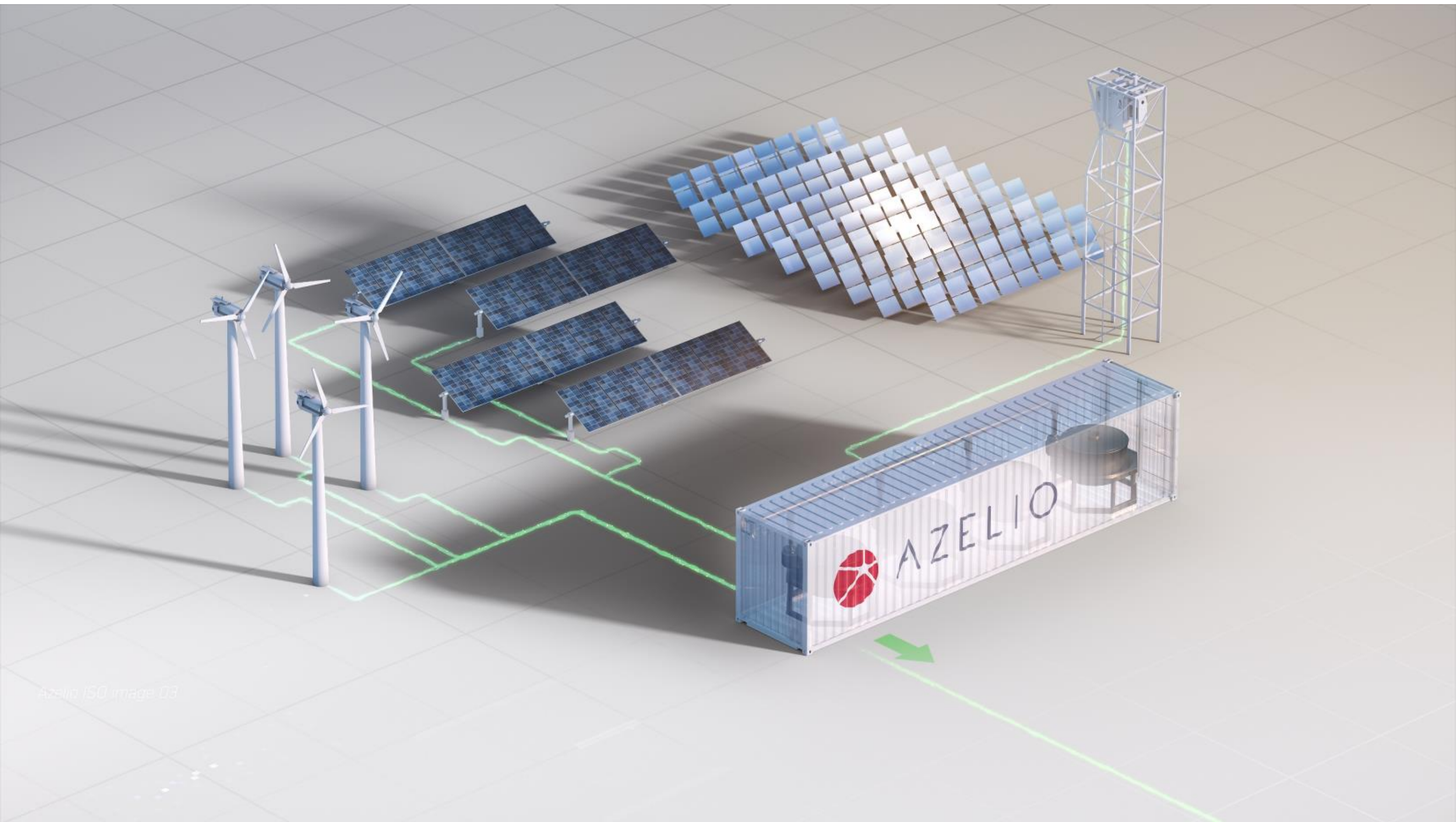
AZELIO

Year-end report 2019



Continued fast pace towards commercial contracts

In the fourth quarter Azelio signed several Memorandums of Understanding for production facilities with customers in the US, Africa and the Middle East. The MoUs relate to system installations with a combined capacity of 184 MW.

Azelio's verification project in Morocco was installed on schedule and began producing electricity at the end of the fourth quarter 2019. Verification data from the installation will be generated from the first quarter of 2020 onwards. This data is important in the work to convert MoUs into commercial orders together with customers.

To prepare for commercialisation and volume production in 2021, a new share issue was completed with preferential rights for existing shareholders. The share issue was oversubscribed and injected SEK 350 million into the company at the beginning of 2020.

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Group financial development

Q4: October – December 2019

- Net sales amounted to kSEK 571 (269)
- Operating profit/loss (EBIT) amounted to kSEK -53,357 (-26,337)
- Earnings per share before and after dilution SEK -1.26 (-0.81)
- Profit/loss for the period amounted to kSEK -53,487 (-26,372)
- Cash flow amounted to kSEK -80,441 (252,679)
- Cash and bank balances amounted to kSEK 55,634 (331,196)

Full year: January – December 2019

- Net sales amounted to kSEK 1,670 (1,942)
- Operating profit/loss (EBIT) amounted to kSEK -160,510 (-91,749)
- Earnings per share before and after dilution SEK -3.80 (-3.54)
- Profit/loss for the period amounted to kSEK -160,897 (-92,004)
- Cash flow amounted to kSEK -275,460 (313,011)
- Cash and bank balances amounted to kSEK 55,634 (331,196)
- The Board proposes no dividend for the year 2019

Significant events

Q4: October – December 2019

- MoUs signed with STELLA Futura and ND Power for two commercial projects in Africa
- MoU signed with US firm Biodico for installations amounting to 120 MW in California
- New organisation introduced ahead of commercialisation
- Final testing of pump system developed with Swiss firm Egger for transferring heat to the energy storage system
- Electricity from photovoltaics means the verification project in Morocco is opening up new markets
- Expressions of interest increase to around 3,900 MW or SEK 170 billion in potential order value
- Extraordinary general meeting on 26 November approves new share issue
- MoU for project in Oman
- SEK 350 million rights issue oversubscribed
- The financial statements are prepared in accordance with IFRS.

After the end of the period

- MoU for energy storage project in Jordan

Key figures for the Group

	Oct–Dec 2019	Oct–Dec 2018	Jan–Dec 2019	Jan–Dec 2018
Net sales, SEK 000	571	269	1,670	1,942
Operating profit/loss, SEK 000	-53,857	-26,337	-160,510	-91,749
Profit/loss for the year, SEK 000	-53,487	-26,372	-160,897	-92,004
Earnings per share before and after dilution, SEK	-1.26	-0.81	-3.80	-3.54
Equity, SEK 000	710,374	561,717	710,374	561,717
Equity/assets ratio, %	82	85	82	85
Cash flow from operating activities, SEK 000	-30,232	5,451	-129,853	-35,774
Cash and bank balances, SEK 000	55,634	331,196	55,634	331,196

Comments from CEO

"The great response we are getting from various types of customers shows clearly that Azelio's technology for storing renewable energy is seen as both financially and environmentally attractive. Azelio has an important contribution to make in the transition to a more sustainable world."

– Jonas Eklind, CEO

Azelio continued to develop according to plan in the fourth quarter. This was an intense period in which we took a number of important steps along the way towards the start of volume production in 2021. The great response we are getting from various types of customers shows clearly that Azelio's technology for storing renewable energy is seen as both financially and environmentally attractive. Azelio has an important contribution to make in the transition to a more sustainable world.

The results for the year reflect that we are following the plan so that Azelio can commercialise the products and start volume production in the coming year.

Azelio took an important step along the way when the verification project in Morocco began producing electricity on schedule at the end of the fourth quarter. In cooperation with Masen (the Moroccan Agency for Sustainable Energy), Azelio has two units installed at the Ouarzazte Solar Power Station. A corresponding project has also been put into operation in Åmål, Sweden. A verification project starts with optimising the system, after which a third-party records operating data. If any change needs to be made after the measurement is started, the measuring has to be restarted. Measurement has therefore not begun immediately when the system is started up, but only once it has been optimised for the local conditions. This is expected to be in the end of the first quarter in 2020.

The purpose of the verification is to provide our customers with a basis for investing in, and financing, a full-scale facility. Project owners need verification data in order to be able to borrow money for their investment in Azelio's products. Verified operating data is fundamental for being able to borrow money or other financing for the technology. That Azelio's customers can part-finance the projects by borrowing is important for optimal project financing, and thus for the conversion of the significant customer interest into orders.

The project in Morocco uses electricity from photovoltaics to charge the storage, rather than concentrated solar power via heliostats (mirrors) as initially planned. The method now chosen increases the potential market for Azelio, since photovoltaics have a substantial and rapidly growing global spread while also being a well-established technology that is continuing to fall rapidly in price. Photovoltaics also work better than heliostats in areas with high humidity. This is the case in India, among other places, which is now a potential market with a great need to expand its energy supply. Azelio's recent successes can be illustrated by the fact that qualified customer enquiries have increased by nearly 400 percent to 3.9 GW from the previous approximately 1 GW. This increase represents a potential order value of SEK 170 billion from the previous SEK 50 billion.

Using electricity to charge the storage also has other advantages since the storage system is placed on the ground rather than on a tower. This makes it possible to use both electricity and heat generated from the storage system. This is an efficient use of the system, since it can now achieve a full 90 percent total system efficiency from energy to energy in the form of electricity and heat.

The significance of the development of the technology can also be seen in the latest Memorandums of Understanding (MoU) signed. The five Memorandums of Understanding that were signed during the fourth quarter and after the end of the quarter all involve heating of the storage using electricity produced by photovoltaics.

The Memorandums of Understanding were signed in the US and in priority markets in sub-Saharan Africa and in the Middle East and comprise systems with a combined capacity of around 184 MW. A number of the MoUs have been signed with project development companies with the aim of long-term collaboration.

The most extensive 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 operational in 2021 and will act as a model for future projects in California. Biodico's vision is to create and enable environmentally friendly facilities for biofuel production that are operated locally from renewable resources.

The higher revenue compared to 2018 was due to an increased sale of spare parts from earlier projects. The cost is developing according to plan.

Finally, I would like to highlight the approximately SEK 350 million – before transaction costs – of capital raised to finance the next stage of our journey to market. Our immediate initiatives involve boosting the sales and marketing organisation further, continuing to drive development at the planned fast pace and enhancing product design as we move towards commercialisation and volume production. We are delighted by the great interest shown by existing and new shareholders in the new share issue, which was oversubscribed and therefore did not require us to draw on the underwriting of the issue.

In 2020 we will continue to work according to our established plan. Azelio's goal is to start volume production in 2021 with a significant order book, and we are continually ticking off important interim goals along the way.

The company is monitoring the coronavirus situation, following the authority's recommendations but currently no major impact.

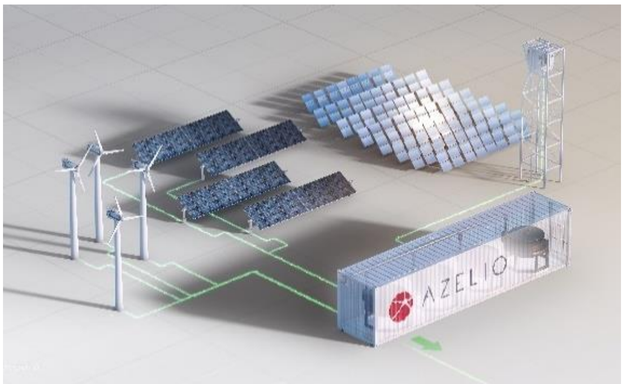
Jonas Eklind, CEO

The business

Sustainable energy for all

Access to affordable, reliable and sustainable energy is vital for improving the environment and bringing about economic growth. However, renewable energy is not evenly distributed and in many places around the world the supply is inadequate, with either no grid at all or a grid that is unstable.

Azelio has a solution that can provide renewable energy for all. The solution stores energy from the sun and wind and then makes it available as electricity or heat at all hours of the day at a very competitive cost.

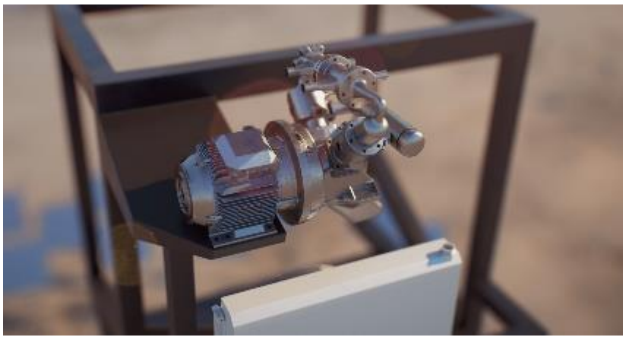


A large and growing market

Through efficient storage of renewable energy in areas without a stable grid Azelio is addressing a very large and rapidly growing market. Today a billion people live without access to a grid, with double that number living in areas with unstable grids. Since Azelio successfully demonstrated its technology in 2018 the company has received expressions of interest for more than 3.9 GW, or around SEK 170 billion in order value.

A groundbreaking solution

The solution stores energy in the form of heat in an aluminium storage facility made of recycled aluminium. The heat can then be converted into electricity on demand via the Stirling engine, and can also deliver heat at 55–65 degrees Celsius. This heat can be used as industrial heat or district heating, for example. The system is modular and cost-effective from 100 kW to 100 MW, capable of supplying hospitals, factories, mines or a small community with renewable energy.



Moving from innovation to industrialisation

After the successful public demonstration of the technology in 2018 Azelio is 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 industrialisation together with large, well-established global partners.

The next big milestone for the company is to verify the system, which is being carried out at one of the world's largest solar farms in Morocco. In parallel with this, a further important verification project is to be started with Masdar and Khalifa University in Abu Dhabi. These verifications will pave the way for small projects in 2020 and allow the start of volume production in 2021.

Significant events

Q4: October – December 2019

MoU for two commercial projects in Africa

Azelio signed two Memorandums of Understanding (MoUs), one with the Swedish company STELLA Futura and one with the Swedish company Nordic Distributed Power AB (ND Power), for two commercial facilities of 50 kW each. These are scheduled to start operating in the third quarter of 2020. The purpose of these facilities is to demonstrate Azelio's technology ahead of future projects with STELLA Futura and ND Power in the African market. Both STELLA Futura and ND Power have various projects in the pipeline between 2021 and 2023 in which Azelio's technology can be used. In total, these MoUs cover installations of 6.5 MW and 7.55 MW respectively for Azelio's energy storage solution.

MoU for 120 MW of installations in California

Azelio signed a Memorandum of Understanding with the US company Biodico Inc. (Biodico) for a project in Atascadero, California. The MoU relates to collaboration on installed capacity of around 120 MW for Azelio's energy storage technology in the US market up until 2024. This capacity is broken down as 13 kW in 2021, 15 MW in 2022, 35 MW in 2023 and 70 MW in 2024. The capacity represents around 9,000 units of Azelio's system.

New organisation ahead of commercialisation

Azelio changed its organisation to prepare the company for the next phase in the company's development, which is commercialisation. Jonas Wallmander, previously VP Partners & Collaborations, became Executive VP. The new Executive Team comprises Jonas Eklind, CEO; Kennet Lundberg, CFO; and Jonas Wallmander, Executive VP. The expanded management team for Azelio's energy storage (Stirling TES) comprises VP Operations Peter Gabrielsson, VP Manufacturing Ingemar Hagberg, VP Development Jonas Karlsson, CTO Torbjörn Lindquist and VP Business Development Ralf Wiesenberg. Jan Svensson takes up the position of VP Stirling OEM, thus becoming responsible for evaluation of Azelio's gas business. The new organisation took effect on 1 October 2019.

Final testing of pump system

Together with Swiss company Emile Egger & Cie SA (Egger), Azelio has developed a unique pump system that pumps sodium at a high temperature for transferring heat into Azelio's energy storage. The pump system has worked well in controlled development environments and in October final testing began – a 4,000-hour service life test under real-life conditions.

Verification in Morocco opens up new markets

It was decided that Azelio's verification project in Morocco would use electricity from photovoltaics (PVs) to charge the energy storage system developed by the company.

This has a number of advantages, such as increasing the number of addressable markets to include countries with good conditions for photovoltaics but inadequate conditions for concentrated solar power (CSP), such as India. The storage solution can also be charged with electricity from wind power or connected to a grid to balance output, which would suit northern Europe and parts of the US. Total system efficiency can reach a full 90 percent from energy to energy, since the storage solution is placed on the ground and produces both electricity and generated heat at a temperature of around 55–65 degrees Celsius.

Expressions of interest rise to SEK 170 billion

After the demonstration of the energy storage solution in June 2018 there was a significant increase in interest from potential customers. In December 2018 Azelio had received expressions of interest from potential customers which, after qualification based on specific assessment criteria, represented around 1 GW, representing up to SEK 50 billion in potential order value.

The improved energy storage solution that includes charging using electricity has resulted in the company adjusting its assessment criteria. After reviewing the enquiries as well as the new expressions of interest, the estimated value of the expressions of interest has increased to around 3.9 GW – which corresponds to a potential order value of up to SEK 170 billion. It should be noted that these expressions of interest are not orders, nor indications of orders, and that the number of enquiries exceeds the company's expected production capacity over the next five years. Also, some of the expressions of interest are in geographies where the company is not planning to operate over the next five years.

SEK 350 million rights issue

An extraordinary general meeting held on 26 November 2019 authorised the Board is to complete a new share issue for up to SEK 350 million.

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

MoU for project in Oman

Azelio and Oman-based company Al Mashani signed a Memorandum of Understanding (MoU) to establish a small project in Oman. The purpose of the installation is to demonstrate Azelio's system in a real commercial environment and to start to introduce Azelio's technology more widely in the country, in cooperation with Al Mashani and with a combined project intention of around 25 MW in total between 2021 and 2024.

First electricity from verification project in Morocco

Azelio's verification project at one of the world's largest solar farms, Noor Power Station in Morocco, supplied its first electricity before the end of the year as planned. Verification of Azelio's technology for energy storage and production of sustainable and dispatchable electricity around the clock is an important step in Azelio's industrialisation. The purpose of the verification project is to generate data that demonstrates the performance of the technology in a real environment. This provides customers with the energy sector's conventional documentation that can be used to assess the profitability of projects and to seek financing for these.

Transition to IFRS

This is Azelio's first report in accordance with IFRS. In view of the transition to new reporting standards, comparative figures for the corresponding period in the previous year have been restated in accordance with IFRS. In the transition the standard IFRS 16 "Leases" had a particular impact. For further information see Note 8.

After the end of the period

MoU for energy storage project in Jordan

Azelio signed a Memorandum of Understanding with Hussein Atieh & Sons Co. (HAE) to jointly establish a small-scale project in Jordan during the fourth quarter of 2020. The project is intended to pave the way for commercial collaboration on Azelio's energy storage technology in Jordan totalling around 25 MW up until 2023.

Group financial development

Q4: October – December 2019

Income, expenses and profit/loss

Operating income
Net sales for the fourth quarter amounted to kSEK 571 (269). The increase is largely due to increased sales of spare parts. Own work capitalised amounted to kSEK 39,696 (25,106) for the quarter.

Operating expenses
Costs for the fourth quarter amounted to kSEK -93,688 (-52,342). The increase is largely attributable to increased raw materials and consulting costs.

Capitalised expenditure for development and similar
The company has written down the value of certain capitalised project costs that have been de-prioritised or discontinued by kSEK 1,908 (-).

Operating profit/loss
The operating loss amounted to kSEK -53,357 (-26,337).

Financial items
Income from financial items during the period amounted to kSEK -129 (-35) and consisted mainly of interest income, interest expense and similar profit/loss items.

Profit/loss for the period
The result for the fourth quarter was a loss of kSEK -53,487 (-26,372). Earnings per share before and after dilution amounted to SEK -1.26.

Cash flow, investments and financial position

Cash flow
Cash flow from operating activities during the period amounted to kSEK -30,232 (6,405). Cash flow from financing activities amounted to kSEK -4,339 (272,167).

Investments
Investments affecting cash flow during the period amounted to kSEK -45,871 (-25,893), mainly in the form of capitalised development.

Financial position
Cash and cash equivalents amounted to kSEK 55,634 (331,196) as of 31 December. The rights issue initiated in the fourth quarter was completed in the first quarter of 2020, at which point new shares were issued and the proceeds were received by the company.

Equity at the end of the period amounted to kSEK 710,374 (561,717) or SEK 16.77 (21.62) per share. The equity/assets ratio as of the same date was 82% (85), closing balance.

Full year: January – December 2019

Income, expenses and profit/loss

Operating income
Net sales for the period amounted to kSEK 1,670 (1,942). 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 kSEK 130,891 (66,392) for the year.

Operating expenses
Costs during the period amounted to kSEK -293,751 (-162,090). The increase is largely attributable to increased employees, raw materials and consulting costs.

Capitalised expenditure for development and similar
The company has decided to write down the value of certain capitalised project costs that were deprioritised or discontinued during the period by kSEK 13,331 (-).

Operating profit/loss
The operating loss amounted to kSEK -160,510 (-91,749).

Financial items
Income from financial items during the period amounted to kSEK -386 (-255) and consisted mainly of interest income, interest expense and similar profit/loss items.

Profit/loss for the period
The result for the period was a loss of kSEK -160,897 (-92,004). Earnings per share before and after dilution amounted to SEK -3,80.

Cash flow and investments

Cash flow
Cash flow from operating activities during the period amounted to kSEK -129,853 (-32,254). Cash flow from financing activities amounted to kSEK -6,352 (412,765) and is attributable to new share issues.

Investments
Investments affecting cash flow during the period amounted to kSEK -139,256 (-67,500), mainly in the form of capitalised development.

Share capital
The Group's share capital at the end of the period amounted to kSEK 21,174, consisting of 42,347,495 shares. After the closing date a rights issue was registered, increasing the share capital to kSEK 45,876 and the number of shares by 49,405,405 shares to 91,752,900.

Largest shareholders as at 13 January 2020

Name	Shareholding, %
Blue Marlin AB / Kent Janér	19.1
Back in Black Capital Ltd	7.1
UBS Switzerland AG, W8IMY	4.9
Deutsche Bank (Suisse) S.A, W8IMY	4.5
Ilija Batljan	3.6
Goldman Sachs International Ltd, W8IMY	3.3
Byggmästare AJ Ahlström Fastighet	2.7
BNP Paribas Sec Serv Luxemburg, W8IMY	2.4

Warrants

At the end of the period there were 40,026,667 warrants, of which 400,000 are 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 shares.

Share data

At the end of the period on 31 December 2019 the share was traded at SEK 12.00, a 7.7% decrease on the price a year earlier (SEK 13.00).

Related party transactions

In the fourth quarter an amount of kSEK 833 (1,353) was expensed in respect of services provided in connection with the company's demonstration facility in Ouarzazate, Morocco. For full-year 2019 the amount was kSEK 12,740 (1,353). 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 kSEK 14,093 (1,353) in total. These services are performed on market terms.

Parent company

Net sales for the parent company in the fourth quarter amounted to kSEK 571 (269). The operating result for the fourth quarter was a loss of kSEK -52,179 (-25,239). The net result for the fourth quarter was a loss of kSEK -53,562 (-28,226). Total cash flow in the fourth quarter was kSEK -80,725 (252,315). Equity at the end of the quarter amounted to kSEK 717,500 (567,274).

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 of them are, however, 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 Stirling 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 established business and liquidity plans until well into the third quarter of 2020. 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 already started and therefore the Board's view is 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 expansive financing plans is therefore considered to be good.

Dividend

The Board of Directors proposes that no dividend is paid for the financial year.

Review

This interim report has not been reviewed by the company's auditors.

Condensed financial statements

Condensed consolidated statement of income and other comprehensive income

Amounts in kSEK	Note	Oct–Dec 2019	Oct–Dec 2018	Jan–Dec 2019	Jan–Dec 2018
Revenue					
Net sales	4	571	269	1,670	1,942
Own work capitalised		39,696	25,106	130,891	66,392
Other operating income		64	629	680	2,007
		40,330	26,005	133,241	70,341
Costs					
Raw materials and consumables		-5,975	-3,943	-7,794	-7,758
Other external expenses		-47,560	-25,020	-143,590	-61,690
Employee benefit expenses		-32,143	-18,402	-106,450	-72,961
Depreciation/amortisation and impairment of property, plant and equipment and intangible fixed assets		-7,860	-4,881	-35,599	-19,467
Other operating expenses		-150	-96	-318	-215
Total operating expenses		-93,688	-52,342	-293,751	-162,090
Operating profit/loss		-53,357	-26,337	-160,510	-91,749
Financial items					
Financial income		**164**	106	**434**	403
Finance costs		**-294**	-141	**-821**	-658
Total financial items		-129	-35	-386	-255
Profit/loss after financial items		-53,487	-26,372	-160,897	-92,004
Tax on profit for the period		0	0	0	0
Profit/loss for the period		-53,487	-26,372	-160,897	-92,004
Other comprehensive income:					
Items that have been or may be reclassified to profit for the period					
Translation differences for the period on translation of foreign operations		**141**	**-105**	**-304**	-91
Other comprehensive income		**141**	**-105**	**-304**	**-91**
Total comprehensive income for the period		**-53,346**	**-26,477**	**-161,201**	**-92,095**

	Note	**Oct–Dec 2019**	**Oct–Dec 2018**	**Jan–Dec 2019**	**Jan–Dec 2018**
Basic and diluted earnings per share	6	**-1,26**	**-0,81**	-3,80	-3,54
Average number of shares		***42 347 495***	***32 627 040***	***42 347 495***	***25 983 794***
Number of shares at end of period		***42 347 495***	***42 347 495***	***42 347 495***	***42 347 495***

Condensed financial statements

Condensed consolidated statement of financial position

Amounts in kSEK	Note	31 Dec 2019	31 Dec 2018	1 Jan 2018
ASSETS				
Subscribed but not paid-up capital		350,778	0	0
Intangible non-current assets				
Capitalised expenditure for development and similar		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				
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
Total non-current assets		418,193	**300,361**	**248,488**
Right-of-use assets	8	21,707	13,019	16,698
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 assets				
Trade receivables		50	69	1,208
Current tax assets		1,273	919	715
Other receivables		9,152	515	2,667
Prepaid expenses and accrued income		3,728	2,743	735
Cash and bank balances		55,634	331,196	18,020
Total current assets		74,901	**344,869**	**37,964**
TOTAL ASSETS		**865,580**	**658,249**	**303,150**
EQUITY AND LIABILITIES				
Equity				
Share capital		45,876	21,174	9,753
Other paid-in capital		1,577,096	1,291,971	890,605
Reserves		-395	-91	0
Retained earnings, including profit/loss for the year		-912,204	-751,337	-663,212
Total equity		710,374	**561,717**	**237,146**
Non-current liabilities				
Other liabilities		22,755	22,850	22,990
Lease liabilities	8	14,107	9,690	12,618
Total non-current liabilities		**36,862**	**32,541**	**35,608**
Current liabilities				
Advances from customers		0	0	218
Trade payables		37,018	34,332	5,309
Lease liabilities	8	7,302	3,074	3,738
Provisions		0	0	71
Other current liabilities		2,078	8,828	10,190
Accrued expenses and deferred income		71,946	17,757	10,871
Total current liabilities		118,344	**63,991**	**30,396**
TOTAL EQUITY AND LIABILITIES		**865,580**	**658,249**	**303,150**

Condensed financial statements

Condensed consolidated statement of changes in equity

Amounts in kSEK	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	10	9,753	0	890,605	0	-663,212	237,146
Profit/loss for the period						-92,004	-92,004
Other comprehensive income					-91		-91
Total comprehensive income for the period		9,753	0	890,605	-91	-755,217	145,050
Transactions with shareholders							
New share issue		11,420		401,366		3,280	416,067
Premiums for issued warrants						600	600
Closing balance, 31 December 2018		**21,174**	**0**	**1,291,971**	**-91**	**-751,337**	**561,717**

Amounts in kSEK	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 2019		**21,174**	**0**	**1,291,971**	**-91**	**-751,337**	**561,717**
Profit/loss for the period						-160,897	-160,897
Other comprehensive income					-304		-304
Total comprehensive income for the period		21,174		1,291,971	-395	-912,233	400,516
Transactions with shareholders							
Ongoing new share issue			24,703	282,397			307,100
New share issue				2,728			2,728
Premiums for issued warrants						29	29
Closing balance, 31 December 2019		21,174	24,703	1,577,096	-395	-912,204	710,374

Condensed financial statements

Condensed consolidated statement of cash flows

Amounts in kSEK	Note	Oct–Dec 2019	Oct–Dec 2018	Jan–Dec 2019	Jan–Dec 2018
Cash flow from operating activities					
Operating profit/loss		-53,487	-26,372	-160,897	-92,004
Adjustment for non-cash items		11,959	8,228	42,135	22,549
Income tax paid		0	-313	0	-227
Cash flow from operating activities before changes in working capital		**-41,527**	**-18,457**	**-118,762**	**-69,683**
Increase(-)/decrease (+) in inventories		11,262	-405	-587	3,532
Increase (-)/decrease (+) in operating receivables		-7,457	-95	-16,672	-257
Increase (+)/decrease (-) in operating liabilities		7,490	25,363	6,168	34,154
Cash flow from operating activities		**-30,232**	**6,405**	**-129,853**	**-32,254**
Cash flow from investing activities					
Investments in property, plant and equipment		-6,175	-787	-15,820	-1,108
Investments in intangible non-current assets		-39,696	-25,106	-123,436	-66,392
Investments in financial assets		0	0	0	0
Cash flow from investing activities		**-45,871**	**-25,893**	**-139,256**	**-67,500**
Cash flow from financing activities					
New share issue		-2,520	272,907	208	416,067
Proceeds from warrants sold		0	353	29	600
Borrowings		0	0	0	0
Repayment of leas debt		-1,819	-954	-6,494	-3,765
Repayment of borrowings		0	**-140**	-95	-140
Cash flow from financing activities		**-4,339**	**272,167**	**-6,352**	**412,765**
Cash flow for the period		**-80,441**	**252,679**	**-275,460**	**313,011**
Cash and cash equivalents at beginning of period		136,140	78,498	331,196	18,020
Exchange rate differences in cash and cash equivalents		-64	18	-101	165
Cash and cash equivalents at end of period		**55,634**	**331,196**	**55,634**	**331,196**

Condensed financial statements

Condensed parent company income statement

Amounts in kSEK	Note	Oct–Dec 2019	Oct–Dec 2018	Jan–Dec 2019	Jan–Dec 2018
Net sales		571	269	1,670	1,942
Own work capitalised		39,696	25,106	130,891	66,392
Other operating income		64	629	680	2,007
		40,330	26,005	133,241	**70,341**
Raw materials and consumables		-5,975	-3,943	-7,794	-7,758
Other external expenses		-49,257	-25,644	-149,552	-64,720
Employee benefit expenses		-31,161	-17,667	-103,142	-69,770
Depreciation/amortisation and impairment of property, plant and equipment and intangible fixed assets		-5,967	-3,894	-28,876	-15,530
Other operating expenses		-150	-96	-318	-215
Total operating expenses		-92,509	-51,243	-289,681	-157,992
Operating profit/loss		-52,179	-25,239	-156,441	-87,651
Income from participations in Group companies		-1,431	-1,351	-5,620	-6,865
Income from securities and receivables held as non-current assets		0	-1,683	0	-1,683
Other interest income and similar profit/loss items		159	104	442	395
Interest expense and similar profit/loss items		-111	-57	-314	-289
Total financial items		-1,383	-2,987	-5,491	**-8,442**
Profit/loss after financial items		-53,562	-28,226	-161,932	**-96,093**
Tax on profit for the period		0	0	0	0
Profit/loss for the period		-53,562	-28,226	-161,932	**-96,093**

Profit/loss for the period tallies with total comprehensive income for the period.

Condensed financial statements

Condensed parent company balance sheet

Amounts in kSEK	Note	31 Dec 2019	31 Dec 2018	1 Jan 2018
ASSETS				
Subscribed but not paid-up capital		350,778	0	0
Capitalised expenditure for development and similar		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				
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		50	50	**5,513**
Total non-current assets		418,243	**300,410**	**253,985**
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**
Trade receivables		50	69	1,208
Receivables from Group companies		6,667	0	1,645
Current tax assets		1,273	919	715
Other receivables		9,090	368	2,547
Prepaid expenses and accrued income		4,393	3,041	860
Cash and bank balances		53,349	330,061	14,245
Total current assets		79,886	**343,884**	**35,840**
TOTAL ASSETS		848,908	**644,294**	**289,824**
EQUITY AND LIABILITIES				
Equity				
Share capital		21,174	21,174	9,753
Ongoing new share issue		24,703	0	0
Development expenditure fund		346,140	222,291	157,252
Share premium reserve		1,577,096	1,291,971	890,605
Retained earnings including profit/loss for the period		-1,253,913	-968,161	-810,910
Total equity		715,200	**567,274**	**246,700**
Provisions				
Other provisions		0	0	71
Total provisions		0	**0**	**71**
Non-current liabilities				
Other liabilities		22,755	22,850	22,990
Total non-current liabilities		22,755	**22,850**	**22,990**
Current liabilities				
Advances from customers		0	0	218
Trade payables		37,018	34,332	5,309
Other current liabilities		1,988	2,081	3,666
Accrued expenses and deferred income		71,946	17,757	10,871
Total current liabilities		110,953	**54,170**	**20,063**
TOTAL EQUITY AND LIABILITIES		848,908	**644,294**	**289,824**

Notes

Note 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 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 Critical 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) Impairment testing of capitalised expenditure for development

The Group tests annually whether capitalised expenditure for development has suffered 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.

(b) *Going concern assumption*

Until the time when the company initiates its sales, there is a dependence on contributions from shareholders or other external investors to ensure continued operations. As of year-end, the company had liquidity amounting to kSEK 53,349 which together with the rights issue carried out in January 2020 (kSEK 350,000 excluding costs) is sufficient to secure the company's operations well into the third quarter of 2020. For the period thereafter, there are no binding obligations, which ensures the company's financing. The Board has already initiated the work to raise additional capital and thus the Board believe it's fair to prepare the financial statements under the going concern assumption.

Note 4 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.

Revenue from external customers by type of product and service:	Oct–Dec 2019	Oct–Dec 2018	Jan–Dec 2019	Jan–Dec 2018
Stirling engines	0	0	0	313
Service obligations gas business	114	154	417	527
Spare parts gas business	456	115	1,219	1,101
Other	0	0	34	0
Total	**571**	**269**	**1,670**	**1,942**

Revenue from external customers broken down by country, based on where customers are located:	Oct–Dec 2019	Oct–Dec 2018	Jan–Dec 2019	Jan–Dec 2018
Sweden	41	50	177	157
EU	456	115	1,218	1,214
Outside the EU	73	105	275	570
Total	571	269	1,670	1,944

In the fourth quarter, revenue from major customers (more than 10%) amounted to kSEK 432 (kSEK 312) and to kSEK 1,122 (kSEK 948) accumulated for the period.

Note 5 Related-party transactions

In the fourth quarter, an amount totalling kSEK 833 (kSEK 1,353) relating to services delivered in conjunction with the company's demonstration facility in Ouarzazate, Morocco, was recognised as a liability in the accounts. For full-year 2019, the amount was kSEK 12,740 (kSEK 1,353). The counterparty is the state-owned Masen (the Moroccan Agency for Solar Energy). Masen holds 16,666,667 warrants in the company and has one representative on the Board of the company. In total, the deferred costs amount to kSEK 14,093 (1,353). The conditions for the services carried out are based on commercial terms.

Note 6 Earnings per share

	Oct–Dec 2019	Oct–Dec 2018	Jan–Dec 2019	Jan–Dec 2018
SEK				
Basic earnings per share	-1.26	-0.81	-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	-53,487	-26,372	-160,897	-92,004

Number				
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	42,347,495	32,627,040	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	32,627,040	42,347,495	25,983,794
Warrants				
Adjustment for calculation of diluted earnings per share:	-	-	-	-

Warrants have not had any dilutive effect since profit for the period is negative

Note 7 Events after the close of the interim period

Azelio signed a memorandum of understanding (MoU) with Hussein Atieh & Sons Co. (HAE), regarding a partnership to establish a small-scale project in Jordan in the fourth quarter of 2020. The project aims to pave the way for a commercial partnership concerning Azelio's energy storage technology in Jordan corresponding to approximately 25 MW up until 2023.

Note 8 Effects at transition to International Financial Reporting Standards (IFRS)

The interim report for the fourth quarter is Azelio's first 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 IFRS 1 *First-time application of IFRS*. 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 business combinations

IFRS 1 *First-time application of IFRS*, which regulates how a transition to IFRS is to be carried out, provides the option of applying the policies in the standard IFRS 3 *Business Combinations* either prospectively from the date of the transition to IFRS or from a specific date prior to the date of transition to IFRS. This provides transition relief from full retrospective application that would require restatement of all business combinations prior to the date of transition to IFRS. Azelio has chosen to apply IFRS 3 from 1 January 2018. Business combinations that took place prior to this date have thus not been restated in accordance with IFRS 3.

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.

Leases

On adoption of 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, discounted using the lessee's incremental borrowing rate as of 1 January 2018. Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease as at 31 December 2017. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2018 was 2.50%.

8.1 Leases

Operating lease commitments according to previously applied accounting policies as at 31 December 2017	8,762
Discount with the Group's incremental borrowing rate, 2.50%	-306
(Less): short-term leases, expensed straight-line	-90
(Less): low-value leases recognised on a straight-line basis as expense	-114
Add/(less): adjustments as a result of a different treatment of extension and termination options	8,103
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	0
Lease liabilities recognised according to IFRS 16 at 1 January 2018	16,356

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by IFRS 16 and IFRS 1 *First-time application of IFRS*:

- The same discount rate was applied to a portfolio of leases with similar characteristics
- Operating leases with a remaining lease term of less than 12 months as at 1 January 2018 were recognised as short-term leases
- Initial direct costs for the right-of-use asset were excluded at the date of transition to IFRS, and
- The use of extension options or options to terminate a lease has been assessed with the transition to IFRS.

8.2 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 Group's transition to accounting in conformity with IFRS did not have any impact on total cash flows for operating activities, investing activities or financing activities. 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			
kSEK	Note	According to previous accounting policies	Total effect of transition to IFRS	In accordance with IFRS	Note	According to previous accounting policies	Total effect of transition to IFRS	In accordance with IFRS
ASSETS								
Non-current assets								
Intangible assets		237,600		237,600		292,577		292,577
Property, plant and equipment		10,888		10,888		7,785		7,785
Financial non-current assets		0		0		0		0
Deferred tax asset		0		0		0		0
Right-of-use assets		0	16,698	16,698		0	13,019	13,019
Current assets								
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
Trade receivables and other receivables (incl. prepaid expenses and accrued income)		4,061	1,264	5,325		4,481	-235	4,246
Cash and bank balances		18,020		18,020		331,196		331,196
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			
kSEK	Note	According to previous accounting policies	Total effect of transition to IFRS	In accordance with IFRS	Note	According to previous accounting policies	Total effect of transition to IFRS	In accordance with IFRS
LIABILITIES AND EQUITY								
Equity								
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 including profit/loss for the year		-662,962	-250	-663,212		-750,928	-409	-751,337
Total equity		**237,146**	**0**	**237,146**		**561,876**	**-159**	**561,717**
Non-current liabilities								
Other liabilities		22,990		22,990		22,850		22,850
Deferred tax liabilities		0		0		0		0
Lease liabilities		0	12,618	12,618		0	9,690	9,690
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 equity and liabilities		**286,794**	**16,356**	**303,150**		**645,644**	**12,605**	**658,249**

Reconciliation of consolidated total comprehensive income for the fourth quarter 2018 and quarters 1–4 2018

Total comprehensive income	Quarter 4 2018				Quarters 1–4 2018			
kSEK	Note	According to previous accounting policies	Total effect of transition to IFRS	In accordance with IFRS	Note	According to previous accounting policies	Total effect of transition to IFRS	In accordance with IFRS
Revenue		269		269		1,942		1,942
Own work capitalised		25,106		25,106		66,392		66,392
Other operating income		629		629		2,007		2,007
Total		**26,005**		**26,005**		**70,341**		**70,341**
Raw materials and consumables		-3,943		-3,943		-7,758		-7,758
Other external expenses		-26,058	1,037	-25,020		-65,821	4,130	-61,690
Employee benefit expenses		-18,402		-18,402		-72,961		-72,961
Depreciation/amortisation and impairment of property, plant and equipment and intangible non-current assets		-3,896	-985	-4,881		-15,546	-3,921	-19,467
Other operating expenses		-96		-96		-215		-215
Total		**-52,394**	**53**	**-52,342**		**-162,300**	**209**	**-162,090**
Operating profit/loss		**-26,390**	**53**	**-26,337**		**-91,959**	**209**	**-91,749**
Financial income		106		106		403		403
Finance costs		-57	-84	-141		-289	-369	-658
Net financial items		**49**	**-84**	**-35**		**114**	**-369**	**-255**
Profit/loss after financial items		**-26,341**	**-31**	**-26,372**		**-91,845**	**-159**	**-92,004**
Income tax						0		0
Profit/loss for the year		**-26,341**	**-31**	**-26,372**		**-91,845**	**-159**	**-92,004**
Other comprehensive income		**0**	**-105**	**-105**		**0**	**-91**	**-91**
Comprehensive income for the period		**-26,341**	**-136**	**-26,477**		**-91,845**	**-250**	**-92,095**

Note 9 Effects of parent company transition to RFR 2, Financial Reporting for Legal Entities

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.

Assurance of the Board

The Board of Directors and CEO give their assurance that this interim report provides a true and fair account of the company's operations, financial position and earnings, and that it describes the material risks and uncertainties faced by the company.

Gothenburg, 28 February 2020

Bo Dankis
Chairman of the Board

Mattias Bergman
Board member

Hicham Bouzekri
Board member

Sigrun Hjelmqvist
Board member

Kent Janér
Board member

Pär Nuder
Board member

Lars Thunell
Board member

Bertil Villard
Board member

Jonas Eklind
CEO

Financial calendar

Annual Report 2019: 16 April 2020

Interim report for the 1 January–31 March 2020 period:
13 May 2020

2020 Annual General Meeting: 14 May 2020

Definitions

Number of shares
Average number of shares, weighted average number of shares during a certain period. Number of shares per day / 365.

Equity
Equity at the close of the period.

Personnel costs
Personnel costs during the period include salaries, other remuneration and social security expenses.

Earnings per share
Profit/loss for the period, attributable to the parent company shareholders, divided by the average number of shares in the market.

Operating income
All income including own work capitalised.

Operating profit (EBIT)
Profit/loss before financial items and tax.

Equity/assets ratio
Total equity / Total assets.

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