2022

KYOTO GROUP

Annual report

KYOTO

Contents

About Kyoto Group

Kyoto Group was founded on the idea that heat is the most commonly used form of energy in industrial applications. By storing energy as heat, we can decouple the time from when energy is produced to when it is applied in industry.

Kyoto Group disconnects the time power is made from when it is used by leveraging increasing energy market fluctuations and excess power from wind and solar. We can offer reliable and efficient storage of energy and seamless delivery of heat to industrial customers when it is needed.

Two-thirds of industrial energy demand is tied to heat, not electricity, and only 9% of current heat generation comes from renewable sources. This is not sustainable. Our thermal battery, Heatcube, will make solar and wind more stable and reliable by adding storage to the system and has the potential to increase carbon-free renewable energy use. By reducing power generation carbon emissions, we are playing an important role in the ongoing global energy transition. The Heatcube technology is standarized and modular from 8MWh to 96MWh, offering the potential to rapidly scale, reduce carbon footprint and save cost.

Kyoto Group aims to capture and manage the abundant energy from variable renewable sources such as solar and wind power and apply it to reduce the CO2 footprint for industrial thermal loads. The Group plans to sell and lease & operate Heatcube thermal batteries, enabling industrial consumption of low-cost heat sourced from excess solar and wind energy.

Our purpose

Making green energy available for everyone

Our values

Caring | Enthusiastic | Determination

Our product: the Kyoto Heatcube

With a heart of molten salt, our thermal battery can be customized to meet the customer energy needs.

The Kyoto Heatcube can be configured with storage capacities from 16 MWh to over 96 MWh, with a discharge effect for each Heatcube of up to 5 MW. It is an innovative, low-cost, and modular storage solution for thermal energy that can use multiple renewable energy sources to heat molten salt to over 450 degrees Celsius. The high-temperature salt is then used to produce steam for industrial production processes.

The Kyoto Heatcube is modularized and can be delivered on-site, ready to be easily integrated into your production system. Since we only use abundant, non-toxic components in our battery, Kyoto Heatcube can be recycled without leaving any harmful chemicals in the environment.

Key events 2022

- First commercial Heatcube installation at Nordjyllandsværket (NJV) erected and reaching key milestones; foundation casted, filling & melting of tanks completed, and steam generation system (SGS) completed
- NJV on track for initiation of cold commissioning in January 2023
- Commercial pipeline of more than 2100 MWh storage was developed, representing 41 projects
- Signed 7 LoIs with "Go to market" partners and with industrial players; Kyoto won Hungarian tender
- Strong European supply chain established, securing high-quality and competitive suppliers capable of scaling together with us
- Launched the Heatcube 2.0 – cost-leading energy storage solution based on insight from clients
- Established business unit based on world-class molten salt engineering expertise in Spain by acquiring Mercury Energy
- Strengthened management team to support growth, incl appointment of Camilla Nilsson as permanent CEO and appointment of Håvard Haukdal as CFO

Shareholder information

Share capital

Kyoto Group's registered share capital on 31 December 2022 amounted to NOK 252 617 divided between 8 420 560 shares with a nominal value of NOK 0.03 each.

Total equity for the group on 31 December 2022 was EUR 6 977 091, corresponding to an equity ratio of 62 per cent.

Euronext Growth listing

The Group's shares have been listed on Euronext Growth Oslo (ticker code: KYOTO) since 24 March 2021.

During 2022, the share price moved from NOK 17.8 to NOK 18.2. At the end of December 2022, the Group's market capitalization was NOK 152 833 164.

Shareholder structure

At the end of December 2022, Kyoto Group had 709 shareholders, and the foreign shareholding amounted to 4.9 percent.

KB Management AS was the largest shareholder, holding 10.7 percent of the Kyoto shares, followed by Hydro Energi Invest AS with 9.0 percent and Valinor

AS with 8.6 percent. 100 per cent of the shares are free float. The 20 largest shareholders held a total of 67.6 percent of the Group's shares at the end of December 2022.

Mandates

There is only one class of shares, and all shares have equal voting rights. The nominal amount per share is NOK 0.03. The articles of association place no restriction on voting rights. Each share carries one vote at the Group's general meeting. The shares are freely transferable pursuant to the company's articles of association.

Authorization to the board of directors to increase the Company's share capital

At the annual general meeting on 29 June 2022, the board of directors were authorized pursuant to the Norwegian Private Limited Liability Companies Act section 10-14 (1) to increase the company's share capital by up to NOK 9 000. Subject to this aggregate amount limitation, the authorization may be used on more than one occasion. The authorization can only be used to issue shares to employees and board members as part of the Group's share program. The authorization shall be valid for a period of 24 months from the date of this general meeting, i.e. until 29 June 2024. The pre-emptive rights of the shareholders under section 10-4 of the Norwegian Private Limited Liability Companies Act may be set aside. The authorization covers share capital increases against contributions in cash and contributions in kind. With effect from the time of registration of this authority with the Norwegian Register of Business Enterprises, all previous authorities to the board of directors to increase the share capital are revoked.

Authorization to the board to acquire own shares

The annual general meeting on 29 June 2022 authorized the board of directors of Kyoto Group to acquire Kyoto Group's own shares. In accordance with the proposal by the board of directors, the board of directors is authorized pursuant to the Norwegian Private Limited Liability Companies Act section 9-4 to acquire shares in the Group ("own shares") with an aggregate nominal value of up to NOK 15 000 000. When acquiring own shares, the consideration per share may not be less than NOK 10.00 and may not exceed NOK 50.00. The board of directors determines the methods by which own shares can be acquired or disposed of. The authorization shall be valid for a period of 24 months from the date of this general meeting, i.e. until 29 June 2024. With effect from the time of registration of this authority with the Norwegian Register of Business Enterprises, all previous authorities to the board of directors to acquire own shares are revoked.

Dividend policy

Kyoto Group is in a growth phase and does not expect to pay any dividends in the near future. Any future decision to pay a dividend will depend on the Group's financial position, operating profit and capital requirements.

Information and investor relations

Kyoto Group wishes to maintain open communications with its shareholders and other stakeholders. Shareholders and stakeholders are kept informed by announcements to Euronext Oslo Børs and press releases. Kyoto's website www.kyotogroup.no provides information on the company's business and financial situation. Interim financial statements are presented at meetings open to the general public and are available as webcasts at www.kyotogroup.no

Letter from our CEO

In 2022 we proudly installed our first full-scale Heatcube at the Nordjylland Power Station in Denmark, with a thermal energy storage capacity of 18 MWh and a discharge capacity of 4 MW. The Heatcube will operate under a lease agreement and will be handed over to Aalborg Forsyning, the owner of the power station, upon completion of commissioning in 2023.

Fueled by the geopolitical situation in Europe and the urge by industrial clients to reduce the dependency on natural gas, our pipeline grew beyond 40 industrial clients throughout Europe in less than one year, currently totaling 2 600 MWh of thermal energy storage capacity. We won a tender process in Hungary in competition with a handful of other thermal energy storage technologies and we signed seven Letter of Intents (LoIs) concerning Heatcube installations. We are currently progressing those prospects towards signing and are targeting to sign at least 10 contracts in 2023.

As important as clients are utility providers, securing renewable energy to charge the Heatcube at competitive terms and in some cases also to deploy, we are in close collaboration with a handful of utility companies throughout Europe to secure a strong position for the Heatcube in the market. In April we signed an agreement with one of the largest electricity companies in the world to jointly introduce the Heatcube to industrial customers and have already submitted co-developed offers to several specific customers in pulp & paper, food and construction materias industries.

Maturing industrial clients for infrastructure projects is a lengthy process, typically 9-12 months, with internal decision making, grid connection and funding being the most significant obstacles. We have developed a pipeline process that gives priority to near-term prospects.

A strong organization capable of scaling the company was established during 2022. An engineering team of molten salt experts, a strong commercial team with track-record from both industry, CSP and the energy sectors as well as a senior project execution team and an experienced sourcing team are now in full operation, in addition to the administration, all representing 13 nationalities, 30% females and a leadership team (43% females) with significant industrial experience and track record from both large corporation and start-up experience. The tech team is supported by a post-doc collaboration with one the best tech universities in the world, The Royal Institute of Technology in Stockholm.

In addition, a solid European eco-system of technology providers and collaboration partners was established, securing serial-production of the key equipment for the Heatcube and forming a strong alliance to decarbonize process heat for the industry.

We acquired Mercury Energy in 2022, which became the seed of our new legal entity in Spain, Kyoto Technology Spain S.L., now hosting most of our tech team as well as the sales team and sourcing team responsible for Iberia. The acquisition also brough two IPRs of relevance for the Heatcube.

Let me take this opportunity to express a warm and heartfelt thank you to the diverse and talented Kyoto team for securing the foundation for growth in 2022 , as well as to appreciated partners such as Aalborg CSP, Contratos Y Diseños Industriales SA, RPOW, Vulcanic, Thermon and The Royal Institute of Technology in Stockholm.

Camilla Nilsson
Chief Executive Officer
Kyoto Group AS

Board of Directors' Report

Business and location

Headquartered at Lysaker outside Oslo, Norway, Kyoto Group is a Norwegian company founded in 2016 with the aim to capture and manage the abundant energy from variable renewable sources such as solar and wind power and apply it to reduce the CO2 footprint for industrial thermal loads.

The company operates and sells Heatcube thermal batteries, enabling industrial consumption of low-cost heat sourced from excess solar and wind energy.

The Heatcube is based on molten salt and may be customized to meet the industry's energy needs and offer multiple services such as the delivery of heat and electric power as well as being used for balancing the electricity grid.

Kyoto Group continues to progress its existing commercial pipeline. Strengthening the commercial organisation is a priority in the coming months to accelerate commercialization of the Heatcube and meet the expected growing demand for electrification and thermal energy solutions.

The current commercial pipeline reflects heatcubes delivered based on two commercial offerings; the Heat as a Product (HaaP) and the Heat as a Service (HaaS).

Kyoto Group expects to deliver traditional product sales, Heat as a Product (HaaP) to certain clients, with additional support, maintenance, and service agreements. In addition, we expect potential Heat as a Service (HaaS) customers, with Kyoto Group and/or its partners owning and operating the Heatcube modules and selling heat to the end users. The offering is an attractive funding opportunities when the installed assets are returning recurring, stable and long-term revenue streams.

The first commercial installation of the Heatcube at NJV and cold commissioning is now finalized and ready for hand-over to Aalborg Forsyning upon completion if commission in 2023.

Significant events in 2022

In February Kyoto Group announced that it has received the necessary building permits for constructing the Kyoto Heatcube at Aalborg Forsyning and their green energy test centre at Nordjyllandsværket. In August the foundation work started, and by year-end 2022 foundation was casted, tanks were installed, filled and melted. The steam generation system was installed and completed. NJV was progressing well towards initiation of cold commissioning planned for January 2023.

During the year Kyoto has matured a commercial pipeline of more than 2100 MWh storage, representing a portfolio of 41 projects. The company is at the door-step of market breakthrough, accompanied by 7 signed Letter of Intents by the year-end and one tender in Hungary won, in competition with other thermal energy storage technologies..

In August Kyoto Group signed a LoI wih Glomma Papp for Thermal Energy Storage Solution. Glomma Papp, a Norwegian corrugated cardboard manufacturer, and Kyoto will jointly complete a detailed technical and commercial evaluation of the feasibility of Kyoto's Heatcube™.

In October Kyoto Group signed a LoI with one of the largest owners of cogeneration facilities in Spain to deliver and install a thermal storage battery, the Heatcube, in the second half of 2023. A cogeneration facility generates both heat and power, enabling more efficient energy use. The Heatcube will provide a renewable solution for heat generation at the client's facilities in Spain, giving a competitive advantage for the client's operation.
The parties will jointly finalize the technical evaluation and commercial negotiations for the installation of Kyoto's Heatcube, which will provide the necessary

heat for stable operation of the cogeneration process.

In November Kyoto Group announced that it had won a competitive tender in Hungary to install its Heatcube thermal energy storage solution at a major power plant. The customer is Reliable Energy Group, a Hungarian service provider for solar plants and developer of battery and heat storage facilities. The Heatcube is to be installed at the CCGT power plant of a major European energy company in Budapest.

Kyoto has also established a Strong European supply chain, securing high-quality and competitive suppliers for upcoming commercial installations.

In October and on Kyoto's Capital Markets Day the company launched the Heatcube 2.0 – cost-leading energy storage solution based on feedback from clients. The second generation of the Heatcube thermal energy storage solution, offering up to five times higher energy density, lower cost and construction optimization. The clients are expected to benefit from higher storage capacities, a thermal storage solution that can charge/discharge simultaneously and ensure stable delivery of steam to the clients.

In March, Kyoto Group signed a contract to acquire Mercury Energy S.L. from Andrés Barros Borrero and established a new business unit named Kyoto Technology Spain S.L. The acquisition has significantly strengthened Kyoto's molten salt capabilities and development capacity and expanded the company's geographic footprint close to its key markets in Europe, to be able to serve the increasing demand for thermal energy storage in Europe.

During the year the company has strengthened the management team to support growth. In April, Camilla Nilsson was appointed as Kyoto Group's permanent CEO. Håvard Haukdal started as CFO of Kyoto Group in September.

Financial statements

The Board of Directors believes that the year-end financial statements provide a true and fair view of the net assets, financial position and results of Kyoto Group for the period. The group's consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS).

The parent company, Kyoto Group AS, accounts have been prepared in conformity with the Norwegian Accounting Act and generally accepted accounting principles (NGAAP).

Profit and loss

The Group had EUR 0.03 million of operating income in 2022, compared to 0 for the same period of 2021.

Total operating expenses for the Group in 2022 were EUR 7.2 million compared to EUR 4.1 million in 2021.

As part of the Group's planned scale-up, personnel costs increased from EUR 1.7 million to EUR 3.2 million in 2022, sales & marketing expenses increased from EUR 0.16 million to EUR 0.33 million and other professional services from EUR 1.7 million to EUR 2.4 million.

During 2022 Kyoto Group AS expanded with daughter companies in Denmark and Spain, forming the Group.

Kyoto Technology Denmark ApS was established in June 2022 and is located nearby the Group's first commercial operation.

Kyoto Technology Spain S.L. was formally established in August 2022 after the purchase of Mercury Energy. The office in Spain is mainly a technology office with majority of engineers with substantial knowledge and experience. The group has also a sales manager located in Spain, based on the attractive market and that it's a good match for the Group's product.

The expenses of expanding amounted to EUR 1.2 million in increased office cost, legal advice during start up, accounting and auditor services and higher personnel cost.

EBITDA was negative EUR 7.2 million in 2022, compared to negative EUR 4.1 million for the same period in 2021.

The net financial income was EUR 30.4 thousand, mainly reflecting interest and other financial income, compared to EUR 1 thousand as of 31 December 2021.

Net loss was EUR 7.2 million, with no tax expenses.

Financial situation

As of 31 December 2022, the Group had total assets of EUR 11.3 million, compared to total assets of EUR 15.6 million as of 31 December 2021.

Total non-current assets increased from EUR 3.4 million in 2021 to EUR 9.2 million in 2022. This increase is driven by construction in progress increasing with EUR 3.8 million and research and development, with EUR 1.5 million.

Total current assets decreased from EUR 12.3 million by 31 December 2021 to EUR 2.0 million on 31 December 2022. This is mainly attributed to a net decrease in cash and bank deposits of EUR 10.7 million. The cash position was EUR 1.1 million by year-end 2022.

The increase in non-current assets and the decrease in cash and bank deposits are as expected according to the strategy and planning of the Group.

Total equity amounted to EUR 7.0 million on 31 December 2022, down from EUR 13.9 million on 31 December 2021.

Total liabilities increased to EUR 4.3 million by the end of December 2022 compared to EUR 1.7 million in 2021. The increase is driven by higher lease liabilities related to conversion to IFRS of EUR 0.5 million and accounts payable and accrued cost of EUR 1.7 million.

Cash flow

Net cash flow from operating activities was negative EUR 4.8 million by 31 December 2022 compared to negative EUR 3.1 million on 31 December 2021.

Net cash flow from investing activities was negative EUR 5.5 million by year end 2022 compared to negative EUR 2.7 million by year end 2021.

Cash consumption is increasing as the Group scales up the organization and business activity, including projects, in anticipation of future revenues.

Risk factors

The Group is in a scale-up stage. While the Heatcube technology is proven through the successful operation of the pilot installation, the Group has yet to install and operate the technology at a commercial scale.

The first Heatcube thermal battery installation and operation is expected to start in Q1 2023. There are inherent technical risks connected to the installation and start-up of any such installation that may affect timing and costs, as well as operations and cash flow generation under a battery leasing revenue model. The Group is also subject to various risks, including long lead times, related to securing potential additional commercial contracts which are required to build a profitable business over time.

The Group is in a growth phace and will likely require additional equity capital in the future to finance the execution of its long-term growth strategy.

Please visit the Investor presentation from the private placement successfully executed in January 2023, which is available on the Kyoto Group website, for more detailed information about risk factors.

Research and development

Investment in research and development (R&D) is a key part of the Group's strategy. During 2022, R&D expenses of EUR 1.8 million were capitalized.

Moving forward, the Group expects R&D expenses to remain substantial.

Environment, health and safety

Kyoto Group believes in Health, Safety, Security and Environment (HSE) excellence. Our ambition is to set health, safety, security and environment as core elements of the Group's identity and business success. The Group will be recognized for its outstanding performance, demonstrating a strong sense of responsibility for people and the environment, and through innovation and efficient production, contributing to the creation of a sustainable society.

The Group supports a precautionary approach to environmental challenges, undertakes initiatives to promote greater environmental responsibility, and encourages the development of environmentally friendly technologies.

Transparency Act

The BoD is responsible for the Groups's implementation of applicable laws and regulations, including the Transparency Act. All employees have a responsibility to protect human rights and decent working conditions. If Kyoto Group causes, contributes to or is linked to adverse impacts on human rights, the Group will take necessary steps to cease, prevent and/or mitigate the adverse impacts.

The Group will publish an account of the due diligence assessment on its webpage kyotogroup.no

Working environment

At the end of 2022, Kyoto Group had a total staff of 33, of which 22 was employed in Kyoto Group AS, 1 employee in Kyoto Technology Denmark ApS and 10 employees in Kyoto Technology Spain S.L.

There were no serious work-related accidents in 2022 and absence due to illness was 3,2 percent.

All employees shall have signed and undertaken training in the code of conduct and relevant policies as part of their onboarding training. Kyoto Group aims to become a Great Place to Work (GPTW) by 2025 and achieve an employee Net Promoter Score (eNPS) of above 50 by the end of 2022. The eNPS was measured in January 2023 and scored 82%.

Equal opportunity

Kyoto Group is dedicated to offering everyone equal opportunities irrespective of background, including ethnicity, gender, religion, sexual orientation or age.

At the end of 2022, 70 percent of the staff was male, while 30 percent was female. The corporate management team has five male and three female members. The Board of Directors has six male and no female members.

Kyoto Group scaled up the organization during 2022 and will continue to scale up during the upcoming year. Diversity will be a key priority in the recruitment processes. At the end of December 2022, eleven nationalities are currently represented in Kyoto Group.

External environment

The Group's business purpose is to make renewable energy available for everyone, thus contributing to reducing climate emissions from industry.

Our business operations directly impact UN Sustainable Development Goals nr 7: Affordable and clean energy; and nr 9: Industry, innovation and infrastructure.

Target 7.1 By 2030, ensure universal access to affordable, reliable and modern energy services

Target 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

Target 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

Through this, we also aim to contribute to goal nr 13 Climate action.

Kyoto recognizes its role in contributing to a sustainable society and is committed to minimizing its environmental footprint at all stages of the thermal battery value chain. Kyoto will work systematically to improve resource efficiency, reduce emissions and implement the waste mitigation hierarchy, working towards the concept of a circular economy. Kyoto will also work systematically to prevent pollution and address our impacts where necessary, protecting and/or restoring both the environment and the value of our assets.

The Group's work with sustainability is governed by our Code of Conduct which covers the company's responsibility and approach to human rights, worker's rights, working conditions, equal opportunities and anti-corruption as well as HSE and environmental responsibility. Health, safety and environmental responsibilities are further described in the Kyoto Group HSE Policy.

At this stage, the Group's activities have a limited effect on the external environment. As the company enters a commercial production phase, it is committed to minimizing its environmental footprint at all stages of the thermal battery value chain. Since the batteries only use abundant, non-toxic components, they can be recycled without leaving any harmful chemicals in the environment.

Corporate governance

The Group's parent company, Kyoto Group AS is a private limited company organized under Norwegian law, with a governance structure based on Norwegian corporate law and other regulatory requirements.

The company has only one class of shares. All shares carry equal rights in all respects, including voting rights and rights to dividends. All shares are freely transferable, meaning that a transfer of shares is not subject to the consent of the Board of Directors or rights of first refusal.

Kyoto Group AS has six Board members, none of whom are members of the company's management. The majority of Board members are independent of company management and significant business partners.

The board members and the Chief Executive Officer are covered by liability insurance (D&O). The insurance policy is based on market standard terms and conditions and comprises the directors' and officers' personal legal liabilities, including defense and legal costs.

Kyoto Group AS ambition is to follow the Norwegian Code of Practice for Corporate Governance and explain any deviations from the code.

For further details, please see the Corporate Governance Report, which can be found on the Kyoto Group website.

Going concern

The Group pursues funding efforts to secure the growth ambitions of the company. This implies to secure a cash runway of at least 2 years through a combination of raising additional equity from strategic industrial partners as well as entering into agreements with 1-2 financial providers to secure debt funding to the company. Failing to secure funding will create uncertainty about the Group's ability to secure going concern as well as restricting the growth ambitions of Kyoto.

We are in process of detailed discussions with selected strategic industrial investors, contributing to new equity through a directed share issue. This will be followed by entering into new corporate debt funding depending on the need. A full-fledged execution of this plan will secure necessary funding for at least two years and take Kyoto a major step towards EBITDA break-even in 2025.

Kyoto Group needs to be securing additional funding early in Q3 2023.

The financial statements for 2022 have been prepared on the basis that the conditions for the going concern assumption have been satisfied, and the Kyoto Leadership team and Kyoto Board is optimistic about the possibilities of successfully delivering on the funding plan described above.

Significant events after closing

The Group announced 10 January 2023 a planned private placement of new shares in the company to increase capital. The private placement was successfully placed the same day, and the Board of Directors allocated subscriptions for 3,428,571 offer shares at a subscription price of NOK 17.50, raising NOK 60 million in gross proceeds.

Allocations

The Group had a net loss of EUR 7.2 million in first half of 2022. The Board of Directors proposes the following allocations:

Loss brought forward: EUR 7.2 million.

Outlook

The first commercial installation of the Heatcube at NJV is expected to be completed during Q2 2023. The company also expects to sign more than 10 commercial orders for Heatcubes during 2023, to be installed at large industrial companies. In order to handle the increased activity, the organisation is expected to still increase during the rest of the year.

The Group pursues funding efforts to secure the growth ambitions of the company as we now are at the door-step of market breakthrough.

Oslo, 23. april 2023
The Board of Kyoto Group AS

(Electronically signed)
Eivind Reiten
Chairman

(Electronically signed)
Thorleif Enger
Board member

(Electronically signed)
Arne Erik Kristiansen
Board member

(Electronically signed)
Pål Selboe Valseth
Board member

(Electronically signed)
Hans Olav Kvalvaag
Board member

(Electronically signed)
Camilla Nilsson
CEO

Financial statements

CONSOLIDATED

Consolidated statement of profit and loss

1 January - 31 December

(EURO)

	Note	2022	2021
Continuing operations			
Revenue	3	26 860	0
Total revenue		**26 860**	**0**
Operating expenses			
Personell expenses	4, 9, 17	3 194 591	1 693 678
Depreciation, amortizations and write downs	10, 11, 12	603 003	154 245
Other operating expenses	5	3 446 736	2 257 218
Total expenses		**7 244 331**	**4 105 141**
Operating profit		**-7 217 471**	**-4 105 141**
Financial items			
Finance income	6	67 423	26 698
Finance costs	6	37 006	25 629
Profit before tax		**-7 187 053**	**-4 104 072**
Tax expense	7	0	0
Profit after tax from continuing operations		**-7 187 053**	**-4 104 072**
Other comprehensive income			
Items which may be reclassified to profit and loss in subsequent periods			
Exchange differences	20	-231 121	116 949
Total comprehensive income for the year		**-7 418 174**	**-3 987 123**

Consolidated statement of profit and loss (continued)

1 January - 31 December

(EURO)

	Note	2022	2021
Profit for the year attributable to:			
Equity holders of the parent company		-7 187 053	-4 104 072
Non-controlling interests		0	0
Total		**-7 187 053**	**-4 104 072**
Total comprehensive income attributable to:			
Equity holders of the parent company		-7 418 174	-3 987 123
Non-controlling interests		0	0
Total		**-7 418 174**	**-3 987 123**
Earnings per share:			
Continued operation			
- Basic	8	-0,85	-0,49
- Diluted	8	-0,84	-0,49

Consolidated statement of financial position

(EURO)

	Note	31.12.2022	31.12.2021	01.01.2021
ASSETS				
Non-current assets				
Patents	9, 10	26 598	0	0
Intangible assets	10	2 501 797	1 038 859	489 388
Right-of-use asset	11	572 053	111 972	142 916
Equipment	12	0	8 139	8 139
Construction in progress	12	5 925 290	2 141 984	0
Other non-current assets	13, 17	192 857	76 490	0
Total non-current assets		**9 218 595**	**3 377 444**	**640 443**
Current assets				
Accounts receivable	13	26 860	0	0
Other current assets	13, 14	891 805	487 356	130 173
Cash and cash equivalents	15	1 113 766	11 772 792	4 092 174
Total current assets		**2 032 431**	**12 260 148**	**4 222 347**
TOTAL ASSETS		**11 251 025**	**15 637 593**	**4 862 790**

Consolidated statement of financial position (continued)

(EURO)

	Note	31.12.2022	31.12.2021	01.01.2021
EQUITY AND LIABILITIES				
Equity				
Paid in capital				
Issued capital	16	25 290	25 290	10 851
Share premium	17	5 747 979	13 166 153	-62 170
Other paid in capital	17	1 203 822	712 774	526 172
Total paid in capital		**6 977 091**	**13 904 217**	**474 853**
Non-controlling interests			0	0
Total equity		**6 977 091**	**13 904 217**	**474 853**
Non-current liabilities				
Non-current lease liabilities	11	298 383	85 930	11 327
Other non-current financial liabilities	18	477 938	240 269	229 220
Total non-current liabilities		**776 320**	**326 199**	**240 547**
Current liabilities				
Convertible debt		0	0	23 877
Current lease liabilities	11	290 104	31 060	130 569
Accounts payable		1 909 334	731 831	70 196
Public duties payable		245 883	88 517	54 005
Other current liabilites		1 052 292	555 769	3 868 743
Total current liabilities	**19**	**3 497 614**	**1 407 177**	**4 147 390**
Total liabilities		**4 273 934**	**1 733 376**	**4 387 937**
TOTAL EQUITY AND LIABILITIES		**11 251 025**	**15 637 593**	**4 862 790**

Oslo, 23. april 2023
The Board of Kyoto Group AS

(Electronically signed)	(Electronically signed)	(Electronically signed)
Eivind Reiten	**Thorleif Enger**	**Arne Erik Kristiansen**
Chairman	Board member	Board member
(Electronically signed)	(Electronically signed)	(Electronically signed)
Pål Selboe Valseth	**Hans Olav Kvalvaag**	**Camilla Nilsson**
Board member	Board member	CEO

Consolidated statement of cash flows

(EURO)

	Note	2022	2021
Cash flow from operating activities			
Profit before tax		-7 187 053	-4 104 072
Depreciation, amortizations and write downs	10, 11, 12	603 003	154 245
Share based payment expense	9, 17	334 966	0
Exchange differences	20	-231 121	116 949
Change in accounts payable	19	1 177 503	661 635
Change in accounts receivables	13	-26 860	0
Other changes	13, 19	537 123	52 879
Net cash flow from operating activities		**-4 792 438**	**-3 118 365**
Cash flows from investing activities			
Change in construction in progress	12	-3 783 306	-2 141 984
Purchase of intangible assets	10	-1 773 460	-549 472
Net cash flow used in investing activities		**-5 556 765**	**-2 691 456**
Cash flows from financing activities			
Proceeds from equity		0	13 627 596
Payment of lease installment	11	-199 319	-141 105
Interests on lease liabilites	11	-19 892	-3 618
Net cash flow from financing activities		**-219 210**	**13 482 873**
Net currency translation effect		-90 613	7 566
Net increase/(decrease) in cash and cash equvivalents		-10 568 414	7 673 052
Cash and cash equivalents at beginning of period		11 772 792	4 092 174
Cash and cash equivalents at end of period	**15**	**1 113 765**	**11 772 792**

Statement of changes in equity

(EURO)

	Attributable to equity holders of the parent company							Non-controlling interests	Total equity
	Paid in capital				Other Equity		Total Equity holders of the parent company		
	Share capital	Share premium reserve	Treasury shares	Other paid-in capital	Retained earnings	Total other equity			
Equity as at 01.01 2021:	**10 851**	**570 457**		**526 172**		**0**	**1 107 480**		**1 107 480**
Effect of implementing IFRS		-632 628				0	-632 628		-632 628
Equity adjusted as at 01.01 2021	**10 851**	**-62 170**	**0**	**526 172**	**0**	**0**	**474 853**	**0**	**474 853**
Capital increase 21.01.2021	822	482 597		-483 419		**0**	**0**		**0**
Capital increase 19.02.2021	5 769	4 801 369				**0**	**4 807 138**		**4 807 138**
Capital increase 16.03.2021	1 050	390 626				**0**	**391 676**		**391 676**
Capital increase 22.03.2021	6 003	12 499 625				**0**	**12 505 628**		**12 505 628**
Share issue expenses		-984 111				**0**	**-984 111**		**-984 111**
Gain from stabilization agreement				660 576		**0**	**660 576**		**660 576**
Profit of the year					-4 104 072	**-4 104 072**	**-4 104 072**		**-4 104 072**
Other comprehensive income	795	95 618		9 445	11 091	**11 091**	**116 949**		**116 949**
Coverage of uncovered loss		-4 092 981			4 092 981	**4 092 981**	**0**		**0**
Equity as at 31.12 2021	**25 290**	**13 130 572**	**0**	**712 773**	**0**	**0**	**13 868 636**	**0**	**13 868 636**
Equity as at 01.01 2022:	**25 290**	**13 130 572**	**0**	**712 773**	**0**	**0**	**13 868 636**	**0**	**13 868 636**
Effect of implementing IFRS		35 581					35 581		35 581
Adjusted equity as at 01.01 2022	**25 290**	**13 166 153**	**0**	**712 773**	**0**	**0**	**13 904 217**	**0**	**13 904 217**
Profit of the year					-7 187 053	**-7 187 053**	**-7 187 053**		**-7 187 053**
Other comprehensive income		39 740			-270 861	**-270 861**	**-231 121**		**-231 121**
Coverage of uncovered loss		-7 457 914			7 457 914	**7 457 914**	**0**		**0**
Purchase of own shares			-27 613			**0**	**-27 613**		**-27 613**
Sale of own shares			27 613	-57		**0**	**27 556**		**27 556**
Share subscription programme				156 139		**0**	**156 139**		**156 139**
Share based payment expense				334 966		**0**	**334 966**		**334 966**
Total	**0**	**-7 418 174**	**0**	**491 049**	**0**	**0**	**-6 927 125**	**0**	**-6 927 125**
Equity as at 31.12 2022	**25 290**	**5 747 979**	**0**	**1 203 822**	**0**	**0**	**6 977 091**	**0**	**6 977 091**

Note Summary of significant accounting policy's

Kyoto Group AS is a private limited company, incorporated in Norway, headquartered in Bærum and listed on the Euronext Growth, Address headquarters: Fornebuveien 1, 1366 Lysaker.

The consolidated financial statements of Kyoto Group for the fiscal year 2022 were approved in the board meeting at 23.04.2023.

The Group's activities are described in the Board of Directors Report.

Basis for preparation of the annual accounts

The Kyoto Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) which have been adopted by the EU and are mandatory for financial years beginning on or after 1 January 2022, and Norwegian disclose requirements listed in the Norwegian Accounting Act as of 31.12.2022.

The consolidated financial statements are solely based on historical cost.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the amendments to IFRS 16, IAS 20 and IAS 12 which have been implemented by the Group during the current financial year. See note 23 for more information.

Functional currency and presentation currency

Functional currency

The functional currency is determined in each entity in the Group based on the currency within the entity's primary economic environment. Transactions in foreign currency are translated to functional currency using the exchange rate at the date of the transaction. At the end of each reporting period foreign currency monetary items are translated using the closing rate, non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. Changes in the exchange rate are recognized continuously in the accounting period.

Presentation currency

The Group's presentation currency is EUR since a large proportion of users of the consolidated financial statements relate to this currency.

The statement of financial position figures of entities with a different functional currency are translated at the exchange rate prevailing at the end of the reporting period for balance sheet items, and the exchange rate at the date of the transaction for profit and loss items. The monthly average exchange rates are used as an approximation of the transaction exchange rate. Exchange differences are recognized in other comprehensive income ("OCI").

Consolidation principles

The Group's consolidated financial statements comprise the parent company and its subsidiaries as of December 31, 2022. An entity has been assessed as being controlled by the Group when the Group is exposed for or have the rights to variable returns from its involvement with the entity and has the ability to use its power over the entity to affect the amount of the Group's returns.

Thus, the Group controls an entity if and only if the Group has all the following:

- power over the entity.
- exposure, or rights, to variable returns from its involvement with the entity; and
- the ability to use its power over the entity to affect the amount of the Group's returns.

The assessments are done for each individual investment.

The Group re-assesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The use of estimates and assessment of accounting policies when preparing the annual accounts

Estimates and assumptions

The management has used estimates and assumptions that have affected assets, liabilities, income, expenses and information on potential liabilities. This particularly applies to the depreciation of fixed assets, impairment of intangible assets and evaluations related to acquisitions. Future events may lead to these estimates being changed. Estimates and their underlying assumptions are reviewed on a regular basis and are based on best estimates and historical experience.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position as either current or non-current.

The Group classifies an asset as current when it:

- Expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
- Holds the asset primarily for the purpose of trading
- Expects to realize the asset within twelve months after the reporting period

All other assets are classified as non-current.

The Group classifies a liability as current when it:

- Expects to settle the liability in its normal operating cycle
- Holds the liability primarily for the purpose of trading
- Is due to be settled within twelve months after the reporting period

All other liabilities are classified as non-current.

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of the services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the services before transferring them to the customer.

Revenue from sale of services

The Group recognizes revenue from rendering of services over time, because the customer simultaneously receives and consumes the benefits provided by the Group. The Group recognizes revenue over time by measuring the progress towards complete satisfaction of the services, using either an input or output method. The method applied is the one that most faithfully depicts our progress towards complete satisfaction of the performance obligation.

Trade receivables: A receivable represents the Group's right to an amount of consideration that is unconditional.

Income tax

The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities, except for:

- temporary differences linked to goodwill that are

not tax deductible
- temporary differences related to investments in subsidiaries, associates, or joint ventures when the Group controls when the temporary differences are to be reversed and this is not expected to take place in the foreseeable future.

Deferred tax assets are recognized when it is probable that the company will have a sufficient profit for tax purposes in subsequent periods to utilize the tax asset. The companies recognize previously unrecognized deferred tax assets to the extent it has become probable that the company can utilize the deferred tax asset. Similarly, the company will reduce a deferred tax asset to the extent that the company no longer regards it as probable that it can utilize the deferred tax asset.

Deferred tax and deferred tax assets are measured based on the expected future tax rates applicable to the companies in the Group where temporary differences have arisen.

Deferred tax and deferred tax assets are recognized at their nominal value and classified as non-current asset investments (long-term liabilities) in the balance sheet.

Taxes payable and deferred taxes are recognized directly in equity to the extent that they relate to equity transactions.

Development expenses

Expenses relating to development activities are capitalized to the extent that the product or process is technically and commercially viable and the Group has sufficient resources to complete the development work. Expenses that are capitalized include the costs of materials, direct wage costs and a share of the directly attributable common expenses. Capitalized development costs are recognized at their cost less accumulated amortization and impairment losses.

Amortization of the asset begins when development is complete, and the asset is available for use.

The development expenses are assessed annually for impairment or for a reversal of previous impairments.

Tangible assets

Tangible assets, except for investment property and buildings, are valued at their cost less accumulated depreciation and impairment losses. When assets are sold or disposed of, the carrying amount is derecognized and any gain or loss is recognized in the statement of comprehensive income.

The depreciation period and method are assessed each year. A residual value is estimated at each year-end, and changes to the estimated residual value are recognized as a change in an estimate.

The tangible assets are assessed annually for impairment or for a reversal of previous impairments.

Construction in progress

Assets under construction are classified as non-current assets and recognized at cost until the production or development process is completed. Assets under construction are not depreciated until the asset is taken into use.

The assets are assessed annually for impairment or for a reversal of previous impairments.

Leases

Identifying a lease

At the inception of a contract, The Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

The Group as a lessee

Recognition of leases and exemptions

At the lease commencement date, the Group recognizes a lease liability and corresponding right-of-use asset for all lease agreements in which it is the lessee, except for the following exemptions applied:

- Short-term leases (defined as 12 months or less)
- Low value assets

For these leases, the Group recognizes the lease payments as other operating expenses in the statement of profit or loss when they incur.

Lease liabilities
The lease liability is recognized at the commencement date of the lease. The Group measures the lease liability at the present value of the lease payments for the right to use the underlying asset during the lease term that are not paid at the commencement date. The lease term represents the non-cancellable period of the lease, together with periods covered by an option either to extend or to terminate the lease when the Group is reasonably certain to exercise this option.

The lease payments included in the measurement comprise of:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- Amount expected to be payable by the Group under residual value guarantees
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect adjustments in lease payments due to an adjustment in an index or rate.

The Group does not include variable lease payments in the lease liability. Instead, the Group recognizes these variable lease expenses in profit or loss.
The Group presents its lease liabilities as separate line items in the statement of financial position.

Right-of-use assets
The Group measures the right-of use asset at cost, less any accumulated depreciation and impairment losses, adjusted for any remeasurement of lease liabilities. The cost of the right-of-use asset comprise:

- The amount of the initial measurement of the lease liability recognized
- Any lease payments made at or before the commencement date, less any incentives received
- Any initial direct costs incurred by the Group. An estimate of the costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The Group applies the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset, except that the right-of-use asset is depreciated from the commencement date to the earlier of the lease term and the remaining useful life of the right-of-use asset.

Intangible assets
Intangible assets that have been acquired separately are carried at cost. The costs of intangible assets acquired through an acquisition are recognized at their fair value in the Group's opening balance sheet. Capitalized intangible assets are recognized at cost less any amortization and impairment losses.

Internally generated intangible assets, excluding capitalized development costs, are not capitalized but are expensed as occurred.

The economic life is either definite or indefinite. Intangible assets with a definite economic life are amortized over their economic life and tested for impairment if there are any indications. The amortization method and period are assessed at least once a year. Changes to the amortization method and/or period are accounted for as a change in estimate.
Intangible assets with an indefinite economic life are

tested for impairment at least once a year, either individually or as a part of a cash-generating unit. Intangible assets with an indefinite economic life are not amortized. The economic life is assessed annually about whether the assumption of an indefinite economic life can be justified. If it cannot, the change to a definite economic life is made prospectively.

Patents

Amounts paid for patents are capitalized and amortized in a straight line over the expected useful life.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. Acquisition-related costs are expensed in the periods in which the costs are incurred, and the services are received.

The consideration paid in a business combination is measured at fair value at the acquisition date and consist of cash, stocks issued in and contingent consideration.

When acquiring a business are all financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic circumstances, and pertinent conditions at the acquisition date. The acquired assets and liabilities are accounted for by using fair value in the opening group balance (unless other measurement principles should be applied in accordance with IFRS 3).

The initial accounting for a business combination can be changed if new information about the fair value at the acquisition date is present. The allocation can be amended within 12 months of the acquisition date [provided that the initial accounting at the acquisition date was determined provisionally]. The measurement principle is done for each business combination separately.

Goodwill is recognized as the aggregate of the consideration transferred and the amount of any non-controlling interest and deducted by the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not depreciated but is tested at least annually for impairment. In connection with this, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from synergies from the business combination.

If the fair value of the net assets acquired is more than the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

Government grants

Government grants are recognized when it is reasonably certain that the company will meet the conditions stipulated for the grants and that the grants will be received.
Operating grants are recognized systematically during the grant period. The grants are recognized when the conditions from the grantor are met and accrued in step with the implementation of the grant-eligible activities.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets
The Group´s financial assets are cash and cash equivalents.

The Group classified its financial assets in one category, financial assets at amortized cost.

<u>Financial assets at amortized cost</u>
The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets to collect contractual cash flows and,

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

The Groups financial assets at amortized cost other short-term deposit.

Financial liabilities
Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Derivatives are recognized initially at fair value. Loans, borrowings and payables are recognized at fair value net of directly attributable transaction costs.

Derivatives are financial liabilities when the fair value is negative, accounted for similarly as derivatives as assets.

Loans, borrowings and payables
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

Payables are measured at their nominal amount when the effect of discounting is not material.

Cash and cash equivalents
Cash includes cash in hand and at bank. Cash equivalents are short-term liquid investments that can be immediately converted into a known amount of cash and have a maximum term to maturity of three months.

In the statement of cash flows, the overdraft facility is stated minus the balance of cash and cash equivalents.

Equity

Equity and liabilities
Financial instruments are classified as liabilities or equity in accordance with the underlying economic realities.

Costs of equity transactions
Transaction costs directly related to an equity transaction are recognized directly in equity after deducting tax expenses.

Employee benefits

Defined contribution plans
The Group's companies have made contributions to local pension plans. These contributions have been made to the pension plan for full-time employees. The pension premiums are charged to expenses as they are incurred.

Events after the reporting period
New information on the company's financial position on the end of the reporting period which becomes known after the reporting period is recorded in the annual accounts. Events after the reporting period that do not affect the company's financial position on the end of the reporting period, but which will affect the company's financial position in the future are disclosed if significant.

Note 1 - Estimation uncertainty

In the process of applying the Group's accounting policies in according to IFRS, management has made several judgements and estimates. All estimates are assessed to the most probable outcome based on the managements best knowledge. Changes in key assumptions may have significant effect and may cause material adjustments to the carrying amounts of assets and liabilities, equity and the profit for the year.

The Group's most important accounting estimates are the following items:

- Depreciation of tangible and intangible fixed assets.
- The fair value of assets and liabilities in business acquisitions.
- Leases - determining the lease term of contracts with renewal options
- Deferred conditional payments - best estimate of the expenditure required to settle the obligation at the reporting date, reflecting the current market assessments of the time value of money and risks specific to the liability.

Depreciation of Right-of-use assets
The Group applies the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset, except that the right-of-use asset is depreciated from the commencement date to the earlier of the lease term and the remaining useful life of the right-of-use asset.

The depreciation period and method are assessed each year. A residual value is estimated at each year-end, and changes to the estimated residual value are recognized as a change in an estimate.

Intangible assets
The intangible assets are assessed annually for impairment or for a reversal of previous impairments.

Leases
Significant judgement in determining the lease term of contracts with renewal options
The group has several offices and other facilities leases with options to extend the lease.
The renewal options has been included in the calculation of the lease liability if management is reasonable certain to exercise the option to renew the contract.
Management has used judgment when considering all relevant factors that create an economic incentive to extend the lease. In this assessment Management has considered the original lease term and the significance of the underlying assets, i.e. the offices and other facilities.

Construction in progress
Asset under construction is classified as non-current assets and recognized at cost until the production or development process is completed. Asset under construction are not depreciated until the asset is taken into use.

The asset is expected to be finalized and ready to take in use in Q1-Q2 2023.

The asset is assessed annually for impairment or for a reversal of previous impairments.

Note 2 - Segment Information

Kyoto Group is in a growth phase and as per 31st december 2022, development is the main segment of the Group's strategy.

Development costs are considered to fulfil the criteria for capitalization in accordance with IAS 38, and are expected to provide a future financial benefit. Those projects are related to the first commercial installation at Nordjyllandsværket in Denmark as well as development of the following generation of Heatcube, Heatcube 2.0, that are under development and includes both hardware development and software development.

Refer to note 10 and 12 for information about the presentation of the development in the accounts of the Group.

Note 3 - Revenue from contracts with customers

Disaggregated revenue information
The Group's revenue from contracts with customers has been disaggregated and presented in the tables below:

Reporting segments	2022	2021
Major services		
Mechanical services	26 860	0
Total	**26 860**	**0**
Geographical region		
Hungary	26 860	0
Total	**26 860**	**0**
Timing of revenue recognition		
Services transferred over time	26 860	
Total	**26 860**	**0**

Sale of services (Installation services)
The Group provides installation services related to the Heatcube. The Group has determined that installation services should be accounted for as a separate performance obligation as the services are separately identifiable. The performance obligation is satisfied over time because the customer simultaneously receives and the benefits provided by the Group. The Group recognises revenue on the basis of the labour hours incurred relative to the total expected labour hours to complete the installation.

Note 4 - Salary and personnel expense and management remuneration

	2022	2021
Salaries and holiday pay	2 252 237	889 263
Payroll tax	392 549	185 154
Board remuneration	118 174	67 350
Share based payment expenses	334 966	0
Severance payment	-114 968	299 326
Pension costs defined contribution plans	100 121	55 110
Other personnel costs	111 512	197 476
Total salaries and personnel expense	**3 194 591**	**1 693 678**

The number of man-years that has been employed during the financial year:	20,9	9,8
Norway	16,2	9,8
Denmark	1,0	
Spain	3,8	
Total	**20,9**	**9,8**

Management remuneration

The management team consists of the Group directors, that are all employed by the parent company.

	Board remuneration	Salary	Other benefits	Benefits in kind	Total remuneration
Management					
Chief Executive Officer		198 264	9 897		208 161
Management Team		810 714	43 668	7 208	861 591
Board of Directors	118 765				118 765
Total remuneration	**118 765**	**1 008 978**	**53 565**	**7 208**	**1 188 516**

Selected members of the management team have received sign-on fees by the business as a incentive to join the company or for signing into a new position.

The Group is liable to maintain an occupational pension scheme under the Mandatory Occupational Pensions Act. Kyoto Group have a defined contribution pension scheme and it satisfies the requirements of this Act. There are 22 people included in the pension scheme as of 31.12.2022. Total pension expenses in 2022 was EUR 95 298.

Severance pay of EUR 172 916.62 has been paid to the former CEO in 2022, after he left the company in 2021. The severance pay has been included in salary expenses. The company has an estimated outstanding commitment of EUR 45 178 to former CEO with regards to compensation after termination of employment, including bonus, options or pension. The amount is paid out monthly with the last payment in March, 2023.

The current CEO is entitled to 6 months' severence payment based on the annual base salary. Severance payment does not qualify for pension, nor for any holiday compensation pay or other benefits. No member of the management team has received remuneration or economical benefits from other companies in the group, other than what is stated beyond. No additional remuneration has been given for services outside the normal functions.

Certain memebers of the management team have receieved shares through the subscription programme, and in this regard have incurred an unconditional deferred consideration for the shares. Refer to note 17 for the subscription programme.

Three members of the Board have during the year been granted share options. The share option plan is further presented in note 17.

Note 5 - Other Operating Expenses

Other operating expenses	**2022**	**2021**
Advertising	328 475	162 886
Rental and leasing costs	134 519	16 527
Travel costs	170 804	21 058
Consultancy fees and external personnel	2 402 969	1 716 712
Office expenses and telephone	264 531	165 520
Other operating costs	145 439	174 515
Total operating expenses	**3 446 736**	**2 257 218**

Specification auditor's fee	**2022**	**2021**
Statutory audit	87 962	41 580
Other non-assurance services	9 956	6 758
Total	**97 919**	**48 338**

VAT is not included in the fees specified above.

Note 6 - Finance cost, finance income and other income

Finance income	2022	2021
Interest on loans and receivable	339	779
Foreign exchange gains	66 713	25 784
Other financial income	371	136
Total financial income	**67 423**	**26 698**

Finance expenses	2022	2021
Interest of lease liabilities	19 892	3 618
Foreign exchange losses	15 362	21 064
Other financial expenses	1 752	947
Total financial expenses	**37 006**	**25 629**

Note 7 - Tax expense

The tax effect of temporary differences and loss for to be carried forward that has formed the basis for deferred tax and deferred tax advantages, specified on type of temporary differences:

Temporary differences	2022	2021	Change
Tangible/intangible fixed assets	-399 902	-80 273	319 629
Unearned revenue	-259 792	0	259 792
Total temporary differences	**-659 694**	**-80 273**	**579 421**
Loss carry forward	-14 096 852	-7 436 289	6 660 563
Net temporary differences	-14 756 546	-7 516 562	7 239 984
Temporary differences that may not be used	0	0	0
Basis for calculation of deferred tax	-14 756 546	-7 516 562	7 239 984
Deferred tax (22%)	**0**	**0**	**0**

Deferred tax is not included in the balance sheet as the requirements for capitalization are not fulfilled.

Taxable income	2022	2021
Profit before tax	-7 187 053	-4 104 072
Permanent differences	-13 778	-965 983
Changes in temporary differences	579 421	5 842
Foreign currency impact	-39 153	0
Taxable income	**-6 660 563**	**-5 064 213**

Income tax expense	2022	2021
Payable tax (22%)	0	0
Changes in deferred tax assets	0	0
Total tax expense	**0**	**0**

Calculation of effective tax rate	2022	2021
Profit before tax	-7 187 053	-4 104 072
Calculated tax on profit before tax	-1 581 152	-902 896
Tax effect of permanent differences	-3 031	-212 516
Total	**-1 584 183**	**-1 115 412**
Effective tax rate	0%	0%

Note 8 - Earnings per share

The basic earnings per share are calculated as the ratio of the profit for the year that is due to the shareholders of the parent of EUR -7 187 053 (EUR -4 104 072 in 2021) divided by the weighted average number of ordinary shares outstanding, 8 420 560 (8 420 560 in 2021).

When calculating the diluted earnings per share, the profit that is attributable to the ordinary shareholders of the parent and the weighted average number of ordinary shares outstanding are adjusted for all the dilution effects relating to share options. In the calculations, share options are assumed to have been converted/exercised on the first date in the fiscal year.

Share options issued this year are assumed to be converted/ exercised at the date of issue/ grant date. The dilution effect on share options are calculated as the difference between average fair value in an active market and the sum of not recognised cost portion of the options.

Profit for the year due to holders of ordinary shares	**2022**	**2021**
Profit for the year from continuing operations	-7 187 053	-4 104 072
Profit for the year due to the holders of ordinary shares	**-7 187 053**	**-4 104 072**

Average number of shares outstanding (Note 17)	**2022**	**2021**
Effect of dilutive potential ordinary shares:		
Ordinary shares	8 420 560	8 420 560
Share options	128 000	0
Diluted average number of shares outstanding	**8 548 560**	**8 420 560**

Earnings per share:		
- Basic	-0,85	-0,49
- Diluted	-0,84	-0,49

Note 9 - Changes in the Group's structure

Asset acquistion:
In August 2022, Kyoto Group AS acquired 100% of the voting shares in Kyoto Technology Spain S.L. for EUR 100 000. The acquisition was financed in cash and by a deferred consideration described further in this note.

The fair value of the shares was set at observed market prices at the acquisition date.

The investment in Kyoto Technology Spain S.L. is treated as acquistion of an asset.

The net assets acquired in the acquisition of Kyoto Technology Spain S.L. are as follows:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	3 000
Patents	30 000
Total assets	**33 000**
Equity	
Share capital	3 000
Total Equity	**3 000**
Liabilities	
Debt to previous shareholder	30 000
Total Liabilities	**30 000**
Total equity and liabilities	**33 000**
Non-controlling interest measured at fair value	0
Paid in cash	100 000
Total consideration	**100 000**

The patent is written down to its fair value at the time of acquistion, EUR 30 000.

In addition to the cash consideration of EUR 100 000, it is agreed a conditional deferred payment for the shares upon the satisfaction of specific milestones on terms and conditions. The conditional deferred payment shall equal 1% of the sale price of each Heatcube sold by Kyoto Technology Spain S.L until 31. December 2025, but maximum EUR 5,000,000 in total. The deferred payment will be settled by granting the seller options to subscribe for new shares in Kyoto Group AS. The deferred payment is therefore treated as a share based expense in accordance with IFRS 2. The expense is accrued over the period of 31. May 2022 to 31. December 2025.

"

The following projections have been in relation with Heatcube sales by Kyoto Technology Spain S.L:

	2022	2023	2024	2025
Volume of Heatcube sales	0	5	7	11
Accumulated expense	286 000	675 000	872 000	943 000

To calculate the fair value of the estimated consideration per Heatcube sale at the time of allocation, the estimated price per Heatcube is discounted with a required rate of return. The interest rate requirement takes into account the uncertainty related to future sales price and time value. The discount rate is set at 8%.

Note 10 - Intangible assets

	Development costs	Patents	2021 Total
Accumulated cost as at 1 January 2021	**489 388**		**489 388**
Additions	549 472		549 472
Carrying value as at 31 December 2021	**1 038 859**		**1 038 859**

	Development costs	Patents	2022 Total
Accumulated cost as at 1 January 2022	**1 038 859**		**1 038 859**
Additions	1 773 460		1 773 460
Additions from acquisition of companies		127 000	127 000
Depreciation		-3 402	-3 402
Write downs	-310 522	-97 000	-407 522
Carrying value as at 31 December 2022	**2 501 797**	**26 598**	**2 528 395**

Economic life		8 years	
Depreciation method		Linear	

Investments in development is a key part of Kyoto Group's strategy.

Costs related to projects are considered to fulfil the criteria for capitalization in accordance with IAS 38, and are expected to provide a future financial benefit. Those cost are related to development of the new generation heatcube, Heatcube 2.0, which includes both development of hardware and software. Development expenses related to the technology behind the Heatcube is presented as an intangible asset, and the expenses related to installation at Nordjyllandsværket is presented as Construction in progress.

Costs that are related to research are expensed while costs that are related to concrete technology development are capitalized.

Development expenses are capitalized at acquisition cost. In the event of significant impairment, capitalized development costs have been written down when impairment is due to reasons that cannot be expected to be temporary and must be considered necessary in accordance with generally accepted accounting principles.

Total capitalized development expenses in the fiscal year 2022 amounts to EUR 1 773 460 and EUR 639 065 are entered into the profit and loss statement.

Amortisation of the asset begins when development is complete, and the asset is available for use.

The capitalized development cost will be amortized to the next 10 commericial projects estimated to be executed within 2 years.

The patents are issued by the Spanish Patent and Trademark Office in April 2020, with a term of the utility model to be ten years from the date of issue.

Note 11 - Leases

The Group as a lessee

Right-of-use assets
The Group leases several assets such as offices and other facilities, machinery and equipment. The Group's right-of-use assets are categorised and presented in the table below:

Right-of-use assets	Buildings	Machinery and equipment	Total
Acquisition cost 1 January 2021	**236 563**		**236 563**
Addition of right-of-use assets		108 164	108 164
Disposals			-
Currency exchange differences			-
Acquisition cost 31 December 2021	**236 563**	**108 164**	**344 727**
Accumulated depreciation and impairment 1 January 2021	**93 647**		**93 647**
Depreciation	138 451	7 546	145 997
Disposals			-
Currency exchange differences	-6 889		-6 889
Accumulated depreciation and impairment 31 December 2021	**225 208**	**7 546**	**232 755**
Carrying amount of right-of-use assets 31 December 2021	**11 354**	**100 618**	**111 972**
Lower of remaining lease term or economic life	1-2 years	3 years	
Depreciation method	Linear	Linear	

Right-of-use assets	Buildings	Machinery and equipment	Total
Acquisition cost 1 January 2022	**236 563**	**108 164**	**344 727**
Addition of right-of-use assets	628 420	15 647	644 067
Disposals	-229 042		-229 042
Currency exchange differences	-945	-5 401	-6 346
Acquisition cost 31 December 2022	**634 996**	**118 410**	**753 406**
Accumulated depreciation and impairment 1 January 2022	**225 208**	**7 546**	**232 755**
Depreciation	161 766	30 313	192 079
Disposals	-229 042		-229 042
Currency exchange differences	-12 900	-1 540	-14 440
Accumulated depreciation and impairment 31 December 2022	**145 033**	**36 319**	**181 352**
Carrying amount of right-of-use assets 31 December 2022	**489 963**	**82 091**	**572 053**
Lower of remaining lease term or economic life	1-2 years	3 years	
Depreciation method	Linear	Linear	

Lease liabilities

Undiscounted lease liabilities and maturity of cash outflows	Total
Less than 1 year	0
1-2 years	36 758
2-3 years	91 389
3-4 years	0
4-5 years	0
More than 5 years	0
Total undiscounted lease liabilities at 31 December 2021	**128 147**

Undiscounted lease liabilities and maturity of cash outflows	Total
Less than 1 year	0
1-2 years	558 068
2-3 years	57 667
3-4 years	0
4-5 years	0
More than 5 years	0
Total undiscounted lease liabilities at 31 December 2022	**615 735**

Summary of the lease liabilities	Total
At initial application 01.01.2021	**141 896**
Net new lease liabilities recognised in the year	109 631
Cash payments for the principal portion of the lease liability	-141 105
Interest expence on lease liabilities	3 618
Currency exchange differences	2 951
Total lease liabilities at 31 December 2021	**116 991**
Current lease liabilities	31 060
Non-current lease liabilities	85 930
Total lease liabilities	**116 990**

Summary of the lease liabilities	Total
At initial application 01.01.2022	**116 990**
Net new lease liabilities recognised in the year	681 617
Cash payments for the principal portion of the lease liability	-199 319
Interest expence on lease liabilities	19 892
Currency exchange differences	-30 694
Total lease liabilities at 31 December 2022	**588 486**
Current lease liabilities	290 104
Non-current lease liabilities	298 383
Total lease liabilities	**588 487**

The leases do not contain any restrictions on the Group's dividend policy or financing. The Group does not have significant residual value guarantees related to its leases to disclose.

Summary of other lease expenses recognised in profit or loss	2021
Variable lease payments expensed in the period	5 665
Operating expenses in the period related to short-term leases (including short-term low value assets)	2 980
Operating expenses in the period related to low value assets (excluding short-term leases included above)	7 882
Total lease expenses included in other operating expenses	**16 527**

Summary of other lease expenses recognised in profit or loss	2022
Variable lease payments expensed in the period	79 034
Operating expenses in the period related to short-term leases (including short-term low value assets)	55 485
Operating expenses in the period related to low value assets (excluding short-term leases included above)	31 117
Total lease expenses included in other operating expenses	**134 519**

Practical expedients applied

The Group also leases personal computers, IT equipment and machinery with contract terms up to 3 years. The Group has elected to apply the practical expedient of low value assets for some of these leases and does not recognise lease liabilities or right-of-use assets. The leases are instead expensed when they incur. The Group has also applied the practical expedient to not recognise lease liabilities and right-of-use assets for short-term leases, presented in the table above.

Variable lease payments

In addition to the lease liabilities above, the Group is committed to pay variable lease payments for some of their leases. The variable lease payments are expensed as incurred.

Extension options

Kyoto Group's lease agreements of buildings involves a right of renewal which may be exercised during the last period of the lease. The Group assesses at the commencement whether it is reasonably certain to exercise the renewal right.

Purchase options

The Group leases machinery and equipment with lease terms of up to 3 years. Some of these contracts includes a right to purchase the assets at the end of the contract term. The Group assesses at the commencement whether it is reasonably certain to exercise the renewal right.

Note 12 - Property, plant and equipment

	Machinery and equipment	Construction in progress	Total
Accumulated cost as at 1 January 2021	**36 696**		**36 696**
Additions		2 141 984	2 141 984
Accumulated cost as at 31 December 2021	**36 696**	**2 141 984**	**2 178 680**
As at January 1 2021			
Acquisition cost	36 696	2 141 984	2 178 680
Accumulated depreciation and write downs	-28 557		-28 557
Carrying amount as at December 31 2021	**8 139**	**2 141 984**	**2 150 123**

	Machinery and equipment	Construction in progress	Total
Accumulated cost as at 1 January 2022	**8 139**	**2 141 984**	**2 150 123**
Additions		3 783 306	3 783 306
Write downs	-8 139		-8 139
Accumulated cost as at 31 December 2022	**0**	**5 925 290**	**5 925 290**
As at 1 January 2022			
Acquisition cost	8 139	2 141 984	2 150 123
Additions		3 783 306	3 783 306
Accumulated depreciation and write downs	-8 139	0	-8 139
Carrying amount as at December 31 2022	**0**	**5 925 290**	**5 925 290**

(1) Fully written down property plant and equipment
Equipment with a total cost price of EUR 36 696 have been fully depreciated as at 31 December 2022.

(2) Construction in progress is in relation to the commercial installation of the Heatcube in Nordjyllandsværket. Reference to note 10.

Note 13 - Other current and non-current assets

Other non-current assets		2022	2021
Receivables on subscription programme shares	Reference to note 17	147 294	0
Long-term deposit		45 563	76 490
Total other non-current assets		**192 857**	**76 490**

Other current assets	2022	2021
Deposit	27 107	0
Public Grants (SkatteFunn)	371 089	80 090
VAT receivable	312 864	220 078
Prepaid expenses	10 938	36 012
Other current assets	169 807	151 176
Total other current assets	**891 805**	**487 356**

Accounts Receivable	26 860	0
Total accpunts receivable	**26 860**	**0**

Note 14 - Government grants

Innovation Norway
Kyoto Group AS has been given grants from Innovation Norway in relations with the Heatcube project. The grants were recognized as other operating income previous to 2021 when the conditions from the grantor were met and accrued in step with the implementation of the grant-eligible activities.

Tax Rebate - SkatteFunn
In 2022, Government grants have been granted for the Heatcube project through the Norwegian SkatteFUNN scheme.
Grants related to project costs that are recognized in the balance sheet are presented as unearned income in the balance sheet. Grants for the part of the project costs that are expensed are entered as cost reduction.

The annual grant from SkatteFunn is a total of EUR 402 195, and EUR 127 713 has been entered as a cost reduction in P&L.

Short-term receivables	2022	2021
Innovation Norway	0	80 090
SkatteFunn	371 089	0

Note 15 - Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2022	2021
Bank deposit	981 074	11 715 354
Restricted funds deposited in the tax deduction account	132 692	57 438
Cash and cash equivalents in the balance sheet	**1 113 766**	**11 772 792**

Note 16 - Share capital, shareholder information and dividend

	2022	2021
Ordinary shares, nominal amount NOK 0,03 per share	8 420 560	8 420 560
Total number of shares	**8 420 560**	**8 420 560**

All issued shares have equal voting rights and the right to receive dividend.

The 20 largest shareholders at 31.12.2022 are:

	Number of shares:	Ownership %:
KB MANAGEMENT AS	900 760	10,70
HYDRO ENERGI INVEST AS	758 332	9,01
VALINOR AS	720 000	8,55
MØSBU AS	508 000	6,03
KONGSBERG INNOVASJON AS	485 161	5,76
ASIJU INVEST AS	431 751	5,13
DNB BANK ASA	316 630	3,76
INTERTRADE SHIPPING AS	240 000	2,85
AS CLIPPER	158 000	1,88
OSLO IDEATION AS	139 889	1,66
MUEN INVEST AS	133 923	1,59
UBS Switzerland AG	123 000	1,46
FREMR AS	123 000	1,46
Société Générale	120 000	1,43
STELLA INVEST AS	114 500	1,36
DSB HOLDING AS	98 334	1,17
NORDNET LIVSFORSIKRING AS	90 722	1,08
EKS SERV AS	80 000	0,95
SILVERCOIN INDUSTRIES AS	77 255	0,92
HELVIG HOLDING AS	74 481	0,88
Total owned by largest shareholders	**5 693 738**	**67,6 %**
Other shareholders	2 726 822	32,4 %
Total numbers of shares	**8 420 560**	**100,0 %**

Shares owned by leading personnel:

	Number of shares:	Ownership %:
Asiju Invest AS, Arne Erik Kristiansen (Board member)	431 751	5,12%
Cuare Invest AS, Camilla Nilsson (CEO)	50 000	0,59%
Agnieszka Sledz (management team)	25 000	0,29%
Henrik Holck-Clausen (management team)	25 000	0,29%
Bjarke Buchbjerg (management team)	25 000	0,29%
Tim de Haas (management team)	25 000	0,29%
Thoeng AS, Thorleif Enger (Board member)	24 000	0,28%
Mocca Invest AS, Eivind Kristoffer Reiten (Chairman of the board)	8 000	0,10%

Note 17 - Share and option program

Subscription of shares for key personell
By subscription of shares through this model, the shares are subscribed for in a discounted price. At the subscription, the market value of the shares is considered to be the volume weighted average of the listed share price for the company's shares on Euronext Growth on the last trading day prior to the employee's subscription of shares. The residual amount between the subscription market value of the shares and the discounted price, with the addition of any interest calculated, constitutes an unconditional, deferred consideration for the shares to be paid to the company. The residual amount constitutes a receivable for the company against the employee, and it is interest bearing from the time of subscription, with an interest rate corresponding to the standard interest rate applicable according to the rules on subsidised loans under employment in the Norwegian Taxation Act section 5-12(4). The interest is calculated annually as of 31 January, and paid in arrears on 31 January of the following year, and no later than at the due date of the residual amount. As security for the residual Amount, Kyoto Group shall have the best available collateral in the employee's shares.

Prior to 2022, Kyoto had different terms for the subscription programme agreements than those that apply now. Among other things, the residual amount was not unconditional, and thus did not fulfill the requirements for balance sheet entry. At 31.12.2022, the residual amount in balance sheet is EUR 147 294, and presented as other non-current assets in the consolidated financial statement. The residual amount comes exclusively from the subscription programme agreements in 2022 under the new conditions.

The residual amount is due for payment upon the earlier of:
(i) 25th Aug 2025
(ii) the employee's settlement on the sale of the shares
(iii) the company's exercise of the right of purchase

As at 31.12.2022, 12 employees were included in the subscription programme, and the following was in hands of the management team;

Name	Purchase date	Purhase price	Shares	Paid (NOK)	Rest (NOK)
Cuare Invest AS, Camilla Nilsson (CEO)	01.02.2021	25	50 000	187 500	1 062 500
Bjarke Buchbjerg	25.02.2022	16,5	25 000	61 875	350 625
Agnieszka Sledz	25.02.2022	16,5	25 000	61 875	350 625
Henrik Holck-Clausen	25.02.2022	16,5	25 000	61 875	350 625
Tim de Haas	25.02.2022	16,5	25 000	61 875	350 625
			150 000	**435 000**	**2 465 000**

Share option programme
On March 2021, Kyoto Group AS approved issuance of up to 300 000 share options, whereby up to 150 000 share options may be issued to the board memebers. One option grants the holder the right to acquire one share in the company. The subscription price per share shall equal the subscription price per share in the Private Placement, plus 10%. The options may be exercicised between 1. March 2022 and 1 March 2023.

On July 2022, the Chairman of the Board and two board members were granted the share options:

	Number of options				
	Opening balance 2022	Granted	Forfeited	Exer-cised	Ending balance 2022
Eivind Reiten (Chairman of the Board)	0	64 000	0	0	64 000
Hans Olav Kvalvaag (Board member)	0	32 000	0	0	32 000
Thorleif Enger (Board member)	0	32 000	0	0	32 000
	-	**128 000**	**-**	**-**	**128 000**

The fair value of the options is set on the grant date and expensed over the vesting period.
EUR 48 634 have been expensed in 2022. The fair value of options granted in 2022 was NOK 6,66 per option.

No options were forfeited or exercised during 2022. The outstanding options are subject to the following conditions:

Expiry date	Average strike price (NOK)	Number of share options
1 July 2024	19,18	128 000
	19,18	**128 000**

The fair value of the options has been calculated using Black & Scholes option-pricing model.

The calculations are based on the following assumptions:

Share price on the grant date
The share price is set to the stock exchange price on the grant date.

Volatility
It is assumed that historic volatility is an indication of future volatility. The expected volatility is therefore stipulated to be the same as the historic volatility, which equals a volatility of 62,3%.

The term of the option
It is assumed that 100 % of the holders will exercise the options once they are exercisable.
The options are expected to have a term of two years.

Dividend
Dividend is not considered in this share option programme.

Risk-free interest rate
The risk-free interest rate is set equal to the interest rate on government bonds during the term of the option, i.e. 2,69% for 2022.

Note 18 - Long-term debt

			Carrying amount	
	Effective interest rate	**Maturity**	**2022**	**2021**
Secured				
Obligations under leases		2024/2025	298 383	85 930
Unearned revenue (Tax rebate)			249 666	0
Loan from Innovation Norway	1,70%	2024 + 6	228 271	240 269
Total secured long-term debt			**776 320**	**326 199**

Reference to note 26 for fair value evaluation of the liabilities.

The rate of interest of the lease liability is calculated on a weighted average.

In 2020, Kyoto Group AS received a loan of NOK 2 400 000 from Innovasjon Norge. The loan is treated as a serial loan and is to be repaid over 4 years. The loan is interest bearing with a nominal rate of 4,2% and a effective rate of 1,7% per year. The loan is free for installments for the first 15 terms and free of interest for the first 10 terms, with each term covering three months. The first payment is due in February 2023.

Reference to note 14 for unearned revenue from the Tax Rebate - SkatteFunn.

Note 19 - Short-term loans and other payables

Other non-current assets	Due date	2022	2021
Trade accounts payables		1 909 334	731 831
Social security provision	15/01/2023	97 604	50 090
Withheld tax on payroll	15/01/2023	173 888	57 235
Current lease liabilities		290 104	31 060
Provision for holiday pay	30/06/2023	185 044	130 309
Provision for board remuneration		0	68 537
Provision for severance pay	Monthly until March 2023	72 949	304 600
Other current liabilities		768 690	33 515
Total		**3 497 614**	**1 407 177**

As at 31 December 2022, the short-term loans and other loan relationships consist of amounts used of the overdraft facility.

Trade payables are non-interest bearing and are normally settled on 30-day terms.

Note 20 - List of subsidiaries

The following subsidiaries are included in the consolidated financial statements:

Company	Country of incor-poration	Functional currency	Business	Ownership interest 2022	Voting power 2022	Ownership interest 2021	Voting power 2021
Kyoto Group AS (parent company)	Norway	NOK	Energy production	-	-	-	-
Kyoto Technology Spain S.L.	Spain	EUR	Energy production	100%	100%	100%	100%
Kyoto Technology Denmark ApS	Denmark	DKK	Energy production	100%	100%	100%	100%

Note 21 - Transactions with related parties

Name of company	Country	Ownership interest 2022	Ownership interest 2021
Asiju Invest AS	Norway	0%	0%

All the transactions have been carried out as part of the ordinary operations and at arms -length prices.
The most significant transactions are as follows:

Purchase of services	Services	Relation	2022	2021
Asiju Invest AS, Arne Erik Kristiansen	Advisory services	Investor, Board member	14 552	68 770

Intercompany transactions	Services	Relation	2022	2021
Kyoto Technology Spain S.L.	Reimbursement personnel cost	Subsidiary	184 887	0

See note 4 for information on remuneration to management and the board.

Note 22 - Events after the balance sheet date

The company announced 10 January 2023 a planned private placement of new shares in the company to increase capital.

The private placement was successfully placed the same day, and the Board of Directors allocated subscriptions for 3,428,571 offer shares at a subscription price of NOK 17.50, raising NOK 60 million in gross proceeds.

There have been no other events to date in 2023 that significantly affect the result for 2022 or valuation of the company's assets and liabilities at the balance sheet date.

Note 23 - Funding plans and Going concern

The company pursues funding efforts to secure the growth ambitions of the company as we now are at the doorstep of market breakthrough. This implies to secure a cash runway of at least 2 years through a combination of raising additional equity from strategic industrial partners as well as entering into agreements with 1-2 financial providers to secure debt funding to the company. Failing to secure funding will create uncertainty about the Group's ability to secure going concern as well as restricting the growth ambitions of Kyoto.

All of this is currently ongoing, we are in process of detailed discussions with selected strategic industrial investors, contributing to new equity through a directed share issue. This will be followed by entering into new corporate debt funding depending on the need. A full-fledged execution of this plan will secure necessary funding for at least two years and take Kyoto a major step towards EBITDA break-even in 2025.

Kyoto Group needs to be securing additional funding early in Q3 2023.

The financial statements for 2022 have been prepared on the basis that the conditions for the going concern assumption have been satisfied, and the Kyoto Leadership team and Kyoto Board is optimistic about the possibilities of successfully delivering on the funding plan described above.

Note 24 - Explanation of transition to IFRS

This is the Group's first consolidated accounts presented in accordance with IFRS.

The accounting principles described in the "Summary of significant account principles" note have been used to prepare the Group's consolidated accounts for 2022, comparable figures for 2021 and an IFRS opening balance sheet as at 1 January 2021, which is the Group's date of transition from Norwegian accounting principles (NGAAP) to IFRS.

In connection with the preparation of the IFRS opening balance sheet, the Group has made some adjustments to the accounting figures compared to those reported earlier in Kyoto Group's annual accounts that were prepared according to NGAAP. The effect of the transition from NGAAP to IFRS on the group's financial position, the Group's results and the Group's cash flow is explained in greater detail in this note.

Reconciliation of transitional effects

EUR	**Note**		**01/01/2021**	
		NGAAP	**Effect of transition to IFRS**	**IFRS**
Assets				
Non - current assets				
Deferred tax asset	A	493 093	-493 093	-
Right-of-use asset	B	-	142 916	142 916
Other current assets	C	270 728	-140 555	130 173
Total non - current assets		**763 821**	**-490 732**	**273 089**
Total assets		**763 821**	**-490 732**	**273 089**
Equity and liabilities				
Share premium account	A,B,C	570 457	-632 628	-62 170
Total equity		**570 457**	**-632 628**	**-62 170**
Non current liabilities				
Non-current lease liabilities	B	-	11 327	11 327
Current Liabilities				
Current lease liabilities	B	-	130 569	130 569
Total liabilities		**-**	**141 896**	**141 896**
Total equity and liabilities		**570 457**	**-490 732**	**79 726**

EUR	Note	31/12/2021		
		NGAAP	Effect of transition to IFRS	IFRS
Assets				
Non - current assets				
Right-of-use asset	B	-	111 972	111 972
Total non - current assets		**-**	**111 972**	**111 972**
Total assets		**-**	**111 972**	**111 972**
Equity and liabilities				
Share premium account	B	13 171 563	-5 018	13 166 153
Total equity		**13 171 563**	**-5 018**	**13 166 153**
Non current liabilities				
Non-current lease liabilities	B	-	85 930	85 930
Current Liabilities				
Current lease liabilities	B	-	31 060	31 060
Total liabilities		**-**	**116 990**	**116 990**
Total equity and liabilities		**13 171 563**	**111 972**	**13 283 144**

Explanation

A) Deffered tax asset

Kyoto Group AS had capitalized deferred tax asset at 31.12.2020 in the NGAAP accounts. As a post-evaluation of this, the requirements for capitalization of the deferred tax asset were not fulfilled and the asset have been reveresed.

B) Leases (IFRS 16)

The Group has recognized a lease liability and right-of-use asset for the leases according to IFRS 16. According to NGAAP, the leases were classified as operational leases and payments where expensed in profit and loss as incurred.

C) Public Grants

The governemnt grants were recognised according to NGAAP as at 31.12.2020.
According to IFRS, government grants are reconized when the assurance that the entity will comply with any conditions attached to the receival of the grant are more probable than as according to NGAAP.

Reconciliation of total comprehensive income for 2021

1 January - 31 December

(NOK 1000)		2021		
	Note	**Previous GAAP**	**Effect of transition to IFRS**	**IFRS**
Public grants	C	-143 795	143 795	0
Total revenue		**-143 795**	**143 795**	**0**
Operating expenses				
Personell expenses		1 693 678	-	1 693 678
Depreciation, amortizations and write downs	B	10 775	143 469	154 245
Other operating expenses	B	2 398 324	-141 105	2 257 218
Total expenses		**4 102 778**	**2 364**	**4 105 141**
Operating profit		**-4 246 573**	**141 432**	**-4 105 141**
Finance income		26 698	-	26 698
Finance costs	B	22 010	3 618	25 628
Profit before tax		**-4 241 885**	**137 814**	**-4 104 072**
Income tax expense	A	507 913	-507 913	-0
Profit after tax from continuing operations		**-4 749 798**	**645 726**	**-4 104 072**
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent periods				
Exchange differences		-	116 949	116 949
Total comprehensive income for the year		**-4 749 798**	**762 675**	**-3 987 123**

Reconciliation of cash flow

1 January - 31 December

EUR			2021		
	Note	**NGAAP**	**Effect of transition to IFRS**	**Currency effects**	**IFRS**
Cash flow from operating activities					
Profit before tax	B	-4 241 886	141 105	-3 292	-4 104 072
Depreciation, amortizations and write downs	B	10 775	143 469		154 245
Exchange differences				116 949	116 949
Change in accounts payable		658 251		3 384	661 635
Change in accounts receivables					0
Other changes	C	198 880	-146 329	327	52 878
Net cash flow from operating activities		**-3 373 978**	**138 246**		**-3 118 365**
Cash flows from investing activities					
Change in costruction in progress and development expenses		-2 678 831		-12 625	-2 691 456
Net cash flow used in investing activities		**-2 678 831**	**-**		**-2 691 456**
Cash flows from financing activities					
Proceeds from equity		13 793 359		-165 762	13 627 596
Payment of lease installment	B	0	-141 105		-141 105
Interests on lease liabilites	B	0	-3 618		-3 618
Net cash flow from financing activities		**13 793 359**	**-144 723**		**13 482 873**
Net currency translation effect		-59 932		67 498	7 566
Net increase/(decrease) in cash and cash equivalents		**7 740 550**			**7 673 053**
Cash and cash equivalents at beginning of period		4 092 174			4 092 174
Cash and cash equivalents at end of period		**11 772 792**			**11 772 792**

Note 25 - Financial instruments - Financial risk and management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade receivables, cash and cash equivalents that derive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing market risk, credit risk, liquidity risk and equity price risk.

Market risk
Market risk is the risk that the future cash flows or fair value of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest risk and currency risk. Financial instruments affected by market risk include loans and borrowings, deposits and debt.

Interest rate risk
Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating rates.

Interest rate sensitivity
The Group has a very low exposure to interest rate sensitivity, and see note 18 for loan conditions.

Foreign currency risk
Foreign currency risk is the risk that the future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group is exposed to changes in the value of EUR relative to other currencies, primarily to the Group`s operating activities (i.e. when revenue or expense is dominated in a foreign currency). Due to the low activity of the operations, the currency risk is assessed to be low.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to fulfill its financial obligation as they fall due. The Groups approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Groups reputation.

The table below sets out the maturity profile of the Groups for financial liabilities based on contractual undiscounted payments. When a counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which the entity can be required to pay. Financial liabilities that can be required to be repaid on demand are included in the "within 1 year" column.

			Period left			
31/12/2021	**Less than 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**More than 5 years**	**Total**
Financial liabilities (non-derivatives)						
Loan from Innovation Norway			240 269			240 269
Trade payables	731 831					731 831
Total	**731 831**	**0**	**240 269**	**0**	**0**	**972 100**

			Period left			
31/12/2022	**Less than 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**More than 5 years**	**Total**
Financial liabilities (non-derivatives)						
Loan from Innovation Norway		228 271				228 271
Trade payables	1 909 334					1 909 334
Total	**1 909 334**	**228 271**	**0**	**0**	**0**	**2 137 605**

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities and from its financing activities, including deposits with banks and financial institutions.

Capital management

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares, or repay or issue new debt.

	2022	**2021**
Interest-bearing loans and borrowings	228 271	240 269
Trade payables	1 909 334	731 831
Unrestrcited cash and cash equivalents	981 074	11 715 354
Net debt	**1 156 531**	**-10 743 254**

Net debt is calulated to determine the debt in relation to the Group's liquid assets.

Equity	6 977 091	13 904 217
Total capital	11 251 025	15 637 593
Sum capital and net debt	**12 407 557**	**4 894 338**
Equity ratio	62%	89%

Note 26 - Categories of financial assets and financial liabilities

31/12/2021	Financial instruments at amortised cost
Assets	
Other non-current assets	0
Other current assets	151 176
Unrestrcited cash and cash equivalents	11 715 354
Total Financial assets	**11 866 530**
Liabilities	
Other non-current financial liabilities	240 269
Trade and other payables	731 831
Total financial liabilities	**972 100**

31/12/2022	Financial instruments at amortised cost
Assets	
Other non-current assets	0
Other current assets	169 807
Unrestrcited cash and cash equivalents	981 074
Total Financial assets	**1 150 881**
Liabilities	
Other non-current financial liabilities	228 271
Trade payables	1 909 334
Total financial liabilities	**2 137 605**

The carrying amount of cash and cash equivalents is approximately equal to fair value since these instruments have a short term to maturity. Similarly, the carrying amount of account receivables and other current receivables and payables is approximately equal to fair value since they are short term and entered into on "normal" terms and conditions. The carrying amount of bank loans are assessed to be approximately equal to fair value because the floating interest rate are adjusted to reflect current conditions.

	2022		2021	
	Book value	Fair value	Book value	Fair value
Cash and cash equivalents	981 074	981 074	11 715 354	11 715 354
Total financial assets	**981 074**	**981 074**	**11 715 354**	**11 715 354**
Interest bearing loans and borrowings				
Interest-bearing loans and borrowings	228 271	228 271	240 269	240 269
Other financial liabilities				
Trade and other payables	1 909 334	1 909 334	731 831	731 831
Total financial liabilities	**2 137 605**	**2 137 605**	**972 100**	**972 100**

Note 27 - Reconciliation for liabilities arising from financing activities

Reconciliation of changes in liabilities arising from financing activities is shown in the tables below:

	01/01/2021	Cash flows	Fair values changes	New leases	Interests	Change in exchange rate	31/12/2021
Loan from Innovation Norway	229 220					11 049	240 269
Lease liabilities	141 896	-141 105	0	109 631	3 618	2 951	116 991
Total liabilities from financing activities	**371 116**	**-141 105**	**0**	**109 631**	**3 618**	**14 000**	**357 260**

	01/01/2022	Cash flows	Fair values changes	New leases	Interests	Change in exchange rate	31/12/2022
Loan from Innovation Norway	240 269					-11 998	228 271
Lease liabilities	116 991	-199 319	0	681 617	19 892	-30 694	588 487
Total liabilities from financing activities	**357 260**	**-199 319**	**0**	**681 617**	**19 892**	**-42 692**	**816 758**

Financial statements

KYOTO GROUP AS

Revenue statement

Kyoto Group AS

Amounts in NOK

	Note	2022	2021
OPERATING INCOME AND OPERATING EXPENSES			
Revenue	1	282 401	0
Public grants		0	-1 461 651
Total income		**282 401**	**-1 461 651**
Personnel expenses	2, 16	25 694 889	17 215 902
Write-down	3	3 264 766	109 530
Other operating expenses	2, 4, 5, 16	36 956 281	24 378 482
Total expenses		**65 915 935**	**41 703 914**
Operating profit		**-65 633 535**	**-43 165 565**
FINANCIAL INCOME AND EXPENSES			
Interest income from group companies	5, 6	94 482	0
Other interest income	6	3 399	7 913
Other financial income	6	717 036	263 467
Other financial expenses	6	881 188	223 734
Net financial items		**-66 271**	**47 647**
Net result before tax		**-65 699 806**	**-43 117 918**
Income tax expense	7	0	5 162 830
Net result after tax		**-65 699 806**	**-48 280 749**
Net result		**-65 699 806**	**-48 280 749**
ATTRIBUTABLE TO			
Loss brought forward	8	65 699 806	48 280 749
Total		**-65 699 806**	**-48 280 749**

Balance sheet

Kyoto Group AS

Amounts in NOK

	Note	2022	2021
ASSETS			
Non-current assets			
Intangible assets			
Development	3	25 142 028	10 376 957
Total intangible assets		**25 142 028**	**10 376 957**
Property, plant and equipment			
Construction in progress	9	54 051 942	21 395 853
Equipment and other movables		0	85 216
Total property, plant and equipment		**54 051 942**	**21 481 069**
Non-current financial assets			
Investments in subsidiaries	10, 11	4 056 254	0
Loan to group companies	12	13 234 319	0
Other long-term receivables	13	2 027 655	479 040
Total non-current financial assets		**19 318 228**	**479 040**
Total non-current assets		**98 512 197**	**32 337 067**
CURRENT ASSETS			
Debtors			
Accounts receivables		282 401	0
Other short-term receivables		7 481 116	5 153 104
Total receivables		**7 763 516**	**5 153 104**
Cash and cash equivalents	14	11 097 013	117 596 065
Total current assets		**18 860 529**	**122 749 170**
Total assets		**117 372 726**	**155 086 236**

Balance sheet (continued)

Kyoto Group AS

Amounts in NOK

	Note	2022	2021
EQUITY AND LIABILITIES			
Equity			
Paid-in capital			
Share capital	8, 15	252 617	252 617
Share premium reserve	8	65 868 306	131 568 112
Other paid-in equity	8, 13	12 188 529	7 119 753
Total paid-in equity		**78 309 452**	**138 940 482**
Total equity		**78 309 452**	**138 940 482**
LIABILITIES			
Other non-current liabilities			
Other provisions	16	2 624 941	0
Other non-current liabilities	17	2 400 000	2 400 000
Total non-current liabilities		**5 024 941**	**2 400 000**
Current liabilities			
Trade payables		19 113 500	7 310 112
Public duties payable		2 028 637	884 179
Other current liabilities	17	12 896 197	5 551 463
Total current liabilities		**34 038 333**	**13 745 754**
Total liabilities		**39 063 274**	**16 145 754**
Total equity and liabilities		**117 372 726**	**155 086 236**

Oslo, 23. april 2023
The board of Kyoto Group AS

(Electronically signed)	(Electronically signed)	(Electronically signed)
Eivind Kristofer Reiten Chairman of the board	**Thorleif Enger** Member of the board	**Hans Olav Kvalvaag** Member of the board
(Electronically signed)	(Electronically signed)	(Electronically signed)
Arne Erik Kristiansen Member of the board	**Pål Selboe Valseth** Member of the board	**Anna Camilla Nilsson** General Manager

Indirect cash flow

Kyoto Group AS

Amounts in NOK

	2022	2021
Cash flows from operating activities		
Profit/loss before tax	-65 699 806	-43 117 918
Write down and depreciation	3 264 766	109 530
Share based payments expense	511 146	0
Change in accounts receivable	-282 401	0
Change in accounts payable	11 803 388	6 575 140
Change in other accrual items	8 786 121	1 986 577
Net cash flows from operating activities	**-41 616 786**	**-34 446 671**
Cash flows from investment activities		
Capitalized development expenses	-50 600 708	-26 758 305
Payments to buy shares and participations in other companies	-1 049 307	0
Net cash flows from investment activities	**-51 650 015**	**-26 758 305**
Cash flows from financing activities		
Changes in intercompany balances	-13 234 319	0
Proceeds from equity	273 300	135 954 753
Repayments of equity	-271 232	0
Net cash flows from financing activities	**-13 232 251**	**135 954 753**
Net change in cash and cash equivalents	-106 499 052	74 749 777
Cash and cash equivalents at the start of the period	117 596 065	42 846 288
Cash and cash equivalents at the end of the period	**11 097 013**	**117 596 065**

Accounting principles

The annual accounts have been prepared in conformity with the Norwegian Accounting Act and generally accepted accounting principles.

Operating revenues

Revenue from sale of services are recognised as the services are delivered.

Tax

The tax charge in the profit and loss account consists of tax payable for the period and the change in deferred tax. Deferred tax is calculated at the tax rate at 22 % on the basis of tax-reducing and tax-increasing temporary differences that exist between accounting and tax values, and the tax loss carried forward at the end of the accounting year. Tax-increasing and tax-reducing temporary differences that reverse or may reverse in the same period are set off and entered net.

Classification and valuation of fixed assets

Fixed assets include assets included for long-term ownership and use. Fixed assets are valued at acquisition cost. Property, plant and equipment are entered in the balance sheet and depreciated over the asset's economic lifetime. Property, plant and equipment are written down to a recoverable amount in the case of fall in value which is expected not to be temporary. The recoverable amount is the higher of the net sale value and value in use. Value in use is the present value of future cash flows related to the asset. Write-downs are reversed when the basis for the write-down is no longer present.

Direct maintenance of fixed assets is expensed on an ongoing basis under operating costs, while costs or improvements are added to the fixed asset's cost price and depreciated accordingly.

Classification and valuation of current assets

Current assets and short-term liabilities normally include items that fall due for payment within one year of the balance sheet date, as well as items that relate to the operating cycle. Current assets are valued at the lower of acquisition cost and fair value.

Shares in subsidiaries

Subsidiaries are valued using the cost method in the company accounts. The investment is valued at acquisition cost for the shares unless a write-down has been necessary. A write-down to fair value is made when a fall in value is due to reasons that cannot be expected to be temporary and such write-down must be considered as necessary in accordance with good accounting practice. Write-downs are reversed when the basis for the write-down is no longer present.

Dividends, group contributions and other distributions from subsidiaries are posted to income in the same year as provided for in the distributor's accounts. To the extent that dividends/ group contributions exceed the share of profits earned after the date of acquisition, the excess amounts represents a repayment of invested capital, and distributions are deducted from the investment's value in the balance sheet of the parent company.

Classification

Assets intended for permanent ownership or use, as well as receivables maturing more than one year after the balance sheet date are included as fixed assets. Other assets are classified as current assets. Debts that fall due later than one year after the end of the accounting period are listed as long-term debt.

Intangible assets

Development expenses are capitalized to the extent that a future economic benefit related to the development of an identifiable intangible asset can be identified and the expenses can be measured reliably. Otherwise, such expenses are expensed on an ongoing basis. Capitalized development is depreciated on a straight-line basis over its economic life.

Cash flow statement

The cash flow statement has been prepared using the indirect method. Cash and cash equivalents consist of cash, bank deposits and other short-term, liquid investments.

Receivables
Receivables from customers and other receivables are entered at par value after deducting a provision for expected losses. The provision for losses is made on the basis of an individual assessment of the respective receivables.

Pension liabilities
Pension liabilities financed over operations are calculated and entered on the balance sheet under the provision for liabilities. Pension schemes financed through insured schemes are not entered on the balance sheet. The pension premium is treated in these cases as a pension cost and classified together with wage costs.

Foreign currency
Foreign currency transactions are translated at the exchange rate on the date of the transaction. Monetary foreign currency items are translated to NOK at the exchange rate on the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated to NOK using the exchange rate on the transaction date. Non-monetary items that are measured at fair value in a foreign currency are translated to NOK using the exchange rate on the measurement date. Exchange rate fluctuations are posted to the profit and loss account as they arise under other financial items.

Public Grants
Public grants related to project costs that are recognized in the balance sheet are presented as unearned income in the balance sheet. Grants for the part of the project costs that are expensed are entered as cost reduction.

Note 1 - Income

Activity distribution	2022	2021
Revenues from services performed	282 401	0
Total	**282 401**	**0**

Geographical distribution	2022	2021
Hungary	282 401	0
Total	**282 401**	**0**

Note 2 - Salary costs and benefits, remuneration to the chief executive, board and auditor

	2022	2021
Salary costs		
Salaries	18 872 678	12 147 508
Employment tax	3 505 205	1 882 051
Pension costs	1 001 944	560 181
Other benefits	2 315 061	2 626 162
Total	**25 694 889**	**17 215 902**

Number of man-years employed during the financial year	16,2	9,8

Pension liabilities

The company is liable to maintain an occupational pension scheme under the Mandatory Occupational Pensions Act. Kyoto have a defined contribution pension scheme and it satisfies the requirements of this Act. There are 22 people included in the pension scheme as of 31.12.2022. Total pension expenses in 2022 was 1 001 944.

	General Manager	Board
Remuneration to leading personnel		
Salaries	1 920 571	0
Board remuneration	0	1 200 000
Pension costs	73 938	0
Other remuneration	14 381	0
Total	**2 008 890**	**1 200 000**

The CEO is entitled to 6 months' severence payment based on the annual base salary. Severance payment does not qualify for pension, nor for any holiday compensation pay or other benefits.

Auditor

Audit fees expensed for 2022 amount to 990 880 exclusive VAT, with the following split between statutory audit fees and other non-assurance services.

Specification auditor's fee	**2022**
Statutory audit	890 400
Other non-assurance services	100 480
Total	**990 880**

Note 3 - Intangible assets

	Development expences	Total
Acquisition cost 01.01	11 230 985	11 230 985
Additions	17 944 619	17 944 619
Acquisition cost 31.12	**29 175 604**	**29 175 604**
Acc. depreciation/ impairment 31.12	-768 810	-768 810
Write downs	-3 264 766	-3 264 766
Book value 31.12	**25 142 028**	**25 142 028**
Write-down in the year	3 264 766	3 264 766

Costs related to projects that are expected to provide a future financial benefit have been capitalized. Those cost are related to development of the new generation heatcube, Heatcube 2.0, which includes both development of hardware and software.

Development expenses are capitalized at acquisition cost. In the event of significant impairment, capitalized development costs have been written down when impairment is due to reasons that cannot be expected to be temporary and must be considered necessary in accordance with generally accepted accounting principles. Total capitalized development expenses in the fiscal year 2022 amounts to NOK 17 944 619 and NOK 6 718 998 are entered into the profit and loss statement.

Amortisation of the asset begins when development is complete, and the asset is available for use.
The capitalized development costs will be amortized to the next 10 commericial projects estimated to be executed within 2 years.

The development costs related the project at Nordjyllandsverket have been split between the physical facility Heatcube and the developed technology.

Note 4 - Leasing and rent

In 2022, Kyoto Group have had operational leasing agreements for tenancy and for hardware.
The expense in this regard was NOK 2 957 508. The duration of the leasing agrements varies from 1-3 years.

Note 5 - Related party transactions

Related-party transactions		2022	2021
Purchase of services	**Relation**		
Asiju Invest AS	Investor/Board Member	147 328	581 397
Interest income from intercompany loans	**Relation**		
Kyoto Technology Denmark ApS	Subsidiary	56 116	0
Kyoto Technology Spain S.L	Subsidiary	38 367	0
Reimbursement personell cost	**Relation**		
Kyoto Technology Spain S.L	Subsidiary	1 943 867	0

All transactions have been carried out as part of the ordinary operations and at arm's length prices.

See note 2 for information on remuneration to management and the board.

Note 6 - Specification of financial income and financial expenses

Financial income	2022	2021
Interest income from group companies	94 482	0
Other interest income	3 399	7 913
Other financial income	3 555	1 380
Agio	713 481	262 087
Total financial income	**814 917**	**271 380**

Financial expenses	2022	2021
Other financial expenses	16 589	9 621
Disagio	864 599	214 112
Total financial expenses	**881 188**	**223 734**

Note 7 - Tax

This year's tax expense	2022	2021
Entered tax on ordinary profit/loss		
Payable tax	0	0
Changes in deferred tax assets	0	5 162 830
Tax expense on ordinary profit/loss	**0**	**5 162 830**
Taxable income		
Ordinary result before tax	-65 699 806	-43 117 918
Permanent differences	-3 171 462	-9 819 025
Changes in temporary differences	5 849 593	59 387
Taxable income	**-63 021 675**	**-52 877 556**
Payable tax in the balance		
Payable tax on this year's result	0	0
Total payable tax in the balance	**0**	**0**

The tax effect of temporary differences and loss for to be carried forward that has formed the basis for deferred tax and deferred tax advantages, specified on type of temporary differences

	2022	2021	Difference
Tangible assets	-4 040 612	-815 960	3 224 652
Allocations and more	-2 624 941	0	2 624 941
Total	**-6 665 553**	**-815 960**	**5 849 593**
Accumulated loss to be brought forward	-138 610 066	-75 588 392	63 021 675
Not included in the deferred tax calculation	145 275 620	76 404 352	-68 871 268
Deferred tax assets (22 %)	**0**	**0**	**0**

Deferred tax is not included in the balance sheet as the requirements for capitalization are not fullfilled.

Note 8 - Equity capital

	Share capital	Share premium reserve	Other paid-in equity capital	Total equity capital
As at 01.01.2022	**252 617**	**131 568 112**	**7 119 753**	**138 940 482**
Purchase Treasury shares		-271 232		-271 232
Sales Treasury shares		271 232	2 068	273 300
Subscription programme			1 548 615	1 548 615
Share based payments			3 006 947	3 006 947
Share based payment expense			511 146	511 146
Coverage of uncovered loss		-65 699 806		-65 699 806
As at 31.12.2022	**252 617**	**65 868 306**	**12 188 529**	**78 309 452**

Kyoto Group AS bought back 100 000 shares from its former employees who had acquired them through the subscription programme. These shares have been sold on to other key employees in the same year under the same model.

Note 9 - Tangible assets

	Construction under progress	Total
Acquisition cost 01.01	21 395 853	21 395 853
Additions	32 656 089	32 656 089
Disposals	0	0
Acquisition cost 31.12	**54 051 942**	**54 051 942**
Acc. depreciation/ impairment 31.12	0	0
Book value 31.12	**54 051 942**	**54 051 942**

The development costs related the project at Nordjyllandsverket have been split between the physical facility Heatcube and the technology behind the facility. The comparative figures has been reclassified for presentation purposes.

Amortisation of the asset begins when development is complete, and the asset is available for use. The asset will be amortized to the next 10 commericial projects estimated to be executed within 2 years.

Note 10 - Changes in the Group structure

In August, 2022, Kyoto Group AS acquired 100% of the voting shares in Kyoto Technology Spain S.L for EUR 100 000.

In addition to the cash consideration of EUR 100 000, it is agreed a conditional deferred payment for the shares upon the satisfaction of specific milestones on terms and conditions. The conditional deferred payment shall equal 1% of the sale price of each Heatcube sold by Kyoto Technology Spain S.L until December 31st , 2025, but maximum EUR 5,000,000 in total.

The deferred payment will be settled by granting the seller options to subscribe for new shares in Kyoto Group AS. The expenses are accrued over the period of May 31st, 2022, to December 31st, 2025, numbers shown in EUR. A discount rate of 8% has been used. The expense is accrued from allocation to the expected time of settlement in shares for each sale.

	2022	2023	2024	2025
Volume of Heatcube sales	0	5	7	11
Accumulated expense	286 000	675 000	872 000	943 000

Note 11 - Investments in subsidiaries

Investments in subsidiaries are booked according to the cost method.

Company	Location	Ownership/ voting rights	Acquistion cost	Result 2022	Equity 2022
Kyoto Technology Spain S.L.	Spain	100 %	4 001 582	-4 285 572	-4 254 031
Kyoto Technology Denmark ApS	Denmark	100 %	54 672	-1 306 454	-1 260 799
Total			**4 056 254**		

The acquisition cost of Kyoto Technology Spain S.L. of NOK 4 001 582 includes a variable consideration of NOK 3 006 947, ref. note 10. The reason for this is that the seller of Kyoto Technologies Spain S.L. is employed by this company and the shares linked to the deferred consideration are issued by Kyoto Group AS.

Note 12 - Intercompany balances

Receivables:	2022	2021
Kyoto Technology Denmark ApS	8 083 148	0
Kyoto Technology Spain S.L	5 151 171	0
Total	**13 234 319**	**0**

Payables:	2022	2021
Kyoto Technology Spain S.L	1 943 867	0
Total	**1 943 867**	**0**

The company has issued intercompany interest-bearing loans to its subsidiaries. The intereset rate is based on the three (3) month euribor interest rate + 1% margin.

Note 13 - Share and option programme

Subscription of shares for key personell
The company has a share subscription programme, which covers all employees in Kyoto Group AS. The shares subscribed through this model are subscribed for in a discounted price. At the subscription, the market value of the shares is considered to be the volume weighted average of the listed share price for the company's shares on Euronext Growth on the last trading day prior to the employee's subscription of shares. The residual amount between the subscription market value of the shares and the discounted price, with the addition of any interest calculated, constitutes an unconditional, deferred consideration for the shares to be paid to the company. The residual amount constitutes a receivable for the Company against the Employee, and it is interest bearing from the time of subscription, with an interest rate corresponding to the standard interest rate applicable according to the rules on subsidised loans under employment in the Norwegian Taxation Act section 5-12(4). The interest is calculated annually as of 31 January, and paid in arrears on 31 January of the following year, and no later than at the due date of the residual amount. As security for the residual Amount, Kyoto Group AS shall have the best available collateral in the employee's shares.

Prior to 2022, Kyoto had different terms for the subscription programme agreements than those that apply now. Among other things, the residual amount was not unconditional, and thus did not fulfill the requirements for balance sheet entry. At 31.12.2022, the residual amount in balance sheet is NOK 1 548 615, and presented as other non-current assets in the financial statement. The residual amount comes exclusively from the subscription programme agreements in 2022 under the new conditions.

The residual amount is due for payment upon the earlier of:
(i) 25th Aug 2025
(ii) the employee's settlement on the sale of the shares
(iii) the company's exercise of the right of purchase

As at 31.12.2022, 12 employees were included in the subscription programme, and the following was in hands of the management team;

Name	Purchase date	Purhase price	Shares	Paid (NOK)	Rest (NOK)
Camilla Nilsson (CEO)	01.02.2021	25	50 000	187 500	1 062 500
Bjarke Buchbjerg	25.02.2022	16,5	25 000	61 875	350 625
Agnieszka Sledz	25.02.2022	16,5	25 000	61 875	350 625
Henrik Holck-Clausen	25.02.2022	16,5	25 000	61 875	350 625
Tim de Haas	25.02.2022	16,5	25 000	61 875	350 625
			150 000	**435 000**	**2 465 000**

Share option programme
On March 2021, Kyoto Group AS approved issuance of up to 300 000 share options, whereby up to 150 000 share options may be issued to the board memebers. One option grants the holder the right to acquire one share in the company. The subscription price per share shall equal the subscription price per share in the Private Placement, plus 10%. The options may be exercicised between 1. March 2022 and 1 March 2023.

On July 2022, the Chairman of the Board and two board members were granted the share options:

Name	Opening balance 2022	Granted	Forfeited	Exercised	Ending balance 2022
Eivind Reiten (Chairman of the Board)	0	64 000	0	0	64 000
Hans Olav Kvalvaag (Board member)	0	32 000	0	0	32 000
Thorleif Enger (Board member)	0	32 000	0	0	32 000
	0	**128 000**	**0**	**0**	**128 000**

The fair value of the options is set on the grant date and expensed over the vesting period.
NOK 511 146 have been expensed in 2022. The fair value of options granted in 2022 was NOK 6,66 per option.

No options were forfeited or exercised during 2022. The outstanding options are subject to the following conditions:

Expiry date	Average strike price (NOK)	Number of share options
1 July 2024	19,18	128 000
	19,18	**128 000**

The fair value of the options has been calculated using Black & Scholes option-pricing model.

The calculations are based on the following assumptions:

Share price on the grant date
The share price is set to the stock exchange price on the grant date.

Volatility
It is assumed that historic volatility is an indication of future volatility. The expected volatility is therefore stipulated to be the same as the historic volatility, which equals a volatility of 62,3%.

The term of the option
It is assumed that 100 % of the holders will exercise the options once they are exercisable. The options are expected to have a term of two years.

Dividend
Dividend is not considered in this share option programme.

Risk-free interest rate
The risk-free interest rate is set equal to the interest rate on government bonds during the term of the option, i.e. 2,69% for 2022.

Note 14 - Restricted bank deposits, cash in hand etc.

	2022	**2021**
Bank deposit	9 701 918	117 022 332
Restricted funds deposited in the tax deduction account	1 395 095	573 734
Total cash in hand and restricted funds	**11 097 013**	**117 596 065**

Note 15 - Shareholders

The share capital in Kyoto Group AS as of 31.12.2022 consist of:

	Total	Face value	Entered
Ordinary shares	8 420 560	0,03	252 617
Total	**8 420 560**		**252 617**

Ownership structure (Shareholder with ownership > 1%)

The largest shareholders in % as of 31.12.2022 was:

	Ordinary	Owner interest	Share of votes
KB MANAGEMENT AS	900 760	10,70	10,70
HYDRO ENERGI INVEST AS	758 332	9,01	9,01
VALINOR AS	720 000	8,55	8,55
MØSBU AS	508 000	6,03	6,03
KONGSBERG INNOVASJON AS	485 161	5,76	5,76
ASIJU INVEST AS	431 751	5,13	5,13
DNB BANK ASA	316 630	3,76	3,76
INTERTRADE SHIPPING AS	240 000	2,85	2,85
AS CLIPPER	158 000	1,88	1,88
OSLO IDEATION AS	139 889	1,66	1,66
MUEN INVEST AS	133 923	1,59	1,59
UBS Switzerland AG	123 000	1,46	1,46
FREMR AS	123 000	1,46	1,46
Société Générale	120 000	1,43	1,43
STELLA INVEST AS	114 500	1,36	1,36
DSB HOLDING AS	98 334	1,17	1,17
NORDNET LIVSFORSIKRING AS	90 722	1,08	1,08
EKS SERV AS	80 000	0,95	0,95
SILVERCOIN INDUSTRIES AS	77 255	0,92	0,92
HELVIG HOLDING AS	74 481	0,88	0,88
Total >1% ownership share	**5 693 738**	**67,6 %**	**67,6 %**
Total other	2 726 822	32,4 %	32,4 %
Total numbers of shares	**8 420 560**	**100 %**	**100 %**

Shares owned by leading personnel:

	Position	Ordinary
Asiju Invest AS, Arne Erik Kristiansen	Board member	431 751
Curae Invest AS, Camilla Nilsson	CEO/General Manager	50 000
Agnieszka Sledz	Management team	25 000
Henrik Holck-Clausen	Management team	25 000
Bjarke Buchbjerg	Management team	25 000
Tim de Haas	Management team	25 000
Mocca Invest AS, Eivind Reiten	Chairman of the board	8 000
Thoeng AS, Thorleif Enger	Board member	24 000
Total number of shares		**613 751**

Note 16 - Government Grants

In 2022, Government grants have been granted for the Heatcube project through the Norwegian SkatteFUNN scheme. Grants related to project costs that are recognized in the balance sheet are presented as unearned income in the balance sheet. Grants for the part of the project costs that are expensed are entered as cost reduction.

The annual grant from SkatteFunn is a total of NOK 3 901 551, and NOK -1 276 610 has been entered as a cost reduction in P&L.

Note 17 - Non-current liabilities

In 2020, Kyoto Group AS received a loan of NOK 2 400 000 from Innovasjon Norge. The loan is treated as a serial loan and is to be repaid over 4 years. The loan is interest bearing with a nominal rate of 4,2% and a effective rate of 1,7% per year. The loan is free for installments for the first 15 terms and free of interest for the first 10 terms. Each term consists of three months and the first payment of interest is due in February 2023.

Note 18 - Post balance sheet events

On January 10th, 2023, the company announced a planned private placement of new shares in the company to increase capital. The private placement was successfully placed the same day, and the Board of Directors allocated subscriptions for 3 428 571 offer shares at a subscription price of NOK 17.50, raising NOK 60 million i gross proceeds.

There have been no other events to date in 2023 that significantly affect the results for 2022 or valuation of the company's assets and liabilities at the balance sheet date.

Note 19 - Funding plans and Going concern

The company pursues funding efforts to secure the growth ambitions of the company as we now are at the doorstep of market breakthrough. This implies to secure a cash runway of at least 2 years through a combination of raising additional equity from strategic industrial partners as well as entering into agreements with 1-2 financial providers to secure debt funding to the company. Failing to secure funding will create uncertainty about the Company's ability to secure going concern as well as restricting the growth ambitions of Kyoto.

All of this is currently ongoing, we are in process of detailed discussions with selected strategic industrial investors, contributing to new equity through a directed share issue. This will be followed by entering into new corporate debt funding depending on the need. A full-fledged execution of this plan will secure necessary funding for at least two years and take Kyoto a major step towards EBITDA break-even in 2025. Kyoto Group needs to be securing additional funding early in Q3 2023.

The financial statements for 2022 have been prepared on the basis that the conditions for the going concern assumption have been satisfied, and the Kyoto Leadership team and Kyoto Board is optimistic about the possibilities of successfully delivering on the funding plan described above.

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Kyoto Group AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kyoto Group AS (the Company) which comprise the financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries (the Group). The financial statements of the Company comprise the balance sheet as at 31 December 2022 and the income statement and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements of the Group comprise the balance sheet as at 31 December 2022, the income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion

- the financial statements comply with applicable legal requirements,
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2022 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway,
- the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2022 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the requirements of the relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to note 23 in the consolidated financial statement and note 19 in Kyoto Group AS' financial statement. The conditions and matters set forth in note 23 and 19 indicate that uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Other information consists of the information included in the annual report other than the financial statements and our auditor's report thereon. Management (the board of directors and the general

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manager) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the board of directors' report contains the information required by legal requirements and whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information or that the information required by legal requirements is not included, we are required to report that fact.

We have nothing to report in this regard, and in our opinion, the board of directors' report is consistent with the financial statements and contains the information required by applicable legal requirements.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway and of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or the Group, or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to

draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

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

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

Drammen, April 24th 2023
ERNST & YOUNG AS

Thomas Karlsen
State Authorised Public Accountant (Norway)

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