Valmet Automotive Group

Annual Report
and
Financial Statements
2019

VALMET AUTOMOTIVE

Business ID 0143991-2
PL 4
23501 Uusikaupunki
Finland

Contents

Board of Directors' report

General

Valmet Automotive ("Group" or "Valmet Automotive") is an experienced provider of automotive engineering, vehicle manufacturing, battery systems and convertible roof and kinematic systems. Group's special areas of expertise are premium cars, electric vehicles, battery solutions for automotive and industrial applications, convertible and kinematic systems.

Group structure

Valmet Automotive's business is divided into four business lines – Vehicle Manufacturing, Engineering Services, Electric Vehicle (EV) Systems and Roof & Kinematic Systems. The Group's parent company is Valmet Automotive Oy and the Group consists of subsidiaries in Finland, Germany, Poland and Spain, fully owned either directly or indirectly by Valmet Automotive Oy. During 2019 the Group did not acquire any operative companies.

Events within the financial year

The year 2019 was a year of many changes and development for Valmet Automotive while sales revenue remained on previous year level and profitability continued to improve slightly despite the expenses related to the establishment of a new business line EV Systems. The most significant events of the year included i) the launch of Salo, Finland plant to produce large volumes of battery packs for the automotive industry, ii) investments into new battery test center in Bad Friedrichshall, Germany, iii) building of additional assembly line at Uusikaupunki, Finland plant with emphasis on enhanced flexibility and iv) adjusting to temporarily lower production volumes at Uusikaupunki in the fourth quarter of the year. In addition, a ceremony related to first car produced 50 years ago at Uusikaupunki plant took place during the year. In total, over 1.5 million cars have been delivered to customers from Uusikaupunki.

Passenger cars have become one of Finland's leading export products thanks to Valmet Automotive, and as a result of strong demand, the number of personnel in the car manufacturing plant in Uusikaupunki was about 3 400 employees at year-end. In 2019, the total car production volume achieved another all-time record with 114 000 vehicles.

On February 28, Valmet Automotive announced that it is planning to launch large scale production of battery packs in Salo, Finland. The Group is actively expanding its operations and service offering in electric mobility solutions, based on the company strategy. The Salo plant is intended as a major step in strategy implementation, producing large volumes of battery packs for the needs of automotive industry.

On July 11, Valmet Automotive announced that it is building an additional line in the general assembly at the Uusikaupunki car plant to speed up production and to increase flexibility. The new line provides for additional stations in the early phase of the general assembly, and it was operational in August. Building an additional line responds both to the current and future production needs, with emphasis on enhanced flexibility.

On August 8, Valmet Automotive announced it is investing around seven million euros in the construction of its new Battery Test Center at Bad Friedrichshall. With this location the company significantly increases its test options for its own group and as service provider for the automotive industry. The expansion of electric mobility has rapidly grown the demand for testing services of cells, modules and complete battery systems

On November 13, Valmet-Automotive celebrated the first car – a Saab 96 - at the Uusikaupunki car plant having been completed 50 years earlier, on November 13, 1969, at 6 am. Over the past fifty years, the Uusikaupunki car plant has produced over a dozen different car brands. The production volumes of the plant have risen to over 100,000 cars per year, making the passenger car a leading export product for Finland. In total, over 1.5 million cars have been delivered to customers from Uusikaupunki.

Net sales and profit

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in force at January 1, 2019. Adoption of the IFRS 16, Leases, accounting standard had a sizable impact on the financial statements. Leased 'right of use' assets increased by EUR 19.2 million and lease liabilities by 19.4 million at adoption on January 1, 2019. The first-year operating profit impact was EUR 0.6 million, resulting from a 7.4 million decrease in rental expenses and EUR 6.7 million increase in depreciation. Previous year data has not been restated and therefore lease liabilities and other related items are not comparable.

During the report year, Valmet Automotive's net sales were EUR 651.5 (662.6) million, which was 2 % lower than the year earlier. The Group's operating profit was EUR 18.1 (17.8) million, or 2.8 % of net sales (2.7 %). The slight increase in profitability was due to improved operational performance in Vehicle Manufacturing and in Roof & Kinematic Systems. Engineering Services and EV Systems recorded a loss, Engineering Services due to deteriorated market conditions and continued refocusing of the service offering and EV Systems due to ramp-up year of the business line and its first manufacturing plant and customer program. There were no major non-recurring costs in the financial year or the year earlier affecting comparability.

Cash flow and financing

The Group's cash flow after investments was EUR 40.9 (-34.4) million. The improvement in cash flow originated from higher cash flow from operations, lower net investments and favorable working capital level at year-end. Investments made according to plan in vehicle manufacturing mainly related to replacement, productivity and flexibility.

At the end of the financial year the shareholders were Pontos Group (38.46 %), Tesi (38.46 %) and CATL (23.08 %).

During the financial year, the Group did not enter into any significant new debt financing agreements. The Group had a EUR 20 million long-term loan from the European Investment Bank, of which EUR 7.5 million was outstanding at the end of the year. In addition, the Group has a receivable sale facility in the Roof & Kinematic Systems business line with a limit of EUR 10 million (not utilized at the end of the year). Lease financing is used for acquisition of machinery and equipment. Including the earlier finance leases and the impact from IRFS 16 adoption, lease liabilities totaled EUR 37.4 million at year-end.

Financial position and investments

The consolidated balance sheet totaled EUR 548.9 (523.3) million. The Group's equity at the end of the financial year was EUR 20.0 (20.1) million.

Gross investments in fixed assets totaled EUR 87.5 (73.5) million, consisting of replacement investments, development investments and investments into new production lines especially in EV Systems. Significant investments were made in the Salo plant battery production lines.

Personnel

The total number of employees in the Group during the financial year was on average 4 812 (4 792 in 2018). The total amount of wages and salaries in this financial year was EUR 235.9 million (EUR 228.2 million in 2018).

Research and development

Valmet Automotive carries out only small-scale research activities, which does not form any significant part of the Group's cost structure. The development activities are an integral part of customer projects, and the technical development work is carried out as projects in close cooperation with customers. Valmet Automotive has an IPR portfolio that includes approximate 200 patent families.

Quality, Environment and Safety

All units are certified in compliance with the requirements of the vehicle industry's ISO 9001 quality standard.

In addition, all plants are certified according to the IATF 16949 quality standard, ISO 14001 environmental standard and ISO 45001 (former OHSAS 18001) occupational health and safety standard.

Corporate Responsibility

The values of Valmet Automotive and the operational principles derived from those values support sustainable development and success in all business operations.

The most important resource of Valmet Automotive is the highly skilled, innovative and flexible work force. Well-being at work, health and safety and the protection of the environment are key focus areas of Valmet Automotive’s work ethics. The principles of a continuously improving organization, operation, development and administration are bases for Valmet Automotive’s daily work.

Best practices are applied when planning new production processes. Production processes are developed together with stakeholders to improve energy and the efficient use of raw materials and to reduce emissions and waste. Valmet Automotive is committed to the principles of sustainable development by the International Chamber of Commerce. During 2019 Valmet Automotive started to prepare its roadmap towards CO2 neutral production.

Valmet Automotive supports local communities and non-profit projects that comply with its operational principles.

Component suppliers and service providers are expected to apply similar principles of compliance and sustainable development. Valmet Automotive supports its partners by sharing its experiences and views. Valmet Automotive is strongly committed to acting with integrity. Our five commitments (Show Entrepreneurial Spirit, Deliver, Always Learn, Lead at all Levels and Respect) form the foundation of Valmet Automotive´s every day work and represent the key factors for running a responsible business. Valmet Automotive strives to be a preferred business partner and supports reliable and fair relations with its business partners. Valmet Automotive Supplier Code of Conduct has been created to define the requirements our suppliers must comply with in their dealings with Valmet Automotive and its employees.

The Board of Directors, Management and Auditors

Valmet Automotive Oy's annual general meeting of the shareholders was held on April 2, 2019. This meeting elected the following board members: Mr. Jarkko Sairanen (Chairman), Mr. Philip-Christian Eller, Dr. Hans-Joachim Schöpf, Mr. Timo Kokkila, Dr. Ulrich Hackenberg and Mr. Kari Heinistö.

The CEO of the company is Mr. Olaf Bongwald.

The company's auditor is the authorized public accounting firm Ernst & Young Oy and Mr. Mikko Rytilahti acts as the auditor with the principal responsibility.

Shares and profit distribution proposal

Valmet Automotive Oy has one class of shares. The company has a total of 136 887 shares, which do not have nominal value. Each share entitles to equal voting and dividend rights. Valmet Automotive Oy owns 5 288 of its own shares.

Valmet Automotive Oy's distributable funds are EUR 25 496 673.73. The Board of Directors proposes to the Annual General Meeting to not distribute any dividends and to carry the net loss of the financial year forward.

Key figures

	Group 2019	Parent Company 2019	Group 2018	Parent Company 2018
Economic indicators				
Operating profit (loss), MEUR	18,1	23,3	17,8	21,6
Net income (loss), MEUR	1,7	-0,4	4,2	15,7
Net income (loss), % of turnover	0,3	-0,1	0,6	3,0
Return on investments (ROI), %	41,2	33,1	50,7	47,2
Return on equity (ROE), %	8,3	-0,8	23,3	41,8
Operating cash flow, MEUR	82,2	57,1	28,5	37,0
Equity ratio, %	5,4	13,0	5,2	12,3

Estimate about the short-term prospects, the main risks and uncertainties

Valmet Automotive's Vehicle Manufacturing business in the coming years is largely dependent on the demand trend of its largest customer. The most significant near-term risks are related to the execution of the car models currently in production on a high-volume level while maintaining the delivery and quality performance, as well as securing the supply chain. Typically in contract manufacturing the changes in customer demand can result in a need to adjust resources. Customers regularly submit demand forecasts, which will enable Valmet Automotive to respond timely to these changes. In some cases, customers also have the contractual obligation of compensation for lower than agreed production amounts.

Roof & Kinematic Systems and Engineering Services have a broader customer base than Vehicle Manufacturing, and along with that the risk associated with the demand for single customer is smaller from Valmet Automotive’s point of view. The market for convertible roofs as a whole is not expected to increase. The most significant risks in the Roof & Kinematic Systems are thus related to the demand for convertibles as well as to Valmet Automotive’s ability to win new roof and kinematic systems engineering and manufacturing projects as well as redirect the service offering. The market for engineering business is expected not to increase over the next few years and the main risks in Engineering Services relate to Valmet Automotive capability to sell and execute profitable projects and refocus its service offering. In Electric Vehicle Systems there is some risk associated with product liabilities in case Valmet Automotive would act as a tier-1 or system supplier and typical contract manufacturing risks in case Valmet Automotive would act as a contract manufacturing service provider.

The coronavirus epidemic originated in China may have a major impact on the automotive industry supply chain. Availability and delivery times of parts might have adverse influence on manufacturing volume, sales and cash flow.

Valmet Automotive’s credit loss risk related to the receivables has been managed with credit policy and advance payments, when needed.

In some projects, part of the project sales price is received from the customer only during the production phase. Valmet Automotive's financial resources are assumed to be sufficient to cover a part of the financing needs of this type of project, but at the same time Valmet Automotive will actively influence the fact that the financial needs of the project shall be tailored between the customers and Valmet Automotive in proportion to resources and risk-taking capacity.

Significant subsequent events

Co-operation negotiations on temporary workforce reduction were started on March 13, 2020 at Uusikaupunki, Finland car plant, and on March 18, 2020, at Salo, Finland battery plant. The negotiations are due to expected shortage of components and expected decrease in demand resulting from the corona virus situation. These negotiations will not lead to permanent lay-offs. Any adjustments to personnel in Germany, Poland and Spain are to be implemented according to local regulations and practices.

Vantaa, March 26, 2020

Valmet Automotive Oy

Board of Directors

Consolidated financial statements (IFRS)

Consolidated statement of profit or loss

	Notes	1 Jan - 31 Dec 2019 €000	1 Jan - 31 Dec 2018 €000
Continuing operations			
Net sales	3	**651 462**	**662 572**
Other operating income	4	14 617	13 944
Changes in inventories of finished goods and work in progress		1 270	-3 284
Raw materials and consumables used		-237 545	-249 014
Depreciations	13	-60 689	-39 113
Personnel expenses	5	-235 920	-228 218
Other operating expenses	4	-115 107	-139 127
Total expenses		-647 991	-658 755
Operating profit		**18 087**	**17 761**
Finance income	7	27	10
Finance costs	7	-6 882	-7 394
Share of profit of an associate	2.2	-1	11
Profit before taxes from continuing operations		**11 232**	**10 388**
Income tax expense	8.1	-9 561	-6 153
Profit for the period from continuing operations		**1 671**	**4 236**
Profit for the period		**1 671**	**4 236**
Attributable to:			
Equity holders of the parent		1 671	4 236
Non-controlling interests		-	-
		1 671	**4 236**

The notes are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

	Notes	1 Jan - 31 Dec 2019 €000	1 Jan - 31 Dec 2018 €000
Profit (loss) for the period		**1 671**	**4 236**
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		288	-566
		288	-566
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**288**	**-566**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gains (losses) on defined benefit plans	6	-914	224
Income tax effect	8	225	-52
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**-689**	**172**
Other comprehensive income for the period, net of tax		**-401**	**-394**
Total comprehensive income for the period, net of tax		**1 270**	**3 842**
Attributable to:			
Equity holders of the parent		1 270	3 842
Non-controlling interests		-	-
		1 270	**3 842**

The notes are an integral part of the consolidated financial statements.

Consolidated balance sheet, assets

Assets	**Notes**	**31 December 2019 €000**	**31 December 2018 €000**
Non-current assets			
Intangible assets	11	24 977	25 695
Property, plant and equipment	9, 10	290 919	227 874
Investment in an associate	2.2	91	92
Non-current financial assets	14	77	75
Net contract assets	3, 14	6 922	4 396
Net employee defined benefit assets	6.3	119	550
Deferred tax assets	8.2	10 801	14 893
		333 906	**273 577**
Current assets			
Inventories	16	75 469	93 966
Trade and other receivables	14	79 286	124 467
Net contract assets	3, 14	11 787	10 937
Cash and cash equivalents	14.4	48 459	20 339
		215 001	**249 710**
Total assets		**548 907**	**523 286**

The notes are an integral part of the consolidated financial statements.

Consolidated balance sheet, shareholders' equity and liabilities

Equity and liabilities	Notes	31 December 2019 €000	31 December 2018 €000
Issued/share capital	17	10 932	10 932
Other capital reserves	17	7 086	7 086
Translation differences	17	-1 515	-1 802
Fund for invested unrestricted equity	17	88 432	89 845
Retained Earnings		-84 958	-85 974
		19 977	**20 087**
Equity attributable to equity non-controlling holders		-	-
Total equity		**19 977**	**20 087**
Non-current liabilities			
Interest bearing loans and borrowings	9, 14.5	31 972	15 810
Net employee defined benefit liabilities	6	11 438	10 546
Provisions	18	5 128	4 282
Net contract liabilities	3, 14	141 812	97 966
Deferred tax liabilities	8.2	3 420	3 920
Other non-current liabilities		229	-
		193 998	**132 525**
Current liabilities			
Interest bearing loans and borrowings	9, 14.5	12 945	5 007
Trade payables	14.5	122 543	127 438
Provisions	18	2 349	4 405
Net contract liabilites	3, 14	36 510	41 610
Other current liabilities and accruals	14.5	154 069	189 532
Income tax payable		6 516	2 683
		334 931	**370 674**
Total liabilities		**528 930**	**503 199**
Total shareholders' equity and liabilities		**548 907**	**523 286**

The notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

For the year ended December 31, 2019

	Attributable to the equity holders of the parent							
	Issued capital (Note 17)	**Fund for invested unrestricted equity (Note 17)**	**Other capital reserves (Note 17)**	**Retained earnings**	**Foreign currency translation reserve (Note 17)**	**Total**	**Non-controlling interests**	**Total equity**
€000								
At 31 December 2018	**10 932**	**89 845**	**7 086**	**-85 974**	**-1 803**	**20 087**	**-**	**20 087**
Adoption of IFRS16				33		33		33
At 1 January 2019	**10 932**	**89 845**	**7 086**	**-85 940**	**-1 803**	**20 121**	**-**	**20 121**
Profit for the period	-	-	-	1 671	,	1 671	-	1 671
Other compehensive income	-	-	-	-689	288	-401	-	-401
Total comprehensive income	-	-	-	982	288	1 270	-	1 270
Distribution of reserves		-1 412				-1 412	-	-1 412
At 31 December 2019	**10 932**	**88 432**	**7 086**	**-84 958**	**-1 515**	**19 977**	**-**	**19 977**

For the year ended December 31, 2018

	Attributable to the equity holders of the parent							
	Issued capital (Note 17)	**Fund for invested unrestricted equity (Note 17)**	**Other capital reserves (Note 17)**	**Retained earnings**	**Foreign currency translation reserve (Note 17)**	**Total**	**Non-controlling interests**	**Total equity**
€000								
At 1 January 2018	**10 932**	**89 845**	**7 086**	**-90 380**	**-1 249**	**16 235**	**-**	**16 235**
Profit for the period	-	-	-	4 236	-	4 236	-	4 236
Other compehensive income	-	-	-	172	-554	-382	-	-382
Total comprehensive income	-	-	-	4 408	-554	3 853	-	3 855
At 31 December 2018	**10 932**	**89 845**	**7 086**	**-85 974**	**-1 803**	**20 087**	**-**	**20 087**

The notes are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

	Notes	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Operating activities			
Profit before tax		11 232	10 388
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and impairment of property, plant and equipment		57 507	36 804
Depreciation and impairment of intangible assets		3 189	2 306
Other non-cash items		-27 801	-28 505
Finance income		-27	-10
Finance costs		6 882	7 394
Change in working capital:			
Change in trade and other receivables (+/–)		41 229	-33 159
Change in inventories (+/–)		18 648	10 253
Change in trade and other payables (+/–)		-22 204	42 054
Change in provisions (+/–)		-2 507	-5 237
Interest paid (–)		-1 943	-1 465
Interest received		12	33
Income tax paid (–)		-1 999	-1 804
Net cash flows from/ (used in) operating activities		**82 217**	**39 053**
Investing activities			
Investments for tangible and intangible assets (–)		-41 316	-73 489
Net cash flows from/ (used in) investing activities		**-41 316**	**-73 489**
Financing activities			
Loan repayments (–)		-1 667	-833
Finance lease payments (–)		-9 727	-2 720
Distribution of reserves		-1 412	-
Net cash flow from/ (used in) financing activities		**-12 805**	**-3 553**
Net increase in cash and cash equivalents		28 095	-37 989
Net foreign exchange difference		25	7
Cash and cash equivalents at 1 January	14	20 339	58 328
Cash and cash equivalents at 31 December	14	**48 459**	**20 339**

The notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements (IFRS)

1 Accounting principles for the consolidated financial statements

1.1 General

General Information

The consolidated financial statements of Valmet Automotive Oy and its subsidiaries (collectively, the Group) for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on March 26, 2020, after which, in accordance with Finnish Company Law, the financial statements are either approved or rejected in the Annual General Meeting.

The Group is engaged in engineering and manufacturing services in the automotive industry. Its business is divided into four business lines - Vehicle Manufacturing, Engineering Services, Roof & Kinematic Systems and Electric Vehicle Systems. Business is conducted via the Group's parent company, Valmet Automotive Oy and its subsidiaries in Finland, Poland, Germany and Spain. The subsidiaries are fully owned either directly or indirectly by Valmet Automotive Oy.

General accounting principles are described in this section. Principles that apply to specific accounting items are presented as part of the relevant notes.

Basis of preparation and changes in accounting policies

The consolidated financial statements, prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU include the financial statements of Valmet Automotive Oy and its subsidiaries.

The financial statements are prepared under the historical cost convention, except as disclosed in the accounting principles.

The Group has elected to report expenses by nature within the statement of profit or loss, and to present two statements, a statement of profit or loss and a statement of other comprehensive income, rather than a single statement of comprehensive income combining the two elements.

The consolidated financial statements are presented in euro, which is the functional and reporting currency of the parent company. Financial information is presented in thousands of euro (€000), except when otherwise indicated.

Consolidation principles

The consolidated financial statements comprise the financial statements of the Group as of 31 December 2019.

Subsidiaries are companies in which the Group owns, directly or indirectly through subsidiaries, over 50 per cent of the voting rights or in which it is in a position to govern the financial and operating policies of the entity. Subsidiaries have been listed in Note 2.

All intercompany transactions, balances and gains or losses on transactions between subsidiaries are eliminated as part of the consolidation process.

If the Group loses control over a subsidiary, it derecognises the related assets, liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the consolidated profit or loss statement. Any investment retained is recognised at fair value.

Associated companies are consolidated by the equity method. Under the equity method, the share of profits and losses of associated companies is presented separately in the consolidated statements of income.

Foreign currency transactions and translation

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction. Open receivables and liabilities denominated in foreign currency at the end of the financial period are translated using the exchange rate of the balance sheet date and the resulting foreign exchange gains and losses are recognised in the income statement.

The income statements of subsidiaries with a functional currency different from the reporting currency are translated into euro at the average exchange rates for the financial year and the balance sheets are translated at the exchange rate of the balance sheet date. This exchange rate difference is recorded through Other Comprehensive Income/Expense (OCI) in the cumulative translation adjustment line item in equity. The translation differences arising from subsidiary net investments and long-term subsidiary loans without agreed settlement dates are recognised through the OCI to the cumulative translation adjustments under equity.

Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities.

Assumptions, estimates and judgements are based on management's historical experience, best knowledge about the events and other factors, such as expectations on future events, which can be considered feasible. The actual amounts may differ significantly from the estimates used in the financial statements. Possible changes in estimates and assumptions are recognised in the financial period the estimate or assumption is changed.

Significant accounting judgments, estimates and assumptions made by management are described in the relevant notes.

Financial risk management

Financial risks and exposures are managed, reported and mitigated centrally by the Group Treasury under annually reviewed written policies approved by the Board of Directors. Group Treasury evaluates and hedges or otherwise manages financial risks in close co-operation with business lines and legal units. These risks include the Group's principal credit and counterparty, commodity price, translation, currency, interest rate and liquidity risks, which are outlined in more depth in Note 15. Group Treasury manages centrally external funding and is responsible for the management of financial assets and liabilities and appropriate hedging measures. The objective of financial risk management is to minimize potential adverse effects on Valmet Automotive financial performance.

1.2 Changes in IFRS standards

The financial statements do not early adopt standards or amendments before their effective date. The standards applied in these financial statements are those that were effective for annual periods beginning on or after 1 January 2019.

The Group has implemented the new standard IFRS 16, Leases, on 1 January 2019. As a result, the Group has changed its accounting policy for lease accounting, as detailed below.

IFRS 16, Leases

IFRS 16, effective from 1 January 2019, replaced the earlier guidance of IAS 17. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard removes the lessee distinction between operating and finance leases and introduces a single lessee accounting model resulting in almost all leases being recognised on the balance sheet. According to IFRS 16, a lessee is required to recognise a lease liability in financial liabilities, reflecting future lease payments, and a 'right-of-use asset' under plant, property and equipment, for almost all lease contracts. Lessor accounting remains more or less similar to earlier practice.

The Group adopted the new standard on 1 January 2019, using the modified retrospective approach and therefore the cumulative effect of adopting IFRS 16 has been recognised as an adjustment to the opening balance of retained earnings, amounting to 33 kEUR, at 1 January 2019, with no restatement of comparative information. On transition to IFRS 16, the Group elected to apply the practical expedient to assess which contracts are leases. The previous determination pursuant to IAS 17 and IFRIC 4 of whether a contract is a lease is thus maintained for contracts existing at adoption. For leases that were classified as finance leases under IAS 17, the Group did not change the carrying amount of the right-of-use asset and the lease liability as of 31 December 2018, measured under IAS 17. Lessor accounting treatment remains unchanged. The Group does not have any material contracts as lessor.

The balance sheet right of use assets increased by EUR 19.2 million and lease liabilities increased by EUR 19.4 million at inception. During the first year there was a reduction in rental expenses of EUR 7.3 million and increase in depreciation of approximately EUR 6.7 million, which increased the operating profit (EBIT) by EUR 0.6 million. Interest cost increased by EUR 0.9 million. At initial application lease liabilities were discounted at an incremental borrowing rate at January 1, 2019. The weighted average discount rate was 3.5%.

Adoption of IFRS 16 has a sizable impact on the consolidated statement of cash flows improving cash flow from operations before financing items and taxes. Under IFRS 16, payments of lease liabilities are presented in financing activities and related interest expense as interest paid while previously the full amount of lease payments was included in the cash flow from operations before financing items and taxes. Expenses related to short-term and low value leases remain in the cash flow from operations.

Impact of adoption of IFRS 16 on 1 January 2019 is presented below.

Assets	31 December 2018 €000	IFRS 16 adjustments €000	1 January 2019 €000
Non-current assets			
Intangible assets	25 695		25 695
Property, plant and equipment	227 874	19 242	247 116
Investment in an associate	92		92
Non-current financial assets	75		75
Other receivables	4 396	29	4 425
Defined pension assets	550		550
Net contract assets	14 893		14 893
	273 577	**19 271**	**292 848**
Current assets			
Inventories	93 966		93 966
Trade and other receivables	124 467	69	124 536
Net contract assets	10 937		10 937
Cash and cash equivalents	20 339		20 339
	249 710	**69**	**249 779**
Total assets	**523 286**	**19 340**	**542 626**

	31 December 2018 €000	IFRS 16 adjustments €000	1 January 2019 €000
Equity and liabilities			
Issued/share capital	10 932		10 932
Other capital reserves	7 086		7 086
Translation differences	-1 802		-1 802
Fund for invested unrestricted equity	89 845		89 845
Retained Earnings	-85 974	33	-85 941
Equity attributable to equity non-controlling holders	**20 087**	**33**	**20 120**
Total equity	**20 087**	**33**	**20 120**
Non-current liabilities			
Interest bearing loans and borrowings	15 810	12 127	27 937
Net employee defined benefit liabilities	10 546		10 546
Provisions	4 282	-8	4 274
Net contract liabilites	97 966		97 966
Deferred tax liabilities	3 920		3 920
	132 525	**12 119**	**144 644**
Current liabilities			
Interest bearing loans and borrowings	5 007	7 226	12 233
Trade payables	127 438		127 438
Provisions	4 405	-38	4 367
Net contract liabilites	41 610		41 610
Other current liabilities and accruals	189 532		189 532
Income tax payable	2 683		2 683
	370 674	**7 188**	**377 861**
Total liabilities	**503 199**	**19 307**	**522 505**
Total shareholders' equity and liabilities	**523 286**	**19 340**	**542 626**

Operating lease commitments on December 31, 2018 were converted to the opening lease liability on January 1, 2019 in accordance with IFRS 16 as follows:

	€000
Operating leases December 31, 2018	
Within one year	5 757
After one year but no more than five years	10 393
More than five years	2 798
Total reported YE2018 (gross liability)	**18 948**
Adjust for discounting	-1 545
Discounted operating leases December 31, 2018	**17 403**
Low value assets	-70
Short term assets	-852
Contracts not reported at year-end 2018	3 240
Existing finance leases as of year-end 2018	11 650
Differences in lease assumptions	-371
Opening balance IFRS16 transition January 1, 2019	**31 000**

2 Subsidiaries and associates

2.1 Information about subsidiaries

The consolidated financial statements of the Group include the following companies:

Name	Principal activities	Country of incorporation	% equity interest as of 31.12.2019 Group	Parent
Parent company				
Valmet Automotive Oy	Manufacturing, Engineering and Electric Vehicle Systems	Finland		
Subsidiaries				
Valmet Automotive GmbH	Roof and Kinematic Systems	Germany	100 %	100 %
Valmet Automotive Sp. z o.o.	Roof and Kinematic Systems	Poland	100 %	100 %
Valmet Automotive Beteiligungs-GmbH	Engineering Services	Germany	100 %	100 %
Valmet Automotive Verwaltungs-GmbH	Engineering Services	Germany	100 %	
Valmet Automotive Holding GmbH & Co. KG	Engineering Services	Germany	100 %	
Valmet Automotive Engineering GmbH	Engineering Services	Germany	100 %	
Valmet Automotive Spain S.L.	Engineering Services	Spain	100 %	
BAUR Karosserie- und Fahrzeugbau GmbH	Engineering Services	Germany	100 %	
Valmet Automotive EV Power Oy	Electric Vehicle Systems	Finland	100 %	100 %
Valmet Automotive EV Sp. z o.o.	Electric Vehicle Systems	Poland	100 %	
Valmet Automotive Solutions GmbH	Electric Vehicle Systems	Germany	100 %	
Associate company				
Kiinteistö Oy Pietolankatu 13		Finland	40 %	40 %

2.2 Investment in an associate

Accounting principles

An associate company is an entity in which the investment provides the Group the ability to exercise significant influence using power to participate in the financial and operating policy decisions of the company. Such influence is presumed to exist when the direct or indirect shareholding is between 20 and 50 per cent of the voting rights, or if the Group is able to otherwise exercise significant influence.

Investments in associated companies are initially recognised at cost after which the share of post-acquisition retained profits and losses is included as part of investments in associated companies in the consolidated balance sheets.

Associated companies are consolidated by the equity method. Under the equity method, the share of profits and losses of associated companies is presented separately in the consolidated statements of income. The share of profit of an associate is presented in one line item.

At each reporting date, the Group determines whether there is objective evidence that the investment is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

The Group has a 40% non-operative interest in a real estate company Kiinteistö Oy Pietolankatu 13. The carrying amount of the investment and the Group's share of the associate's results are presented below.

	2019	2018
	€ 000	**€ 000**
Current assets	69	134
Non-current assets	1166	1186
Current liabilities	-75	-96
Non-current liabilities	-934	-996
Equity	226	228
Proportion of the Group's ownership	40 %	40 %
Carrying amount of the investment	91	92

	2019	2018
	€ 000	**€ 000**
Revenue	**168**	**169**
Other operational charges	-118	-103
Depreciation	-45	-24
Finance cost	-8	-8
Profit before tax	**-3**	**33**
Income tax expense	1	-7
Profit for the year	**-2**	**27**
Group's share of the profit for the year	**-1**	**11**

3 Revenue from contracts with customers

Accounting principles

The Group recognises revenue when it has satisfied a performance obligation by transferring the control of the promised goods and services to the customer. The transfer of control takes place when the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the goods or services. The Group identifies the contract with the customer, various performance obligations of the contract and allocates the transaction price to these performance obligations.

Revenue is recognised in two categories, depicting the timing of revenue recognition: over time and at point of time.

When the control of the produced good and rendered services is transferred over time to the customer, revenue is recognised over time. The Group transfers control over time when:

- it produces goods with no alternative use and the Group has an irrevocable right to payment (including a reasonable margin) for the work completed to date (e.g. long engineering and testing contracts); or
- it creates goods which is controlled by the customer as the goods are created or enhanced (e.g. work done on customer held vehicles); or
- the customer simultaneously receives and consumes the benefits provided by the Group (e.g. work done at the customer or in customer design systems).

When none of the criteria stated above have been met, revenue is recognised at a point in time, which is when the control passes to the customer and the business has the right to payment, for example, on delivery.

For each performance obligation recognised over time, the Group recognises revenue using an input method, based on costs incurred. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs. Changes to total estimated contract costs and losses, if any, are recognised in the period in which they are determined. Expected loss is expensed immediately when it becomes evident.

Unfinished contracts are presented in the balance sheet as contract assets and received payments as contract liabilities. The contract assets and liabilities are offset by individual contract, and the net difference is presented either as an asset or a liability in the balance sheet. Contract assets and liabilities are derecognised when the contract has been fully satisfied and invoiced.

Significant management estimates and judgment

The management has made judgments about determining distinct goods and services to define the promised performance obligations, and which contracts form a single commercial objective in complex contract packages. These judgments significantly affect determination of amount and timing of revenue.

Revenue recognition over time requires determination of a completion stage, which is based on actual cost incurred in proportion of the total estimated cost of the project (cost-to-cost basis). Total project cost estimates are based on project forecasts, which take into account changes in the estimated revenue, costs and profit, together with the planned delivery schedule. Project forecasts are updated and approved regularly.

Total project cost estimates might change, e.g. because of changes in the underlying project cost structures, which may ultimately affect the revenue recognised. Therefore, the over time recognition method is not applied for recognising sales commitments before a defined threshold is achieved or where the final outcome of the project and related cost structure cannot be established reliably.

Revenue recognised by timing category in 2019 and 2018 is summarized in the table below.

	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
	€000	**€000**
Performance obligations satisfied at point in time	598 819	598 781
Performance obligations satisfied over time	49 070	61 175
Interest revenue from significant financing component	3 573	2 616
Total revenue	**651 462**	**662 572**

The net contract assets and liabilities on December 31, 2019 and December 31, 2018 are presented below.

	31 December 2019	31 December 2018
	€000	**€000**
Contract assets and liabilities		
Net contract assets		
Contract assets	60 260	29 560
Contract liabilities	-41 551	-14 227
Net contract assets	**18 709**	**15 333**
Non-current	6 922	4 396
Current	11 787	10 937
	18 709	**15 333**
Net contract liabilities		
Contract liabilities	196 722	205 557
Contract assets	-30 182	-76 407
Net contract liabilities	**166 540**	**129 151**
Non-current	130 649	89 203
Current	35 891	39 948
	166 540	**129 151**
Contract liabilities from significant financing component		
Non-current interest liability	11 163	8 763
Current interest liability	619	1 662
	11 782	**10 425**
Net contract liability including significant financing component		
Non-current	141 812	97 966
Current	36 510	41 610
	178 322	**139 576**

Revenue streams

The Group has identified several revenue streams within the categories of over time and at point of time satisfied performance obligations. These revenue streams reflect the performance obligations and timing of satisfaction of such performance obligations, and the allocation of related transaction price.

The Group's revenue streams and comparison to the prior standards are summarized below:

Revenue stream	Description	Business line	Revenue recognised
Engineering services	Design and development work, concept work, testing services, supplier tooling procurement, work done on customer owned goods	Engineering Services, Roof &Kinematic Systems	Over time
Industrialisation (not recognised separately)	Services related to subsequent contract manufacturing or production	Roof &Kinematic Systems, Vehicle Manufacturing	Part of contract manufacturing or product sales
Contract manufacturing	Manufacturing assembly services and logistics	Vehicle Manufacturing, Electric Vehicle Systems	At a point in time
Product sales	Roofs, batteries, spare parts, production parts and other	Roof &Kinematic Systems	At a point in time
Short and/or small contracts	Small or short engineering or other projects	All	At a point in time

The revenue recognition method varies depending on terms and conditions agreed with each customer. Many contracts are framework agreements, which cover the entire chain of activities performed for the customer. For example, contract manufacturing agreements typically cover the preparation phase for production, called industrialisation, as well as the assembly work and logistics. In Roof & Kinematic Systems, the contracts may have several parts, starting from design and development engineering of the product, and moving to industrialisation work, model specific tooling procurement for the customer, product and spare parts sales. If the customer has given firm commitment to part of the frame agreement deliveries only, the contract revenues will be recognised separately for that firm commitment part only. When the customer commitment covers the entire framework agreement, or large parts of it, it may be that such contracts are considered as one contract entity, even if the customer would place purchase orders in stages.

Revenue stream engineering services covers engineering work provided by Engineering Services and Roof & Kinematic Systems business lines. In these contracts the customer receives simultaneously the benefits provided and the Group the right to payment for the performance completed, and the corresponding revenue will be recognised over time. The progress will be measured by the input method, which is in line with the cost-to-cost method. The contract payment schedules are paid either at delivery or by milestones during the service performance and they typically follow the transfer of control of performance obligations to be satisfied.

Industrialisation, which is not an independent revenue stream, includes pre-production activities and manufacturing engineering work required to get the production lines and facilities ready for production. Such work is typically sold as part of contract manufacturing or roof systems supplier contracts.

Industrialization cannot be considered as a separate deliverable i.e., distinct performance obligation, but is part of the product sale or contract manufacturing. Revenue recognition commences at start of production and revenue is recognised with product deliveries at a point in time.

Contract manufacturing revenues are recognised when control for the assembly service done is transferred, which takes place at the delivery of the vehicles or batteries. Product sales revenue from sale of products such as roofs and spare parts is recognised when control for the goods is transferred at the delivery of goods. When there is pre-production industrialisation required, it will be recognised with the product. Contract manufacturing and product sales are paid after each delivery.

Significant financing component

Large contract manufacturing agreements may include significant advance payments to prepare production and supply the necessary product specific equipment and tools. These advance payments agreed with the principal may be considered to generate a significant time value of money and as such may be considered to contain a significant financing component. In such cases, financing cost is accounted for as interest expense and financing component liability is presented. The influence of the significant finance component is recorded in turnover. The net result over the contract lifetime will remain constant.

4 Other operating income and expenses

Accounting principles

Other operating expenses are recorded on their respective cost type accounts, unless they are considered as adjustments to income.

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions are complied with. If the grant is subject to approved costs and progress reports by the grantor, the grant is not recognised before the grantor approval has been received.

When the grant relates to an expense item, it is recognised as income on a systematic basis over the period during which the costs related to the grant are incurred and expensed. When a grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Research costs and expenses are expensed as incurred. Development costs are normally expensed when incurred. Exceptionally they can be capitalised, when certain economic and technical feasibility criteria conditions are fully met.

Other operating income

	2019	2018
	€000	€000
Rental income	607	803
Goverment grants	1 929	806
Compensation from related parties (Note 20)	0	5 170
Claim settlements	0	895
Compensation from customers and suppliers	10 160	4 333
Other income	1 921	1 938
Total	**14 617**	**13 944**

Government grants are mainly related to Business Finland projects and employment subsidies. There are no unfulfilled conditions or contingencies attached to these grants.

Other operating expenses

	2019	2018
	€000	€000
Property, operating and maintenance costs	-23 586	-26 201
Research and development expenses	-807	-575
External services	-40 786	-57 338
ICT expenses	-17 886	-16 129
Machinery and equipment expenses	-13 951	-16 337
Travel expenses	-3 745	-3 448
Other personnel expenses	-6 122	-8 011
Other expenses	-8 225	-11 088
Total other operating expenses	**-115 107**	**-139 127**

The 2019 and 2018 figures are not fully comparable because of IFRS 16 adoption adjustments on January 1, 2019.

Total research and development costs including personnel costs amounted to 2 251 kEUR in 2019 (1 410 kEUR in 2018).

Services rendered by statutory auditors

	2019	2018
	€000	€000
Auditing	-580	-571
Tax advisory	-116	-215
Other services	-15	-24
Total	**-711**	**-809**

5 Employee benefits and number of personnel

Accounting principles

Personnel benefits and related social security costs and pension contributions are expensed on the period the work has been performed.

Pension and other defined benefit plans are detailed in Note 6.

	2019	2018
	€000	**€000**
Wages and salaries	-196 565	-190 045
Long term employee benefits (Note 6.2)	-265	757
Social security costs	-10 427	-12 300
Pension costs defined contribution	-28 316	-26 147
Pension costs defined benefit (Note 6.3)	-346	-482
Total employee benefits expense	**-235 920**	**-228 219**

	2019	2018
Number of employees, average	4 812	4 792

6 Pension and other defined benefit plans

Accounting principles

Pension plans are classified as defined contribution and defined benefit plans. Under a defined contribution scheme, the Group makes payments to separate insurance companies or independent funds. The Group has no legal or constructive obligation to make further payments if the payment recipient does not have sufficient assets to pay the post-employment benefits. All arrangements not meeting these conditions are defined benefit schemes.

Most schemes, including the Finnish TyEL scheme, are defined contribution plans where the Group makes payments to separate entities managing the assets. Payments made to defined contribution pension schemes are recorded through profit or loss in the accounting period the charge applies to.

The defined benefit plan pension cost is determined by external actuaries who analyse the plan applying the projected unit credit method. The cost of providing any defined retirement benefits is charged to profit and loss concurrently with the service rendered by the personnel. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised through OCI into shareholders' equity in the period in which they arise. Past service costs are recognised immediately in income statement. The liability of defined benefit pension plan is the present value of the defined benefit obligation less the fair value of plan assets.

In Finland, employees earn an additional benefit, payable after a certain number of service years is completed, following the rules of the long-service benefit plan. The cost of providing the long-service benefits is charged to profit and loss concurrently with the service rendered by the personnel. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the income statement.

Significant management estimates and judgments

Defined benefit pension plan cost is determined from the advice of qualified actuaries who carry out valuation of the plan annually, calculating the obligation, using several assumptions such as the discount rate and expected return on assets, salary and pension increases and other actuarial factors. Many of these assumptions require also management judgment. As a result, the liability recorded on the balance sheet and cash contributions to funded arrangements are sensitive to changes.

Long-service benefit plan, in which the benefits are based on the promised amount of money after ten-year service time, require management judgment of the total number of people employed, and the turnover of the personnel.

6.1 Summary of defined benefit plans

Defined benefit obligations relate to a benefit granted to long-service employees in Finland, and voluntary defined benefit pension plans in Germany and Finland. The defined pension plans are closed for new members. A summary of the net plan assets and liabilities is presented below.

Net employee defined benefit assets

	2019	2018
	€000	**€000**
Defined pension plan	119	550
Total	**119**	**550**

Net employee defined benefit liabilities

	2019	2018
	€000	**€000**
Long service benefit plan	2 948	3 140
Defined pension plan	8 490	7 405
Total	**11 438**	**10 545**

6.2 Long-service benefit plan

In Finland, employees earn an additional benefit following the rules of the long-service benefit plan. The cost of providing the long-service benefits is charged to profit and loss concurrently with the service rendered by the personnel. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the income statement. The employer has promised a certain amount of benefit after given years of service time according to the rules of the long-service benefit plan. The benefits are based on the promised amount of money after ten-year service time. The promised benefit increases when the employment has lasted 15, 20 and 25 years. Benefit payments continue until retirement or resignation and are paid to the employees once a year or monthly.

	2019	2018
1 January	**3 140**	**4 953**
Service cost	253	594
Net interest	23	30
Curtailments	-7	-2
Actuarial changes	49	-1 379
Other changes	-27	-403
Sub-total included in profit or loss	**292**	**-1 160**
Benefits paid	-484	-653
31 December	**2 948**	**3 140**

The discount rate has been determined using iBoxx Corporate indices. The estimated duration of the benefit obligation has been taken into consideration. The discount rate was 0.2% and 1.0% for the years ended December 31, 2019 and December 31, 2018, respectively.

6.3 Defined pension benefit plans

Defined pension plan, Finland

The voluntary plan's benefits are based on a certain level of benefit after retirement to a defined closed group of employees within the plan. In addition to statutory benefit, the employer has arranged a voluntary plan in an insurance company to fulfil its promise. The promised benefit is a defined percentage of the base salary, which is an average of ten last year's salaries, indexed with common salary index to the current year. The benefits of this plan are old age, disability and survivor's benefits, topping the statutory benefits. The pension plan premiums are calculated so that the promised old age benefit will be fully funded by the retirement age to purchase an annuity pension. The employer funding risk ceases at retirement. After retirement the payable benefits are indexed yearly with insurance company index.

	2019			2018		
	Defined benefit obligation	Fair value of plan assets	**Benefit liability**	Defined benefit obligation	Fair value of plan assets	**Benefit liability**
1 January	1 040	-1 591	**-550**	1 827	-1 565	**263**
Current service cost	24		**24**	103		**103**
Past service cost			**0**			
Net interest	17	-27	**-10**	27	-25	**2**
Sub-total included in profit or loss	**40**	**-27**	**14**	**130**	**-25**	**105**
Actuarial changes arising from changes in financial assumptions	26	509	**534**	-11	-17	**-28**
Experience adjustments	-65		**-65**	-234		**-234**
Sub-total included in OCI	**-39**	**509**	**470**	**-245**	**-17**	**-262**
Benefits paid	-640	640	**0**	-672	672	**0**
Contributions		-52	**-52**		-656	**-656**
31 December	**402**	**-522**	**-119**	**1 040**	**-1 591**	**-550**

The discount rate has been determined using iBoxx Corporate indices. The estimated duration of the benefit obligation has been taken into consideration. The main assumptions are described in the table below.

	2019	**2018**
	%	%
Discount rate	0,4	1,6
Future salary increases	1,0	1,7
Future pension increases	0,0	0,0

A sensitivity analysis for assumptions as at December 31, 2019 was performed. The impact of changes in the discount rate is shown below:

	Discount rate	
	+0,50%	-0,50%
	€000	€000
Impact on defined benefit obligation	15	-16
Impact on fair value of plan assets	-22	24
Net liability	-7	8
Service cost (reduction -, increase +)	-1	1

Defined pension plans, Germany

Engineering Germany has granted defined benefit plans to some of its employees. The voluntary plans' benefits are based on a certain level of benefit after retirement to an employee or a defined group of employees within the plans. For many years these plans have been closed for new participants. The liabilities have been calculated by an actuary. The assets of the plans are in the form of liability insurance policies, which are partly pledged.

	2019			2018		
	Defined benefit obligation	Fair value of plan assets	**Benefit liability**	Defined benefit obligation	Fair value of plan assets	**Benefit liability**
1 January	9 172	-1 767	**7 406**	9 165	-1 779	**7 387**
Current service cost	224		**224**	201	-	**201**
Net interest	83	-32	**50**	174	-30	**144**
Sub-total included in profit or loss	**306**	**-32**	**274**	**375**	**-30**	**345**
Actuarial changes arising from changes in demographic assumptions	-		**-**	183	-	**183**
Experience adjustments	437		**437**	-146	-	**-146**
Sub-total included in OCI	**437**	**-**	**437**	**37**	**0**	**37**
Benefits paid	-309	681	**372**	-405	42	**-363**
31 December	**9 607**	**-1 118**	**8 490**	**9 172**	**-1 767**	**7 406**

The main assumptions are described in the table below.

	2019	2018
	%	%
Discount rate	0,9	1,9
Future salary increases	3,0	3,0
Future pension increases	1,5	1,5

A sensitivity analysis for assumptions as at 31 December 2019 was performed. The impact of changes in the discount rate is shown below:

	Discount rate	
	+0,50%	**-0,50%**
	€000	**€000**
Impact on defined benefit obligation	677	-757
Service cost (reduction -, increase +)	-8	9

7 Finance income and costs

Accounting principles

Financing costs are charged to the income statement during the financial period in which they incur. As an exception, any borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Losses from sales of shareholdings are recorded in financing costs, and gains from such sales are recorded in financing income.

The Group has elected to classify interest received and paid as cash flows from operating activities.

	2019	**2018**
	€000	**€000**
Dividend received	6	5
Other interest income	21	5
Total finance income	**27**	**10**

Finance cost

	2019	**2018**
	€000	**€000**
Interest on debts and borrowings	-678	-390
Finance charges payable under finance leases	-	-287
Finance charges payable under leases*	-1 117	-
Interest on significant financing component	-4 930	-5 991
Total interest expense	-6 725	-6 668
Net loss on financial instruments at fair value through P&L	64	-64
Other interest and financial expense	-221	-662
Total finance costs	**-6 882**	**-7 394**

**) Includes interest on earlier finance leases and other leases under IFRS16*

8 Income taxes

8.1 Income tax expense

Accounting principles

Income taxes in the consolidated statement of profit and loss consist of taxes on the taxable income of the Group companies for the current period and changes in deferred taxes. The statement of comprehensive income includes taxes on items presented in the statement of comprehensive income.

Current taxes include estimated taxes corresponding to the Group companies' taxable results for the financial year, and adjustments to taxes for previous years. Income tax receivables and payables are recognised at the expected amounts to be recovered from or paid to the tax authorities.

Deferred taxes are calculated based on temporary differences between financial reporting and the taxation calculated with enacted tax rates effective for the future years.

Significant management estimates and judgments

The Group assesses the probability that the local taxation authority or authorities, should the treatment be for cross-border transaction, will accept any tax treatment recorded in the accounts. Tax treatment is only recorded, when it is concluded that it is probable the tax treatment will be accepted by the relevant tax authority or authorities.

Significant management judgement is required to consider the probability that the tax treatment proposed can be recognised, taking into account the likelihood that the relevant tax authorities will accept the planned tax treatment. In the event that actual tax authority acceptance would not be obtained, the tax payable needs to be adjusted in coming financial years.

The major components of income tax expense for the years ended December 31, 2019 and December 31, 2018 are as follows:

Consolidated statement of profit or loss	2019 €000	2018 €000
Current year income tax expense	-6 491	-3 740
Adjustments in respect of current income tax of previous year	689	-351
Current income tax expense	**-5 802**	**-4 091**
Deferred tax expense		
Accelerated depreciation for tax purposes	-1 688	0
Losses available for offsetting against future taxable income	-3 908	-720
Other temporary differences deferred tax assets	1 346	-1 498
Other temporary differences deferred tax liabilities	492	157
Total deferred taxes	**-3 758**	**-2 061**
Income tax expense reported in the statement of profit or loss	**-9 561**	**-6 153**
Deferred tax related to items recognised in OCI during the year:		
Actuarial gains (+)/losses (-) from defined benefit plan	225	-52
Income tax charged to other comprehensive income	**225**	**-52**

Reconciliation of tax expense and the accounting profit or loss multiplied by Finland's 2019 statutory tax rate is presented below.

	2019 €000	2018 €000
Accounting profit before income tax	11 232	10 388
At Finland's statutory income tax rate of 20%	-2 246	-2 106
Tax exempt income	99	439
Non-deductible expenses	-1 284	-1 980
Deferred taxes for previously unrecognised temporary differences	-1 178	217
Adjustments in respect of current income tax of previous year	689	-291
Temporary differences from group consolidation	-39	-
Unrecognised tax losses	-6 755	-3 760
Difference between Finnish and foreign tax rates	1 153	1 328
Income tax expense reported in the statement of profit or loss	**-9 561**	**-6 153**
Effective income tax rate %	**-85 %**	**-59 %**

8.2 Deferred tax assets and liabilities

Accounting principles

Deferred tax liabilities or assets are calculated based on temporary differences between financial reporting and the taxation calculated with enacted tax rates effective for the future years. The deferred tax liabilities are recognised in the balance sheet in full, and the deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Significant management estimates and judgments

The Group estimates income tax in each country it operates. This process involves estimating the actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue and cost reserves, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which may be recorded in the consolidated balance sheet. The likelihood for the recovery of deferred tax assets from future taxable income is assessed, and to the extent the recovery is not considered likely the deferred asset is not recorded.

Significant management judgement is required to determine the provisions for deferred tax assets that can be recognised, taking into account the likely timing and the level of future taxable profits together with future tax management strategies. In the event that actual results differ from these estimates, the deferred tax assets need to be adjusted in coming financial years. The final outcome may also be affected by future changes in tax laws applicable in the jurisdictions where the Group operates.

Deferred tax assets and liabilities are presented in the tables below.

2019 Deferred tax assets

	1.1.2019	Recognised in consolidated Income statement	Recognized in OCI	Recognized in Equity	Reclassification	Translation differences	31.12.2019
Employment related	1 739	213	225	0	0	0	2 177
Property, plant and equipment	1 668	-1 688	0	0	0	20	0
Confirmed losses	4 688	-3 908	0	0	0	2	782
Leases	0	107	0	0	0	0	107
Provisions	1 426	100	0	0	0	6	1 532
Revenue recognition	4 285	1 462	0	0	0	-79	5 668
Other temporary differences	1 087	-536	0	0	0	-16	534
Total	14 893	-4 250	225	0	0	-67	10 801

2019 Deferred tax liabilities

	1.1.2019	Recognised in consolidated Income statement	Recognized in OCI	Recognized in Equity	Reclassification	Translation differences	31.12.2019
Property, plant and equipment	1 222	0		0	124	0	1 346
Fair value adjustment	2 300	-341	0	0	0	0	1 959
Leases	0	1	0	0	0	0	1
Other temporary differences	399	-152	0	0	-124	2	126
Total	3 921	-492	0	0	0	2	3 432

2018 Deferred tax assets

	1.1.2018	Recognised in consolidated Income statement	Recognized in OCI	Recognized in Equity	Reclassification	Translation differences	31.12.2018
Employment related	2 239	-500	0	0	0	0	1 739
Property, plant and equipment	3 492	-1 824	0	0	0	0	1 668
Confirmed losses	5 408	-720	0	0	0	0	4 688
Provisions	1 783	-331	0	0	0	-26	1 426
Revenue recognition	3 838	447	0	0	0	0	4 285
Other temporary differences	878	458	0	0	-228	-22	1 087
Total	17 639	-2 470	0	0	-228	-48	14 893

2018 Deferred tax liabilities

	1.1.2018	Recognised in consolidated Income statement	Recognized in OCI	Recognized in Equity	Reclassification	Translation differences	31.12.2018
Property, plant and equipment	1 341	-119	0	0	0	0	1 222
Fair value adjustment	2 540	-240	0	0	0	0	2 300
Financial Leasing	8	-7	0	0	0	0	0
Other temporary differences	627	-43	52	0	-228	-9	399
Total	4 515	-409	52	0	-228	-10	3 921

The 2019 and 2018 figures are not fully comparable because of IFRS 16 adoption adjustments on January 1, 2019.

Management has assessed all subsidiary losses carried forward for deferred asset recognition. Analysis was done by subsidiary. At December 31, 2019, the Group had approximately EUR 46.6 million of tax losses carried forward for which no deferred tax assets were recognised. None of the tax losses have an expiration date.

9 Leases

Accounting principles

The Group assesses whether a contract is or contains a lease based on the definition of a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a specified period of time in exchange for consideration.

The Group has chosen to apply the IFRS 16 accounting standard to tangible assets only, applying the exemption allowed in the standard.

As a lessee, the Group recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Leases are capitalized at the inception of the lease at the lower of the fair value of the leased right-of-use asset or the present value of the minimum lease payments. Property, plant and equipment acquired under leases are depreciated over the useful life of the asset or over the lease contract period, if shorter. Each lease payment is allocated between repayment of the lease liability and finance charges, in such a way that a constant interest rate on the outstanding balance is achieved. Lease obligations, net of finance charges, are included in interest bearing liabilities, divided to short-term and long-term liabilities, as appropriate. Interest element is charged to profit and loss over the lease period.

The Group has elected to apply the exemption regarding short-term and low-value leases, which are expensed when incurred, and they are not recorded in assets and liabilities. Short-term leases are leases with a lease term of maximum 12 months, and without a purchase option. Low-value leases are leases, in which the value of an individual asset does not exceed 5,000 euro, when new.

The Group has elected to apply the practical expedient of IFRS16 not to separate non-lease components from the actual lease components of the lease contract. Proportionally large and other material non-lease components are analysed to identify whether they are part of any lease component. Identified non-lease components cover any payments for services, which are part of a lease contract, such as general maintenance charges. Services, which could be supplied separately, such as leased property cleaning, machine maintenance, and utilities are not considered to be part of the lease, and they are expensed.

The lease payments are discounted by the interest rate implicit in the lease, if that can be determined. Otherwise the lessee incremental borrowing rates reflecting entity-specific factors, country and lease term are applied to all lease contracts when calculating the present value of lease liability and interest expense.

When the Group is a lessor, the Group classifies the lease as finance lease or operating lease by analysing the right of use terms transferred to the lessee. When the Group has transferred substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. Assets held under finance leases are recognised as receivables at an amount equal to the net investment in the lease. Other leases are treated as operating leases, with payments recognised as income on a straight-line basis over the lease term.

Sub-leases in which the Group is both lessee and lessor are treated as different contracts. When the sub-lease term covers practically all remaining head lease term, the head lease right of use asset will be derecognised and treated as a lease receivable.

Total lease cash flows, detailing the lease payments, expensed short term and low value lease, as well the sublease income, are presented below:

		2019
		€000
Lease payments		-10 844
Liability	-9 727	
Interest	-1 117	
Expense related to short term leases		-2 485
Expense related to low value assets		-657
Total payments		**-13 986**
Sublease income received		71
Net cashflows on leases		**-13 915**

Right of use assets

Right of use assets under financial lease contracts and included in property, plant and equipment are detailed in the table below.

	Buildings and constructions €000	Machinery and equipment €000	Total €000
Cost			
At 1 January 2019	142	17 396	17 538
Adaption of IFRS16	15 776	3 468	19 244
Additions	10 805	5 336	16 142
Disposals	0	-63	-63
Exchange differences	1	5	6
At 31 December 2019	**26 724**	**26 143**	**52 867**
Depreciation and impairment			
At 1 January 2019	-32	-6 194	-6 225
Adaption of IFRS16	0	0	0
Depreciation charge for the year	-4 686	-5 726	-10 412
Disposals	0	62	62
Exchange differences	0	-2	-2
At 31 December 2019	**-4 717**	**-11 860**	**-16 577**
Net book value 1 January 2019	**111**	**11 203**	**11 313**
Net book value 31 December 2019	**22 007**	**14 283**	**36 290**

The Group’s lease arrangements consist of lease contracts for property, machinery and equipment located primarily on Group company premises as well as company vehicles.

Lease liabilities

Details of changes in lease liabilities, excluding expensed short-term and low value leases, are shown below:

	2019
	€000
At 1 January	**11 647**
Adaption of IFRS16	19 353
Additions	16 142
Payments	-9 727
Exchange differences	-3
At 31 December 2019	**37 412**

Operating lease commitments

As of December 31, 2019 and 2018, operating lease commitments were as follows:

	2019	**2018**
	€000	**€000**
Within one year	1 388	5 757
After one year but no more than five years	593	10 393
More than five years	0	2 798
	1 981	**18 948**

The 2019 commitments consist of payments related to leases of low value assets and short-term leases.

Lease commitments of leases signed but not commenced on December 31 are shown below:

	2019	**2018**
	€000	**€000**
Off-balance sheet lease liabilities	3 738	0

10 Property, plant and equipment

Accounting principles

Property, plant and equipment are stated on the balance sheet at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Improvement costs related to an asset are included in the carrying value of such asset or recognised as a separate asset, as appropriate, only when the future economic benefits associated with the costs are probable and the related costs can be separated from normal maintenance costs. All other repair and maintenance costs are recognised in profit or loss as incurred.

Leased right of use assets are recognised at the commencement date of the lease at cost.

	Land and water areas €000	Buildings and constructions €000	Machinery and equipment €000	Fixed assets under construction €000	Total €000
Cost					
At 1 January 2019	5 221	95 249	383 787	8 095	492 351
Adaption of IFRS16	0	15 776	3 466	0	19 242
Additions	0	11 513	46 676	43 052	101 241
Disposals	0	0	-913	0	-913
Reclassifications	0	3 783	17 878	-21 673	-12
Exchange differences	5	78	148	44	275
At 31 December 2019	**5 225**	**126 399**	**451 042**	**29 518**	**612 184**
Depreciation and impairment					
At 1 January 2019	0	-46 867	-217 610	0	-264 476
Adaption of IFRS16	0	0	0	0	0
Depreciation charge for the year	0	-7 206	-50 301	0	-57 507
Disposals	0	0	889	0	889
Exchange differences	0	-89	-81	0	-170
At 31 December 2019	**-**	**-54 162**	**-267 103**	**-**	**-321 265**
Net book value 1 January 2019	**5 221**	**48 382**	**166 177**	**8 094**	**227 874**
Net book value 31 December 2019	**5 225**	**72 237**	**183 939**	**29 518**	**290 919**
Cost					
At 1 January 2018	4 902	79 203	295 912	44 602	424 619
Additions	324	0	1 408	69 798	71 530
Disposals	-	0	-3 315	0	-3 315
Reclassifications	-	16 263	90 161	-106 284	141
Exchange differences	-5	-218	-378	-21	-622
At 31 December 2018	**5 221**	**95 250**	**383 787**	**8 094**	**492 352**
Depreciation and impairment					
At 1 January 2018	0	-45 064	-186 142		-231 208
Depreciation charge for the year	-	-1 888	-34 915		-36 804
Disposals	-	0	3 107	-	3 107
Exchange differences	-	87	341	-	428
At 31 December 2018	**0**	**-46 866**	**-217 610**	**0**	**-264 476**
Net book value 1 January 2018	**4 902**	**34 139**	**109 768**	**44 602**	**193 411**
Net book value 31 December 2018	**5 221**	**48 384**	**166 176**	**8 094**	**227 874**

Relating to production set-up, certain machinery and equipment additions are acquired through a non-cash arrangement against customer advance payments directly to the supplier. These payments amount to EUR 46.2 million in 2019 (zero in 2018).

11 Intangible assets

11.1 Intangible assets, total

Accounting principles

The Group's intangible assets comprise mainly of goodwill, customer relations, patents, licenses and software. They are stated at historical cost less accumulated amortization and impairment losses, if any.

Development activities are an integral part of customer projects where technical development is carried out in close co-operation with customers. The related expenditures are typically expensed. However, development expenditures are capitalized when certain criteria related to economic and technical conditions are met and it is expected that the asset will generate future economic benefits. Capitalized development costs are included in intangible assets and carried at cost less any accumulated amortization and accumulated impairment losses. Amortization over the period of expected future benefits of the asset is started when the development is complete, and the asset is available for use.

	Goodwill	Development costs	Customer relationships	Other intangible rights	Intangible asset under constuction	Total
	€000	€000		€000	€000	€000
At 1 January 2019	8 741	-	6 581	25 647	3 276	44 246
Additions	-	-	-	97	2 366	2 464
Disposals	-	-	-	-112	0	-112
Reclassifications	-	-	-	3 433	-3 427	6
Exchange differences	-	-	-	2	-	2
At 31 December 2019	**8 741**	**-**	**6 581**	**29 067**	**2 216**	**46 605**
Amortization and impairment						
At 1 January 2019	0	-	-1 168	-17 383		-18 551
Amortization charge for the year	0	-	-700	-2 488		-3 188
Disposals	0	-		112		112
Exchange differences	0	-		-2		-2
At 31 December 2019	**0**	**-**	**-1 869**	**-19 760**	**0**	**-21 629**
Net book value 1 January 2019	**8 741**	**-**	**5 413**	**8 265**	**3 276**	**25 695**
Net book value 31 December 2019	**8 741**	**-**	**4 712**	**9 307**	**2 216**	**24 977**

	Goodwill	Development costs	Customer relationships	Other intangible rights	Intangible asset under constuction	Total
	€000	€000	€000	€000	€000	€000
Cost						
At 1 January 2018	8 741	4 653	6 581	20 302	4 539	44 816
Additions	-			42	4 729	4 772
Disposals	-	-4 653		-703	-18	-5 374
Reclassifications	-	-		6 011	-5 974	37
Exchange differences				-6	-	-6
At 31 December 2018	**8 741**	**-**	**6 581**	**25 647**	**3 276**	**44 245**
Amortization and impairment						
At 1 January 2018	0	-4 653	-548	-16 397		-21 598
Amortization charge for the year	0	-	-620	-1 686		-2 306
Disposals	-	4 653		697		5 350
Exchange differences	-			4		4
At 31 December 2018	**-**	**-**	**-1 169**	**-17 381**	**-**	**-18 550**
Net book value 1 January 2018	**8 741**	**-**	**6 033**	**3 905**	**4 539**	**23 218**
Net book value 31 December 2018	**8 741**	**-**	**5 412**	**8 266**	**3 276**	**25 695**

11.2 Goodwill

Accounting principles

Acquisitions are accounted for using the acquisition method. Goodwill represents the excess of acquisition cost over the fair values of identified acquired assets and liabilities of acquired companies.

Goodwill represents typically the value of the acquired market share, business knowledge and the synergies obtained in connection with the acquisition. The carrying amount of goodwill is tested for impairment at least annually.

Goodwill is allocated to cash-generating units (CGUs) which are identified as business lines of the Group. Initial goodwill calculation is prepared at the acquisition date book values with fair value adjustments of acquired assets and related deferred tax adjustments.

On 31.12.2019 the carrying amount of goodwill 8 741 kEUR is allocated solely to Engineering Germany business line.

Goodwill impairment testing is detailed in Note 12.2.

12 Impairment testing

12.1 Testing of non-financial assets

Accounting principles

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account.

When there is an indication that previously recognised impairment losses no longer exist or have decreased, the Group estimates the asset's recoverable amount, and previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

Significant management estimates and judgments

The carrying values of property, plant and equipment and intangible assets, subject to depreciation and amortization are reviewed for impairment whenever there are indications that their carrying values could exceed their value in use or disposal value if disposal is considered as a possible option.

The valuation is inherently judgmental and highly susceptible to change from period to period because it requires the Group to make assumptions about future supply and demand related to its individual business units, future sales prices and achievable cost savings. The value of the benefits and savings expected from the efficiency improvement programs are inherently subjective. The cash flows are derived from the budget for the foreseeable future and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The fair value of is determined using a derived weighted average cost of capital as the rate to discount estimated future cash flows. This rate may not be indicative of actual rates obtained in the market.

The Group had no impaired non-financial assets as of December 31, 2019 or December 31, 2018. As such, no impairment losses on non-financial assets have been recognised.

12.2 Testing of goodwill

Accounting principles

The Group assesses the carrying amount of goodwill annually or more frequently if any indication of impairment exists on business unit level at which goodwill is monitored for internal purposes. The carrying value of goodwill is tested with the CGU's value in use or CGU's fair value less costs of disposal, when appropriate. In assessing the value in use amount, estimated future cash flows are discounted to their present value. Cash flow estimates are based on operative managerial estimates. The discount rate is a nominal rate, which is based on the weighted average cost of capital (WACC) for the main currency area in the location of the CGU. The nominal discount rate reflects the market assessment for the time-value of money and for the risk specific in the business.

The value in use calculations for the CGU specific cash flow projections are based on financial estimates prepared by the management. The cash flows are derived from the current year's last quarter estimate, the following year's budget and the approved strategy for the following four years, beyond which cash flows are calculated using the terminal value method. The terminal growth rate used is based on management's judgment regarding the average long-term growth. Cash flows include only normal maintenance investments and exclude any potential investments that enhance the CGUs performance and acquisitions.

Any impairment loss of goodwill is recognised immediately as an expense and is not subsequently reversed.

Significant management estimates and judgement

Upon initial acquisition the Group applies available market values to determine the fair values of acquired net assets. However, when this is not possible, the valuation is based on past performance of such an asset and expected future cash generating capacity, which requires management to make estimates and assumptions of the future performance and use of such assets.

The business growth, price and cost development assumptions embedded in the CGU specific cash flow projections are based on management assessments of the market demand and environment, which are examined against external information sources. Value in use calculations are sensitive to changes between periods, as they require management to make assumptions about future supply and demand related to its individual business units, future sales prices, margins and achievable cost savings over time. Such assumptions are subjective by nature and require management judgment.

The Group conducted value in use impairment testing of the goodwill during January 2020. The key assumptions were following: management estimates for 2019 – 2024 with corresponding EBITDA, adjustment period 2025 – 2029 with EBITDA rate of 9.7%, discount rate 8.5%, and terminal growth 2.0%. No goodwill impairment losses were recognised during the accounting period based on the impairment tests.

The impairment testing was supported by a sensitivity analysis, in which the CGU specific EBITDA estimates were reduced, the discount interest rates were increased, and the terminal growth rate was reduced. According to the sensitivity tests conducted, the carrying amount may exceed the recoverable amount in some cases with lower EBITDA or higher WACC, which would result in impairment losses. If average EBITDA would be 0.5 percentage points lower, it would result in 0.6 MEUR impairment. If the WACC would be 1.0 percentage point higher, there would be an impairment of 1.4 MEUR. If average terminal growth would be 1.75 percentage points lower, the estimated impairment would be 0.3 MEUR. The management will monitor the development carefully.

13 Depreciation and amortization

Accounting principles

Tangible assets are stated at historical cost, less accumulated depreciation and impairment loss, if any. Tangible assets of acquisitions are measured at fair value on acquisition date.

Depreciation is calculated on a straight-line basis over the expected useful lives of the assets as follows:

Improvements to land areas:	10 years
Buildings and structures:	5-40 years
Machinery and equipment:	3-10 years

Leased right of use assets' useful lifetimes are adjusted by expected lease periods and use of purchase option at the end of the lease period.

Land areas are not depreciated.

The Group reviews residual values and useful lives of property, plant and equipment for impairment whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment of property, plant and equipment and capital gains and losses on their disposal are included in other operating income and expenses.

Amortization of intangible assets with a definite useful life is calculated over the expected economic lives of the assets, which is 3-10 years.

Any intangible assets with indefinite useful lives are not amortized but tested annually for impairment. See Note 12 for impairment testing.

The consolidated depreciation and amortization charges include the impact from the assets acquired in business combinations and measured at fair value.

	2019	**2018**
Depreciation and amortization	**€000**	**€000**
Intangible assets	-3 149	-2 350
Buildings and constructions	-7 239	-1 888
Machinery and equipment	-50 302	-34 875
Total	**-60 689**	**-39 113**

The 2019 and 2018 figures are not fully comparable because of IFRS 16 adoption adjustments on January 1, 2019.

14 Financial instruments

Accounting principles

The Group classifies its financial assets into the following categories: At amortized cost and at fair value through profit or loss. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows and is determined at the time of the acquisition depending on the intended purpose. Financial assets are derecognised when the contractual rights to cash flows have expired, or the rights to cash flows together with substantially all risks and rewards of ownership, have transferred.

Financial liabilities are classified either at amortized cost or at fair value through profit or loss. Financial liabilities are derecognised when they are extinguished, that is when the obligation specified in the contract is discharged, cancelled or expires.

The Group applies trade date accounting to all financial assets and liabilities.

14.1 Summary

	At amortised cost	At fair value through P&L	Total
2019			
Non-current financial assets			
Equity investments	-	77	**77**
Net contract assets	6 922	-	**6 922**
Total	**6 922**	**77**	**6 999**
Current financial assets			
Trade and other receivables*	74 200		**74 200**
Net contract assets	11 787		**11 787**
Cash and cash equivalents	48 459		**48 459**
Total	**134 446**		**134 446**
Non-current financial liabilities			
Interest bearing loans and borrowings	31 972		**31 972**
Net contract liabilities	141 812		**141 812**
Total	**173 784**		**173 784**
Current financial liabilities			
Interest bearing loans and borrowings	12 945		**12 945**
Net contract liabilities	36 510		**36 510**
Trade payables	122 543		**122 543**
Other payables	4 876		**4 876**
Total	**176 874**		**176 874**

** Excluding prepayments and deferred income*

2018	At amortised cost	At fair value through P&L	Total
Non-current financial assets			
Equity investments	-	75	**75**
Net contract assets	4 396	-	**4 396**
Total	**4 396**	**75**	**4 471**
Current financial assets			
Trade and other receivables*	122 230		**122 230**
Net contract assets	10 937		**10 937**
Cash and cash equivalents	20 339		**20 339**
Total	**153 507**		**153 507**
Non-current financial liabilities			
Interest bearing loans and borrowings	15 810		**15 810**
Net contract liabilities	97 966		**97 966**
Total	**113 777**		**113 777**
Current financial liabilities			
Interest bearing loans and borrowings	5 007		**5 007**
Net contract liabilities	41 610		**41 610**
Trade payables	127 438		**127 438**
Other payables	8 295		**8 295**
Derivative instruments		64	**64**
Total	**182 350**	**64**	**182 414**

** Excluding prepayments and deferred income*

14.2 Financial assets at amortized cost

This category comprises assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. It includes trade receivables and net contract assets, other receivables as well as loan receivables.

Trade receivables, contract assets and lease receivables are subject to expected credit loss impairment allowance adjustments. Net contract assets and loan receivables are considered not having any such credit default risk, which would create a credit loss allowance.

Details of trade and other receivables are presented in the table below.

	2019	**2018**
	€000	**€000**
Current		
Trade receivables	65 740	110 934
Prepayment and accrued income	5 086	2 237
VAT-receivables	6 222	4 230
Other S-T receivables	2 210	1 883
Sublease receivable	29	0
Receivables from related parties (Note 20)	0	5 183
Total	**79 286**	**124 467**

The 2019 and 2018 figures are not fully comparable because of IFRS 16 adoption adjustments on January 1, 2019.

Trade receivables are recognised at original invoice amount to customers and reported in the balance sheet, net of expected credit loss allowance.

Trade receivables are assessed at each reporting date to determine whether there is evidence of impairment applying the expected credit loss model. In assessing the expected lifetime credit loss, the Group uses both historical information on credit losses and forward-looking information that is available without undue cost or effort. The Group considers evidence of impairment for trade receivables at a collective level by customer group. The customer groups are determined by grouping customers that have similar risk characteristics.

Significant increases in credit risk are reflected in the impairment allowance and are recognised in profit and loss. If the estimated credit risk subsequently decreases, the previously recognised increase in impairment allowance is recognised in profit and loss.

When the Group considers that it has no reasonable expectations of recovering a trade receivable, the relevant amounts are written off.

Impairment allowance is recognised in the statement of financial position as part of the carrying amount of trade receivables. Changes in allowance together with final bad debts are reported under other operating income and expenses.

Trade receivables are non-interest bearing. Applied payment terms are customary in the industry and market area and are generally on terms of 10 to 60 days.

The aging analysis of trade receivables is as follows:

	2019	Impaired	Net	2018	Impaired	Net
	€000			**€000**		
Not past due	38 517	-84	38 433	90 349	-152	90 197
Past due						
< 30 days	24 223	-43	24 180	16 813	-21	16 792
30-60 days	1 008	-30	978	2 111	-5	2 106
61-90 days	660	-7	653	312	-1	311
> 90 days	1 539	-43	1 497	1 551	-23	1 528
Total	**65 947**	**-208**	**65 740**	**111 136**	**-202**	**110 934**

Expected credit loss allowance is presented below.

Impairment allowance		
Balance at 31 December 2018	-202	-91
Released	35	91
Recognized	-41	-202
Balance at 31 December 2019	**-208**	**-202**

14.3 Financial assets and liabilities at fair value through profit and loss

This category comprises of equity investments and derivative instruments that are to be measured at fair value through profit and loss. The Group has not elected to present changes of equity investments in fair value in other comprehensive income.

The Group may use derivative financial instruments, such as forward currency contracts, to reduce its foreign currency risks. Such instruments are initially recognised at fair value and are subsequently measured at their fair value at each reporting date. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Hedge accounting is not applied.

Equity investments consist of mainly shares not quoted on an active market and which are carried at cost as the fair value of these assets cannot be measured reliably or the fair value would not significantly differ from the acquisition cost.

Non-current equity investments	2019 €000	2018 €000
At 1 January	**75**	**75**
Additions	2	
Disposals	-	-
At 31 December	**77**	**75**
Total current	**-**	**-**
Total non-current	**77**	**75**

Fair value estimation

Accounting principles

The Group measures financial instruments such as derivatives at fair value at each balance sheet date.

For those financial assets and liabilities, which have been recognised at fair value in the balance sheet, the following measurement hierarchy and valuation methods have been applied:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3; Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities. There have been no transfers between level 1, level 2 and level 3 during the period. There were no differences between fair values and carrying amounts of other financial assets and liabilities.

Fair value hierarchy for financial instruments measured at fair value at December 31, 2019:

	Total	Level 1	Level 2	Level 3
	€000	**€000**	**€000**	**€000**
Assets measured at fair value:				
Financial assets at fair value through profit and loss	77	-	-	77
Total	**77**	**-**	**-**	**77**

Fair value hierarchy for financial instruments measured at fair value at December 31, 2018:

	Total	Level 1	Level 2	Level 3
	€000	**€000**	**€000**	**€000**
Assets measured at fair value:				
Financial assets at fair value through profit and loss	75	-	-	75
Total	**75**	**-**	**-**	**75**

14.4 Cash and restricted cash accounts

Cash and cash equivalents consist of cash in banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Guarantees given as restricted bank accounts, which may be interest bearing, are reported as receivables. Current accounts with restrictions, such as accounts held for tax payments, and which are typically non-interesting bearing accounts, are reported as bank accounts.

For the purpose of statement of cash flows, cash and cash equivalents consist of the following as of December 31.

	2019	2018
	€000	**€000**
Cash at banks and on hand	48 177	20 339
Cash equivalents	282	-
Cash at banks and on hand in Cash Flow	**48 459**	**20 339**

	2019	2018
	€000	**€000**
Restricted cash accounts	**232**	**209**

The Group has cash deposits relating to rental contracts.

14.5 Financial liabilities at amortized cost

The Group's financial liabilities include mainly trade payables and cost accruals as well as interest bearing loans, net contract liabilities and lease liabilities. All other financial liabilities than derivatives are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest rate (EIR) method.

Details of trade payables and other current liabilities are presented in the tables below.

	2019	2018
	€000	€000
Trade payables		
Related parties (Note 20)	27	-
Other trade payables	122 516	127 438
Total trade payables	**122 543**	**127 438**

	2019	2018
	€000	€000
Other current liabilities		
Employment benefit related	1 867	1 958
VAT liabilities	494	1 545
Other current liabilities	2 515	4 792
	4 876	8 295
Accruals		
Employment benefit related	29 289	27 926
Other accruals	119 903	153 247
	149 193	181 172
Derivatives	0	64
Total other current liabilities and accruals	**154 069**	**189 532**

Details of interest-bearing liabilities are presented in the table below.

	2019	2018
	€000	€000
Current interest-bearing loans and borrowings		
Obligations under leases contracts	11 278	3 339
Bank loans	1 667	1 667
Total current interest-bearing loans and borrowings	**12 945**	**5 007**
Non-current interest-bearing loans and borrowings		
Obligations under leases contracts	26 139	8 308
Bank loans	5 833	7 500
Total non-current interest-bearing loans and borrowings	**31 972**	**15 808**
Total interest-bearing loans and borrowings	**44 917**	**20 815**

The 2019 and 2018 figures are not fully comparable because of IFRS 16 adoption adjustments on January 1, 2019.

15 Financial risk management

The table below summarises the maturity profile of the Group's interest-bearing liabilities and trade payables based on contractual undiscounted payments (see Note 14).

Year ended 31 December 2019	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	€000	€000	€000	€000	€000	€000
Interest-bearing loans and borrowings	-	1 128	963	6 289	-	8 380
Financial lease liabilities	-	2 710	8 877	24 610	4 072	40 270
Trade payables	-	122 542	-	-	-	122 542
	-	**126 381**	**9 840**	**30 899**	**4 072**	**171 192**

Year ended 31 December 2018	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	€000	€000	€000	€000	€000	€000
Interest-bearing loans and borrowings	-	1 066	1 000	7 729	836	10 631
Financial lease liabilities	-	-	3 577	8 913	-	12 490
Trade payables	-	127 438	-	-	-	127 438
Derivatives	-	20	44	-	-	64
	-	**128 524**	**4 621**	**16 642**	**836**	**150 622**

The 2019 and 2018 figures are not fully comparable because of IFRS 16 adoption adjustments on January 1, 2019.

Liquidity and refinancing risk

The Group safeguards its liquidity with constant monitoring of receivables, keeping sufficient financial assets in cash and liquid assets and considering its financial counterparties based on their creditworthiness. Group Treasury maintains bank account structures and monitors cash balances and forecasts of the operating units and manages their liquidity position. The maturity profile of the debt portfolio is monitored to minimize refinancing risk of the debt for the Group.

Interest rate risk

Interest rate risk arises when changes in market interest rates and interest margins influence finance costs, returns on financial investments and valuation of interest bearing balance sheet items. Interest rate risks are reduced through fixed interest rate loans and interest rate derivatives. Currently no interest rate instruments are in effect.

Foreign exchange risk

Valmet Automotive operates mainly in the euro zone and has limited exposure on changes in foreign exchange rates. Nearly all financial risk arising from the changing currency rates is mitigated either contractually or using financial derivatives. The most relevant currency pair in terms of revaluation differences is EUR/PLN. No foreign exchange derivatives were in effect at December 31, 2019.

Translation or equity exposure

Foreign exchange translation exposure arises when the equity of a subsidiary is denominated in currency other than the functional currency of the parent company. The major translation exposure of the Group is in PLN. The Group does not hedge any of its equity exposure.

Commodity risk

The Group is affected by the price volatility of certain raw materials and components and supplies including energy. Car manufacturing parts and materials are covered by the customer agreements, and the Group does not carry the commodity or logistics price risk. Roof & Kinematic business supplies do not have any significant commodity price risk. The Group may also enter into fixed price commodity agreements based on business considerations to limit the effects of fluctuating commodity prices.

Credit and counterparty risk

Credit risk is the risk that a customer, supplier or financial counterparty would not meet its obligations under a financial instrument or customer or supplier contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. Customer credit risk is assessed low, as practically all major customers are large automotive groups with good credit ratings. Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy.

The maximum credit risk equals the carrying value of trade and other receivables, and contract assets of revenue recognised but not yet billed. The credit quality is evaluated both on the basis of aging of the trade receivables and also on the basis of customer specific analysis. The corresponding expected lifetime credit loss allowance is presented in Note 14. The aging structure of trade receivables is presented in Note 14. The Group's maximum exposure relating to financial guarantees is presented in Note 19.

Capital structure management

The objectives of capital structure management are to maintain the long-term capital structure in a level that safeguards the ongoing business operations and optimizes the cost of capital. Due to nature of its business, the Group may have significant investment programs, which can have a temporary effect on the capital structure because of increased loan or customer advance payment funding needs.

Equity ratio has been identified as a measurement figure.

In some cases, customer advances are considered as significant financing components where interest is calculated at the incremental borrowing rate. See Note 3.

The capital structure is assessed on a regular basis by the Board of Directors.

16 Inventories

Accounting principles

Inventories are valued at the lower of cost and net realisable value. Purchase, transport and processing costs incurred in bringing each product to its present location and condition are included in inventory costs. The costs of finished goods and work-in-progress include direct materials and labour and allocable proportion of production overheads based on the normal operating capacity but excluding borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Inventories are shown net of a provision for obsolete and slow-moving inventories. A provision is established, and a corresponding charge is taken to profit and loss in the period in which the loss occurs, when obsolescence and related factors are assessed.

Significant management estimates and judgments

The Group policy maintains a provision for slow-moving and obsolete inventory based on the best estimate of such amounts at the balance sheet date. The estimates are made in consideration of the composition and age of the inventory compared to anticipated future needs. Given the typically short turnover times, typically only minor allowances are considered necessary.

	2019	**2018**
	€000	**€000**
Raw materials (at cost)	59 383	79 455
Work in process (at cost)	11 619	11 560
Finished goods (at cost or net realisable value)	4 468	2 951
Total inventories at the lower of cost and net realisable value	**75 469**	**93 966**

17 Issued capital and reserves

	Number of shares	Issued capital	Share premium	Funds invested for unrestricted equity	Other capital reserves	Total
		€000	€000	€000	€000	€000
At 1 January 2018	**136 887**	**10 932**	**1 704**	**89 843**	**5 382**	**107 861**
At 31 December 2018	**136 887**	**10 932**	**1 704**	**89 843**	**5 382**	**107 861**
Distribution of reserves				-1 412		**-1 412**
At 31 December 2019	**136 887**	**10 932**	**1 704**	**88 432**	**5 382**	**106 449**

The Group holds 5 288 own shares. Other capital reserves consist of Valmet Automotive Oy restricted reserves.

18 Provisions

Accounting principles

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources is required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions, for which settlement is expected to occur more than one year after the initial recognition, are discounted to their present value and adjusted in subsequent closings for the time effect.

A provision for restructuring costs is recognised only after management has developed and approved a detailed plan and started the implementation of the plan or communicated the plan. Employee termination benefits are recognised after the representatives of employees or individual employees have been informed of the intended measures in detail and the related compensation packages can be reliably measured. Restructuring costs are booked to the expense group to which they by nature belong, e.g., termination payments are entered in personnel expenses.

Provisions for warranties cover the estimated costs to repair or replace products still under warranty on the balance sheet date. The Group provides warranty usually for 3 to 5 years, in line with the industry practice. Provision for warranty is calculated based on historical experience. A liability is recognised at the time the product is sold.

Provisions for loss-making contracts are recognised in the period in which they are determined.

Significant management estimates and judgments

Provision amounts to be recorded are based on management judgement and are the best estimate of the cost required to settle the obligations at the reporting date. Provisions are reviewed on a regular basis, and when necessary, adjusted to reflect the current best estimate. The actual costs may differ from the estimated costs.

The most significant provisions based on estimates are warranty provisions. Warranty provisions include estimated costs for repair work during warranty periods.

	Warranty provision	Restructuring provision	Loss-making projects	Onerous lease contracts	Total
	€000	€000	€000	€000	€000
At 1 January 2018	**6 813**	**4 589**	**1 205**	**847**	**13 454**
Arising during the year	2 738	218	0	6	**2 962**
Utilised	-1 313	-3 435	-157	-331	**-5 237**
Released	-917	-315	-669	-476	**-2 377**
FX rate	-111	-3	-	-	**-114**
At 31 December 2018	**7 210**	**1 054**	**379**	**46**	**8 689**
Adoption of IFRS16				-46	**-46**
Arising during the year	2 798	704	191	-	**3 693**
Utilised	-1 313	-854	-378	-	**-2 545**
Released	-2 236	-69	0	-	**-2 305**
FX rate	31	-41	0	-	**-10**
At 31 December 2019	**6 490**	**794**	**192**	**-**	**7 476**
Current	1 363	794	192	-	**2 349**
Non-current	5 127	0	0	-	**5 127**

Provisions for onerous lease contracts have been derecognised at transition to IFRS 16 Leases on January 1, 2019 against retained earnings without restatement.

19 Other commitments and contingencies

There are no commitments or contingent liabilities recorded in the accounts.

The Group has common fixed price supply agreements for electricity and other supplies, which do not require recognition in the accounts.

	2019	2018
	€000	€000
Mortgages and pledges	2 836	1 894
Guarantees	5 872	1 473
Other commitments	0	4 869
Total	**8 708**	**8 236**

Additionally, the Group has guaranteed the employees of Valmet Automotive GmbH a redundancy program, in case they are laid off for financial reasons. This guarantee is valid until December 31, 2020.

20 Related party transactions

Accounting principles

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, a person or entity, regardless of whether a price is charged.

Intragroup related party transactions and outstanding balances are eliminated in the consolidated financial statements.

Transactions

The Group's transactions with related parties are detailed below.

		Revenue	Receivables	Purchases	Payables	Loans
		€000	€000	€000	€000	€000
Key management personnel of the group	31.12.2019	-	-	177	27	-
	31.12.2018	-	-	41	-	-
Entity with significant influence over the group	31.12.2019	-	-	-	-	-
	31.12.2018	5 316	5 183	26	-	-

Key management compensation

The key management includes the Board of Directors and the Group Management Team. The remuneration paid or payable based on the work performed consists of the following:

	2019	2018
	€000	€000
Salaries and other short-term employee benefits	-2 803	-2 523
Other long-term employee benefits	-197	-
Termination benefits	-	-120
Total compensation to key management personnel	**-3 000**	**-2 643**

The Board of Directors' compensation amounted to 276 kEUR in 2019 and 290 kEUR in 2018, respectively.

21 Events after the reporting period

Co-operation negotiations on temporary workforce reduction were started on March 13, 2020 at Uusikaupunki, Finland car plant, and on March 18, 2020, at Salo, Finland battery plant. The negotiations are due to expected shortage of components and expected decrease in demand resulting from the corona virus situation. These negotiations will not lead to permanent lay-offs. Any adjustments to personnel in Germany, Poland and Spain are to be implemented according to local regulations and practices.

Financial statements of the parent company (FAS)

INCOME STATEMENT	1.1.-31.12.2019	1.1.-31.12.2018
	EUR	*EUR*
NET SALES	**506 103 008,81**	**517 088 735,47**
Change in inventories of finished goods and in work in progress	-1 981 116,18	-5 171 810,84
Other operating income	13 525 613,04	5 120 818,60
Materials and services	-216 205 012,50	-231 068 705,20
Personnel expenses	-164 919 007,37	-161 660 780,09
Depreciation and writedowns	-46 352 692,67	-32 514 475,93
Other operating expenses	-66 913 627,56	-70 157 453,32
OPERATING PROFIT (LOSS)	**23 257 165,57**	**21 636 328,69**
Financing income and expenses	-17 868 147,20	-657 174,10
PROFIT (LOSS) BEFORE TAXES	**5 389 018,37**	**20 979 154,59**
Change in deferred taxes	-1 463 038,40	-2 919 974,18
Income taxes	-4 293 897,68	-2 399 924,10
NET INCOME (LOSS)	**-367 917,71**	**15 659 256,31**

BALANCE SHEET

ASSETS	31.12.2019	31.12.2018
NON-CURRENT ASSETS		
Intangible assets		
Intangible assets	574 906,92	572 153,31
Other capitalized long-term expenditure	8 388 557,60	7 201 755,07
Assets under construction	923 219,95	3 276 294,58
Intangible assets total	**9 886 684,47**	**11 050 202,96**
Property, plant and equipment		
Land and water areas	4 759 290,81	4 759 290,81
Buildings	44 004 695,13	42 640 246,44
Machinery and equipment	120 701 569,73	145 242 875,61
Other tangible assets	1 052 367,08	1 177 857,15
Assets under construction	1 840 396,77	6 211 822,08
Tangible assets total	**172 358 319,52**	**200 032 092,09**
Investments		
Shares in group companies	28 792 278,29	30 792 278,29
Other shares and participations	76 170,75	74 532,75
Investments total	**28 868 449,04**	**30 866 811,04**
TOTAL NON-CURRENT ASSETS	**211 113 453,03**	**241 949 106,09**
CURRENT ASSETS		
Inventories		
Materials and supplies	49 969 405,38	72 765 822,15
Work in progress	9 987 932,44	9 895 439,01
Finished products	1 004 788,68	1 937 878,01
Inventories total	**60 962 126,50**	**84 599 139,17**
Long-term receivables		
Loan receivables from group companies	16 861 886,86	25 500 000,00
Pension plan receivables	119 017,00	550 387,00
Deferred tax asset	1 472 663,30	2 935 701,70
Long-term receivables total	**18 453 567,16**	**28 986 088,70**
Short-term receivables		
Accounts receivable	50 723 712,81	96 327 178,08
Receivables from group companies	18 605 723,42	3 443 401,33
Other receivables	5 164 528,50	4 099 852,63
Accruals	4 033 249,18	1 448 089,05
Short-term receivables total	**78 527 213,91**	**105 318 521,09**
Bank and cash	**45 813 494,12**	**14 768 336,03**
TOTAL CURRENT ASSETS	**203 756 401,69**	**233 672 084,99**
TOTAL ASSETS	**414 869 854,72**	**475 621 191,08**

BALANCE SHEET

SHAREHOLDERS' EQUITY AND LIABILITIES	31.12.2019	31.12.2018
SHAREHOLDERS´ EQUITY		
Share capital	10 932 215,22	10 932 215,22
Share premium reserve	1 704 135,55	1 704 135,55
Revaluation reserve	5 382 013,65	5 382 013,65
Invested non-restricted equity fund	88 840 723,19	90 252 723,18
Retained earnings	-62 976 130,75	-78 635 387,06
Net income for the year	-367 917,71	15 659 256,31
Shareholders' equity total	**43 515 039,15**	**45 294 956,85**
STATUTORY PROVISIONS		
Other provisions	7 482 333,49	6 789 079,30
Provisions total	**7 482 333,49**	**6 789 079,30**
LIABILITIES		
Non-current liabilities		
Loans from financial institutions	5 833 333,35	7 500 000,01
Deferred tax liability	1 345 503,41	1 345 503,41
Non-current liabilities total	**7 178 836,76**	**8 845 503,42**
Current liabilities		
S-T loans from financial institutions	1 666 666,66	1 666 666,66
Advances received	79 684 264,87	108 721 378,86
Trade payables	108 625 007,25	119 960 659,55
Liabilities to group companies	18 113 224,26	9 175 245,95
Other expenses	8 721 574,73	3 661 853,50
Accrued expenses	139 882 907,55	171 505 846,99
Current liabilities total	**356 693 645,32**	**414 691 651,51**
TOTAL LIABILITIES	**363 872 482,08**	**423 537 154,93**
TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES	**414 869 854,72**	**475 621 191,08**

CASH FLOW STATEMENT	1.1.-31.12.2019	1.1.-31.12.2018
OPERATING PROFIT (LOSS)	**23 257 166**	**21 636 329**
Adjustments		
Depreciation and writedowns	46 352 693	32 514 476
Other non-cash adjustments	-29 930 741	-24 739 082
Adjustments total	**16 421 952**	**7 775 394**
Change in net working capital		
Inventory, increase (-) / decrease (+)	23 637 013	9 969 986
Short term receivables, increase (-) / decrease (+)	38 517 473	-29 674 335
Short term liabilities, increase (+) / decrease (-)	-44 661 163	28 975 071
Change in net working capital total	**17 493 323**	**9 270 722**
Financing income and expenses, taxes		
Financing income and expenses, taxes	-129 061	-1 681 185
Financing income and expenses and taxes, net	**-129 061**	**-1 681 185**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**57 043 380**	**37 001 260**
Investing activities		
Acquisitions of fixed assets, net	-17 515 402	-69 343 801
Shares and participations, net	-5 001 638	-7 003 353
Advances received, investments	5 248 000	10 524 058
Net cash flows from investing activities	**-17 269 040**	**-65 823 096**
NET CASH FLOWS BEFORE FINANCING ACTIVITIES	**39 774 340**	**-28 821 836**
Financing activities		
Distribution of reserves	-1 412 000	0
Increase (-) / decrease (+) in L-T loans	-1 666 667	-1 666 667
Increase (-) / decrease (+) in S-T loans	8 054 996	833 333
Increase (+) / decrease (-) in other receivables	-13 705 511	-6 500 000
Net cash flows from financing activities	**-8 729 182**	**-7 333 333**
NET CASH FLOW AFTER FINANCING ACTIVITIES	**31 045 158**	**-36 155 169**
Cash and cash equivalents at the beginning of year	14 768 336	50 923 505
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**45 813 494**	**14 768 336**

Notes to the parent company financial statements (FAS)

1. Accounting principles

Basis of preparation

The domicile of the parent company is Uusikaupunki, Finland. The parent company financial statements have been prepared in accordance with the Finnish Accounting Standards (FAS).

Foreign currency translation

Receivables and payables in foreign currency are converted into Euros at the exchange rates of the European Central Bank for the balance sheet date. Exchange gains and losses related to fixed assets are treated as adjustments to the acquisition cost of fixed assets.

Fixed assets and depreciation

Fixed assets are mainly stated at original purchase prices. Depreciation and amortization are made on a straight-line basis. The buildings and land areas include also revaluations.

Depreciation time according to expected useful lives of the assets:

Intangible assets	5 - 10 years
Improvements of land areas	10 years
Buildings and structures	20 years
Machinery and equipment	3 - 10 years

Inventories

Inventories are valued at the original purchase price or at the lower of cost or market. Indirect production costs are also included to the work in progress inventory value.

Receivables

Receivables are booked at nominal value or at their estimated realizable value.

Revenue recognition based on the percentage of completion

Revenue on long-term contracts is recognised based on the Percentage of Completion (POC) Method.
A project lasting more than one year is considered a long-term contract. Percentage of completion is calculated based on costs incurred to date in relation to total estimated project costs (cost-to-cost method).

Material purchases

Pass-through material for Mercedes-Benz manufacturing is handled completely in materials and services costs in the income statement; the pass-through sales price is booked as a correction to purchase cost. All the material is included in inventory, accounts payable, accruals and accounts receivable in the balance sheet.

2. Notes of the income statement

	2019	2018
Net sales	***EUR***	***EUR***
By Business line		
Manufacturing services	488 162 693,87	494 472 925,60
Manufacturing of batteries	898 258,94	0,00
Engineering services	16 961 960,41	22 403 099,13
Other sales (mostly intra-group sales)	80 095,59	212 710,74
Total net sales	**506 103 008,81**	**517 088 735,47**
By market area		
Finland	10 943 909,62	3 234 269,94
Germany	491 549 825,53	509 316 904,19
Others	3 609 273,66	4 537 561,34
Total net sales	**506 103 008,81**	**517 088 735,47**
Specification of net sales		
POC sales	7 944 200,56	11 496 932,80
Other sales	498 158 808,25	505 591 802,67
Total net sales	**506 103 008,81**	**517 088 735,47**

Other operating income

Royalties from group companies	456 758,59	519 710,33
Government grants	1 856 668,37	613 674,39
Compensation from customers and suppliers	10 682 986,08	3 987 433,88
Other income	529 200,00	0,00
Total	**13 525 613,04**	**5 120 818,60**

Materials and services

Materials and services		
Materials	199 993 959,92	208 429 367,11
External services	16 211 052,58	22 639 338,10
Total	**216 205 012,50**	**231 068 705,21**

Personnel expenses

Wages & Salaries	136 783 509,12	133 553 381,07
Pension insurances	23 515 930,79	21 398 247,20
Other indirect employee costs	4 619 567,46	6 709 151,82
Personnel expenses	**164 919 007,37**	**161 660 780,09**
The average number of personnel	3 617	3 641

Pension liabilities

The pension responsibility for personnel is covered by a pension insurance agreement with an external insurance company.

Depreciation and write-down of fixed assets	2019 EUR	2018 EUR
Intangible rights	219 884,87	300 842,31
Other capitalized long-term expenditure	2 001 088,57	1 107 199,03
Improvements of land areas	132 664,07	77 897,77
Buildings	2 408 923,60	1 717 994,68
Machinery and equipment	41 590 131,56	29 310 542,14
Total depreciation	**46 352 692,67**	**32 514 475,93**
Total depreciation and write-down	**46 352 692,67**	**32 514 475,93**

Other operating expenses

Facility, maintenance and operating cost	13 249 755,01	12 609 236,91
Research and development expenses	832 280,03	565 975,54
Patent maintenance costs	335 707,54	352 691,53
External services	11 708 074,65	13 895 663,87
ICT expenses	14 035 881,40	11 958 396,14
Machinery and equipment expenses and leases	18 085 140,40	18 824 245,50
Sales and marketing	957 257,69	321 913,86
Other operating expenses	7 709 530,84	11 629 329,97
Total	**66 913 627,56**	**70 157 453,32**

Services rendered by statutory auditors

Audit services	275 527,00	247 251,00
Tax advisory services	72 206,00	126 468,75
Other services	5 240,00	24 415,54
Total	**352 973,00**	**398 135,29**

Financing income and expenses	2019 *EUR*	2018 *EUR*
Dividend income	5 922,00	4 905,00
Interest income	13 252,63	535,86
Interest income from group companies	631 572,14	569 623,14
Financing income total	**650 746,77**	**575 064,00**
Loss from foreign exchange	323 503,86	251 041,62
Interest expenses	720 317,20	959 579,86
Financing expenses related to group companies	10 400 000,00	0,00
Other financing expenses	75 072,91	21 616,62
Financing expenses total	**11 518 893,97**	**1 232 238,10**
Write down on investments in fixed assets	7 000 000,00	0,00
Financing income and expenses total	**-17 868 147,20**	**-657 174,10**

Write-down of investment in fixed assets of EUR 7 million relates to the value of investment in Valmet Automotive Beteiligungs-GmbH.

Income taxes

Income taxes	-4 293 897,68	-2 399 924,10
Change in deferred taxes	-1 463 038,40	-2 919 974,18
Income taxes total	**-5 756 936,08**	**-5 319 898,28**

3. Notes of Balance Sheet

Non-current assets	2019 *EUR*	2018 *EUR*
Intangible assets		
Intangible rights		
Historical purchase price 1.1	10 923 182,13	10 987 679,74
Increase	9 507,01	3 684,84
Decrease	0,00	-68 182,45
Reclassifications	213 131,47	0,00
Total cost 31.12.	**11 145 820,61**	**10 923 182,13**
Accumulated depreciation 1.1	10 351 028,82	10 050 186,51
Depreciation of the accounting period	219 884,87	300 842,31
Accumulated depreciation 31.12	**10 570 913,69**	**10 351 028,82**
Book value 31.12	**574 906,92**	**572 153,31**
Other capitalised long-term expenditure		
Historical purchase price 1.1	19 316 079,78	13 305 677,31
Increase	661 063,92	2 852 216,91
Reclassifications	2 526 827,18	3 158 185,56
Total cost 31.12.	**22 503 970,88**	**19 316 079,78**
Accumulated depreciation 1.1	12 114 324,71	11 007 125,68
Depreciation of the accounting period	2 001 088,57	1 107 199,03
Accumulated depreciation 31.12	**14 115 413,28**	**12 114 324,71**
Book value 31.12	**8 388 557,60**	**7 201 755,07**
Assets under construction		
Historical purchase price 1.1	3 276 294,58	4 511 007,68
Increase	403 183,02	1 923 472,46
Reclassifications	-2 756 257,65	-3 158 185,56
Total cost 31.12.	**923 219,95**	**3 276 294,58**
Book value 31.12	**923 219,95**	**3 276 294,58**

Property, plant and equipment	2019 *EUR*	2018 *EUR*
Land- and water areas		
Historical purchase price 1.1	4 591 102,88	4 591 102,88
Total cost 31.12.	**4 591 102,88**	**4 591 102,88**
Accumulated depreciation/ revaluation 1.1.	168 187,93	168 187,93
Accumulated depreciation 31.12	**168 187,93**	**168 187,93**
Book value 31.12	**4 759 290,81**	**4 759 290,81**
Buildings and constructions		
Historical purchase price 1.1	85 806 353,79	69 555 489,87
Increase	3 247 629,43	12 883 319,27
Reclassifications	525 743,16	3 367 544,65
Total cost 31.12.	**89 579 726,38**	**85 806 353,79**
Revaluation 1.1	6 559 329,13	6 559 329,13
Revaluation 31.12	**6 559 329,13**	**6 559 329,13**
Accumulated depreciation 1.1	49 725 436,48	48 007 441,80
Depreciation of the accounting period	2 408 923,90	1 717 994,68
Accumulated depreciation 31.12	**52 134 360,38**	**49 725 436,48**
Book value 31.12	**44 004 695,13**	**42 640 246,44**

Machinery and equipment	2019 EUR	2018 EUR
Historical purchase price 1.1	351 675 521,92	266 560 518,22
Increase	11 913 836,92	47 008 236,49
Reclassifications	5 134 988,76	38 106 767,21
Total cost 31.12.	**368 724 347,60**	**351 675 521,92**
Accumulated depreciation and write-downs 1.1.	206 432 646,31	177 122 104,17
Depreciation of the accounting period	41 590 131,56	29 310 542,14
Accumulated depreciation 31.12	**248 022 777,87**	**206 432 646,31**
Book value 31.12	**120 701 569,73**	**145 242 875,61**

Other tangible assets		
Historical purchase price 1.1	4 148 229,04	3 009 530,14
Increase	0,00	351 802,36
Reclassifications	7 174,00	786 896,54
Total cost 31.12.	**4 155 403,04**	**4 148 229,04**
Accumulated depreciation 1.1	2 970 371,89	2 892 474,12
Depreciation of the accounting period	132 664,07	77 897,77
Accumulated depreciation 31.12	**3 103 035,96**	**2 970 371,89**
Book value 31.12	**1 052 367,08**	**1 177 857,15**

Assets under construction		
Machinery and equipment	6 211 822,08	44 083 778,90
Increase	1 280 181,61	4 389 251,58
Reclassifications	-5 651 606,92	-42 261 208,40
Total cost 31.12.	**1 840 396,77**	**6 211 822,08**
Book value 31.12	**1 840 396,77**	**6 211 822,08**

Investments	Share-%	2019 EUR	2018 EUR
Shares and participations	**Share-%**		
Group companies			
Valmet Automotive GmbH	100	14 200 000,00	14 200 000,00
Valmet Automotive Beteiligungs-GmbH	100	0,00	7 000 000,00
Valmet Automotive EV Oy	100	5 003 352,80	3 352,80
Valmet Automotive Sp. z o.o.	100	9 588 925,49	9 588 925,49
Total Group companies		**28 792 278,29**	**30 792 278,29**
Associated companies			
Kiint. Oy Pietolankatu 13,U:ki	40	0,17	0,17
V-A Group's share of shareholder's equity 58.193,41 EUR			
Other shareholdings total		76 170,75	74 532,75
Total		**28 868 449,04**	**30 866 811,04**

	2019	2018
	EUR	*EUR*
Accounts receivables	**50 723 712,81**	**96 327 178,08**

Other short-term receivables

Tax receivables	4 831 441,43	3 708 584,74
Other receivables	333 087,07	391 267,89
Total	**5 164 528,50**	**4 099 852,63**

Accrued income and prepaid expenses

Accrued sales revenue	4 033 249,18	1 015 001,80
Other prepaid expenses	0,00	433 087,25
Total	**4 033 249,18**	**1 448 089,05**

Receivables from group companies

Accounts receivables	5 425 005,34	217 753,98
Accrued income	1 237 093,47	3 225 647,35
Total	**6 662 098,81**	**3 443 401,33**

Shareholders´ equity	2019 EUR	2018 EUR
Equity		
Shareholders´ equity 1.1.	10 932 215,22	10 932 215,22
Shareholders´ equity 31.12.	10 932 215,22	10 932 215,22
Additional paid-in capital 1.1.	1 704 135,55	1 704 135,55
Additional paid-in capital 31.12.	1 704 135,55	1 704 135,55
Revaluation reserve 1.1.	5 382 013,65	5 382 013,65
Revaluation reserve 31.12.	5 382 013,65	5 382 013,65
Total equity	**18 018 364,42**	**18 018 364,42**
Free equity		
Reserve of invested non-restricted equity 1.1.	90 252 723,18	90 252 723,18
Distribution of reserves	-1 411 999,99	0,00
Reserve of invested non-restricted equity 31.12.	88 840 723,19	90 252 723,18
Retained earnings 1.1.	-62 976 130,75	-78 635 387,06
Retained earnings 31.12.	-62 976 130,75	-78 635 387,06
Net income for the year	-367 917,71	15 659 256,31
Total free equity	**25 496 674,73**	**27 276 592,43**
Total shareholders´ equity	**43 515 039,15**	**45 294 956,85**
Statutory provisions		
Provision for restructuring, personnel	90 176,04	139 321,58
Long-service benefit plans	2 924 818,00	3 140 014,00
Warranty reserves	4 467 339,45	3 509 743,72
Total	**7 482 333,49**	**6 789 079,30**

Advances received	**2019** ***EUR***	**2018** ***EUR***
Advances received, POC projects	299 748,98	0,00
Other advances	79 384 515,89	108 721 378,86
Total	**79 684 264,87**	**108 721 378,86**

Specification of accrued income, combined asset and liability amounts

Long-term contracts, combined amounts		
Accrued receivables related to POC revenues	-350 276,32	0,00
Advances received from customers	650 025,30	0,00
Project receivables on the balance sheet, current assets	**299 748,98**	**0,00**

Liabilities to group companies

Short-term liabilities		
Accounts Payable	2 191 431,32	1 308 448,78
Other short-term liabilities	15 921 792,94	7 866 797,17
Total	**18 113 224,26**	**9 175 245,95**

Other short-term liabilities

Withholding taxes and social security expenses	2 292 224,51	2 477 514,24
Other short-term liabilities	6 429 350,22	1 184 339,26
Total	**8 721 574,73**	**3 661 853,50**

Accruals

Wages and salaries including social security expenses	24 037 889,90	23 455 324,17
Accrual on manufacturing materials	89 721 814,59	125 678 564,11
Other accruals	26 123 203,06	22 371 958,71
Total	**139 882 907,55**	**171 505 846,99**

4. OTHER NOTES

	2019	2018
Revenue recognition on long-term contracts based on POC	***EUR***	***EUR***
POC revenue booked on long-term contracts not yet delivered to customers, total amount booked in the financial year and in earlier financial years, 31.12.	**350 276,32**	**0,00**
Not recognized as revenue 31.12.(order backlog)	**299 748,98**	**0,00**
Deferred taxes		
Deferred tax liabilities		
Revaluations of fixed assets	1 345 503,41	1 345 503,41
Total	**1 345 503,41**	**1 345 503,41**
Deferred tax asset		
Fixed assets (depreciation)	0,00	1 687 963,24
Accruals	1 472 663,30	1 247 738,46
Total	**1 472 663,30**	**2 935 701,70**
Total deferred taxes	**127 159,89**	**1 590 198,29**
Mortgages and lease contracts		
Lease contracts (VAT 0%)		
Year 2020, due in < 12 months	8 049 940,31	5 256 363,06
Year 2021, due in 12-24 months	6 407 498,76	5 036 357,75
Year 2022, due in 24-36 months	1 652 450,07	4 784 700,53
After year 2023, due in 37 months and later	1 677 272,00	3 746 531,12
Total	**17 787 161,14**	**18 823 952,46**
Other mortgages and pledges		
Mortgages and pledges	2 835 675,30	1 831 878,00
Other guarantees on behalf of group companies*	5 872 337,79	1 472 613,64
Total	**8 708 013,09**	**3 304 491,64**

*Additionally, Valmet Automotive Inc has guaranteed the employees of Valmet Automotive GmbH a replacement program, in case they are laid off for financial reasons. The guarantee is valid until 31.12.2020.

Signatures for Board of Directors' report and financial statements

Vantaa, March 26, 2020

JARKKO SAIRANEN
Jarkko Sairanen
Chairman

TIMO KOKKILA
Timo Kokkila
Member

HANS-JOACHIM SCHÖPF
Hans-Joachim Schöpf
Member

ULRICH HACKENBERG
Ulrich Hackenberg
Member

PHILIP-CHRISTIAN ELLER
Philip-Christian Eller
Member

KARI HEINISTÖ
Kari Heinistö
Member

OLAF BONGWALD
Olaf Bongwald
Chief Executive Officer

The Auditor's report has been given today

Ernst & Young Oy
Authorized Public Accountant Firm

Vantaa, March 26, 2020

MIKKO RYTILAHTI
Mikko Rytilahti
Authorized Public Accountant

Ernst & Young Oy
Alvar Aallon katu 5 C
FI-00100 Helsinki
FINLAND

Tel: +358 207 280 190
www.ey.com/fi
Business ID: 2204039-6,
domicile Helsinki

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AUDITOR'S REPORT (Translation of the Finnish original)

To the Annual General Meeting of Valmet Automotive Oy

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Valmet Automotive Oy (business identity code 0143991-2) for the year ended 31 December, 2019. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- The consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- The financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Other Reporting Requirements

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

Vantaa 26.3.2020

Ernst & Young Oy
Authorized Public Accountant Firm

MIKKO RYTILAHTI

Mikko Rytilahti
Authorized Public Accountant