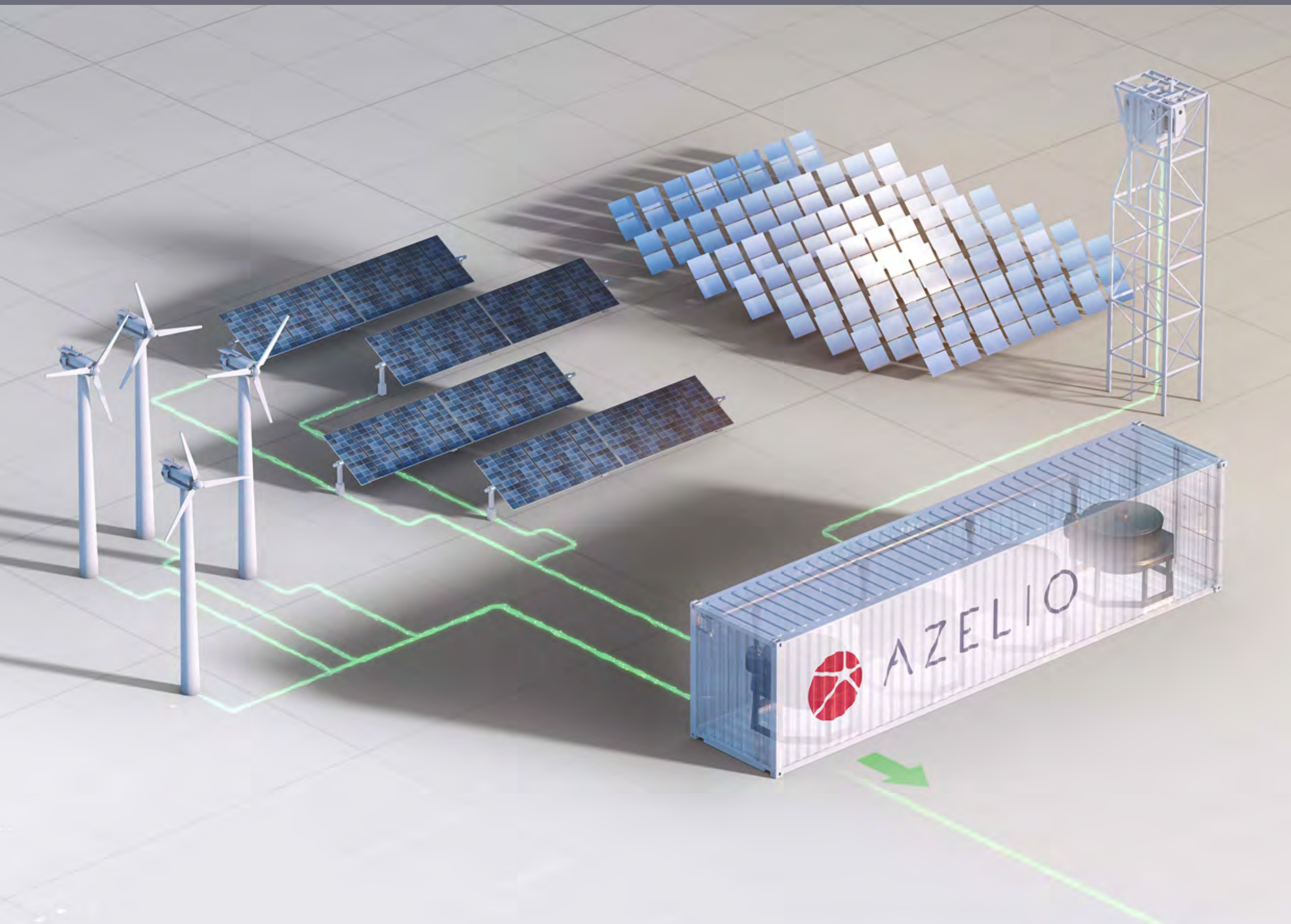
ANNUAL REPORT 2019

AZELIO (PUBL.)



SUSTAINABLE ELECTRICITY AT A LOW COST
WHEN & WHERE IT IS NEEDED

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The year in brief

About Azelio

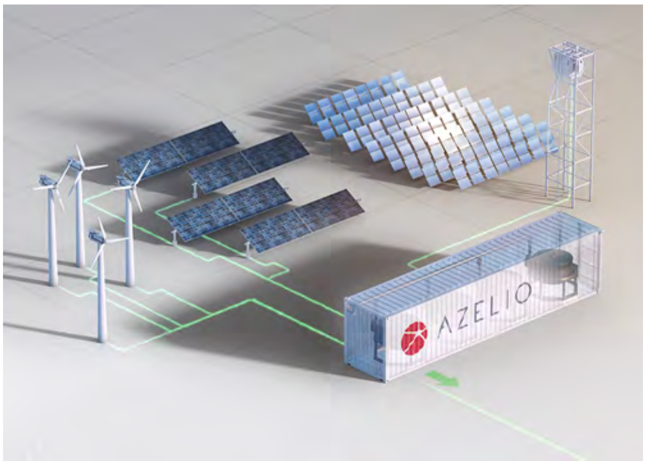
Sustainable energy for all
Sustainable and reliable energy at a competitive price is crucial for both the environment and long-term growth. Unfortunately, access to sustainable energy is unstable in many parts of the world. Azelio's solution enables access to renewable energy as electricity and heat when and where it is needed. Our technology stores energy from solar and wind power and then makes it available as electricity and heat around the clock, at a very competitive cost. In this way, people, communities and business can be developed sustainably.

A large and growing market
By efficiently storing renewable energy in areas without a stable grid, Azelio is addressing a very large market. Today one billion people live without access to a grid, with even more living in areas where the grid is unstable. People are then to a large extent dependent on diesel generators, a technology that is both dirtier and more expensive than Azelios. After having successfully demonstrated the storage technology in 2018 and having continued to develop it since, Azelio has received expressions of interest from potential customers for more than 3.9 GW – representing an order value of up to SEK 170 billion.

A groundbreaking solution
Azelio's solution stores energy in the form of heat in an aluminium storage facility. Heat is then taken from the storage facility on demand and delivers heat and electricity via a Stirling engine at all hours of the day at a competitive cost. The total efficiency can reach up to 90 percent. Azelio's storage technology can be connected to solar and wind power systems, for example, and allow for sustainable electricity delivery when needed at any hour. The system is modular and can be combined into customised units to supply, for example, a hospital, factory or small community with sustainable energy.

Moving from innovation to industry
Azelio continues to following a clear plan to industrialise and commercialise its innovation globally. Thereby laying the foundation for a significant new Swedish industrial company. We are making the move from innovation to industry together with large, well-established global partners as Masen, the Moroccan Agency for Sustainable Energy, which has responsibility for Morocco's ambitious targets for renewable energy. Another such partner is Masdar, based in Abu Dhabi, which is one of the world's foremost companies in the development, establishment and operation of renewable energy systems.

An important milestone for the company is to verify the system for obtaining verification data that makes it easier for customers to finance projects using Azelio's technology. The verification will take place from Azelio's recently installed system at one of the world's leading solar power stations, Noor located in Morocco and owned by Azelio's partner Masen as well as from the company's installation in Sweden. Later in 2020 also in Abu Dhabi. Due to the current corona situation and travel restrictions, the verification will initally focus on data from Sweden. These verifications pave the way for the start of serial production in Azelio's factory in Uddevalla in 2021.



Significant events

Azelio develops technology for charging the storage unit using electricity

During the year, Azelio further developed its unique technology to enable the storage system to be heated with both concentrated solar power and with electricity. As a result, Azelio’s solution can improve the productivity of installed or planned photovoltaics and wind power – for delivery on demand, around the clock. The solution can also be used to take advantage of periods when demand – and thus the price of electricity – is low to charge the storage.

With Azelio's technology, total system efficiency can reach a full 90 percent from energy to energy, since the storage solution produces both electricity and heat at a temperature of around 55–65 degrees Celsius.

Expressions of interest increase to represent an order value of SEK 170 billion

Following the expanded energy storage solution, Azelio reviewed its previous expressions of interest and also received new expressions of interest from customers. In autumn 2019 expressions of interest were estimated to amount to around 3.9 GW, representing a potential order value of up to SEK 170 billion – many times higher than the previous assessment of 1 GW, which represents an order value of up to SEK 50 billion. It should be noted, however, that these expressions of interest are not orders and that the number of expressions of interest exceeds the company’s expected production capacity over the next five years.

Memorandums of Understanding for capacity of 159 MW

During the year Azelio signed four Memorandums of Understanding (MoU) for facilities with a combined capacity of around 159 MW. The MoUs were signed in the USA and in prioritised markets in sub-Saharan Africa and the Middle East. Various MoUs have been signed with project development companies for the express purpose of starting long-term partnerships.

The most comprehensive MoU relates to around 120 MW – representing around 9,000 units – and was signed with Biodico, Inc. of California. The first project is expected to be taken into operation in 2021 and will act as a model for future projects in California. Biodico, Inc. is working to create environmentally friendly biofuel production plants that are operated locally using renewable resources.

Verification projects in Sweden and Morocco

Together with Masen (the Moroccan Agency for Sustainable Energy), Azelio took two units into operation in December 2019 at the Noor solar power complex in Morocco. The company also commissioned its own similar project in Åmål, Sweden, next to the company’s development centre. The units will be used in the verification project aimed at enabling customers to finance projects using Azelio’s technology. The project starts with optimising the system, after which a third party is engaged to record operating data. Data from operation in a real environment is essential for financing these types of projects, and also enables more reliable investment calculations to be made.

SEK 350 million rights issue

Azelio has completed a rights issue which raised around SEK 350 million before transaction costs. The share issue was oversubscribed, with a total of 72 percent of the issue being subscribed for on the basis of subscription rights and the remainder by parties without rights. The result of the new share issue was announced on 30 December and the proceeds were received in January 2020.

Group key figures

	JAN–DEC 2019	JAN–DEC 2018
Net sales, SEK 000	1 670	1 942
Operating profit/loss, SEK 000	-160 510	-91 749
Profit/loss for the year, SEK 000	-160 897	-92 004
Earnings per share, SEK	-3,80	-3,54
Equity, SEK 000	710 374	561 717
Equity/assets ratio, %	82%	85%
Cash flow from operating activities, SEK 000	-129 853	-35 774
Cash and bank, SEK 000	55 634	331 196

Technology developed so that storage facility can be charged using electricity

Azelio achieved a technological breakthrough during the year, allowing the company's thermal energy storage solution to be charged not only using concentrated solar power but also using electricity. This development of the technology means that Azelio's energy storage solution can now be used together with established and widespread technologies within renewable energy, such as photovoltaics and wind power.

The breakthrough opens up large new markets since photovoltaics and wind power have been widely adopted around the world, and also because Azelio's storage can be used together with existing solar and wind turbine facilities. It also makes it attractive in geographical markets such as India, where the conditions for photovoltaics and wind power are good but where concentrated solar power does not provide sufficient energy to create an economically sustainable system. Azelio's technology can also be connected to existing grids to manage imbalances in electricity prices and output – in many parts of the world this is becoming an ever greater issue.

The technology developed also allows total system efficiency of up to a full 90 percent from energy to energy, since the storage solution can generate both electricity and heat at a temperature of around 55–65 degrees. With earlier technology it was difficult to utilise the heat.

The need for a fast global transition to renewable energy means that there is large and rapidly increasing demand for energy storage. In many more contexts than before, Azelio's technology can be the most competitive solution for distributed and dispatchable electricity production for around the clock use.

Still firmly on course

Azelio's push to become a commercial industrial company continued as planned in 2019. We are purposefully driving the company forward so that we can shift up to series production and installations for customers globally in 2021. It is pleasing to see a growing awareness in the outside world that we have everything in place to make a serious contribution to the UN's global goal of sustainable energy for all – and to do so in the near future.

Expressions of interest start to become agreements

In autumn 2019, ahead of plan, we began signing the first Memorandums of Understanding (MoU) for our energy storage solution with on demand Stirling-based electricity production. At the end of 2019 the MoUs amounted to a total capacity of 159 MW, with further additions since then making a total of 184 MW. These MoUs relate to our prioritised markets in the USA, Pakistan, sub-Saharan Africa and the Middle East. Various MoUs have been signed with project development companies for the purpose of entering into long-term partnerships, as they want to include our technology in their offerings to customers.

Our storage technology has wide-ranging applications, as can be seen from the needs of our counterparties in the various markets. In sub-Saharan Africa many people live without access to a stable grid, which is why hospitals, factories and communities use solar energy when they can and diesel generators at times of day when the sun does not shine. Our solution, with solar energy being stored during the day for use during the hours of darkness, replaces diesel for baseload power generation and considerably reduces both electricity costs and the environmental footprint. The stumbling block for our potential customers is generally not getting the costings to work but financing the projects.

Biodico, Inc. of California, with which we have signed our largest MoU to date, has a different type of demand. Biodico wants to create environmentally friendly biofuel plants in the region that are run locally using renewable resources. Solar panels are an obvious choice in California, but they are combined with supply via an underdeveloped electricity grid in which tariffs are high. Here we represent a local, renewable and cheaper alternative.

Jonas Eklind, CEO

> "2020 will be a year of new agreements, converting existing MoUs into concrete orders and making preparations for 2021 when serial production starts.

The next step is firm orders

We succeeded in signing these MoUs as a result of having strengthened our organisation in the areas of marketing and business development. We recruited capable individuals who have begun working on the expressions of interest received since the first technology demonstration in the summer of 2018, which is now having results. The goal for 2020 is to continue to sign a number of MoUs and also to convert some of these into firm orders.

To do this we need to carry out feasibility studies together with the potential customers, and then finance the projects and plan the details. That demands both time and resources, which is why it is important for us to select the right projects and engage in deeper dialogue concerning them, and then also to prioritise them correctly.

Verification data in progress

Another important step we took in 2019 was to get the verification projects in Morocco and Åmål (Sweden) in place. Together with Masen (the Moroccan Agency for Sustainable Energy) we installed two units at one of the world's major solar farms, Ouarzazate Solar Power Station in Morocco, and put a corresponding system into operation in Åmål as a test bed. In the first quarter of 2020 we will engage a third party to record operating data for verifying the technology. This will initially be done from Åmål because of the travelrestrictions from the coronavirus.

The aim of this verification is to give our customers, their customers and financial backers a robust basis on which to make financing decisions for full-scale installations. For optimal project financing it is often necessary to finance projects by borrowing, and this is therefore essential if we are to be able to convert the significant customer interest into orders.

In the case of small projects, a couple of months of data is sufficient. For medium-sized installations a time series of up to a year is needed, and really large installations need an even longer time series.

Partners provide leverage

In 2020 we will install a further verification project, this time in partnership with project developer and renewable energy giant Masdar as well as Khalifa University in Abu Dhabi. Masdar, which operates in 25 countries and specialises in the development, installation and operation of renewable energy systems and sustainable national development, wants to verify the system and get to know our technology so that they can include it in their product portfolio. The project involves a total of four units.

Delivery organisation in place

Within the company it is clear that we are approaching series production. We ended the year with around 160 employees and consultants, and today we have a delivery organisation in place and a production unit standing ready. An important milestone for us internally was achieved last summer when we produced the first volume-production Stirling engine at our plant in Uddevalla.

Optimising for production

Expressions of interest, Memorandums of Understanding and orders from customers have to go hand in hand with production. In 2020 we will focus on optimising the company for series production in 2021. That means making minor adjustments to the technology to adapt it to the production methods we choose with our manufacturing partners. We also need to make final choices of components and run a product verification (PV) series to check that all the adjustments we make are optimal.

On the way to a global market

2020 will be a year of new agreements, converting existing MoUs into firm orders and making preparations for 2021 when serial production starts. Our plan is ambitious, taking us from idea to industrial volume production for a global commercial market within the space of five years. Everything has gone according to plan so far, thanks to purposeful hard work together with our partners. We intend to continue to be focused and work hard going forward, to contribute to climate targets and change lives for the better for millions of people around the world.

The prevailing situation with COVID-19 is hitting many severely and closed borders are creating major challenges for businesses. The impact on Azelio has been relatively mild, but travel restrictions mean that we cannot work at that rate and from the places we planned for in all projects. In light of the Swedish authorities' clarification that travel restrictions remain until at least June 15 and the otherwise uncertain development of the coronavirus impact, we are adapting our project plans to the new situation. Optimization of our resources based on the best assessment of the situation leads to some changes in the previously communicated time plan. The company's working capital is estimated to be sufficient for another quarter compared to what was previously communicated, until December 2020. The need for the next financing is thus extended accordingly. The overall time plan is then also moved forward one quarter with initiated commercial installation during Q4 2020 and serial production from Q3 2021.

Gothenburg, April 2020

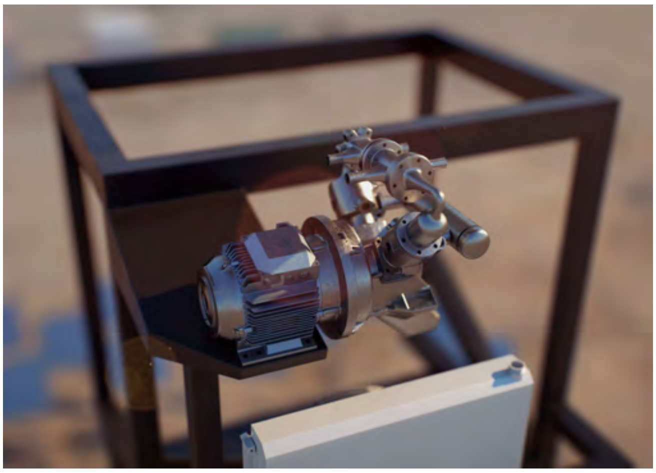
- Jonas Eklind, CEO

Technology

How it works

Distributed electricity where and when it is needed. With this focus, Azelio has developed a unique solution for thermal energy storage with highly efficient electricity production on demand using a Stirling engine. It is a scalable solution for sustainable electricity around the clock at a low cost.

The system can be installed in sizes from 0.1 MW to 100 MW, with storage capacity for 13 hours of electricity production at nominal output – a system that can therefore supply, say, a hospital, factory or small community with renewable energy around the clock. The system is modular in design so that it can be adapted to individual customers and with components requiring minimal maintenance.



Groundbreaking energy storage

Azelio's energy storage solution is based on an aluminium alloy. The storage medium maintains its capacity without needing to be replenished, and there is no power degradation over time. This unique solution has a storage capacity of 13 hours of electricity production at nominal output, resulting in a system that can produce sustainable, dispatchable and distributed electricity cost-effectively around the clock.

Stirling engine converts heat to electricity

Stirling engines utilise a heat differential to drive a generator and produce electricity. So all that is needed to drive the engine is heat, and the system is entirely emission-free. Azelio's unique Stirling engine has been developed over 25 years and has accumulated more than two million operating hours. The high efficiency of the Stirling engine – 29 percent from heat to electricity – is an important factor in the system's cost-effectiveness.

Competitive advantages

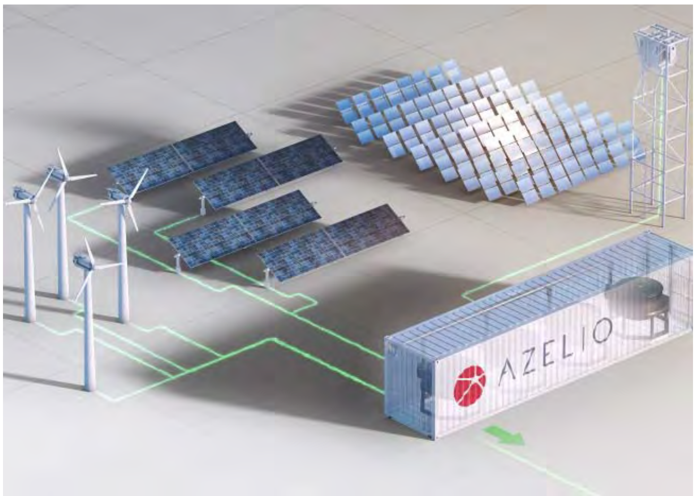
Cost-effective technology. Combining the efficiency of the Stirling engine with the system's ability to store thermal energy – rather than storing electricity, which is more expensive – gives Azelio a competitive offering for installations of up to 100 MW with a storage capacity of 4 hours upwards, for delivery around the clock.

Scalable design. The scalable design enables small projects to be built and allows a standardised building process, quick installation, incremental expansion and multiple application areas.

Well-suited to distributed electricity production. The system is robust and competitive even for small installations, from 0.1 MW up to 100 MW. It is therefore well suited to areas with no access to a reliable grid where people are currently dependent on diesel generators.

High quality assembly plant for large-scale production of the Stirling engine. With established subcontractors as well as its own production plant built according to the latest manufacturing principles, the company can ensure high quality series production at a low cost throughout the manufacturing chain – creating competitive advantages and the opportunity to secure rapid growth in production.

Global network of established partners. Azelio has developed a global network of leading players within renewable energy, including Masen and Masdar. This network contributes valuable knowledge about the renewable energy market, research and development, industrialisation, verification and business development. Collaboration is largely locally based, enabling Azelio to identify business opportunities and develop relationships with potential customers, suppliers and authorities.



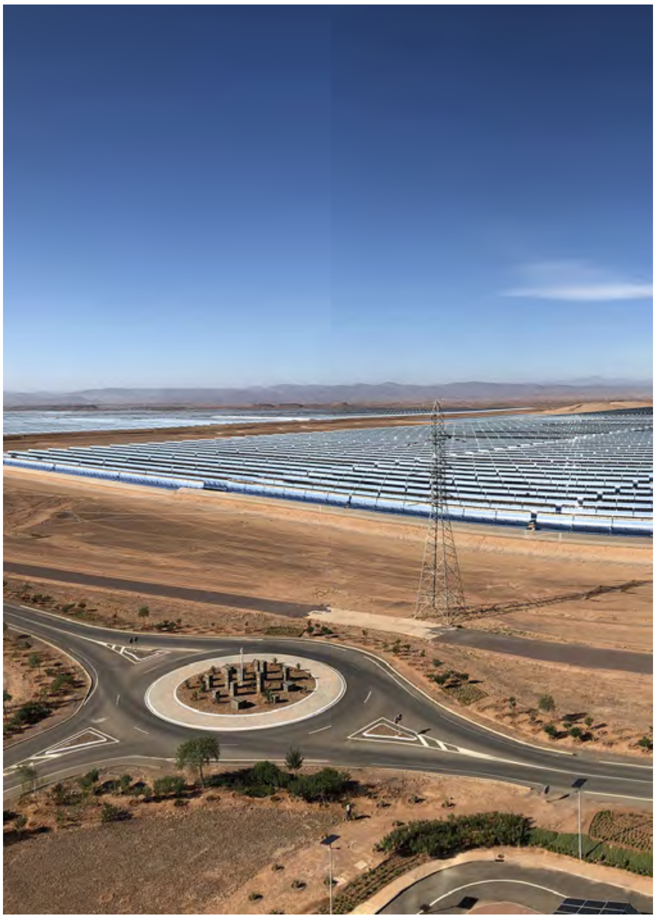
Company overview

Business model

Azelio offers a system of thermal energy storage for Stirling engine-based electricity production on demand, 24 hours a day. The company owns all of the unique product design for its system and performs final assembly of the Stirling engine at its own plant, while subcontractors produce the system's components and subsystems such as the storage unit.

Azelio can use two distinct business models depending on the commercial conditions and project-specific requirements. Initially Azelio may run and own projects jointly with partners to establish the technology in the market. Once the system and the technology are established and proven, Azelio will act as a technology provider that sells the technology and trains others in how to create successful projects.

Azelio's system is offered to customers on the global energy market with an initial focus on installations of 0.5 MW to 20 MW. In the longer term Azelio intends to offer systems for projects of up to 100 MW. Azelio is focusing mainly on selling the system to EPC contractors (project development companies), which are then responsible for the installation. Initially, Azelio will participate in the start-up phase of new installations in order to train EPC contractors in successful system installation and maintenance.



Revenue model

Azelio's revenue model varies depending on the commercial circumstances and project-specific requirements, and is thus determined by which business model the company applies. Initially, Azelio may run projects jointly with partners; the company then intends to become a technology provider that sells systems instead.

Sale of systems

Once the system is established in the market, Azelio will use a revenue model based on system sales. In the aftermarket phase a revenue model in the form of service fees will be used, with recurring revenue being received for system monitoring, servicing and maintenance.

Project financing

Discussions are held with various financiers who can assist Azelio's projects with loans. There are many variants for financing projects. A common structure is that a financier gives a loan to Azelio where the risk of loss on the claim is covered by a guarantee from a third party. Azelio can then have a lower interest cost compared to normal loan financing. In addition, it is also possible to obtain equity, loans or grants from organizations, authorities and international development banks such as the World Bank and the European Development Bank to finance projects.

Long-term goals

Azelio's goal is to drive the transition to renewable energy by storing renewable energy that is then made available on demand, 24 hours a day, at a low cost.

2019 - goals and goal follow-up
Sign agreements with partners / coordinators in priority markets.

Azelio made six statements of intent with partners in priority markets, in sub-Saharan Africa, in Pakistan, in California and in the Middle East.

Installation and commissioning of de-verification projects in Morocco. Verification projects were installed and commissioned in Morocco and Åmål.

2020 - goals

Continue to sign agreements with customers and convert Memorandums of Understanding into comercial orders.

Verification data presented from the company's verification projects.

2021 - goals

begin serial production and start major commercial projects.

The company's production capacity

2021: 1,500 units
2022: 6,000 units
2023: 17,000 units
2024: 35,000 units

Financial goals
The company aims to achieve an EBIT margin in the long term of at least 15 percent.

Board & Management

Board of directors

Bo Dankis

Born 1954. Chairman of the board since 2011.

Education

Master of Science, Industrial Engineering and Management, Linköping University of Technology.

Other current assignments

Board member at Kapitalförvaltning Ekeby AB.

Previous assignments

Chairman of the board at IV Produkt Aktiebolag. Chairman of the board at Gadelius Holding, Business Sweden and Perstorp. Board member at Gunnebo AB and ASSA ABLOY AB. CEO Perstorp and ASSA ABLOY AB. Country manager ABB Japan.Board member at Ekeby Invest AB. Deputy board member at IV Produkt Holding AB and IV Produkt Holding Sweden AB.

Shareholding in the company

469,640 shares and 940,000 warrants.

Mattias Bergman

Born 1966. Board member since 2017.

Education

Executive MBA, Copenhagen Business School. Master in Economics, Stockholm University.

Other current assignments

CEO and board member at BIL Sweden Adm AB. Chairman of the board at Odette Sweden AB, board member at NeoNode Inc.

Previous assignments

CEO and board member at National Electric Vehicle Sweden AB and Attaro Consulting AB. Chairman of the board at ReformTech Heating Technologies AB. Board member of Automobile Property AB, Automobile Laboratory Sweden AB, Automotive Interior Parts Sweden AB and Automobile i Trollhättan nr 2 AB.

Shareholding in the company

34,662 shares and 600,000 warrants.

Hicham Bouzekri

Born 1973. Board member since 2018.

Education

PhD in electrotechnology, Texas A&M University, College Station, Texas, USA, Engineer, Electronics Communications, Ecole Mohammadia d'Ingénieur, Morocco. M.Sc., University of Florida, Gainesville, Florida, USA.

Other current assignments

Director of Research and Development, Industrial Integration at Masen. Founder and principal shareholder of Microtronix.

Previous assignments

CEO of MASciR.

Shareholding in the company

No shares but 300,000 warrants.

Sigrun Hjelmquist

Born 1956. Board member since 2019.

Education

Master of Science & Licentiate of Technology, Engineering Physics, Royal Institute of Technology, KTH, Stockholm

Other current assignments

Chairman of the board at Facesso AB. Board member at Addnode Group Aktiebolag (publ), Eolus Vind Aktiebolag (publ), Edgeware AB (publ), Ragn-Sellsföretagen AB, Transcendent Group AB (publ), IGOT Ab and Teqnion AB.

Previous assignments

Chairman of the board at ALMI Stockholm Investeringsfond AB, ALMI Invest Östra Mellansverige AB, ALMI Invest Stockholm AB, Fouriertransform Aktiebolag and Nordic Iron Ore AB. Board member at Clavister Holding AB, Saminvest AB, Silex Microsystems AB and Bluetech Aktiebolag,

Shareholding in the company

10,130 shares and 60,000 warrants.

Kent Janér

Born 1961. Board member since 2016.

Education

Master in Economics, Stockholm School of Economics.

Other current assignments

Chairman of the board at Frost Asset Management AB. Board member at Nektar Asset Management AB, Brummer & Partners AB, Blue Marlin AB, Eastfort Asset Management Ltd, Eastfort Dynamic Master Fund and Eastfort Dynamic Feeder Fund.

Previous assignments

Chairman of the board and board member at Honung AB and Namint AB.

Shareholding in the company

17,770,107 shares (directly, through companies and via related parties).

Pär Nuder

Born 1963. Board member since 2012.

Education

Master of Laws, Stockholm University.

Other current assignments

Chairman of the board at Tapetlagret Öbergs Färghus i Västerås Aktiebolag and Hemsö Fastighets AB. Board member at Beijerinvest Aktiebolag, Dabok AB and Dabok Advisory AB. Deputy board member at Dabo Idé AB.

Previous assignments

Chairman of the board at Sundbybergs stadshus AB, I&P Förvaltning AB, Fjällförsäkringar AB, SkiStar Aktiebolag, Fjällförsäkringar AB, AMF Pensionsförsäkring AB and Tredje AP-fonden. Board member at Swedegas AB, IP-Only AB, Nyx Security AB, Knubbsäl Midholding AB, STEN HECKSCHER AB, Knubbsäl Holding AB, Narob TopHolding AB, Nyx Group AB, Business Challenge AB, IP-Only Holding AB, Fabege AB and Åre 2019 AB.

Shareholding in the company

339,879 shares and 303,200 warrants (through companies and via related parties).

Bertil Villard

Born 1952. Board member since 2010.

Education

Master of law, University of Stockholm

Other current assignments

Chairman of the board at Strax AB, Landsort Care 3 AB and Landsort Care 4 AB. Board member at Prior & Nilsson Fond- och Kapitalförvaltning Aktiebolag, Bertil Villard Holding AB, Polaris Management A/S, Polaris Invest II ApS, Polaris II Invest Fonden and iCoate Medtech AB. Hammiltoska Familjestiftelsen. Deputy board member at Tengroth & Co AB, Alltid Oavsett AB, CJMGB Förvaltning AB and PPRD Nordic AB.

Previous assignments

Partner and external company signatory at the law firm Advokatfirman Vinge Aktiebolag. Chairman of the board at Landsort Care AB, Landsort Care 2 AB and Rabbalshede Kraft AB (publ). Board member at ECODC AB, Gränges AB, Mercuri International Group AB, SamSari Aktiebolag, Auriant Mining AB and Samsari Act Group AB. Deputy board member at Voddler Sweden AB.

Shareholding in the company

950,000 shares (directly and through companies), 300,000 warrants and 50,000 buy options.

Lars Thunell

Born 1948. Board member since 2018.

Education

Ph.D. in Political Science, Stockholm University. Research assistant, Harvard University, Cambridge, Massachusetts, USA.

Other current assignments

Chairman of the board at Björnberget Fastighetsförvaltning AB and ECODC AB.

Previous assignments

CEO of IFC (International Finance Corporation, part of the World Bank Group), CEO of SEB (Skandinaviska Enskilda Banken AB), Leading positions within ABB and American Express, Chairman of the board at Africa Risk Capacity Ltd and Flexenclosure AB (publ). Board member at Standard Chartered Bank, Global Water Development, Access Health International, Middle East Investment Initiative, Akzo Nobel, SCA, Astra and Castellum, Senior Advisor to Blackstone and Advisor to Africa Development Bank.

Shareholding in the company

375,994 shares and 330,000 call options.

Management team

Jonas Eklind

Born 1963. CEO since 2015.

Education

Degree in Physics and Biotechnology, Uppsala University. Diploma in Functional Swedish and Communication, Uppsala University. Diploma in Leadership in Technology Companies, ManTech IFL Executive Education, Stockholm School of Economics. Diploma in Business Administration and Market Economics, IHM Business School.

Other current assignments

Chairman of the board at Shapeline AB. Board member and owner of Deep Powder AB. Board member at Cleanergy AB, Advanced Stabilized Technologies Group AB, ASTGW AB, Advanced Inertial Measurement Systems Sweden AB and Nordic New Energy Partners Ekonomiska Förening.

Previously (last 5 years)

CEO and board member at Woodeye AB. CEO of Innovativ Vision Holding Aktiebolag. Board member and deputy board member at Dendro Fortune AB. Board member at Vita Vonni AB.

Shareholding in the company

71,500 shares and 500,000 warrants.

Kennet Lundberg

Born 1957. CFO since 2018.

Education

Executive MBA, University of Gothenburg School of Business, Economics and Law.

Other current assignments

Board member and owner of Kennet Lundberg AB. Board member and partner at Chamber Group Sweden AB, Lecka Alpha Trading GP Ltd and Stella Analytics Ltd. Board member at Lecka Alpha Trading LP. Deputy board member at Cleanergy AB.

Previously (last 5 years)

Vice President and CFO at Xellia Pharmaceuticals ApS. CFO of Real Holding i Sverige AB (publ). Board member at Victor Hasselblad Aktiebolag, Hasselblad Aktiebolag, Troax Group AB (publ) and Intalco Intressenter AB.

Shareholding in the company

10,000 shares.

Peter Gabrielsson

Born 1973. VP Operations since 2019.

Education

BSc in Civil engineering, University of Jönköping.

Other current assignments

-

Previously (last 5 years)

Regional Manager, Lindbäcks Bygg AB. VP Projects at Apply Emtunga AB.

Shareholding in the company

9,000 shares and 200,000 warrants.

Ingemar Hagberg

Born 1970. VP Manufacturing since 2019.

Education

A qualification in Process Development & Economics. Lean-Production, Continuous Improvement, 6-Sigma Green Belt.

Other current assignments

-

Previously (last 5 years)

Practical Project Management, Process Development and Ergonomics, Lean Production, Continuous Improvement, 6-Sigma Green Belt, all training courses within Volvo Cars.

Shareholding in the company

1 share and 300,000 warrants.

Jonas Karlsson

Born 1970. VP Projects since 2017.

Education

Master of Science in Engineering, Mechanical Engineering, Chalmers University of Technology.

Other current assignments

-

Previously (last 5 years)

VP Projects at Azelio.

Shareholding in the company

5,000 shares and 200,000 warrants.

Torbjörn Lindqvist

Born 1969. CTO since 2017.

Education

Ph.D. in Energy Technology, Mechanical Engineering, Lund University of Technology. Master of Science in Engineering, Mechanical Engineering, Lund University of Technology.

Other current assignments

-

Previously (last 5 years)

-

Shareholding in the company

1,581 shares and 200,000 warrants.

Jonas Wallmander

Born 1976. VP Partners & Collaborations since 2017.

Education

Master of Science in Engineering, Mechanical Engineering, Linköping University of Technology.

Other current assignments

-

Previously (last 5 years)

VP Partners & Collaborations at Azelio.

Shareholding in the company

1,117 shares and 200,000 warrants.

Dr. Ralf Wiesenberg

Born 1969. VP Business Development since 2018.

Education

Ph.D. in Engineering and a Master's degree in Energy Engineering, Department of Energy Systems, Technical University of Berlin.

Other current assignments

Sole administrator and owner of Lifecycle Associates S.L.

Previously (last 5 years)

CEO of ÅF Aries Energia S.L. and Sun to Market Solutions S.L.

Shareholding in the company

3,180 shares and 200,000 warrants.

Strategic partnerships

The company's partners

Azelio works in cooperation with international partners who share its ambition to improve the world's energy supply through more effective, sustainable and reliable solutions. The company's partners consist of organisations and companies that work together within research and development, production, installation, industrialisation, verification and business development. With various starting positions and focus areas within renewable energy, reciprocal trust is created by working together on development and validation. Azelio aims to add value for the company's partners in various local projects and for the partners to utilise each other's expertise to create influence in different markets.

Masen

Masen (the Moroccan Agency for Sustainable Energy) has been a strategic partner since 2016, and since 2018 Masen has also had a representative on Azelio's Board of Directors. Masen, which is a state-controlled agency, is in charge of Morocco's overall strategy for a sustainable energy mix. Masen contributes valuable knowledge about the solar energy market and has a key role in Azelio's research and development for thermal energy storage, industrialisation, verification and business development.

Masen provides access to a large network of established companies and stakeholders in renewable energy, and to suppliers for local sourcing and production. Masen's research and development platform for concentrated solar power is located in Ouarzazate, Morocco, home to Ouarzazate Solar Power Station – one of the world's largest solar power plants with a capacity of 580 MW.

Since 2016 Azelio and Masen have had a 13 kW pilot plant in Ouarzazate, and at the end of 2019 a verification project involving two units of Azelio's system was also installed in Ouarzazate.

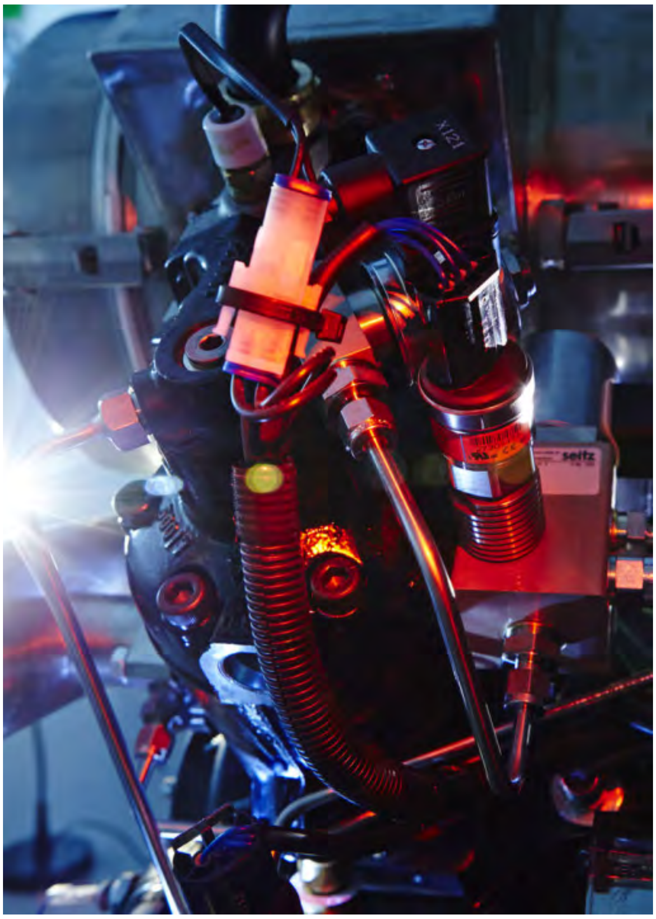
" With various starting positions and focus areas within renewable energy, reciprocal trust is created by working together on development and validation.

Masdar

In September 2019 Azelio entered into a research partnership agreement with Masdar and Khalifa University to run a pilot project for evaluation and demonstration of Azelio's energy storage. It is projects involving photovoltaics, concentrated solar energy and wind power, or for projects that deliver solutions for off-grid and self-suffient systems. The purpose is to assess whether Azelio's technology can be included in Masdar's existing and future renewable energy projects. Masdar is one of the world's foremost companies in the development, installation and operation of renewable energy systems.

Masdar's experience in thermal energy storage along with the opportunities to demonstrate and validate systems in a tough desert environment were considered crucial in the choice of research partner.

In 2018 the Masdar Institute of Science and Technology (Masdar Institute) became Azelio's research partner for the development of thermal energy storage. Masdar Institute was founded in 2007 in cooperation with Massachusetts Institute of Technology (MIT), as an independent non-profit research university focusing on advanced energy and sustainable technology. Masdar Institute is now part of Khalifa University of Science and Technology.



Glava Energy Center

Glava Energy Center has been a Swedish partner of Azelio since 2019. It is a development centre at a regional, national and international level for companies and organisations that have operations in renewable energy or energy efficiency.

The partnership with Glava Energy Center relates to verification of Azelio's technology in Sweden. It will enable tests to be carried out close to the company's development processes and in systems with renewable technologies and grid configurations. The varied test environments will speed up the verification process for a broad area of applications and an expanded market.

AQ Enclosure Systems

In 2019 Azelio signed a Memorandum of Understanding with AQ Enclosure Systems to work together to secure long-term production of Azelio's energy storage system. The goal is for AQ Enclosure System to be a full-scale production partner that offers purchasing, assembly and logistics services for Azelio's finished systems. The first units manufactured under the agreement were delivered to Azelio's verification project in Morocco at the end of 2019.

Azelio's market

A large demand

Large parts of the world do not have access to a reliable electricity supply – that is, an electricity supply every hour of the day without frequent interruptions. Access to a reliable electricity supply is important for economic and social development, and energy shortages have a negative impact on households, businesses and the public sector. There is a significant demand for electricity-producing systems that can meet the need for a reliable electricity supply.

Alongside the absence of reliable electricity supplies, demand for electricity in developed countries is growing – for infrastructure and transport, for example. There are also new requirements aimed at increasing the use of renewable energy so as to reduce carbon emissions and drive the global transition from fossil fuels to renewables. To sum up, there is a demand for sustainable electricity production at a competitive cost 24 hours a day.

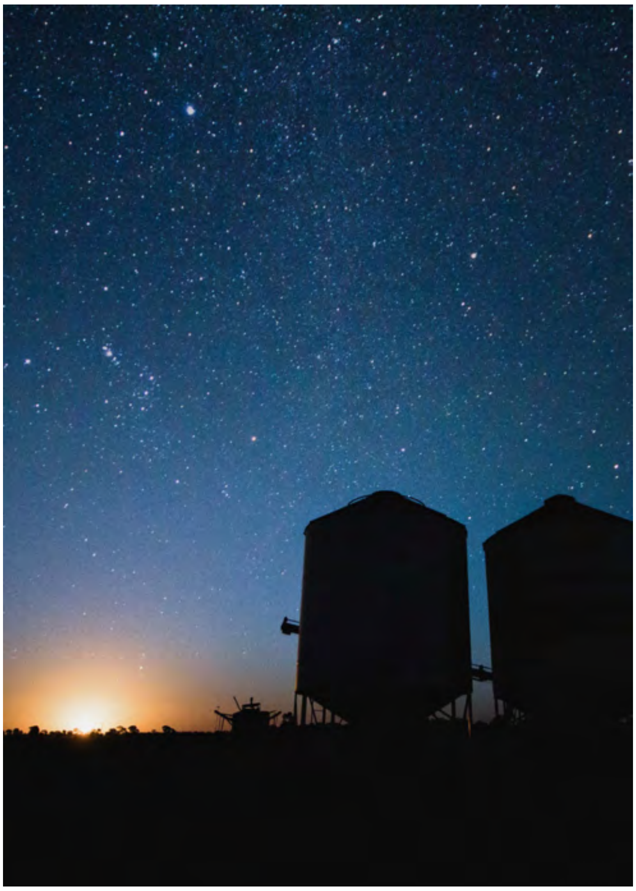
Renewable electricity grows fast

The share of renewable energy is increasing, not least as it becomes more cost-effective compared to fossil fuels. In 2017 renewables accounted for 9.3 percent of total energy production. By 2025 it is expected that renewable types of energy will overtake coal as the largest source of electricity production, and by 2050 these are expected to account for almost half of global electricity production.

Intermittant energy require storage

There is a clear distinction between intermittent (non-continuous, fluctuating) energy sources and sources of baseload power (continuous). Solar and wind power are intermittent sources since they only produce energy when the sun shines or the wind blows. In contrast, nuclear power and fossil energy sources are baseload power sources since they can produce energy 24 hours a day regardless of wind and weather conditions.

This distinction is relevant because energy consumption is relatively continuous over time and follows a clear pattern each day, with high consumption in the evenings when production from photovoltaics is low. In order for solar and wind power to be able to satisfy the need for a continuous energy supply and be an adequate alternative to nuclear power and fossil energy sources, solutions are therefore required that allow energy to be stored to cover requirements at all hours of the day and night.



Distributed electricity production

At present, the fastest and most cost-effective way of giving more people access to stable grids is generally by constructing systems for what is known as distributed and dispatchable electricity production to supply micro and mini grids. These systems generally include solar and wind power, currently supplemented by diesel for baseload generation.

Overall, this means that energy storage is expected to play a key role in the next stage of the transition from fossil fuels to renewable energy sources. Today there is particular demand in markets with micro grids that are dependent on expensive energy sources such as diesel, but which also have access to cheap and underutilised energy sources such as solar and wind power. However, there is also demand for energy storage in grid-connected markets with good access to renewable energy sources, for poorly performing grids and in markets with widely fluctuating electricity tariffs or high carbon taxes.

Azelio's target markets

Initially Azelio has chosen to focus on the following geographical markets:

- **Middle East and North Africa.** High solar radiation, moderate levels of access to electricity and high costs for alternative electricity production.
- **Sub-Saharan Africa.** High solar radiation, low access to electricity and high costs for alternative electricity production.
- **The Andes, Mexico and Brazil.** High solar radiation and a need for electricity to supply micro grids, mini grids and off-grid systems.
- **Australia and central and western USA.** A high percentage of solar radiation and high electricity prices.

Azelio as an investment

Addressing a large and growing market

Access to renewable and reliable energy at a competitive price is crucial for the sustainable development of communities, as well as for the environment. At the same time, distribution of renewable energy is lagging behind in many countries. A billion people currently live without access to a grid and even more do not have a stable electricity supply. Electricity shortages inhibit both social and economic development and have therefore been addressed by the UN and other organisations as a key area for change by 2030.

Azelio's solution can provide everyone with access to competitive renewable energy when needed. There is a great need and the demand exists. Already the company has received qualified expressions of interest representing 3.9 GW, or SEK 170 billion in potential order value. By efficiently storing solar and wind energy as heat and then making it available as electricity and heat at a competitive price around the clock, Azelio aims to make a strong contribution to the world achieving the UN's global goal of sustainable energy for all.

Groundbreaking solution for stable baseload generation from sun and wind without dependence on a grid

Azelio's groundbreaking solution generates stable and sustainable energy and has the capacity to replace diesel for baseload generation in micro grids based on photovoltaics and wind power, for example. The high efficiency of the system means that it can also be used to balance out existing grids.

- The system stores energy in the form of heat in a storage facility made of recycled aluminum; a Stirling engine then converts this into electricity and heat when it is needed. The storage facility is designed to deliver 24 hours a day, with sufficient production for 13 hours at full output or for longer when adapting to fluctuations in demand. The system has a total efficiency from energy to heat and electricity of up to 90 percent.
- The solution is economically and environmentally superior to the diesel generators that are currently used in micro grid systems, and is excellently suited as a complement to photovoltaics and wind power – providing cover for when the sun does not shine or there is no wind. Azelio thus improves the productivity of established installations and technologies.
- The solution is completely emission-free, consumes no water or salt, is made of recycled aluminium that does not degrade over time and uses no rare-earth elements.
- The system is modular and can be combined to form larger units that are economically competitive from 0.1 MW to 100 MW – sufficient for a hospital, factory, mine or small community, for example.

"Azelio is following a clear plan to industrialise and commercialise its innovation globally, thereby laying the foundation for a significant new Swedish industrial company.

Gearing up for a global market

Azelio has designed its solution for a global market – using production principles, suppliers and methods taken from the automotive industry. The units can be produced in volume, are easy to manage in the field and are cost-effective even for small installations.

Series production is to start in 2021 and is being carefully prepared for. The initial production capacity will be 23,000 units, representing sales of around SEK 15 billion. The capacity of the Uddevalla factory, which previously belonged to Volvo Cars, can be doubled.

Moving from innovation to industry

Azelio is following a clear plan to industrialise and commercialise its innovation globally, thereby laying the foundation for a significant new Swedish industrial company. The company is in an investment period and expects to achieve sales of SEK 1 billion within a few years. In the long term profitability should exceed an EBIT margin of 15 percent.

An important interim goal in 2020 is to verify the system in real environments, which is being carried out in Morocco in cooperation with the company's strategic partner Masen and also in Sweden and Abu Dhabi. This verification will make it easier for customers to finance projects that use Azelio's technology. The installation in Morocco at one of the world's biggest solar farms, Ouarzazate Solar Power Station, was completed and delivered electricity in December 2019.

The step from innovation to industry is being taken together with large established partners such as Masen and Masdar, supported by subcontractors familiar with the exceptionally high requirements of the automotive industry. Azelio is well equipped for the future.

Ownership structure

On 13 January 2020 Azelio had 7,808 shareholders. The largest shareholder was Kent Janér along with related parties and companies (Blue Marlin), with around 19.1 percent of the capital and votes.

Name	Shareholding, %
Blue Marlin AB / Kent Janér	19,12
Bank Lulius Baer & Co Ltd, W8IMY	7,08%
Deutsche Bank (Suisse) S.A, W8IMY	4,51%
SEB AB, Luxembourg Branch, W8IMY	3,76%
Ilija Batljan	3,61%
Goldman Sachs International Ltd, W8IMY	3,33%
Byggmästare AJ Ahlström Fastighet	2,68%
Försäkringsaktiebolaget, Avanza Pension	2,52%

Listing

Azelio shares have been listed on the Nasdaq First North Growth Market since 10 December 2018. In 2019 the share rose by 23 percent and closed at SEK 12.00. The highest trading price was SEK 15.76 and the lowest SEK 6.66. In total, 20.5 million shares were traded during the year with a combined value of SEK 224.4 million, which means that 48 percent of the shares changed hands during the year.

Share capital and capital structure

Azelio's share capital as at 31 December 2019 amounted to kSEK 21,174 which was represented by 42,347,495 shares, corresponding to a quota value of approx. SEK 0.50. After the closing date a rights issue which raised SEK 350 million before transaction costs was registered, increasing the share capital to SEK 45,876,000 and the number of shares by 49,405,405 shares to a total of 91,752,900.

At the end of the period there were 39,626,667 warrants, of which 60,000 are in the process of registration, issued in seven different series with exercise prices of between SEK 10 and SEK 130. Full conversion of these warrants would increase the number of shares by 4,196,667. The programmes are described on the company's website www.azelio.com/investors.

Dividend policy

The company has so far not paid any dividend.

Any future dividend and the size thereof will be determined based on long-term growth, earnings trends and capital requirements. It is the view of the Board of Directors that the company should prioritise the development of the company's system, and until the future commercial launch of the system the financial resources should mainly be used to fund the company's business, research and development plans. In view of Azelio's financial position and negative earnings, the Board of Directors does not intend to propose any dividend until the company generates long-term sustainable profits and positive cash flow. Where a dividend is proposed, it is to be balanced with respect to the business risk in the operations.

Administration report

The Board of Directors and CEO of Azelio AB (publ.), corporate identity number 556714-7607, hereby present the annual report and accounts and the consolidated financial statements for the financial year 1 January 2019 – 31 December 2019.

On 31 December 2019 the Group consisted of the parent company Azelio AB, domiciled in Gothenburg, and two subsidiaries; see also Note 39.

Operations

Azelio AB offers a system for thermal storage of renewable energy with delivery of sustainable electricity and heat on demand, 24 hours a day, at a low cost.

The company owns all of the unique product design for its system and performs final assembly of the Stirling engine at its own plant, while subcontractors produce the system's components and subsystems such as the storage tank. Research and development as well as sales and marketing are managed internally and in cooperation with strategic partners.

Azelio can use two distinct business models, depending on the commercial conditions and requirements specific to each individual project. Initially Azelio may run jointly owned projects in cooperation with third parties to establish the technology in the market. In the longer term – once Azelio's system and technology have been established and proven – Azelio will act as technology provider, sell the technology and provide training in how to build a successful commercially viable project.

In smaller installations Azelio sells the system directly to the end customer, while medium to large installations are sold to companies that work on engineering, procurement and construction contracts (known as EPC contractors), which are then responsible for installation. Initially, Azelio will participate in the start-up phase of new installations to train EPC contractors in successful system installation and maintenance. In addition to system sales, Azelio also offers monitoring, maintenance, upgrading and servicing of the system.

Market

Azelio's system is offered to customers in the global energy market, initially to customers who are building projects in the MENA region, in sub-Saharan Africa, the Andes, Mexico, Brazil, Australia and central and western USA (where there are generally favourable conditions for concentrated solar power (CSP), photovoltaics (PV) and, in some cases, wind power) with installations of between 500 kW and 20 MW for electricity production during the day and with a storage capacity equivalent to 13 hours of electricity production at nominal output.

In the longer term Azelio intends to develop its offering and offer systems for projects from 100 kW up to 100 MW, and also to offer systems to customers in countries with demand for dispatchable electricity production based on sustainable technologies such as concentrated solar power, photovoltaics and wind power.

Significant events during the financial year

Azelio develops technology for charging the storage unit using electricity

Azelio developed its unique technology to enable the storage system to be heated by means of both concentrated solar power and electricity. As a result, Azelio's solution can improve the productivity of installed or planned photovoltaics and wind power – for delivery on demand, around the clock, whatever the weather. The solution can also be used to take advantage of periods when demand – and thus the price of electricity – in existing grids is low, and avoid periods when prices in existing grids are high.

With this technology the total system efficiency can reach a full 90 percent from energy to energy, since the storage solution is placed on the ground and generates both electricity and heat at a temperature of around 55–65 degrees Celsius.

Expressions of interest increase to represent an order value of SEK 170 billion

Following the improvements to the energy storage solution, Azelio reviewed its previous expressions of interest and also received new expressions of interest from customers. In autumn 2019 expressions of interest were estimated to amount to around 3.9 GW, representing a potential order value of up to SEK 170 billion – many times higher than the previous assessment of 1 GW, which represents an order value of up to SEK 50 billion. It should be noted, however, that these expressions of interest are not orders and that the number of expressions of interest exceeds the company's expected production capacity over the next five years.

Memorandums of Understanding for capacity of 159 MW

During the year Azelio signed several Memorandums of Understanding (MoU) for installations with a combined capacity of around 159 MW. These were signed in the USA, Pakistan and in prioritised markets in sub-Saharan Africa and the Middle East. Various MoUs have been signed with project development companies for the purpose of starting long-term partnerships.

The most comprehensive Memorandum of Understanding relates to around 120 MW – representing around 9,000 units – and was signed with Biodico, Inc. of California. The first project is expected to be taken into operation in 2021 and will act as a model for future projects in California. Biodico, Inc. is working to create environmentally friendly biofuel production plants that are operated locally using renewable resources.

Verification projects installed

Together with Masen (the Moroccan Agency for Sustainable Energy), Azelio took two units into operation in December 2019 at the Ouarzazate Solar Power Station in Morocco. The company also commissioned its own similar project in Åmål, Sweden, next to the company's development centre. The units will be used in the verification project aimed at enabling customers to raise funds for Azelio's technology. The project starts with optimising the system, after which a third party is engaged to record operating data. Data from operation in a real environment is essential for financing such types of project, and also enables more reliable investment costings to be made. The verification is initiated from Sweden due to the travelrestrictions caused by the coronavirus.

SEK 350 million rights issue

Azelio completed a rights issue which raised around SEK 350 million before transaction costs. The share issue was oversubscribed, with a total of 72 percent of the issue being subscribed for on the basis of subscription rights and the remainder by parties without rights. The result of the new share issue was announced on 30 December and the proceeds were received in January 2020.

Significant events after the closing date

Memorandum of Understanding for energy storage project in Jordan

Azelio signed a Memorandum of Understanding (MoU) with Hussein Atieh & Sons Co. (HAE) to jointly establish a small-scale project in Jordan. The project is intended to pave the way for commercial collaboration on Azelio's energy storage technology in Jordan totalling around 25 MW by 2023.

How COVID-19 are impacting Azelio's business

At present the impact on Azelio is relatively mild, but travel restrictions mean that we cannot work at the pace nor from the places we planned for in all of our projects. Given the Swedish authorities set travel restriction to at least June 15 and the uncertainty in the development of the coronavirus, Azelio has adapted projects and optimized costs to extend its time plan with one quarter. Thereby the company's working capital is estimated to be sufficient for another quarter compared to what was previously communicated, until December 2020. The need for the next financing is thus extended accordingly.

Development of the company's operations, results and position

Group (SEK)	**2019 1)**	**2018 1)**	**2017 2)**	**2016 2)**
Net sales	1,670,000	1,942,000	2,921,000	3,665,000
Operating profit/loss	-160,897,000	-92,004,000	-97,443,000	-107,740,000
Total assets	865,580,000	658,249,000	286,794,000	230,997,000
Equity/assets ratio, %	82%	85%	83%	57%

Parent company (SEK)	**2019 1)**	**2018 1)**	**2017 2)**	**2016 2)**
Net sales	1,670,000	1,942,000	2,921,000	3,665,000
Operating profit/loss	-161,932,000	-96,093,000	-94,230,000	-105,116,000
Total assets	848,908,000	644,294,000	289,824,000	236,902,000
Equity/assets ratio, %	84%	88%	85%	58%

Definitions: see note 57

1) Calculation according to IFRS 2) Calculation according to K3

Income, expenses and profit/loss

Net sales amounted to SEK 1,670,000 (1,942,000). The decrease is due to the company having shifted its focus onto developing a solution for storage of renewable energy. Own work capitalised amounted to SEK 130,891,000 (66,392,000) for the year.

Costs amounted to SEK -293,751,000 (-162,090,000). The increase is largely attributable to personnel costs, raw materials costs and consulting costs. The company's total costs are largely attributable to development. The value of certain capitalised project costs that were de-prioritised or discontinued during the period was written down by SEK 13,331,000 (–).

The operating loss amounted to SEK -160,510,000 (-91,749,000). The net result for the period was a loss of SEK -160,897,000 (-92,004,000). Earnings per share before and after dilution amounted to SEK -3.80 (-3.54).

Cash flow and investments

Cash flow from operating activities amounted to SEK -129,853,000 (-32,254,000). Cash flow from financing activities amounted to SEK -6,352,000 (412,765,000). Investments affecting cash flow during the period amounted to SEK -139,256,000 (-67,500,000), mainly in the form of capitalised development.

Parent company

Net sales for the parent company amounted to SEK 1,670,000 (1,942,000). The operating loss amounted to SEK -156,441,000 (-87,651,000) and the net loss for the year was SEK -161,932,000 (-96,093,000).

Equity at the end of the period amounted to SEK 715,200,000 (567,274,000).

Seasonal variations

The Group is currently being built up, with preparations for volume production and commercialisation of the system, and at this stage there are no seasonal variations over the year.

The share and share capital

The shares have been listed on the Nasdaq First North Growth Market in Stockholm since 10 December 2018. In 2019 the share price rose by 23 percent, closing at SEK 12.00.

As at 31 December 2019 the share capital amounted to SEK 21,174,000 which was represented by 42,347,495 shares. After the closing date a rights issue was registered, increasing the share capital to SEK 45,876,000 and the number of shares by 49,405,405 shares to a total of 91,752,900.

At the end of the period there were 40,026,667 warrants, of which 400,000 in the process of registration, issued in eight different series with exercise prices of between SEK 10 and SEK 130. Full conversion of these warrants would increase the number of shares by 4,596,667.

Related party transactions

In 2019 an amount of SEK 12,740,000 (1,353,000) was expensed in respect of services provided in connection with the company’s demonstration plant in Ouarzazate, Morocco. The counterparty is Masen, the state-controlled Moroccan Agency for Sustainable Energy. Masen holds 16,666,667 warrants in the company and has a representative on the Board of the company. The accrued expenses amount to SEK 14,093,000 (1,353,000) in total. These services are performed on market terms.

Responsible business

The Group conducts no operations requiring a permit under the Environmental Code. See below:

Permit or notification required by the Environmental Code

Group

No operations requiring permit or notification according to the Environmental Code have been conducted during the financial year.

Parent company

No operations requiring permit or notification according to the Environmental Code have been conducted during the financial year.

Significant risks and uncertainties

The current valuation of the company’s assets in the form of capitalised development costs and inventory is based on adherence to the prepared business plan. The Board expects the future sales volumes to be so extensive that the discounted cash flows generated will justify the current valuation with a good margin. The Board believes there is good potential to implement the business plan and that capitalised development costs are likely to lead to future economic benefits.

The company’s capitalised development costs relate to various technologies. All are linked to the Stirling engine and the energy storage solution, the technologies upon which the company has built its business. The Board believes that, due to technical synergies, the current Stirling engine was made possible by the development of the gas engine. Due to the close relationship between these technical solutions, the machines are not assigned to separate cash-generating units. The engine is a further development of earlier technology and thus no impairment losses have been reported on development costs for earlier versions. On the other hand, inventory disposals and provisions have been made on an ongoing basis for components that were unique to previous versions of the product.

Following authorisation by the general meeting, the Board made the decision to carry out a rights issue at the end of December 2019. The share issue was oversubscribed and was registered in January 2020. The company received proceeds of SEK 350 million from the share issue before transaction costs. The Board is of the opinion that the share issue secures the capital required based on the revised business and liquidity plans. The Board expects further injections of capital to be required in 2020 to finance the company's industrialisation and commercialisation, including production facilities. This work has been started and it is therefore the Board's view that there is substantial interest in the company's technology among both investors and potential customers, and that the company has a strong ownership structure. The potential for implementing future comprehensive financing plans is therefore considered to be good.

It follows from the accounting principle regarding continued operation (the "survival principle") according to the Swedish Annual Accounts Act that it is a basic assumption, among other things, for the valuation of a company's assets. In terms of activated development, there are further assumptions about the required financing of the continued development required as well as commercial realization. It is therefore natural that a valuation made without these assumptions would have resulted in a different valuation of the company's assets. The Board of Directors agrees behind the aforementioned assumptions and judges that the necessary conditions are at hand. The Board is aware that uncertainty factors exist when it comes to estimating time and cost savings to implement full-scale commercialization and industrialization of the company's product. This has been taken into account in the company's planning and forecasts by the Board working actively on the basis of alternative scenarios and having a preparedness to deal with these types of challenges. This includes various short- and long term financing solutions and flexibility in the development plans. Thus, the company's survival is not deemed to be threatened in 2020.

For financial risks, see note 4.

Organisation

On 31 December 2019 the number of employees was 117 (68), of which 94 (56) are men and 23 (12) women. The average number of employees in the organisation in 2019 was 105 (68).

Dividend

The Board of Directors proposes to the annual general meeting that no dividend is paid for the 2019 financial year.

Sustainability

A systematic approach to work environment must be a natural part of our business in order to achieve efficiency and quality. For us at Azelio, this means that we actively work to minimize the risks of occupational injuries, accidents and incidents. We make sure to work with activities that promote employees' health, job satisfaction and efficiency. One step in this is ongoing work with our processes, which aims to improve employees' everyday work in order to be able to focus on the right tasks. All emplyee managers are trained in the areas of work environment and psychosocial work environment (AFS 2015:4). We continuously review the need for education related to work environment.

Legislation and party agreements are minimum requirements. It is in Azelio's interest to maintain higher standards than this. We see it as a profitable investment for the future where high work motivation and low sick leave are the direct benefits. We have signed a healthcare insurance for our employees with access to fast support and specialist care. Azelio is affiliated with Teknikföretagen and has collective agreements with the Union, Ledarna, Sveriges Ingenjörer and IF Metall.

Azelio should be an attractive and developing workplace for both women and men, working to ensure that all work teams consist of both women and men. The wage survey in 2019 regarding comparisons of work that is to be considered as equal or equivalent did not show any unreasonable wage differences between women and men. As an employer, we will pursue a goal-oriented work to promote gender equality and diversity. This means that we must prevent and counteract discrimination, safeguard everyone's competence and respect differences irrespective of gender, age, ethnic or cultural background, religion or other belief, disability, gender-crossing identity or sexual orientation. We evaluate all our suppliers according to the Azelio Ethics standard.

The company intends to follow the UN guidelines on sustainable business and measure according to the UN standard, Global Reporting Initiative (GRI).

Proposed appropriation of profit or loss

At the disposal of the annual general meeting (SEK):

Share premium reserve 1,577,096,000

Loss brought forward -1,091,981,000

Profit/loss for the year -161,932,000

Total 323,183,000

The Board of Directors proposes that the unrestricted equity of SEK 323,183,000 is carried forward.

Consolidated statement of income and other comprehensive income

Amounts in kSEK	Note	2019	2018
Revenue	6	1,670	1,942
Own work capitalised		130,891	66,392
Other operating income	9	680	2,007
Total		**133,241**	**70,341**
Raw materials and consumables		-7,794	-7,758
Other external expenses	7	-143,590	-61,690
Employee benefit expenses	8	-106,450	-72,961
Depreciation/amortisation and impairment of			
property, plant and equipment and intangible non-current assets		-35,599	-19,467
Other operating expenses	10	-318	-215
Total		**-293,751**	**-162,090**
Operating profit/loss		**-160,510**	**-91,749**
Financial income		434	403
Finance costs		-821	-658
Net financial items		**-386**	**-255**
Profit/loss before tax		**-160,897**	**-92,004**
Income tax	12	0	0
Profit/loss for the year		**-160,897**	**-92,004**
Other comprehensive income:			
Items that may be transferred to profit or loss for the year			
Exchange-rate differences on foreign operations		-304	-91
Other comprehensive income for the year		-304	-91
Total comprehensive income for the year		**-161,201**	**-92,095**

Net profit for the year and total comprehensive income are entirely attributable to the parent company shareholders

Earnings per share, calculated on net profit for the year attributable to the parent company's ordinary shareholders

Amounts in SEK	Note	2019	2018
Basic earnings per share	27	-3,80	-3,54

Consolidated statement of financial position

Amounts in kSEK	Note	31 Dec 2019	31 Dec 2018	1 Jan 2018
ASSETS				
Non-current assets				
Subscribed but not paid-up capital		350,778	0	0
Intangible non-current assets				
Capitalised expenditure for development and similar	13	398,721	291,224	237,600
Investments in progress, intangible non-current assets		0	1,353	0
Total intangible assets		**398,721**	**292,577**	**237,600**
Property, plant and equipment	14			
Leasehold improvements		3,303	987	1,218
Equipment, tools, fixtures and fittings		16,169	6,798	9,670
Total property, plant and equipment		**19,472**	**7,785**	**10,888**
Right-of-use assets	25	21,707	13,019	16,698
Total non-current assets		**439,901**	**313,380**	**265,186**
Current assets				
Inventories				
Raw materials and consumables		4,351	8,809	11,091
Finished goods and goods for resale		713	618	3,529
Total inventories		**5,065**	**9,427**	**14,620**
Current receivables				
Trade receivables	16	50	69	1,208
Current tax assets		1,273	919	715
Other receivables	17	9,152	515	2,667
Prepaid expenses and accrued income	18	3,728	2,743	735
Total current receivables		**14,202**	**4,246**	**5,325**
Cash and bank balances	19	55,634	331,196	18,020
Total current assets		**74,901**	**344,869**	**37,964**
TOTAL ASSETS		**865,580**	**658,249**	**303,150**

Amounts in kSEK	Note	31 Dec 2019	31 Dec 2018	1 Jan 2018
EQUITY AND LIABILITIES				
Equity attributable to parent company shareholders				
Share capital	20	45,876	21,174	9,753
Other paid-in capital		1,577,096	1,291,971	890,605
Reserves		-395	-91	0
Retained earnings incl. profit/loss for the year		-912,204	-751,337	-663,212
Total equity attributable to parent company shareholders		**710,374**	**561,717**	**237,146**
LIABILITIES				
Non-current liabilities				
Other liabilities	22	22,755	22,850	22,990
Lease liabilities	25	14,107	9,690	12,618
Total non-current liabilities		**36,862**	**32,541**	**35,608**
Current liabilities				
Advances from customers	23	0	0	218
Trade payables		37,018	34,332	5,309
Lease liabilities	25	7,302	3,074	3,738
Provisions		0	0	71
Other current liabilities		2,078	8,828	10,190
Accrued expenses and deferred income	24	71,946	17,757	10,871
Total current liabilities		**118,344**	**63,991**	**30,396**
Total liabilities		**155,206**	**96,532**	**66,004**
TOTAL EQUITY AND LIABILITIES		**865,580**	**658,249**	**303,150**

The Notes on pages 40 to 69 constitute an integrated part of these consolidated accounts

Consolidated statement of changes in equity

Amounts in kSEK	Attributable to parent company shareholders						
	Note	Share capital	Ongoing new share issue	Other paid-in capital	Reserves	Retained earnings incl. profit/loss for the year	Total equity
Opening balance, 1 January 2018	31	9,753	0	890,605	0	-663,212	237,146
Profit/loss for the year						-92,004	-92,004
Other comprehensive income for the year					-91		-91
Total comprehensive income for the year		**9,753**		**890,605**	**-91**	**-755,217**	**145,050**
Transactions with shareholders in their role as owners							
New share issue		11,420		401,366		3,280	416,067
Warrants sold						600	600
Closing balance, 31 December 2018		**21,174**		**1,291,971**	**-91**	**-751,337**	**561,717**
Opening balance, 1 January 2019		21,174		1,291,971	-91	-751,337	561,717
Profit/loss for the year						-160,897	-160,897
Other comprehensive income for the year					-304		-304
Total comprehensive income for the year		**21,174**		**1,291,971**	**-395**	**-912,233**	**400,516**
Transactions with shareholders in their role as owners							
Ongoing new share issue			24,703	282,397			307,100
New share issue				2,728			2,728
Warrants sold						29	29
Closing balance, 31 December 2019		**21,174**	**24,703**	**1,577,096**	**-395**	**-912,204**	**710,374**

The Notes on pages 40 to 69 constitute an integrated part of these consolidated accounts

Reserves consist entirely of a translation reserve. The translation reserve comprises exchange-rate differences arising from the translation of the income statements and balance sheets for all Group companies to the Group's reporting currency.

Consolidated statement of cash flows

Amounts in kSEK	Note	2019	2018
Cash flow from operating activities			
Profit/loss after financial items		-160,897	-92,004
Adjustment for non-cash items	30	42,135	22,549
		-118,762	**-69,456**
Income tax paid		0	-227
Cash flow from operating activities before changes in working capital		**-118,762**	**-69,683**
Cash flow from changes in working capital			
Increase (-)/decrease (+) in inventories		-587	3,532
Increase (-)/decrease (+) in operating receivables		-16,672	-257
Increase (+)/decrease (-) in operating liabilities		6,168	34,154
Total changes in working capital		**-11,091**	**37,429**
Cash flow from operating activities		**-129,853**	**-32,254**
Cash flow from investing activities			
Investments in property, plant and equipment		-15,820	-1,108
Investments in intangible non-current assets		-123,436	-66,392
Divestment of financial assets		0	0
Cash flow from investing activities		**-139,256**	**-67,500**
Cash flow from financing activities			
New share issue		208	416,067
Proceeds from warrants sold		29	600
Borrowings		0	0
Repayment of lease debt		-6,494	-3,762
Repayment of borrowings		-95	-140
Cash flow from financing activities	**29**	**-6,352**	**412,765**
Increase/decrease in cash and cash equivalents		**-275,460**	**313,011**
Cash and cash equivalents at beginning of year		**331,196**	**18,020**
Exchange rate differences in cash and cash equivalents		**-101**	**165**
Cash and cash equivalents at end of year	**19**	**55,634**	**331,196**

The Notes on pages 40 to 69 constitute an integrated part of these consolidated accounts

Parent company income statement

Amounts in kSEK	Note	2019	2018
Revenue	33	1,670	1,942
Own work capitalised		130,891	66,392
Other operating income	34	680	2,007
Total		**133,241**	**70,341**
Operating expenses			
Raw materials and consumables		-7,794	-7,758
Other external expenses	36	-149,552	-64,720
Employee benefit expenses	37	-103,142	-69,770
Depreciation/amortisation and impairment of			
property, plant and equipment and intangible non-current assets		-28,876	-15,530
Other operating expenses	35	-318	-215
Total		**-289,681**	**-157,992**
Operating profit/loss		**-156,441**	**-87,651**
Income from financial items			
Income from participations in Group companies	39	-5,620	-6,865
Income from other securities and receivables held as non-current assets		0	-1,683
Other interest income and similar profit/loss items		442	395
Interest expense and similar profit/loss items		-314	-289
Profit/loss after financial items		**-161,932**	**-96,093**
Profit/loss before tax		**-161,932**	**-96,093**
Tax on profit/loss for the year	38	0	0
Profit/loss for the year		**-161,932**	**-96,093**

The parent company has no items that are recognised as other comprehensive income. Total comprehensive income is therefore the same as profit/loss for the year.

The Notes on pages 70 to 79 constitute an integrated part of these parent company's financial statements.

Parent company balance sheet

Amounts in kSEK	Note	31 Dec 2019	31 Dec 2018	1 Jan 2018
ASSETS				
Non-current assets				
Subscribed but not paid-up capital		350,778	0	0
Intangible non-current assets				
Capitalised expenditure for development and similar	40	398,721	291,224	237,600
Investments in progress, intangible non-current assets		0	1,353	0
Total intangible non-current assets		**398,721**	**292,577**	**237,600**
Property, plant and equipment	41			
Leasehold improvements		3,303	987	1,218
Equipment, tools, fixtures and fittings		16,169	6,796	9,653
Total property, plant and equipment		**19,472**	**7,783**	**10,871**
Financial non-current assets				
Participations in Group companies	39	50	50	5,513
Total financial non-current assets		**50**	**50**	**5,513**
Total non-current assets		**418,243**	**300,410**	**253,985**
Current assets				
Inventories				
Raw materials and consumables		4,351	8,809	11,091
Finished goods and goods for resale		713	618	3,529
Total inventories		**5,065**	**9,427**	**14,620**
Current receivables				
Trade receivables	44	50	69	1,208
Receivables from parent company		0	0	
Receivables from Group companies		6,667	0	1,645
Current tax assets		1,273	919	715
Other receivables	45	9,090	368	2,547
Prepaid expenses and accrued income	46	4,393	3,041	860
Total current receivables		**21,472**	**4,396**	**6,975**
Cash and bank balances				
Cash and bank balances	43	53,349	330,061	14,245
Funds accounting		0	0	0
		53,349	**330,061**	**14,245**
Total current assets		**79,886**	**343,884**	**35,840**
TOTAL ASSETS		**848,908**	**644,294**	**289,824**

Amounts in kSEK	Note	31 Dec 2019	31 Dec 2018	1 Jan 2018
EQUITY AND LIABILITIES				
Equity				
Restricted equity				
Share capital	52	21,174	21,174	9,753
New share issue under registration		24,703	0	0
Development expenditure fund		346,140	222,291	157,252
		392,016	**243,464**	**167,005**
Non-restricted equity				
Share premium reserve		1,577,096	1,291,971	890,605
Retained earnings		-1,091,981	-872,069	-810,910
Profit/loss for the year		-161,932	-96,093	0
		323,183	**323,810**	**79,695**
Total equity		**715,200**	**567,274**	**246,700**
Provisions				
Other provisions		0	0	71
Total provisions		**0**	**0**	**71**
Non-current liabilities	47			
Other non-current financial liabilities		22,755	22,850	22,990
Total non-current liabilities		**22,755**	**22,850**	**22,990**
Current liabilities				
Advances from customers	48	0	0	218
Trade payables		37,018	34,332	5,309
Other liabilities		1,988	2,081	3,666
Accrued expenses and deferred income	49	71,946	17,757	10,871
Total current liabilities		**110,953**	**54,170**	**20,063**
Total liabilities		**133,708**	**77,020**	**43,125**
TOTAL EQUITY AND LIABILITIES		**848,908**	**644,294**	**289,824**

The Notes on pages 70 to 79 constitute an integrated part of these parent company's financial statements

Parent company statement of changes in equity

Amounts in kSEK	Note	Restricted equity			Non-restricted equity		
		Share capital	Development expenditure fund	Share premium reserve	Retained earnings	Profit/loss for the year	Total equity
Opening balance, 1 January 2018		9,753	157,252	890,605	-810,910		246,700
Net proft/loss and comprehensive income for the year						-96,093	-96,093
Total comprehensive income		**9,753**	**157,252**	**890,605**	**-810,910**	**-96,093**	**150,607**
Transactions with shareholders in their role as owners							
New share issue		11,420		401,366	3,280		416,067
Transfer between items			65,039		-65,039		0
New share issue employee share options					600		600
Closing balance, 31 December 2018		**21,174**	**222,291**	**1,291,971**	**-872,069**	**-96,093**	**567,274**
Opening balance, 1 January 2019		21,174	222,291	1,291,971	-968,161		567,274
Net proft/loss and comprehensive income for the year						-161,932	-161,932
Total comprehensive income		**21,174**	**222,291**	**1,291,971**	**-968,161**	**-161,932**	**405,342**
Transactions with shareholders in their role as owners							
Ongoing new share issue		24,703		282,397			307,100
New share issue				2,728			2,728
Transfer between items			123,849		-123,849		0
New share issue employee share options					29		29
Closing balance, 31 December 2019		**45,876**	**346,140**	**1,577,096**	**-1,091,981**	**-161,932**	**715,200**

Parent company cash flow statement

Amounts in kSEK		2019	2018
Cash flow from operating activities			
Profit/loss after financial items		-161,932	-96,093
Adjustment for non-cash items	55	39,444	27,159
		-122,488	**-68,934**
Income tax paid		0	-227
Cash flow from operating activities before changes in working capital		**-122,488**	**-69,160**
Cash flow from changes in working capital			
Increase (-)/decrease (+) in inventories		-587	3,532
Increase (-)/decrease (+) in operating receivables		-16,879	-396
Increase (+)/decrease (-) in operating liabilities		7,973	34,199
Total changes in operating loss		**-9,493**	**37,334**
Cash flow from operating activities		**-131,980**	**-31,826**
Cash flow from investing activities			
Acquisition of property, plant and equipment		-15,818	-1,092
Acquisition of intangible non-current assets		-123,436	-66,392
Acquisition of financial assets		-5,620	-1,401
Cash flow from investing activities		**-144,874**	**-68,885**
Cash flow from financing activities			
New share issue		208	416,067
Warrants programme		29	600
Borrowings		0	0
Repayment of borrowings		-95	-140
Cash flow from financing activities	54	**143**	**416,527**
Increase/decrease in cash and cash equivalents		**-276,711**	**315,816**
Cash and cash equivalents at beginning of year		**330,061**	**14,245**
Cash and cash equivalents at end of year	43	**53,349**	**330,061**

Note 1 – Notes to the consolidated statements

Note 1.1 – General information

Azelio AB (publ) ("Azelio"), Corp. Reg. No. 556714-7607, is a parent company registered in Sweden with its registered office in Gothenburg at Lindholmsplatsen 1, SE-417 56 Gothenburg, Sweden.

Unless otherwise stated, all amounts are in thousands of SEK (kSEK). Data in parentheses pertain to the comparative periods.

Note 2 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation of the financial statements

Azelio's consolidated financial statements were prepared in accordance with the Swedish Annual Accounts Act, RFR 1 Supplementary Accounting Rules for Groups, International Financial Reporting Standards (IFRS) and interpretations from the IFRS Interpretations Committee (IFRS IC), as adopted by the EU. This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and the Annual Accounts Act

This interim report is Azelio's first report prepared in accordance with IFRS. The consolidated accounts were prepared in accordance with the historical cost convention. Historical financial information has been restated as of 1 January 2018, which is the date for transition to accounting in accordance with IFRS. Explanations concerning the transition from previously applied accounting policies to IFRS and the effects the restatements had on the statement of comprehensive income and on equity are presented in Note 8.

The preparation of statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Those areas that include a high level of judgement, that are complex or such areas where assumptions and estimations are of material importance for the consolidated accounts are stated in Note 3.

The parent company applies Recommendation RFR 2 Financial Reporting for Legal Entities of the Swedish Financial Reporting Board and the Annual Accounts Act. The application of RFR 2 requires that the parent company, in the interim report for the legal entity, shall apply all IFRS adopted by the EU and statements to the extent that this is possible within the framework of the Annual Accounts Act and the Pension Obligations Vesting Act and with consideration to the relationship between accounting and taxation.

In connection with the transition to IFRS reporting in the consolidated accounts, the Parent Company switched to reporting in line with RFR 2. The transition from previously applied accounting policies to RFR 2 did not have any effect on the income statement, balance sheet, equity or cash flow for the parent company.

The preparation of statements in compliance with RFR 2 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Parent Company's accounting policies. Those areas that include a high level of judgement, that are complex or such areas where assumptions and estimations are of material importance for the annual accounts are stated in Note 3 of the consolidated accounts.

2.1.1 RFR 2 Financial Reporting for Legal Entities

The parent company applies other accounting policies than the Group in the cases stated below:

Presentation formats

The format prescribed in the Annual Accounts Act is used for the income statements and balance sheets. The presentation format for the statement of changes in equity is also consistent with the Group's format, but must also include the columns stated in the Annual Accounts Act. Moreover, there is a difference in terms, compared with the consolidated accounts, mainly with regard to financial income and expense, and equity.

Participations in subsidiaries

Participations in subsidiaries are recognised at cost less any impairment. Cost includes acquisition-related costs and any earn-outs.

The recoverable amount is calculated if there is an indication of impairment of participations in a subsidiary. Impairment is recognised if the recoverable amount is less than the carrying amount. Impairment is recognised in the item "Income from participations in Group companies."

Financial instruments

IFRS 9 is not applied in the parent company and financial instruments are measured at cost. Financial assets acquired with the intention of holding them on a short-term basis will be recognised in subsequent periods in accordance with the lower value principle at the lowest of cost and market value. However, the parent company must apply the impairment rules in IFRS 9 and on each balance sheet date, the Parent Company assesses whether there is any indication of an impairment requirement in any of the financial assets. An impairment loss is recognised if the decline in value is deemed permanent. Impairment losses on interest-bearing financial assets are recognised at amortised cost calculated as the difference between the carrying amount and present value of the asset, based on management's best estimate of the future cash flows discounted by the original effective rate of interest for the asset. The impairment amount for other financial assets is set as the difference between the carrying amount and the higher of fair value less selling expenses and the present value of future cash flows (based on management's best estimate).

Leases

All leases are recognised as operating leases, irrespective of whether they are finance or operating leases. The lease payments are recognised on a straight-line basis over the lease term.

Appropriations

Group contributions are recognised as appropriations.

Development expenditure fund

Expenditure on the company's own development work, which is recognized as intangible fixed assets, is transferred with the corresponding amount from non-restricted equity to a development expenditure fund.

Loan expenditure

Expenses for the company's loans are expensed.

2.1.2 New standards and interpretations which have not yet been applied by the Group

None of the IFRS or IFRIC interpretations that have been published but have not yet become effective are expected to have any material impact on the Group.

2.2 Basis of consolidation

2.2.1 Fundamental accounting policies

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its holdings in the entity and has the ability to affect those returns through its influence over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from the consolidated accounts from the date on which control is relinquished.

The Group applies the acquisition method to account for business combinations. The consideration paid for the acquisition of a subsidiary comprises the fair value of the transferred assets, liabilities incurred to previous owners of the acquired entity and the shares issued by the Group. The consideration also includes the fair value of all liabilities that are a consequence of a contingent consideration arrangement. Identifiable assets acquired and liabilities assumed in a business combination are initially measured at fair value at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the carrying amounts of the acquired entity's identifiable net assets.

Acquisition-related costs are expensed when they arise and are recognised in the consolidated statement of income and other comprehensive income.

Goodwill is initially measured as the amount by which the total purchase consideration and any fair value of non-controlling interests on the acquisition date exceeds the fair value of identifiable acquired net assets. If the purchase consideration is lower than the fair value of the acquired entity's net assets, the difference is recognised directly in profit/loss for the period.

Intra-Group transactions, balance-sheet items and income and expenses for intra-Group transactions are eliminated. Gains and losses arising from intra-Group transactions and which are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the function that is responsible for allocating resources and assessing the result of the operating segments. Azelio's CEO is the Group's chief operating decision maker. Azelio has identified one operating segment, which comprises the Group's operations as a whole. The assessment is based on the premise that the business in its entirety is regularly examined by the CEO as a basis for decision on the allocation of resources and evaluation of its results.

2.4 Foreign currency translation

2.4.1 Functional and reporting currency

The functional currency of the various entities in the Group is the local currency, as this has been defined as the currency that is used in the primary economic environment in which each entity mainly conducts business. The Swedish krona (SEK) is used in the consolidated accounts. This is the functional currency of the parent company and the reporting currency of the Group.

2.4.2 Transactions and balance-sheet items

Transactions in foreign currency are translated to the functional currency at the exchange rates prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in operating profit/loss in the statement of income and other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of income and other comprehensive income as financial income or expenses. All other foreign exchange gains and losses are recognised in the item "Other operating expenses" and "Other operating income" in the statement of income and other comprehensive income.

2.4.3 Translation of foreign Group companies

The earnings and financial position of all Group companies that have a functional currency that is different to the reporting currency are translated to the Group's reporting currency: The assets and liabilities of each of the balance sheets are translated from the functional currency of the foreign operation to the Group's reporting currency, SEK, at the exchange rate applicable on the balance sheet date. The income and expenses in each of the income statements are translated into SEK at the average rate applying at the time of each transaction. Translation differences arising on the currency translation of foreign operations are recognised in other comprehensive income.

2.5 Revenue recognition

Revenue is recognised when control of the goods or services sold is passed to the customer. The fundamental principle is that the Group recognises revenue in the manner that best reflects the transfer of control of the promised goods or services to the customer. Reporting in the Group uses a five-step process that is applied to all customer contracts:

- Identify contracts with customers

- Identify the separate performance obligations

- Determine the transaction price

- Allocate the transaction price to each of the separate performance obligations

- recognise the revenue as each performance obligation is satisfied

Using the above five-step model, it has been determined that the Group's performance obligation comprises Stirling engines and service obligations.

Revenue includes the fair value of the amount that has been, or will be, received for goods and services sold in the Group's operating activities. Revenues are recognised excluding value added tax and discounts, and after the elimination of Intra-Group sales.

The accounting policies applied by the Group for the performance obligations related to Stirling engines and service obligations are set out below.

2.5.1 Sales of Stirling engines

The Group manufactures and sells Stirling engines. Sales are recognised as revenue when control of the goods is transferred, which occurs when the goods are delivered to the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. Revenue from the sale of Stirling engines is recognised based on the price in the agreement, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. Invoices issued usually have a credit term of 30 days. No element of financing is deemed present at the date of sale.

2.5.2 Sale of service obligations

The Group provides services at a fixed price in the form of service obligations. Revenue from providing services is recognised over time as benefits are received by the customer. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the actual labour hours spent relative to the total expected labour hours.

Estimates of revenue, costs or extent of progress of the project toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs due to changed estimates are reflected in the statement of income and other comprehensive income in the period in which the circumstances that gave rise to the revision become known by management.

In the case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by Azelio exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised. If the contract includes an hourly fee, revenue is recognised in the amount to which Azelio has a right to invoice. Customers are invoiced on a monthly basis and the consideration is payable when invoiced.

2.5.3 Interest income

Interest income is recognised using the effective interest method.

2.6 Leases

The Group leases premises, trucks, forklifts and IT services. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value of future leasing fees discounted with a marginal loan rate, with adjustments as below. As this is the first report in accordance with IFRS, all right-of-use assets have been measured at the amount equal to the lease liability, adjusted by the amount of any prepaid lease payments relating to the leases as of 1 January 2018.

Lease liabilities include the net present value of the following lease payments:

- fixed payments

- variable lease payments that are based on an index or interest rate

The lease payments are discounted using the incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the initial measurement of the lease liability,

- payments made on or before the point in time when the leased asset is made available to the lessee.

Low-value leases are recognised on a straight-line basis as an expense in the statement of income and other comprehensive income.

Extension and termination options

Extension options are included in most property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The effect of the extension options on the reported lease debt and rights of use is assessed on the basis of reasonable security for the extension.

To optimise lease costs during the contract period, the Group sometimes provides residual value guarantees in relation to equipment leases. Payments under any residual value guarantees are only included in the valuation of the liability if there is a reasonable assurance that such payments will be made.

2.7 Employee benefits

2.7.1 Short-term employee benefits

Liabilities for salaries and remuneration, including non-monetary benefits and paid sickness absence, that are expected to be settled within 12 months after the end of the financial year are recognised as current liabilities at the undiscounted amount that is expected to be paid when the liabilities are settled. The expense is recognised as the employees perform the service. The liabilities are presented as current employee benefit obligations in the balance sheet.

2.7.2 Post-employment benefits

Group companies only have defined-contribution pension plans. Defined-contribution plans are plans under which the Group pays fixed contributions into a separate legal entity. The Group does not have any legal or informal obligations to pay additional contributions if this legal entity has insufficient assets with which to make all pension payments to employees that are associated with the current or past service of employees. The fees are recognised as an expense in profit for the period at the rate they are accrued as the employees perform services for the company during a specific period.

2.8 Current and deferred income tax

Tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of income and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is calculated on taxable earnings for the period according to the applicable tax rate. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is likely that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax receivables and liabilities relate to taxes debited by the same taxation authority and pertain to either the same or different tax subjects, and where there is an intent to settle on a net basis.

2.9 Intangible assets

2.9.1 Capitalised development expenditure

Costs associated with maintenance are recognised as an expense as incurred. Development costs directly attributable to the development of systems based on Stirling engines controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete these so that they will be available for use,

- management intends to complete these and use or sell them,

- there is an ability to use or sell the them,

- it can be demonstrated how they will generate probable future economic benefits,

- adequate technical, financial and other resources to complete the development and to use or sell them are available, and

- the expenditure attributable to these during their development can be reliably measured.

Directly attributable costs that are capitalised as part of the development work include costs for employees and external consultants.

Other development costs that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for commercial use. The useful life is five years.

2.10 Property, plant and equipment

Property, plant and equipment are recognised at cost less depreciation and any impairment. Cost includes expenditure that is directly attributable to the acquisition of the items and for bringing it to its place of use and preparing it for use in accordance with the purpose of the acquisition.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised from the balance sheet when replaced. All other repairs and maintenance are recognised as costs in the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation of assets is applied on a straight-line basis as follows in order to allocate cost down to the residual value over the estimated useful life.

The useful lives are as follows:	
Leasehold improvements	8 years
Equipment, tools, fixtures and fittings	3-8 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposal of property, plant and equipment are determined as the difference between the sales proceeds and the carrying amount and are recognised in Other operating income or Other operating expenses in the statement of income and other comprehensive income.

2.11 Impairment of non-financial assets

Intangible assets that are not ready for use (capitalised development expenditure), are not subject to amortisation and are tested annually for impairment. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

2.12 Financial instruments

2.12.1 Initial recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the financial instrument’s contractual conditions. Purchases and sales of financial assets are recognised on the trade date, i.e. the date on which the Group undertakes to purchase or sell the asset.

Financial instruments are initially measured at fair value plus transaction costs that are directly attributable to acquisitions, or issues of a financial asset or financial liability (e.g. fees and commissions).

2.12.2 Classification

The Group classified its financial assets and liabilities in the category of amortised cost.

Financial assets at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit losses that have been recognised (see the paragraph below on impairment). Interest income from these financial assets is included in finance income using the effective interest rate method. The Group's financial assets that are measured at amortised cost comprise the items trade receivables, other current receivables, accrued income and cash and cash equivalents.

Financial liabilities at amortised cost

The Group's other financial liabilities are subsequently classified as measured at amortised cost by applying the effective interest method. Other financial liabilities consist of other non-current and current liabilities, trade payables, and a portion of accrued expenses.

2.12.3 Derecognition of financial instruments

Derecognition of financial assets

Financial assets, or portions thereof, are derecognised from the balance sheet when the contractual rights to collect the cash flows from the assets have expired or been transferred, and either (i) the Group transfers essentially all the risks and benefits associated with ownership or (ii) the Group neither transfers nor retains essentially all risks and benefits associated with ownership and has not retained control of the asset.

Derecognition of financial liabilities

Financial liabilities are derecognised from the balance sheet when the contractual obligations have been fulfilled, cancelled or extinguished in another manner. The difference between the carrying amount of a financial liability (or portion of a financial liability) that is extinguished or transferred to another party and the remuneration paid, including transferred assets that are not cash or assumed liabilities, is recognised in the statement of income and other comprehensive income.

In the event the terms of a financial liability are renegotiated and not derecognised from the balance sheet, a profit or loss is recognised in the statement of comprehensive income and the profit or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

2.12.4 Impairment of financial assets

Assets carried at amortised cost

The Group assesses the future expected credit losses attributable to assets measured at amortised cost. The Group recognises a reserve ("loss allowance") for such expected credit losses on each reporting date. For trade receivables, the Group applies the simplified approach for loss allowances, meaning that the reserve will correspond to the expected loss across the entire lifetime of the trade receivables. To measure the expected credit losses, trade receivables are grouped based on allocated credit risk properties and days overdue. The Group employs forward-looking variables for expected credit losses. Expected credit losses are recognised in the consolidated statement of income and other comprehensive income in the item other external expenses.

2.13 Inventories

Inventories are recognised according to the first-in, first-out principle at the lowest of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the applicable variable costs necessary to make the sale.

2.14 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are classified as current assets. Trade receivables are initially recognised at the transaction price. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them on subsequent recognition dates at amortised cost using the effective interest method.

2.15 Cash and cash equivalents

Cash and cash equivalents include, in both the balance sheet and the statement of cash flows, cash and bank balances.

2.16 Share capital

Ordinary shares are classified as equity. Transaction costs that are directly attributable to the issue of new ordinary shares are recognised net after tax in equity as a deduction from the issue proceeds.

2.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of income and other comprehensive income allocated over the term of the borrowings using the effective interest method.

The liability is classified as non-current in the balance sheet.

2.18 Borrowing costs

General and specific borrowing expenses that are directly attributable to purchase, construction or production of qualified assets are recognized as part of the acquisition value of these assets. Qualified assets are assets that necessarily take a significant amount of time to complete for intended use. Activation ceases when all activities required to complete the asset for its intended use have been substantially completed.

All other borrowing costs are expensed in the period in which they are incurred.

2.19 Trade payables

Trade payables are financial instruments and represent obligations to pay for goods and services purchased from suppliers in the ordinary course of business. Trade payables are classified as current liabilities if they fall due within one year. If not, they are recognised as non-current liabilities.

2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Funds received prior to meeting the requirements for reporting them as revenue are reported as a liability.

Government grants related to development that is capitalised as an intangible asset is recognised by reducing the asset's carrying amount by the amount of the grant and by recognising the grant in profit/loss for the period over the depreciable asset's useful life in the form of lower depreciation.

2.21 Cash-flow statement

The cash-flow statement has been prepared using the indirect method. The recognised cash flow includes only transactions involving inflows and outflows of cash.

2.22 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- profit attributable to Parent Company shareholders

- by the weighted average number of outstanding ordinary shares during the period

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

No dilution effect is reported on a negative result.

2.23 share related renumeration

Azelio has an agreement with a supplier which means that the supplier has the opportunity to receive payment for its services either in cash or in the form of shares in Azelio AB. As of 2019-12-31, a liability corresponding to the fair value of delivered unregulated services of SEK 14.1 million is reported. If the supplier chooses regulation of the debt in the form of shares, this means a directed new issue of 1,666,667 shares.

Note 3 – Significant accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom correspond to the actual results. Estimates and assumptions that entail a significant risk of material adjustments to the carrying amounts of assets and liabilities in the next financial year are outlined below.

(a) Assessment of impairment requirements for capitalised development expenditure

The Group annually tests whether capitalised development expenditure is subject to any impairment in accordance with the accounting policy described in Note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. Certain estimates must be made in these calculations in the form of risk-free interest, market risk premium, industry beta value, equity and company-specific alfa value.

The forecast period covers 5 years based on the company's business plan. For the period thereafter, no assumption of growth rate has been made.

The calculation of the discount rate is based on an assumption of substantial external financing at an estimated interest of 5%, while the return on equity is estimated at close to 20%. Should, as an example, the external financing be halved, the discount rate will increase by more than 20% but requires no write-down of the underlying asset.

The impairment test is built on an assumption that the company will be able to execute its expansive business plan with a large volume commercial breakthrough from 2021 and that these projects and additional investments can be financed. Since the test period is only 5 years, an adjustment to the time plan could have a substantial impact on the value, which could lead to an impairment of the underlying asset. The company’s development is monitored continuously compared to the estimated cash flow and time plan.

Furthermore, the impairment test is based on assumptions regarding electricity prices in local markets. These prices are based on assessments of prices and competitiveness under these circumstances. The electricity prices can be impacted by a number of events that are difficult to assess – like the development of competing technologies, business cycle, and cost for raw materials.

(b) Going concern assumption

Until such time the company’s sales are under way, there is a dependence on contributions from shareholders or other external investors to be able to ensure continued operations. As at the balance-sheet date, the company had liquidity of kSEK 53,349 which, combined with the share issue implemented in the month of January 2020 (kSEK 350,000 excluding costs), is estimated to be sufficient to safeguard the company’s operations well into the fourth quarter of 2020. For the subsequent period, there are
no binding obligations that safeguard the company’s financing. Since the Board of Directors has already initiated work to safeguard the company’s financing, the Board is of the opinion that the accounts can be issued under the going concern assumption.

Note 4 – Financial risk management

Note 4.1 – Financial risk factors

Through its business activities, the Group is exposed to a number of different financial risks related to trade receivables, trade payables and loans: market risk (comprising interest-rate risk and currency risk), credit risk and liquidity risk. The Group endeavours to minimise potential unfavourable effects on the Group's financial results.

The objectives of the Group's financial operations are to:

– ensure that the Group can meet its payment commitments,
– manage financial risks,
– secure access to necessary financing, and
– optimise the Group's net financial items.

Credit risk is managed by Group Management. Only banks and credit institutions that have received the credit rating "A", at a minimum, from independent assessors are accepted. If customers have their credit ratings assessed by independent assessors, such ratings are used. In the event that there is no independent credit assessment, a risk assessment is made of the customer's credit rating, in which financial position, historical experience and other factors are taken into consideration. Since a significant proportion of the Group's contracts are agreed fully or partly on the basis of advance payment or in other cases comprise customers with a strong financial position, the customer-related credit risk is considered to be limited.

Market risk

Currency risk

The Group operates internationally and is exposed to currency risk arising from various currency exposures, primarily in respect of EUR. Currency risk arises from payment flows in foreign currency – which is known as transaction exposure – and from the translation of balance-sheet items in foreign currency, as well as translation of foreign subsidiaries' income statements and balance sheets into SEK, the Group's reporting currency – known as translation exposure.

Currency risk arises when future business transactions or recognised assets or liabilities are expressed in a different currency to the entity's functional currency. In Azelio, exchange-rate risk arises primarily through future business transactions, particularly in the Parent Company, where a significant portion of the transactions occurs in EUR. The Group is also exposed to exchange-rate risk related to government-financed projects, where the financing is primary received in EUR. There is no significant exchange-rate risk in the subsidiaries. The Group has no borrowing in foreign currencies. The exchange-rate risk associated with shareholders' equity in connection with translation of the foreign subsidiary is not significant for the Group. The Group's policy for managing exchange-rate risk is primarily focused on the operational terms and conditions of the business by ensuring that revenues and costs in currencies other than SEK match each other.

Sensitivity analysis – transaction exposure

The sensitivity of earnings to changes in exchange rates arises mainly in EUR. Significant balance-sheet items in foreign currency are found in trade receivables, contract liabilities, trade payables and accrued and prepaid central government contributions. Trade receivables in foreign currency amounted to kSEK 0 on 31 December 2019 (31 December 2018: kSEK 960, 1 January 2018: kSEK 1,503). Contract liabilities in foreign currency amounted to kSEK 0 on 31 December 2019 (31 December 2018: kSEK 0, 1 January 2018: kSEK: 0). Trade payables in foreign currency amounted to kSEK 3,487 on 31 December 2019 (31 December 2018: kSEK 346, 1 January 2018: kSEK: 167). Prepaid central government contributions in foreign currency amounted to kSEK 0 on 31 December 2019 (31 December 2018: kSEK 0, 1 January 2018: kSEK: 0 and accrued central government contributions amounted to kSEK 0 on 31 December 2019 (31 December 2018: kSEK 0, 1 January 2018: kSEK: 0).

If the SEK had weakened 10% in relation to EUR, all other variables being equal, the restated net profit for the 2019 financial year would have been kSEK 357 (kSEK 22) lower. This is largely due to losses arising from the restatement of trade payables.

Interest-rate risks associated with cash and cash equivalents and borrowing

Interest-rate risk relates to the risk of the Group's exposure to changes in the market interest rate having a negative impact on net profit.

The Group does not have any significant borrowing from any credit institution; nor does it have surplus liquidity invested in inflation-indexed or government bonds. Accordingly, the impact of a change in the market interest rate is limited.

Sensitivity analysis – interest-rate exposure

A change in market interest rates by 100 basis points (one percentage point) would have changed the Group's interest expense by approximately kSEK 201, with the discount rate for lease liabilities accounting for 80% of the change.

Credit risk

Credit risk arises through holdings of cash and cash equivalents, balances with banks and credit institutions and credit exposure with customers, including receivables outstanding. Credit risk is managed by Group Management. Only banks and credit institutions that have received the credit rating "A", at a minimum, from independent assessors are accepted.

The Group has historically had low bad debt losses since, to a considerable extent, the customers comprise large-scale, well-known customers. If customers have their credit ratings assessed by independent assessors, such ratings are used. In the event that there is no independent credit assessment, a risk assessment is made of the customer's credit rating, in which financial position, historical experience and other factors are taken into consideration. Individual risk limits are set based on internal and external ratings in accordance with limits set by the Board of Directors. Compliance with the credit limits is monitored regularly by Group Management.

31 December 2019	Not past-due receivables	> 30 days past-due	> 60 days past-due	> 120 days past-due	Total
	32	17	0	0	50

Liquidity risk

Through prudent liquidity management, the Group ensures that there is sufficient cash to meet the needs of operating activities. At the same time, it is ensured that the Group has sufficient scope in its cash and cash equivalents so that the payment of liabilities can be made when these fall due.

Group Management monitors rolling forecasts of the Group's cash and cash equivalents on the basis of expected cash flows.

In the table below, the Group's non-derivative financial liabilities that constitute financial liabilities are organised according to the term remaining on the balance sheet date until the contractual due date. The amounts stated in the table comprise contractual, undiscounted cash flows. Future cash flows in foreign currency that are related to variable interest rates have been calculated based on the exchange rate that applied on the balance sheet date. Repayment dates in respect of the loans from the Swedish Energy Agency are established based on assessments of when the projects will generate revenues.

At 1 January 2018	<3 months	3 months–1 year	1–2 years	2–5 years	>5 years	Total contractual cash flows	Carrying amount
Financial liabilities							
Other financial liabilities	0	140	95	255	22,500	22,990	22,990
Liabilities, leases	926	2,812	3,032	8,733	853	16,356	16,356
Trade payables	5,309	0	0	0	0	5,309	5,309
Total	6,234	2,952	3,127	8,988	23,353	44,654	44,655

At 31 December 2018	<3 months	3 months–1 year	1–2 years	2–5 years	>5 years	Total contractual cash flows	Carrying amount
Financial liabilities							
Other financial liabilities	0	95	81	255	22,419	22,850	22,850
Liabilities, leases	959	2,114	2,881	6,526	283	12,764	12,764
Trade payables	34,332	0	0	0	0	34,332	34,332
Total	**35,291**	**2,209**	**2,962**	**6,781**	**22,702**	**69,946**	**69,946**

At 31 December 2019	<3 months	3 months–1 year	1–2 years	2–5 years	>5 years	Total contractual cash flows	Carrying amount
Financial liabilities							
Other financial liabilities	0	81	85	255	22,334	22,755	22,755
Liabilities, leases	1,801	5,501	7,618	6,261	227	21,409	21,409
Trade payables	37,018	0	0	0	0	37,018	37,018
Total	**38,819**	**5,582**	**7,703**	**6,516**	**22,561**	**81,182**	**81,182**

Note 4.2 – Management of capital

The Group's target for its capital structure is to secure the Group's ability to continue its operations so that it can continue to generate returns for shareholders and value for other stakeholders, and maintain an optimal capital structure for keeping the costs of capital down.

The Group assesses capital based on the debt/equity ratio. This key ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowing (comprising the items current borrowing and non-current borrowing in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as net indebtedness plus shareholders' equity.

	31 December 2019	31 December 2018	1 January 2018
Total borrowing (Note 22)	-22,755	-22,850	-22,990
Less: cash and cash equivalents	55,634	331,196	18,020
Net debt	32,879	308,346	-4,971
Total equity	710,374	561,717	237,146
Total capital	**743,253**	**870,063**	**232,175**

Note 5 – Segment information

Description of segments and primary activities:
Azelio's CEO corresponds to the chief operating decision maker for the Azelio Group and he evaluates the Group's financial position and earnings and makes strategic decisions. The Managing Director has determined the operating segments based on the information that is processed and used as a basis for allocating resources and evaluating earnings. The CEO monitors and evaluates the Group based on one operating segment, which is the Group as a whole.

First and foremost, the CEO uses operating profit/loss to assess the Group's earnings.

Operating profit/loss

	2019	2018
Operating profit/loss	**-160,510**	**-91,749**

Note 6 – Net sales

Revenue

Since revenue from external parties is reported to the CEO, it is measured in a manner consistent with that in the consolidated statement of income and other comprehensive income.

	2019			2018		
	Sweden	**EU**	**Outside the EU**	**Sweden**	**EU**	**Outside the EU**
Revenue from						
Stirling engines	0	0	0	0	313	0
Service obligations	143	0	274	157	75	295
Spare parts	0	1,218	1	0	826	275
Other	34	0	0	0	0	0
Total	**177**	**1,218**	**275**	**157**	**1,214**	**570**

Revenue from major customers (more than 10%) for the period amounted to kSEK 1,122 (948).

Note 7 – Remuneration to auditors

	2019	2018
KPMG AB		
Audit engagement	585	364
Auditing activities in addition to audit engagement	43	705
Tax advisory services	98	0
Total	**726**	**1,069**
Great Wall Certified Public Accountants Co. Ltd		
Audit engagement	51	50
Total	**51**	**50**
Group total	**776**	**1,119**

Audit engagement refers to the examination of the annual accounts and accounting records, as well as the administration of the Board of Directors and the CEO, other tasks incumbent on the company's auditor as well as advice and other assistance occasioned by observations made in the course of such examination or the performance of such other tasks.

Note 8 – Employee benefits, etc.

	2019	2018
Salaries and other benefits	67,211	47,522
Social security contributions	24,106	16,314
Pension costs – defined-contribution plans	8,797	5,449
Total employee benefits	**100,114**	**69,285**

Salaries, other remuneration and social security expenses	**2019**		**2018**	
	Salaries and remuneration	**Social security expenses**	**Salaries and remuneration**	**Social security expenses**
Board members, CEO and other senior executives	12,354	4,315	13,264	5,840
(of which, bonuses)	0		2,735	
(of which, pension costs)		1,841		1,583
Other employees	54,857	28,589	34,258	15,922
(of which, pension costs)		6,956		3,866
Group total	**67,211**	**32,903**	**47,522**	**21,763**

Average number of employees and geographic distribution by country	**2019**		**2018**	
		Of whom men		**Of whom men**
Sweden	101	80 %	64	82 %
China	4	75 %	4	75 %
Group total	**105**	**80 %**	**68**	**82 %**

Gender distribution in the Group (incl. subsidiaries) among Board members and other senior executives	2019		2018	
		Percentage of women		Percentage of women
Board members	8	13 %	7	0
CEO and other senior executives	9	0	8	0
Group total	**9**	**6 %**	**8**	**0**

Senior executives' remuneration	2019					
kSEK	Basic salary/ Board fees	Variable remuneration	Other benefits	Pension expense	Other remuneration	Total
Chairman of the Board, Bo Dankis	500	0	0	0	0	500
Member of the Board, Bertil Villard	150	0	0	0	0	150
Member of the Board, Christopher Beaufait	150	0	0	0	0	150
Member of the Board, Hicham Bouzekri	150	0	0	0	0	150
Member of the Board, Kent Janér	150	0	0	0	0	150
Member of the Board, Lars Thunell	75	0	0	0	0	75
Member of the Board, Mattias Bergman	150	0	0	0	0	150
Member of the Board, Pär Nuder	150	0	0	0	0	150
Member of the Board, Sigrun Hjelmqvist	63	0	0	0	0	63
CEO Jonas Eklind	1,585	0	0	434	0	2,019
Other senior executives (8 persons)	9,231	0	0	1,407	0	10,638
Group total	**12,354**	**0**	**0**	**1,841**	**0**	**14,195**

CEO and senior executives

In addition to a fixed monthly salary, the CEO and senior executives receive variable remuneration if set earnings targets are achieved. The remuneration is determined by the Board of Directors. During the financial year, variable remuneration amounted to KSEK 0 (705) to the CEO and KSEK 0 (2,030) to other senior executives.

The contract between the company and the CEO is terminable subject to six months' notice by either party. If employment is terminated by the company, the CEO is also entitled to six months' severance pay. No agreements have been reached concerning severance pay to other employees.

Board of Directors

According to a resolution adopted by the Annual General Meeting on 18 June 2019, Board fees for the period through the next Annual General Meeting are payable in a total amount of KSEK 1,550, of which KSEK 500 to the Chairman of the Board and KSEK 150 to each of the other members who are not company employees.

Senior executives' remuneration	2018					
kSEK	Basic salary, Board fees	Variable remuneration	Other benefits	Pension expense	Other remuneration	Total
Chairman of the Board	531	0	0	0	0	531
Member of the Board, Kent Janér	150	0	0	0	0	150
Member of the Board, Mattias Bergman	121	0	0	0	0	121
Member of the Board, Pär Nuder	159	0	0	0	0	159
Member of the Board, Bertil Villard	159	0	0	0	0	159
Member of the Board, Hicham Bouzekri	4	0	0	0	0	4
Member of the Board, Christopher Beaufait	107	0	0	0	0	107
CEO Jonas Eklind	2,428	0	0	422	0	2,851
Other senior executives (7 persons)	9,604	0	0	1,161	0	10,764
Group total	**13,264**	**0**	**0**	**1,583**	**0**	**14,847**

Note 9 – Other operating income

	2019	2018
Contributions in respect of project financing and central government support	294	2,007
Other	386	0
Total	**680**	**2,007**

Note 10 – Other operating expenses

	2019	2018
Exchange-rate differences	-318	-150
Loss from sale of non-current assets	0	-65
Total	**-318**	**-215**

Note 11 – Exchange-rate differences–net

	2019	2018
Other operating income (Note 9)	680	2,007
Other operating expenses (Note 10)	-318	-215
Total	**362**	**1,793**

Note 12 – Income tax

Reconciliation of effective tax

Current tax	2019	2018
Current tax on net profit for the year	0	0
Adjustments for current tax of prior periods	0	0
Total current tax	**0**	**0**
Deferred tax		
Occurrence and reversal of temporary differences	0	0
Effect of changed tax rates	0	0
Total deferred tax	**0**	**0**
Total income tax	**0**	**0**

The income tax on consolidated earnings before tax differs from the theoretical amount that would have resulted using the Swedish rate of tax for the profits of the consolidated entities as follows:

		2019		2018
Profit/loss before tax		**-160,897**		**-92,004**
Tax according to Parent Company's current tax rate	21.4%	34,432	22%	20,241
Tax effects of:				
Tax-deductible items recognised against shareholders' equity	5.4%	8,763	6.6%	6,101
Other non-deductible expenses	-2.2%	-3,501	-3.4%	-3,143
Non-taxable income	0.0%	0	0.0%	0
Reversal of previously non-deductible expenses	0.7%	1,076	0.7%	605
Increase in loss carry-forwards without corresponding capitalisation of deferred tax	-25.3%	-40,770	-25.9%	-23,251
Other	0.0%	0	0.0%	0
Income tax	**0.0%**	**0**	**0.0%**	**0**

Note 13 – Intangible assets

	Capitalised development costs	Investments in progress, intangible assets	Total
For the 2018 financial year			
Opening carrying amount	**237,600**	**0**	**237,600**
Assets developed internally	65,039	0	65,039
Accrued costs	0	1,353	1,353
Depreciation and amortisation	-11,415	0	-11,415
Closing carrying amount	**291,224**	**1,353**	**292,577**
At 31 December 2018			
Cost	348,919	1,353	350,272
Accumulated depreciation and amortisation	-57,695	0	-57,695
Carrying amount	**291,224**	**1,353**	**292,577**
For the 2019 financial year			
Opening carrying amount	**291,224**	**1,353**	**292,577**
Assets developed internally	132,244	0	132,244
Depreciation and amortisation	-11,415	0	-11,415
Impairment	-13,331	0	-13,331
Other	0	-1,353	-1,353
Closing carrying amount	**398,721**	**0**	**398,721**
At 31 December 2019			
Cost	468,830	0	468,830
Accumulated amortisation and impairment	-70,109	0	-70,109
Carrying amount	**398,721**	**0**	**398,721**

Depreciation and amortisation costs of kSEK 11,415 (kSEK 11,415) are included in depreciation/amortisation and impairment of property, plant and equipment and intangible non-current assets in the consolidated statement of income and other comprehensive income.

Note 14 – Property, plant and equipment

	Leasehold improvements	Equipment, tools, fixtures and fittings	Total
At 1 January 2018			
Cost	1,851	26,659	28,511
Accumulated depreciation and amortisation	-633	-16,989	-17,622
Carrying amount	**1,218**	**9,670**	**10,888**
For the 2018 financial year			
Opening carrying amount	1,218	9,670	10,888
Purchases	0	1,092	1,092
Divestments and disposals	0	-6,085	-6,085
Depreciation and amortisation	-231	-3,900	-4,131
Reversed depreciation and amortisation from divestments and disposals	0	6,020	6,020
Translation differences	0	1	1
Closing carrying amount	**987**	**6,798**	**7,785**
At 31 December 2018			
Cost	1,851	21,667	23,518
Accumulated amortisation and impairment	-864	-14,869	-15,733
Carrying amount	**987**	**6,798**	**7,785**
For the 2019 financial year			
Opening carrying amount	987	6,798	7,785
Purchases	2,642	13,177	15,818
Divestments and disposals	0	0	0
Depreciation and amortisation	-326	-3,805	-4,131
Closing carrying amount	**3,303**	**16,169**	**19,472**
At 31 December 2019			
Cost	4,493	34,843	39,336
Accumulated depreciation, amortisation and impairment	-1,190	-18,674	-19,864
Carrying amount	**3,303**	**16,169**	**19,472**

Depreciation and amortisation costs of kSEK 4,131 (kSEK 2,120) are recognised in depreciation/amortisation and impairment of property, plant and equipment and intangible non-current assets in the consolidated statement of income and other comprehensive income.

Note 15 – Financial instruments by category

1 Jan 2018	Financial assets measured at amortised cost	Total
Assets in balance sheet		
Trade receivables	1,208	1,208
Other current receivables	1,864	1,864
Cash and bank balances	18,020	18,020
Total	**21,091**	**21,091**

1 Jan 2018	Financial liabilities measured at amortised cost	Total
Liabilities in balance sheet		
Other non-current and current financial liabilities	22,990	22,990
Lease liabilities	16,356	16,356
Advances from customers	218	218
Trade payables	5,309	5,309
Other current liabilities		0
Total	**44,873**	**44,873**

31 Dec 2018	Financial assets measured at amortised cost	Total
Assets in balance sheet		
Trade receivables	69	69
Other current receivables	515	515
Cash and bank balances	331,196	331,196
Total	**331,780**	**331,780**

31 Dec 2018	Financial liabilities measured at amortised cost	Total
Liabilities in balance sheet		
Other non-current and current financial liabilities	22,850	22,850
Lease liabilities	12,764	12,764
Advances from customers	0	0
Trade payables	34,332	34,332
Other current liabilities		0
Total	**69,946**	**69,946**

31 Dec 2019	Financial assets measured at amortised cost	Total
Assets in balance sheet		
Trade receivables	50	50
Other current receivables	9,152	9,152
Cash and bank balances	55,634	55,634
Total	**64,836**	**64,836**

31 Dec 2019	Financial liabilities measured at amortised cost	Total
Liabilities in balance sheet		
Other non-current and current financial liabilities	22,755	22,755
Lease liabilities	21,409	21,409
Advances from customers	0	0
Trade payables	37,018	37,018
Other current liabilities		0
Total	**81,182**	**81,182**

Note 16 – Trade receivables

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Trade receivables	50	948	1,486
Less: loss allowance	0	-879	-278
Trade receivables – net	**50**	**69**	**1,208**

	31 Dec 2019	31 Dec 2018	1 Jan 2018
The carrying amounts of the Group's accounts receivable are denominated in the following currencies:			
Swedish kronor (SEK)	50	-12	-17
EUR	0	62	603
USD	0	898	900
Total	**50**	**948**	**1,486**

Changes in the reserve for expected loan losses for the 2019 financial year were as follows:

kSEK 0 was reserved as doubtful receivables in 2019.

The maximum exposure to credit risk of the trade receivables on the balance sheet date is the carrying amount stated above.

The fair value of trade receivables corresponds to the carrying amount since the discount effect is not material.

No trade receivables were pledged as collateral for any liability.

Note 17– Other current receivables

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Recoverable VAT	0	0	803
Other	9,152	515	1,864
Total	**9,152**	**515**	**2,667**

Note 18 – Prepaid expenses and accrued income

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Prepaid rental charges	803	590	329
Prepaid insurance	559	488	177
Other prepaid expenses	2,366	1,666	229
Accrued income	0	0	0
Total	**3,728**	**2,743**	**735**

Note 19 – Cash and cash equivalents

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Bank balances	55,634	331,196	18,020
Total	**55,634**	**331,196**	**18,020**

Note 20 – Share capital and other contributed capital

	Number of shares	Share capital	Ongoing new share issue	Other paid-in capital
New share issue	22,840,821	11,420	0	401,366
At 31 December 2018	42,347,495	21,174	0	1,291,971
New share issue	0	0	0	2,728
Ongoing new share issue	0	0	24,703	282,397
At 31 December 2019	42,347,495	21,174	24,703	1,577,096

Share capital on 31 December 2019 comprised 42,347,495 ordinary shares with a quotient value of SEK 0.50.

All shares issued by the Parent Company are paid-up in full.

Reserves in their entirety consist of a translation reserve. The translation reserve comprises exchange rate differences that arise as a result of the income statement and balance sheet for all Group companies being translated into the Group's report currency.

Note 21 – Deferred tax

Deferred tax assets are recognised on tax loss carry-forwards or other deficits to the extent that it is probable that these can be used against future taxable profits. Unutilised loss carry-forwards for which no deferred tax assets are recognised amounted to kSEK 922 on 31 December 2019 (31 December 2018: 731; 1 January 2018: 619). Loss carry-forwards do not fall due at any specific point in time.

Note 22 – Loan liabilities

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Non-current			
Swedish Energy Agency	22,755	22,850	22,990
Total	**22,755**	**22,850**	**22,990**
Total borrowing	**22,755**	**22,850**	**22,990**

Note 23 – Contract liabilities

The Group recognises the following revenue-related contract liabilities:

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Advances from customers	0	0	218
Total current contract liabilities	**0**	**0**	**218**

The contract liabilities consist entirely of advances from customers. No revenues were recognised in respect of the above contract liabilities on the respective balance-sheet dates.

Note 24 – Accrued expenses and deferred income

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Accrued holiday pay liability	6,733	4,548	4,446
Accrued social security contributions	2,339	1,499	1,397
Accrued reserve, time bank	713	225	0
Other deferred income	0	0	0
Other items	62,161	11,486	5,028
Total	**71,946**	**17,757**	**10,871**

Note 25 – Leases

The effects of applying IFRS 16 on the Group's financial statements as of 1 January 2018 are explained below. Reclassifications and adjustments that arose owing to the new lease regulations are therefore recognised in the opening balance on 1 January 2018. The new accounting policies are described in Note 2.

On transition to IFRS 16 and IFRS 1, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under K3 principles. These liabilities were measured at the present value of the future minimum lease payments. The lessee's incremental borrowing rate as of 1 January 2018 was used in the calculation. The lessee's weighted average incremental borrowing rate applied to the lease liabilities, regardless of asset type, was 2.50% on 1 January 2018.

All right-of-use assets are measured as of 1 January 2018 at an amount corresponding to the lease liability adjusted for prepaid lease payments attributable to the leases as at 31 December 2018. In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by IFRS 16, and by the transition rules governing IFRS 1:

- Use of a single discount rate for the portfolio of leases with similar characteristics;

- Recognition of operating leases with a term of less than 12 months from 1 January 2018 as short-term leases;

- Exclusion of initial direct costs in calculating the right-of-use asset on the date of initial application; and

- The use of extension options or options to cancel leases was taken into account in conjunction with the transition to IFRS.

Valuation of lease liability

Operating lease commitments as at 31 December 2017	**8,762**
Discounting using the lessee's incremental borrowing rate on the transition date	-306
Less: short-term leases, expensed straight-line	-90
Less: low-value leases recognised on a straight-line basis as expense	-114
Add/deduct: adjustments due to different treatment of extension and termination options	8,103
Lease liability recognised on 1 January 2018	**16,356**
Of which:	
Current lease liabilities	12,618
Non-current lease liabilities	3,738
Total lease liabilities	**16,356**

Adjustments recognised in the balance sheet on 1 January 2018 and effects on 2018 earnings and cash flow

For leases previously classified as operating leases with the Group as lessee, a lease liability is recognised at the present value of future lease payments totalling MSEK 16.4 as of 1 January 2018. The Group recognises right-of-use assets totalling MSEK 16.7 as of 1 January 2018.

The recognition of depreciation of right-of-use assets instead of lease payments had a positive impact of kSEK 209 on operating profit. Interest on lease liabilities had a negative impact of kSEK 369 on net financial items. Earnings before tax were negatively impacted by kSEK 159 due to IFRS 16. Since the primary payment is recognised as financing activities, the cash flow from financing activities decreases with a corresponding increase of the cash flow from operating activities. The interest portion of the lease payment remains as cash flow from operating activities and is included in net financial items. The Group recognises a right-of-use asset in the balance sheet and a lease liability at the present value of future lease payments. The leased asset is depreciated straight-line over the lease term, or over the useful life of the underlying asset if it is deemed reasonably certain that the Group will take over ownership at the end of the lease term. Lease expenses are recognised as depreciation in operating profit, and interest expenses in net financial items. If the lease is regarded as including a low-value asset, has a lease term that expires within 12 months, or includes service components, these lease payments are recognised as operating expenses in profit or loss over the lease term.

As of 1 January 2018, leased assets are recognised in a separate item in the balance sheet, designated *Right-of-use assets*. Disclosures regarding these leases, as well as short-term leases and low-value leases, are presented below.

Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Right-of-use assets			
Premises	20,505	12,870	16,698
Vehicles	211	148	0
Other	991	0	0
Total	**21,707**	**13,019**	**16,698**
Lease liabilities			
Non-current	14,107	9,690	12,618
Current	7,302	3,074	3,738
Total	**21,409**	**12,764**	**16,356**

Amounts recognised in profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2019	2018
Depreciation of right-of-use assets		
Premises	6,426	3,921
Vehicles	57	0
Other	241	0
Interest expenses (included in finance cost)	-582	-369
Expense relating to short-term leases (included in operating expenses)	-149	-54
Expense relating to leases of low-value assets that are not short-term leases (included in operating expenses)	-71	-68

No significant variable lease payments were identified that are not included in the lease liability.

Note 26 – Share-based remuneration

The following is a summary of options programmes existing in the Group as at 31 December 2019.

Warrants

Designation	Subscription period	Number of warrants	Price	Number of shares awards
ASG1	151118-201217	450,000	130	45,000
ASG2	151118-201217	450,000	10	45,000
TO21	180630-210630	2,800,000	40	280,000
TO22	171031-210930	19,000,000	40	1,900,000
TO23	181119-221119	200,000	40	200,000
TO25	190308-240307	16,666,667	15	1,666,667
TO26	220101-221130	60,000	40	60,000
TO27	191126-210930	400,000	40	400,000 (under registration)
		40,026,667		**4,596,667**

Warrants in ASG1 and ASG2 have been issued free of charge as part of a supplier agreement with Albright Stonebridge Group.

Warrants in TO21 and TO26 has been issued to the Board of Directors on market terms, following a decision by the Annual General Meeting.

Warrants TO25 has been issued to the company's partner Masen as part of a partner agreement.

Warrants TO22, TO23 and TO27 have been issued to the company's employees on market terms.

An option program expired in 2019 and no shares were issued because of these options.

Shares in TO25 will be paid via set-off against debt for accrued services performed by Masen and other shares will be paid in cash.

Note 27 – Earnings per share

SEK	2019	2018
Earnings per share	-3.80	-3.54
Measurements used in calculating earnings per share		
Profit attributable to Parent Company shareholders used in calculating basic and diluted earnings per share		
Profit attributable to Parent Company shareholders, kSEK	-160,897	-92,004
Number		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	42,347,495	25,983,794
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	42,347,495	25,983,794
Warrants		
Adjustment for calculation of diluted earnings per share:	0	0

Warrants have not had any dilutive effect since a loss was reported for the period

Note 28 – Related-party transactions

The shares of Azelio AB (publ) have been traded on Nasdaq First North Stockholm since 10 December 2018.

The following transactions occurred with related parties:

Purchase of services	2019	2018
Masen (holds 16,666,667 warrants in the company and has one representative on the Board of the company).	12,740	1,353
Lars Thunell (Member of the Board)	4	0
Dabok Advisory/Pär Nuder (Board member)	13	0
Bertil Villard (Board member)	4	0
Deep Powder AB/Jonas Eklind (CEO)	0	102
Total	**12,761**	**1,455**

Accrued expenses in respect of services performed by Masen in conjunction with the company's demonstration facility in Ouarzazate, Morocco, amounted to kSEK 14,093 on 31 Dec 2019.

The related party transactions were carried out on an arm-lengths basis.

Note 29 – Changes to liabilities that belong to financing activities

	1 Jan 2018	Cash inflow	Cash outflow	Items not affecting cash flow	31 Dec 2018
Non-current liabilities	22,990	0	-140	0	22,850
Lease liabilities	16,356	170	-3,762	170	12,764
Total	**39,346**	**170**	**-3,902**	**170**	**35,614**

	1 Jan 2019	Cash inflow	Cash outflow	Items not affecting cash flow	31 Dec 2019
Non-current liabilities	22,850	0	-95	0	22,755
Lease liabilities	12,764	15,139	-6,494	15,139	21,409
Total	**35,614**	**15,139**	**-6,589**	**15,139**	**44,164**

Note 30 – Adjustments for non-cash items

	31 Dec 2019	31 Dec 2018
Depreciation and amortisation	22,254	19,467
Impairment	18,280	3,088
Provisions	0	-71
Other	1,601	65
Total	**42,135**	**22,549**

Note 31 – Effects at transition to International Financial Reporting Standards (IFRS)

This is the first annual report prepared in accordance with IFRS. The accounting policies found in Note 2 were applied when the consolidated financial statements for the Azelio Group were prepared on 31 December 2019, and applied to the comparable information presented as per 31 December 2018 and to the preparation of the opening statement of financial position (opening IFRS balance sheet) on 1 January 2018 (the date on which the Group made the transition to IFRS).

When the opening IFRS balance sheet dated 1 January 2018 and the balance sheets dated 31 December 2018 were prepared according to IFRS, the amounts reported in previous annual reports and interim reports in accordance with BFNAR 2012:1 Annual Report and Consolidated Accounts (K3) were adjusted. An explanation for how the transition from previously applied accounting policies to IFRS impacted the Group's earnings and financial position is shown in the tables below and the accompanying notes.

Choices made in the transition to accounting in accordance with IFRS

The transition to IFRS is reported in accordance with the standard IFRS 1 First-time Adoption of International Financial Reporting Standards. The general requirement is that all applicable IFRSs and IASs that have entered force and been adopted by the EU as of 31 December 2019 must be applied retroactively. However, IFRS 1 contains transitional provisions that provide entities with a certain degree of choice.

The exemptions permitted by IFRS from full retrospective application of all standards that Azelio elected to apply to the transition from the former accounting policies to IFRS are stated below.

Exemptions for accumulated translation differences

IFRS 1 allows for accumulated translation differences recognised in equity to be set at zero at the date of the transition to IFRS. This provides transition relief compared with determining the accumulated translation differences in accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates, from the date on which the subsidiary or associated company was formed or acquired. Azelio has chosen to set at zero all accumulated translation differences in the translation reserve and to reclassify these to retained earnings at the date of the transition to IFRS as of 1 January 2018.

Reconciliation between previously applied accounting policies and IFRS

According to IFRS 1, the Group is to present a reconciliation between equity and total comprehensive income recognised according to previously applied accounting policies, and equity and total comprehensive income recognised according to IFRS. The tables below outline the reconciliation between previously applied accounting policies and IFRS for the respective periods for equity and total comprehensive income.

Reconciliation of consolidated equity as of 1 January 2018 and 31 December 2018

	1 January 2018			31 December 2018		
Amounts in kSEK	**In accordance with previous accounting policies**	**Effect of transition to IFRS**	**In accordance with IFRS**	**In accordance with previous accounting policies**	**Effect of transition to IFRS**	**In accordance with IFRS**
ASSETS						
Non-current assets						
Intangible assets						
Capitalised development expenditure	237,600		237,600	291,224		291,224
Investment in progress, intangible non-current assets	0		0	1,353		1,353
Total intangible assets	**237,600**	**0**	**237,600**	**292,577**	**0**	**292,577**
Property, plant and equipment						
Leasehold improvements	1,218		1,218	987		987
Equipment, tools, fixtures and fittings	9,670		9,670	6,798		6,798
Total property, plant and equipment	**10,888**	**0**	**10,888**	**7,785**	**0**	**7,785**
Total non-current assets	**248,488**	**0**	**248,488**	**300,361**	**0**	**300,361**
Right-of-use assets	**0**	**16,698**	**16,698**	**0**	**13,019**	**13,019**
Current assets						
Inventories						
Raw materials and consumables	11,091		11,091	8,809		8,809
Finished goods and goods for resale	3,529		3,529	618		618
Advance payments to suppliers	1,606	-1,606	0	179	-179	0
Total inventories	**16,225**	**-1,606**	**14,620**	**9,606**	**-179**	**9,427**
Current receivables						
Trade receivables	1,208		1,208	69		69
Current tax assets	715		715	919		919
Other receivables	1,061	1,606	2,667	336	179	515
Prepaid expenses and accrued income	1,077	-342	735	3,157	-414	2,743
Cash and bank balances	18,020		18,020	331,196		331,196
Total current receivables	**22,081**	**1,264**	**23,344**	**335,677**	**-235**	**335,442**
Total current assets	**38,306**	**-342**	**37,964**	**345,283**	**-414**	**344,869**
TOTAL ASSETS	**286,794**	**16,356**	**303,150**	**645,644**	**12,605**	**658,249**

Reconciliation of consolidated equity as of 1 January 2018 and 31 December 2018

	1 January 2018			31 December 2018		
Amounts in kSEK	**In accordance with previous accounting policies**	**Effect of transition to IFRS**	**In accordance with IFRS**	**In accordance with previous accounting policies**	**Effect of transition to IFRS**	**In accordance with IFRS**
EQUITY AND LIABILITIES						
Equity attributable to parent company shareholders						
Share capital	9,753		9,753	21,174		21,174
Other paid-in capital	890,605		890,605	1,291,971		1,291,971
Reserves	-250	250	0	-341	250	-91
Retained earnings (incl.net profit for the year)	-662,962	-250	-663,212	-750,928	-409	-751,337
Total equity attributable to Parent Company shareholders	**237,146**	**0**	**237,146**	**561,876**	**-159**	**561,717**
LIABILITIES						
Non-current liabilities						
Other non-current liabilities	22,990		22,990	22,850		22,850
Lease liabilities	0	12,618	12,618	0	9,690	9,690
Total non-current liabilities	**22,990**	**12,618**	**35,608**	**22,850**	**9,690**	**32,541**
Current liabilities						
Advances from customers	218		218	0		0
Trade payables	5,309		5,309	34,332		34,332
Lease liabilities	0	3,738	3,738	0	3,074	3,074
Provisions	71		71	0		0
Other current liabilities	10,190		10,190	8,828		8,828
Accrued expenses and deferred income	10,871		10,871	17,757		17,757
Total current liabilities	**26,658**	**3,738**	**30,396**	**60,918**	**3,074**	**63,991**
Total liabilities	**49,648**	**16,356**	**66,004**	**83,768**	**12,764**	**96,532**
TOTAL EQUITY AND LIABILITIES	**286,794**	**16,356**	**303,150**	**645,644**	**12,605**	**658,249**

Reconciliation of consolidated total comprehensive income for 2018

Amounts in kSEK	Notes	In accordance with previous accounting policies	Effect of transition to IFRS	In accordance with IFRS
Revenue		1,942		1,942
Own work capitalised		66,392		66,392
Other operating income		2,007		2,007
Total		**70,341**	**0**	**70,341**
Raw materials and consumables		-7,758		-7,758
Other external expenses		-65,821	4,130	-61,690
Employee benefit expenses		-72,961		-72,961
Depreciation/amortisation and impairment of property, plant and equipment and intangible non-current assets		-15,546	-3,921	-19,467
Other operating expenses		-215		-215
Total		**-162,300**	**209**	**-162,090**
Operating profit/loss		**-91,959**	**209**	**-91,749**
Financial income		403		403
Finance costs		-289	-369	-658
Net financial items		**114**	**-369**	**-255**
Profit/loss before tax		**-91,845**	**-159**	**-92,004**
Income tax		0		0
Profit/loss for the year		**-91,845**	**-159**	**-92,004**
Other comprehensive income:				
Items that may be transferred to profit or loss for the year				
Exchange-rate differences on foreign operations		0	-91	-91
Other comprehensive income for the year		0	-91	-91
Total comprehensive income for the year		**-91,845**	**-250**	**-92,095**

Note 32 – Events after the end of the reporting period

Memorandum of Understanding for energy storage project in Jordan

Azelio signed a Memorandum of Understanding (MoU) with Hussein Atieh & Sons Co. (HAE) to jointly establish a small-scale project in Jordan. The project is intended to pave the way for commercial collaboration on Azelio's energy storage technology in Jordan totalling around 25 MW by 2023.

How COVID-19 are impacting Azelio's business

At present the impact on Azelio is relatively mild, but travel restrictions mean that we cannot work at the pace nor from the places we planned for in all of our projects. Given the Swedish authorities set travel restriction to at least June 15 and the uncertainty in the development of the coronavirus, Azelio has adapted projects and optimized costs to extend its time plan with one quarter. Thereby the company's working capital is estimated to be sufficient for another quarter compared to what was previously communicated, until December 2020. The need for the next financing is thus extended accordingly.

Notes parent company

Note 33 – Revenue

	2019			2018		
	Sweden	EU	Outside the EU	Sweden	EU	Outside the EU
Revenue from						
Stirling engines	0	0	0	0	313	0
Service obligations	143	0	274	157	75	295
Spare parts	0	1,218	1	0	826	275
Other	34	0	0	0	0	0
Total	**177**	**1,218**	**275**	**157**	**1,214**	**570**

Note 34 – Other operating income

	2019	2018
Group		
Contributions in respect of project financing and central government support	294	2,007
Other	386	0
Total	**680**	**2,007**

Note 35 – Other operating expenses

	2019	2018
Exchange-rate differences	-318	-150
Loss from sale of non-current assets	0	-65
Total	**-318**	**-215**

Note 36 – Audit fees

	2019	2018
KPMG AB		
Audit engagement	585	364
Auditing activities in addition to audit engagement	43	705
Tax advisory services	98	0
Total	**726**	**1,069**

Note 37 – Employee benefits, etc.

	2019	2018
Salaries and other benefits	64,451	44,815
Social security contributions	23,644	15,846
Pension costs – defined-contribution plans	8,797	5,449
Total employee benefits	**96,892**	**66,111**

Salaries, other remuneration and social security expenses

	2019		2018	
	Salaries and remuneration	Social security expenses	Salaries and remuneration	Social security expenses
Board members, CEO and other senior executives	12,354	4,315	13,264	5,840
(of which, bonuses)	(-)			
(of which, pension costs)		1,841		1,583
Other employees	52,097	28,589	31,551	15,455
(of which, bonuses)	(-)		(-)	
(of which, pension costs)		6,956		3,866
Parent Company total	**64,451**	**32,442**	**44,815**	**21,296**

Average number of employees

	2019		2018	
		Of whom men		Of whom men
Parent Company total	**101**	**80%**	**64**	**82%**

Gender distribution in the Parent Company for Board members and other senior executives

	2019		2018	
		Percentage of women		Percentage of women
Board members	8	13%	7	0%
CEO and other senior executives	9	0%	8	0%
Parent Company total	**9**	**6%**	**8**	**0%**

Remuneration of senior executives

Remuneration of senior executives amounts to:

	2019	2018
Salaries and other short-term remuneration	12,354	13,264
Pension costs	1,841	1,583
Total remuneration of senior executives	**14,195**	**14,847**

see Group note 8 for information on remuneration to employees, etc.

Note 38 – Tax on net profit for the year

Recognised tax in the income statement

	2019	2018
Current tax		
Current tax on net profit for the year	0	0
Adjustments for current tax of prior periods	0	0
Total current tax	0	0
Total recognised tax	**-**	**0**

The income tax on profit before tax differs from the theoretical amount that would have resulted using the tax rate applicable for the Parent Company as follows:

	2019	2018
Profit/loss before tax	**-161,932**	**-96,093**
Income tax calculated according to local tax rate in Sweden (21.4%)	34,653	21,140
Tax effects of:		
Tax effect of deductible items booked against equity	8,763	6,101
Tax effect of non-deductible expenses	-3,501	-3,143
Tax effect of untaxable income	1,076	605
Tax losses for which no deferred tax asset has been recognised	-40,991	-24,703
Total	-	-
Total recognised tax	-	-

Note 39 – Participations in subsidiaries

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Opening cost	18,591	17,190	17,190
Contributions	5,620	1,401	0
Closing accumulated cost	**24,210**	**18,591**	**17,190**
Opening impairment	-18,541	-11,676	-11,676
Impairment for the year	-5,620	-6,865	0
Closing accumulated impairment	**-24,160**	**-18,541**	**-11,676**
Closing carrying amount	**50**	**50**	**5,513**

Subsidiary / Corp. Reg. No. / Registered office	Number of shares	Participations in %	Carrying amount, 31 Dec 2019	Carrying amount, 31 Dec 2018
Cleanergy (Beijing) New Energy Technology Co.Ltd, China	1	100%	1	1
Cleanergy AB, 559153-7542, Gothenburg, Sweden	500	100%	50,000	50,000

Note 40 – Intangible assets

	Capitalised development costs	Investments in progress, intangible assets	Total
At 1 January 2018			
Cost	283,880	0	283,880
Accumulated depreciation and amortisation	-46,280	0	-46,280
Carrying amount	**237,600**	**0**	**237,600**
For the 2018 financial year			
Opening carrying amount	**237,600**	**0**	**237,600**
Assets developed internally	65,039	0	65,039
Accrued costs	0	1,353	1,353
Depreciation and amortisation	-11,415	0	-11,415
Closing carrying amount	**291,224**	**1,353**	**292,577**
At 31 December 2018			
Cost	348,919	1,353	350,272
Accumulated depreciation and amortisation	-57,695	0	-57,695
Carrying amount	**291,224**	**1,353**	**292,577**
For the 2019 financial year			
Opening carrying amount	**291,224**	**1,353**	**292,577**
Assets developed internally	132,244	0	132,244
Depreciation and amortisation	-11,415	0	-11,415
Impairment	-13,331	0	-13,331
Other	0	-1,353	-1,353
Closing carrying amount	**398,721**	**0**	**398,721**
At 31 December 2019			
Cost	468,830	0	468,830
Accumulated depreciation, amortisation and impairment	-70,109	0	-70,109
Carrying amount	**398,721**	**0**	**398,721**

Amortisation costs of kSEK 11,415 (kSEK 11,415) are included in depreciation and impairment of tangible and intangible fixed assets in the Parent Company’s income statement.

Note 41 – Property, plant and equipment

	Leasehold improvements	Equipment, tools, fixtures and fittings	Total
At 1 January 2018			
Cost	1,851	26,510	28,362
Accumulated depreciation and amortisation	-633	-16,857	-17,490
Carrying amount	**1,218**	**9,653**	**10,871**
For the 2018 financial year			
Opening carrying amount	**1,218**	**9,653**	**10,871**
Purchases	0	1,092	1,092
Divestments and disposals	0	-6,085	-6,085
Depreciation and amortisation	-231	-3,884	-4,115
Reversed depreciation and amortisation from divestments and disposals	0	6,020	6,020
Closing carrying amount	**987**	**6,796**	**7,783**
At 31 December 2018			
Cost	**1,851**	**21,517**	**23,368**
Accumulated depreciation, amortisation and impairment	-864	-14,721	-15,585
Carrying amount	**987**	**6,796**	**7,783**
For the 2019 financial year			
Opening carrying amount	**987**	**6,796**	**7,783**
Purchases	2,642	13,177	15,818
Divestments and disposals	0	0	0
Depreciation and amortisation	-326	-3,804	-4,129
Closing carrying amount	**3,303**	**16,169**	**19,472**
At 31 December 2019			
Cost	**4,493**	**34,694**	**39,187**
Accumulated depreciation, amortisation and impairment	-1,190	-18,524	-19,714
Carrying amount	**3,303**	**16,169**	**19,472**

Depreciation costs of kSEK 4,129 (kSEK –1,905) are included in depreciation/amortisation and impairment of property, plant and equipment and intangible non-current assets in the Parent Company's income statement.

Note 42 – Deferred tax

Deferred tax assets are recognised on tax loss carry-forwards or other deficits to the extent that it is probable that these can be used against future taxable profits. No deferred tax is recognised in respect of loss carry-forwards because the Parent Company has concluded that the criteria in IAS 12 for recognising deferred tax have not been met. Deferred tax assets are recognised on tax loss carry-forwards or other deficits to the extent that it is probable that these can be used against future taxable profits. Unutilised loss carry-forwards for which no deferred tax assets are recognised amounted to kSEK 922 on 31 December 2019 (31 December 2018: 731; 1 January 2018: 619). Loss carry-forwards do not fall due at any specific point in time.

Note 43 – Cash and bank balances

In the balance sheet and the cash flow statement, the following are included in the item cash and bank balances:

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Bank balances	53,349	330,061	14,245
Total	**53,349**	**330,061**	**14,245**

Note 44 – Trade receivables

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Trade receivables	50	948	1,486
Less: loss allowance	0	-879	-278
Trade receivables – net	**50**	**69**	**1,208**

The carrying amounts of the Parent Company's trade and other receivables are denominated in the following currencies:

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Swedish kronor (SEK)	50	-12	-17
EUR	0	62	603
USD	0	898	900
Total	**50**	**948**	**1,486**

Changes in the reserve for expected loan losses for the 2019 financial year were as follows:

KSEK 0 was reserved as doubtful receivables in 2019.

The maximum exposure to credit risk of the trade receivables and other current receivables on the balance sheet date is the carrying amount stated above.

The fair value of trade receivables corresponds to the carrying amount since the discount effect is not material.

No trade receivables were pledged as collateral for any liability.

Note 45 – Other current receivables

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Recoverable VAT	0	0	803
Other	9,090	368	1,745
Total	**9,090**	**368**	**2,547**

Note 46 – Prepaid expenses and accrued income

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Prepaid rental charges	1,474	1,003	671
Prepaid insurance	559	488	177
Other prepaid expenses	2,360	1,550	11
Other accrued income	0	0	0
Total	**4,393**	**3,041**	**860**

Note 47 – Loan liabilities

See Group Note 22 for information on the Parent Company’s other non-current liabilities.

Note 48 – Contract liabilities

The Parent Company recognises the following revenue-related contract liabilities:

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Advances from customers	0	0	218
Total current contract liabilities	**0**	**0**	**218**

The contract liabilities consist entirely of advances from customers. No revenues were recognised in respect of the above contract liabilities on the respective balance-sheet dates.

Note 49 – Accrued expenses and deferred income

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Accrued holiday pay liability	6,733	4,548	4,446
Accrued social security contributions	2,339	1,499	1,397
Accrued reserve, time bank	713	225	0
Other deferred income	0	0	0
Other items	62,161	11,486	5,028
Total	**71,946**	**17,757**	**10,871**

Note 50 – Operating leases

Commitments concerning operating leases

The Parent Company rents essentially all commercial premises under non-cancellable operating leases. The lease terms vary between 3 and 5 years and most leases can be extended at the end of the lease term for a fee corresponding to a market fee.

The income statement for the 2019 financial year includes lease expenses amounting to kSEK 7,971 (kSEK 5,378) pertaining to machinery, passenger cars and rental premises.

Future total minimum lease payments for non-cancellable operating leases are as follows:

	2019	2018
Within 1 year	7,593	5,071
Between 1 and 5 years	12,331	5,428
More than 5 years	0	0
Total	**19,923**	**10,499**

Note 51 – Share-based remuneration

See Group Note 26, for information on the Parent Company's share-based remuneration.

Note 52 – Share capital

See Group Note 20 for information on the Parent Company's share capital.

Note 53 – Related-party transactions

The shares of Azelio AB (publ) have been traded on Nasdaq First North Stockholm since 10 December 2018.

The following transactions occurred with related parties:

Purchase of services	2019	2018
Masen (holds 16,666,667 warrants in the company and has one representative on the Board of the company).	12,740	1,353
Lars Thunell (Member of the Board)	4	0
Dabok Advisory/Pär Nuder (Board member)	13	0
Bertil Villard (Board member)	4	0
Deep Powder AB/Jonas Eklind (CEO)	0	102
Total	**12,761**	**1,455**

Accrued expenses in respect of services performed by Masen in conjunction with the company's demonstration facility in Ouarzazate, Morocco, amounted to kSEK 14,093 on 31 Dec 2019.

The related party transactions were carried out on an arm-lengths basis.

Note 54 – Changes to liabilities that belong to financing activities

	1 Jan 2018	Cash inflow	Cash outflow	Items not affecting cash flow	31 Dec 2018
Non-current liabilities	22,990	0	-140	0	22,850
Total	**22,990**	**0**	**-140**	**0**	**22,850**

	1 Jan 2019	Cash inflow	Cash outflow	Items not affecting cash flow	31 Dec 2019
Non-current liabilities	22,850	0	-95	0	22,755
Total	**22,850**	**0**	**-95**	**0**	**22,755**

Note 55 – Adjustments for non-cash items

	31 Dec 2019	31 Dec 2018
Depreciation and amortisation	15,544	15,530
Impairment	23,900	11,635
Provisions	0	-71
Other non-cash items	0	65
Total	**39,444**	**27,159**

Note 56 – Events after the end of the reporting period

Memorandum of Understanding for energy storage project in Jordan

Azelio signed a Memorandum of Understanding (MoU) with Hussein Atieh & Sons Co. (HAE) to jointly establish a small-scale project in Jordan. The project is intended to pave the way for commercial collaboration on Azelio’s energy storage technology in Jordan totalling around 25 MW by 2023.

How COVID-19 are impacting Azelio's business

At present the impact on Azelio is relatively mild, but travel restrictions mean that we cannot work at the pace nor from the places we planned for in all of our projects. Given the Swedish authorities set travel restriction to at least June 15 and the uncertainty in the development of the coronavirus, Azelio has adapted projects and optimized costs to extend its time plan with one quarter. Thereby the company's working capital is estimated to be sufficient for another quarter compared to what was previously communicated, until December 2020. The need for the next financing is thus extended accordingly.

Note 57 – Key ratio definitions

Balance sheet total: Total assets

Equity/assets ratio: Total equity / Total assets

Note 58 – Proposed appropriation of profits

The following earnings (kSEK) are at the disposal of the Annual General Meeting:

Share premium reserve	1,577,096
Retained earnings	-1,091,981
Profit/loss for the year	-161,932
Total	**323,183**
To be carried forward	323,183
Total	**323,183**

The consolidated income statement and balance sheet will be presented to the Annual General Meeting on 14 May 2020 for adoption.

Board approval

Gothenburg **2020-04-13**

The Board of Directors and the CEO ensure that the consolidated financial statements have been prepared in accordance with international accounting standards IFRS as adopted by the EU and give a true and fair view of the Group's position and results. The annual report has been prepared in accordance with generally accepted accounting principles and gives a true and fair view of the parent company's position and earnings.

The Administration Report for the Group and the Parent Company provides a true and fair view of the development of the Group's and the Parent Company's operations, position and results and describes the significant risks and uncertainties that the Parent Company and the companies that are part of the Group face.

Bo Dankis
Chairman

Mattias Bergman

Jonas Eklind
CEO

Hicham Bouzekri

Sigrun Hjelmquist

Kent Janér

Pär Nuder

Lars Thunell

Bertil Villard

Our audit report has been submitted 2020-04-16
KPMG AB

Fredrik Waern
Authorized public accountant