ANNUAL REPORT 2022

Azelio AB (publ)
556714-7607

Azelio issues all its reports in Swedish language. This report is a direct un-authorized translation of the issued Swedish Annual Report 2022.

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About the report

Azelio's annual report for 2022 is issued by the Board and the CEO for Azelio AB (publ). The annual financial report can be found on pages 15–55 and has been audited by Azelio's external auditors.

Azelio in brief

Azelio contributes to a renewable society

The transition to renewable energy is crucial to meet society's growing energy needs and to limit global warming to 1.5°C. Making this possible requires energy storage – which needs to take a greater role in energy systems – to take full advantage of renewable energy sources. Azelio's solution stores renewable energy and makes it available when and where it is needed. In this way, Azelio contributes to the development of a renewable society - for people, businesses, and the planet.

Long-term storage key to tomorrow's electricity system

Long-term energy storage will be a central part of tomorrow's energy infrastructure – to balance conventional electricity grids with a greater element of renewable energy, to interact with short-term battery storage and replace fossil decentralized solutions.

TES.POD® – a sustainable solution

Azelio's solution, TES.POD® (Thermal Energy Storage - Power on Demand) is a system for long-duration energy storage that provides access to clean energy, on-grid and off-grid 24 hours a day. The system stores energy as heat in recycled aluminium and converts it into electricity without emissions, while at the same time also generating heat.

Scalable and competitive

The system is scalable and very competitive from 0.1 MW and upwards. It is well suited for supplying mines, agriculture, various types of commercial and industrial activities, resorts and smaller communities, with clean energy in distributed decentralized systems.

Azelio – a Swedish cleantech company

Azelio is a Swedish cleantech company with a unique innovation that can make a significant contribution to the global energy transition. The Company operates in MENA, Southern Africa, Australia and the USA. With headquarters in Gothenburg and production facilities on the Swedish west coast, the business is located in an area with high-tech engineering, qualified suppliers and a strong industrial tradition.

Significant events in 2022

Jonas Wallmander appointed CEO

On March 30, Jonas Wallmander was appointed CEO of Azelio. Prior to that, Jonas had, since 2011, held a number of different leadership roles within the Company. Jonas Wallmander succeeded Jonas Eklind, who had been Azelio's CEO since 2015.

New operational targets

A strategic review of the Company that began when Jonas Wallmander took over as CEO, led, among other things, to the presentation of new operational targets for Azelio in the spring of 2022. The target presented for 2023 has since been withdrawn due to the fact that sales development has been slower than expected.

Transformed organization and reduced costs

Another part of the strategic review of the Company was a transformation of the organization and reduced costs. This was communicated in June 2022 and led to a staff reduction and a cost reduction of SEK 150 million on an annual basis. At the same time, several initiatives were taken to streamline the organization.

Orders

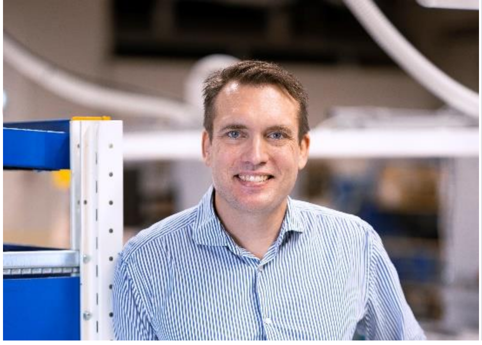
In 2022, Azelio took its first orders in two of the focused target markets, the US and Australia (conditional). These were important orders to begin establishment in these markets. Currently, the Company sees the greatest opportunities for scaling up sales in the near future in the focus markets southern Africa and MENA.

Demonstration of CHP

The Company's combined heat and power (CHP) solution provides the ability to supply heat at the same time as electricity. Many applications also need heat and thus Azelio's solution becomes even more attractive and competitive for customers with these needs. The solution for CHP was successfully demonstrated at Haneberg farm in Sweden, in a collaborative project with the Swedish Energy Agency.

Financing

During the autumn of 2022, the Company carried out a rights issue of approximately SEK 300 million, which provided the Company with approximately SEK 250 million after issue costs. In January 2023, the Company communicated that additional financing is needed during the first half of 2023.



"We are fully focused on completing the negotiations regarding the potential strategic collaboration."

Jonas Wallmander, CEO

Focus in focus in 2022 and beyond

The overarching theme in 2022 has been to focus Azelio's operations. We have directed our time and resources towards the initiatives where the greatest possible impact can be achieved, within the foreseeable future. Despite the major challenges we faced in 2022, we made it through them – making important progress on our development and commercialization journey. We continue the work towards reaching full commercialization, and we are getting closer.

Energy storage is the key to the energy transition

The energy transition is becoming increasingly noticeable, worldwide. States and institutions are increasing both the requirements for, and the incentives for, switching to renewable energy sources. Being able to store and deliver renewable energy cost-effectively is the very key and enabler of the energy transition. Currently, only a limited number of companies have a validated technology for long-duration energy storage that is commercially viable and available. Azelio is one of those companies, which gives us a strong position to proceed from.

But as with all breakthrough technologies, it takes time to establish them at scale. The sector is still in a formative stage, which means that you need to balance persistence and patience with proactivity and revisions. From that perspective, 2022 was a very important year, when we began to take the necessary measures to ensure a long-term competitive Azelio, which we continued to build on in 2023.

Milestones laying the foundation for the next step

At the end of the first quarter of 2022, I took over as CEO, after more than a decade at Azelio. It is a role that I am proud and happy to shoulder and a responsibility that I take on with great humility. The first step in the role as CEO included initiating a strategic review of the business together with the board and management team. This resulted in updated goals, cost reduction initiatives of SEK 150 million an annualized basis which we now see that we have met, and a transformation and reduction of the organization. We also carried out a rights issue and thereby secured approximately SEK 250 million after issue costs.

In 2022 we achieved a number of important milestones as we secured our first order in the US (Handi Stop Market), a conditional order in Australia (MPG Built) and started the installation of the project at Wee Bee Ltd in South Africa. Another important milestone was the demonstration of the cogeneration solution (CHP, Combined Heat and Power) which was done in a project together with the Swedish Energy Agency at Haneberg farm in Sweden.

In the spring of 2023, DNV issued an availability report that shows an availability of Azelio's energy storage system of 98 percent over a three-month period when planned stops are excluded. In addition, one of the TES.POD units at Masdar and Khalifa University in Abu Dhabi has passed the one-year operational milestone in the spring. These milestones constitute important points of evidence in the current situation.

Revisions along the way

Converting business discussions into signed agreements has proven to take longer time than previously expected. Against this background, since the end of 2022 we have addressed and managed three aspects.

- Operational objectives: The operational objectives mentioned above have been removed. We have chosen not to set new goals, as these are not considered to be able to provide a fair direction for Azelio's future steps in the near term. Azelio is currently fully focused on finalizing negotiations with the strategic partner mentioned below.
- Financing: As the time when positive cash flow will be achieved is delayed, Azelio needs additional financing in 2023. Azelio has obtained a loan of SEK 30 million from the main owner and intends to carry out a rights issue of approximately SEK 80 million, where SEK 30 million is guaranteed by the loan. Furthermore, we assume that additional financing will be needed in the future to ensure the Company's long-term and future capital needs.
- Organization: To enable Azelio's long-term operations and competitiveness, we have had to make further organizational changes to reduce the cost structure. With further cost reductions of SEK 100 million at an annualized basis, we now have an organization that is sufficiently focused financially and possesses sufficiently high competence and capacity to meet current as well as future commitments.

The strategic partnership in focus for 2023

In May 2023, we informed about negotiations for a strategic partnership. My view, and that of the entire Company, is that this represents a significant opportunity for Azelio to achieve its commercial breakthrough. Full focus is now on completing the negotiations with the strategic partner. This is, considering our environment and Azelio's position, the best way forward. We have a common ambition to reach a declaration of intent during the summer and then a final agreement during the fall. I hope that we can return shortly with positive news regarding the declaration of intent. In a next step, the agreement is expected to include a significant commercial order with a significant advance payment, but also components relating to commercial and industrial cooperation. I hope and believe that this will represent a significant step in Azelio's commercialization. We will continue to face challenges along the way, and we stand humble and well equipped to face them. I feel confident in the experience, competence, and technology that Azelio possesses. And I am proud of our organization, our ability to adapt to new conditions and our dedicated work towards becoming an important player in the transition to a sustainable and renewable energy system.

Jonas Wallmander, CEO

Market

Clean electricity for future generations

The world continues to evolve and more and more people have access to an electricity grid. However, the use of renewable energy must increase significantly for this growing electrified society to operate sustainably and for global warming to be limited to 1.5°C.

Energy sources such as solar and wind produce energy during the parts of the day when the sun shines or the wind blows. However, we find it difficult to limit our energy use to these times, which puts pressure on the electricity grids through sharp fluctuations in production, fluctuating electricity prices and grid balancing costs. The transition to renewable energy is therefore a gamechanger also for energy infrastructure.

The capacity for long-duration energy storage needs to be expanded in order to stop using fossil fuels, manage deficits in electricity production and at the same time counteract imbalances in the electricity grid. The installed capacity for such energy storage needs to increase to 85–140 TWh by 2040, to 10% of the earth's electricity consumption. Such an expansion is estimated to reduce global emissions by up to 2.3 gigatonnes of carbon dioxide equivalents, according to a report from the Long Duration Energy Storage Council, www.ldescouncil.com.

Many lack access to electricity

Around two billion people worldwide lack access to reliable electricity supply, i.e. electricity supply throughout the day and without recurring power cuts. Of these two billion, 770 million have no access to an electricity grid at all. A reliable electricity supply is necessary for economic and social development, which is why the UN has made Sustainable Energy for All one of the 17 global sustainability goals. In sub-Saharan Africa, half the population has no access to electricity. Read more about the UN's Sustainable Energy for All goals, here: https://www.seforall.org/sustainable-development-goal-7-sdg7.

Renewable electricity is growing rapidly

The increasing use of renewable energy has several causes, but its increasing cost-effectiveness is of considerable importance. In 2021, renewable energy accounted for almost 29 percent of total electricity generation. Solar energy is in many parts of the world cheaper to produce than coal power. The fact that more and more countries are adopting targets to reach net zero emissions is another important driver of the green transition – there is 1.7 times more investment in clean energy than in fossil energy. Read more about how energy markets are developing in the IEA's World Energy Outlook 2022 report, available here: www.iea.org/reports/world-energy-outlook-2022, and about the development of energy investments in the IEA's World Energy Investment 2023 report, available here: https://www.iea.org/reports/world-energy-investment-2023.

Distributed electricity generation

Giving more people access to stable electricity grids is today usually done both fastest and most cost-effectively by constructing systems for so-called distributed and dispatchable electricity production with small local and self-sufficient grids, so-called micro grids or mini grids. The systems often contain solar and wind power, which today are supplemented with diesel generators as base power.

Energy storage expected to play a key role

Energy storage is expected to play a key role in the transition from fossil to renewable energy sources. Energy storage can be used to balance the electricity grids when the share of renewable energy increases both in traditional electricity grids and in new mini grids, and to shift production over the day, according to weather conditions and in the event of highly varying electricity tariffs and high carbon dioxide taxes.

Focus markets

The Company's initial focus geographies consist of regions that have a need for distributed energy storage for long-duration electricity production (exceeding ten hours on rated power), that have access to low-cost storage sources and for which the alternative costs of electricity generation are high. The lowest energy storage costs on the market are often obtained by charging the storage with electricity generated from photovoltaics. Therefore, regions with high solar radiation and high alternative electricity generation costs are interesting as initial target markets for Azelio's systems.

The Company currently focuses on the Middle East and North Africa ("MENA") and southern Africa. The US is expected to be the largest market for Azelio's energy storage system in the long term. Australia is also expected to become an important market in the long term. In the longer term, the Company will broaden its work towards more markets.

Business model

Azelio offers an energy storage system TES. POD for long-term energy storage with controllable production of sustainable electricity and heat around the clock. The Company owns all unique product design for the system and currently has 27 patents protecting the solution. Azelio carries out final assembly of the Stirling engine in-house at the Company's plant in Uddevalla, while subcontractors produce the system's components and assemble the bearing unit and other subsystems. Azelio's systems are offered to customers in the global market with an initial focus on installations of 0.1 to 20 MW and in the longer term on projects up to 100 MW. The Company focuses primarily on selling systems to project development companies responsible for installation and commissioning.

Revenue model

Azelio is a supplier that sells systems to others, either direct customers or to partners who integrate them into solutions for third-party customers.

Long-term goals

Azelio's goal is to drive the development of a renewable society. The Company drives innovation, growth, and prosperity by storing renewable energy and making it available at all hours of the day.

Financial targets

The Company's long-term target is to achieve an EBIT margin of at least 15 percent.

Strategic partnerships

Azelio has several international partners who share the vision of improving the world's energy supply with more efficient, sustainable, and reliable solutions. We cooperate in research and development, production, installation, industrialization, validation, and business development. With different starting points and focus on renewable energy, the cooperation results in mutual trust. Azelio strives to create value for the Company and its partners in various local projects and for partners to use each other's skills to gain influence in different markets.

Masen

Masen (Moroccan Agency for Sustainable Energy) has been a strategic partner to Azelio since 2016, and since 2018 Masen also has a representative on the board. Masen, which is state-controlled, drives Morocco's overall strategy towards a sustainable energy mix and is responsible for Morocco's goal of 52 percent of the country's energy coming from renewable energy sources by 2030. Masen contributes with valuable knowledge about the solar energy market. Through Masen, Azelio gains access to a large network of established companies and stakeholders in renewable energy, as well as to suppliers for local purchasing and production. The Company has a research and development platform in one of the world's leading solar parks, the Ouarzazate Solar Power Station in Morocco, with a capacity of 580 MW. Since 2016, Azelio has a pilot plant of 13 kW in the solar park in Ouarzazate and since 2019 there are also two TES.POD units. However, due to the travel restrictions imposed in the context of the COVID-19 pandemic, this project could not be carried out as planned and is not operational.

Masdar and Khalifa University

In 2019, Azelio entered a research collaboration with Masdar and Khalifa University on a pilot project to evaluate and demonstrate TES.POD with the aim of including the energy storage system in Masdar's product portfolio. In the spring of 2022, this verification project was launched in Abu Dhabi. Masdar is one of the world's leading companies in development, installation, and operation of renewable energy systems.

Ongoing discussion

Azelio is negotiating with a major international player with extensive ambitions in renewable energy for a potential strategic collaboration, as communicated in May. The strategic partnership is expected to include a significant order as well as both commercial and industrial cooperation. The collaboration is expected to be of great importance for the Company's continued industrialization.

Technology

How the system works

With long-duration energy storage, energy is moved from when it is available to when it is needed. With this focus, Azelio has developed a unique energy storage solution TES.POD, which stores energy as heat and then transfers the heat to a Stirling engine that drives a generator for the delivery of electricity and heat when needed, cost-effectively around the clock and completely without emissions.

TES.POD stores the heat with a phase-change material made of recycled aluminum. Aluminum has a high energy density and is an excellent material for storing and retaining heat for longer periods. The aluminum storage also has the competitive advantage over other storage technologies that its capacity does not deteriorate over time despite full charge and discharge cycles.

The solution is agnostic regarding energy sources and geographies. It is scalable and competitive from 0.1 up to 100 MW, allowing us to meet customer needs in a wide range of sectors, from small to large-scale. Engineered, designed, and manufactured in Sweden – installed all over the world.

A unique Stirling engine

Stirling engines make use of heat differences to power a generator and produce electricity. The engine is powered by heat and is completely free of emissions. Azelio's unique Stirling engine has been developed over 25 years with more than two million accumulated operating hours. The engine converts heat into electricity via a generator with an efficiency of about 30 percent and reaches an efficiency of as high as 90 percent using the 55–65 degree heat generated by the system. The system is competitive when using only electricity, but the heat also has many applications, including industrial processes, for desalination of water and for creating cooling, where the system becomes even more unique and value-creating for customers.

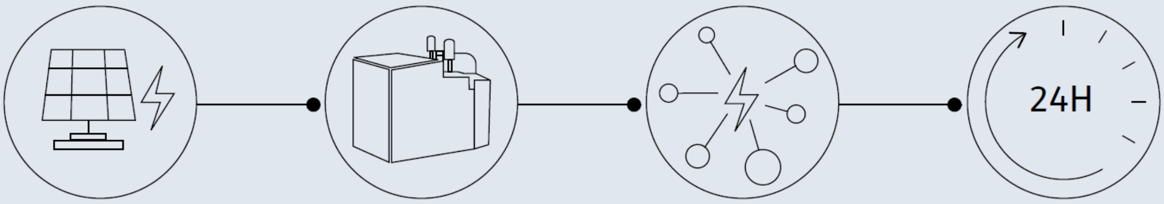
Competitive advantages

Developed for renewable energy

The transition to renewable energy is a necessity for a sustainable world, now and for future generations. As the development looks today, renewable production increases the load on today's conventional electricity grids through its production fluctuations, which also results in fluctuating electricity prices and high grid balancing costs. By making renewable energy controllable and available when needed, Azelio's energy storage for use around the clock is the complete and scalable solution that can unlock the potential of sustainable energy by making it available to everyone.
The solution can cost-effectively store and deliver energy over time periods exceeding a few hours and is thus classified as an LDES technology (long-duration energy storage), and is more cost-effective than, for example, Li-ion batteries when the need for stored energy exceeds a few hours.

Well suited for distributed electricity generation

The system is robust and competitive even for smaller installations from 0.1 and up to 100 MW. It has components that require minimal maintenance and a modular design that can be customized to the customer's needs. It is therefore well suited for a variety of projects and can be used in areas that lack access to reliable electricity grids and are currently dependent on diesel generators. TES.POD enables a cleaner, more affordable and more reliable energy storage solution that creates a new energy infrastructure beyond the conventional power grid.



CHARGED
Charged with electricity from renewable sources such as solar PV.

STORED
Energy is stored as heat in a recycled aluminium alloy, with phase change at 600°C (1110°F).

DISPATCHED
The stored heat is dispatched to a Stirling engine on demand, generating electricity and low-temperature heat 55–65ºC (130–150°F).

AVAILABLE ON DEMAND
Clean power available on demand at all hours of the day. Emission free, and at a significantly lower cost than Li-ion batteries and fossil alternatives.

Production

TES.POD is designed to be manufactured in high volumes, with methodology taken from the automotive industry. Production started in 2021. Azelio has a production facility in Uddevalla, which was acquired from Volvo Cars in 2013. In this plant, the Stirling engine is assembled. The capacity at the plant is 23,000 units per year, at 5 shifts and after some adaptations. If necessary, the facility can also be expanded.

The storage unit is assembled at AQ Enclosure Systems in Vaggeryd, Småland, Sweden. Stena Aluminium, among other companies, is in the vicinity, supplying recycled aluminum that functions as storage media.

The final assembly of TES.POD takes place at the project site.

The share

Listing

Azelio's share has been listed on Nasdaq First North Growth Market since 10 December 2018.

Share capital

The number of outstanding shares on 31 December 2022 amounted to 318,662,246 (115,877,180) and the share capital to 159,331 KSEK (57,939 KSEK). The share capital increased at the rights issue that closed in October.
At year-end there were 49,075,962 warrants, issued in six different series with exercise prices from SEK 0.50 to SEK 124.50. Upon full conversion of all warrants, the number of shares increases by 35,374,115.

Dividend policy

The Company has not paid any dividend to date. Any future dividend and its size will be determined based on long-term growth, earnings development, and capital requirements. The Board of Directors believes that the Company should prioritize the development of the Company's system and until the Company generates sufficient revenues the financial resources should primarily be used to finance the Company's business, research, and development plan. In view of Azelio's financial position and negative results, the Board of Directors does not intend to propose any dividend before the Company generates long-term, sustainable earnings and positive cash flow. Any dividend will, in so far as it is proposed, be set against the business risk of operations.

Ownership structure

On December 31, 2022, Azelio had 43,350 shareholders. The largest owner was Kent Janér and related parties and companies (Blue Marlin), with approximately 11.3 percent of the capital and votes.

The ten largest shareholders as of December 31, 2022

Owner	Number of shares	Ownership share
Kent Janér (mainly through Blue Marlin AB)	36,005,724	11.3%
Avanza Pension	18,638,268	5.8%
CVI Investments Inc	18,165,526	5.7%
Jim O'Neill	8,762,798	2.8%
Patrik Björn	7,650,000	2.4%
Nordnet Pensionsförsäkring	4,900,532	1.5%
Braginsky Family Office AG	4,700,000	1.5%
Theodor Jeansson Jr.	3,500,000	1.1%
Göran Källebo	3,493,804	1.1%
Riccardo Sforzini	3,483,500	1.1%
Sum	**109,300,152**	**34.3%**

Source: Monitor by Modular Finance AB.

Board

The information below is current at the publication of this report.

Bo Dankis, Chairman

Born 1954. Elected 2011.

Education: Master of Science in Industrial Engineering and Management from the Institute of Technology at Linköping University.

Other assignments: Board member of Kapitalförvaltning Ekeby AB.

Previous assignments: Chairman of the Board Gadelius Holding, Business Sweden and Perstorp. Board member Gunnebo AB, ASSA ABLOY AB, Ekeby Invest AB, IV Product Holding AB and IV Product Holding Sweden AB. CEO Perstorp and ASSA ABLOY AB. Country Manager ABB Japan.

Independent of the Company and senior executives. Independent in relation to the Company's major shareholders.

Shareholding in the Company: 1,299,240 shares (directly and through companies) and 200,000 warrants.

Hicham Bouzekri

Born 1973. Elected in 2018.

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

Other assignments: Head of Research and Development, Industrial Integration Masen. President Board of Directors IFMEREE.

Previous assignments: CEO of MASciR.

Not independent of the Company and senior executives. Independent in relation to the Company's major shareholders.

Shareholding in the Company: 25,709 shares and 90,000 warrants.

Elaine Grunewald

Born 1967. Elected 2021.

Education: M.A. International Relations; M.A. Resource and Environmental Management, Boston University

Other assignments: Senior Advisor Rockton, Zunum Aero. Founder and Chairman of Emphco AB.

Previous assignments: Senior Vice President and Chief Sustainability and Public Affairs Officer Ericsson AB. Founder AI Sustainability Center. Board member of European Sustainable Growth Acquisition Corp., Sweco.

Independent of the Company and senior executives. Independent in relation to the Company's major shareholders.

Shareholding in the Company: 184,000 shares, 50,000 warrants and 300,000 call options.

Kent Janér

Born 1961. Elected in 2016.

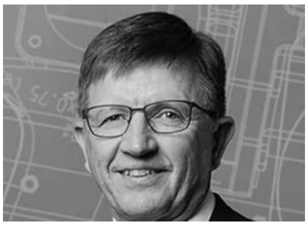
Education: Master of Science in Business and Economics, Stockholm School of Economics.

Other assignments: Chairman of the Board of Blue Marlin AB, Board member Eastfort Asset Management Ltd and two related entities.

Previous assignments: Chairman of the Board of Frost Asset Management AB and Nektar Asset Management AB, Board member Brummer & Partners AB.

Independent of the Company and senior executives. Not independent in relation to the Company's major shareholders.

Shareholding in the Company: 38,563,211 shares (directly and through companies) and 0 warrants.



Hans Ola Meyer

Born 1955. Elected 2021.

Education: Master of Science in Business and Economics, Stockholm School of Economics

Other assignments: Board member of Electrolux Professional AB.

Previous assignments: Chief Financial Officer, Atlas Copco AB, 1999 - 2021; Vice President PM Fondkommission AB/JP Bank, 1987 – 1991.

Independent of the Company and senior executives. Independent in relation to the Company's major shareholders.

Shareholding in the Company: 315,000 shares, 90,000 warrants and 300,000 call options.

Pär Nuder

Born 1963. Elected 2012.

Education: Master of Law., Stockholm University

Other assignments: Chairman of the Board of Aimo Holding AB, Qarlbo Energy AB. Board member of TPPG The Perimeter Protection Group AB, Dabok Advisory AB. Deputy board member of Dabo Idé AB.

Previous assignments: Chairman of the Board Sundbybergs stadshus AB, I&P Förvaltning AB, Fjällförsäkringar AB, SkiStar Aktiebolag, AMF Pensionsförsäkring AB, Tapetlagret Öbergs Färghus in Västerås Aktiebolag, Tredje AP-fonden and Hemsö Fastighets AB. Board member of Beijerinvest Aktiebolag, Swedegas AB, IP-Only AB, Nyx Security AB, Knubbsäl Midholding AB, STEN HECKSCHER AB, Knubbsäl Holding AB, Narob TopHolding AB, Nyx Group AB, Business Challenge AB, IP-Only Holding AB, Fabege AB and Åre 2019 AB.

Independent of the Company and senior executives. Independent in relation to the Company's major shareholders.

Shareholding in the Company: 1,973,248 shares (directly and through companies) and 90,000 warrants.

Bertil Villard

Born 1952. Elected 2010.

Education: Education: Master of Law, Stockholm University.

Other assignments: Chairman of the Board strax AB, Landsort Care 4 AB. Board member Bertil Villard Holding AB, Polaris Management A/S, Polaris Invest II ApS, Polaris II Invest Fonden, iCoate Medtech AB and Greta Hamiltons Familjestiftelse.

Previous assignments: Partner and external signatory Advokatfirman Vinge Aktiebolag. Chairman of the Board of Landsort Care AB, Landsort Care 2 AB, Landsort Care 3 AB and Rabbalshede Kraft AB (publ). Board member of ECODC AB, Gränges AB, Prior & Nilsson Fond- och Kapitalförvaltning Aktiebolag, Mercuri International Group AB, SamSari Aktiebolag, Auriant Mining AB and Samsari Act Group AB.

Independent of the Company and senior executives. Independent in relation to the Company's major shareholders.

Shareholding in the Company: 1,718,477 shares (directly and through companies) and 90,000 warrants.

Management

The information below is current at the publication of this report.

Jonas Wallmander (CEO)

Born: 1976. CEO since 2022.

Education: Master of Science in Mechanical Engineering, Linköping University of Technology. Senior Executive Program, Business Administration, Management and Operations, London Business School.

Other current assignments: –

Previous positions (last 5 years): Executive Vice President, VP Partners & Collaborations, and COO of Azelio.

Shareholding in the Company: 66,361 shares and 655,000 warrants.

Gustaf Albèrt (CFO from 12 April 2023)

Born: 1968. CFO since 2023.

Education: Master of Science in International Accounting and Auditing and Degree of Master of Science in Business and Economics at School of Business, Economics and Law at University of Gothenburg.

Other current assignments: Board member and vice chairman of Aqilion AB (publ).

Previous positions (last 5 years): CFO and Deputy CEO at Isofol Medical AB (publ)

Shareholding in the Company: 32,041 shares and 0 warrants.

Torbjörn Lindquist (CTO)

Born: 1969. CTO since 2017.

Education: Master of Science in Mechanical Engineering, Lund University of Technology. PhD in Engineering, Energy Technology, Mechanical Engineering, Lund University, Lund University.

Other current assignments: –

Previous positions (last 5 years): –

Shareholding in the Company: 3,331 shares and 350,000 warrants.

Lars Murgård (VP Product Delivery)

Born: 1964. VP since 2021.

Education: Master of Science in Mechanical Engineering, Lund University of Technology.

Other current assignments: Board member of Murgard Management AB.

Previous positions (last 5 years): Chief Program Engineer, Powertrain Systems and Chassis Engineering in Jaguar Land Rover PLC. Vice President, Powertrain Integration, in CEVT AB.

Shareholding in the Company: 23,632 shares and 100,000 warrants.

Lena Emriksson (VP Operational Excellence)

Born: 1976. VP Operational Excellence since 2022.

Education: Master of Science in Industrial Engineering and Management, Luleå University of Technology.

Other current assignments: –

Previous positions (last 5 years): Manager, Ways of Working and Improvement Projects, Semcon AB.

Shareholding in the Company: 3,072 shares and 100,000 warrants.

Administration report

The Board of Directors and the CEO of Azelio AB (publ.), corporate identity number 556714-7607, hereby present the Annual Report and consolidated financial statements for the financial year 1 January 2022 to 31 December 2022.

As of December 31, 2022, the Group consisted of the parent company Azelio AB (publ.), domiciled in Gothenburg and two subsidiaries, see also note 38.

Operations

Azelio offers a system for thermal storage of renewable energy with delivery of sustainable electricity and heat when needed, around the clock at a low cost.

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

Initially Azelio may pursue jointly owned projects in cooperation with third parties to establish the technology in the market. In the longer term – once Azelio's system and technology have been established and proven – Azelio will act as technology provider, sell the technology, and provide training in how to build a successful, commercially viable project.

In smaller installations, Azelio sells the system directly to the end customer and, in mid-size and large-scale installations, to EPC (Engineering, Procurement and Construction) suppliers, who then account for the installation. Initially, Azelio will participate in the start-up phase of new installations to train EPC contractors in successful system installation and maintenance. In addition to system sales, Azelio also offers monitoring, maintenance, upgrades, and servicing of the system.

Market

Azelio's systems are offered to customers on the global energy market, initially to customers who build projects in southern Africa, MENA, the USA and Australia with installation sizes ranging from 0.1 MW to 20 MW.

In the longer term, Azelio intends to offer its system globally to customers in countries with a demand for dispatchable electricity production.

Development of operations in 2022

Partners and customers

Two commercial TES.POD units were inaugurated together with Masdar and Khalifa University in a joint demonstration project in Abu Dhabi at the beginning of the year.

During the summer, Azelio received its first order for its energy storage system in the US. The customer, Handi Stop Market in California, will combine two TES.POD units with solar energy to cover half the energy needs of one of its stations. The plan is now for the solar energy part to be installed in 2023 and then supplemented with the TES.POD units for energy storage in 2024.

In late summer/autumn, Azelio's combined heat and power (CHP) solution was demonstrated in a project together with the Swedish Energy Agency at Haneberg Gård in Sweden. At the same time as electricity was supplied to the customer, heat from the system was also used to reduce oil consumption when drying grain. After the project had successfully demonstrated the solution, the project was terminated. Azelio also published a white paper based on this project.

Azelio and Elum Energy initiated a collaboration to develop optimized control of energy systems including Azelio's energy storage technology.

The installation at Industrisupport i Åmål AB was put into operation in September. The order was announced on March 29, 2021 and includes two TES. POD units that are charged using solar PV and move excess energy to match demand and create renewable baseload power. The system will also provide Industrisupport i Åmål AB with heat that also reduces dependence on the district heating network.

Towards the end of the year, the creation of SAVE Cleantech Utilities, a collaboration between Azelio, Engazaat and Mascara NT, was announced with the aim of providing innovative solutions for farmers in desert areas off the grid, to solve the challenges of water, energy and food.

The complete microgrid that supplies the visitor center at the fourth phase of Mohamed Bin Rashid Al Maktoum (Noor Energy1) with clean electricity, was put into operation. The microgrid, which is off-grid, was delivered by ALEC Energy and includes Azelio's TES.POD system.

At the end of November, Azelio signed a conditional order in Australia to provide energy as a service based on five TES.POD units combined with solar energy. Electricity will be supplied to the customer MPG Built based on an EaaS (Energy-as-a-Service) arrangement. The photovoltaic part of the system is expected to be installed and commissioned in 2023. Delivery of the energy

storage system, and start of operation of the entire energy system, is expected in 2024.
Installation and commissioning of the system at the customer Wee Bee in South Africa began during the year.

Technology and patents

CE certification is in place and the work to certify for the US market is ongoing.
The Company was granted four new patents in 2022 in the US and South Africa as well as in Sweden. So far in 2023, the Company has been granted three new patents in China, South Africa and Sweden. The Company thus has, per 25 May 2023, 27 registered patents and several ongoing patent applications.

Production

The TES.POD is designed to be manufactured in high volumes, using methodology taken from the automotive industry. Production started in 2021 and volumes are planned to gradually increase. The volumes in 2022 have however remained low.

Azelio has a production facility in Uddevalla that was acquired from Volvo Cars in 2013. In 2022, this has been expanded with capacity for coating the tanks containing the aluminum in which the energy is stored. The final assembly of TES.POD system is performed at the project site.

Financing

During the fall of 2022, the Company carried out a rights issue of approximately SEK 300 million, which added approximately SEK 250 million to the Company after issue costs.

Organization

Jonas Wallmander took over as CEO of Azelio in March, and Eva Ramström took over as acting CFO in June.
As part of a strategic review of the Company, a transformation of the organization was done. This led to a staff reduction of a total of 123 people (55 employees and 68 consultants).
Azelio's subsidiary in China, Cleanergy (Beijing) New Energy Technology Co.Ltd, Kina, was liquidated in 2022.

Significant events after the end of the financial year

- In January, Azelio announced that sales of the Company's energy storage system have been slower than previously assumed. This affects the cash flow of the Company. The consequence of the delayed sales and its impact on cash flow led to the announcement from the Company that the delivery target that was set for 2023 will not be met, and that the Company will need additional financing during the second quarter of 2023.
- Gustaf Albèrt was appointed new CFO of Azelio in February and took up his position on 12 April.
- On May 2, the Company communicated about its capital raising plans and process, which include both a loan and the intention to carry out a rights issue. A loan of SEK 30 million has been received from the Company's principal shareholder. The loan is on market terms and constitutes a subscription and guarantee commitment in the rights issue. Repayment will be made on that part of the loan, if any, that cannot be used for settlement in the upcoming rights issue. Guarantor compensation is not issued. Azelio's Board of Directors intends to resolve on a rights issue of approximately SEK 80 million, of which SEK 30 million is guaranteed by the above-mentioned loan. An extraordinary general meeting was held on June 2, 2023, where the loan described above, and the necessary adjustments to enable the rights issue, were approved.
- On May 2, it was also announced that the Company is negotiating a strategic partnership that may include a significant commercial order as well as commercial and industrial cooperation. The strategic partner is a major international player with extensive ambitions in renewable energy. The negotiations on a long-term strategic partnership are taking place in two stages, with the parties having a common ambition to reach a declaration of intent during the summer and a final agreement in the autumn of this year.
- Cost reduction measures were also communicated on 2 May. Azelio is implementing several measures, including staff reductions and organisational changes, to reduce its costs. Today, the Company's assessment is that the measures, when fully implemented, will lead to cost reductions of approximately SEK 100 million on an annualized basis, of which staff reductions (employees and consultants) correspond to approximately SEK 65 million.
- Two new subsidiaries were registered in the first quarter of 2023, Azelio Inc. in the US and Azelio APAC Pty Ltd in Australia.
- In April, the Disciplinary Committee at Nasdaq Stockholm inflicted the Company to pay a fine equivalent to two annual fees. The background is the press release that the Company published on November 18, 2022, at 13.30, where the Company informed that information about a potential project, which was under negotiation, had been presented at a webinar the same day.
- In connection with the publication of the interim report for the first quarter of 2023, it appeared that the Company had approximately three months of liquidity, and as a result of this the Company was added to Nasdaq's observation list.
- On March 1, Azelio announced the outcome of the exercise of warrants of series TO33. A total of 8,195,732 warrants of series TO33 were exercised for the subscription of 8,195,732 shares at a subscription price corresponding to the quota value of SEK 0.51 per share. Through the exercise of the warrants of series TO33, Azelio received approximately SEK 4.2 million before issue costs.
- The extraordinary general meeting on June 2 decided, in accordance with the board's proposal, to approve a loan agreement between the Company and the Company's main owner and board member, Kent Janér (through Blue Marlin AB). The loan has been paid to the Company and thus strengthened the Company's liquidity.

Financial performance

Overview of company's operations, results, and financial position

The Group (kSEK)	2022	2021	2020	2019
Net sales	594	1,162	1 074	1,670
Profit for the year	-496 801	-365 872	-192 572	-160 897
Balance sheet total	1 017 458	1 252 402	922 162	865 580
Equity ratio, %	75	80	84	82
Cash and bank balances	226 858	503 388	332 463	55 634

Definitions: see note 58

Parent company (kSEK)	2022	2021	2020	2019
Net sales	6 297	1,162	1 074	1,670
Profit for the year	-494 866	-365 446	-198 483	-161 932
Balance sheet total	926 416	1 172 433	897 660	848 908
Equity ratio, %	82	86	86	84
Cash and bank balances	224 135	502 140	331 150	53 349

Definitions: see note 58

Revenue, expenses and profit/loss

Net sales amounted to kSEK 594 (1 162). Own work capitalised amounted to kSEK 72 845 (148 614) for the period.

Expenses amounted to kSEK -568 521 (-515 909). The increase is largely attributable to higher depreciations. The Company's total costs are largely attributable to development.

Operating profit/loss amounted to kSEK-493 251 (-364 175). The reduction is attributable to, among other things, increased depreciation and reduced capitalization of own work. Results from financial items amounted to kSEK -3 551 (-1 697) and consisted mainly of interest income, interest expenses and similar profit/loss items.

Net profit/ loss for the period was kSEK -496 801 (-365 872). Earnings/loss per share, basic and diluted, amounted to SEK -3.23 (SEK -3.23).

Cash flow and financial position

Cash flow from operating activities amounted to kSEK -424 893 (-234 579).

Cash flow from financing activities was kSEK 266 141 (590 520). Investments impacting cash flow during the period amounted to kSEK -117 841 (-185 153). Total cash flow amounted to kSEK -276 594 (kSEK 170 787). Cash and cash equivalents on 31 December 2022 amounted to kSEK 226 859 (kSEK 503 388). Shareholders' equity at the year end amounted to kSEK 759 436 (kSEK 1 008 102) or SEK 2.38 (SEK 8.70) per share. The equity/assets ratio on the same date was 75 percent (80 percent)

Parent company

Net sales for the parent company amounted to kSEK 6 297 (1 162). Operating results were kSEK-489 753 (-360 820) and profit/loss for the year was kSEK -494 866 (-365 446).
At the year end, shareholders' equity was kSEK 761 127 (1,007 834).

Seasonal variations

At this stage, the Group does not note any seasonal variations over the year.

The share and share capital

The share has been listed on Nasdaq First North Growth Market in Stockholm since 10 December 2018.
The number of outstanding shares on 31 December 2022 amounted to 318,662,246 (115,877,180) and the share capital to SEK 159,331 thousand (57,939 thousand). The share capital increased in the rights issue, which closed in October.
At year-end, there were 49,075,962 warrants, issued in six different series with exercise prices ranging from SEK 0.50 to SEK 124.50. Upon full conversion of all warrants, the number of shares increases by 35,374,115.

Outlook

The generally uncertain world situation poses a risk in relation to the conditions for predicting and reaching expected sales volumes and cash flow, and the Company has seen a delay of the commercialization due to longer than expected sales cycles. As a result of this, the Company communicated in January 2023 that the previous delivery target for 2023 will not be reached, and that the Company will need additional financing during 2023 to continue to run the business in its current form. The intention is to carry out a rights issue of approximately SEK 80 million during the summer, of which SEK 30 million is guaranteed by a loan from the Company's main owner. The loan was approved at the extraordinary general meeting on June 2, 2023, and has been paid to the Company. The contribution from the upcoming rights issue, together with the advance payment expected for the significant order, which is anticipated to constitute a first step in the strategic collaboration, is envisaged to finance the Company for the duration of 2023. We anticipate that additional financing will be needed in the future to secure the Company's future capital needs. With the strategic collaboration in place, our assessment is that the right conditions are in place to achieve long-term success and profitability.

Azelio is introducing a new technology in the market that requires greater initial investment than competing fossil-based alternatives, although more cost-effective in the long run.

The need and drivers for energy storage solutions which can contribute to making delivery of renewable energy to match the base load around the clock possible, continues to increase.

Responsible business

Environment

The purpose of the business is to sell energy storage units, which enable increased use of renewable energy and thereby a reduction in greenhouse gas emissions.

In 2020, Azelio commissioned the independent research institute RISE to conduct a life cycle analysis of the Company's energy storage system TES.POD to determine its greenhouse gas emissions. The institute's analysis shows that the climate impact of Azelio's system is 23 g CO_2/kWh, which is significantly less than that of lithium-ion batteries and dramatically less than that of diesel generators, both of which are competing technologies. The study assumed the various technology solutions deliver electricity for 13 hours per day for 25 years, ignoring the environmental effects of generating the electricity required to charge the system. The study ignores the fact that Azelio's system also delivers a significant amount of heat that can be used as energy in a variety of applications, and thus contribute to further strengthening the product's climate profile.

Permit-required operation

The Group has a permit according to the Environmental Code for a plant for blasting and surface treatment through thermal spraying of metal and related activities on the rented property Kärra 1:35 in Uddevalla municipality.

Azelio as an employer

Systematic work environment management to be a natural part of Azelio's operations to achieve efficiency and quality. The Company works actively to minimize the risks of occupational injuries, accidents and incidents and works with activities that promote employee health, job satisfaction and efficiency. One aspect of this is continuous work on our processes, with the aim of enhancing employees' everyday work situation, so that they can focus on the right tasks. All managers with HR responsibilities undergo training in the Work Environment and Psychosocial Work Environment (AFS 2015:4). The need for work environment training is reviewed continuously.

Legislation and party agreements are minimum requirements. It is in Azelio's interest to maintain a higher standard than this. The Company regards this as a profitable investment for the future where high work motivation and low sickness absence are the direct gains. Azelio provides health insurance for employees, giving them access to rapid support and specialist care. The Company is a member of the Association of Swedish Engineering Industries and has collective agreements with Unionen, Ledarna, the Swedish Association of Graduate Engineers and IF Metall.

Azelio aims to be an attractive and developmental workplace for both women and men and works to ensure that all work teams comprise both women and men. A salary survey conducted in 2022, in respect of comparisons of jobs that are considered to be equal or equivalent, did not show any unreasonable salary differentials between women and men. As an employer, the Company aims to conduct targeted efforts to promote gender equality and diversity. This means preventing and counteracting discrimination, utilizing everyone's competencies and respecting differences regardless of gender, age, ethnic or cultural background, religion or other belief, functional impairment, transgender identity, or sexual preference. All suppliers are evaluated according to Azelio Ethics standard.

The Company intends to comply with the UN guidelines on sustainable enterprise and to measure compliance according to the UN standard, Global Reporting Initiatives (GRI).

Significant risks and uncertainties

Azelio's business mainly consists of developing and commercializing TES.POD® (Thermal Energy Storage – Power on Demand), which is a system for long-duration energy storage. In the Company's operations, many different risks are thus handled, such as technical, commercial, financial, and regulatory risks.

The board has a positive view of the potential strategic collaboration with an international major player that is currently being discussed, and this partnership is expected to be of great importance for the Company's continued commercialization and the Company's ability to finance its operations. The negotiations on a long-term strategic partnership take place in two steps where the parties have a common ambition to reach a declaration of intent during the summer and a final agreement during the fall of this year. Currently, Azelio cannot make more detailed assumptions about how a possible partnership may affect the Company financially. There is a risk that ongoing discussions do not lead to a signed agreement, or that the agreement does not reflect what the Company currently expects.

The Board believes that current valuation of the Company's assets in the form of capitalised development costs and inventory is justified by the cash flows generated by expected future sales. The Company's capitalised development costs related to various technologies, all of which are linked to the Stirling engine and the energy storage solution, technologies upon which the Company has built its business.

The Company has, in 2023, entered into a conditional loan agreement corresponding to SEK 30 million from the Company's main shareholder, which ensures the Company's short-term liquidity. The loan amount constitutes a subscription commitment in the upcoming rights issue. As security for the loan, Azelio has pledged certain patents and patent applications. The loan was approved at the extraordinary general meeting held on June 2, 2023, and has been paid to the Company. Azelio's board intends to decide on a rights issue of approximately SEK 80 million to further strengthen the Company's financial position. The rights issue is partially secured through the loan to the loan amount indicated above of 30 MSEK. The financing strengthens the Company's financial position and enables the Company to complete negotiations on a strategic partnership that may include a significant commercial order as well as commercial and industrial collaboration. A successful rights issue, together with continued measures to lower the Company's costs and the signing of the long-term strategic partnership, are prerequisites for continued operations in the Company.

At the time of publication of this report's, the Company lacks liquidity and cash flow to be able to continue the operation of the Company for the next 12 months. The board's assessment is that the Company's cash will last for approximately 3 months unless new capital is added. To ensure continued operation, new financing must be in place, for example through a potential strategic partnership together with the announced rights issue.

The Company has historically made a number of minor redesigns of the Company's system based on results obtained and experience, which in some cases caused delays.

The Company has recently experienced a delay in commercialization due to longer than expected sales processes for the Company's energy storage systems. As a result, the Company has communicated that additional funding will be needed in 2023 to continue running the business in its current form. The Company now assesses that this financing is needed during the second quarter of 2023.

Azelio´s product- and technology development and its associated operations are complex, particularly in the Company's industry, and there is a risk that the verification projects will require more time and money than the Company has anticipated, that it turns out that the Company's products cannot be adapted to a commercial environment or that projects to which the Company is a co-owner fails or that the Company, in the event of a successfully completed verification project, fails to develop the organisation to an industrial company as planned, or that the Company does not manage to convert customer enquiries into actual customer agreements.
Azelio´s TES.POD system, although largely based on established technology, is relatively new to the market and the commercialisation of the Company´s product is still in an initial phase. The Company has not had the opportunity to gather essential and exhaustive data with regard, for example, to the service life of the system and its components, typical faults or defects, the need for servicing and associated costs. There is therefore a risk that the Company's system proves to be of a technically defective design or fall short of the promised performance and/or functionality.
Azelio could fail to deliver its technology and its products in order to meet the demand on important markets in accordance with the Company's time plan and the requirements and wishes of the customers and the market, for example as a result of delays in the Company's verification project.
Azelio´s markets, and the market for renewable energy in general, are characterised by long lead- and start-up times and sales processes as a result of, for example, public or private regulations or standards, strict product requirements and the fact that an organisation needs to make a decision on investments before the Company can initiate its sales process.
Azelio is dependent on certain partners, such as Masen in Morocco (Moroccan Agency for Sustainable Energy, "Masen") and Masdar (Abu Dhabi Future Energy Company, "Masdar") and Khalifa University of Science and Technology ("Khalifa University") to

obtain valuable knowledge about the solar energy market, research and development, industrialisation, verification and business development.

Azelio's profitability from the sales of its products has been and will be dependent, e.g., on the price development of aluminium, steel, electronic components (in particular semi-conductors) and energy (in particular diesel), which is affected by a number of external factors that are outside the Company's control.

Demand for Azelio's products and services is affected by changes in general economic and other market conditions in the markets in which the Company operates, as well as by changes in macroeconomic conditions, such as growth, general economic conditions, employment levels, exchange rate fluctuations, demographics and population growth. For example, Russia's military attack on Ukraine has caused significant volatility in the global economy and global credit markets, and any spillover effects could affect the Company's sales of its units or customers' ability or opportunity to secure financing for projects to use the Company's systems.

Azelio has as part of its commercialisation strategy made certain assumptions concerning the Company's product relating to, among other things, demand and pricing, and in the long term the revenues that the commercialisation is expected to generate. There is a risk that the Company's assumptions will prove imprecise or inaccurate, or that the market price of technology that provides the same functionality as the Company's system falls considerably without Azelio succeeding in accommodating this price reduction through decreased costs, increased sales volumes, higher prices for other solutions, services or projects and components or other revenue streams.

Azelio cooperates with a number of suppliers within the scope of its operations and is dependent on these suppliers in order to obtain components manufactured in accordance with the Company's requirements and specifications for the TES.POD system. If the Company would need to replace an existing supplier for any reason, the Company may have difficulty finding a new supplier with equivalent, or satisfactory, capacities and competence.

The potential end user market for Azelio's products in sustainable electricity- and heat production based on thermal storage is global. In the future, the Company may therefore need to expand its operations as part of its future growth plans to markets that the Company has not had any previous contact with or experience of. The expansion and sales to new markets always come with uncertainties and risks.

For financial risks, see Note 4.

Organization

The number of employees at year-end was 139 (192), of which 107 (145) were men and 32 (47) women. The average number of employees in the organization in 2022 was 182 (177).

Proposed appropriation of profit/loss

Amounts at the disposal of the Annual General meeting (kSEK):

Share premium reserve	2 561 393
Loss brought forward	-1 943 004
Loss for the year	-494 866
Total	123 523

The Board proposes that non restricted equity of kSEK 123 523 be carried forward.

Consolidated statement of income and other comprehensive income

Amounts in kSEK	*Note*	*2022*	*2021*
Net sales	6	594	1 162
Own work capitalised		72 845	148 614
Other operating income	9	1 831	1 958
Total		75 269	151 734
Raw materials and consumables		-25 622	-13 998
Other external expenses	7	-180 685	-220 066
Employee benefit expenses	8	-184 251	-168 646
Depreciation/amortisation and impairment of property, plant non-current assets and equipment and intangible		-175 123	-112 332
Other operating expenses	10	-2 840	-867
Total		-568 521	-515 909
Operating profit/loss		-493 251	-364 175
Financial income		4	–
Financial expenses		-3 551	-1 697
Net financial items		-3 548	-1 697
Profit/loss before tax		-496 799	-365 872
Income tax	12	-2	–
Profit/loss for the year		-496 801	-365 872
Other comprehensive income:			
Items that may be transferred to profit or loss for the year			
Exchange-rate differences on foreign operations		-24	114
Other comprehensive income for the year		-24	114
Total comprehensive income for the year		-496 825	-365 757

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

Earnings per share, calculated on net profit for the year attributable to the parent company:

Amounts in SEK	*Not*	*2022*	*2021*
Basic earnings per share	26	-3.23	-3.23
Diluted earnings per share	26	–	–

Consolidated statement of financial position

Amounts in kSEK	*Note*	*2022-12-31*	*2021-12-31*
ASSETS			
Non-current assets			
Intangible non-current assets	13		
Capitalised expenditure for development and similar		508 006	575 064
Total intangible assets		508 006	575 064
Property, plant and equipment	14		
Leasehold improvements		9 327	7 084
Equipment, tools,fixtures and fittings		77 706	51 893
Total property, plant and equipment		87 033	58 977
Right-of-use assets	24	92 365	80 102
Financial non-current assets			
Other long-term receivables	15	2 010	–
Deferred tax assets	21	34	–
Total financial non-current assets		2 045	–
Total non-current assets		689 449	714 143
Current assets			
Inventories			
Raw materials and consumables		90 897	16 394
Finished goods and goods for resale		99	711
Total inventories		90 996	17 105
Current receivables			
Trade receivables	16	786	4 429
Current tax assets		2 673	1 635
Other receivables	17	944	6 397
Prepaid expenses and accrued income	18	5 753	5 306
Total current receivables		10 156	17 766
Cash and cash equivalents			
Cash and cash equivalents	19	226 858	503 388
Total current assets		328 010	538 259
TOTAL ASSETS		1 017 458	1 252 402

Consolidated statement of financial position

Amounts in kSEK	*Note*	*2022-12-31*	*2021-12-31*
EQUITY AND LIABILITIES			
Equity attributable to the parent company shareholders			
Share capital	20	159 331	57 939
Other paid-in capital		2 561 393	2 414 709
Reserves		-810	-786
Retained earnings incl. profit/loss for the year		-1 960 479	-1 463 759
Total equity attributable to parent company shareholders		759 436	1 008 102
LIABILITIES			
Non-current liabilities			
Other liabilities	22	56 951	22 622
Lease liabilities	24	75 155	65 574
Total non-current liabilities		132 106	88 196
Current liabilities			
Advances from customers		202	191
Trade payables		37 887	42 028
Lease liabilities	24	17 268	13 923
Tax liabilities		1	–
Other current liabilities		18 693	40 576
Accrued expenses and deferred income	23	51 867	59 386
Total current liabilities		125 917	156 104
Total liabilities		258 023	244 300
TOTAL EQUITY AND LIABILITIES		1 017 458	1 252 402

The notes on pages 32-48 are an integrated part of the consolidated accounts.

Consolidated statement of changes in equity

Amounts in kSEK		Attributable to the parent company shareholders				
	Note	*Share capital*	*Other paid-in capital*	*Reserves*	*Retained earnings incl. profit/loss for the year*	*Total equity*
	20					
Opening balance, 1 January 2021		**52 051**	**1 821 219**	**-900**	**-1 100 114**	**772 257**
Profit/loss for the year					-365 872	-365 872
Other comprehensive income for the year				114		114
Total comprehensive income for the year		**52 051**	**1 821 219**	**-786**	**-1 465 985**	**406 499**
Transactions with shareholders in their role as owners						
Ongoing new share issue		5 887	593 489			599 377
Premiums for issued warrants					2 226	2 226
Closing balance, 31 December 2021		**57 939**	**2 414 709**	**-786**	**-1 463 759**	**1 008 102**
Opening balance, 1 January 2022		**57 939**	**2 414 709**	**-786**	**-1 463 759**	**1 008 102**
Profit/loss for the year					-496 801	-496 801
Other comprehensive income for the year*				-24		-24
Total comprehensive income for the year		**57 939**	**2 414 709**	**-810**	**-1 960 560**	**511 277**
Transactions with shareholders in their role as owners deras egenskap av ägare						
New share issue		101 393	146 684			248 077
Premiums for issued warrants					81	81
Closing balance, 31 December 2022		**159 331**	**2 561 393**	**-810**	**-1 960 479**	**759 436**

**Differs due to exchange rate effects compared to the year-end report 2022*

The notes on pages 32-48 are an integrated part of the consolidated accounts.

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

Consolidated statement of cash flows

Amounts in kSEK	*Note*	*2022*	*2021*
Cash flow from operating activities			
Operating profit/loss		-493 251	-364 175
Interest received		1	–
Interest paid		-3 409	-1 576
Other financial items		-139	-121
Adjustment for non-cash items	30	174 632	112 246
Income tax paid		-36	–
Increase (-)/decrease (+) in inventories		-76 517	-13 278
Increase (-)/decrease (+) in operating receivables		8 531	1 445
Increase (+)/decrease (-) in operating liabilities		-34 703	30 879
Cash flow from operating activities		**-424 893**	**-234 579**
Cash flow from investing activities			
Investments in property, plant and equipment		-42 987	-43 994
Investments in intangible non-current assets		-72 844	-141 159
Investments in financial assets		-2 010	–
Cash flow from investing activities		**-117 841**	**-185 153**
Cash flow from financing activities			
Exercised warrants		–	40 712
New share issue		248 077	558 665
Proceeds from warrants sold		81	2 226
New borrowings		34 342	–
Lease liability amortisation		-16 346	-11 031
Loan amortisation		-13	-53
Cash flow from financing activities	29	**266 141**	**590 520**
Decrease/increase of cash and cash equivalents		**-276 594**	**170 787**
Cash and cash equivalents at the start of the year		503 388	332 463
Exchange rate differences in cash and cash equivalents		65	137
Cash and cash equivalents at the year end	19	**226 859**	**503 388**

The notes on pages 32-48 are an integrated part of the consolidated accounts.

Parent company income statement

Amounts in kSEK	*Note*	*2022*	*2021*
Net sales	32	6 297	1 162
Own work capitalised		72 845	148 614
Other operating income	33	1 831	1 958
Total		80 972	151 734
Raw materials and consumables		-34 442	-13 998
Other external expenses	35	-199 195	-231 289
Employee benefit expenses	36	-179 494	-165 365
Depreciation/amortisation and impairment of property, plant and equipment and intangible non-current assets		-154 753	-101 036
Other operating expenses	34	-2 840	-867
Total		-570 725	-512 555
Operating profit/loss		-489 753	-360 820
Operating profit/loss			
Income from participations in group companies	38	-4 091	-3 965
Other interest income and similar profit/loss items		3	–
Interest expense and similar profit/loss items		-1 025	-660
Profit/loss after financial items		-494 866	-365 446
Profit/loss before tax		-494 866	-365 446
Tax on profit/loss for the year	37	–	–
Profit/loss for the year		-494 866	-365 446

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

The notes on pages 49-54 are an integrated part of the parent company accounts.

Parent company balance sheet

Amounts in kSEK	*Note*	*2022-12-31*	*2021-12-31*
ASSETS			
Non-current assets			
Intangible non-current assets	41		
Capitalised expenditure for development and similar work		508 006	575 064
Total intangible non-current assets		508 006	575 064
Property, plant and equipment	42		
Leasehold improvements		9 327	7 084
Equipment, tools, fixtures and fittings		64 082	51 893
Total property, plant and equipment		73 409	58 977
Financial non-current assets			
Participations in group companies	38	51	50
Receivables from group companies	39	16 331	–
Other long-term receivables	40	2 010	–
Total financial non-current assets		18 391	50
Total non-current assets		599 806	634 091
Current assets			
Inventories			
Raw materials and consumables		90 897	16 394
Finished goods and goods for resale		99	711
Total inventories		90 996	17 105
Current receivables			
Trade receivables	45	786	4 429
Current tax asset		2 673	1 635
Other receivables	46	487	6 332
Prepaid expenses and accrued income	47	7 391	6 701
Total current receivables		11 338	19 097
Cash and bank			
Cash and bank	44	224 135	502 140
		224 135	502 140
Total current assets		326 468	538 341
TOTAL ASSETS		926 274	1 172 433

Parent company balance sheet

Amounts in kSEK	*Note*	*2022-12-31*	*2021-12-31*
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	52	159 331	57 939
Development expenditure fund		478 272	536 116
		637 604	594 055
Non-restricted equity			
Share premium reserve		2 561 393	2 414 709
Retained earnings		-1 943 004	-1 635 484
Profit/loss for the year		-494 866	-365 446
		123 523	413 779
Total equity		761 127	1 007 834
Non-current liabilities	48		
Other non-current financial liabilities		56 950	22 622
Total non-current liabilities		56 950	22 622
Current liabilities			
Advances from customers		79	191
Trade payables		37 569	42 028
Other liabilities		18 683	40 372
Accrued expenses and deferred income	49	51 867	59 386
Total current liabilities		108 197	141 977
Total liabilities		165 147	164 599
TOTAL EQUITY AND LIABILITIES		926 274	1 172 433

The notes on pages 49-54 are an integrated part of the parent company accounts.

Parent company statement of changes in equity

		Restricted equity		Non restricted equity			
Amounts in kSEK	*Note*	*Share capital*	*Development expenditure fund*	*Share premium reserve*	*Retained earnings*	*Profit/loss for the year*	*Total equity*
	52						
Opening balance, 1 January 2021		52 051	472 870	1 821 219	-1 375 981	-198 483	771 676
Net profit/loss and comprehensive income for the year						-365 446	-365 446
Appropriation of profit/loss					-198 483	198 483	–
Total comprehensive income		52 051	472 870	1 821 219	-1 574 464	-365 446	406 231
Transactions with shareholders in their role as owners							
New share issue		5 887		593 489			599 377
Transfer between items			63 246		-63 246		–
Premiums for exercised warrants					2 226		2 226
Closing balance, 31 December 2021		57 939	536 116	2 414 709	-1 635 484	-365 446	1 007 834

		Restricted equity		Non restricted equity			
	Note	*Share capital*	*Development expenditure fund*	*Share premium reserve*	*Retained earnings*	*Profit/loss for the year*	*Total equity*
Opening balance, 1 January 2022		57 939	536 116	2 414 709	-1 635 484	-365 446	1 007 834
Net profit/loss and comprehensive income for the year*						-494 866	-494 866
Appropriation of profit/loss					-365 446	365 446	–
Total comprehensive income		57 939	536 116	2 414 709	-2 000 929	-494 866	512 968
Transactions with shareholders in their role as owners							
New share issue		101 393		146 684			248 077
Transfer between items			-57 844		57 844		–
Premiums for exercised warrants					81		81
Closing balance, 31 December 2022		159 331	478 272	2 561 393	-1 943 004	-494 866	761 127

**Differs due to exchange rate effects compared to the year-end report 2022*

Parent company cash flow statement

Amounts in kSEK	*Note*	*2022*	*2021*
Cash flow from operating activities			
Operating profit/loss after financial items	54	-489 753	-360 820
Interest received		–	–
Interest paid		-883	-660
Other financial items		-4 230	-3 965
Adjustments for non-cash items	56	158 353	104 915
Income tax paid		–	–
Increase(-)/Decrease(+) in inventories		-73 400	-13 278
Increase(-)/Decrease(+) in operating receivables		8 798	1 442
Increase(+)/Decrease(-) in operating liabilities		-34 818	30 923
Cash flow from operating activities		**-435 932**	**-241 442**
Cash flow from investing activities			
Acquisition of property, plant and equipment		-29 283	-43 994
Acquisition of intangible non-current assets		-72 844	-141 159
Acquisition of financial assets		-22 433	-3 965
Cash flow from investing activities		**-124 560**	**-189 118**
Cash flow from financing activities			
Exercised warrants		–	40 712
New share issue		248 077	558 665
Warrants programme		81	2 226
New borrowings		34 342	–
Loan amortisation		-13	-53
Cash flow from financing activities	55	**282 487**	**601 551**
Decrease/increase in cash and cash equivalents		**-278 005**	**170 990**
Cash and cash equivalents at the beginning of the year	44	502 140	331 150
Cash and cash equivalents at the year end		**224 135**	**502 140**

Notes

Note 1 Notes to the consolidated statements

Note 1.1 General information

Azelio AB (publ) (“Azelio”), corp. reg. no. 556714-7607, is a parent company registered in Sweden domiciled in Gothenburg at Lindholmsplatsen 1, SE-417 56 Gothenburg, Sweden.

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

Note 2 Summary of significant accounting principles

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

Note 2.1 Basis for the preparation of the financial statements

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

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

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

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

Note 2.1.1 RFR 2 Financial Reporting for Legal Entities

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

Presentation formats

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

Participations in subsidiaries

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

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

Financial instruments

IFRS 9 is not applied in the parent company. Instead, the parent company applies the impairment rules in RFR 2 (IFRS 9 Financial instruments, p. 3-10). Financial instruments are measured at cost. Financial assets acquired with the intention of holding them on a short-term basis will be recognised in subsequent periods in accordance with the lower value principle at the lowest of cost and market value.

When calculating the net sales value of receivables that are reported as current assets, the principles for impairment testing and loss allowance in IFRS 9 shall be applied. For receivables measured at acquisition cost at group level, the loss allowance reported in the group in accordance with IFRS 9 must also be recognised in the parent company.

Leases (lessees)

The lease payments are recognised on a straight-line basis over the lease term.

Appropriations

Group contributions are recognised as appropriations.

Development expenditure fund

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

Loan expenditure

Expenses for the company's loans are expensed.

Note 2.1.2 New standards and interpretations not yet applied by the group

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

Note 2.2 Basis of consolidation

Note 2.2.1 Fundamental accounting principles
Subsidiaries

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

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

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

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

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

Note 2.3 Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the function that is responsible for allocating resources and assessing the result of the operating segments. Azelio's CEO is the group's chief operating decision maker. Azelio has identified one operating segment, which comprises the group's operations as a whole. The assessment is based on the premise that the business in its entirety is regularly examined by the CEO as a basis for decision on the allocation of resources and evaluation of its results.

Note 2.4 Foreign currency translation

Note 2.4.1 Functional and reporting currency
The functional currency of the various entities in the group is the local currency, as this has been defined as the currency that is used in the primary economic environment in which each entity mainly conducts business. The Swedish krona (SEK) is used in the consolidated accounts. This is the functional currency of the parent company and the reporting currency of the group.

Note 2.4.2 Transactions and balance-sheet items
Transactions in foreign currency are translated to the functional currency at the exchange rates prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in operating profit/loss in the statement of income and other comprehensive income.

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

Note 2.4.3 *Translation of foreign group companies*
The earnings and financial position of all group companies that have a functional currency that is different to the reporting currency are translated to the group's reporting currency: The assets and liabilities of each of the balance sheets are translated from the functional currency of the foreign operation to the group's reporting currency, SEK, at the exchange rate applicable on the balance sheet date. The income and expenses in each of the income statements are translated into SEK at the average rate applying at the time of each transaction. Translation differences arising on the currency translation of foreign operations are recognised in other comprehensive income.

Note 2.5 Revenue recognition
Revenue is recognised when control of the goods or services sold is transferred to the customer. The fundamental principle is that the group recognises revenue in the manner that best reflects the transfer of control of the promised goods or services to the customer. Reporting in the group uses a five-step process that is applied to all customer contracts:

- Identify the contract with the customer
- Identify the separate performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to each of the separate performance obligations
- Recognise the revenue as each performance obligation is satisfied

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

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

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

Note 2.5.1 Sale of Stirling engines

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

Note 2.5.2 Sale of service obligations

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

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

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

Note 2.5.3 Interest income

Interest income is recognised using the effective interest rate.

Note 2.6 Leases

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

Assets and liabilities arising from a lease are initially measured at the present value of future leasing fees discounted with a marginal loan rate, with adjustments as below.

Lease liabilities include the net present value of the following lease payments:
- fixed payments
- variable lease payments that are based on an index or interest rate.

The lease payments are discounted using the incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:
- the initial measurement of the lease liability.
- payments made on or before the point in time when the leased asset is made available to the lessee.

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

Extension and termination options

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

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

Note 2.7 Employee benefits

Note 2.7.1 Short-term employee benefits

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

Note 2.7.2 Post-employment benefits

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

Note 2.8 Current and deferred income tax

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

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

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

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

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

Note 2.9 Intangible assets

Note 2.9.1 Capitalised development expenditure

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

- it is technically feasible to complete them so they will be available for use,
- the company intends to complete them and use or sell them,
- there is an ability to use or sell them,
- it can be demonstrated how they will generate probable future economic benefits,
- adequate technical, financial and other resources to complete the development and to use or sell them are available, and
- the expenditure attributable to them during their development can be reliably measured.

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

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

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for commercial use. The useful life is 5 years.

Note 2.10 Property, plant and equipment

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

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

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

The useful lives are as follows:

Leasehold improvements	8 years
Equipment, tools, fixtures and fittings	3-8 years

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

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

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

Note 2.11 Impairment of non-financial assets

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

Note 2.12 Financial instruments

Note 2.12.1 Initial recognition
Financial assets and financial liabilities are recognised when the group becomes a party to the financial instrument's contractual conditions. Purchases and sales of financial assets are recognised on the trade date, the date on which the group undertakes to purchase or sell the asset.

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

Note 2.12.2 Classification
The group classified its financial assets and liabilities in the category of amortised cost.

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

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

Note 2.12.3 Derecognition of financial instruments
Derecognition of financial assets
Financial assets, or portions thereof, are derecognised from the balance sheet when the contractual rights to collect the cash flows from the assets have expired or been transferred, and either (i) the group transfers essentially all the risks and benefits associated with ownership or (ii) the group neither transfers nor retains essentially all risks and benefits associated with ownership and has not retained control of the asset.

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

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

Note 2.12.4 Impairment of financial assets
Assets carried at amortised cost
The group assesses the future expected credit losses attributable to assets measured at amortised cost. The group recognises a loss allowance for such expected credit losses on each reporting date. For trade receivables, the group applies the simplified approach for loss allowances, meaning that the reserve will correspond to the expected loss across the entire lifetime of the trade receivables. To measure the expected credit losses, trade receivables are grouped based on allocated credit risk properties and days overdue. The group employs forward-looking variables for expected credit losses. Expected credit losses are recognised in the consolidated statement of income and other comprehensive income in the item other external expenses.

Note 2.13 Inventories
Inventories are recognised according to the first-in, first-out principle at the lowest of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the applicable variable costs necessary to make the sale.

Note 2.14 Trade receivables
Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are classified as current assets. Trade receivables are initially recognised at the transaction price. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them on subsequent recognition dates at amortised cost using the effective interest method.

Note 2.15 Cash and cash equivalents
Cash and cash equivalents include, in both the balance sheet and the statement of cash flows, cash and bank balances.

Note 2.16 Share capital
Ordinary shares are classified as equity. Transaction costs that are directly attributable to the issue of new ordinary shares are recognised net after tax in equity as a deduction from the issue proceeds.

Note 2.17 Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of income and other comprehensive income allocated over the term of the borrowings using the effective interest method.

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

Note 2.18 Borrowing costs

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

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

Note 2.19 Trade payables

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

Note 2.20 Government grants

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

Government grants related to development that is capitalised as an intangible asset are recognised by reducing the asset's carrying amount by the amount of the grant and by recognising the grant in profit/loss for the period over the depreciable asset's useful life in the form of lower depreciation. The group's reporting of government grants is presented in more detail in note 23

Note 2.21 Cash flow statement

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

Note 2.22 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- profit attributable to parent company shareholders
- by the weighted average number of outstanding ordinary shares during the period

(ii) Diluted earnings per share

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

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

No dilution effect is reported on a negative result.

Note 2.23 Share related renumeration

Azelio has an agreement with a supplier which means that the supplier has the opportunity to receive payment for its services either in cash or in the form of shares in Azelio AB. As of 31 Dec 2022, a liability corresponding to the fair value of delivered unregulated services of SEK 25 million is reported. Should the supplier choose regulation of the debt in the form of shares, this will entail a directed new issue of 1,666,667 shares.

Note 3 Significant accounting estimates and judgements

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

(a)Assessment of impairment requirements for capitalised development expenditure

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

The impairment test is built on an assumption that the company will be able to execute its expansive business plan with a large volume commercial breakthrough from 2023/2024 as well as access to financing for these projects and additional market and production investments. An adjustment to the time plan could have a substantial impact on the value, which could lead to an impairment of the underlying asset.

The calculation of the discount rate is based on an assumption of substantial external financing at an estimated interest of 7,9%, while the return on equity is estimated at close to 25,8%. Should external financing not be available, the WACC (weighted average cost of capital) is calculated to 23.3%, and even with this discount rate, no need for impairment arises.

The company's development in terms of estimated future cash flows is continuously monitored.

(b) Going concern assumption

Until the group's operational activities generate a positive cash flow, the group is dependent on external financing, either as contributions from shareholders or from other sources of financing. The board assesses, against the background of the positive market situation for solutions that support a green transition and that the Company is negotiating a strategic partnership that may include a significant commercial order as well as commercial and industrial cooperation with a large international player with extensive ambitions in renewable energy, but also with the risks described in the section Significant risks and uncertainties, that the group's business and financing plans are feasible, and consequently sees that the annual report can be published under the assumption of continued operations.

Note 4 Financial risk management

Note 4.1 Financial risk factors
Through its business activities, the group is exposed to a number of different financial risks related to trade receivables, trade payables and loans: market risk (comprising interest-rate risk and currency risk), credit risk and liquidity risk. The group endeavours to minimise potential unfavourable effects on the group's financial results.

The objectives of the group's financial operations are to:
- ensure that the group can meet its payment commitments,
- manage financial risks,
- secure access to the necessary financing, and
- optimise the group's net financial items.

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

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

Currency risk arises when future business transactions or recognised assets or liabilities are expressed in a different currency to the entity's functional currency. In Azelio, exchange-rate risk arises primarily through future business transactions, particularly in the parent company, where a significant portion of the transactions occurs in EUR. The group is also exposed to exchange-rate risk related to government-financed projects, where the financing is primary received in EUR.

The subsidiaries are not subject to any significant exchange-rate risk. The group has no borrowings in foreign currencies. The exchange-rate risk associated with shareholders' equity in connection with translation of the foreign subsidiary is not significant for the group. The group's policy for managing exchange-rate risk is primarily focused on the operational terms and conditions of the business by ensuring that revenues and costs in currencies other than SEK match each other.

Sensitivity analysis - transaction exposure
The sensitivity of earnings to changes in exchange rates arises mainly in EUR. Significant balance-sheet items in foreign currency are found in trade receivables, contract liabilities, trade payables and accrued and prepaid central government contributions. Trade receivables in foreign currency amounted to kSEK 192 on 31 December 2022 (31 December 2021: kSEK 0). Contract liabilities in in foreign currency amounted to kSEK 0 on 31 December 2022 (31 December 2021: kSEK 0). Trade payables in foreign currency amounted to kSEK 10 668 on 31 December 2022 (31 December 2021 kSEK 1 067). Prepaid central government grants in foreign currency amounted to kSEK 0 on 31 December 2022 (31 December 2021; kSEK 0) and accrued central government grants amounted to kSEK 0 on 31 December 2022 (31 December 2021: kSEK 0).

If the SEK had weakened 10% in relation to EUR, all other variables being equal. the restated net profit for the 2022 financial year would have been kSEK 1 088 (kSEK 1 098) lower. This is largely due to losses arising from losses on recalculation of trade payables.

Interest-rate risks associated with cash and cash equivalents and borrowing
Interest-rate risk relates to the risk of the group's exposure to changes in the market interest rate having a negative impact on net profit.

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

Sensitivity analysis - interest-rate exposure
A change in market interest rates by 100 basis points (one percentage point) would have changed the group's interest expense by approximately kSEK 961, with the discount rate for lease liabilities accounting for 96% of the change.

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

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

31 December 2022	Receivables not overdue	> 30 days overdue	>60 days overdue	>120 days overdue	Total
	593 600	54 014	–	125 069	772 683

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

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

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

At 31 December 2021	<3 months	3 months - 1 year	1-2 years	2-5 years	>5 years	Total contractual cash flows	Carrying amount
Financial liabilities							
Other financial liabilities	–	13	30	60	22 519	22 622	22 622
Liabilities, leasing	3 605	10 318	13 609	34 157	17 808	79 497	79 497
Trade payables	41 940	88	–	–	–	42 028	42 028
Total	45 545	10 420	13 639	34 217	40 327	144 147	144 147

At 31 December 2022	<3 months	3 months - 1 year	1-2 years	2-5 years	>5 years	Total contractual cash flows	Carrying amount
Financial liabilities							
Other financial liabilities	–	13	26 008	8 379	22 551	56 950	56 951
Liabilities, leasing	4 300	12 968	17 089	34 580	23 486	92 423	92 423
Trade payables	37 794	-5	97	–	–	37 887	37 887
Total	42 094	12 976	43 194	42 959	46 037	187 261	187 261

Note 4.2 Management of capital
The group's target for its capital structure is to secure the group's ability to continue its operations so that it can continue to generate returns for shareholders and value for other stakeholders, and maintain an optimal capital structure for keeping the cost of capital down.

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

	31 December 2022	31 December 2021
Total borrowing (note 22)	-56 951	-22 622
Less: cash and cash equivalents	226 858	503 388
Net debt	169 908	480 766
Total equity	759 436	1 008 102
Total capital	929 343	1 488 868

Note 5 Segment information
Description of segments and primary activities:
Azelio's CEO corresponds to the chief operating decision maker for the Azelio group and he evaluates the group's financial position and earnings and makes strategic decisions. The CEO has determined the operating segments based on the information that is processed and used as a basis for allocating resources and evaluating earnings. The CEO monitors and evaluates the group based on one operating segment, which is the group as a whole.

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

Operating profit/loss

	2022	2021
Operating profit/loss	-493 251	-364 175

Note 6 Net sales
Revenue
Since revenue from external parties is reported to the CEO, it is measured in a manner consistent with that in the consolidated statement of income and other comprehensive income

	2022			*2021*		
	Sweden	EU	Outside the EU	Sweden	EU	Outside the EU
Revenue from						
Product	–	–	54	–	–	486
Service obligations	–	–	–	92	–	–
Spare parts	163	95	–	–	213	20
Other	282	–	–	351	–	–
Total	445	95	54	443	213	507

Revenue from larger customers (over 10%) for the period amounted to kSEK 472 (kSEK 636). 12% of revenue in 2022 applies to sales to customer in Slovenia.

Note 7 Auditor remuneration

	2022	2021
KPMG AB		
Audit engagement	954	1 539
Auditing activities in addition to audit engagement	95	73
Total	1 049	1 612
Great Wall Certified Public Accountants Co. Ltd		
Audit engagement	120	57
Total	120	57
GNR Auditors		
Audit engagement	17	–
Total	17	–
Group total	1 187	1 669

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

Note 8 Employee benefits, etc.

Salaries and other employee benefits

	2022	2021
Salaries and other benefits	126 840	128 396
Social security contributions	38 191	38 795
Pension costs - defined-contribution plans	15 950	17 237
Total employee benefits	**180 981**	**184 427**

Salaries, other remuneration and social security expenses

	2022		2021	
	Salaries and remuneration	*Social security expenses*	*Salaries and remuneration*	*Social security expenses*
Board members, CEO and other senior executives	17 495	8 096	17 872	8 002
(of which, bonuses)	*(506)*		*(–)*	
(of which, pension costs)		*(3 021)*		*(3 242)*
Other employees	109 345	46 045	110 524	48 029
(of which, pension costs)		*(12 929)*		*(13 995)*
Group total	126 840	54 141	128 396	56 032

Average number of employees and breakdown per country

	2022	Of whom men	2021	Of whom men
Sweden	180	76%	173	76%
China	2	82%	4	75%
Group total	182	76%	177	76%

Gender distribution in the group (incl., subsidiaries) among board members and other senior executives

	2022	Percentage of women	2021	Percentage of women
Board members	7	14%	7	14%
CEO and other senior executives	7	29%	7	14%
Group total	14	21%	14	14%

Senior executive remuneration

	2022					
kSEK	*Basic salary Board fees*	*Variable remuneration*	*Other benefits*	*Pension costs*	*Other remuneration*	*Total*
Chairman of the Board, Bo Dankis	650	–	–	–	–	650
Board member, Bertil Villard	250	–	–	–	50	300
Board member, Hicham Bouzekri	250	–	–	–	–	250
Board member, Hans Ola Meyer	250	–	–	–	50	300
Board member, Elaine Grünewald	250	–	–	–	–	250
Board member, Pär Nuder	250	–	–	–	–	250
Board member, Carol Browner 1)	250	–	–	–	–	250
CEO, Jonas Wallmander 2)	1 898	–	–	438	–	2 335
CEO, Jonas Eklind 3)	1 292	–	–	69	1 110	2 471
Other senior executives (8 persons)	9 503	506	–	2 515	936	13 460
Group total	14 843	506	–	3 021	2 146	20 516

1) Resigned as board member, 12 May 2022
2) New CEO, 31 March 2022
3) Resigned as CEO on March 30, 2022

CEO and senior executives

In addition to a fixed monthly salary, the CEO and senior executives receive variable remuneration if set earnings targets are achieved. The remuneration is determined by the Board of Directors. During the financial year, variable remuneration amounted to kSEK 97 (kSEK 852) to the CEO and kSEK 409 (kSEK 3 154) to other senior executives. Other remuneration is paid as remuneration for the acquisition of warrants.

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

Board of Directors

According to a resolution adopted by the Annual General Meeting (AGM) on 12 May 2022, board fees for the period through the next AGM are payable at a total of kSEK 2 000, of which kSEK 650 go to the Chairman of the Board and kSEK 250 to each of the other board members who are not employees of the Other remuneration to each of the members of the Finance Committee who are not employees of the company is kSEK 50 and to each of the members of the Remuneration Committee who are not employees of the company kSEK 50.

Senior executive remuneration

	2021					
kSEK	*Basic salary Board fees*	*Variable remuneration*	*Other benefits*	*Pension costs*	*Other remuneration*	*Total*
Chairman of the Board, Bo Dankis	500	–	–	–	–	500
Board member, Bertil Villard	150	–	–	–	80	230
Board member, Hicham Bouzekri	150	–	–	–	–	150
Board member, Kent Janér	150	–	–	–	80	230
Board member, Mattias Bergman	150	–	–	–	–	150
Board member, Pär Nuder	150	–	–	–	–	150
Board member, Sigrun Hjelmqvist	150	–	–	–	50	200
CEO, Jonas Eklind	2 178	852	–	859	669	4 558
Other senior executives (6 persons)	8 159	3 154	–	2 383	1 250	14 946
Group total	11 737	4 006	–	3 242	2 129	21 114

Note 9 Other operating income

	2022	*2021*
Contributions related to project financing and central government support	857	1 483
Exchange rate differences	946	–
Other	28	475
Total	1 831	1 958

Note 10 Other operating expenses

	2022	*2021*
Exchange rate differences	-2 744	–
Loss on disposal of fixed assets	-96	-867
Total	-2 840	-867

Note 11 Exchange rate differences - net

	2022	*2021*
Exchange profit	946	475
Exchange loss	-2 744	-867
Total	-1 798	-392

Note 12 Income tax

Reconciliation of effective tax

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

	2022		2021	
Profit/loss before tax		-496 799		-365 872
Tax according to the parent company's tax rate	20,6%	102 341	20,6%	75 370
Tax effects of:				
Tax-deductible items recognised against shareholders' equity	2,2%	10 953	2,1%	7 638
Other non-deductible expenses	-0,6%	-2 953	-0,9%	-3 333
Non-taxable income	0,0%	–	0,0%	–
Reversal of previously non-deductible expenses	0,4%	1 883	0,6%	2 349
Increase in loss carry-forwards without corresponding capitalisation of deferred tax.	-22,6%	-112 223	-22,4%	-82 023
Foreign tax rates	0,0%	-2	0,0%	0
Income tax	0,0%	-2	0,0%	0

Note 13 Intangible assets

	Capitalised development costs	Total
For the 2021 financial year		
Opening carrying amount	518 744	518 744
Assets developed internally	148 783	148 783
Depreciation	-92 294	-92 294
Other	-169	-169
Carrying amount	575 064	575 064
At 31 December 2021		
Cost	744 174	744 174
Accumulated impairment and amortisation	-169 110	-169 110
Carrying amount	575 064	575 064
For the 2022 financial year		
Opening carrying amount	575 064	575 064
Assets developed internally	72 845	72 845
Depreciation	-139 902	-139 902
Other		–
Carrying amount	508 006	508 006
At 31 December 2022		
Cost	817 019	817 019
Accumulated impairment and amortisation	-309 012	-309 012
Carrying amount	508 006	508 006

Depreciation and amortisation costs of kSEK 139 092 (kSEK 92 294) are included in the depreciation, amortisation and impairment of property, plant and equipment and intangible non-current assets in the consolidated statement of income and other comprehensive income.

Note 14 Property, plant and equipment

	Leasehold improvements	Equipment, tools, fixtures and fittings	Total
For the 2021 financial year			
Opening carrying amount	4 692	19 033	23 725
Purchases	3 551	40 443	43 994
Divestment and disposals	–	-12 727	-12 727
Depreciation	-1 159	-7 583	-8 742
Reversal of depreciation on divestments and disposals	–	12 727	12 727
Closing carrying amount	**7 084**	**51 893**	**58 977**
At 31 December 2021			
Cost	10 054	69 990	80 045
Accumulated depreciation	-2 971	-18 097	-21 067
Carrying amount	**7 084**	**51 893**	**58 977**
For the 2022 financial year			
Opening carrying amount	7 084	51 893	58 977
Purchases	3 804	39 199	43 003
Divestment and disposals	–	-1 213	-1 213
Depreciation	-1 561	-13 290	-14 851
Reversal of depreciation on divestments and disposals	–	1 117	1 117
Closing carrying amount	**9 327**	**77 706**	**87 033**
At 31 December 2022			
Cost	13 859	107 976	121 834
Accumulated depreciation	-4 532	-30 270	-34 801
Carrying amount	**9 327**	**77 706**	**87 033**

Depreciation and amortisation costs of kSEK 14 851 (kSEK 8 742) are recognised in depreciation, amortisation and impairment of property, plant and equipment and intangible non-current assets in the consolidated statement of income and other comprehensive income. KSEK 13,624 (kSEK 0) of property, plant and equipment concerns equipment in subsidiaries in South Africa.

Note 15 Financial instruments by category

31 Dec 2021	Financial assets measured at amortised cost	Total
Assets on balance sheet		
Trade receivables	4 429	4 429
Other current receivables	6 397	6 397
Cash and cash equivalents	503 388	503 388
Total	**514 213**	**514 213**

31 Dec 2021	Financial liabilities measured at amortised cost	Total
Liabilities on balance sheet		
Other non-current and current financial liabilities	22 622	22 622
Lease liabilities	79 497	79 497
Advances from customers	191	191
Trade payables	42 028	42 028
Total	**144 338**	**144 338**

The fair value of the financial assets and liabilities corresponds in all material respects to the carrying amount.

31 Dec 2022	Financial assets measured at amortised cost	Total
Assets on balance sheet		
Other long-term receivables	2 010	2 010
Trade receivables	786	786
Other current receivables	487	487
Cash and cash equivalents	226 858	226 858
Total	**230 141**	**230 141**

31 Dec 2022	Financial liabilities measured at amortised cost	Total
Liabilities on balance sheet		
Other non-current and current financial liabilities	56 951	56 951
Lease liabilities	92 423	92 423
Advances from customers	202	202
Trade payables	37 887	37 887
Total	**187 463**	**187 463**

Note 16 Trade receivables

	31 Dec 2022	31 Dec 2021
Trade receivables	786	4 429
Less: loss allowance	–	–
Trade receivables - net	**786**	**4 429**

The reported amount, per currency, of consolidated trade receivables and other receivables is as follows:

	31 Dec 2022	31 Dec 2021
SEK	590	4 316
EUR	192	–
ZAR	–	113
DKK	4	–
Total	**786**	**4 429**

Changes in the reserve for expected loan losses for the 2022 financial year were as follows:
kSEK 0 was reserved to cover doubtful receivables for 2022.

The maximum exposure to credit risk of the trade receivables on the balance sheet date is the carrying amount stated above.
The fair value of trade receivables corresponds to the carrying amount since the discount effect is not material.
No trade receivables were pledged as collateral for any liability.

Note 17 Other current receivables

	31 Dec 2022	31 Dec 2021
Advance payments for goods and services	58	6 025
VAT claim	457	–
Other	429	372
Total	**944**	**6 397**

Note 18 Prepaid expenses and accrued income

	31 Dec 2022	31 Dec 2021
Prepaid rent	4 832	2 788
Prepaid insurance	436	452
Other prepaid expenses	486	2 066
Total	**5 753**	**5 306**

Note 19 Cash and cash equivalents

	31 Dec 2022	31 Dec 2021
Bank balances	226 858	503 388
Total	**226 858**	**503 388**

Note 20 Share capital and other contributed capital

	Number of shares	Share capital	Ongoing new share issues	Other paid-in capital
At 1 January 2021	**104 102 400**	**52 051**	**–**	**1 821 219**
New share issue	10 638 225	5 319	–	590 421
Redemption of warrants - payment received	1 136 556	568	–	40 144
Less: Transaction costs related to share issue	–	–	–	-37 076
At 31 December 2021	**115 877 181**	**57 939**	**–**	**2 414 709**
New share issue	202 785 065	101 393	–	198 729
Redemption of warrants - payment received	–	–	–	–
	318 662 246	**159 331**	**–**	**2 613 438**
Less: Transaction costs related to share issue	–	–	–	-52 045
At 31 December 2022	**318 662 246**	**159 331**	**–**	**2 561 393**

At 31 December 2022, share capital comprised 318 662 246 ordinary shares with a quota value of SEK 0.50.

All shares issued by the parent company are paid in full.

Other paid-in capital consist of a share premium reserve. The share premium reserve consists of issue expenses which for the 2022 financial year amounted to kSEK 52 045 and premium amount for new issues.

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

Note 21 Deferred tax

Deferred tax assets are recognised on tax loss carry-forwards or other deficits to the extent that it is probable that these can be used against future taxable profits. Unutilised loss carry-forwards for which no deferred tax assets are recognised amounted to mSEK 2 069 on 31 December 2022 (31 December 2021: mSEK 1 526). Loss carry-forwards do not fall due at any specific point of time.

The amount for unutilized loss carryforwards includes deferred tax related to pension provisions for endowment insurance, including estimated payroll tax.

Deferred tax is calculated according to the balance sheet method based on temporary differences between reported and tax values of assets and liabilities. The valuation of deferred tax is based on how the underlying assets or liabilities are expected to be realized or settled. Deferred tax is calculated by applying the tax rates and tax rules that are decided or in practice decided as of the balance sheet date.

Note 22 Loan liabilities

	2022-12-31	*2021-12-31*
Non-current		
Swedish Energy Agency	22 608	22 622
Swedish Tax Agency	34 342	–
Total	56 951	22 622
Total borrowing	56 951	22 622

Long-term liabilities to the Tax Agency refer to a temporary deferral due to COVID-19 and the short-term part is among other liabilities and amounts to kSEK 16 748 (36 783).

Note 23 Accrued expenses and deferred income

	2022-12-31	*2021-12-31*
Accrued holiday pay liability	10 586	12 830
Accrued social security contributions	3 780	4 393
Accrued reserve time bank	1 157	1 151
Accrued consultant fee	25 959	30 194
Other items	10 385	10 817
Totalt	51 867	59 386

Note 23.1 Government grants

Government grants for production development of kSEK 388 (486) are included in the item "Other items". There are unfulfilled conditions linked to grants regarding purpose, survival of companies and the like within five years with gradual write-down of aid amounts during the period.
Pledged collateral linked to government grants can be found under Note 28.

Note 24 Leases

Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	31 Dec 2022	*31 Dec 2022*
Right-of-use assets		
Premises	90 165	78 194
Vehicles	47	79
Other	2 153	1 830
Total	92 365	80 102
Lease liabilities		
Non-current	75 155	65 574
Current	17 268	13 923
Total	92 423	79 497
Within 1 year	17 268	13 923
Within 1 and 5 years	51 669	47 766
More than 5 years	23 486	17 808

Additions to right-of-use assets during 2022 amounted to kSEK 29 502 (67 042). This amount includes the cost of newly acquired rights of use during the year and the amount of reassessment of lease liabilites due to changes in lease periods.

Amounts recognised in profit or loss

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

Depreciation of right-of-use assets	2022	2021
Premises	16 238	10 460
Vehicles	47	66
Other	967	770
Interest expenses (included in finance costs)	-2 526	-916
Expenses relating to short-term leases (included in operating expenses)	-974	-1 219
Expense relating to leases of low-value assets that are not short-term leases (included in operating expenses)	-45	-67
Amortisation of lease liability	-16 346	-11 031

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

Amounts recognised in the cash flow report	2022	2021
In the cash flow the following amounts are related to lease agreements	-19 891	-13 233

The cash flow above includes amounts related to leases recognised as lease liabilities, as well as amounts paid for variable lease payments, short-term leases and low-value leases.

For more information regarding maturity analyses, see Note 4.1

Note 25 Share-based remuneration

The following is a summary of the group's options programmes on 31 December 2022:

Designation	Subscription period	Number of options	Price	Number of share awards
TO25	190308-240307	16 666 667	11	2 242 420
TO28	230101-230630	2 200 000	33	2 662 000
TO29	240101-240630	630 000	125	762 300
TO30	240101-250228	260 000	125	314 600
TO31	260301-260831	350 000	58	423 500
TO33	230215-230223	28 969 295	0,50-2,22	28 969 295
		49 075 962		35 374 115

Outstanding warrants 2022-01-01	Allocated	Redeemed	Expired	Outstanding warrants 2022-12-31	Redeemable warrants 2022-12-31
20 016 667	29 319 295	–	260 000	49 075 962	16 666 667

The warrants in TO31 have been issued to the board on market terms following a decision by the Annual General Meeting. The warrants in TO32 have been issued to the company's personnel on market terms, these warrants were under registration per 2022-12-31 and is not included in the table. Two option programs expired in 2022 and no shares were issued for these warrants.

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

Note 26 Earnings per share

	2022	*2021*
SEK		
Basic earnings per share	-3.23	-3.23
Measurements used in calculating earnings per share		
Profit attributable to parent company shareholders used in calculating basic and diluted earnings per share		
Profit attributable to parent company shareholders, kSEK	-496 801	-365 872
Number		
Weighted average number of ordinary shares used as the denominator in calculating basic earnin	153 656 316	113 259 254
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	153 656 316	113 259 254
Warrants		
Adjustment for calculation of diluted earnings per share:	–	–

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

Note 27 Related-party transactions

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

The following transactions occurred with related parties:

Purchase of services	2022	2021
Masen (holds 16 666 667 warrants in the company and has a representative on the company's Board of Directors)	–	7 575
Bertil Villard (Board member)	3	2
Hans Ola Meyer (Board member)	1	1
Elaine Grunewald (Board member)	2	2
Total	**6**	**7 581**

Accrued expenses in respect of services performed by Masen in conjunction with the company's demonstration facility in Ouarzazate, Morocco, amounted to kSEK 25 000 on 31 December 2022.

Related party transactions were carried out on market terms.

Note 28 Pledged assets and contingent liabilities

A business mortgage of kSEK 485 is registered, the mortage is linked to a state grant in accordance with Note 23.1.

Note 29 Changes in liabilities belonging to financing operations

	1 Jan 2021	Cash in flows	Cash out flows	Non-cash items	31 Dec 2021
Non-current liabilities	22 674	–	-53	–	22 622
Lease liabilities	23 698	66 830	-11 031	66 830	79 497
Total	**46 372**	**66 830**	**-11 084**	**66 830**	**102 119**

	1 Jan 2022	Cash in flows	Cash out flows	Non-cash items	31 Dec 2022
Non-current liabilities	22 622	34 342	-13	–	56 951
Lease liabilities	79 497	29 025	-16 098	29 025	92 423
Total	**102 119**	**63 367**	**-16 112**	**29 025**	**149 374**

Note 30 Adjustment for non-cash items

	2022	2021
Depreciation and amortisation	172 005	112 332
Impairment	2 626	-86
Total	**174 632**	**112 246**

Note 31 Post-balance sheet events

In January, Azelio announced that sales of the Company's energy storage system have been slower than previously assumed. This affects the cash flow of the Company. The consequence of the delayed sales and its impact on cash flow led to the announcement from the Company that the delivery target that was set for 2023 will not be met, and that the Company will need additional financing during the second quarter of 2023.

Gustaf Albèrt was appointed new CFO of Azelio in February and took up his position on 12 April.

On May 2, the Company communicated about its capital raising plans and process, which include both a loan and the intention to carry out a rights issue. A loan of SEK 30 million has been received from the Company's principal shareholder. The loan is on market terms and constitutes a subscription and guarantee commitment in the rights issue. Repayment will be made on that part of the loan, if any, that cannot be used for settlement in the upcoming rights issue. Guarantor compensation is not issued. Azelio's Board of Directors intends to resolve on a rights issue of approximately SEK 80 million, of which SEK 30 million is guaranteed by the above-mentioned loan. An extraordinary general meeting was held on June 2, 2023, where the loan described above, and the necessary adjustments to enable the rights issue, were approved.

On May 2, it was also announced that the Company is negotiating a strategic partnership that may include a significant commercial order as well as commercial and industrial cooperation. The strategic partner is a major international player with extensive ambitions in renewable energy. The negotiations on a long-term strategic partnership are taking place in two stages, with the parties having a common ambition to reach a declaration of intent during the summer and a final agreement in the autumn of this year.

Cost reduction measures were also communicated on 2 May. Azelio is implementing several measures, including staff reductions and organisational changes, to reduce its costs. Today, the Company's assessment is that the measures, when fully implemented, will lead to cost reductions of approximately SEK 100 million on an annualized basis, of which staff reductions (employees and consultants) correspond to approximately SEK 65 million.

Two new subsidiaries were registered in the first quarter of 2023, Azelio Inc. in the US and Azelio APAC Pty Ltd in Australia.

In April, the Disciplinary Committee at Nasdaq Stockholm inflicted the Company to pay a fine equivalent to two annual fees. The background is the press release that the Company published on November 18, 2022, at 13.30, where the Company informed that information about a potential project, which was under negotiation, had been presented at a webinar the same day.

In connection with the publication of the interim report for the first quarter of 2023, it appeared that the Company had approximately three months of liquidity, and as a result of this the Company was added to Nasdaq's observation list.

On March 1, Azelio announced the outcome of the exercise of warrants of series TO33. A total of 8,195,732 warrants of series TO33 were exercised for the subscription of 8,195,732 shares at a subscription price corresponding to the quota value of SEK 0.51 per share. Through the exercise of the warrants of series TO33, Azelio received approximately SEK 4.2 million before issue costs.

The extraordinary general meeting on June 2 decided, in accordance with the board's proposal, to approve a loan agreement between the Company and the Company's main owner and board member, Kent Janér (through Blue Marlin AB). The loan has been paid to the Company and thus strengthened the Company's liquidity.

Notes – parent company

Note 32 Net sales

	2022			2021		
	Sweden	EU	Outside the EU	Sweden	EU	Outside the EU
Revenue from						
Product	–	–	5 757	–	–	486
Service obligations	–	–	–	92	–	–
Spare parts	163	95	–	–	213	20
Other	282	–	–	351	–	–
Total	445	95	5 757	443	213	507

Note 33 Other operating income

	2022	2021
Contributions related to project financing and government grants	857	1 483
Exchange rate differences	946	–
Other	28	475
Total	1 831	1 958

Note 34 Other operating expenses

	2022	2021
Exchange rate differences	-2 744	-867
Loss on disposal of fixed assets	-96	–
Total	-2 840	-867

Note 35 Auditor remuneration

	2022	2021
KPMG AB		
Audit engagement	954	1 539
Auditing activities in addition to audit engagement	95	73
Total	1 049	1 612

Note 36 Employee benefits, etc.

	2022	2021
Salaries and other benefits	122 511	125 393
Social security contributions	37 910	38 300
Pension costs - defined-contribution plans	15 950	17 237
Total employee benefits	176 371	180 930

Salaries, other remuneration and social security benefits

	2022		2021	
	Salaries and remuneration	*Social security expenses*	*Salaries and remuneration*	*Social security expenses*
Board members, CEO and other senior executives	17 495	8 096	17 872	8 002
(of which, bonuses)	*(506)*		*(–)*	
(of which, pension costs)		*(3 021)*		*(3 242)*
Other employees	105 016	45 764	107 521	47 535
(of which, bonuses)	*(–)*		*(–)*	
(of which, pension costs)		*(12 929)*		*(13 995)*
Parent company total	122 511	53 860	125 393	55 537

Average number of employees

	2022	*Of whom men*	2021	*Of whom men*
Parent company total	180	76%	173	76%

Gender distribution in the parent company for board members and other senior executives

	2022	*Percentage of women*	2021	*Percentage of women*
Board members	7	14%	7	14%
CEO and other senior executives	7	29%	7	14%
Parent company total	14	21%	14	14%

Remuneration of senior executives
Remuneration of senior executives amounts to:

	2022	*2021*
Salaries and other short-term remuneration	14 843	11 737
Pension costs	3 021	3 242
Total remuneration of senior executives	17 864	14 980

Note 37 Tax on net profit for the year
Recognised tax in the income statement

	2022	*2021*
Current tax		
Current tax on net profit for the year	–	–
Adjustments for previous years	–	–
Total current tax	–	–
Total recognised tax	–	–

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

	2022	*2021*
Profit/loss before tax	-494 866	-365 446
Income tax calculated according to local tax rate in Sweden	101 942	78 205
Tax effects of:		
Deductible items booked against equity	10 953	7 638
Non-deductible expenses	-2 953	-3 333
Income/loss not subject to tax	1 883	2 349
Tax losses for which no deferred tax asset has been recognised	-111 825	-84 859
Total	–	–
Total recognised tax	–	–

Note 38 Participations in subsidiaries

	31 Dec 2022	31 Dec 2021
Opening cost	38 020	34 055
Investments during the year	1	–
Disposals during the year	-42 011	–
Contributions	4 091	3 965
Closing accumulated cost	101	38 020
Opening impairment	-37 970	-34 005
Disposals during the year	42 011	–
Impairment for the year	-4 091	-3 965
Closing accumulated impairment	-50	-37 970
Closing accumulated impairment	51	50

Subsidiary/Corp. Reg. No./Registered office	Number of shares	Participation in %	Carrying amount 31 Dec 2022	Carrying amount 31 Dec 2021
Cleanergy (Beijing) New Energy Technology Co.Ltd, Kina	1	100	–	1
Cleanergy AB, 559153-7542, Göteborg, Sverige	500	100	50	50
Azelio Holdings (Pty) Ltd, 2021/012483/07, Cape Town, South Africa	100	100	1	–

Note 39 Receivable Group companies

	31 Dec 2022	31 Dec 2021
Opening receivables Group companies	–	–
Receivables during the year	16 331	–
Closing carrying amount	16 331	–

Loan to Azelio Holdings (Pty) Ltd of 16 472 tkr. The loan is interest free during 2022.

Note 40 Other long term receivables

	31 Dec 2022	31 Dec 2021
Opening other long term receivables	–	–
Long term receivables during the year	2 010	–
Closing carrying amount	2 010	–

The claim applies to the long-term part of advances to material suppliers.

Note 41 Intangible assets

	Capitalised development costs	Summa
Per 1 januari 2021		
Cost	595 560	595 560
Accumulated impairment and amortisation	-76 816	-76 816
Carrying amount	**518 744**	**518 744**
For the 2021 financial year		
Opening carrying amount	**518 744**	**518 744**
Assets developed internally	148 783	148 783
Depreciation	-92 294	-92 294
Other	-169	-169
Closing carrying amount	**575 064**	**575 064**
At 31 December 2021		
Cost	744 174	744 174
Accumulated impairment and amortisation	-169 110	-169 110
Carrying amount	**575 064**	**575 064**
For the 2022 financial year		
Ingående redovisat värde	**575 064**	**575 064**
Assets developed internally	72 845	72 845
Depreciation	-139 902	-139 902
Closing carrying amount	**508 006**	**508 006**
At 31 December 2022		
Cost	817 019	817 019
Accumulated impairment and amortisation	-309 012	-309 012
Carrying amount	**508 006**	**508 006**

Depreciation and amortisation costs of kSEK 139 902 (kSEK 92 294) are included in depreciation, amortisation and impairment of property, plant and equipment and intangible non-current assets in the parent company's income statement.

Note 42 Property, plant and equipment

	Leasehold improvements	Equipment, tools, fixtures and fittings	Total
At 1 January 20201			
Cost	6 503	42 169	48 673
Accumulated depreciation	-1 811	-23 136	-24 948
Carrying amount	**4 692**	**19 033**	**23 725**
For the 2021 financial year			
Opening carrying amount	4 692	19 033	23 725
Purchases	3 551	40 443	43 994
Divestments and disposals	–	-12 727	-12 727
Depreciation	-1 159	-7 583	-8 742
Reversal of depreciation on divestments and disposals	–	12 727	12 727
Utgående redovisat värde	**7 084**	**51 893**	**58 977**
At 31 December 2021			
Cost	10 054	69 885	79 940
Accumulated depreciation	-2 970	-17 992	-20 963
Carrying amount	**7 084**	**51 893**	**58 977**
For the 2022 financial year			
Opening carrying amount	7 084	51 893	58 977
Purchases	3 804	25 575	43 234
Divestments and disposals	–	-1 213	-15 069
Depreciation	-1 561	-13 290	-14 851
Reversal of depreciation on divestments and disposals	–	1 117	1 117
Closing carrying amount	**9 327**	**64 081**	**73 408**
At 31 December 2022			
Cost	13 859	94 247	108 105
Accumulated depreciation	-4 532	-30 165	-34 697
Carrying amount	**9 327**	**64 081**	**73 408**

Depreciation and amortisation costs of kSEK 14 851 (kSEK 8 742) are included in the depreciation/amortisation and impairment of property, plant and equipment and intangible non-current assets in the parent company's income statement.

Note 43 Deferred tax

Deferred tax assets are recognised on tax loss carry-forwards or other deficits to the extent that it is probable that these can be used against future taxable profits. No deferred tax is recognised in respect of loss carry-forwards because the parent company has concluded that the criteria in IAS 12 for recognising deferred tax have not been met. Deferred tax assets are recognised on tax loss carry-forwards or other deficits to the extent that it is probable that these can be used against future taxable profits.
Unutilised loss carry-forwards for which no deferred tax assets are recognised amounted to mSEK 2 069 on 31 December 2022 (31 December 2021: mSEK 1 526). Loss carry-forwards do not fall due at any specific point in time.

Note 44 Cash and bank balances

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

	31 Dec 2022	31 Dec 2021
Bank balances	224 135	502 140
Total	**224 135**	**502 140**

Note 45 Trade receivables

	31 Dec 2022	31 Dec 2021
Trade receivables	786	4 429
Less: loss allowance	–	–
Trade receivables - net	**786**	**4 429**

The carrying amounts of the parent company's trade and other receivables are denominated as follows:

	31 Dec 2022	31 Dec 2021
SEK	590	4 316
EUR	192	–
ZAR	–	113
DKK	4	–
Total	**786**	**4 429**

Changes in the reserve for expected loan losses for the 2022 financial year were as follows:

kSEK 0 was reserved as doubtful receivables in 2022.

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

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

No trade receivables were pledged as collateral for any liability.

Note 46 Other current receivables

	31 Dec 2022	*31 Dec 2021*
Advance payment for goods and services	58	6 025
Other	429	306
Total	**487**	**6 332**

Note 47 Prepaid expenses and accrued income

	31 Dec 2022	*31 Dec 2021*
Prepaid rental charges	4 832	2 788
Prepaid insurance	436	452
Other prepaid expenses	2 124	3 461
Total	**7 391**	**6 701**

Note 48 Loan liabilities

	31 Dec 2022	*31 Dec 2021*
Non-current		
Swedish Energy Agency	22 608	22 622
Swedish Tax Agency	34 342	–
Total	**56 951**	**22 622**
Total borrowing	**56 951**	**22 622**

Not 49 Accrued expenses and deferred income

	31 Dec 2022	*31 Dec 2021*
Accrued holiday pay liability	10 586	12 830
Accrued social security contributions	3 780	4 393
Accrued reserve time bank	1 157	1 151
Accrued consultant fee	25 959	30 194
Other items	10 385	10 817
Total	**51 867**	**59 386**

Note 50 Leases

Lease commitments

The parent company rents essentially all commercial premises with non-cancellable leases. The lease terms vary between 3 and 10 years and most leases can be extended at the end of the lease term for a fee on market terms.

The income statement for the 2022 financial year includes lease expenses amounting to kSEK 20 448 (kSEK 13 232) pertaining to machinery, vehicles and rental premises.

The future lease payments for non-cancellable leases are as follows:

	2022	*2021*
Within 1 year	20 560	16 795
Between 1 and 5 years	57 749	40 198
More than 5 years	25 377	19 737
Total	103 685	76 730

Note 51 Share-based remuneration

See group note 25 for information on the parent company's share-based remuneration.

Note 52 Share capital

See group note 20 for information on the parent company's share capital.

Note 53 Transactions with related parties

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

The following transactions occurred with related parties:

Purchase of services:	*2022*	*2021*
Masen (holds 16 666 667 warrants in the company and has a representative on the board of the company).	–	7 575
Bertil Villard (Board member)	3	2
Hans Ola Meyer (Board member)	1	1
Elaine Grunewald (Board member)	2	2
Total	6	7 580

Accrued expenses in respect of services performed by Masen in conjunction with the company’s demonstration facility in Ouarzazate, Morocco, amounted to kSEK 25 000 on 31 December 2022.

The related party transactions were carried out on market terms.

Note 54 Pledged assets and contingent liabilities

See group note 28 for information on the pledged assets and contingent liabilities.

Note 55 Changes to liabilities that belong to financing activities

	1 Jan 2021	Cash inflow	Cash outflow	Non-cash items	31 Dec 2021
Non-current liabilities	22 674	–	-53	–	22 622
Total	22 674	–	-53	–	22 621

	1 Jan 2022	Cash inflow	Cash outflow	Non-cash items	31 Dec 2022
Non-current liabilities	22 622	34 342	-13	–	56 950
Total	22 622	34 342	-13	–	56 950

Note 56 Adjustment for non-cash items

	2022	2021
Depreciation and amortisation	154 753	101 036
Impairment	3 600	3 879
Other non-cash items	–	–
Total	158 353	104 915

Note 57 Post-balance sheet events

In January, Azelio announced that sales of the Company's energy storage system have been slower than previously assumed. This affects the cash flow of the Company. The consequence of the delayed sales and its impact on cash flow led to the announcement from the Company that the delivery target that was set for 2023 will not be met, and that the Company will need additional financing during the second quarter of 2023.

Gustaf Albèrt was appointed new CFO of Azelio in February and took up his position on 12 April.

On May 2, the Company communicated about its capital raising plans and process, which include both a loan and the intention to carry out a rights issue. A loan of SEK 30 million has been received from the Company's principal shareholder. The loan is on market terms and constitutes a subscription and guarantee commitment in the rights issue. Repayment will be made on that part of the loan, if any, that cannot be used for settlement in the upcoming rights issue. Guarantor compensation is not issued. Azelio's Board of Directors intends to resolve on a rights issue of approximately SEK 80 million, of which SEK 30 million is guaranteed by the above-mentioned loan. An extraordinary general meeting was held on June 2, 2023, where the loan described above, and the necessary adjustments to enable the rights issue, were approved.

On May 2, it was also announced that the Company is negotiating a strategic partnership that may include a significant commercial order as well as commercial and industrial cooperation. The strategic partner is a major international player with extensive ambitions in renewable energy. The negotiations on a long-term strategic partnership are taking place in two stages, with the parties having a common ambition to reach a declaration of intent during the summer and a final agreement in the autumn of this year.

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Two new subsidiaries were registered in the first quarter of 2023, Azelio Inc. in the US and Azelio APAC Pty Ltd in Australia.

In April, the Disciplinary Committee at Nasdaq Stockholm inflicted the Company to pay a fine equivalent to two annual fees. The background is the press release that the Company published on November 18, 2022, at 13.30, where the Company informed that information about a potential project, which was under negotiation, had been presented at a webinar the same day.

In connection with the publication of the interim report for the first quarter of 2023, it appeared that the Company had approximately three months of liquidity, and as a result of this the Company was added to Nasdaq's observation list.

On March 1, Azelio announced the outcome of the exercise of warrants of series TO33. A total of 8,195,732 warrants of series TO33 were exercised for the subscription of 8,195,732 shares at a subscription price corresponding to the quota value of SEK 0.51 per share. Through the exercise of the warrants of series TO33, Azelio received approximately SEK 4.2 million before issue costs.

The extraordinary general meeting on June 2 decided, in accordance with the board's proposal, to approve a loan agreement between the Company and the Company's main owner and board member, Kent Janér (through Blue Marlin AB). The loan has been paid to the Company and thus strengthened the Company's liquidity.

Note 58 Key ratio definitions

Balance sheet total: Total assets
Equity/assets ratio: Total equity/Total assets

Note 59 Proposed appropriation of profit/loss

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

		31 Dec 2022	2021-12-31
Share premium reserve		2 561 393	2 414 709
		-1 943 004	-1 635 484
Loss for the year		-494 866	-365 446
	Total	123 523	413 779
To be carried forward		123 523	413 779
	Total	123 523	413 779

The income statement and balance sheet will be presented to the Annual General Meeting on 30 June 2023 for adoption.

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

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

Gothenburg 2023-06-09

Bo Dankis
Chairman

Hicham Bouzekri
Board member

Elaine Grunewald
Board member

Kent Janér
Board member

Hans Ola Meyer
Board member

Pär Nuder
Board member

Bertil Villard
Board member

Jonas Wallmander
CEO

Our audit report has been submitted 2023 - 06 - 09
KPMG AB

Fredrik Waern
Authorized public accountant

Auditor's Report

To the general meeting of the shareholders of Azelio AB, corp. id 556714-7607

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Azelio AB for the year 2022. The annual accounts and consolidated accounts of the company are included on pages 15-55 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2022 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2022 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the statement of comprehensive income and statement of financial position for the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our 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 opinions.

Material Uncertainty Related to Going Concern

We draw attention to the Administration report section Significant risks and uncertainties and note 3 Significant accounting estimates and judgements, which state that at the time of publication of this report the company lacks liquidity and cash flow to be able to continue the operation of the company for the next 12 months, the board´s assessment is that the company´s cash will last for approximately 3 months unless new capital is addedd and until the company's operating activities generate a positive cashflow the group is dependent of external financing, either from shareholders or from other sources of financing. These circumstances indicate, together with other matters as set forth in the section Significant risks and uncertainties in the administration report and in note 3, that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern.. Our opinions are not modified in respect of this matter.

Other Information than the annual accounts and consolidated accounts

This document contains other information than the annual accounts and consilidated accounts on page 1-14. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden 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 annual accounts and consolidated accounts.

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 annual accounts and consolidated accounts, 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 opinions. 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 the company's internal control relevant to our 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any 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 annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. 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 a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Azelio AB for the year 2022 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our 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 opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.
The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.
The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Göteborg 2023 - 06 - 09

KPMG AB

Fredrik Waern

Authorized Public Accountant