FIRST QUARTER 2022

Group financial development

Q1: January – March 2022

- Net sales amounted to kSEK 323 (97)
- Operating profit/loss (EBIT) amounted to kSEK -129,584 (-64,733) after depreciation and amortisation of kSEK -40,231 (-4,350)
- Earnings per share before and after dilution totalled SEK -1.12 (-0.61)
- Profit/loss for the period amounted to kSEK -130,322 (-65,060)
- Cash flow for the period amounted to kSEK -154,264 (498,911)
- Cash and bank balances amounted to kSEK 349,170 (831,458)

Significant events

Q1: January – March 2022

- The Board of Directors appointed Executive Vice President Jonas Wallmander as the new CEO, to succeed Jonas Eklind. Jonas Wallmander has worked at Azelio since 2011.
- A project to certify the TES.POD in the US was initiated in conjunction with MMR Group, in Louisiana. The certification will ensure that the product is compliant with U.S. standards. The storage units will be adapted to the U.S. standards before installation in early fall.
- Together with Khalifa University and Masdar, Azelio inaugurated the two commercial TES.POD® units that have supplemented the installation in Masdar City, Abu Dhabi. The units will be demonstrated and evaluated by Khalifa University for inclusion in the Masdar product portfolio.

Events after the end of period

- The latest UN Climate Panel Report discussing the increasing risks of climate change and the war in Ukraine highlights the urgent need to transition from fossil fuels to renewables. These external factors are expected to drive demand for Azelio's solutions.
- New operational targets were adopted which state that at the end of 2022, a handful of projects should have been delivered to make the product bankable, making it possible for customers to insure and finance projects with the technology. For 2023, the company aims to deliver at least 10 projects of 0.5-5 MW. In 2026, Azelio targets to deliver projects comprising at least 1 GWh (ie 1,000 MWh) in total installed electricity storage capacity.

Key figures for the Group

	Jan–Mar 2022	Jan-Mar 2021	Full year 2021
Net sales, kSEK	323	97	1,162
Operating profit/loss, kSEK	-129,584	-64,733	-364,175
Profit/loss for the period, kSEK	-130,322	-65,060	-365,872
Earnings/loss per share before and after dilution, SEK	-1.12	-0.61	-3.23
Equity, kSEK	877,817	1,275,664	1,008,102
Equity/assets ratio, %	79	87	80
Cash flow from operating activities, kSEK	-121,645	-28,158	-234,579
Cash and bank balances, kSEK	349,170	831,458	503,388

> *"Our aim is to be a key player in establishing long duration energy storage as a vital component of energy systems worldwide. Azelio can make a major difference. Together as a team, we will make sure that happens."*
>
> *Jonas Wallmander, CEO*

Comments from the CEO

Well-positioned for commercialisation

First of all, I am grateful to have been given the trust by the board to take over as CEO of Azelio. Being in the organisation since 2011, I have a deep understanding of what is required to bring our product to the market in a larger scale and I have been directly involved in key customer negotiations to date. As the global transition from fossil fuels to renewable energy continues at a fast pace, there will be a large and growing need to close the 24-hour cycle for renewables. The novel concept of long duration energy storage is set to become a familiar category over the coming years. My aim is for Azelio to spearhead this development.

The latest UN Climate Panel Report discussing the increasing risks of climate change and the war in Ukraine highlights the urgent need to transition from fossil fuels to renewables. We expect that these external factors will drive demand for Azelio's solutions.

Bringing focus to our operations

As the new CEO, my focus is to take Azelio into the next phase, getting the product out in the market. We have set new operational targets, which outlines a gradual increase in sales to 1 GWh in installed storage capacity in 2026, beginning this year with making the product bankable, making it possible for customers to insure and finance projects with the technology. To succeed in fulfilling the targets, I have launched four important initiatives which will bring focus to our operations.

Firstly, I have decided to focus sales to a few sizeable markets, selected on the basis that we can offer customers there a particularly strong business case. These markets are the US, Australia, the MENA region (Middle East and North Africa) and Southern Africa. I am appointing heads for each of these markets, in order to come closer to customers and forge stronger relationships, while also securing that the local infrastructure is in place to assist in preparation, installation and after-market services.

I am convinced that a local presence paired with decentralised decision making will speed up commercialisation. Our aim in all these markets, is first to win orders for 0.5-5 MW systems, which can serve as models for other customers.

Secondly, as a next step after DNV's technical validation completed in December 2021, we are prioritising the generation of validation data from systems operating under real conditions. Customers are demanding data generated under similar conditions as their own, and data are also a perquisite to achieve "bankability", enabling customers to finance and insure projects. The commercial project with Masdar and Khalifa University in Abu Dhabi is an essential part of this effort. We are also continuing to use the certification company DNV for third-party validation of all our data series.

Every existing and new installation add to our bank of operational data. To generate such data as soon as possible, we have also decided to invest in strategically selected demonstration systems set up on commercial terms together with partners and customers.

We have also started the process to gain a UL certification for the US, a prerequisite to succeed in a broader commercial roll-out in that market. Together with MMR Group, one of our partners in the US, we will adapt the product to meet US standards. We expect to have the necessary certifications in place during 2023. This is our third important initiative.

Cost containment

The focus on commercialisation has also prompted our fourth larger initiative; to pause a range of longer-term projects related to sourcing, manufacturing, and customer installations, while targeting timely delivery of high-quality products. This means that going forward, our production rate will be directly tied to sales orders in order to achieve a more efficient cash flow. Consequently, we no longer have any specific independent targets for production capacity. This will lower our running costs significantly, starting to take effect in the current, second quarter.

In our continued work with sourcing and production, we experience that lead times for gaining access to certain materials are increasing, making shipping and installation harder to plan.

Ensuring financial capacity for the next phase

As communicated in our Year-end report, we have initiated a process to strengthen our financial position in 2022. The capital need is estimated to SEK 300-500 million and we are evaluating different options, including debt and equity. The capital will primarily be used to drive sales in core markets, finance necessary investments to optimize production and by that increasing profitability.

Execution is key

My short-term mission is to get the TES.POD out on the market – and I share this mission with the entire Azelio team. We will put all efforts into getting the TES.POD out to customers, to generate data while achieving efficient production. Our aim is to be a key player in establishing long duration energy storage as a vital component of energy systems worldwide. Azelio can make a major difference. Together as a team, we will make sure that happens.

Jonas Wallmander, CEO

The business

We power the evolution of a renewable society

Storing renewable energy, and making it available on demand around the clock, allows Azelio to drive innovation, growth, and prosperity in a sustainable manner. In this way, Azelio is powering the development of a renewable society – for people, enterprises, and the planet. The transition to renewable energy needs to be accelerated in order to speed up the electrification of a growing society and limit the rise in global temperatures to 1.5°C. While it is clear that the transition from fossil to renewable energy is well on its way, intermittent energy, such as solar and wind power, has its natural limits if it cannot be stored. With this in mind, we developed a solution that makes energy from renewable sources available and competitive when and where it is needed, 24 hours a day.

Redefining the energy infrastructure

Energy sources such as the sun and wind only produce energy at certain times of the day. An increasing dependence on renewable energy from these types of intermittent energy sources puts the electricity grids under pressure marked by fluctuations in production, price spikes, and significant grid balancing costs. Since clean energy is increasingly in demand, we must redefine the energy infrastructure with a future-forward design that is capable of harnessing and storing renewable energy. Our long-duration energy storage solution shifts renewable energy from when it is available to when it is needed.

The future lies beyond the grid

Tomorrow's energy infrastructure will comprise storage solutions that balance conventional grid systems, replace costly and pollutant diesel fuel, and supplement short-term storage, such as batteries. Our solution, TES.POD (Thermal Energy Storage – Power on Demand) provides access to clean energy to users on- and off-grid around the clock.

TES.POD – exchanges energy

Our TES.POD stores energy in the form of heat in recycled aluminium, a storage material that does not degrade over time. The heat is then transformed into zero-emissions electricity via a Stirling engine, while also generating heat. Our TES.POD® system is agnostic to technologies, energy sources and geographies. It is scalable and from a cost perspective very competitive from 0.1 MW to 20 MW, with the capacity to meet the needs of many different sectors, from mining, commercial activities and industries, agriculture, oil & gas, telecom and water to resorts and entire societies. Constructed, designed, and manufactured in Sweden – deployed around the world.

Azelio – a Swedish cleantech company

Azelio is a Swedish cleantech company with an ingenious long-duration storage technology for renewable energy, providing dispatchable electricity at all hours of the day. We contribute to driving the sustainable development of society by resolving the acute need for controllable and cost-effective clean energy. We stem from a strong heritage of high-tech engineering with access to the most advanced material suppliers and engineering centers of excellence in Northern Europe. Headquartered in Gothenburg, Sweden, we have production facilities located in the heart of the Nordic automotive and aerospace clusters on the west-coast of Sweden.

Financial development

Q1: January – March 2022

Revenue, expenses, and profit/loss

Net sales amounted to kSEK 323 (97). Own work capitalised amounted to kSEK 27,153 (40,241) for the quarter.

Expenses amounted to kSEK -157,379 (-105,596). Costs for installations at customers has been capitalized as Raw materials and consumables, and no income from these installations has yet been recognised. Accumulated development costs are being written down since the first commercial orders for the energy storage system were received in 2021. Accordingly, amortisation and depreciation increased to kSEK -40,231 (-4,350), of which amortisation of development costs totalled kSEK -33,333 (-8).

Operating profit/loss (EBIT) amounted to kSEK -129,584 (-64,733). Loss from financial items during the period was kSEK -738 (-327). Loss for the period amounted to kSEK -130,322 (-65,060) Earnings/loss per share amounted to SEK -1.12 (-0.61).

Cash flow, investments and financial position

Cash flow from operating activities amounted to kSEK -121,645 (-28,158). Cash flow from financing activities amounted to kSEK -3,620 (565,878). Investments affecting cash flow amounted to kSEK -29,000 (-38,809), mainly in the form of capitalised development costs. Cash flow for the period amounted to kSEK -154,264 (498,911).

Trade receivables increased from earlier periods. This increase derives from the sale of direct material to suppliers and impacts only the balance sheet, not revenue or costs.

Cash and cash equivalents amounted to kSEK 349,170 (831,458) as of 31 March.

Equity at the end of the period amounted to kSEK 877,817 (1,275,664), or SEK 7.58 per share (11.09). The equity/assets ratio as of the same date was 79% (87%).

Parent company

Net sales for the parent company amounted to kSEK 2,453 (97). Operating profit/loss (EBIT) amounted to kSEK -128,958 (-64,001) and earnings for the quarter totalled kSEK -130,502 (-65,451). Equity at the end of the period amounted to kSEK 877,332 (1,274,626).

Other

Organisation

At the end of the period, the number of employees was 200 (165), of whom 152 (127) were men and 48 (38) were women. The average number of employees during the period was 197 (161).

The share

On 30 March 2022, the share closed at SEK 9.775, down 59% from SEK 23.76 at year-end. Shares outstanding amounted to 115,877,180.

Largest owners

Owner	Holding, %
Kent Janér through Blue Marlin	15.6
Avanza Pension	6.3
Braginsky Family Office AG	3.5
Jim O'Neill	2.9
Argenta Asset Management SA	1.8
RAM Rational Asset Management	1.3
Nordnet Pensionsförsäkring	1.3
Byggmästare Anders J Ahlström Holding AB	1.0
Nordea Liv & Pension	1.0
Bertil Villard	0.9
Others	64.4

Source: Monitor by Modular Finance AB.

Board and management hold in total 17.8 percent of the company's shares.

Warrants

At the end of the period, there were 20,016,667 warrants, issued in six different series with exercise prices of between SEK 13 and SEK 150. Full conversion of all warrants would increase the number of shares by 5,241,953.

Outlook

The company is well positioned based on the validation of the technology's performance, significant and ongoing customer interest in the product, and expected attainable production costs. Azelio is introducing a completely new technology in the market that requires greater initial investment than competing fossil-based alternatives, although more cost-effective in the long run. In addition, there are uncertainties linked to the pandemic regarding both the supply chain and component supply, risks that are being exacerbated by the war in Ukraine, and travel restrictions that made it difficult to visit customers and project sites, which further complicates the assessment of volumes and related cash flow for 2022.

Significant risks and uncertainties

The Board believes that current valuation of the company's assets in the form of capitalised development costs and inventory is justified with a good margin by the discounted 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.

Azelio is in a build-up period that will enable industrialisation and broad commercialisation of the company's energy storage system. The company has forged relationships with several well-established partners for sales and installation, who are gradually expected to play an increasingly significant role in the commercialisation of the product. Although the company concluded several MoUs with potential customers and also received commercial orders for its energy storage system, the technology has not yet achieved broad commercial success and the use of the technology is limited. There is a risk that Azelio will not receive the orders that the company has anticipated or at the pace that the company expected, which in turn may lead to a shift in the commercialization of the company's products and technology and also increases the requirement for Azelio to participate in co-financing projects. Even if it is based on established technology, Azelio's system is new on the market and the company has therefore been unable to gather complete and necessary data, such as the lifespan of the system and its components, any typical faults or deficiencies, and service needs and associated costs, which may impact the market and costs negatively.

Azelio relies on a combination of patent and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect the company's intellectual property rights. Azelio has 18 granted patents. There is a risk that the company will not be able to obtain or maintain patent protection for important parts of its technology or that the company will not maintain patents in key markets that are important for the company. The company may be involved in processes or other proceedings for alleged infringement of rights, which could be costly and time consuming, regardless of whether or not the claim is justified, and even if the outcome is favourable for the company.

Azelio's products are intended to be sold globally in the geographies where the company's system is most suitable. Accordingly, the company will operate in different countries, some of which may require regulatory approval, certification, authorisation or stipulations from government agencies or other administrative bodies. Different local standards or specific deviations may also be a factor, which is common in the energy industry. There is a risk that the company will not receive permits, certifications, or other approvals in due time.

Azelio's profitability from product sales will depend on, among other things, the price development for aluminium, steel, and energy (especially diesel), which is affected by a number of factors beyond the company's control. Regulatory requirements, taxes, duties and other barriers to trade, price and currency regulations or other government measures may restrict operations There is a risk that competitors, both known and unknown, will develop more efficient systems and technology for products similar to those that the company develops and offers.

Auditors' review

This interim report has been reviewed by the company's auditors.

Financial statements

Consolidated statement of income and other comprehensive income

Amounts in kSEK	Note	Jan-Mar 2022	Jan-Mar 2021	Jan–Dec 2021
Revenue				
Net sales	4	323	97	1,162
Own work capitalised		27,153	40,241	148,614
Other operating income		320	524	1,958
Total operating income		**27,795**	**40,863**	**151,734**
Costs				
Raw materials and consumables		-10,835	-1,124	-13,998
Other external expenses		-56,101	-59,757	-220,066
Employee benefit expenses		-49,452	-40,086	-168,646
Depreciation/amortisation and impairment of property, plant and equipment and intangible non-current assets		-40,231	-4,350	-112,332
Other operating expenses		-760	-278	-867
Total operating expenses		**-157,379**	**-105,596**	**-515,909**
Operating profit/loss		**-129,584**	**-64,733**	**-364,175**
Financial items				
Financial income		3	0	0
Finance costs		-741	-327	-1,697
Total financial items		**-738**	**-327**	**-1,697**
Profit/loss after financial items		**-130,322**	**-65,060**	**-365,872**
Tax on profit for the period		0	0	0
Profit/loss for the period		**-130,322**	**-65,060**	**-365,872**
Other comprehensive income:				
Items that have been or may be reclassified to profit for the period				
Translation differences for the period on translation of foreign operations		37	67	114
Other comprehensive income		**37**	**67**	**114**
Total comprehensive income for the period		**-130,285**	**-64,993**	**-365,757**

	Note	Jan–Mar 2022	Jan–Mar 2021	Jan–Dec 2021
Earnings per share before and after dilution	6	-1.12	-0.61	-3.23
Average number of shares		115,877,180	106,703,042	113,259,254
Number of shares at end of period		115,877,180	115,018,521	115,877,180

Financial statements

Consolidated statement of financial position

Amounts in kSEK	Note	31 Mar 2022	31 Mar 2021	31 Dec 2021
ASSETS				
Intangible non-current assets				
Capitalised expenditure for development and similar		568,883	558,977	575,064
Total intangible non-current assets		568,883	558,977	575,064
Property, plant and equipment				
Leasehold improvements		7,405	4,433	7,084
Equipment, tools, fixtures and fittings		57,887	23,526	51,893
Total property, plant and equipment		65,292	27,959	58,977
Right-of-use assets		76,289	25,863	80,102
Total non-current assets		710,464	612,800	714,143
Inventories				
Raw materials and consumables		26,834	2,359	16,394
Finished goods and goods for resale		752	688	711
Total inventories		27,586	3,047	17,105
Current assets				
Trade receivables		6,782	23	4,429
Current tax assets		635	420	1,635
Other receivables		16,993	15,409	6,397
Prepaid expenses and accrued income		6,046	3,910	5,306
Cash and cash equivalents		349,170	831,458	503,388
Total current assets		407,212	854,267	538,259
TOTAL ASSETS		**1,117,676**	**1,467,066**	**1,252,402**
EQUITY AND LIABILITIES				
Equity				
Share capital		57,939	57,509	57,939
Other paid-in capital		2,414,709	2,384,162	2,414,709
Reserves		-749	-833	-786
Retained earnings, including profit/loss for the year		-1,594,081	-1,165,173	-1,463,759
Total equity		877,817	1,275,664	1,008,102
Non-current liabilities				
Other liabilities		22,622	22,674	22,622
Lease liabilities		62,105	15,475	65,574
Total non-current liabilities		**84,727**	**38,149**	**88,196**
Current liabilities				
Advances from customers		207	135	191
Trade payables		38,495	40,672	42,028
Lease liabilities		13,791	10,036	13,923
Other current liabilities		37,255	38,498	40,576
Accrued expenses and deferred income		65,384	63,912	59,386
Total current liabilities		155,132	153,253	156,104
TOTAL EQUITY AND LIABILITIES		**1,117,676**	**1,467,066**	**1,252,402**

Financial statements

Consolidated statement of changes in equity

Amounts in kSEK	Note	Share capital	Other paid-in capital	Reserves	Retained earnings incl. profit/loss for the year	Total equity
Opening balance, 1 January 2021		52,051	1,821,219	-900	-1,100,114	772,257
Profit/loss for the period					-365,872	-365,872
Other comprehensive income				114		114
Total comprehensive income for the period		52,051	1,821,219	-786	-1,465,985	406,499
Transactions with shareholders						
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

Amounts in kSEK	Note	Share capital	Other paid-in capital	Reserves	Retained earnings incl. profit/loss for the year	Total equity
Opening balance, 1 January 2022		57,939	2,414,709	-786	-1,463,759	1,008,102
Profit/loss for the period					-130,322	-130,322
Other comprehensive income				37		37
Total comprehensive income for the period		57,939	2,414,709	-749	-1,594,081	877,817
Transactions with shareholders						
New share issue		0	0			
Premiums for issued warrants					0	
Closing balance, 31 March 2022		57,939	2,414,709	-749	-1,594,081	877,817

Financial statements

Consolidated statement of cash flows

Amounts in kSEK	Note	Jan–Mar 2022	Jan–Mar 2021	Jan–Dec 2021
Cash flow from operating activities				
Operating profit/loss		-129,584	-64,733	-364,175
Interest received		0	0	0
Interest paid		-723	-326	-1,576
Other financial items		-15	-1	-121
Adjustment for non-cash items		41,133	3,596	112,246
Income tax paid		0	0	0
Increase (-)/decrease (+) in inventories		-11,383	1,448	-13,278
Increase (-)/decrease (+) in operating receivables		-13,649	-1,279	1,445
Increase (+)/decrease (-) in operating liabilities		-7,423	33,137	30,879
Cash flow from operating activities		**-121,645**	**-28,158**	**-234,579**
Cash flow from investing activities				
Investments in property, plant and equipment		-9,302	-6,022	-43,994
Investments in intangible non-current assets		-19,698	-32,787	-141,159
Investments in financial assets		0	0	0
Cash flow from investing activities		**-29,000**	**-38,809**	**-185,153**
Cash flow from financing activities				
Warrants redeemed		0	9,954	40,712
New share issue		0	558,447	558,665
Proceeds from warrants issued		0	0	2,226
Repayment of lease liability		-3,620	-2,523	-11,031
Repayment of borrowings		0	0	-53
Cash flow from financing activities		**-3,620**	**565,878**	**590,520**
Cash flow for the period		-154,264	498,911	170,787
Cash and cash equivalents at beginning of period		503,388	332,463	332,463
Exchange rate differences in cash and cash equivalents		47	84	137
Cash and cash equivalents at end of period		**349,170**	**831,458**	**503,388**

Financial statements

Parent company statement of income and other comprehensive income

Amounts in kSEK	Note	Jan-Mar 2022	Jan-Mar 2021	Jan–Dec 2021
Net sales	4	2,453	97	1,162
Own work capitalised		27,153	40,241	148,614
Other operating income		320	524	1,958
		29,926	40,863	151,734
Raw materials and consumables		-10,835	-1,124	-13,998
Other external expenses		-62,209	-62,190	-231,289
Employee benefit expenses		-48,668	-39,475	-165,365
Depreciation/amortisation and impairment of property, plant and equipment and intangible non-current assets		-36,412	-1,796	-101,036
Other operating expenses		-760	-278	-867
Total operating expenses		-158,884	-104,864	-512,555
Operating profit/loss		-128,958	-64,001	-360,820
Income from participations in Group companies		-1,370	-1,317	-3,965
Other interest income and similar profit/loss items		3	0	0
Interest expenses and similar profit/loss items		-178	-132	-660
Total financial items		-1,544	-1,450	-4,625
Profit/loss after financial items		-130,502	-65,451	-365,446
Tax on profit for the period		0	0	0
Profit/loss for the period		-130,502	-65,451	-365,446

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

Financial statements

Parent company balance sheet

Amounts in kSEK	Note	31 Mar 2022	31 Mar 2021	31 Dec 2021
ASSETS				
Capitalised expenditure for development and similar		568,883	558,977	575,064
Total intangible non-current assets		568,883	558,977	575,064
Property, plant and equipment				
Leasehold improvements		7,405	4,433	7,084
Equipment, tools, fixtures and fittings		55,771	23,526	51,893
Total property, plant and equipment		63,176	27,959	58,977
Financial non-current assets				
Participations in Group companies		51	50	50
Total financial non-current assets		51	50	50
Total non-current assets		**632,110**	**586,987**	**634,091**
Inventories				
Raw materials and consumables		26,834	2,359	16,394
Finished goods and goods for resale		752	688	711
Total inventories		27,586	3,047	17,105
Trade receivables		6,782	23	4,429
Current tax assets		635	420	1,635
Other receivables		16,297	15,340	6,332
Prepaid expenses and accrued income		7,430	4,816	6,701
Cash and bank balances		347,513	829,457	502,140
Total current assets		**378,657**	**850,055**	538,341
TOTAL ASSETS		**1,038,353**	**1,440,089**	**1,172,433**
EQUITY AND LIABILITIES				
Equity				
Share capital		57,939	57,509	57,939
Development expenditure fund		532,207	513,111	536,116
Share premium reserve		2,414,709	2,384,162	2,414,709
Retained earnings including profit/loss for the period		-2,127,523	-1,680,156	-2,000,929
Total equity		**877,332**	**1,274,626**	**1,007,834**
Provisions				
Other provisions		0	0	0
Total provisions		0	0	0
Non-current liabilities				
Other liabilities		22,622	22,674	22,622
Total non-current liabilities		**22,622**	**22,674**	**22,622**
Current liabilities				
Advances from customers		79	135	191
Trade payables		35,772	40,672	42,028
Other current liabilities		37,165	38,070	40,372
Accrued expenses and deferred income		65,384	63,912	59,386
Total current liabilities		**138,400**	**142,789**	**141,977**
TOTAL EQUITY AND LIABILITIES		**1,038,353**	**1,440,089**	**1,172,433**

Notes

Note 1 General information

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

Unless otherwise stated, all amounts are in thousand Swedish kronor (kSEK). Data in parentheses pertain to the comparative periods.

Note 2 Summary of significant accounting policies

Azelio’s consolidated financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The accounting policies and definitions applies concur with those described in the Azelio Group’s Annual Report for 2021. This interim report has been prepared in accordance with IAS 34 *Interim Financial Reporting* and the Annual Accounts Act. The parent company’s accounts have been prepared in accordance with the Annual Accounts Act and RFR 2.

The fair value of financial instruments corresponds to the carrying amounts for the Group.

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) Impairment testing of 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 in the Annual Report. 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 calculation of the discount rate is based on an assumption of substantial external financing at an estimated interest of 8%, while the return on equity is estimated at close to 20%. Should, as an example, the external financing be halved, the discount rate will increase by more than 20% but requires no write-down of the underlying asset.

The impairment test is built on an assumption that the company will be able to execute its expansive business plan with a large volume commercial breakthrough from 2022/2023 and that these projects and additional investments can be financed. An adjustment to the time plan can have a substantial impact on the value, which could lead to an impairment of the underlying asset. The company’s development is monitored continuously compared to the estimated cash flow and time plan.

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

(b) Going concern assumption

Until such time as the company’s operating activities generate a positive cash flow, the company is dependent on external financing, either as a contribution from shareholders or from other sources of financing. The Board of Directors deems that the company in the near future will invest more in jointly owned projects than previously assumed, which places further demands on financing. Accordingly, the Board is evaluating various possibilities to further strengthen the company's financial position in 2022. In total, the capital need is estimated to 300-500 MSEK and we are now evaluating different options, including both debt and equity. The Board deems the possibility to secure such new financing to be good, and consequently sees that the annual accounts can be released under the assumption of going concern.

Note 4 Net sales

Revenue

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

Revenue from external customers by type of product and service:	Jan-Mar 2022	Jan-Mar 2021	Jan–Dec 2021
Products	0	0	486
Service obligations	25	25	92
Spare parts	222	72	233
Other	76	0	351
Total	323	97	1,162

Revenue from external customers broken down by country, based on where customers are located:	Jan-Mar 2022	Jan-Mar 2021	Jan–Dec 2021
Sweden	101	26	443
EU	72	51	213
Outside the EU	150	20	506
Total	323	97	1,162

Revenue from major customers (more than 10%) amounted to kSEK 295 (kSEK 97) for the period.

Note 5 Related-party transactions

There were no related-party transactions during the period.

Note 6 Earnings per share

	Jan-Mar 2022	Jan–Mar 2021	Jan–Dec 2021
SEK			
Basic earnings per share	-1.12	-0.61	-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	-130,322	-65,060	-365,872
Number			
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	115,877,180	106,03,042	113,259,254
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	115,877,180	106,703,042	113,259,254
Warrants			
Adjustment for calculation of diluted earnings per share:	0	0	0

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

Assurance of the Board

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

Gothenburg on 11 May 2022

Bo Dankis Chairman of the Board	**Hicham Bouzekri** Board member	Carol Browner Board member
Elaine Grunewald Board member	**Kent Janér** Board member	**Pär Nuder** Board member
Hans Ola Meyer Board member	**Bertil Villard** Board member	**Jonas Wallmander** CEO

Financial calendar

Annual General Meeting	12 May 2022
Q2 Report 2022	18 August 2022
Q3 Report 2022	18 November 2022

Definitions

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

Equity
Equity at the close of the period.

Employee benefit expenses
Employee benefit expenses during the period include salaries, other remuneration and social security expenses.

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

Operating income
All income including own work capitalised.

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

Equity/assets ratio
Total equity / Total assets.

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