PROVENTIA GROUP OYJ

FINANCIAL STATEMENTS 2018

PROVENTIA

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These financial statements must be retained until 31 December 2028.

Financial statements

Board of Directors’ report for the financial year 1 January – 31 December 2018

Operating environment

According to the World Health Organization (WHO), 90% of the global population are breathing polluted air. Air pollution is the most significant environment-induced health risk on a global scale. Some seven million people die prematurely due to illnesses caused by air pollution, every year. In Europe, the corresponding figure is 0.4 million.

Man-made air pollution comes, for example, from the consumption of fuels at power plants, in industries and in traffic. Traffic-induced air pollution is a more significant health risk than its relative proportion indicates, as emissions are generated at street level where people are exposed directly to exhaust emissions. Of diesel engine emissions, nitrogen oxides and particulates, in particular, are considered to be the most hazardous to health.

The scale of the global air quality challenge is massive, and the urgency of finding of solution has been widely recognised. The aim is to control the emission problem presented by vehicles and heavy-duty machinery, for example, by setting target values for air quality, issuing stricter emission regulations, shifting to cleaner engines and alternative fuels, seeking solutions from new power sources, such as electricity, and by supporting greener solutions and purchases.

Global air quality problems, stricter emission regulations and more intense focus placed on nitrogen oxide emissions have built a growing need for effective exhaust aftertreatment systems. Current exhaust aftertreatment technologies help to significantly reduce hazardous emissions from diesel engines, making diesel still a competitive power source, particularly in applications demanding high engine performance. Diesel remains the most widely used power source in heavy-duty machinery, albeit being cleaner than before. The goal of the EU Stage V emission standard, which will enter into force in Europe in stages in 2019–2020, is to significantly reduce nitrogen oxide and particulate emissions from heavy-duty machinery. The Stage V emission standard requires a more effective reduction of nitrogen oxides, due to which systems are becoming more complex. In addition, the standard has been expanded to cover more engine sizes. This, in turn, broadens the scope of application of emission control systems.

Low air quality, combined with exceeded threshold values set for nitrogen oxides, has forced many countries and cities to make rapid decisions in order to improve the quality of air. Alternative solutions are being sought for traffic in city centres. However, the full-scale electrification of, for example, public transport is financially challenging in the short term. A large portion of city buses are still diesel-fuelled, and they are not even close to the end of their service life. Many countries and cities have decided to support the installation of effective exhaust aftertreatment system on existing vehicles by using public funds.

As awareness of the quality of air is increasing, the automotive industry is trying to find alternatives for combustion engines. The popularity of electric cars has accelerated as a result of leaps in battery technologies, and different hybrids and fully electric vehicles have been launched in the markets. New alternative power sources have increased the need for vehicle R&D and testing. Electric vehicles and the use of battery technologies in new applications, in particular, set demands for more battery testing. Then again, battery testing demands new types of testing capabilities and systems.

Proventia’s business operations

Proventia is an international technology company. It develops advanced technologies for emissions control and the electric vehicle industry to help to solve the global problem of air pollution. The company develops, designs and manufactures exhaust aftertreatment systems and components for diesel engines, work machines and heavy vehicles. The company also manufactures modular testing laboratories and centres for testing engines, powertrains, hybrid systems and batteries.

Proventia’s Emission Control business area has been divided into two customer segments: original equipment manufacturer (OEM) customers and retrofit customers. Proventia’s OEM customers are manufacturers of diesel engines and work machines, for which Proventia develops, produces and delivers customised exhaust aftertreatment systems. The company focuses on special markets where customer applications require customised emission solutions. In addition to delivering full integrated systems, Proventia provides its customers with R&D, simulation and validation services.

Proventia's retrofit customers include public transport operators, for which the company provides exhaust aftertreatment systems for installation on existing vehicles. Proventia's retrofit systems have been designed to operate in the challenging conditions of urban traffic. Technologies developed for demanding OEM applications firmly support R&D and expertise related to retrofit systems.

For its Emission Control customers, Proventia also provides thermal insulation components for the thermal insulation of exhaust pipelines, aftertreatment systems and engine compartments. Efficient heat insulation is critical for modern exhaust aftertreatment systems to ensure their optimal function and enable staying below the strict emission limits. In addition, the insulation of engine components reduces thermal radiation and enables the effective use of cramped engine compartments.

The Test Solutions business area responds to growing testing needs, resulting from stricter emission regulations, the development of alternative fuels and the increase in electric vehicles. Proventia provides modular testing laboratories and centres for testing engines, powertrains, hybrid systems and batteries. Customers gain benefits from the company's modular testing system through the rapid deployment, modifiability and flexibility

Sums in EUR	2018	2017	2016
KEY FIGURES: PERFORMANCE AND FINANCIAL POSITION			
Proventia Group's key figures			
Net sales	38,298,943	19,635,779	12,110,730
Operating profit	4,713,082	2,325,725	1,332,702
Operating profit, %	12.3%	11.8%	11.0%
Return on equity (ROE), %	41.8%	31.8%	22.9%
Equity ratio, %	39.8%	52.9%	72.1%
Return on capital employed (ROCE), %	41.6%	34.7%	28.4%
Net debt	3,419,405	860,139	-372,677
Parent company's key figures			
Net sales	1,418,186	799,462	609,002
Operating profit/loss	-852,096	-53,271	-73,350
Operating profit, %	-60.1%	-6.7%	-12.0%
Return on equity (ROE), %	-13.0%	-0.9%	-3.1%
Equity ratio, %	95.7%	96.8%	97.3%
Return on capital employed (ROCE), %	-13.2%	-0.8%	-1.1%
Net debt	-185,238	-6,676	56,928

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

of testing laboratories as testing needs change. According to its strategy, Proventia has made significant investments in battery testing systems and productised its battery testing solution to respond to growing market needs.

Performance and financial position

In 2018, Proventia's net sales grew by 95.0% year-on-year and were EUR 38.3 (19.6) million. Operating profit in 2018 increased by 102.7% to EUR 4.7 (2.3) million. The operating profit in 2018 was burdened by strategic advisory costs of cumulatively EUR 0.9 million. Operating profit, excluding strategic advisory costs, stood at EUR 5.6 (2.3) million. Earnings were EUR 3.5 (1.8) million. Earnings per share, adjusted by the dilution effect, were EUR 0.23 (0.12).

At the end of December 2018, the consolidated balance sheet total stood at EUR 32.4 (14.9) million. The Group's equity ratio was 39.8% (52.9%) at the end of 2018. The Group's cash flow from operating activities was EUR 2.7 (0.6) million. Liquid assets amounted to EUR 1.1 (1.0) million at the end of 2018. The company has an EUR 3.0 million line of credit, of which EUR 2.4 (0,0) million was in use on the closing date. On 31 December 2018, the Group's interest-bearing liabilities stood at EUR 4.5 (1.8) million. The increase in the balance sheet resulted from the significant increase in inventories, the application of POC to long-term projects and investments made in fixed assets.

Research and development

Proventia made significant investments in R&D. R&D expenses totalled EUR 1.7 million (2017: EUR 0.7 million; 2016: EUR 0.8 million), comprising 4.5% of the Group's net sales (2017: 3.3%; 2016: 6.4%). R&D expenses have been capitalised on the balance sheet as development expenses in the amount of EUR 1.2 million (2017: EUR 0.4 million; 2016: EUR 0.4 million). R&D expenses recognised through profit or loss totalled EUR 0.6 million (2017: EUR 0.4 million; 2016: EUR 0.2 million).

Significant events during the financial year

During the financial year, Proventia established a subsidiary in the Czech Republic. Located in the Brno region, the new production facility is the company's first production unit outside Finland.

Proventia's extraordinary general meeting, held on 13 November 2018, decided to change the company form into a public limited company. At the same time, the name Proventia Group Ltd changed to Proventia Group Corporation on 14 November 2018 (registration date). These changes were made in order to prepare for strategic options.

Events after the financial year

No significant changes have taken place in the company's operations or financial position after the financial year.

Outlook

The legislation for emission limits for work machines will gradually proceed by engine-size class from Stage IV to Stage V EU standard in 2019 and 2020. Because the regulations will come into force gradually, Proventia will continue to deliver the current Stage IV systems to its OEM customers, but will launch production and delivery of Stage V systems in 2019. Retrofitting projects will proceed in accordance with country- and city-specific air quality regulations and schedules. New retrofitting projects are also starting outside Europe.

In test solutions markets, the need to test electric powertrains and components will also continue to grow. In particular, demand for battery testing systems is expected to increase substantially. Proventia will invest more in the development of test solutions for hybrid, electric and battery technologies in the near future.

In 2019, net sales and the operating profit are expected to increase from the 2018 levels. In 2018, net sales were EUR 38.3 million, and operating profit was EUR 4.7 million.

Key risks and uncertainties

In 2018, no significant changes occurred in the risks and uncertainties related to Proventia's business. 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. 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, product deployment, 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 procurement, 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 and to protect the Group against major unfavourable changes in financial markets, while helping to 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.

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 most significant source of currency risks is the exchange rate between GBP and EUR. 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 by means of 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 examined and maintained continuously.

Group structure

A new subsidiary, Proventia Czech s.r.o., was established during the financial year. No other changes took place in the Group structure during the financial year.

Personnel

During the financial year, the Group had an average of 92 employees (2017: 54 employees; 2016: 43 employees). At the end of the financial year, the Group had 118 employees (2017: 65 employees; 2016: 43 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 new share. 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. Option rights involve conventional terms and conditions related to the validity of the employment relationship and limitations related to 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.

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

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

Board of Directors and Management Team

At the Annual General Meeting held on 27 April 2018, Harri Suutari, Raisa Lesonen, Lauri Antila, Pekka Sipola and Tommi Salunen were elected members of the Board of Directors. The Board selected Harri Suutari as its Chairman.

At its meeting held on 27 April 2018, the Board of Directors decided to establish an audit committee. Tommi Salunen was elected Chairman of the audit committee, and Raisa Lesonen and Pekka Sipola were elected its members.

The extraordinary general meeting held on 13 November 2018 decided to establish a shareholders' nomination committee. Its purpose is to prepare proposals related to the selection of members and to rewarding for the Annual General Meeting. The nomination committee consists of three 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 as a specialist. The nomination committee was established to operate until further notice, until the Annual General Meeting decides otherwise. Members of the committee are appointed annually, and their term ends when new members have been 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 27 April 2018 decided to authorise 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 2018 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 2018 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 2018 financial year, the Board did not exercise the authorisation issued by the Annual General Meeting on 27 April 2018 to issue shares or special rights or to transfer treasury shares. The share issue authorisation issued by the Annual General Meeting on 27 April 2018 was replaced by the share issue authorisation issued by the extraordinary general meeting on 13 November 2018.

The Board of Directors has an authorisation issued by the extraordinary general meeting held on 13 November 2018 to decide on the issuance of new shares in one or more issues with or without a payment. On the basis of this authorisation, a maximum of 5,000,000 new shares may be issued. According to the authorisation, the Board of Directors has the right to decide on the terms and conditions of the share issue, including criteria for defining the subscription price of the shares issued and their final subscription price, as well as on the approval of subscriptions, the allocation of new shares issued and the final number of shares issued. The share issue may also deviate from the shareholders' pre-emptive subscription right (directed issue), including the provision of shares for institutional and non-professional investors and Proventia's personnel, i.e. members of the Board of Directors and Proventia's employees in conjunction with the potential listing of the company. Shares can be offered to Proventia's personnel potentially at a lower subscription price than to other investors as part of the company's initial public offering. In addition, the authorisation includes the right to decide on whether the share subscription price be recognised, in full or in part, in unrestricted equity reserves or as an increase in the share capital. The authorisation remains in effect until the end of the next Annual General Meeting; however, no longer than until 30 June 2019.

During the 2018 financial year, the Board of Directors did not exercise the share issue authorisation issued by the extraordinary general meeting on 13 November 2018.

At its meeting held on 18 January 2018, Proventia Group Corporation's Board of Directors decided to exercise its authorisations to acquire treasury shares and to acquire 5,000 treasury shares at a total price of EUR 5,000. The acquired shares represented 0.04% of all shares in the company and their votes. The Board of Directors of Proventia Group Corporation decided, at its meeting on 21 September 2018, to cancel the 5,000 shares acquired on 18 January and held by the company. The cancellation of the treasury shares held by the company was carried out in October. Therefore, the company or its subsidiaries do not hold or have not pledged any shares in the company or its parent company.

On 31 December 2018, 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 issued any loans to related parties. The company has no foreign affiliates, and it has not recognised any financial instruments at the fair value as defined in chapter 5, section 2 a, subsection 5 of the Accounting Act.

Board of Directors' proposal for distribution of profit

The Proventia Group Corporation's distributable funds total EUR 5,444,603.82. The Board proposes that the profit for the period (EUR 158,882.84) be transferred to retained earnings and that no dividend be paid.

Consolidated income statement

Sums in EUR	Note	1 Jan 2018 – 31 Dec 2018	1 Jan 2017 – 31 Dec 2017
Net sales	**2.1**	**38,298,942**	**19,635,779**
Change in inventories of finished goods and work in progress		2,058,106	723,176
Other operating income	2.3	34,829	25,561
Materials and services	2.2	-23,388,670	-10,584,287
Personnel expenses	3.1	-5,515,573	-3,894,190
Depreciation and impairment	2.4	-1,180,519	-1,060,567
Other operating expenses	2.3	-5,594,033	-2,519,746
Operating profit		**4,713,082**	**2,325,725**
Financial income and expenses	6.3	-213,683	-33,915
Profit before taxes		**4,499,399**	**2,291,810**
Income tax	2.5	-954,104	-455,584
Profit for the period		**3,545,295**	**1,836,226**

Consolidated balance sheet

Sums in EUR	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Intangible assets	4.1	2,754,821	1,511,879
Tangible assets	4.2	4,438,492	1,593,729
Non-current assets, total		**7,193,313**	**3,105,608**
Current assets			
Inventories	5.1	8,046,396	3,602,467
Non-current receivables			
Other receivables	5.2	84,991	58,780
Non-current receivables, total		84,991	58,780
Current receivables			
Sales receivables	5.2	6,559,925	4,602,567
Other receivables and accrued income	5.2	9,474,205	2,550,652
Current receivables, total		16,034,130	7,153,220
Cash in hand and at bank	6.2	1,062,604	961,178
Current assets, total		**25,228,121**	**11,775,645**
TOTAL ASSETS		**32,421,435**	**14,881,253**

Sums in EUR	Note	31 Dec 2018	31 Dec 2017
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)		1,045,487	-779,142
Profit for the period		3,545,295	1,836,226
Shareholders' equity, total		**10,243,433**	**6,709,736**
Obligatory provisions	7.1	785,991	219,436
Debt			
Non-current debt			
Loans from financial institutions	6.2	3,882,101	187,555
Non-current debt, total		3,882,101	187,555
Current debt			
Loans from financial institutions	6.2	599,908	1,633,762
Advances received	5.3	6,693,850	2,202,128
Trade payables	5.3	5,915,580	2,001,279
Other payables and accrued liabilities	5.3	4,300,572	1,927,358
Current debt, total		17,509,910	7,764,527
Debt, total		**21,392,011**	**7,952,082**
TOTAL LIABILITIES		**32,421,435**	**14,881,253**

Consolidated statement of changes in equity

Sums in EUR	Note	Share capital	Invested unrestricted equity reserve	Retained earnings	Total
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**
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**

Consolidated cash flow statement

Sums in EUR	2018	2017
Cash flow from operating activities:		
Profit before taxes	4 499 399	2 291 810
Adjustments:		
Planned depreciation	1 180 519	1 060 567
Financial income and expenses	213 683	33 915
Other adjustments	560 038	0
Cash flow before changes in working capital	6 453 639	3 386 292
Changes in working capital		
Changes in current non-interest-bearing trade receivables	-8 864 216	-4 933 467
Change in inventories	-4 443 928	-1 659 715
Changes in current non-interest-bearing liabilities	10 704 140	4 139 128
Interest paid and payments on other operating financial expenses	-215 269	-32 161
Direct taxes paid	-920 328	-263 000
Cash flow from operating activities (A)	2 714 038	637 077

Sums in EUR	2018	2017
Cash flow from investing activities:		
Investments in tangible and intangible assets	-5,268,224	-1,869,893
Cash flow from investing activities (B)	-5,268,224	-1,869,893
Cash flow from financing activities:		
Withdrawals of long-term and short-term loans	4,497,472	1,805,208
Repayments of long-term loans	-1,836,779	-224,090
Acquisition of treasury shares	-5,080	0
Cash flow from financing activities (C)	2,655,612	1,581,118
Changes in cash in hand and at bank (increase +, decrease -) (A+B+C)	101,427	348,303
Cash in hand and at bank at the beginning of the period	961,178	612,875
Cash in hand and at bank at the end of the period	1,062,604	961,178

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 include 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 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 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 by 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.

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 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

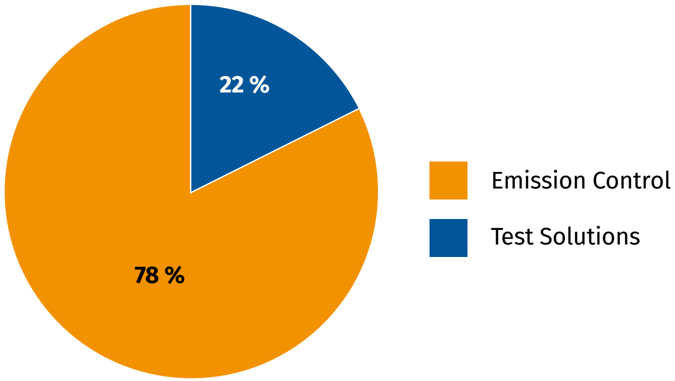
2.1 Distribution of net sales

Proventia's business operations consist of two business areas: Emission Control and Test Solutions. The Emission Control business 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, power lines and hybrid systems.

The Group's net sales in 2018 were EUR 38.3 (19.6) million. The Emission Control business area's net sales in 2018 were EUR 29.8 million, or 78% of the Group's net sales (2017: 16.7 million, or 85% of net sales). The Test Solutions business area's net sales in 2018 were EUR 8.5 million, or 22% of the Group's net sales (2017: 2.9 million, or 15% of net sales).

Sums in EUR	2018	2017
NET SALES BY BUSINESS AREA		
Emission Control	29,833,912	16,732,435
Test Solutions	8,465,030	2,903,344
Total	**38,298,942**	**19,635,779**

Distribution of net sales in 2018



Sums in EUR	2018	2017
NET SALES BY MARKET AREA		
Europe	37,862,541	18,130,371
Other continents	436,401	1,505,408
Total	**38,298,942**	**19,635,779**

Sums in EUR	2018	2017
BREAKDOWN OF NET SALES		
Net sales according to level of completion	8,465,030	2,900,384
Other net sales	29,833,912	16,735,395
Total	**38,298,942**	**19,635,779**
LONG-TERM PROJECTS		
Amount of income from long-term projects in consolidated net sales	8,465,030	2,900,384
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	8,317,646	2,127,157
Amount of received prepayments recognised for long-term projects in progress on the balance sheet	3,477,527	1,819,633
Amount of accrued income recognised for long-term projects in progress on the balance sheet	8,317,646	2,127,157

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 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 the application of POC to unfinished long-term projects, and received prepayments include prepayments from POC projects. 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 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 judgement-based estimates 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	2018	2017
MATERIALS AND SERVICES		
Substances, supplies and goods		
Purchases during the financial year	24,119,856	10,749,745
Increase in inventories	-2,335,390	-993,932
External services	1,604,205	828,475
Total	**23,388,670**	**10,584,287**

2.3 Other operating income and expenses

Sums in EUR	2018	2017
OTHER OPERATING INCOME		
Other operating income	34,829	25,561
Total	**34,829**	**25,561**
OTHER OPERATING EXPENSES		
Facility expenses	869,817	585,646
IT, device and equipment expenses	566,628	353,066
Travel expenses	681,814	347,109
Sales and marketing expenses	1,455,189	543,708
Administrative services and other administrative expenses	1,629,943	372,163
Other expense items	390,641	318,055
Total	**5,594,033**	**2,519,746**
AUDITORS' FEES		
Auditing	46,912	21,669
Tax consultancy services	14,582	15,171
Other services	14,452	9,389
Total	**75,946**	**46,228**

2.4 Depreciation and impairment

Sums in EUR	2018	2017
DEPRECIATION BY ASSET GROUP		
Development expenses	381,592	296,700
Intellectual property rights	91,970	55,240
Other capitalised long-term expenses	189,871	69,617
Machinery and equipment	517,085	502,270
Depreciation, total	**1,180,519**	**923,827**
Impairment of non-current assets	0	136,739
Depreciation and impairment, total	**1,180,519**	**1,060,567**

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	2018	2017
Income tax	-997,010	-477,811
Deferred tax	42,905	22,228
Total	**-954,104**	**-455,584**

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

Euroa	2018	2017
NUMBER OF EMPLOYEES		
Average number for the period	92	54
Number of employees at the end of the period	118	65
BREAKDOWN OF PERSONNEL EXPENSES		
Salaries and fees	4,511,462	3,186,217
Pension expenses	847,519	606,648
Other statutory indirect expenses	156,593	101,325
Total	**5,515,573**	**3,894,190**

The employees are paid a monthly salary or are paid by the hour. The company used a bonus scheme in 2018. The company's Board of Directors decides annually on the bonus scheme and its terms and conditions. Bonuses are paid based on the achievement of the targets set for the financial year. Personnel expenses are recognised on an accrual basis. In 2018, personnel expenses included EUR 730,000 in expenses related to bonuses (EUR 756,000 in 2017).

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. In addition, related parties include members of the Board of Directors and the Management Team, the CEO and the family members of these individuals, as well as any companies controlled by these.

During the 2018 financial year, the company's related-party transactions totalled EUR 418,000 (407,000). The most significant related-party transactions were carried out with companies of the Head Invest Group and totalled EUR 403,000 (407,000). Of these, the most significant item consists of rents for facilities, totalling EUR 319,000 (321,000). 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 2018 and 2017 were as follows:

Sums in EUR	2018	2017
CEO's and Management Team members' salaries and fees	970,132	1,042,316
Board members' salaries and fees	117,000	58,500
Total	**1,087,132**	**1,100,816**

The management's option system

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 involve conventional terms and conditions related to the validity of the employment relationship and limitations related to transferability.

4 RESEARCH, DEVELOPMENT AND INVESTMENT

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

Sums in EUR	2018	2017
Research and development expenses, total	1,722,218	651,296
Amount of product development costs capitalised as development expenses on the balance sheet:	1,154,435	368,889
Impairment of research and development expenses	0	136,739
Depreciation of research and development expenses	381,592	296,700
Research and development expenses recognised through profit or loss	567,783	367,083
Research and development expenses, % of net sales	4.50%	3.32%

The impairment of research and development expenses in the 2017 financial year was 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.

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 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 has 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.

Sums in EUR	2018	2017
Development expenses		
Acquisition cost, 1 Jan	5,190,937	4,958,788
Increase	1,154,435	368,889
Decrease	0	-136,739
Acquisition cost, 31 Dec	6,345,372	5,190,937
Accumulated depreciation according to plan	-4,352,074	-4,055,374
Depreciation for the period	-381,592	-296,700
Book value, 31 Dec	1,611,705	838,863
Intellectual property rights		
Acquisition cost, 1 Jan	1,475,855	1,352,603
Increase	327,681	123,252
Acquisition cost, 31 Dec	1,803,537	1,475,855
Accumulated depreciation according to plan	-1,260,644	-1,205,766
Depreciation for the period	-91,970	-54,878
Book value, 31 Dec	450,923	215,211
Other capitalised long-term expenses		
Acquisition cost, 1 Jan	613,549	146,428
Increase	426,534	467,121
Decrease	-2,275	0
Acquisition cost, 31 Dec	1,037,808	613,549
Accumulated depreciation according to plan	-155,744	-85,764
Depreciation for the period	-189,871	-69,980
Book value, 31 Dec	692,193	457,805
Intangible assets, total	**2,754,821**	**1,511,879**

4.2 Machinery and equipment

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

Sums in EUR	2018	2017
Machinery and equipment		
Acquisition cost, 1 Jan	4,725,546	3,814,915
Increase	3,361,848	911,112
Decrease	0	-481
Acquisition cost, 31 Dec	8,087,394	4,725,546
Accumulated depreciation according to plan	-3,131,817	-2,629,547
Depreciation for the period	-517,085	-502,270
Book value, 31 Dec	4,438,492	1,593,729
Tangible assets, total	**4,438,492**	**1,593,729**

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	2018	2017
Substances and supplies	4,540,903	2,211,451
Work in progress	720,102	248,043
Finished products	2,685,472	1,078,049
Prepayments on inventories	99,918	64,924
Inventories, total	**8,046,396**	**3,602,467**

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 2018, non-current receivables totalled EUR 85,000 (59,000) and consisted of rent deposits.

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

Sums in EUR	2018	2017
Sales receivables	6,559,925	4,602,567
Other receivables	674,008	102,832
Accrued income	8,631,752	2,403,933
Deferred tax assets	168,445	43,887
Total	**16,034,130**	**7,153,220**

Material items included in accrued income		
Receivables from long-term projects (POC method)	8,317,646	2,127,157
Other accrued income	314,106	276,776
Total	**8,631,752**	**2,403,933**

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 been minimal.

5.3 Trade and other payables

Sums in EUR	2018	2017
Trade payables	5,915,580	2,001,279
Other current liabilities	1,325,824	102,556
Advances received	6,693,850	2,202,128
Accrued liabilities	2,893,096	1,824,802
Deferred tax liabilities	81,652	0
Total	**16,910,002**	**6,130,765**
Material items included in accrued liabilities		
Allocation of personnel expenses	1,601,859	1,295,711
Allocation of interest expenses	468	2,053
Other accrued liabilities	1,290,769	527,038
Total	**2,893,096**	**1,824,802**

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 amount of depreciation difference less deferred tax liabilities.

On 31 December 2018, 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 2018, Head Invest Oy's holding of shares and votes in Proventia Group Corporation is 70.18%. Proventia Group is consolidated into Head Invest Oy's financial statements.

No changes took place in the invested unrestricted equity reserve during 2017 or 2018.

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.

Euroa	2018	2017
FINANCIAL LIABILITIES		
Long-term loans		
Bank loans	3,463,213	0
Hire purchase liabilities	418,889	187,555
Long-term loans, total	3,882,101	187,555
Short-term loans		
Bank loans	300,000	1,500,000
Hire purchase liabilities	299,908	133,762
Short-term loans, total	599,908	1,633,762
Financial liabilities, total	**4,482,009**	**1,821,317**
Cash in hand and at bank	**1,062,604**	**961,178**

In 2018, the Group's loans consisted of a bank loan, a line of credit and hire purchase liabilities. The Group withdrew a long-term loan of EUR 1.5 million in June 2018. The loan has a term of five years and is repaid in monthly instalments with a floating rate of interest tied to the Euribor rate. The loan agreement includes regular covenants related to the Group's equity ratio. The loan is secured against corporate mortgages. The company has a EUR 3.0 million line of credit, of which EUR 2.4 million was in use on the closing date. Its cash in hand and at bank consist of cash assets.

6.3 Financial income and expenses

Sums in EUR	2018	2017
Financial income		
Other interest and financial income	3,649	3,418
Exchange rate gains	115,127	35,477
Financial income, total	**118,776**	**38,895**
Financial expenses		
Interest and other financial expenses	-80,386	-40,107
Exchange rate losses	-252,073	-32,703
Financial expenses, total	**-332,459**	**-72,810**
Financial income and expenses, total	**-213,683**	**-33,915**

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, currency risks are particularly associated with the transaction and translation risks involving 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. There were no open forward contracts on the closing date.

6.6 Off-balance sheet commitments

Sums in EUR	2018	2017
PLEDGES AND CONTINGENT LIABILITIES		
Securities and mortgages for own liabilities		
Business mortgages	8,300,839	8,300,839
Lines of credit		
Total credit amount	3,000,000	1,500,000
In use	2,413,213	0
Amounts paid from leasing agreements (VAT included)		
To be paid during the next financial year	245,971	112,767
To be paid later	282,151	131,060
Total	528,122	243,827
Other liabilities based on agreements (VAT included)		
To be paid during the next financial year	1,187,217	638,087
To be paid later	3,981,066	1,481,327
Total	5,168,283	2,119,414
Commercial bank guarantees	764,373	0
Liabilities for which mortgages or pledges have been given as securities		
Loans from financial institutions	3,763,213	1,500,000
Total	3,763,213	1,500,000

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 delivery guarantee and prepayment guarantees.

During the 2018 financial year, the company applied to become retroactively liable to pay VAT in the UK. On the closing date, no decision on the retroactive registration date for the liability to pay VAT was received. The decision had no impact on profit or loss, as the company's liability subject to VAT on the closing date will be invoiced from customers.

7 OTHER NOTES

7.1 Provisions

Sums in EUR	2018	2017
Warranty provisions	785,991	219,436
Total	**785,991**	**219,436**

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 the proportion of actual warranty expenses to 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.

A new subsidiary, Proventia Czech s.r.o., was established during the financial year. No other changes took place in the Group structure during the financial year.

On 31 December 2018, 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	2018	2017
DEFERRED TAX ASSETS		
Warranty provisions	157,222	43,887
Confirmed losses	11,223	0
Total deferred tax assets	**168,445**	**43,887**
DEFERRED TAX LIABILITIES		
Accrued depreciation differences	81,652	0
Total deferred tax liabilities	**81,652**	**0**

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 2018 are mainly related to obligatory provisions that are not deductible until warranty expenses are incurred in the future. Some tax assets are related to the parent company's confirmed losses. Deferred tax assets from 2017 are related to obligatory provisions. Deferred tax assets from 2018 are related to accrued depreciation differences. The proportion of depreciation differences included in the shareholders' equity was EUR 327,000 on 31 December 2018.

Parent company’s financial statements

Parent company’s income statement

Sums in EUR	Note	1 Jan 2018 – 31 Dec 2018	1 Jan 2017 – 31 Dec 2017
Net sales	1	1,418,186	799,462
Other operating income	2	2,598	8,964
Materials and services		0	0
Personnel expenses	3	-643,991	-480,426
Depreciation and impairment	4	-34,609	-21,066
Other operating expenses	5	-1,594,279	-360,205
Operating loss		**-852,096**	**-53,271**
Financial income and expenses	6	-1,162	-1,198
Loss before taxes		**-853,258**	**-54,469**
Appropriations	7	1,000,000	80,000
Income tax	8	12,141	-4,260
Profit for the period		**158,883**	**21,271**

Parent company's balance sheet

Sums in EUR	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Intangible assets	9	120,367	76,211
Tangible assets	9	8,494	3,486
Investment	10	5,421,157	5,421,157
Non-current assets, total		**5,550,018**	**5,500,854**
Current assets			
Current receivables	11		
Sales receivables		202,421	275,263
Other receivables and accrued income		888,517	812,379
Current receivables, total		1,090,937	1,087,642
Cash in hand and at bank		185,238	6,676
Current assets, total		**1,276,175**	**1,094,318**
TOTAL ASSETS		**6,826,193**	**6,595,172**

Sums in EUR	Note	31 Dec 2018	31 Dec 2017
LIABILITIES			
Shareholders' equity	12		
Share capital		1,090,281	1,090,281
Invested unrestricted equity reserve		4,562,371	4,562,371
Retained earnings		723,350	707,159
Profit for the period		158,883	21,271
Shareholders' equity, total		**6,534,885**	**6,381,082**
Debt			
Current debt	13		
Trade payables		108,586	28,533
Other payables and accrued liabilities		182,723	185,556
Current debt, total		291,309	214,090
Debt, total		**291,309**	**214,090**
TOTAL LIABILITIES		**6,826,193**	**6,595,172**

Parent company's cash flow statement

Sums in EUR	2018	2017
Cash flow from operating activities:		
Loss before taxes	-853,258	-54,469
Adjustments:		
Planned depreciation	34,609	21,066
Financial income and expenses	1,162	1,198
Cash flow before changes in working capital	-817,487	-32,205
Changes in working capital		
Changes in current non-interest-bearing trade receivables	996,705	7,712
Changes in current non-interest-bearing liabilities	78,137	121,117
Interest paid and payments on other operating financial expenses	-1,162	-1,323
Cash flow from operating activities (A)	267,415	95,302

Sums in EUR	2018	2017
Cash flow from investing activities:		
Investments in tangible and intangible assets	-83,774	-31,698
Cash flow from investing activities (B)	-83,774	-31,698
Cash flow from financing activities:		
Repayments of long-term loans	0	-85,938
Acquisition of treasury shares	-5,080	0
Cash flow from financing activities (C)	-5,080	-85,938
Changes in cash in hand and at bank (increase +, decrease -) (A+B+C)	178,562	-22,333
Cash in hand and at bank at the beginning of the period	6,676	29,009
Cash in hand and at bank at the end of the period	185,238	6,676

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	2018	2017
1. NET SALES BY BUSINESS AREA		
Other net sales	1,418,186	799,462
Total	**1,418,186**	**799,462**
2. OTHER OPERATING INCOME		
Rental income	0	5,700
Other operating income	2,598	3,264
Total	**2,598**	**8,964**
3. NUMBER OF EMPLOYEES AND PERSONNEL EXPENSES		
Average number for the period	8	5
Number of employees at the end of the period	10	6
Breakdown of personnel expenses		
Salaries and fees	544,997	401,272
Pension expenses	89,357	68,629
Other statutory indirect expenses	9,638	10,526
Total	**643,991**	**480,426**

Sums in EUR	2018	2017
4. DEPRECIATION AND IMPAIRMENT		
Intellectual property rights	32,492	20,234
Other capitalised long-term expenses	363	363
Machinery and equipment	1,754	469
Total	**34,609**	**21,066**
5. OTHER OPERATING EXPENSES		
Facility expenses	51,638	9,031
IT, device and equipment expenses	185,734	132,262
Travel expenses	28,904	3,743
Sales and marketing expenses	76,283	0
Administrative services and other administrative expenses	1,232,921	184,750
Other expense items	18,799	30,419
Total	**1,594,279**	**360,205**

Sums in EUR	2018	2017
6. FINANCIAL INCOME AND EXPENSES		
Interest and other financial expenses		
To Group companies	-575	0
To others	-587	-1,198
Financial expenses, total	-1,162	-1,198
Financial income and expenses, total	**-1,162**	**-1,198**
7. APPROPRIATIONS		
Group contribution	1,000,000	80,000
Total	**1,000,000**	**80,000**
8. INCOME TAX		
Income tax	12,141	-4,260
Total	**12,141**	**-4,260**

Sums in EUR	2018	2017
9. CHANGES IN NON-CURRENT ASSETS		
Intellectual property rights		
Acquisition cost, 1 Jan	606,494	577,208
Increase	77,011	29,286
Acquisition cost, 31 Dec	683,505	606,494
Accumulated depreciation according to plan	-533,424	-513,190
Depreciation for the period	-32,492	-20,234
Book value, 31 Dec	117,588	73,069
Other capitalised long-term expenses		
Acquisition cost, 1 Jan	3,625	3,625
Increase	0	0
Acquisition cost, 31 Dec	3,625	3,625
Accumulated depreciation according to plan	-483	-121
Depreciation for the period	-363	-363
Book value, 31 Dec	2,779	3,142
Intangible assets, total	**120,367**	**76,211**
Machinery and equipment		
Acquisition cost, 1 Jan	180,580	178,168
Increase	6,762	2,412
Acquisition cost, 31 Dec	187,342	180,580
Accumulated depreciation according to plan	-177,094	-176,624
Depreciation for the period	-1,754	-469
Book value, 31 Dec	8,494	3,486
Tangible assets, total	**8,494**	**3,486**

Sums in EUR	2018	2017
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%	
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	2018	2017
11. CURRENT RECEIVABLES		
Sales receivables		
From Group companies	202,373	275,239
From others	48	25
Total	202,421	275,263
Other receivables		
From others	65,319	0
Total	65,319	0
Accrued income		
From Group companies	750,000	795,000
From others	61,975	17,379
Deferred tax assets	11,223	0
Total	823,198	812,379
Current receivables, total	**1,090,937**	**1,087,642**
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, share issue	0	0
Invested unrestricted equity reserve, 31 Dec	4,562,371	4,562,371
Retained earnings, 1 Jan	728,430	707,159
Redemption of treasury shares	-5,080	0
Retained earnings, 31 Dec	723,350	707,159
Profit for the period	158,883	21,271
Earnings, 31 Dec	882,233	728,430

Sums in EUR	2018	2017
Unrestricted equity, 31 Dec	5,444,604	5,290,801
Shareholders' equity, total	6,534,885	6,381,082
Distributable funds at the end of the period	5,444,604	5,290,801
13. CURRENT LIABILITIES		
Trade payables		
To Group companies	42,292	0
To others	66,294	28,533
Total	108,586	28,533
Other current liabilities		
To others	13,319	34,552
Total	13,319	34,552
Accrued liabilities		
To others	169,404	151,004
Total	169,404	151,004
Current liabilities, total	**291,309**	**214,090**

Sums in EUR	2018	2017
14. PLEDGES AND CONTINGENT LIABILITIES		
Securities and mortgages for liabilities of subsidiaries		
Business mortgages	1,000,000	1,000,000
Amounts paid from leasing agreements (VAT included)		
To be paid during the next financial year	154,352	101,308
To be paid later	194,034	118,897
Total	348,385	220,205
Other liabilities based on agreements (VAT included)		
To be paid during the next financial year	367,923	0
To be paid later	3,249,985	0
Total	3,617,908	0

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

Oulu, 15 March 2019

Harri Suutari
Chairman of the Board

Lauri Antila
Board member

Raisa Lesonen
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, 19 March 2019

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	Paper format
Receipts	
Bank receipts	Electronic format
Nominal ledger receipts	Electronic format
Sales invoices	Electronic format
Purchase invoices	Electronic format
Travel expense accounts	Paper receipts
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 2018. 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 19 March 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Sami Posti
Authorised Public Accountant (KHT)

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