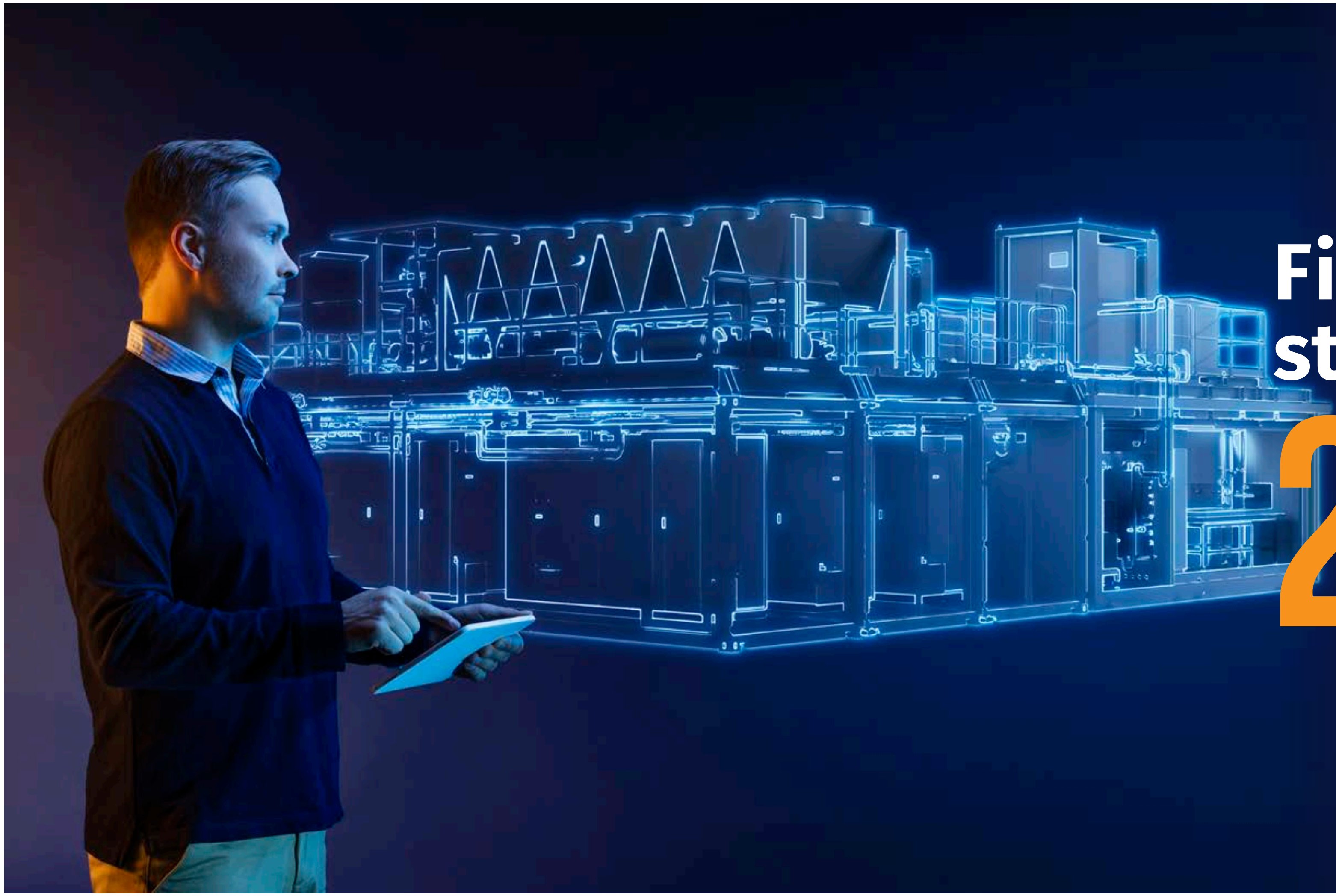
PROVENTIA GROUP PLC



Financial statements 2019

PROVENTIA

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These financial statements must be retained until 31 December 2029.

Board of Directors’ report for the financial year 1 January – 31 December 2019

Operating environment

Climate change defines our future. It is mainly caused by the increased volume of greenhouse gases, carbon dioxide in particular, in the atmosphere. Carbon dioxide is the end product of fossil fuels. This means that reducing the carbon dioxide emissions of combustion engines plays a significant part in helping to mitigate climate change. Climate change cannot be stopped, but it can be mitigated, for example, through fuel efficiency, the use of renewable fuels and a transition to low-emission or emission-free technologies, such as electric vehicles.

Where carbon dioxide emissions and global warming are global problems, air quality in cities is also deteriorated by local traffic emissions, such as carbon monoxide, hydrocarbon, particulate and nitrogen oxide emissions. These are called local emissions, as they affect the quality of the air we breathe – every day. Long-term exposure to local emissions causes cardiovascular and respiratory diseases, and even premature deaths. In Europe alone, some 90 per cent of the urban population are exposed to pollution in concentrations that are considered to be hazardous to health.

Controlling climate change and pollution calls for not only close international cooperation in terms of laws, but also new technologies, investments and business models from all industrial sectors that use fossil fuels.

Proventia’s business operations

Vision: Zero Emission

Proventia’s business operations are strongly linked with climate change and pollution mitigation. Proventia is an international technology company, which develops advanced technologies for the vehicle and machine industries. Furthermore, Proventia helps its customers to develop energy-efficient products that save the environment and protect the health of individuals – engines, machines and vehicles that consume fossil, renewable or alternative fuels, or electric engines, machines and vehicles.

Proventia’s business operations are based on solid expertise in modern vehicle and machine powertrains, both electric and combustion engine powertrains. Proventia is working hard to reach its goal of zero emissions by providing the engine, machine and vehicle industries with solutions and services for different phases of the value chain. The company focuses on selected special sectors, in which it stands out from its competitors and truly strengthens the competitiveness of its customers through its expertise and innovative solutions. Many leading companies in different sectors use Proventia’s solutions in the most extreme conditions.

Proventia operates

- In the vehicle industry, as an R&D system supplier, delivering test solutions for the needs of the electrifying vehicle industry, including the R&D of batteries, electric powertrains and electric vehicles
- In non-road machine markets, as a developer and supplier of emission control solutions, for engine and machine manufacturers
- In retrofit markets for utility vehicles, delivering exhaust aftertreatment systems that enable higher emission classes for heavy-duty vehicles that use fossil or renewable fuels or hybrid systems

Test Solutions

New solutions for R&D

Powertrains of private cars are facing the greatest changes in their history. Climate change is the most significant market driver. Hybrids, plug-in hybrids, fully electric cars and many alternative fuels are available in markets. New technologies open up completely new markets for test solutions. R&D departments require test solutions that can be deployed quickly and that can test new technologies reliably and safely. Proventia’s Test Solutions business area responds to the new R&D and testing needs of the changing vehicle industry by offering modular test laboratories and centres. Advantages of Proventia's modular test solution include modifiability, transportability and scalability from a single test laboratory to entire test centres.

The development and testing of electric vehicles and batteries is becoming the primary application for Proventia's test solutions. Leading vehicle manufacturers are already developing and testing their zero-emission vehicles of the future using Proventia's modular test solutions.

Emission Control

Emission control solutions for demanding applications

In the Emission Control business area, Proventia's key expertise focuses on exhaust aftertreatment systems for machines and utility vehicles used in demanding conditions. Proventia offers systems that consist of patented technologies resulting from continuous R&D. Proventia's emission control systems are ideal for the challenging operating environments of machines and urban transport vehicles. The Emission Control business area is divided into two customer segments: Original Equipment Manufacturer (OEM) and retrofit customers.

Customised low-emission solutions for OEM customers

In heavy-duty machines, combustion engines will remain the primary power source far into the future. As hybrid systems are becoming more common, combustion engines are generally used as one of the two power sources. Heavy-duty machines are challenging in terms of emission control: there are countless numbers of machine types, models and operating environments, while all engines in this category are governed by the same emission regulations. This means that emission control systems need to be customised for each application, so that machines meet their emission regulations in their real operating environments. Proventia designs, tests, manufactures and delivers customised exhaust aftertreatment systems directly to engine and machine manufacturers in the heavy-duty machine industry. Emission control systems reduce local emissions of machines down to the levels set out in regulations and help to improve the fuel economy and, therefore, the reduction of carbon dioxide emissions.

Solutions in line with sustainable development for retrofit customers

It is estimated that 60 per cent of the global population will live in towns and cities by 2030. As traffic volumes are increasing, towns and cities play an important part in helping to mitigate climate change and improve air quality. More electric utility vehicles will be used inside towns and cities when battery technologies advance, but this will not happen overnight. Rapid, yet still sustainable, solutions are offered by a transition to renewable fuels and the installation of advanced exhaust aftertreatment systems on already operating utility vehicles. The use of retrofit systems upgrades the vehicle emission class, significantly reduces local emissions that deteriorate air quality and extend the vehicle lifecycle. As a result, already operating buses and trucks can cost-efficiently be made as environmentally friendly as possible. Proventia's retrofit customers include public transport operators and companies responsible for road maintenance and waste management, for which Proventia provides exhaust aftertreatment systems and telematics solutions that enable emission monitoring.

Performance and financial position

In 2019, Proventia's net sales increased by 10.8% from the previous year to EUR 42.4 (38.3) million. (The figures in brackets refer to the same period in the previous year, unless otherwise indicated.) In 2019, operating profit decreased by 34.3% to EUR 3.1 (4.7) million. The operating result was EUR 2.1 (3.5) million. Undiluted earnings per share were EUR 0.15 (0.25). Diluted earnings per share were EUR 0.14 (0.23).

At the end of December 2019, the consolidated balance sheet total stood at EUR 28.6 (32.4) million. The Group's equity ratio was 53.3% (39.8%) at the end of 2019. The Group's cash flow from operating activities was EUR 9.1 (2.7) million. At the end of 2019, the Group's liquid assets amounted to EUR 3.8 (1.1) million. The company has a revolving credit facility of EUR 3.0 million, of which EUR 0.0 (2.4) million were in use on the closing date. On 31 December 2019, the Group's interest-bearing liabilities stood at EUR 3.2 (4.5) million.

Research and development

Proventia invests significantly in R&D. R&D expenses totalled EUR 2.0 million (EUR 1.7 million in 2018 and EUR 0.7 million in 2017), comprising 4.7% of the Group's net sales (4.5% in 2018 and 3.3% in 2017). R&D expenses have been capitalised on the balance sheet as development expenses in the amount of EUR 1.4 million (EUR 1.2 million in 2018 and EUR 0.4 million in 2017). R&D expenses recognised through profit or loss totalled EUR 0.6 million (EUR 0.6 million in 2018 and EUR 0.4 million in 2017).

Significant events during the financial year

Proventia centralised its operations in two locations in Oulu and changed its organisation to be driven by business areas. The company expanded its testing capacity by deploying a test cell for electric vehicle batteries. The company has invested significantly in its production plant in the Czech Republic to start the manufacturing of products in accordance with Stage V regulations.

Sums in EUR	2019	2018	2017
Proventia Group's key figures			
Net sales	42,420,524	38,298,942	19,635,779
Operating profit	3,097,841	4,713,082	2,325,725
Operating profit, %	7.3%	12.3%	11.8%
Return on equity (ROE), %	18.8%	41.8%	31.8%
Equity ratio, %	53.3%	39.8%	52.9%
Return on capital employed (ROCE), %	26.4%	41.6%	34.7%
Net debt	-618,093	3,419,405	860,139
Parent company's key figures			
Net sales	1,823,898	1,418,186	799,462
Operating profit/loss	-38,055	-852,096	-53,271
Operating profit, %	-2.1%	-60.1%	-6.7%
Return on equity (ROE), %	-0.8%	-13.0%	-0.9%
Equity ratio, %	96.9%	95.7%	96.8%
Return on capital employed (ROCE), %	-0.6%	-13.2%	-0.8%
Net debt	-52,604	-185,238	-6,676

The key figures have been calculated as follows:

Return on equity (ROE), %	= (Profit before appropriations and taxes - income 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 in hand and at bank

Events after the financial year

Proventia established its subsidiary Proventia UK Ltd. in Milton Keynes in the UK in January 2020 for the needs of the Test Solutions business area.

Outlook

The need to test new power sources continues to increase in test solution markets. Proventia will continue to develop the solutions required to test powertrains of electric vehicles.

Emissions of heavy-duty machines are restricted by law. Currently, EU Stage V is the strictest emission regulation, and it will enter into force in all engine categories during 2020. In the EU, emission control systems are developed to be even more efficient, while hybrid systems are expected to become more common in heavy-duty machines. Proventia will be actively involved in their development. Emission control in developing countries is still far from the EU level, which offers long-term business opportunities for Proventia.

Retrofit markets for utility vehicles will expand geographically when new clean air projects are launched outside Europe. Furthermore, retrofit markets will offer new business opportunities when powertrains continue to advance.

Due to the coronavirus pandemic and global economic uncertainties, the Board of Directors issues no guidance for 2020.

Key risks and uncertainties

No significant changes occurred in the risks and uncertainties associated with Proventia's business operations during 2019. The Group's most significant strategic risks are related to demand for its products and the competitive situation in the markets, as well as to its dependence on its major customers and main component suppliers. Uncertainties 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. The company's Retrofit and Test Solutions business areas are largely based on projects, which exposes the company to risks related to the implementation of said projects. Project-specific risks are related to, for example, delivery schedules, product installation and commissioning, production capacity and the quality and technical functionality of end products.

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 sales receivables is managed through effective debt collection and by only giving normal payment times to customers.

The 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 and proactive cash management

The Group operates in 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 (translation risk) 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 conversion rate between the GBP and the EUR is the most significant source of currency risks. 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 losses not covered by insurance because of its scope or quality. Insurance coverage is reviewed and maintained continuously.

Extensive measures aimed to slow the spreading of coronavirus also affect Proventia's business operations. The company takes care of the health of its employees in accordance with official recommendations and minimises the impact of the pandemic on customers.

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 142 employees (92 employees in 2018 and 54 employees in 2017). At the end of the financial year, the Group had 157 employees (118 employees in 2018 and 65 employees in 2017).

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 new share in the company. The shareholders' pre-emptive subscription right was deviated from due to a weighty financial reason, as the option rights are intended to be part of the company's incentive system. Option rights include regular conditions related to the validity of employment relationships and restrictions on transferability. The subscription price must be paid in full in conjunction with the subscription, and it will be recognised in the invested unrestricted equity reserve.

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

Board of Directors and Management Team

Harri Suutari, Lauri Antila, Tommi Salunen, Pekka Sipola and Raisa Lesonen were elected members of the Board of Directors at the Annual General Meeting on 24 April 2019. The Board selected Harri Suutari as its Chairman.

At the extraordinary general meeting on 26 August 2019, Johnny Pehkonen was elected new member in place of Raisa Lesonen.

Tommi Salunen has acted as the Chairman of the Audit Committee, with Pekka Sipola and Raisa Lesonen (until 31 July 2019) acting as its members.

The purpose of the shareholders' Nomination Committee is to prepare proposals for the AGM regarding the election and remuneration of members of the Board of Directors. The Nomination Committee consists of members appointed by the company's three largest shareholders. In addition, the Chairman of the Board of Directors participates in the Nomination Committee's activities in the role of a specialist. The Nomination Committee remains in operation until the AGM decides otherwise. Members of the Nomination Committee are appointed annually, and their term ends when new members are appointed.

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

Share capital

The Annual General Meeting of 24 April 2019 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 24 April 2019 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 24 April 2019 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 2019 financial year, the Board did not exercise the authorisation issued by the Annual General Meeting on 24 April 2019 to issue shares or special rights or to acquire or transfer treasury shares.

On 31 December 2019, Proventia Group Corporation's registered share capital was EUR 1,090,281.04 and its total number of shares was 13,942,421. The company's shares are registered in the book-entry system maintained by Euroclear Finland Oy.

Other information

The company has no capital loans, and it has not granted any insider loans. The company has no foreign affiliates, and it has not recognised financial instruments at the fair value as defined in chapter 5, section 2a, subsection 5 of the Accounting Act.

The Board of Directors' proposal for distribution of profit

Proventia Group Corporation's distributable funds total EUR 5,494,027.45. The Board proposes that the profit for the period (EUR 49,423.63) be transferred to retained earnings and that no dividend be paid.

Consolidated income statement

Sums in EUR	Note	1 Jan 2019 – 31 Dec 2019	1 Jan 2018 – 31 Dec 2018
Net sales	**2.1**	**42,420,524**	**38,298,942**
Change in inventories of finished goods and work in progress		-714,009	2,058,106
Other operating income	2.3	146,080	34,829
Materials and services	2.2	-23,627,313	-23,388,670
Personnel expenses	3.1	-6,660,848	-5,515,573
Depreciation and impairment	2.4	-1,995,290	-1,180,519
Other operating expenses	2.3	-6,471,303	-5,594,033
Operating profit		**3,097,841**	**4,713,082**
Financial income and expenses	6.3	-130,846	-213,683
Profit before taxes		**2,966,995**	**4,499,399**
Income tax	2.5	-844,298	-954,104
Profit for the period		**2,122,696**	**3,545,295**

Consolidated balance sheet

Sums in EUR	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Intangible assets	4.1	3,805,485	2,754,821
Tangible assets	4.2	6,452,530	4,438,492
Non-current assets, total		**10,258,014**	**7,193,313**
Current assets			
Inventories	5.1	6,863,977	8,046,396
Non-current receivables			
Other receivables	5.2	47,583	84,991
Non-current receivables, total		47,583	84,991
Current receivables			
Sales receivables	5.2	6,032,218	6,559,925
Other receivables and accrued income	5.2	1,597,269	9,474,205
Current receivables, total		7,629,486	16,034,130
Cash in hand and at bank	6.2	3,772,860	1,062,604
Current assets, total		**18,313,906**	**25,228,121**
TOTAL ASSETS		**28,571,920**	**32,421,435**

Sums in EUR	Note	31 Dec 2019	31 Dec 2018
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 (losses)		4,575,675	1,045,487
Profit for the period		2,122,696	3,545,295
Shareholders' equity, total		**12,351,023**	**10,243,433**
Obligatory provisions	7.1	877,127	785,991
Debt			
Non-current debt			
Trade payables		343	0
Loans from financial institutions	6.2	2,202,857	3,882,101
Non-current debt, total		2,203,200	3,882,101
Current debt			
Loans from financial institutions	6.2	951,910	599,908
Advances received	5.3	5,408,006	6,693,850
Trade payables	5.3	3,623,695	5,915,580
Other payables and accrued liabilities	5.3	3,156,959	4,300,572
Current debt, total		13,140,569	17,509,910
Debt, total		**15,343,770**	**21,392,011**
TOTAL LIABILITIES		**28,571,920**	**32,421,435**

Consolidated statement of changes in equity

Sums in EUR	Note	Share capital	Invested unrestricted equity reserve	Retained earnings	Total
Shareholders' equity, 1 Jan 2019		**1,090,281**	**4,562,371**	**4,590,781**	**10,243,433**
Translation differences				-15,106	-15,106
Profit for the period				2,122,696	2,122,696
Shareholders' equity, 31 Dec 2019	**6.1**	**1,090,281**	**4,562,371**	**6,698,371**	**12,351,023**
Shareholders' equity, 1 Jan 2018		**1,090,281**	**4,562,371**	**1,057,084**	**6,709,736**
Redemption of treasury shares				-5,080	-5,080
Translation differences				-6,517	-6,517
Profit for the period				3,545,295	3,545,295
Shareholders' equity, 31 Dec 2018	**6.1**	**1,090,281**	**4,562,371**	**4,590,781**	**10,243,433**

Consolidated cash flow statement

Sums in EUR	2019	2018
Cash flow from operating activities:		
Profit before taxes	2,966,995	4,499,399
Adjustments:		
Planned depreciation	1,995,290	1,180,519
Financial income and expenses	130,846	213,683
Other adjustments	76,030	560,038
Cash flow before changes in working capital	5,169,162	6,453,639
Changes in working capital		
Changes in current non-interest-bearing trade receivables	8,344,264	-8,864,216
Change in inventories	1,182,419	-4,443,928
Changes in current non-interest-bearing liabilities	-4,288,515	10,704,140
Interest paid and payments on other operating financial expenses	-131,314	-215,269
Direct taxes paid	-1,178,526	-920,328
Cash flow from operating activities (A)	9,097,489	2,714,038

Sums in EUR	2019	2018
Cash flow from investing activities:		
Investments in tangible and intangible assets	-5,059,991	-5,268,224
Cash flow from investing activities (B)	-5,059,991	-5,268,224
Cash flow from financing activities:		
Withdrawals of long-term and short-term loans	1,942,446	4,497,472
Repayments of long-term loans	-3,269,689	-1,836,779
Acquisition of treasury shares	0	-5,080
Cash flow from financing activities (C)	-1,327,243	2,655,612
Changes in cash in hand and at bank (increase +, decrease -) (A+B+C)	2,710,255	101,427
Cash in hand and at bank at the beginning of the period	1,062,604	961,178
Cash in hand and at bank at the end of the period	3,772,860	1,062,604

Notes to the consolidated financial statements

1. INFORMATION ABOUT THE FINANCIAL STATEMENTS

1.1 General information

These consolidated financial statements concern Proventia Group Corporation (hereinafter the “company”) and its subsidiaries (collectively “Proventia” or the “Group”).

The Group’s parent company is Proventia Group Corporation, 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 consolidated financial statements are available from Proventia Group Corporation’s headquarters.

The Group’s subsidiaries are Proventia Oy, Proventia Czech s.r.o., Proventia Americas LLC and Proventia Emission Control GmbH, of which Proventia Oy and Proventia Czech s.r.o. are engaged in business operations.

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

1.2 Accounting principles

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

The company’s operating currency is the euro, which is also the currency in which its financial statements are presented. Business transactions denominated in foreign currencies have been converted into euros using exchange rates valid on the transaction date. Receivables and liabilities denominated in foreign currencies have been converted into euros using exchange rates valid on the closing date. Exchange rate 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”, “Personnel”, “Research, development and investment”, “Working capital”, “Shareholders’ equity and net debt”, and “Other notes”. These sections include the significant accounting principles related to them.

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 closing 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 according to level 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 area is divided into two customer segments: OEM and retrofit customers. The company provides its OEM customers with exhaust aftertreatment systems and R&D, 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, powertrains and hybrid systems.

The Group's net sales in 2019 were EUR 42.4 (38.3) million. The Emission Control business area's net sales in 2019 were EUR 38.6 million, or 91% of the Group's net sales (2018: 29.8 million, or 78% of net sales). The Test Solutions business area's net sales in 2019 were EUR 3.8 million, or 9% of the Group's net sales (2018: 8.5 million, or 22% of net sales).

Sums in EUR	2019	2018
NET SALES BY BUSINESS AREA		
Emission Control	38,577,004	29,833,913
Test Solutions	3,843,519	8,465,030
Total	**42,420,524**	**38,298,943**

Sums in EUR	2019	2018
NET SALES BY MARKET AREA		
Europe	41,367,982	37,862,541
Other continents	1,052,542	436,401
Total	**42,420,524**	**38,298,942**

Sums in EUR	2019	2018
BREAKDOWN OF NET SALES		
Net sales according to level of completion	3,843,453	8,465,030
Other net sales	38,577,070	29,833,912
Total	**42,420,524**	**38,298,942**
LONG-TERM PROJECTS		
Amount of income from long-term projects in consolidated net sales:	3,843,453	8,465,030
Amount of income recognised according to level of completion of long-term projects not yet delivered to customers in the review period and previous periods:	569,344	8,317,646
Amount of received prepayments recognised for long-term projects in progress on the balance sheet:	2,548,689	3,477,527
Amount of receivables recognised for long-term projects in progress on the balance sheet:	569,344	8,317,646

The unrecognised net sales of incomplete projects in the Test Solutions business area were EUR 10.1 million on 31 December 2019.

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 R&D 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 according to the level of completion (percentage-of-completion method, POC). The level of completion of long-term projects has been determined based on the expenses incurred in relation to the estimated total expenses of the project. Accrued income includes incomplete long-term projects recognised in accordance with the POC method, and received prepayments include prepayments received from partially recognised projects. The POC method only applies 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 according to level of completion

Long-term projects are recognised according to their level of completion. The level 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. Changes in estimates based on judgment are primary related to changes in schedules and expenses and any other factors.

2.2 Materials and services

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

Sums in EUR	2019	2018
SUBSTANCES, SUPPLIES AND GOODS		
Purchases during the financial year	20,891,776	24,119,856
Increases in stocks	-511,436	-2,335,390
External services	3,246,972	1,604,205
Total	**23,627,313**	**23,388,670**

2.3 Other operating income and expenses

Sums in EUR	2019	2018
OTHER OPERATING INCOME		
Grants received	52,116	310
Sales gains from fixed assets	8,916	0
Other operating income	85,049	34,519
Total	**146,080**	**34,829**
OTHER OPERATING EXPENSES		
Facility expenses	1,317,513	869,817
IT, device and equipment expenses	933,042	566,628
Travel expenses	841,845	681,814
Sales and marketing expenses	1,548,144	1,455,189
Administrative services and other administrative expenses	1,111,950	1,629,943
Other expense items	718,810	390,641
Total	**6,471,303**	**5,594,033**
AUDITORS' FEES		
Auditing	29,391	46,912
Tax consultancy services	62,102	14,582
Other services	16,259	14,452
Total	**107,752**	**75,946**

2.4 Depreciation and impairment

Sums in EUR	2019	2018
DEPRECIATION BY ASSET GROUP		
Development expenses	614,612	381,592
Intellectual property rights	149,953	91,970
Other capitalised long-term expenses	238,863	189,871
Machinery and equipment	991,862	517,085
Depreciation, total	**1,995,290**	**1,180,519**

Accounting principles: depreciation
Property, plant and equipment, as well as intangible assets, are recognised on the balance sheet at acquisition cost less depreciation according to plan and any impairment. Depreciation according to plan is calculated as straight-line depreciation based on useful lives. 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

Sums in EUR	2019	2018
Income tax	-746,510	-997,010
Deferred tax	-97,788	42,905
Total	**-844,298**	**-954,104**

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

Sums in EUR	2019	2018
NUMBER OF EMPLOYEES		
Average number for the period	142	92
Number of employees at the end of the period	157	118
BREAKDOWN OF PERSONNEL EXPENSES		
Salaries and fees	5,448,309	4,511,462
Pension expenses	1,014,459	847,519
Other statutory indirect expenses	198,079	156,593
Total	**6,660,848**	**5,515,573**

The employees are paid a monthly salary or are paid by the hour. The company had a bonus scheme in 2019. The Board of Directors defines the bonus scheme and its terms and conditions annually. Bonuses are paid based on the achievement of the targets set for the financial year. Personnel expenses are recognised on an accrual basis. Personnel expenses did not include any bonus expenses in 2019. In 2018, personnel expenses included EUR 730,000 of bonuses.

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

The Group's related parties include its parent company and the subsidiaries mentioned in Note 7.2, as well as the companies belonging to the Head Invest Group. Related parties also include members of the Board of Directors and the Management Team, the CEO, the family members of the aforementioned individuals, and companies that they control.

In the financial year of 2019, the Group's related-party transactions were EUR 362,000 (418,000). The most significant related-party transactions were carried out with companies of the Head Invest Group and totalled EUR 362,000 (403,000) in 2019. Of these, the most significant item consists of rents for facilities, totalling EUR 297,000 (319,000) in 2019. Other related-party transactions comprise purchases of administration services and payroll services from the Head Invest Group. These related-party transactions were carried out on typical market terms. The Group does not have related-party loans.

The management's salaries and fees

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 fees in 2019 and 2018 were as follows:

Sums in EUR	2019	2018
CEO's and Management Team members' salaries and fees	699,037	970,131
Board members' salaries and fees	123,000	117,000
Total	**822,037**	**1,087,131**

The management's option scheme

Proventia currently has two option schemes for its key personnel. In addition to serving as incentives, the option schemes are intended to increase commitment. The 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 2016–2023. The 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. Option rights include regular conditions related to the validity of employment relationships and restrictions on transferability.

Option schemes	Subscription price	Number of option rights	Subscription period
2016D	EUR 0.50 per share	397,934	28 Feb 2019 to 28 Feb 2022
2016E	EUR 0.50 per share	397,932	28 Feb 2020 to 28 Feb 2023
2016F	EUR 0.50 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 2021
2015B	EUR 0.36 per share	156,665	28 Feb 2017 to 28 Feb 2022
2015C	EUR 0.36 per share	156,670	28 Feb 2018 to 28 Feb 2023

4 RESEARCH, DEVELOPMENT AND INVESTMENT

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

Sums in EUR	2019	2018
Research and development expenses, total	1,991,885	1,722,218
Amount of product development costs capitalised as development expenses on the balance sheet:	1,356,469	1,154,435
Impairment of research and development expenses	0	0
Depreciation of research and development expenses	614,612	381,592
Research and development expenses recognised through profit or loss	635,416	567,783
Research and development expenses, % of net sales	4.70%	4.50%

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 as straight-line depreciation based on the useful life of the asset.

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 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 judgment 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:

Sums in EUR	2019	2018
Development expenses		
Acquisition cost, 1 Jan	6,345,372	5,190,937
Increase	1,356,469	1,154,435
Acquisition cost, 31 Dec	7,701,840	6,345,372
Accumulated depreciation according to plan	-4,733,667	-4,352,074
Depreciation for the period	-614,612	-381,592
Book value, 31 Dec	2,353,562	1,611,705
Intellectual property rights		
Acquisition cost, 1 Jan	1,803,537	1,475,855
Increase	270,802	327,681
Acquisition cost, 31 Dec	2,074,339	1,803,537
Accumulated depreciation according to plan	-1,352,614	-1,260,644
Depreciation for the period	-149,953	-91,970
Book value, 31 Dec	571,773	450,923
Other capitalised long-term expenses		
Acquisition cost, 1 Jan	1,037,809	613,549
Increase	426,820	426,534
Decrease	0	-2,275
Acquisition cost, 31 Dec	1,464,628	1,037,808
Accumulated depreciation according to plan	-345,615	-155,744
Depreciation for the period	-238,863	-189,871
Book value, 31 Dec	880,150	692,193
Intangible assets, total	**3,805,484**	**2,754,821**

4.2 Machinery and equipment

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

Sums in EUR	2019	2018
Machinery and equipment		
Acquisition cost, 1 Jan	8,087,394	4,725,546
Increase	3,006,206	3,361,848
Decrease	-306	0
Acquisition cost, 31 Dec	11,093,294	8,087,394
Accumulated depreciation according to plan	-3,648,902	-3,131,817
Depreciation for the period	-991,862	-517,085
Book value, 31 Dec	6,452,530	4,438,492
Tangible assets, total	**6,452,530**	**4,438,492**

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

Sums in EUR	2019	2018
Substances and supplies	4,079,795	4,540,903
Work in progress	603,412	720,102
Finished products	2,096,368	2,685,472
Prepayments on inventories	84,402	99,918
Inventories, total	**6,863,977**	**8,046,396**

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 Sales and other receivables

Sales receivables consist of products sold or services delivered to the customer in the ordinary course of business. Credit losses on sales receivables are presented in other operating expenses in the income statement.

Current receivables mainly include accrued income arising from the Group's ordinary operations. On 31 December 2019, non-current receivables totalled EUR 48,000 (EUR 85,000 on 31 December 2018) and consisted of rent deposits.

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

Sums in EUR	2019	2018
Sales receivables	6,032,218	6,559,925
Other receivables	360,246	674,008
Accrued income	1,061,574	8,631,752
Deferred tax assets	175,449	168,445
Total	**7,629,486**	**16,034,130**

Material items included in accrued income		
Receivables from long-term projects (POC method)	569,344	8,317,646
Other accrued income	492,230	314,106
Total	**1,061,574**	**8,631,752**

Decisions and estimates based on judgment: receivables

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

5.3 Trade and other payables

Sums in EUR	2019	2018
Trade payables	3,623,695	5,915,580
Other current liabilities	1,285,713	1,325,824
Advances received	5,408,006	6,693,850
Accrued liabilities	1,684,747	2,893,096
Deferred tax liabilities	186,499	81,652
Total	**12,188,660**	**16,910,002**
Material items included in accrued liabilities		
Allocation of personnel expenses	1,156,354	1,601,859
Allocation of interest expenses	0	468
Other accrued liabilities	528,393	1,290,769
Total	**1,684,747**	**2,893,096**

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.

6 SHAREHOLDERS' EQUITY AND NET DEBT

6.1 Shareholders' equity

Proventia's shareholders equity consists of its share capital, invested unrestricted equity reserve and retained earnings. In addition, shareholders' equity includes the result of accumulated depreciation difference less deferred tax liabilities.

On 31 December 2019, Proventia Group Corporation's registered share capital was EUR 1,090,281.04 and its total number of shares was 13,942,421. 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 2019, Head Invest Oy's holding of shares and votes in Proventia Group Oy was 70.18%. Proventia Group is consolidated into Head Invest Oy's financial statements.

No changes took place in the invested unrestricted equity reserve during 2018 or 2019.

6.2 Debt and cash in hand and at bank

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

Sums in EUR	2019	2018
FINANCIAL LIABILITIES		
Long-term loans		
Bank loans	1,980,000	3,463,213
Hire purchase liabilities	222,857	418,889
Long-term loans, total	2,202,857	3,882,101
Short-term loans		
Bank loans	660,000	300,000
Hire purchase liabilities	291,910	299,908
Short-term loans, total	951,910	599,908
Financial liabilities, total	**3,154,767**	**4,482,009**
Cash in hand and at bank	**3,772,860**	**1,062,604**

In 2019, the Group's loans consisted of two bank loans and hire purchase liabilities. The Group withdrew a long-term loan of EUR 1.5 million in June 2018 and a long-term loan of EUR 1.8 million in June 2019. The loans have a term of five years and are repaid in monthly instalments with a floating rate of interest tied to the Euribor rate. The loan agreements include regular covenants related to the company's equity ratio. Proventia complied with these covenant terms during the 2019 financial year. The loans are secured against corporate mortgages. The company has access to a revolving credit facility of EUR 3.0 million. The credit facility was not in use on the closing date. Cash and cash equivalents consist of cash at bank.

6.3 Financial income and expenses

Sums in EUR	2019	2018
Financial income		
Other interest and financial income	3,928	3,649
Exchange rate gains	882,910	115,127
Financial income, total	**886,838**	**118,776**
Financial expenses		
Interest and other financial expenses	-105,577	-80,386
Exchange rate losses	-912,108	-252,073
Financial expenses, total	**-1,017,685**	**-332,459**
Financial income and expenses, total	**-130,846**	**-213,683**

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 international markets and can therefore be exposed to a currency risk arising from changes in exchange rates. Currently, the currency risk is specifically linked with the transaction and translation risk related to the GBP and CZK. Apart from that, nearly all of the Group's income and expenses are generated in euros. Currency risks are hedged against by means of forward contracts and currency options, if necessary. Derivatives are only used for hedging purposes.

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.

The credit risk related to sales 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. The company had no outstanding forward contracts on the closing date.

6.6 Off-balance sheet commitments

Sums in EUR	2019	2018
PLEDGES AND CONTINGENT LIABILITIES		
Securities and mortgages for own liabilities		
Business mortgages	11,300,000	8,300,839
Revolving credit facilities		
Total amount of granted credit facilities	3,000,000	3,000,000
In use	0	2,413,213
Amounts to be paid on leasing agreements (incl. VAT)		
To be paid during the next financial year	278,659	245,971
To be paid later	287,732	282,151
Total	566,392	528,122
Other contractual liabilities (incl. VAT)		
To be paid during the next financial year	1,222,956	1,187,217
To be paid later	3,445,633	3,981,066
Total	4,668,590	5,168,283
Commercial bank guarantees	191,792	764,373
Liabilities for which mortgages or pledges have been given as securities		
Loans from financial institutions	2,640,000	3,763,213
Total	2,640,000	3,763,213

Other contractual liabilities consist of rental liabilities related to facilities. Rental obligations consist of future rents on Proventia's facilities in Finland and the Czech Republic. 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. Bank guarantees consist of a performance guarantee and advance payment guarantees.

7 OTHER NOTES

7.1 Provisions

Sums in EUR	2019	2018
Warranty provisions	877,127	785,991
Total	**877,127**	**785,991**

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 of goods. This percentage is estimated by comparing actual warranty expenses with 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 concern the parent company and its subsidiaries. Subsidiaries are companies in which Proventia Group Corporation exercises control and in which it holds more than 50% of votes directly or indirectly, or in which it otherwise exercises actual control.

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

On 31 December 2019, the Group had the following subsidiaries:

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

Of the subsidiaries, Proventia Oy and Proventia Czech s.r.o. are engaged 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

Sums in EUR	2019	2018
DEFERRED TAX ASSETS		
Warranty provisions	175,449	157,222
Confirmed losses	0	11,223
Total deferred tax assets	**175,449**	**168,445**
DEFERRED TAX LIABILITIES		
Accrued depreciation differences	186,499	81,652
Total deferred tax liabilities	**186,499**	**81,652**

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.

Deferred tax assets for 2019 are related to obligatory provisions that are not deductible until warranty expenses are incurred in the future. Deferred tax assets for 2018 are related to obligatory provisions and the confirmed losses of the Group's parent company. Deferred tax liabilities for 2018 and 2019 are related to accumulated depreciation differences. The amount of accumulated depreciation differences included in shareholders' equity was EUR 746,000 (327,000) on 31 December 2019.

Parent company's financial statements

Parent company's income statement

Sums in EUR	Note	1 Jan 2019 – 31 Dec 2019	1 Jan 2018 – 31 Dec 2018
Net sales	1	**1,823,898**	**1,418,186**
Other operating income	2	1,447	2,598
Materials and services		-119	0
Personnel expenses	3	-669,533	-643,991
Depreciation and impairment	4	-49,599	-34,609
Other operating expenses	5	-1,144,149	-1,594,279
Operating loss		**-38,055**	**-852,096**
Financial income and expenses	6	-389	-1,162
Loss before taxes		**-38,444**	**-853,258**
Appropriations	7	100,000	1,000,000
Income tax	8	-12,133	12,141
Profit for the period		**49,424**	**158,883**

Parent company's balance sheet

Sums in EUR	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Intangible assets	9	167,524	120,367
Tangible assets	9	7,313	8,494
Investment	10	5,421,157	5,421,157
Non-current assets, total		**5,595,995**	**5,550,018**
Current assets			
Current receivables	11		
Sales receivables		382,232	202,421
Other receivables and accrued income		763,930	888,517
Current receivables, total		1,146,163	1,090,937
Cash in hand and at bank		52,604	185,238
Current assets, total		**1,198,767**	**1,276,175**
TOTAL ASSETS		**6,794,761**	**6,826,193**

Sums in EUR	Note	31 Dec 2019	31 Dec 2018
LIABILITIES			
Shareholders' equity	12		
Share capital		1,090,281	1,090,281
Invested unrestricted equity reserve		4,562,371	4,562,371
Retained earnings		882,233	723,350
Profit for the period		49,424	158,883
Shareholders' equity, total		**6,584,308**	**6,534,885**
Debt			
Current debt	13		
Trade payables		61,375	108,586
Other payables and accrued liabilities		149,078	182,723
Current debt, total		210,453	291,309
Debt, total		**210,453**	**291,309**
TOTAL LIABILITIES		**6,794,761**	**6,826,193**

Parent company's cash flow statement

Sums in EUR	2019	2018
Cash flow from operating activities:		
Loss before taxes	-38,444	-853,258
Adjustments:		
Planned depreciation	49,599	34,609
Financial income and expenses	389	1,162
Cash flow before changes in working capital	11,544	-817,487
Changes in working capital		
Changes in current non-interest-bearing trade receivables	33,552	996,705
Changes in current non-interest-bearing liabilities	-80,856	78,137
Interest paid and payments on other operating financial expenses	-389	-1,162
Cash flow from operating activities (A)	-37,059	267,415

Sums in EUR	2019	2018
Cash flow from investing activities:		
Investments in tangible and intangible assets	-95,575	-83,774
Cash flow from investing activities (B)	-95,575	-83,774
Cash flow from financing activities:		
Acquisition of treasury shares	0	-5,080
Cash flow from financing activities (C)	0	-5,080
Changes in cash in hand and at bank (increase +, decrease -) (A+B+C)	-132,634	178,562
Cash in hand and at bank at the beginning of the period	185,238	6,676
Cash in hand and at bank at the end of the period	52,604	185,238

Parent company's accounting principles

Proventia Group Corporation'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 recognised on the balance sheet at acquisition cost less depreciation according to plan. Depreciation according to plan is calculated as straight-line depreciation based on useful lives. 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, 5–10 years
Machinery and equipment	Straight-line depreciation, 5–10 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

Sums in EUR	2019	2018
1. NET SALES BY BUSINESS AREA		
Other net sales	1,823,898	1,418,186
Total	**1,823,898**	**1,418,186**
2. OTHER OPERATING INCOME		
Other operating income	1,447	2,598
Total	**1,447**	**2,598**
3. NUMBER OF EMPLOYEES AND PERSONNEL EXPENSES		
Average number for the period	10	8
Number of employees at the end of the period	9	10
Breakdown of personnel expenses		
Salaries and fees	570,269	544,997
Pension expenses	89,424	89,357
Other statutory indirect expenses	9,839	9,638
Total	**669,533**	**643,991**

Sums in EUR	2019	2018
4. DEPRECIATION AND IMPAIRMENT		
Intellectual property rights	45,304	32,492
Other capitalised long-term expenses	1,954	363
Machinery and equipment	2,341	1,754
Total	**49,599**	**34,609**
5. OTHER OPERATING EXPENSES		
Facility expenses	299,187	51,638
Maintenance, IT, device and equipment expenses	422,595	185,734
Travel expenses	7,192	28,904
Sales and marketing expenses	62,860	76,283
Administrative services and other administrative expenses	313,573	1,232,921
Other expense items	38,742	18,799
Total	**1,144,149**	**1,594,279**

Sums in EUR	2019	2018
6. FINANCIAL INCOME AND EXPENSES		
Interest and other financial expenses		
To Group companies	0	-575
To others	-389	-587
Financial expenses, total	-389	-1,162
Financial income and expenses, total	**-389**	**-1,162**
7. APPROPRIATIONS		
Group contribution	100,000	1,000 000
Total	**100,000**	**1,000 000**
8. INCOME TAX		
Income tax	-910	12,141
Deferred tax	-11,223	0
Total	**-12,133**	**12,141**

Sums in EUR	2019	2018
9. CHANGES IN NON-CURRENT ASSETS		
Intellectual property rights		
Acquisition cost, 1 Jan	683,505	606,494
Increase	75,321	77,011
Acquisition cost, 31 Dec	758,825	683,505
Accumulated depreciation according to plan	-565,917	-533,424
Depreciation for the period	-45,304	-32,492
Book value, 31 Dec	147,605	117,588
Other capitalised long-term expenses		
Acquisition cost, 1 Jan	3,625	3,625
Increase	19,094	0
Acquisition cost, 31 Dec	22,719	3,625
Accumulated depreciation according to plan	-846	-483
Depreciation for the period	-1,954	-363
Book value, 31 Dec	19,919	2,779
Intangible assets, total	**167,524**	**120,367**
Machinery and equipment		
Acquisition cost, 1 Jan	187,342	180,580
Increase	1,161	6,762
Acquisition cost, 31 Dec	188,503	187,342
Accumulated depreciation according to plan	-178,848	-177,094
Depreciation for the period	-2,341	-1,754
Book value, 31 Dec	7,313	8,494
Tangible assets, total	**7,313**	**8,494**

Sums in EUR	2019	2018
10. INVESTMENT		
Shares and holdings in Group companies		
Acquisition cost, 1 Jan	5,421,157	5,421,157
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 Czech s.r.o. / Brno, the Czech Republic (holdings through Proventia Oy)	100%	100%
Proventia Americas LLC / Minnesota, USA (holdings through Proventia Oy)	100%	100%
Other shares held by the parent company		
Optatech Oy	15.26%	15.26%

Sums in EUR	2019	2018
11. CURRENT RECEIVABLES		
Sales receivables		
From Group companies	382,232	202,373
From others	0	48
Total	382,232	202,421
Other receivables		
From others	0	65,319
Total	0	65,319
Accrued income		
From Group companies	740,000	750,000
From others	23,930	61,975
Deferred tax assets	0	11,223
Total	763,930	823,198
Current receivables, total	**1,146,163**	**1,090,937**
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	4,562,371
Invested unrestricted equity reserve, 31 Dec	4,562,371	4,562,371
Retained earnings, 1 Jan	882,233	728,430
Redemption of treasury shares	0	-5,080
Retained earnings, 31 Dec	882,233	723,350
Profit for the period	49,424	158,883
Earnings, 31 Dec	931,657	882,233
Unrestricted equity, 31 Dec	5,494,027	5,444,604
Shareholders' equity, total	6,584,308	6,534,885
Distributable funds at the end of the period	5,494,027	5,444,604

Sums in EUR	2019	2018
13. CURRENT LIABILITIES		
Trade payables		
To Group companies	0	42,292
To others	61,375	66,294
Total	61,375	108,586
Other current liabilities		
To others	63,386	13,319
Total	63,386	13,319
Accrued liabilities		
To others	85,693	169,404
Total	85,693	169,404
Current liabilities, total	**210,453**	**291,309**

Sums in EUR	2019	2018
14. PLEDGES AND CONTINGENT LIABILITIES		
Securities and mortgages for subsidiaries' liabilities		
Business mortgages	1,000,000	1,000,000
Amounts to be paid on leasing agreements (incl. VAT)		
To be paid during the next financial year	162,090	154,352
To be paid later	174,523	194,034
Total	336,613	348,385
Other contractual liabilities (incl. VAT)		
To be paid during the next financial year	370,363	367,923
To be paid later	2,901,178	3,249,985
Total	3,271,542	3,617,908

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

Oulu, 26 March 2020

Harri Suutari
Chairman of the Board

Lauri Antila
Board member

Johnny Pehkonen
Board member

Tommi Salunen
Board member

Pekka Sipola
Board member

Jari Lotvonen
CEO

Auditor's confirmation

An auditor's report has today been issued on the audit carried out.

Oulu, 30 March 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Sami Posti
APA

List of accounting books and materials

Financial statements and account-specific reports	Storage method
Financial statements	Bound paper version
Balance sheet specifications	Electronic format
Account-specific income statement	Electronic format
Account-specific balance sheet	Electronic format
List of accounts	Electronic format
Accounting books	
General journals and nominal ledgers	Electronic format
Accounting of non-current assets	Electronic format
POC calculations	Electronic format
Project accounting	Electronic format
Sales ledger	Electronic format
Purchase ledger	Electronic format
Stock accounting	Electronic format
Payroll accounting	Electronic format
Receipts	
Bank receipts	Electronic format
Nominal ledger receipts	Electronic format
Sales invoices	Electronic format
Purchase invoices	Electronic format
Travel expense accounts	Electronic format
Receipts related to notes	Electronic format

Auditor's Report

To the Annual General Meeting of Proventia Group Oyj

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 Oyj (business identity code 1612236-0) for the year ended 31 December 2019. 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 30 March 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Sami Posti
Authorised Public Accountant (KHT)

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