintenance, IT, device and equipment expenses	132,262	114,645
Travel expenses	3,743	2,530
Sales and marketing expenses	0	61
Administrative services and other administrative expenses	184,750	146,242
Other expense items	30,419	25,726
Total	**360,205**	**294,905**

EUR	2017	2016
6. FINANCIAL INCOME AND EXPENSES		
Interest and other financial expenses		
To Group companies	0	-538
To others	-1,198	-8,105
Financial expenses, total	-1,198	-8,643
Financial income and expenses, total	**-1,198**	**-8,643**
7. APPROPRIATIONS		
Group contribution	80,000	600,000
Total	**80,000**	**600,000**
8. INCOME TAX		
Income tax	4,260	102,284
Total	**4,260**	**102,284**

EUR	2017	2016
9. CHANGES IN NON-CURRENT ASSETS		
Intellectual property rights		
Acquisition cost, 1 Jan	577,208	555,251
Increase	29,286	21,957
Acquisition cost, 31 Dec	606,494	577,208
Accumulated depreciation according to plan	-513,190	-497,742
Depreciation for the period	-20,234	-15,448
Book value, 31 Dec	73,069	64,018
Other capitalised long-term expenses		
Acquisition cost, 1 Jan	3,625	3,600
Increase	0	25
Acquisition cost, 31 Dec	3,625	3,625
Accumulated depreciation according to plan	-121	0
Depreciation for the period	-363	-121
Book value, 31 Dec	3,142	3,504
Intangible assets, total	**76,211**	**67,522**
Machinery and equipment		
Acquisition cost, 1 Jan	178,168	178,168
Increase	2,412	0
Acquisition cost, 31 Dec	180,580	178,168
Accumulated depreciation according to plan	-176,624	-175,901
Depreciation for the period	-469	-724
Book value, 31 Dec	3,486	1,543
Tangible assets, total	**3,486**	**1,543**

EUR	2017	2016
10. INVESTMENT		
Shares and holdings in Group companies		
Acquisition cost, 1 Jan	5,421,157	5,450,157
Impairment	0	-29,000
Acquisition cost, 31 Dec	5,421,157	5,421,157
Shares and holdings, total	5,421,157	5,421,157
Investments, total	**5,421,157**	**5,421,157**
Holdings in other companies		
Group companies		
Proventia Oy, Oulu, Finland	100%	100%
Proventia Emission Control GmbH, Speyer, Germany	100%	100%
Proventia Americas LLC,Minnesota, USA (ownership through Proventia Oy)	100%	100%
Other shares held by the parent company		
Optatech Oy	15.26%	15.26%

EUR	2017	2016
11. CURRENT RECEIVABLES		
Trade receivables		
From Group companies	275,239	161,814
From others	25	555
Total	275,263	162,369
Accrued income		
From Group companies	795,000	840,000
From others	17,379	13,903
Deferred tax assets	0	3,342
Total	812,379	857,245
Current receivables, total	**1,087,642**	**1,019,614**
12. CHANGES IN SHAREHOLDERS' EQUITY		
Share capital, 1 Jan	1,090,281	1,090,281
Share capital, 31 Dec	1,090,281	1,090,281
Invested unrestricted equity reserve, 1 Jan	4,562,371	4,493,353
Invested unrestricted equity reserve, share issue	0	69,017
Invested unrestricted equity reserve, 31 Dec	4,562,371	4,562,371
Retained earnings, 1 Jan	707,159	501,759
Dividend	0	-199,739
Retained earnings, 31 Dec	707,159	302,020
Profit for the period	21,271	405,140
Earnings, 31 Dec	728,430	707,160
Unrestricted equity, 31 Dec	5,290,801	5,269,530
Shareholders' equity, total	6,381,082	6,359,811
Distributable funds at the end of the period	5,290,801	5,269,530

EUR	2017	2016
13. CURRENT LIABILITIES		
Loans from financial institutions	0	85,938
Trade payables		
To others	28,533	8,060
Total	28,533	8,060
Other current liabilities		
To others	34,552	31,781
Total	34,552	31,781
Deferred income		
To others	151,004	53,257
Total	151,004	53,257
Current liabilities, total	**214,090**	**179,035**

EUR	2017	2016
14. PLEDGES AND CONTINGENT LIABILITIES		
Securities and mortgages for own liabilities		
Business mortgages	1,000,000	1,500,000
Own liabilities with shares as securities		
Loans from financial institutions	0	85,938
Book value of pledged shares	0	5,421,157
Amounts to be paid on leasing agreements		
To be paid during the next financial year	101,308	72,007
To be paid later	118,897	90,731
Total	220,205	162,738
Liabilities for which mortgages or pledges have been given as securities		
Loans from financial institutions	0	85,938
Total	0	85,938

Signatures to the financial statements and the Board of Director's report

Oulu, 5 April 2018

Harri Suutari
Chairman of the Board

Lauri Antila
Board member

Raisa Lesonen
Board member

Pekka Sipola
Board member

Jari Lotvonen
President and CEO

The Auditor's Note

An auditor's report has been issued today.

Oulu, 11 April 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Sami Posti
Authorized Public Accountant

List of accounting books

Financial statements and account-specific reports	Storage method
Financial statements	Bound paper version
Balance sheet specifications	Electronic format
Income statement	Electronic format
Balance sheet	Electronic format
Chart of accounts	Electronic format
Accounting books	
Journal and general ledger	Electronic format
Accounting of non-current assets	Electronic format
POC calculations	Electronic format
Project accounting	Electronic format
Trade receivables	Electronic format
Trade payables	Electronic format
Stock accounting	Electronic format
Payroll accounting	Paper format
Receipts	
Bank receipts	Electronic format
General ledger receipts	Electronic format
Sales invoices	Electronic format
Purchase invoices	Electronic format
Travel invoices	Paper receipts
Receipts related to notes	Electronic format

Auditor’s Report (Translation of the Finnish Original)

To the Annual General Meeting of Proventia Group Oy

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, the financial statements give a true and fair view of the group’s and the 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.

What we have audited

We have audited the financial statements of Proventia Group Oy (business identity code 1612236-0) for the year ended 31 December 2017. The financial statements comprise the balance sheets, the income statements, cash flow statements and notes for the group as well as for the parent company.

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 Financial Statements section of our report.

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

Independence

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.

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

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

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company’s and the group’s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to 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 effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

OTHER REPORTING REQUIREMENTS

Other Information

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

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Oulu 11 April 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Sami Posti
Authorised Public Accountant (KHT)

Proventia Group Oy
Tietotie 1, FI-90460 Oulunsalo, Finland. Tel. +358 20 78 10 200
sales@proventia.com, info@proventia.com
www.proventia.com