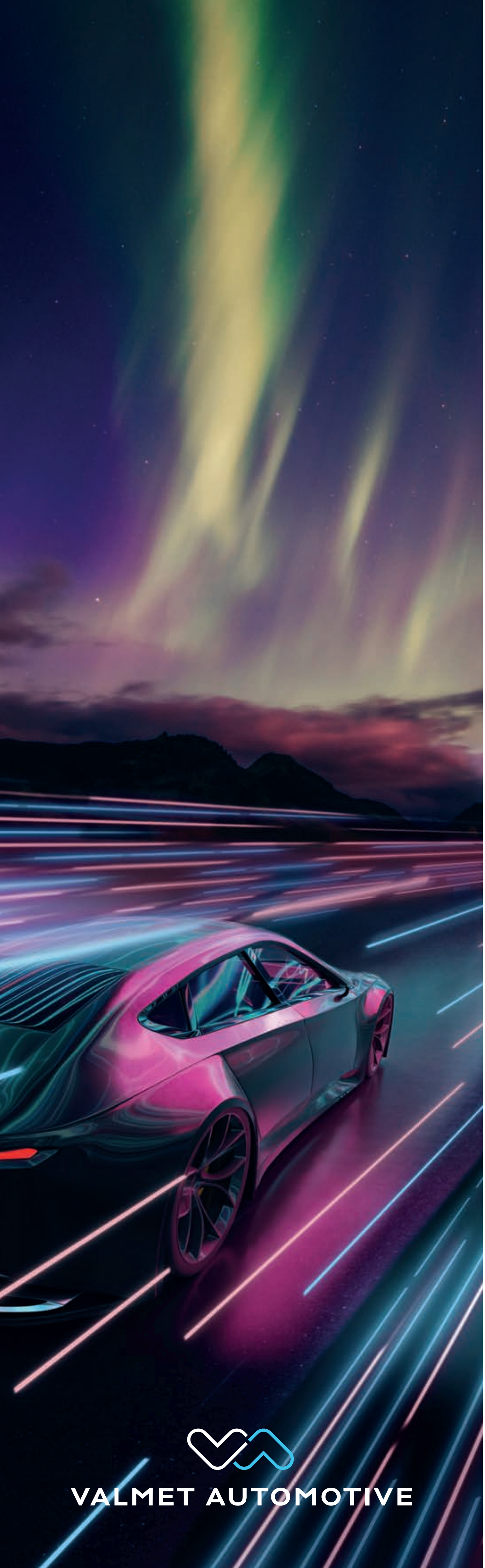


ANNUAL REPORT AND FINANCIAL STATEMENTS 2022

VALMET AUTOMOTIVE GROUP

Business ID 0143991-2
PL 4
23501 Uusikaupunki
Finland

CONTENTS

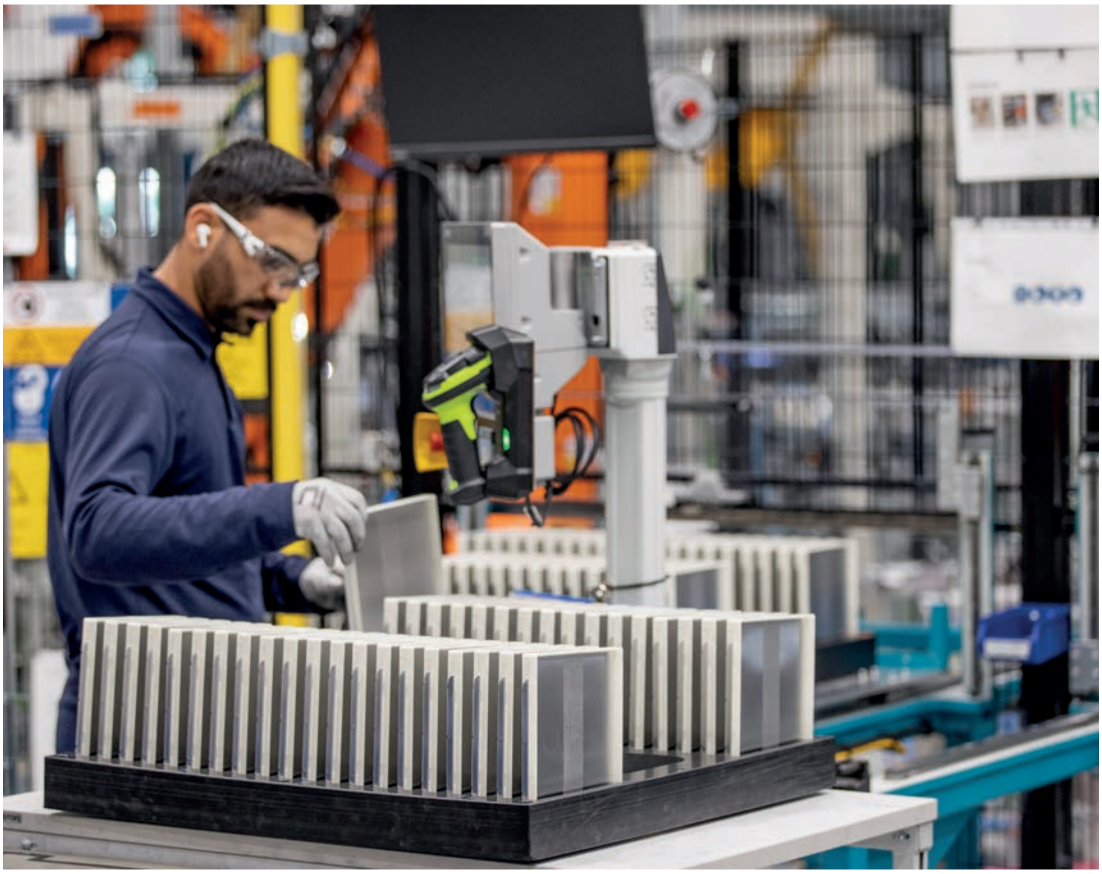
BOARD OF DIRECTORS' REPORT

GENERAL

Valmet Automotive ("Group" or "Valmet Automotive") is a Top 100 global automotive supplier providing vehicle manufacturing, battery systems as well as convertible roof and kinematic systems. Valmet Automotive is a leading provider of advanced systems and services that support Original Equipment Manufacturers (OEM) in their transition to electrified mobility.

GROUP STRUCTURE

Valmet Automotive's business is divided into three business lines – Vehicle Contract Manufacturing ("VCM"), Electric Vehicle Systems ("EVS") and Roof & Kinematic Systems ("RKS"). The Group's parent company is Valmet Automotive Plc and the Group consists of subsidiaries in Finland, Germany and Poland, fully owned either directly or indirectly by Valmet Automotive Plc. There were no material changes in the Group structure during 2022 or 2021.



OPERATING ENVIRONMENT

Valmet Automotive operates mostly within automotive industry and its key customers for all three business lines are primarily European OEMs. Accordingly, European light vehicle production volume and German premium OEMs European production are indicators of current output in its addressable customer segments. The xEV share provides indicative guidance on the current pace of transition from internal combustion engines (ICE) to alternative propulsions, relevant to EV battery systems, as well as more broadly to all business lines, which all cater to new vehicle concepts. The development of the automotive market is described in the following table.

Light vehicle production, in thousands	**Q4 2022**	**Q4 2021**	**Change**	**2022**	**2021**	**Change**
Global Production	21 287	21 134	1%	81 634	77 057	6%
of which xEV *	3 772	2 284	65%	11 599	6 751	72%
xEV of total	18%	11%		14%	9%	
European production **	4 101	4 021	2%	15 612	15 891	-2%
of which xEV*	755	540	40%	2 385	1 876	27%
xEV of total	18%	13%		15%	12%	
German premium*** OEMs European production	865	854	1%	3 341	3 176	5%
of which xEV*	216	168	28%	715	544	31%
xEV of total	25%	20%		21%	17%	

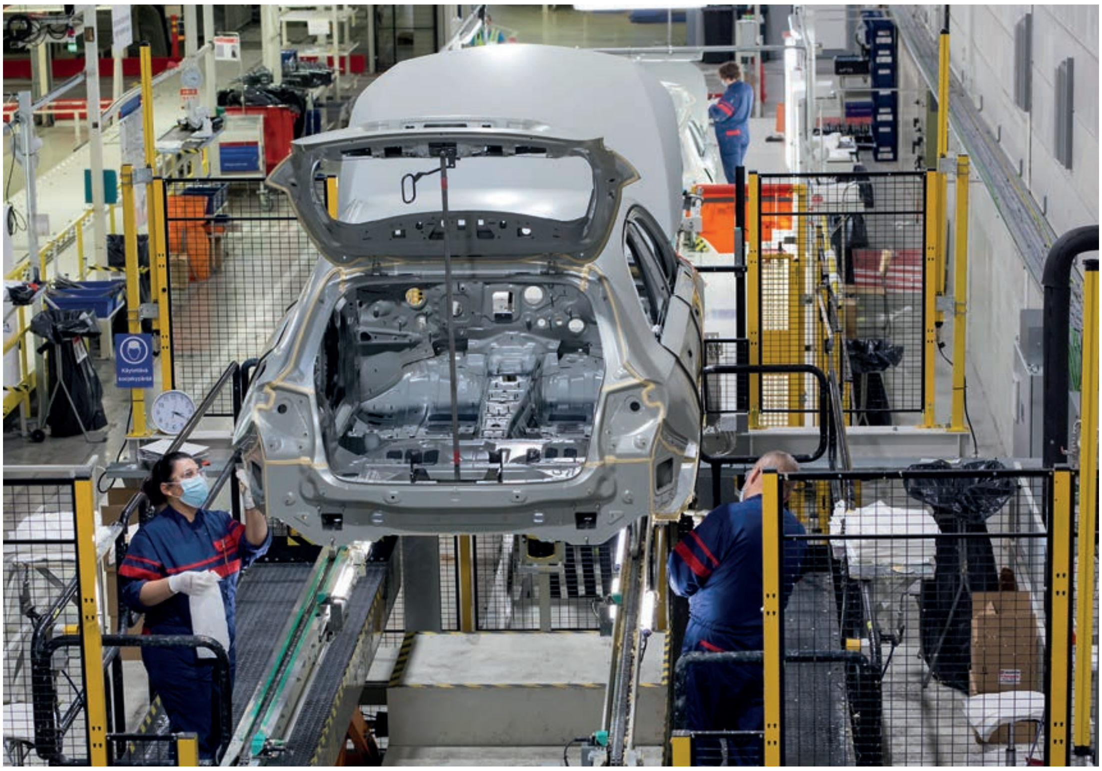
* xEV = Plug-In Hybrid Electric Vehicle (PHEV), Battery Electric Vehicle (BEV) and Fuel-Cell Electric Vehicle (FCEV)

** European production excluding Russia and Turkey

*** German Premium OEMs include Audi, BMW, Mercedes-Benz and Porsche

Source: IHS Markit Light Vehicle Powertrain + Alternative Propulsion Forecast - January 2023

Both global and European light vehicle production increased slightly in the fourth quarter compared to the previous year, 1% globally and 2% in Europe. Global light vehicle production grew by 6% in 2022 compared to the previous year while European production development declined by 2%. Both global and European production continued to suffer from component shortages, especially related to semiconductors, however, at significantly lower level compared to the previous year. Electrification of light vehicles continued during the financial year. Share of xEV of total production increased globally to 14% in 2022 from 9% in 2021 and to 15% from



12% in European production. Strongest growth took place within Battery Electric Vehicles, globally and in Europe, while also the Plug-In Hybrid Electric Vehicles production increased globally and in Europe.

According to IHS, overall, the European production forecast shows limited recovery compared to pre-crisis levels of activity with production levels forecasted to remain lower than 2018 levels until 2030.[1]

MACROECONOMIC ENVIRONMENT

The current macroeconomic environment, resulting from a combination of remaining pandemic-related effects, inflation, increase in the interest rates, deterioration of the business climate, geopolitical risks, and uncertainties regarding future developments, pose challenges to operations and the value chain.

According to IHS, global automotive industry operating environment remains under ongoing pervasive uncertainty, reflecting general supply chain pressures, which however have declined, recession risks, natural gas supply risks in Europe, commodity bottlenecks in light of geopolitics, e.g., for nickel/palladium, disruptions to chips from Taiwan, ongoing chip and covid-19 flare up risks, especially as China has abandoned its strict zero-covid policy.

The automotive industry is energy intensive, and any material energy price increases and availability might create disturbances into the automotive supply chains. The raw material and component inflation might have negative influence

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[1] S&P Global New Year's Briefing January 2023

notably in the system supply business, while the impact in contract manufacturing business is limited. Salary increases have an impact in all activities.

Increase in interest rates has an adverse impact in borrowing costs and future cash flow net present values. The borrowing costs and liquidity risks and position are discussed in the appropriate disclosures.

EVENTS WITHIN THE FINANCIAL YEAR

The year 2022 was eventful both due to the continuing extraordinary external circumstances and internal developments. Component shortage affected all business lines and led to unplanned production stops and some operational inefficiencies. However, financial impact to the Group was limited due to contractual compensations received from the customers. Despite the challenges in the current business environment, the Group continued to strengthen its position as an industry leader for electromobility and sustainability.

The most significant events of the year included winning new customer contracts, expanding production facilities and introducing new products as well as continued focus on sustainability and development activities.

In April 2022, Valmet Automotive announced that it has entered into a manufacturing partnership with the EV brand Sono Motors, a German-based technology company. The cooperation contains the manufacturing of the Sion model, a full electric vehicle with fully integrated solar cells for a period of seven years.

In June 2022, production of the current generation of Mercedes-Benz GLC ended as planned and on schedule. In this connection, workforce was adjusted to the prevailing production.

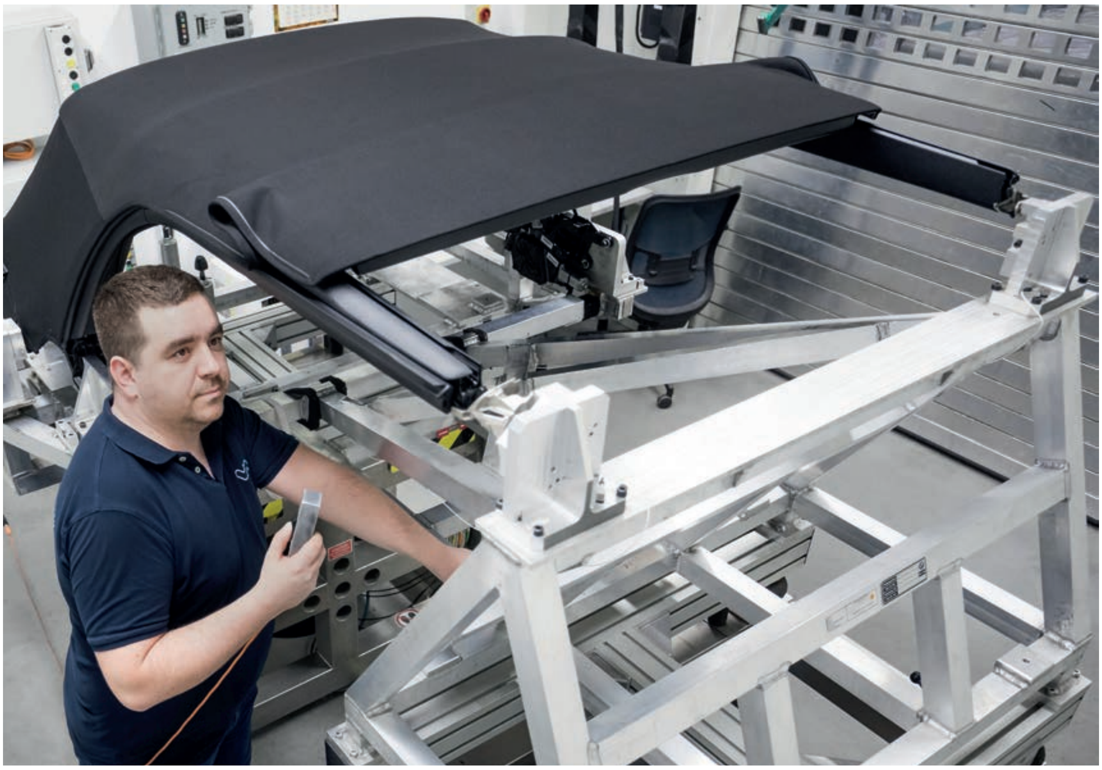
In July 2022, Valmet Automotive announced a contract with Mercedes-Benz AG to manufacture the Mercedes-AMG GT sports car. The 4-door version of the AMG GT both as ICE and hybrid versions will be manufactured at Uusikaupunki car plant. The start of production is scheduled for the second half of 2023.

In the second half of the year 2022, Valmet Automotive was nominated by premium OEMs for certain active spoiler programs as well as for an active charging module for a battery electric vehicle.

Mainly driven by the growth of EVS, Valmet Automotive was recognized for the first time as one of the Top 100 largest global automotive suppliers, published by the German automotive special interest magazine Automobil Produktion.

In August 2022, Valmet Automotive announced it will be supplying the battery system to the new electric Ponsse EV1 forest machine technology concept. The design and manufacturing of the battery system is a significant opening in new customer area using the EVS developed technology.

In October 2022, Valmet Automotive reached the milestone of 1 million produced battery packs within only three years.



In November 2022, Valmet Automotive announced the Intelligent Manufacturing program to respond to the changes in the automotive industry. As part of the program, VCM set up an Innovation Center at the Uusikaupunki car plant to develop and pilot future solutions that will increase VCM's ability to manufacture several products simultaneously.

In November 2022, Valmet Automotive started the series production of the Lightyear 0, the first true solar electric vehicle, at the Uusikaupunki, Finland plant, for Lightyear, a Netherland-based technology company. In January 2023, Lightyear decided to discontinue the program.

During the financial year Valmet Automotive continued the expansion of its Battery Test Center in Bad Friedrichshall, Germany. In the first quarter, the Environmental Simulation Test Laboratory went into operation followed by Storage and Logistic Center in the latter half of 2022. Product development is significantly strengthened by the additional test capacities, and the additional storage capacities will enable Valmet Automotive to realize future projects.

By the end of 2022, pre-series production ramped up at Valmet Automotive's new battery plant in Kirchardt, Germany. Serial production at EVS first battery plant in Germany is starting during the first half of 2023.

On sustainability, Valmet Automotive was confirmed to be CO_2 neutral in its own operations since beginning 2022 by the international classification society DNV. In addition, Valmet Automotive rolled out the "True Green Initiative", a two-year program and practical guide which integrates green thinking into every operation and accelerates sustainability actions.

SALES AND PROFIT

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in force as of January 1, 2022. There were no new or amended IFRS accounting principles in 2022 which would have had a material impact on Group's financial statements. The Group discloses its gross[2] sales as an alternative performance measure (non-IFRS) in order to give a complete picture of the size of the business and of the related balance sheet items in comparison to sales values.

During the financial year, the Group's gross sales from continuing operations amounted to EUR 2 841,9 (2 977,5) million, a decrease of 4,6% compared to the year earlier. The net sales from continuing operations were EUR 603,5 (570,2) million, which was 5,8% higher than the year earlier. In EVS and RKS, gross and net sales increased significantly as a result of volume increases of existing products and new customer programs in production for the full year. In VCM, gross and net sales decreased due to the planned ending of Mercedes-Benz GLC production.

The Group's operating profit amounted to EUR 31,3 (35,6) million, a decrease of 12,2% compared to the previous year, or 5,2% (6,2%) of net sales. Underlying profitability was positively affected by operational improvements; however, the impact was more than offset by volume decline in VCM and one-off items such as corporate development and financing. The negative profit impact from semi-conductor component shortage related unplanned shutdowns was largely offset by contractual compensations.

CASH FLOW AND FINANCING

The Group's cash flow after investments was EUR -56,8 (-7,2) million. The decrease in cash flow was mainly due to negative changes in working capital compared to the year earlier. Investments in continuing operations were slightly higher in the financial year compared to the year earlier. Investments made according to plan related mainly to growth in EVS and replacement, productivity and flexibility in VCM and RKS.

Valmet Automotive has a EUR 100 million working capital financing facility granted by Finnvera, a specialized financing company owned by the State of Finland, and guaranteed by the European Investment Bank's Pan-European Guarantee Fund. At Valmet Automotive, the need for short-term working capital financing relates

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[2] Gross sales are presented as an alternative performance measure. It is defined as total (gross) sales including both net sales and sales of customer-directed materials and parts. Customer-directed materials and parts are materials that are purchased from the principal or from suppliers selected by the principal at prices negotiated by the principal. Reporting gross sales gives an accurate picture of the magnitude of the business and adds comparability vs. competitors. In addition, it leads to consistency between the profit and loss statement vs. the balance sheet and cash flow as customer-directed materials are already reflected on the balance sheet and cash flow statement.

to fluctuations in supply chains and production. The Finnvera four-year revolving credit facility maturing at the end of 2025 will also support the company's strategic transformation, such as product changes and especially the expansion of operations to meet the needs of e-mobility. The facility was fully utilized at the year-end.

The Group explored several financing options during the financial year to fund its growth strategy and considerable opportunities in the market as the automotive industry continues its transition to electrified mobility. Those financing options included an initial public offering (IPO) and listing on Nasdaq Helsinki Ltd. However, despite strong initial interest from institutional investors, due to the weak capital market sentiment towards IPOs and general uncertainties in the automotive industry as well as wider economy, the Group decided to continue exploring alternative financing options to support its growth strategy.

During 2022 the Group entered into a new supply chain financing program operated by one of its customers. Under the program, the Group has a possibility to sell before maturity some of the invoices of the said customer. At the end of the financial year, a total of EUR 20,5 million was financed.

In addition, the Group continued to have a receivable sale facility in RKS with a limit of EUR 10 million.

Lease financing is used for acquisition of facilities, machinery and equipment. Lease liabilities totaled EUR 31,2 (24,1) million at the year-end.

FINANCIAL POSITION AND INVESTMENTS

The consolidated balance sheet totaled EUR 722,5 (685,9) million. The Group's equity at the end of the financial year was EUR 58,8 (42,3) million. The Group had a EUR 20,0 million hybrid capital instrument, classified as equity, unchanged from the year before.

Gross investments in fixed assets totaled EUR 77,9 (62,1) million, consisting of replacement investments, development investments and investments into new production facilities and production lines especially in EVS.

PERSONNEL

The total number of employees in the Group during the financial year was on average 4 023 (4 197). The total amount of wages and salaries in the financial year was EUR 179,7 (176,1) million.

Employees by country, end of period	**31.12.2022**	**31.12.2021**
Finland	2 749	3913
Other countries	700	583
Total	**3 449**	**4 496**

The number of employees in VCM decreased mainly due to the scheduled end of production of the Mercedes-Benz GLC. The number of employees grew in EVS, both in Finland and Germany.

RESEARCH AND DEVELOPMENT

In 2022, Valmet Automotive spent approximately EUR 43,6 (38,0) million on R&D costs, expenses and capitalised cost, including costs related to technical development work carried out as part of system supply customer projects in EVS and RKS. In VCM, there are small-scale research activities while development is an integral part of customer projects.

EVS has a development project related to an industrial battery platform to be commercialized mainly in applications of non-automotive industry. The objective is to introduce an own modular battery platform product family for the need of off-highway and truck & bus segments. The first product was introduced in November 2021. Valmet Automotive has also received funding from the Innovation Funding Agency Business Finland for a project called “IPCEI Industrial Battery Innovation Center”. The objective is to develop new business by enabling and accelerating electrification through making customizable and scalable modular solutions with world-leading technology readily available in a cost-effective manner for various land vehicle end-uses. As part of the product development, Valmet Automotive has defined and selected the cell, as well as developed its own battery management system (BMS) together with a partner company.

In RKS, building on its experience in the development and manufacturing of active spoiler systems for sports cars, the focus is on improving aero efficiency and thus optimizing the driving range of electric cars. It has developed an intelligent actuator for the spoiler systems of upcoming EV generations. Innovative kinematic systems such as active body panels contribute to optimally utilizing the energy of the battery system and thus increasing the driving range or building smaller sized batteries with identical range. One additional focus is on developing solutions for EV active charging flaps.

Valmet Automotive has an IPR portfolio that includes approximately 150 patent families which are mainly related to RKS.

NON-FINANCIAL INFORMATION

Sustainability principles and strategy

Valmet Automotive discloses its non-financial information in its annual sustainability report observing the Global Reporting Initiative (GRI) Standards. Detailed information about sustainability topics is in the latest sustainability report.

Valmet Automotive sustainability strategy is founded on a holistic view of sustainability spanning the material topics of Environment, Social and Governance. The industry main driver is a comprehensive transformation to electrification of the products. Valmet Automotive intends to take its place as the key player in this transformed business environment, innovating new solutions to contribute to the shift towards a zero-emission society, striving to minimize own negative impacts and maximize the positive impact on the value chain.

Climate and environment

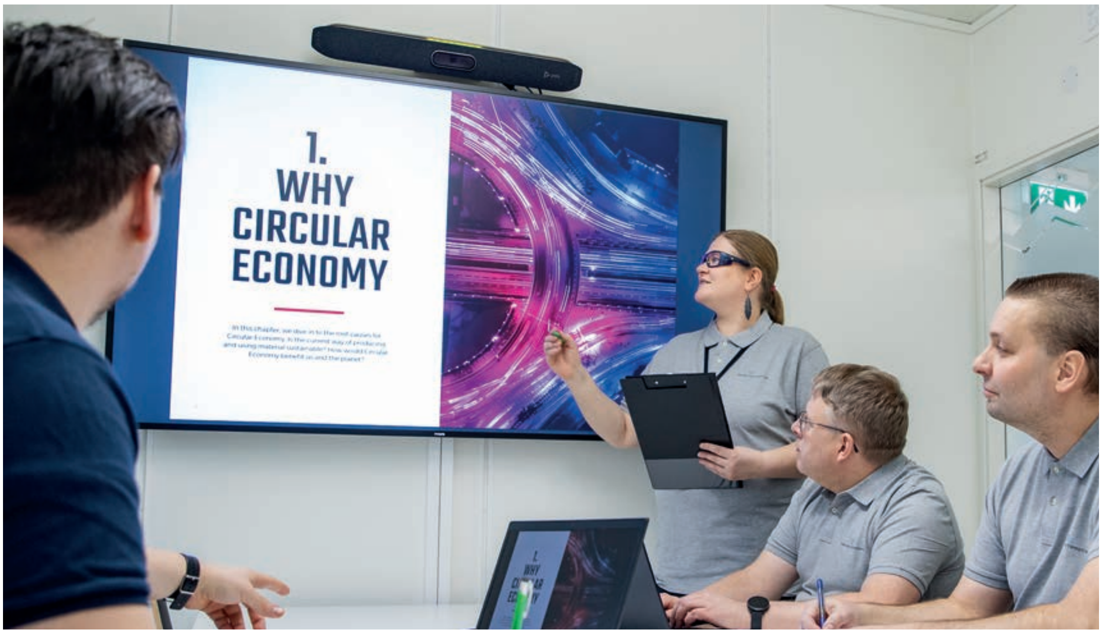
Valmet Automotive has made the low carbon transition a core element of its business and sustainability strategy. The Group has reduced CO_2 emissions from its own operations by 80% from 2018 and has been committed to carbon neutrality since the beginning of 2022. Its commitment is validated by DNV granting the Group a PAS 2060 certificate. Valmet Automotive continues to reduce its emissions by improving energy efficiency and replacing fossil fuels with renewables. The unavoidable CO_2 emissions are being compensated by verified projects.

The Group’s sustainability strategy, goals and policy are translated into concrete environmental actions through the True Green Initiative. This is a two-year, Group-wide practical guide to integrate “green thinking” - considering environmental aspects across all operations and actions - into Valmet Automotive’s organizational culture at all levels, applying circular design and manufacturing principles, and building sustainable value chains. Reducing waste and increasing its re-use and recycling rate are one of the key points in the sustainability work. Valmet Automotive has put emphasis on systematic development of understanding and cultivating circularity principles into daily work as well as on strategical level.

The True Green Initiative focuses on five work streams:

1. **Green manufacturing:** Minimizing Valmet Automotive own scope 1 and 2 CO_2 emissions and improving energy efficiency.
2. **Supply chain:** Developing a roadmap that defines the steps Valmet Automotive will take to reduce scope 3 emissions and improve supplier risk management practices.
3. **Product design for environment (DFE):** Focusing on fulfilling legal and customer demands and reducing the CO_2 footprint of own products.
4. **Data management:** Providing efficient, reliable, trackable, and tagged sustainability reporting in a common platform across the company.
5. **Green attitude:** Increasing the sustainability maturity level (sustainability awareness and competences) and implementing this into company processes.

Valmet Automotive has defined the activities for the upcoming EU Taxonomy climate mitigation and adaptation reporting regulations and is in the process of identifying the taxonomy eligibility and alignment of the activities, assessing impacts and consequences for the business.



Employment, human rights and social issues

Valmet Automotive, as an international Group with three business lines and several locations in three countries, acknowledges the importance of unified corporate culture. The Group's culture is based on five Commitments that are actively rolled-out on all levels of the organization. Internal communication on Commitments is constant and diverse, including internal workshops and diagonal meetings as well as a steady flow of internal news on the subject. For example, the employees participate in e-learning Commitment trainings. The success of these activities is reflected in the positive development of Pulse Check results, the annual personnel survey that comprehensively covers various areas affecting the employees' satisfaction at work and the implementation of Commitments. The value of the survey is increasingly comprehended among the employees, as in 2022 the response rate achieved a record level of 79%, and more than 12.000 comments were submitted.

The Group adheres to international standards on human rights, labour conditions, anti-corruption and the environment. The actions are guided by the United Nations Global Compact's Ten Principles in these areas. As an employer, Valmet Automotive accept the labour rights defined by the International Labour Organization (ILO).

In its collaboration with its suppliers, Valmet Automotive formulates clear expectations and requires all its suppliers to sign and comply with the Supplier Code of Conduct (SCoC), which includes expectations related to environmental management, human rights, labor standards and responsible behavior.

Anti-corruption and bribery

Valmet Automotive Group Code of Conduct requires all employees and the Supplier Code of Conduct all suppliers to observe zero tolerance of corruption and bribery.

Sustainability-related risks

Valmet Automotive operating landscape is changing swiftly with the increasing prevalence of sustainability issues and expectations from customers, regulators and other stakeholders around sustainability. The Group's corporate and sustainability strategies focus on the low-carbon transition through e-mobility and are visible in sustainability risks and opportunities. To ensure strategic focus, sustainability risks are integrated into the Group's mainstream risk management process. Valmet Automotive is following closely the upcoming EU sustainability targets and reporting requirements to align its work accordingly.

The automotive sector´s and e-mobility´s value chain is susceptible to challenges in material sourcing, labour practices, human rights and environmental impact. To support identifying sustainability supply chain risk and improvement areas, Valmet Automotive uses a supplier self-assessment questionnaire (SAQ) which covers a large array of topics related to human resources, health & safety, responsible sourcing of raw materials, environmental management and other sustainability subjects aligned with current good practice and legislation.

Attracting skilled workforce in all locations is crucial for Valmet Automotive's future. The Group aims to keep its salaries competitive while pursuing well-being and equal treatment to ensure talent acquisition and continuity of business.

CERTIFICATIONS

All units are certified in compliance with the requirements of the automotive industry's IATF 16949 quality standard.

In addition, production plants are certified according to the ISO 9001 quality standard where required, ISO 14001 environmental standard and ISO 45001 (former OHSAS 18001) occupational health and safety standard.

The Group is certified according to ISO/ IEC 27001:2013 Information Security Management System -standard.

ANNUAL GENERAL MEETING, BOARD OF DIRECTORS AND AUDITORS

Valmet Automotive Plc annual general meeting of the shareholders was held on March 23, 2022. The meeting approved that no dividend would be paid, and no funds would be distributed from the reserve of invested unrestricted capital. The meeting adopted the financial statements and the consolidated financial statements for the year 2021. The meeting granted a discharge from liability to the CEO and the board members for the 2021 financial year.

The annual general meeting elected the following board members: Jarkko Sairanen, Philip-Christian Eller, Timo Kokkila, Sven Ennerst and Kari Heinistö. The meeting confirmed a monthly compensation of EUR 6,000 for the Chair of the Board and EUR 3,200 for the other Board members. In addition, both the Chair of the Board and the Board Members will be paid EUR 1,000 per attended meeting. In addition, the Chair of the Audit Committee and People and Culture Committee is paid a EUR 1,500 compensation per meeting and the other members of the board committees are paid a EUR 1,000 compensation per meeting. If the duration of the Board or Committee meeting is less than 90 minutes, only half of the compensation of an ordinary meeting shall be paid.

The Annual General Meeting elected the authorized public accounting firm Ernst & Young Oy as the company's auditor and Mikko Rytilahti acts as the auditor with the principal responsibility.

In its constitutive meeting, held on March 30, 2022, the Board of Directors elected Jarkko Sairanen to continue as Chair of the Board. The Board also elected Kari Heinistö and Jarkko Sairanen to continue as Chairs of the Audit Committee and the People and Culture Committee, respectively. On June 21, 2022, the Board elected Mr. Heinistö as Vice Chair of the Board.

On September 1, 2022, the extraordinary general meeting of the shareholders elected Sabine Neuss as board member, effective as of October 1, 2022.

On October 11, 2022, the extraordinary general meeting of the shareholders changed the trade name to Valmet Automotive Oyj in Finnish, Valmet Automotive Abp in Swedish and Valmet Automotive Plc in English.

GROUP MANAGEMENT TEAM

As of December 31, 2022, Valmet Automotive's Group Management Team consists of the following members:

Olaf Bongwald, CEO
Pasi Rannus, Senior Vice President, Vehicle Contract Manufacturing
Jyrki Nurmi, Senior Vice President, Electric Vehicle Systems
Remigiusz Grzeskowiak, Senior Vice President, Roof & Kinematic Systems
Juha Torniainen, CFO
Jaakko Liljeroos, General Counsel
Christian Kleinhans, Senior Vice President, Group Business Development
Charlotte Caswell, Senior Vice President, Group HR
René Kohl, Senior Vice President, Group ICT
Peter Ohm, Senior Vice President Operational Planning & Sustainability

The current CEO contract of Olaf Bongwald is concluded until March 31, 2026.

SHARES AND PROFIT DISTRIBUTION PROPOSAL

Share capital and shares

On December 31, 2022 and on December 31, 2021, Valmet Automotive Plc share capital was EUR 10 932 thousand. The total number of shares at the end of December 2022 was 35 926 527 (136 887) shares. Valmet Automotive Plc has one class of shares. The company has a total of 35 926 527 shares, which do not have a nominal value. Each share entitles to equal voting and dividend rights.

Treasury shares

There were no treasury shares as of December 31, 2022. As of December 31, 2021, the number of treasury shares was 5 288 treasury shares, which were cancelled and removed from the shareholder register by the decision of the extraordinary general meeting held on October 11, 2022. The cancellation did not impact the share capital or the shareholder structure.

Share split

The extraordinary general meeting held on October 11, 2022 decided to split the shares of the company after the treasury shares were cancelled with a ratio of 1:272. New shares were issued to the shareholders without payment and without any impact on the rights attached to the shares.

Shareholder structure

Valmet Automotive had three (three) shareholders at the end of December: Pontos Group (38,46%), Tesi (38,46%) and CATL (23,08%). There has been no changes in shareholdings during 2022 or 2021.

Profit distribution proposal

As of December 31, 2022, Valmet Automotive Plc has distributable funds amounting to EUR 9 948 292, of which the net profit for the financial year is EUR 6 330 301. The Board of Directors proposes to the Annual General Meeting to not distribute any dividends and to retain and carry the net profit of the financial year forward.

KEY FIGURES

	Group	Group	Parent (FAS)	Parent (FAS)
	2022	**2021**	**2022**	**2021**
Economic indicators, MEUR				
Gross sales	2 841,9	2 977,5	1 897,0	2 582,0
Net sales	603,5	570,2	362,9	421,4
EBITDA	90,3	102,4	37,5	67,6
EBITDA, % of net sales	15,0%	18,0%	10,3%	16,0%
Operating profit	31,3	35,6	9,9	25,4
Operating profit, % of net sales	5,2%	6,2%	2,7%	6,0%
Net income	16,8	20,3	6,3	15,4
Net income, % of net sales	2,8%	3,6%	1,7%	3,6%
Net working capital	-85,7	-162,5	-52,3	-159,1
Free cash flow before interest and taxes	-49,0	11,8	-65,5	10,6
Return on investments (ROI) %	43,5	70,4	28,3	72,9
Return on equity (ROE) %	33,2	63,0	14,1	45,3
Equity ratio %	10,6	7,7	15,9	11,6
Headcount, average	4 023	4 197	2 436	3 068
Headcount, end of period	3 449	4 496	1 836	2 938

Calculation of key figures[3]

Net working capital

Inventories plus accounts receivable plus other non-IB receivables (excluding POC receivables) minus accounts payable minus other non-IB liabilities (excluding POC liabilities and advances received)

Free cash flow before interest and taxes

Net cash flows from/ (used in) operating activities minus investments for tangible and intangible assets from operations plus taxes and interests

Return on investments (ROI), %

$$\frac{\text{Profit (loss) before taxes plus interest and other financial expenses}}{\text{Equity plus LT interest bearing liabilities (average during the year)}}$$

Return on equity (ROE), %

$$\frac{\text{Net income (loss)}}{\text{Equity (average during the year)}}$$

Equity ratio, %

$$\frac{\text{Total equity}}{\text{Balance sheet total minus contract liabilities}}$$

[3] In all relevant ratios the hybrid capital is accounted for as equity and the ratios are not adjusted by the unrecognized accrued interest to the hybrid capital.

ESTIMATE ABOUT THE SHORT-TERM PROSPECTS, THE MAIN RISKS AND UNCERTAINTIES

The European automotive industry is energy intensive and any material disruptions in energy prices and availability might cause significant disturbances into the automotive supply chains. Inflation may continue to be high or increasing which might have negative influence especially into system supply business while the impact in contract manufacturing business is limited.

Geopolitical risks have increased since Russia's invasion to Ukraine in February 2022. The Group does not have operations in Russia, Belarus or Ukraine, nor does the Group have direct customers or suppliers in those countries. However, there might be adverse impacts through supply chains or demand for the Group's products and services. The situation may create risks that cannot be reliably predicted at the moment.

The covid-19 pandemic may have an impact on the automotive industry demand and supply chains. Availability and delivery times of parts might have adverse influence on manufacturing volume, sales and cash flow.

Valmet Automotive's VCM 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 maintaining the delivery and quality performance as well as securing the supply chain. In contract manufacturing the changes in customer demand typically 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.

RKS has a broader customer base than VCM, 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 is not expected to increase while the demand for active spoiler systems and charging flaps is estimated to grow. The most significant risks in RKS are related to Valmet Automotive's ability to win new roof and kinematic systems engineering and manufacturing projects as well as redirect the service offering.

As Valmet Automotive builds its position and grows its business and volumes in EVS and RKS, Valmet Automotive is exposed to risks, which grow when Valmet Automotive operations transition from contract manufacturing to being more of a system supplier, associated with product liability, warranty claims, product recalls, lawsuits and claims. A system supplier typically delivers development, engineering and manufacturing services to its customers in comparison to contract manufacturing service supplier whose delivery is mainly related to manufacturing and therefore the related risks and liabilities are different from each other.

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

Valmet Automotive will need sufficient liquidity to realise potential growth opportunities and fund working capital. Valmet Automotive endeavours to safeguard its liquidity with regular monitoring of receivables, keeping sufficient liquid assets and financial assets that can easily be converted into cash in a short period of time, and considering the creditworthiness of its financial counterparties. Valmet Automotive also takes its liquidity position into account when negotiating payment terms with its customers and suppliers.

In some programs, part of the engineering 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

On January 24, 2023, it was announced that Lightyear has decided to discontinue the production of the Lightyear 0. Following this decision, the production of Lightyear 0 was terminated at Valmet Automotive's Uusikaupunki car plant. The termination had no material impact on Valmet Automotive. The Lightyear production employed about 30 persons at the Uusikaupunki car plant.

Vantaa, February 21, 2023

Valmet Automotive Plc
Board of Directors

ALTERNATIVE PERFORMANCE MEASURE

	Notes	1 Jan - 31 Dec 2022 €000	1 Jan - 31 Dec 2021 €000
Gross sales[1]		**2 841 882**	**2 977 462**
Customer-directed materials		-2 238 337	-2 407 230
Net sales	3	**603 545**	**570 232**

[1] Gross sales are presented as a non-IFRS alternative performance measure. It is defined as total (gross) sales including both net sales and sales of customer-directed material and parts, which are material and parts purchased from the principal or from suppliers selected by the principal, at prices negotiated by the principal.

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	1 Jan - 31 Dec 2022 €000	1 Jan - 31 Dec 2021 €000
Continuing operations			
Net sales	3	**603 545**	**570 232**
Other operating income	4	6 287	5 442
Changes in inventories of finished goods and work in progress		66 914	47 062
Raw materials and consumables used		-250 108	-219 205
Depreciation and amortisation	14	-59 036	-66 783
Personnel expenses	5	-215 197	-211 521
Other operating expenses	4	-121 148	-89 620
Total expenses		-578 575	-540 068
Operating profit		**31 257**	**35 607**
Finance income and costs	7	-11 345	-8 175
Share of profit of an associate	9.3	-	-2
Profit before taxes		**19 912**	**27 430**
Income tax expense	8.1	-3 117	-7 132
Net income		**16 794**	**20 297**
Profit attributable to:			
Equity holders of the parent		**16 794**	**20 297**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	1 Jan - 31 Dec 2022 €000	1 Jan - 31 Dec 2021 €000
Net income		**16 794**	**20 297**
Other comprehensive income:			
Exchange differences on translation of foreign operations		-286	-167
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**-286**	**-167**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gains (losses) on defined	7	-6	-42
benefit plans Income tax effect	9	1	8
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**-5**	**-34**
Other comprehensive income, net of tax		**-291**	**-201**
Total comprehensive income for the period, net of tax		**16 504**	**20 097**
Attributable to:			
Equity holders of the parent		**16 504**	**20 097**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION, ASSETS

		31 December 2022	31 December 2021
Assets	**Notes**	**€000**	**€000**
Non-current assets			
Intangible assets	12	36 718	32 381
Property, plant and equipment	10,11	274 825	245 825
Investment in an associate	9.3	-	85
Non-current financial assets	16	78	77
Contract assets	3	48 351	39 747
Net employee defined benefit assets	6.2	-	1
Deferred tax assets	8.2	15 839	15 040
Non-current prepayments	16.7	500	750
		376 311	**333 906**
Current assets			
Inventories	15	115 379	103 532
Trade receivables	16.5	77 142	164 088
Net contract assets	3	7 983	6 459
Other current assets	16.5	62 597	31 919
Cash and cash equivalents	16.4	83 113	45 980
		346 214	**351 978**
Total assets		**722 526**	**685 885**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION, SHAREHOLDERS' EQUITY AND LIABILITIES

		31 December 2022	31 December 2021
Equity and liabilities	**Notes**	**€000**	**€000**
Share capital	16.8	10 932	10 932
Other capital reserves	16.8	7 086	7 086
Translation differences	16.8	-3 762	-3 476
Fund for invested unrestricted equity	16.8	88 432	88 432
Hybrid capital	16.8	20 000	20 000
Retained Earnings		-63 912	-80 701
Total equity		**58 777**	**42 269**
Non-current liabilities			
Interest bearing loans and borrowings	10, 16.7	24 920	17 806
Net employee defined benefit liabilities	6.1	3 403	3 353
Provisions	17	7 496	7 171
Net contract liabilities (incl. related financing component)	3	118 889	84 676
Deferred tax liabilities	8.2	8 500	6 871
Non-current accruals	16.6	1 655	1 324
		164 863	**121 200**
Current liabilities			
Interest bearing loans and borrowings	10, 16.7	107 829	6 250
Trade payables	16.6	211 107	291 194
Provisions	17	3 286	2 062
Net contract liabilities (incl. related financing component)	3	48 132	52 657
Other current liabilities and accruals	16.7	127 223	168 299
Income tax payable		1 309	1 953
		498 886	**522 415**
Total liabilities		**663 749**	**643 615**
Total shareholders' equity and liabilities		**722 526**	**685 885**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2022

€000	Share capital (Note 16.8)	Fund for invested unrestricted equity (Note 16.8)	Other capital reserves (Note 16.8)	Hybrid capital (Note 16.8)	Retained earnings	Foreign currency translation reserve (Note 16.8)	Total equity
	Attributable to the equity holders of the parent						
At 31 December 2021	**10 932**	**88 432**	**7 086**	**20 000**	**-80 701**	**-3 476**	**42 269**
Profit for the period continuing	-	-	-	-	16 794	-	16 794
Other compehensive income continuing	-	-	-	-	-5	-286	-291
Total comprehensive income	-	-	-	-	16 789	-286	16 504
At 31 December 2022	**10 932**	**88 432**	**7 086**	**20 000**	**-63 912**	**-3 762**	**58 777**

For the year ended December 31, 2021

€000	Share capital (Note 16.8)	Fund for invested unrestricted equity (Note 16.8)	Other capital reserves (Note 16.8)	Hybrid capital (Note 16.8)	Retained earnings	Foreign currency translation reserve (Note 16.8)	Total equity
	Attributable to the equity holders of the parent						
At 31 December 2020	**10 932**	**88 432**	**7 086**	**20 000**	**-100 965**	**-3 309**	**22 172**
Profit for the period continuing	-	-	-	-	20 297	-	20 297
Other compehensive income continuing	-	-	-	-	-34	-167	-201
Total comprehensive income	-	-	-	-	20 263	-167	20 097
At 31 December 2021	**10 932**	**88 432**	**7 086**	**20 000**	**-80 701**	**-3 476**	**42 269**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2022	2021
Operating activities			
Profit before tax		19 912	27 430
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and impairment of property, plant and equipment		53 848	62 780
Amortization and impairment of intangible assets		5 187	4 002
Other non-cash items*		-46 248	-45 376
Finance income and costs		11 345	8 175
Change in working capital:			
Change in trade and other receivables (+/–)		44 846	-111 402
Change in inventories (+/–)		-12 056	-32 801
Change in trade and other payables (+/–)		-66 923	154 601
Change in provisions (+/–)		-430	-681
Finance cost paid		-4 200	-3 964
Finance income received		279	7
Income tax paid		-3 890	-9 507
Net cash flows from/ (used in) operating activities		**1 670**	**53 263**
Investing activities			
Investments for tangible and intangible assets		-58 518	-54 902
Net cash flows from/ (used in) investing activities, continued		**-58 518**	**-54 902**
Net cash flows from/ (used in) investing activities, discontinued	9.2	-	-5 539
Net cash flows from/ (used in) investing activities		**-58 518**	**-60 441**
Financing activities			
Increase in loans		101 502	-
Repayment of loans		-	-72 989
Change in restricted cash		-35	19 972
Lease payments		-7 473	-11 453
Net cash flows from/ (used in) financing activities		**93 995**	**-64 470**
Net increase in cash and cash equivalents		**37 147**	**-71 647**
Net foreign exchange difference		-14	**41**
Cash and cash equivalents at 1 January	16.4	45 980	117 586
Cash and cash equivalents at 31 December	16.4	**83 113**	**45 980**

*Consist mainly of non-cash revenue recognition of customer advances received in earlier periods (contract liabilities), partly offset by related cost recognition (contract assets).

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 Plc and its subsidiaries (collectively, the Group) for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Board of Directors on February 21, 2023, and the financial statements are either approved or rejected in the Annual General Meeting.

Valmet Automotive ("Group" or "Valmet Automotive") is a Top-100 global automotive supplier providing vehicle manufacturing, battery systems as well as convertible roof and kinematic systems in the automotive and truck & bus segments. Its business is divided into three business lines - Vehicle Contract Manufacturing ("VCM"), Roof & Kinematic Systems ("RKS") and Electric Vehicle Systems ("EVS). The Group's parent company is Valmet Automotive Plc and the Group consists of subsidiaries in Finland, Germany and Poland, fully owned either directly or indirectly by Valmet Automotive Plc.

The Group acts as a contract manufacturer and a system supplier for the automotive and other customers. In contract manufacturing, the principal is typically responsible for purchasing materials and parts for the production. These so-called customer-directed materials and parts are materials and parts that are purchased from principal or from supplier selected by the principal and at prices negotiated by the principal. They are sold to the principal without adding a margin and are not reported in net sales. Customer-directed material and parts are included in the balance sheet and cash flow and they have a significant impact on inventories, trade receivables and trade payables and related accruals.

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 Plc 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.

The financial statements have been prepared on a going concern basis. The Board of Directors and the CEO are responsible for assessing the parent company's and the Group's ability to continue as a going concern. The Group's business continuity assumption is based on the fact that its business operations are based on long term development and manufacturing contracts which reach out to future periods. In addition, the Group has a working capital financing facility to ensure liquidity. The Board of Directors and the CEO have assessed the viability of the Group's going concern assumption and concluded that the Group has adequate liquidity to meet its committed obligations for the current business. However, the Group's growth strategy requires additional financing, and the Group is actively seeking for financing alternatives to take advantage of the growth opportunities.

ALTERNATIVE PERFORMANCE MEASURE

Gross sales are presented as an alternative performance measure. It is defined as total (gross) sales including both net sales and sales of customer-directed material and parts. Customer-directed material and parts are purchased from the principal or from suppliers selected by the principal and at prices negotiated by the principal. They are sold to the principal without adding a margin. Reporting gross sales gives an accurate picture of the magnitude of the business and adds comparability to competitors. In addition, it leads to consistency between the profit and loss statement vs. the balance sheet and cash flow as customer-directed materials are reflected on the balance sheet and cash flow statement.

CONSOLIDATION PRINCIPLES

The consolidated financial statements comprise the financial statements of the Group as of 31 December 2022 including comparative period 2021.

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 9.

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 of 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 in which 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 16. 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 2022.

COVID-19-RELATED RENT CONCESSIONS AMENDMENT TO IFRS 16

The Group has applied the covid-19-related rent concession to leases as issued in May 2020 and amended in March 2021. For all concessions before June 30, 2022, the lessee is allowed not to assess whether a rent concession is a lease modification. Any change in lease payments resulting from the rent concession is accounted for as if the change was not a lease modification. The Group has applied the practical expedient to all rent concessions that meet the conditions. Details of the rent concessions are in Note 10.

CHANGES IN IFRS STANDARDS AND IFRIC INTERPRETATIONS INTO EFFECT IN 2022

The IFRS Standards and IFRIC interpretations that took effect in 2022 did not have any significant impact on the result or the statement of financial position of the Group or on the presentation of the financial statements. They are not expected to significantly affect the next financial period January 1 – December 31, 2023.

CHANGES IN IFRS STANDARDS AND IFRIC INTERPRETATIONS NOT YET ADOPTED

New IFRS standards, amendments to standards and IFRIC interpretations effective on or after January 1, 2023 are not expected to have a material impact on the Group.

2 MACROECONOMIC ENVIRONMENT IMPACT TO BUSINESS ACTIVITY AND UNDERLYING PERFORMANCE

The current macroeconomic environment, resulting from a combination of remaining pandemic-related effects, inflation, increase in the interest rates, deterioration of the business climate, geopolitical risks and uncertainties regarding future developments, pose challenges to operations and the value chain. The Group has assessed the impacts that the macroeconomic environment and uncertainties might have on the financial statements. Relevant details are in the appropriate disclosures.

The Group does not see any business continuity or going concern assumption risks. However, as the customer base is relatively narrow and concentrated in mostly automotive OEMs, changes in the automotive business activity can have a significant impact in the Group's performance. The covid-19 pandemic may have an impact on the automotive industry demand and supply chains. Availability and delivery times of parts might have adverse influence on manufacturing volume, sales and cash flow.

3 REVENUE FROM CONTRACTS WITH CUSTOMERS

ACCOUNTING PRINCIPLES

The Group recognises revenue in net sales 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 contracts); or
- it creates goods which are controlled by the customer as the goods are created or enhanced (e.g., work done on customer owned 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.

Contractual compensations based on customer agreements are recorded as revenue when agreed with the customer.

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 contract 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 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 2022 and 2021 is summarized in the table below.

	2022	2021
	€000	€000
Performance obligations satisfied at point in time	586 811	553 598
Performance obligations satisfied over time	10 562	10 302
Interest revenue from significant financing component	6 172	6 333
Total revenue	**603 545**	**570 232**

The contract assets and liabilities on December 31, 2022 and December 31, 2021 are presented below. The table presents the net effects of individual contracts.

	31.12.2022	31.12.2021
Contract assets and liabilities	€000	€000
Contract assets		
Contract assets	79 483	46 206
Contract liabilities	-23 149	0
Contract assets	**56 334**	**46 206**
Non-current	48 351	39 747
Current	7 983	6 459
	56 334	**46 206**
Contract liabilities		
Contract liabilities	202 341	140 193
Contract assets	-46 113	-13 340
Contract liabilities	**156 228**	**126 853**
Non-current	109 739	78 023
Current	46 489	48 830
	156 228	**126 853**
Contract liabilities from significant financing component		
Non-current interest liability	9 149	6 652
Current interest liability	1 644	3 827
	10 793	**10 480**
Contract liability including significant financing component		
Non-current	118 889	84 676
Current	48 132	52 657
	167 021	**137 333**

From the contract liabilities at the beginning of 2022 EUR 48,3 (50,2) million was recognised in 2022. Most of the contract liabilities are recognised as revenue during the next 36 months.

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 are summarized below:

Revenue stream	Description	Business line	Revenue recognised
Contract manufacturing	Manufacturing assembly services and logistics	Vehicle Contract Manufacturing, Electric Vehicle Systems	At a point in time
Product sales	Roofs, batteries, spare parts, production parts and other	Roof & Kinematic Systems, Electric Vehicle Systems	At a point in time
Engineering services	Design and development work, concept work, supplier tooling procurement	Roof & Kinematic Systems, Electric Vehicle Systems	Over time
Industrialisation (not recognised separately)	Services related to subsequent contract manufacturing or production	All	Part of contract manufacturing or product sales
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 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 system supplier business, contracts may have several parts, starting from design and development engineering of the product, and moving to industrialisation work and 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.

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. The sales price is composed of the contract manufacturing revenue and customer-directed material. Customer-directed material and parts are purchased from the principal or from suppliers selected by the principal at prices negotiated by the principal. They are sold to the principal without adding a margin and are included in gross sales but excluded from net sales.

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 is recognised with the product.

Contract manufacturing and product sales are paid after each delivery.

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 liability is presented. The influence of the significant finance component is recorded in gross and net sales. Over the contract lifetime there is no net profit impact.

In engineering 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 is measured by the input method. The contract payments are made either at delivery or by milestones during the service performance and they typically follow the transfer of control of performance obligations to be satisfied.

Compensation received from customers for changes in sales volumes, production periods or other contractual terms are recorded as gross and net sales.

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.

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.

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 recorded as a deduction of the related asset.

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

Other operating income

	2022	2021
	€000	**€000**
Rental income	416	348
Goverment grants	533	1 783
Compensation from suppliers	3 769	2 499
Other income	1 568	813
Total	**6 287**	**5 442**

Government grants are mainly related to Business Finland projects. In 2021 they also include EUR 1,0 million (EUR 0,0 million in 2022) of covid-19 related subsidies. There are no unfulfilled conditions or contingencies attached to these grants. Compensation from suppliers relates to compensation received from suppliers, e.g., for quality related issues.

Other operating expenses

	2022	2021
	€000	**€000**
Property, operating and maintenance costs	-22 743	-19 859
Research and development expenses	-1 063	-882
External services	-45 483	-28 218
ICT expenses	-15 862	-14 737
Machinery and equipment expenses	-15 587	-11 105
Travel expenses	-3 311	-1 259
Other personnel expenses	-7 010	-6 275
Other expenses	-10 089	-7 285
Total other operating expenses	**-121 148**	**-89 620**

Research and development cost

Total research and development activities include general research and development expenses, own development projects capitalised and other development activities as part of customer projects. Own development projects capitalised include the industrial battery platform project in EVS.

Other development activities consist of costs related to technical development work carried out in EVS and RKS as part of system supply customer projects where costs are either expensed or capitalized as contract assets. The amounts for the reporting periods are detailed below.

Research and development costs	**2022**	**2021**
	€000	**€000**
R&D external cost	1 063	882
R&D salaries	1 909	1 959
Research and development costs expensed	**2 972**	**2 841**
Own development costs capitalized	3 915	4 396
Other development activities, customer projects, expensed	1 933	4 553
Other development activities, customer projects, capitalized	34 792	26 198
Total R&D	**43 612**	**37 987**

Subsidies related to the capitalized development costs are detailed in Note 12.

Auditor fees

Fees paid to the statutory auditor are presented below.

	2022	**2021**
	€000	**€000**
Auditing	-548	-484
Tax advisory	-85	-134
Other services	-737	-844
Total	**-1 370**	**-1 461**

5 EMPLOYEE BENEFITS AND NUMBER OF PERSONNEL

5.1 SUMMARY

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.

	2022	2021
	€000	€000
Wages and salaries	-178 882	-174 381
Share based employee benefit (Note 5.2)	-288	-564
Other long term employee benefits (Note 6.1)	-572	-1 185
Social security costs	-8 988	-7 410
Pension costs defined contribution	-26 468	-27 980
Pension costs defined benefit (Note 6.2)	0	-2
Total employee benefits expense	**-215 197**	**-211 521**

	2022	2021
Number of employees, average	4 023	4 197

5.2 SHARE-BASED EMPLOYEE BENEFITS

ACCOUNTING PRINCIPLES

When there are incentive arrangements which require cash payments to be made based on the price of a deemed share or synthetic instrument, they are accounted for as cash-settled share-based payment plans. The initial fair value of such plans at the grant date is calculated using estimates of the valuation of the synthetic options. The grant-date fair value of the liability is recognized over the vesting period. At the end of each financial year the fair value of the recognized liability is remeasured. Remeasurement applies to the recognized portion through the vesting date. Any cancellations are recognised immediately in the income statement.

SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGMENTS

Valuation of the synthetic options is determined from the advice of external advisors who carry out valuation annually, using several assumptions such as the discount rate, expected future cash flows, peer group share valuation and other factors. Many of these assumptions also require management judgment. As a result, the liability recorded on the balance sheet is sensitive to changes.

The Chairman of the Board and the CEO of the Group participate in a cash-settled share-based incentive plan. The plan is arranged with synthetic options and awards cash payments, when the plan conditions are met. The plan is a 5-year plan with a vesting period from 1 April 2021 to 31 March 2026.

Valuation of the synthetic options was performed with Monte Carlo simulation. Assumptions regarding the Valmet Automotive Plc share value are material to the option valuation. The share value has been estimated based on the financial statements and future projections, and by comparison to the peer group EV/EBITDA –multiples. The expense recognized for the year was EUR 0,3 (0,6) million. The plan liability was EUR 0,9 (0,6) million on 31 December 2022.

After considering the stock split in 2022, the plan enables the issuance of a total of 541 311 options. Before the stock split, the plan enabled the issuance of 2 062,5 options. The split ratio was approximately 262.5. The original option scheme has been adjusted accordingly with this ratio.

Upon the exercise of the synthetic option, the cash payment is awarded, which equals the positive difference, if any, of the defined value of the share value of Valmet Automotive Plc and the strike price, i.e., the exercise price of each synthetic option, which is € 3,62.

The synthetic options' vesting is partly based on time and partly on performance. The time-based options cover 2/3 of the plan and vest as follows: 1/3 on 1 April 2021 and 1/9 on 31 March on each year 2022, 2023 and 2024. The performance-based vesting covers the remaining 1/3 and is subject to the conditions of the plan and vest as follows: If the defined value is less than €4,69 per share, none of the performance-based synthetic options vest, if the defined value is at least or more than €9,72 per share, all the performance-based options vest, and from the defined value of €4,69 to €9,72 per share the performance-based options vest linearly. As of December 31, 2022, a total of 240 583 (180 437) options have vested.

If before the exercise date occurs a material change in the company, group, business, or asset structure, in the operating environment or otherwise in its business, which materially affects the fundamentals underlying the plan, Valmet Automotive Plc is entitled in its sole discretion to decide whether and in which manner this will affect the plan.

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 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 also require 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 turnover of the personnel.

6.1 LONG-SERVICE BENEFIT PLAN

In Finland, qualified employees earn an additional benefit following the rules of the long-service benefit plan. 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.

	2022	2021
	€000	**€000**
1 January	**3 365**	**2 560**
Service cost	299	208
Net interest	-4	-4
Curtailments	-71	-4
Actuarial changes on obligation	348	985
Other changes	119	241
Sub-total included in profit or loss	**691**	**1 427**
Benefits paid	-655	-631
31 December	**3 401**	**3 353**

The discount rate has been determined using Bloomberg € EU Corporate AA+, AA, AA-yield curve, taking the estimated durations of the benefit obligations into consideration. The discount rate was 2,7% for Valmet Automotive Plc and 3,1% for Valmet Automotive EV Power Oy for the year ended December 31, 2022 (-0.2% and 0.1% for the year ended December 31, 2021).

6.2 DEFINED PENSION BENEFIT PLAN

There is a limited voluntary defined benefit pension plan in Finland, which is closed for new members. The benefits are insured with an insurance company. The voluntary plan's benefits are based on a certain level of benefit after retirement. The promised benefit is a defined percentage of the base salary, which is an average of last ten last years' salaries, indexed with common salary index to the current year. The benefits of this plan are old age, disability and survivor's benefits, topping up 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 has no funding risk after retirement.

	2022			**2021**		
€000	**Defined benefit obligation**	**Fair value of plan assets**	**Benefit liability**	**Defined benefit obligation**	**Fair value of plan assets**	**Benefit liability**
1 January	**179**	**-180**	**-1**	**414**	**-462**	**-46**
Current service cost			**-**	2		**2**
Net interest	1	-1	**0**	0	0	**0**
Sub-total included in profit or loss	**1**	**-1**	**0**	**1**	**0**	**2**
Actuarial changes from changes in financial assumptions	-30	102	**73**	-6	161	**155**
Experience adjustments	-67		**-67**	-112		**-112**
Sub-total included in OCI	**-96**	**102**	**6**	**-118**	**161**	**42**
Benefits paid			**-**	-118	118	**0**
Contributions		-3	**-3**		2	**2**
31 December	**84**	**-82**	**2**	**179**	**-180**	**-1**

The discount rate has been determined using Bloomberg € EU Corporate AA+, AA, AA-yield curve. The estimated duration of the benefit obligation has been taken into consideration. The main assumptions are described in the table below.

	2022	**2021**
	%	**%**
Discount rate	3,0	0,4
Future salary increases	2,7	2,0
Future pension increases	-	-

The weighted average duration of the defined benefit obligation is 12 years. The expected contributions for the year 2023 amount to EUR 0.

A sensitivity analysis for assumptions as of December 31, 2022 was performed. The impact of changes in the discount rate and salary increase is shown below.

	Discount rate		**Salary increase**	
	+0,50%	**-0,50%**	**+0,50%**	**-0,50%**
	€000	**€000**	**€000**	**€000**
Impact on defined benefit obligation	-4	5	0	0
Impact on fair value of plan assets	-4	5	-	-
Net liability (reduction -, increase +)	0	0	0	0
Service cost (reduction -, increase +)	-	-	-	-

7 FINANCE INCOME AND COSTS

ACCOUNTING PRINCIPLES

Financing costs are charged to the income statement during the financial period in which they incur. 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.

Finance income	**2022**	**2021**
	€000	**€000**
Dividend received	6	4
Interest income	272	3
Total finance income	**279**	**7**

Finance costs	**2022**	**2021**
	€000	**€000**
Interest on debt and borrowings	-2 964	-323
Interest on lease liabilities	-1 025	-959
Interest on significant financing component	-6 485	-5 268
Other interest	-378	-430
Total interest expense	**-10 852**	**-6 980**
Foreign exchange losses	-390	-185
Other finance expense	-381	-1 018
Total finance costs	**-11 624**	**-8 183**

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, 2022 and December 31, 2021 are as follows:

	2022	2021
Consolidated statement of profit or loss	**€000**	**€000**
Current year income tax expense	-3 830	-7 195
Previous year income tax expense	1 559	-1
Current income tax expense	**-2 271**	**-7 196**
Other temporary differences deferred tax assets	791	2 582
Other temporary differences deferred tax liabilities	-1 637	-2 518
Deferred tax expense	**-846**	**64**
Income tax expense in statement of profit or loss	**-3 117**	**-7 132**
Deferred tax related to items recognised in OCI during the year		
Actuarial gains (+)/losses (-) from defined benefit plan	1	8
Income tax charged to other comprehensive income	**1**	**8**

Reconciliation of tax expense and the accounting profit or loss multiplied by Finland's 2022 statutory tax rate is presented below.

	2022	2021
	€000	**€000**
Accounting profit before income tax	19 912	27 430
At Finland's statutory income tax rate of 20%	-3 982	-5 486
Tax exempt income	1	1
Non-deductible expenses	-302	-640
Deferred taxes for previously unrecognised temporary differences	-37	-204
Previous year income taxes	1 568	-1
Unrecognised tax losses	-611	-867
Difference between Finnish and foreign tax rates	247	66
Income tax expense reported in the statement of profit or loss	**-3 117**	**-7 132**
Effective income tax rate %	**16%**	**26%**

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.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised.

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.

2022 Deferred tax assets

	1.1.2022	Recognised in income statement	Recognized in OCI	Translation differences	31.12.2022
Employment related	905	59	1	-3	961
Property, plant and equipment	5 032	457	-	-	5 489
Confirmed losses	1 750	533	-	-	2 283
Leases	290	-110	-	-	180
Provisions	1 833	1 600	-	11	3 443
Revenue recognition	4 955	-1 898	-	2	3 059
Other temporary differences	275	151	-	-3	424
Total	**15 040**	**791**	**1**	**7**	**15 839**

2022 Deferred tax liabilities

	1.1.2022	Recognised in income statement	Recognized in OCI	Translation differences	31.12.2022
Property, plant and equipment	5 485	1 017	-	-	6 501
Fair value adjustment	1 018	-198	-	-	820
Leases	0	-1	-	-	-1
Revenue recognition	367	818	-	-6	1 180
Total	**6 871**	**1 637**	**-**	**-6**	**8 500**

2021 Deferred tax assets

	1.1.2021	Recognised in income statement	Recognized in OCI	Translation differences	31.12.2021
Employment related	630	266	8	1	905
Property, plant and equipment	2 597	2 435	-	-	5 032
Confirmed losses	1 946	-196	-	-	1 750
Leases	159	131	-	-	290
Provisions	1 690	148	-	-6	1 833
Revenue recognition	4 801	155	-	0	4 955
Other temporary differences	645	-355	-	-15	275
Total	**12 469**	**2 582**	**8**	**-19**	**15 040**

2021 Deferred tax liabilities

	1.1.2021	Recognised in income statement	Recognized in OCI	Translation differences	31.12.2021
Property, plant and equipment	3 133	2 352	-	1	5 485
Fair value adjustment	1 216	-198	-	-	1 018
Leases	2	-2	-	-	0
Revenue recognition	-	366	-	1	367
Total	**4 351**	**2 518**	**-**	**2**	**6 871**

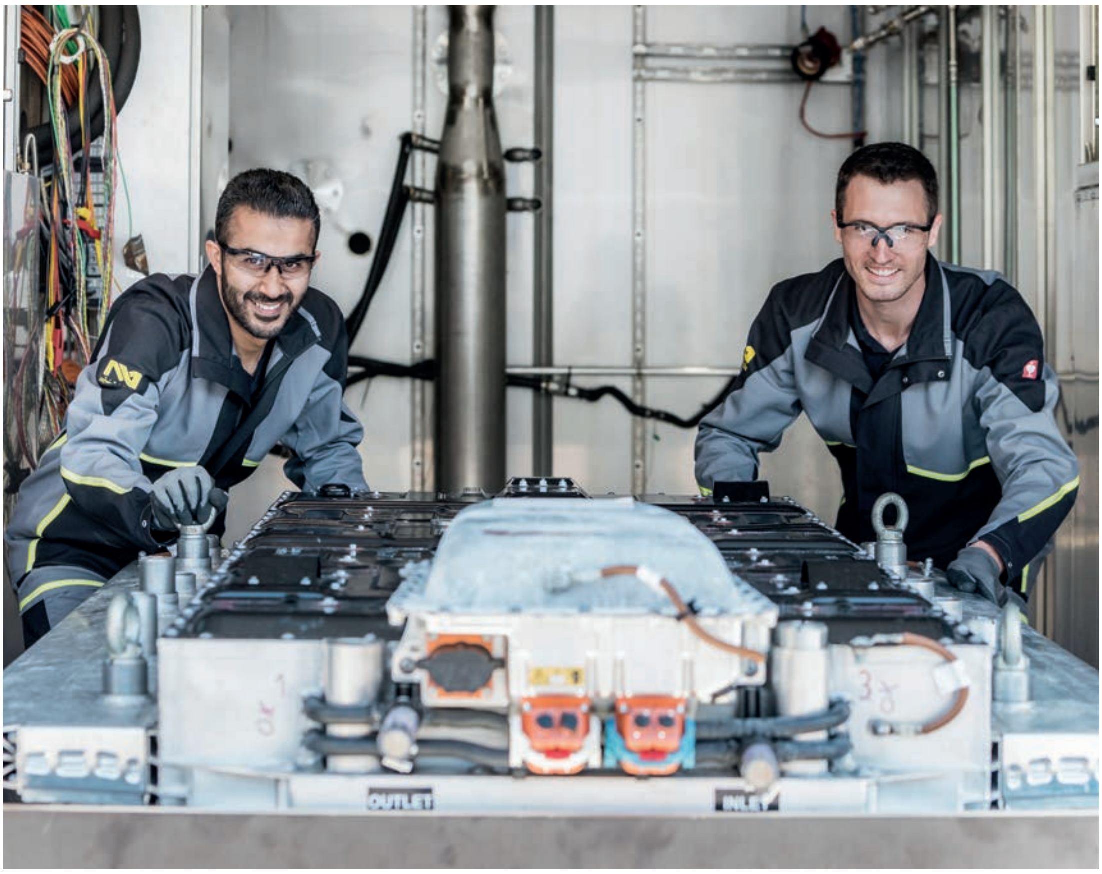
Management has assessed all subsidiary losses carried forward for deferred asset recognition. Analysis was done by subsidiary. As of December 31, 2022, the Group had approximately EUR 18,5 (17,2) million of tax losses carried forward for which no deferred tax assets were recognised. None of the tax losses have an expiration date.

9 SUBSIDIARIES AND ASSOCIATES

9.1 INFORMATION ABOUT SUBSIDIARIES

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

Name	Principal activities	Country of incorporation	% equity interest as of 31.12.2022 Group	Parent
Parent company				
Valmet Automotive Plc	Vehicle Contract Manufacturing and Group services	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 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%	
Valmet Automotive Management GmbH	Group services	Germany	100%	100%



9.2 ACQUISITIONS AND DISPOSALS

ACCOUNTING PRINCIPLES

Investments in subsidiaries are accounted for using the acquisition method and measured at fair value at the date of acquisition. The difference, if any, between the consideration transferred and the fair value of net assets obtained is recognized as goodwill. Subsidiaries acquired during the financial period are included in the consolidated financial statements from the date the control is obtained, and divested subsidiaries until the date the control is lost. When control is lost, all assets and liabilities related to the disposed subsidiary are derecognized.

The result from divestments is reported separately in the consolidated statement of income as discontinued operations, and the comparative figures are restated accordingly. The discontinued operation is recognized when the group has entered into an agreement to sell substantially all of the assets of the discontinuing operation or the Board of Directors has both approved and announced the planned discontinuance.

SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGMENT

In business combinations, the measurement of fair value of the acquired net assets is based on market value of similar assets (tangible assets), or an estimate of expected cash flows and returns (intangible assets). The valuation is prepared by an external advisor. Management judgment is necessary for expected cash flow calculations, and changes in circumstances may have significant influence in those estimates.

The Group did not make any acquisitions or disposals of subsidiaries in 2022 or 2021.

In 2020, the Group sold a major part of its generic automotive engineering business in Germany and Spain. The 2021 investing cash flow from disposed business relates to the 2020 disposal and consists of a EUR 5,5 million deferred cash payment into the divested business and a purchase price adjustment of EUR 38 thousand.

9.3 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 sold its shares in the associate company Kiinteistö Oy Pietolankatu 13 during 2022. Before the sale, Group had a 40% non-operative interest in the real estate company. At the end of 2021, the carrying amount of the investment was EUR 85 thousand and the sale resulted in a loss of EUR 19 thousand.

10 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. Identified non-lease components cover any payments for services, which are part of a lease contract, such as general maintenance charges. All material non-lease components are analysed to identify their contents to classify them appropriately. 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.

RIGHT-OF-USE ASSETS

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

	Buildings and constructions	Machinery and equipment	Total
	€000	**€000**	**€000**
Cost			
At 1 January 2022	26 393	8 983	35 375
Additions	13 234	1 703	14 937
Disposals	-2 115	-1 677	-3 792
Reclassifications	-	-501	-501
Exchange differences	-1	-14	-15
At 31 December 2022	**37 511**	**8 494**	**46 005**
Depreciation and impairment			
At 1 January 2022	-6 874	-5 394	-12 267
Depreciation charge for the year	-5 133	-2 219	-7 352
Disposals	1 922	1 615	3 537
Reclassifications	-	689	689
Exchange differences	1	15	16
At 31 December 2022	**-10 083**	**-5 293**	**-15 376**
Net book value 1 January 2022	**19 519**	**3 589**	**23 108**
Net book value 31 December 2022	**27 428**	**3 201**	**30 629**
Cost			
At 1 January 2021	17 961	26 110	44 071
Additions	10 881	1 472	12 353
Disposals	-2 448	-1 983	-4 431
Reclassifications*	-	-16 608	-16 608
Exchange differences	-1	-8	-9
At 31 December 2021	**26 393**	**8 983**	**35 375**
Depreciation and impairment			
At 1 January 2021	-5 348	-17 144	-22 492
Depreciation charge for the year	-3 910	-5 445	-9 355
Disposals	2 384	1 021	3 405
Reclassifications*	-	16 168	16 168
Exchange differences	0	6	7
At 31 December 2021	**-6 874**	**-5 394**	**-12 267**
Net book value 1 January 2021	**12 613**	**8 966**	**21 579**
Net book value 31 December 2021	**19 519**	**3 589**	**23 108**

*Right-of-use assets that were purchased at the end of lease terms and reclassified as machinery and equipment owned by the Group.

LEASE LIABILITIES

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

	2022	2021
	€000	**€000**
At 1 January	**24 056**	**25 245**
Additions	14 937	12 353
Disposals	-266	-2 087
Payments	-7 473	-11 453
Exchange differences	-8	-2
At 31 December	**31 246**	**24 056**

LEASE CASH FLOWS

Lease payments and expensed short term and low value leases are presented below:

	2022	2021
	€000	**€000**
Lease payments	-8 498	-12 412
of which liability	-7 473	-11 453
of which interest	-1 025	-959
Expenses related to short term leases	-573	-779
Expenses related to low value assets	-667	-371
Total Payments	**-9 738**	**-13 562**

The covid-19-related rent concession impact in lease payments was EUR 0 million (EUR 1,1 million). The rent concession period was from May 2020 to April 2021. Starting May 2021, rents were increased, which resulted in EUR 2,3 million higher rent payments from May 2021 to December 2021, compared to the original agreement. There were no rent concessions in 2022.

OPERATING LEASE COMMITMENTS

Commitments consist of payments related to leases of low value assets and short-term leases. As of December 31, 2022 and 2021 operating lease commitments were as follows:

	2022	2021
	€000	**€000**
Within one year	1 018	930
After one year but no more than five years	93	97
	1 110	**1 027**

OFF-BALANCE SHEET LEASE LIABILITIES

Lease commitments of leases signed but not commenced on December 31 are presented in the table below:

	2022	2021
	€000	€000
Off-balance sheet lease liabilities	221	10 714

11 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	Buildings and constructions	Machinery and equipment	Fixed assets under construction	Total
	€000	€000	€000	€000	€000
Cost					
At 1 January 2022	5 191	141 110	444 137	17 857	608 295
Additions	-	13 234	-3 262	73 342	83 314
Disposals	-	-36 349	-58 373	-1 398	-96 120
Reclassifications	-	1 139	44 124	-45 263	0
Exchange differences	-8	-129	-253	-99	-490
At 31 December 2022	**5 183**	**119 005**	**426 373**	**44 439**	**594 999**
Depreciation and impairment					
At 1 January 2022	-	-61 742	-300 728	-	-362 470
Depreciation charge for the year	-	-8 769	-43 680	-1 398	-53 848
Disposals	-	36 156	58 369	1 398	95 924
Exchange differences	-	36	183	-	219
At 31 December 2022	**-**	**-34 319**	**-285 857**	**-**	**-320 176**
Net book value 1 January 2022	**5 191**	**79 368**	**143 408**	**17 857**	**245 823**
Net book value 31 December 2022	**5 183**	**84 686**	**140 516**	**44 439**	**274 825**
Cost					
At 1 January 2021	5 194	118 232	406 028	20 721	550 175
Additions	-	10 881	1 472	54 699	67 052
Disposals	-	-2 700	-6 006	-	-8 706
Reclassifications	-	14 753	42 734	-57 486	0
Exchange differences	-4	-55	-91	-76	-227
At 31 December 2021	**5 191**	**141 110**	**444 137**	**17 857**	**608 295**
Depreciation and impairment					
At 1 January 2021	-	-57 398	-250 310	-	-307 708
Depreciation charge for the year	-	-6 996	-55 784	-	-62 780
Disposals	-	2 636	5 276	-	7 913
Exchange differences	-	15	90	-	105
At 31 December 2021	**-**	**-61 742**	**-300 728**	**-**	**-362 470**
Net book value 1 January 2021	**5 194**	**60 835**	**155 718**	**20 721**	**242 467**
Net book value 31 December 2021	**5 191**	**79 368**	**143 408**	**17 857**	**245 824**

Asset additions include non-cash right-of-use assets, which are detailed in Note 10. In addition, certain machinery and equipment additions related to production set-up are acquired through a non-cash arrangement against customer advance payments directly to the supplier. These non-cash arrangements amount to EUR 19,3 (7,2) million in 2022.

12 INTANGIBLE ASSETS

12.1 INTANGIBLE ASSETS, TOTAL

ACCOUNTING PRINCIPLES

The Group's intangible assets comprise mainly of goodwill, development costs, customer relations, patents, licenses and software. They are stated at historical cost less accumulated amortization and impairment losses, if any. When a grant is received related to an asset, it is recorded as a deduction of the related asset.

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 capitalised when certain criteria related to economic and technical conditions are met and it is expected that the asset will generate future economic benefits. Capitalised 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 relation-ships	Other intangible rights	Intangible asset under constuction	Total
	€000	€000	€000	€000	€000	€000
Cost						
At 1 January 2022	8 741	4 208	6 581	32 186	1 635	53 351
Additions	-	3 972	-	59	5 521	9 552
Disposals	-	-	-	-1 539	-	-1 539
Reclassifications	-	-232	-	2 477	-2 245	0
Exchange differences	-	-	-	-3	0	-3
At 31 December 2022	**8 741**	**7 948**	**6 581**	**33 180**	**4 911**	**61 361**
Amortization and impairment						
At 1 January 2022	-	-	-3 188	-17 782	-	-20 971
Amortization charge for the year	-	-	-660	-4 527	-	-5 187
Disposals	-	-	-	1 510	-	1 510
Exchange differences	-	-	-	3	-	3
At 31 December 2022	**-**	**-**	**-3 848**	**-20 795**	**-**	**-24 643**
Net book value 1 January 2022	**8 741**	**4 208**	**3 393**	**14 404**	**1 635**	**32 381**
Net book value 31 December 2022	**8 741**	**7 948**	**2 733**	**12 384**	**4 911**	**36 718**
Cost						
At 1 January 2021	8 741	-	6 581	26 459	7 035	48 816
Additions	-	-	-	659	6 744	7 403
Disposals	-	-	-	-2 866	-	-2 866
Reclassifications	-	4 208	-	7 936	-12 144	0
Exchange differences	-	-	-	-1	-	-1
At 31 December 2021	**8 741**	**4 208**	**6 581**	**32 186**	**1 635**	**53 351**
Amortization and impairment						
At 1 January 2021	-	-	-2 528	-17 309	-	-19 837
Amortization charge for the year	-	-	-660	-3 341	-	-4 001
Disposals	-	-	-	2 866	-	2 866
Exchange differences	-	-	-	2	-	2
At 31 December 2021	-	-	**-3 188**	**-17 782**	-	**-20 971**
Net book value 1 January 2021	**8 741**	**-**	**4 053**	**9 150**	**7 035**	**28 980**
Net book value 31 December 2021	**8 741**	**4 208**	**3 393**	**14 404**	**1 635**	**32 381**

Development costs are presented net of subsidies received. At year-end 2022, gross development asset was EUR 9,78 million, subsidy EUR 1,82 million and net development asset EUR 7,95 million. At year-end 2021, gross development asset was EUR 5,86 million, subsidy EUR 1,65 million and net development asset EUR 4,21 million. Refer to Note 4 for total R&D cost.

12.2 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.

If a CGU is disposed entirely, the corresponding goodwill is totally derecognised. If a CGU is disposed partly, the corresponding goodwill is allocated to the remaining business calculating the value of the acquired market share, business knowledge and the synergies obtained in connection with the acquisition for the other Group businesses, and any excess goodwill is derecognised.

As of 31.12.2022 the carrying amount of goodwill is EUR 8,7 (8,7) million and it is allocated solely to the Electric Vehicle Systems business line.

Goodwill impairment testing is detailed in Note 13.2.

13 IMPAIRMENT TESTING

13.1 TESTING OF NON-FINANCIAL ASSETS

ACCOUNTING PRINCIPLES

At each reporting date, the Group assesses 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, 2022 or December 31, 2021. As such, no impairment losses on non-financial assets have been recognised.

13.2 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 six years, beyond which cash flows are calculated using the terminal value method. Forecast period is seven years given the long-term nature of customer contracts. The terminal growth rate used is based on the 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 Electric Vehicle Systems business line CGU goodwill during December 2022. The key assumptions were the following: the management estimates for 2023 – 2029 with corresponding EBITDA, a risk-adjusted pre-tax discount rate of 15.0% and a terminal growth of 2.0%, which assumes no real-terms volume growth. 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. There are no reasonably possible changes in key assumptions that would cause the carrying amount of the CGU to exceed its recoverable amount.

14 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.

Depreciation of property, plant and equipment ceases when an item is classified as a non-current asset held for sale.

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 13 for impairment testing.

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

	2022	2021
Depreciation and amortisation	**€000**	**€000**
Intangible assets	-5 187	-4 002
Buildings and structures	-8 816	-6 996
Machinery and equipment	-45 033	-55 785
Total	**-59 036**	**-66 783**

15 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.

Finished goods and production material 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.

When not expensed, spare parts related to production equipment with low value or a normal operating cycle less than 12 months are recorded in inventory.

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.

	2022	**2021**
	€000	**€000**
Raw materials (at cost)	76 718	62 763
Work in process (at cost)	5 417	11 065
Finished goods (at cost or net realisable value)	32 248	29 110
Spare parts related to production equipment and machines	996	1 102
Total inventories at the lower of cost and net realisable value	**115 379**	**104 040**

In 2022, write-downs of obsolete and excess inventory amounted to EUR 1,2 (0,4) million.

All inventories include customer-directed materials.

16 FINANCIAL INSTRUMENTS

16.1 FINANCIAL RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Valmet Automotive is exposed in its business operations to various business and financial risks. The objective of the Group's financial risk management is to minimize the uncertainty which the changes in financial markets cause to its financial performance.

Financial risk management is carried out by the Group Treasury in co-operation with group companies under policies approved by the Board of Directors. Responsibilities between the Group Treasury and group companies are defined in the Group's Treasury Policy. In addition, the Group's Treasury Policy defines main principles and methods for financial risk management, cash and liquidity management and funding arrangements.

MARKET RISK

Market risk is the risk that the fair value or future cash flows arising from financial instruments will fluctuate because of changes in market prices or market conditions. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk.

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. The majority of Valmet Automotive's external loans have a fixed interest rate and hence variable interest rate risk is considered insignificant.

FOREIGN EXCHANGE RISK

Valmet Automotive operates mainly in the euro zone and has limited exposure on changes in foreign exchange rates. Financial risk arising from the changing currency rates is largely mitigated either contractually or using financial derivatives. Majority of transactions is denominated in Euro, as such foreign currency transaction risk is not significant.

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. Contract manufacturing parts and materials are covered by the customer agreements, and the Group does not carry the commodity or logistics 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 and the aging structure of trade receivables are presented in Note 16.5. The Group's maximum exposure relating to financial guarantees is presented in Note 18.

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. The Group takes liquidity position into account when negotiating payment terms in its customer and supplier contracts. The cash flow profile of the major customer projects is monitored and customer advances for investment and development costs are scheduled to take place before related cash outflows.

The Group's business continuity assumption is based on the fact that its operations are largely based on a long-term order backlog, i.e., long-term development and manufacturing contracts which reach out to future periods. Furthermore, these long-term contracts typically include annual and/or life-time minimum volumes and the Group is entitled to contractual compensations should such minimum volumes not be met annually or during the contract lifetime.

In the short and medium term, the Group may utilize its working capital financing facility to manage fluctuations in working capital related disturbances in supply chain and production and short-term seasonal and other volume changes, as well as program changeovers, which typically include production line reinstallations and downtime.

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.

The capital structure is assessed on a regular basis by the Board of Directors. The Group has a set target for long-term Debt-to-Equity-ratio. Equity ratio has also been identified as a key financial indicator.

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

16.2 FINANCIAL INSTRUMENT CLASSIFICATION

ACCOUNTING PRINCIPLES

Financial assets

The Group's financial assets are measured at fair value at initial recognition at trade date and are classified as subsequently measured at amortised cost or fair value through profit or loss. The classification is based on the contractual cash flow characteristics of the financial asset and the Group's business model for managing the instruments.

Amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified at amortised cost. Any gains or losses from these financial assets are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The Group values equity investments at fair value through profit and loss. In addition, this category applies to derivatives when hedge accounting is not applied.

Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset have expired or the rights to the cash flows together with substantially all risks and rewards have transferred.

Financial liabilities

The Group recognises a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provision of the instrument. The Group recognises a financial liability at fair value at initial recognition at trade date and the liability is classified as subsequently measured at amortised cost or fair value through profit or loss.

At amortized cost

The Group's financial liabilities classified at amortized cost are initially recognized at fair value less any related transaction cost and are subsequently measured using the EIR method.

Amortised cost is calculated by taking into account any fees or other costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Financial liabilities at fair value through profit and loss

Financial liabilities measured at fair value through profit and loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit and loss.

This category applies to derivatives when hedge accounting is not applied.

De-recognition of financial liabilities

Financial liabilities are derecognised when they are extinguished, that is when the obligation specified in the contract is discharged, cancelled or expires.

SUMMARY

The Group's financial assets at amortized cost include cash and cash equivalents, trade receivables, accrued income on manufacturing materials and loan receivables, while financial assets at fair value includes the Group's equity investments. The Group's financial liabilities at amortized cost consist of interest-bearing loans, trade payables and accruals on manufacturing materials. Trade receivables and payables include customer-directed material sales and purchases.

A summary of financial instruments is presented below.

	At amortised cost	At fair value through P&L	Total
2022			
NON-CURRENT FINANCIAL ASSETS			
Equity investments	-	78	**78**
Total	-	**78**	**78**
CURRENT FINANCIAL ASSETS			
Trade receivables	77 142	-	**77 142**
Accrued income on manufacturing materials	23 809	-	**23 809**
Cash and cash equivalents	83 113	-	**83 113**
Total	**184 064**	-	**184 064**
NON-CURRENT FINANCIAL LIABILITIES			
Interest bearing loans and borrowings	24 920	-	**24 920**
Total	**24 920**	-	**24 920**
CURRENT FINANCIAL LIABILITIES			
Interest bearing loans and borrowings	107 829	-	**107 829**
Trade payables	211 107	-	**211 107**
Accruals on manufacturing materials	73 340	-	**73 340**
Total	**392 276**	-	**392 276**

	At amortised cost	At fair value through P&L	Total
2021			
NON-CURRENT FINANCIAL ASSETS			
Equity investments	-	77	**77**
Total	**-**	**77**	**77**
CURRENT FINANCIAL ASSETS			
Trade receivables	164 088	-	**164 088**
Cash and cash equivalents	45 980	-	**45 980**
Total	**210 068**	**-**	**210 068**
NON-CURRENT FINANCIAL LIABILITIES			
Interest bearing loans and borrowings	17 806	-	**17 806**
Total	**17 806**	**-**	**17 806**
CURRENT FINANCIAL LIABILITIES			
Interest bearing loans and borrowings	6 250	-	**6 250**
Trade payables	291 194	-	**291 194**
Accruals on manufacturing materials	118 092	-	**118 092**
Total	**415 537**	**-**	**415 537**

16.3 FAIR VALUE MEASUREMENT

ACCOUNTING PRINCIPLES

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: The fair value of these assets or liabilities is based on available quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: The fair value of these assets or liabilities is based on valuation techniques, for which the lowest level input that is significant to the fair value measurement and it is directly or indirectly observable. The inputs for the valuation are based on quoted or other readily available source.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable and require independent consideration and judgement from the valuation perspective.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Aside from this note, additional fair value related disclosures, including the valuation methods, significant estimates and assumptions are also provided in Note 5.2.

The following tables provide 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 at December 31, 2022:

	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	78	-	-	78
Total	**78**	**-**	**-**	**78**

Fair value hierarchy at December 31, 2021:

	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**

Financial instruments in level 3 fair value include non-current equity investments.

Non-current equity investments	2022 €000	2021 €000
At 1 January	**77**	**77**
Additions	1	-
Disposals	-	-
At 31 December	**78**	**77**
Total current	-	-
Total non-current	**78**	**77**

16.4 CASH AND RESTRICTED BANK ACCOUNTS

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

Current accounts for tax payments with restrictions, which are typically non-interesting bearing accounts, are reported as bank accounts. Restricted bank accounts related to given guarantees, which may be interest bearing, are reported in other receivables.

	2022 €000	2021 €000
Cash at banks in Cash Flow	**83 113**	**45 980**
Restricted bank accounts	**81**	**47**

16.5 TRADE AND OTHER RECEIVABLES

ACCOUNTING PRINCIPLE

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

Trade receivables, contract assets and lease receivables are subject to expected credit loss impairment allowance adjustments.

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:

	2022	Impaired	Net	2021	Impaired	Net
	€000	€000	€000	€000	€000	€000
Not past due	49 483	-41	49 443	113 204	-93	113 111
Past due						
< 30 days	24 849	-37	24 813	49 350	-24	49 325
30-60 days	2 256	-23	2 233	433	-2	431
61-90 days	164	-16	148	262	-1	261
> 90 days	577	-71	506	969	-10	959
Total	**77 330**	**-188**	**77 142**	**164 218**	**-130**	**164 088**

Trade receivables include receivables related to customer-directed materials.

Expected credit loss allowance is presented below.

	2022	2021
	€000	€000
Impairment allowance		
Opening balance 1.1	-130	-100
Recognized	-50	-30
Balance at 31 December	**-180**	**-130**

OTHER CURRENT RECEIVABLES

Details of other current assets are presented in the table below. Other current assets are not classified as financial assets except the accrued income on manufacturing as their nature is similar to trade receivables.

	2022	2021
	€000	€000
Other current assets		
Prepayments and accrued income	26 934	18 587
Accrued income on manufacturing materials	23 809	-
VAT-receivables	8 787	10 989
Loan arrangement fee	250	250
Other S-T receivables	2 817	2 093
Total	**62 597**	**31 919**

16.6 TRADE AND OTHER PAYABLES

ACCOUNTING PRINCIPLE

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Applied trade payable payment terms are customary in the industry. Trade payables are classified as current liabilities if payment is due within 12 months or less. If not, they are presented as non-current liabilities.

Trade payables and accruals include liabilities related to customer-directed materials. From other current liabilities and accruals, accruals on customer-directed manufacturing materials have been classified as financial liabilities as their nature is similar to trade payables.

Trade payables	**2022**	**2021**
	€000	**€000**
Related parties (Note 19)	-	25
Other trade payables	211 107	291 169
Total trade payables	**211 107**	**291 194**
Other current liabilities and accruals		
Employment benefit related	4 607	4 652
Other current liabilities	15	2
Total	4 622	4 654
Employment benefit related	32 964	38 220
Accruals on manufacturing materials	73 340	118 092
Other accruals	16 297	7 333
Total	122 601	163 645
Total	**127 223**	**168 299**

16.7 LOANS AND BORROWINGS

SUMMARY

	2022	2021
	€000	**€000**
Current interest-bearing loans and borrowings		
Obligations under lease contracts	6 326	6 250
Loans from financial institutions	101 503	0
Total current	**107 829**	**6 250**
Non-current interest-bearing loans and borrowings		
Obligations under lease contracts	24 920	17 805
Total non-current	**24 920**	**17 806**
Total interest-bearing loans and borrowings	**132 749**	**24 056**
Cash and cash equivalents	**-83 113**	**-45 980**
Net debt	**49 636**	**-21 923**

CHANGES

Changes in loans from financial institutions are presented in the table below. Changes in lease liabilities are presented in Note 10.

	2022	2021
	€000	**€000**
At 1 January	**0**	**72 894**
Increase in loans	101 502	0
Repayment of loans	0	-72 989
Other changes	0	95
At 31 December	**101 502**	**0**
Of which current	101 502	-
Of which non-current	-	-

FINANCING AGREEMENTS

In December 2021, an agreement for a EUR 100 million working capital financing facility was signed with Finnvera and guaranteed by the European Investment Bank's Pan-European Guarantee Fund. The facility was fully utilized at the end of the year 2022 (not used at the year-end of 2021).

During 2021, the Group repaid the remaining EUR 66 million of its short-term debt financing raised in 2020. In addition, the remaining EUR 6,7 million balance of the European Investment Bank loan was fully repaid during 2021.

During 2022 the Group entered into a new supply chain financing program operated by one of its customers. Under the program, the Group has a possibility to sell before maturity some of the invoices of the said customer. At the end of the financial year, a total of EUR 20,5 million was financed.

In addition, the Group continued to have a receivable sale facility in RKS with a limit of EUR 10 million, which is an off-balance sheet item. In March 2022, it was agreed that of the EUR 10 million facility, EUR 2 million can be used for supply chain financing. The related payables are remaining on Valmet Automotive's balance sheet as interest-bearing short-term debt. At the end of 2022, the amount of receivables sold was EUR 0,0 (1,8) million and the amount of supply chain financing was EUR 1,5 (0,0) million.

Lease financing is used for acquisition of facilities, machinery and equipment.

The loan agreements contain common covenants which were all met at year-end 2022 and 2021.

MATURITY PROFILE

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

Year ended 31 December 2022	**Less than 3 months €000**	**3 to 12 months €000**	**1 to 5 years €000**	**> 5 years €000**	**Total €000**
Interest-bearing loans and borrowings	103 004	-	-	-	103 004
Lease liabilities	1 463	5 856	21 908	4 947	34 175
Trade payables	211 107	-	-	-	211 107
Accruals on manufacturing materials	73 340	-	-	-	73 340
	388 914	**5 856**	**21 908**	**4 947**	**421 626**

Year ended 31 December 2021	**Less than 3 months €000**	**3 to 12 months €000**	**1 to 5 years €000**	**> 5 years €000**	**Total €000**
Interest-bearing loans and borrowings	-	-	-	-	-
Lease liabilities	1 562	5 515	14 483	5 059	26 619
Trade payables	291 145	49	-	-	291 194
Accruals on manufacturing materials	118 092	-	-	-	118 092
	410 800	**5 564**	**14 483**	**5 059**	**435 906**

16.8 EQUITY

ACCOUNTING PRINCIPLES

Equity and capital reserves

Equity consists of share capital, other capital reserves, exchange differences on translation of foreign operations, fund for invested unrestricted equity, hybrid capital and retained earnings.

Reserve for invested non-restricted equity

The reserve for invested non-restricted equity contains the other equity-related investments and share subscription prices to the extent not to be credited to the share capital.

Exchange differences on translation of foreign operations

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency euro are recognised in other comprehensive income and accumulated in the equity.

Hybrid capital instruments

Hybrid capital is initially recognised at fair value less transaction costs and subsequently the capital is measured at cost. If interest is paid to the hybrid capital, it is charged to equity.

SUMMARY

	Number of shares	Share capital €000	Share premium €000	Funds invested for unrestricted equity €000	Other capital reserves €000	Hybrid capital €000	Total €000
At 1 January 2021	**136 887**	**10 932**	**1 704**	**88 432**	**5 382**	**20 000**	**126 450**
At 31 December 2021	**136 887**	**10 932**	**1 704**	**88 432**	**5 382**	**20 000**	**126 450**
Cancellation of treasury shares	-5 288						
Stock split	35 794 928						
At 31 December 2022	**35 926 527**	**10 932**	**1 704**	**88 432**	**5 382**	**20 000**	**126 450**

SHARES

At the end of December 2021, Valmet Automotive Plc had total of 136 887 shares of which 5 288 were held by the company. These treasury shares were cancelled and removed from the shareholder register by the decision of the extraordinary general meeting held on October 11, 2022. In the same meeting, it was decided to split the remaining shares of the company with a ratio of 1:272. New shares were issued to the shareholders without payment. The share split does not otherwise impact the rights attached to the shares. After the cancellation of treasury shares and the share split, the number of shares is 35 926 527.

HYBRID CAPITAL INSTRUMENTS

The Group issued a EUR 20 million hybrid capital on 24 April 2020, an instrument classified as equity in the financial statements. The hybrid capital does not have a maturity date but the Group is entitled to redeem the hybrid capital in full or in part together with accrued but unpaid interest at any time without any premium or penalty.

The hybrid capital accrued interest of 10,0% p.a. until 23 April 2021 and 12,5% p.a. until 31 December, 2021. It continued to accrue 12.5% p.a. interest until 23 April 2022, and 17,5% p.a. thereafter. The interest from the hybrid capital must be paid to the investors if Valmet Automotive Plc pays dividends or other distribution of equity. If dividends are not paid, a separate decision regarding interest payment on the hybrid capital will be made, if the interest payment conditions were met. The accrued interest on the capital was EUR 7,8 million at 31 December 2022 (EUR 3,9 million 2021). This interest is not recognised in the accounts.

PROFIT DISTRIBUTION

There were no dividend payments or other distributions for the financial year ended 31.12.2021 and 31.12.2022.

17 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 contracts	Other provision	Total
	€000	**€000**	**€000**	**€000**	**€000**
At 1 January 2022	**9 201**	**31**	-	-	**9 231**
Arising during the year	4 687	2 313	516	410	**7 926**
Utilised	-558	-1 201	-466	-235	**-2 460**
Released	-3 291	-395	-	-	**-3 685**
Reclassifications	-	-290	-	82	**-207**
FX rate	-25	-	-		**-25**
At 31 December 2022	**10 015**	**458**	**50**	**257**	**10 781**
At 1 January 2021	**7 542**	**90**	**-**	-	**7 632**
Arising during the year	3 514	-	-	-	**3 514**
Utilised	-1 071	-17	-	-	**-1 089**
Released	-772	-42	-	-	**-814**
FX rate	-12	-	-	-	**-12**
At 31 December 2021	**9 201**	**31**	**-**	-	**9 231**
Current	2 520	458	50	257	**3 286**
Non-current	7 495	-	-	-	**7 495**

18 OTHER COMMITMENTS AND CONTINGENCIES

There are no commitments or contingent liabilities recorded in the accounts.
The Group has common fixed price supply agreements, which do not require recognition in the accounts.

	2022	2021
	€000	**€000**
Mortgages and pledges	593 415	593 182
Guarantees	7 254	6 857
Non-recognized hybrid capital interest	7 838	3 915
Solar energy supply	476	-
Total	**608 983**	**603 954**

New leases agreed but not yet commenced at 31 December 2022 are presented in Note 10.

The majority of mortgages and pledges at the end of 2022 and 2021 related to the working capital financing facility granted by Finnvera.

There is no ongoing litigation that is likely to result in significant liability.

19 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	Expenses	Payables	Loans
		€000	€000	€000	€000	€000
Key management personnel	31.12.2022	-	-	-	-	-
	31.12.2021	-	-	18	-	-
Entity with significant influence over the Group	31.12.2022	-	-	-	-	-
	31.12.2021	-	-	209	-	-

In 2021, pledge fees were paid to Pontos Ltd and Tesi for a pledge on shares held by Pontos Ltd and Tesi in Valmet Automotive for the benefit of Finnvera. Pledges were released after the underlying short-term loans were fully repaid.

KEY MANAGEMENT COMPENSATION

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

	2022	2021
	€000	€000
Salaries and other short-term employee benefits	-2 927	-3 282
Share based benefit	-288	-564
Other long-term employee benefits	-966	-1 179
Total compensation	**-4 181**	**-5 025**

The Board of Directors' compensation amounted to EUR 362 thousand in 2022 and EUR 266 thousand in 2021.

20 EVENTS AFTER THE REPORTING PERIOD

On January 24, 2023, it was announced that Lightyear has decided to discontinue the production of the Lightyear 0. Following this decision, the production of Lightyear 0 was terminated at Valmet Automotive's Uusikaupunki car plant. The termination had no material impact on Valmet Automotive. The Lightyear production employed about 30 persons at the Uusikaupunki car plant.

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

INCOME STATEMENT OF THE PARENT COMPANY

	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
	EUR	EUR
Gross sales*	**1 897 012 667,39**	**2 582 016 489,50**
Customer directed materials	-1 534 112 164,16	-2 160 631 484,10
Net sales	**362 900 503,23**	**421 385 005,40**
Change in inventories of finished goods and in work in progress	-5 206 216,31	-486 094,53
Other operating income	12 868 170,20	9 811 431,52
Materials and services	-150 512 196,37	-159 264 706,79
Personnel expenses	-126 037 312,82	-146 409 961,75
Depreciation and writedowns	-27 602 090,81	-42 199 824,56
Other operating expenses	-56 512 400,75	-57 423 959,61
Total expenses	-360 664 000,75	-405 298 452,71
Operating profit	**9 898 456,37**	**25 411 889,68**
Financing income and expenses	-1 170 840,92	-1 021 957,18
Profit before appropriations and taxes	**8 727 615,45**	**24 389 932,50**
Change in cumulative accelerated depreciation	-765 915,33	-2 659 233,18
Group contribution	-	-2 470 000,00
Change in deferred taxes	213 283,76	2 762 543,14
Income taxes	-1 844 682,75	-6 648 923,69
Profit for the financial year	**6 330 301,13**	**15 374 318,77**

*Gross sales are defined as total (gross) sales including both net sales and sales of customer-directed materials and parts. Customer-directed materials and parts are materials that are purchased from the principal or from suppliers selected by the principal at prices negotiated by the principal.

BALANCE SHEET OF THE PARENT COMPANY

	31 December 2022	31 December 2021
Assets	**EUR**	**EUR**
Non-current assets		
Intangible assets		
Intangible assets	369 338,60	598 593,81
Other capitalized long term expenditure	4 488 535,88	5 999 994,17
Assets under construction	4 410 085,19	1 109 090,46
	9 267 959,67	**7 707 678,44**
Property, plant and equipment		
Land and water areas	4 759 290,81	4 759 290,81
Buildings	51 426 047,78	53 779 530,97
Machinery and equipment	30 771 712,38	47 923 237,31
Other tangible assets	1 879 103,51	1 227 968,60
Assets under construction	19 254 885,59	1 812 147,19
	108 091 040,07	**109 502 174,88**
Investments		
Shares in group companies	32 035 116,41	32 035 116,41
Other shares and participations	77 993,67	76 971,75
	32 113 110,08	**32 112 088,16**
Non-current assets total	**149 472 109,82**	**149 321 941,48**
Current assets		
Inventories		
Materials and supplies	47 209 171,20	37 393 045,06
Work in progress	2 052 060,23	7 973 703,94
Finished products	17 794,99	9 502 650,50
	49 279 026,42	**54 869 399,50**
Long-term receivables		
Loan receivables from group companies	25 275 166,64	25 553 960,27
Pension plan receivables	-	702,00
Deferred tax asset	7 003 585,67	6 790 301,91
Prepayments and accrued income	500 000,04	750 000,00
	32 778 752,35	**33 094 964,18**
Short-term receivables		
Accounts receivable	20 392 072,42	93 622 630,14
Receivables from group companies	15 385 348,13	12 186 041,27
Other receivables	4 526 581,05	9 298 415,38
Prepayments and accrued income	22 711 302,78	12 045 902,41
	63 015 304,38	**127 152 989,20**
Bank and cash	**81 219 982,88**	**45 163 781,26**
Current assets total	**226 293 066,03**	**260 281 134,14**
Total Assets	**375 765 175,85**	**409 603 075,62**

BALANCE SHEET OF THE PARENT COMPANY

	31 December 2022	31 December 2021
Shareholders' equity and liabilities	**EUR**	**EUR**
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
Reserve for invested unresticted equity	88 840 723,19	88 840 723,19
Retained earnings	-85 222 732,17	-100 597 050,94
Profit for the financial year	6 330 301,13	15 374 318,77
Hybrid capital	20 000 000,00	20 000 000,00
	47 966 656,57	**41 636 355,44**
Appropriations		
Cumulative accelerated depreciation	4 979 325,26	4 213 409,93
	4 979 325,26	**4 213 409,93**
Provisions		
Other provisions	8 016 135,39	8 988 726,72
	8 016 135,39	**8 988 726,72**
Liabilities		
Non-current liabilities		
Accrued expenses	389 040,00	260 135,44
Deferred tax liability	1 345 503,41	1 345 503,41
	1 734 543,41	**1 605 638,85**
Current liabilities		
Loans from financial institutions	100 000 000,00	-
Advances received	48 770 924,12	21 580 295,30
Trade payables	74 227 814,53	231 685 792,18
Liabilities to group companies	14 673 689,43	6 724 427,09
Other liabilities	2 179 421,39	2 856 121,10
Accrued expenses	73 216 665,75	90 312 309,01
	313 068 515,22	**353 158 944,68**
Total liabilities	**314 803 058,63**	**354 764 583,53**
Total shareholders' equity and liabilities	**375 765 175,85**	**409 603 075,62**

CASH FLOW STATEMENT OF THE PARENT COMPANY

	2022	2021
	EUR	EUR
Operating activities		
Operating profit (loss)	**9 898 456,37**	**25 411 889,68**
Adjustments		
Depreciation and writedowns	27 602 090,81	42 199 824,56
Other non-cash adjustments	-11 848 539,69	-28 217 946,85
Change in net working capital		
Inventory, increase (-) / decrease (+)	5 590 373,08	-825 352,68
Short term receivables, increase (-) / decrease (+)	66 873 664,03	-16 521 954,38
Short term liabilities, increase (+) / decrease (-)	-158 565 342,50	25 148 246,98
Provisions, increase (-) / decrease (+)	-637 394,61	-674 351,98
Financing income and expenses, taxes	-5 450 476,26	-11 218 868,71
Net cash flows from operating activities	**-66 537 168,76**	**35 301 486,62**
Investing activities		
Acquisitions of fixed assets, net	-27 576 692,94	-19 836 425,26
Shares and participations, net	-1 021,92	-5 538 611,00
Increase (-) / decrease (+) in loans, non-current assets	-	-12 218 377,04
Advances received, investments	23 117 919,05	1 648 150,00
Net cash flows from investing activities	**-4 459 795,81**	**-35 945 263,30**
Net cash flows before financing activities	**-70 996 964,57**	**-643 776,68**
Financing activities		
Change in restricted cash	-	20 000 000,00
Increase (+) / decrease (-) in L-T loans	-	-6 666 666,68
Increase (+) / decrease (-) in S-T loans	110 852 397,73	-79 064 097,19
Increase (+) / decrease (-) in Group contribution	-2 470 000,00	-
Increase (-) / decrease (+) in other receivables	-1 329 231,54	1 684 822,03
Net cash flows from financing activities	**107 053 166,19**	**-64 045 941,84**
Net cash flow after financing activities	**36 056 201,62**	**-64 689 718,52**
Cash and cash equivalents at the beginning of year	45 163 781,26	109 853 499,78
Cash and cash equivalents at 31 December	**81 219 982,88**	**45 163 781,26**

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	3 - 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.

Deferred tax assets and liabilities

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.

Revenue recognition based on the percentage of completion

Revenue on long-term contracts is recognized 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

Customer directed materials for manufacturing is included in gross sales but excluded from net sales. All the material is included in inventory, accounts payable, accruals and accounts receivable in the balance sheet. Gross sales are defined as total (gross) sales including both net sales and sales of customer-directed materials and parts. Customer-directed materials and parts are materials that are purchased from the principal or from suppliers selected by the principal at prices negotiated by the principal.

2. NOTES OF THE INCOME STATEMENT

	2022	2021
Net sales	**EUR**	**EUR**
By Business line		
Vehicle manufacturing	362 900 503,23	421 385 005,40
Total net sales	**362 900 503,23**	**421 385 005,40**
By market area		
Finland	1 727 759,89	4 824 300,61
Germany	353 915 390,05	411 965 914,86
Others	7 257 353,29	4 594 789,93
Total net sales	**362 900 503,23**	**421 385 005,40**
Specification of net sales		
POC sales	21 613 018,38	1 780 878,91
Other sales	341 287 484,85	419 604 126,49
Total net sales	**362 900 503,23**	**421 385 005,40**
Other operating income		
Royalties from group companies	421 017,78	402 728,84
Other income from group companies	10 048 506,49	6 238 535,00
Government grants	108 292,07	1 713 283,08
Compensation from suppliers	1 336 005,70	1 257 114,95
Other income	954 348,16	199 769,65
Total operating income	**12 868 170,20**	**9 811 431,52**
Materials and services		
Materials	-140 468 565,23	-153 501 826,52
External services	-10 043 631,14	-5 762 880,27
Total materials and services	**-150 512 196,37**	**-159 264 706,79**
Personnel expenses		
Wages & Salaries	-104 132 290,24	-120 871 719,53
Pension insurances	-18 336 694,40	-20 672 313,24
Other indirect employee costs	-3 568 328,18	-4 865 928,98
Total personnel expenses	**-126 037 312,82**	**-146 409 961,75**
Compensation to the Board of directors	**362 300,00**	**265 500,00**
The average number of personnel	2 436	3 068

Pension liabilities

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

	2022	2021
	EUR	EUR
Depreciation and write-down of fixed assets		
Intangible rights	-200 131,01	-239 715,96
Other capitalized long-term expenditure	-2 285 701,12	-2 315 481,71
Improvements of land areas	-205 651,80	-144 490,30
Buildings	-3 480 875,83	-2 917 379,95
Machinery and equipment	-21 429 731,05	-36 582 756,64
Total depreciation and write-down of fixed assets	**-27 602 090,81**	**-42 199 824,56**

Other operating expenses		
Property, operating and maintenance costs	-12 372 387,23	-11 888 688,97
Research and development expenses	-134 112,77	-646 025,03
External services	-16 328 003,66	-13 557 804,68
ICT expenses	-11 631 697,46	-10 865 174,53
Machinery and equipment expenses and leases	-9 340 688,40	-13 306 171,19
Other personnel expenses	-3 731 452,00	-4 092 159,75
Other operating expenses	-2 974 059,23	-3 067 935,46
Total other operating expenses	**-56 512 400,75**	**-57 423 959,61**

Services rendered by statutory auditors		
Audit services	-351 974,00	-295 122,00
Tax advisory services	-	-33 450,00
Other services	-672 895,50	-803 902,33
Total services rendered by statutory auditors	**-1 024 869,50**	**-1 132 474,33**

	2022	2021
	EUR	EUR
Finance income		
Dividend income	6 107,78	4 284,00
Interest income	272 433,45	97,16
Interest income from group companies	2 431 112,84	845 552,89
Gain from foreign exchange	56 053,21	-
Other financing income from group companies	-	5 021,74
Total finance income	**2 765 707,28**	**854 955,79**
Finance cost		
Loss from foreign exchange	-446 188,43	-183 405,42
Interest expenses	-3 208 204,59	-842 716,24
Financing expenses to group companies	-21 055,68	-18 248,66
Other financing expenses	-261 099,50	-832 542,65
Total finance cost	**-3 936 548,20**	**-1 876 912,97**
Total financing income and expenses	**-1 170 840,92**	**-1 021 957,18**

Appropriations		
Change in accelerated depreciation	-765 915,33	-2 659 233,18
of which profit for the financial year	*-612 732,26*	*-2 127 386,54*
of which deferred tax liability	*-153 183,07*	*-531 846,64*
Group contribution expenses	-	-2 470 000,00
Total	**-765 915,33**	**-5 129 233,18**

Income taxes		
Current year taxes	-1 856 741,17	-6 636 203,47
Previous year taxes	12 058,42	-12 720,22
Change in deferred taxes	213 283,76	2 762 543,14
Total	**-1 631 398,99**	**-3 886 380,55**

3. NOTES OF BALANCE SHEET

	2022	2021
Non-current assets	**EUR**	**EUR**
Intangible assets		
Intangible rights		
Historical purchase price 1.1	9 692 206,50	9 528 095,45
Additions	-	207 584,24
Disposals	-216 617,31	-43 473,19
Total cost 31.12.	**9 475 589,19**	**9 692 206,50**
Accumulated depreciation 1.1	9 093 612,69	8 897 369,92
Depreciation charge of the year	198 889,70	239 715,96
Disposals	-186 251,80	-43 473,19
Accumulated depreciation 31.12	**9 106 250,59**	**9 093 612,69**
Book value 31.12	**369 338,60**	**598 593,81**
Other capitalised long-term expenditure		
Historical purchase price 1.1	16 617 236,38	17 252 904,69
Additions	255 914,76	552 874,47
Disposals	-1 322 675,06	-2 822 905,06
Reclassifications	518 328,07	1 634 362,28
Total cost 31.12.	**16 068 804,15**	**16 617 236,38**
Accumulated depreciation 1.1	10 617 242,21	11 124 665,56
Depreciation charge of the year	2 285 701,12	2 315 481,71
Disposals	-1 322 675,06	-2 822 905,06
Accumulated depreciation 31.12	**11 580 268,27**	**10 617 242,21**
Book value 31.12	**4 488 535,88**	**5 999 994,17**
Assets under construction		
Historical purchase price 1.1	1 109 090,46	1 689 066,03
Additions	3 819 322,80	1 054 386,71
Reclassifications	-518 328,07	-1 634 362,28
Total cost 31.12.	**4 410 085,19**	**1 109 090,46**
Book value 31.12	**4 410 085,19**	**1 109 090,46**

	2022	2021
Property, plant and equipment	**EUR**	**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 revaluation 1.1.	168 187,93	168 187,93
Revaluation 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	99 991 811,38	85 799 918,81
Additions	1 037 394,14	13 360 036,00
Disposals	-34 234 447,54	-252 443,90
Reclassifications	89 998,50	1 084 300,47
Total cost 31.12.	**66 884 756,48**	**99 991 811,38**
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	52 771 609,54	50 106 673,49
Depreciation charge of the year	3 440 081,56	2 916 642,54
Disposals	-34 193 653,27	-251 706,49
Accumulated depreciation 31.12	**22 018 037,83**	**52 771 609,54**
Book value 31.12	**51 426 047,78**	**53 779 530,97**

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	2022	2021
	EUR	EUR
Machinery and equipment		
Historical purchase price 1.1	290 529 649,99	290 621 272,15
Additions	3 745 780,66	2 856 909,72
Disposals	-52 065 577,25	-3 787 819,50
Reclassifications	618 624,80	839 287,62
Total cost 31.12.	**242 828 478,20**	**290 529 649,99**
Accumulated depreciation 1.1	242 606 412,68	209 811 475,54
Depreciation charge of the year	21 223 819,49	36 582 756,64
Disposals	-51 773 466,35	-3 787 819,50
Accumulated depreciation 31.12	**212 056 765,82**	**242 606 412,68**
Book value 31.12	**30 771 712,38**	**47 923 237,31**
Other tangible assets		
Historical purchase price 1.1	4 606 596,61	4 153 721,16
Increase	552 159,93	228 067,45
Disposals	-2 823 622,94	-
Reclassifications	304 626,78	224 808,00
Total cost 31.12.	**2 639 760,38**	**4 606 596,61**
Accumulated depreciation 1.1	3 378 628,01	3 234 137,71
Disposals	205 572,51	-
Depreciation charge of the year	-2 823 543,65	144 490,30
Accumulated depreciation 31.12	**760 656,87**	**3 378 628,01**
Book value 31.12	**1 879 103,51**	**1 227 968,60**
Assets under construction		
Historical purchase price 1.1	1 812 147,19	2 383 976,61
Additions	18 455 988,48	1 576 566,67
Reclassifications	-1 013 250,08	-2 148 396,09
Total cost 31.12.	**19 254 885,59**	**1 812 147,19**
Book value 31.12	**19 254 885,59**	**1 812 147,19**

		2022	2021
		EUR	EUR
Investments			
Shares and participations	**Share-%**		
Group companies			
Valmet Automotive GmbH	100	14 200 000,00	14 200 000,00
Valmet Automotive EV Power Oy	100	8 221 190,92	8 221 190,92
Valmet Automotive Sp. z o.o.	100	9 588 925,49	9 588 925,49
Valmet Automotive Management GmbH	100	25 000,00	25 000,00
Total Group companies		**32 035 116,41**	**32 035 116,41**
Associated companies			
Kiint. Oy Pietolankatu 13, Uusikaupunki	0	-	0,17

Valmet Automotive Plc's share of associated company was sold during the financial year. Before the sale, Valmet Automotive Plc had a 40% interest in the real estate company.

Other shareholdings total	77 993,67	76 971,75
Total shares and participations	**32 113 110,08**	**32 112 088,16**

	2022	2021
	EUR	EUR
Accounts receivables	**20 392 072,42**	**93 622 630,14**
Other short-term receivables		
VAT receivables	4 276 750,44	8 893 021,84
Salary and travel advances	59 018,25	46 595,12
Other receivables	190 812,36	358 798,42
Total other short-term receivables	**4 526 581,05**	**9 298 415,38**
Accrued income and prepaid expenses		
Long-term		
Loan arrangement fee	500 000,04	750 000,00
Total long-term	**500 000,04**	**750 000,00**
Short-term		
Accrued sales revenue	21 144 662,25	8 049 571,39
Loan arrangement fee	250 000,00	250 000,00
Income tax receivables	134 812,18	-
Other accrued income and prepaid expenses	1 181 828,35	3 746 331,02
Total short-term	**22 711 302,78**	**12 045 902,41**
Total accrued income and prepaid expenses	**23 211 302,82**	**12 795 902,41**
Receivables from group companies		
Long-term		
Loans receivable	25 275 166,64	25 553 960,27
Total long-term	**25 275 166,64**	**25 553 960,27**
Short-term		
Loans receivables	12 048 969,03	10 815 268,18
Accounts receivables	1 385 062,10	384 117,57
Accrued income	1 951 317,00	986 655,52
Total short-term	**15 385 348,13**	**12 186 041,27**
Total receivables from group companies	**40 660 514,77**	**37 740 001,54**

	2022	2021
	EUR	**EUR**
Shareholders' equity		
Restricted 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 restricted equity	**18 018 364,42**	**18 018 364,42**
Unrestricted equity		
Reserve for invested unrestricted equity 1.1.	88 840 723,19	88 840 723,19
Reserve for invested unrestricted equity 31.12.	88 840 723,19	88 840 723,19
Retained earnings 1.1.	-85 222 732,17	-100 597 050,94
Retained earnings 31.12.	-85 222 732,17	-100 597 050,94
Net income for the year	6 330 301,13	15 374 318,77
Total unrestricted equity	**9 948 292,15**	**3 617 991,02**
Hybrid capital		
Hybrid capital	20 000 000,00	20 000 000,00
Total hybrid capital	**20 000 000,00**	**20 000 000,00**
Total shareholders' equity	**47 966 656,57**	**41 636 355,44**

Accrued interest of the hybrid capital, not booked, until 31.12.2021 is 7 837 614,20 eur (31.12.2020 3 914 820,99 eur). which can only be paid from distributable funds.

	2022	2021
Distributable funds		
Retained earnings	-85 222 732,17	-100 597 050,94
Net income for the year	6 330 301,13	15 374 318,77
Reserve for invested unrestricted equity	88 840 723,19	88 840 723,19
Government subsidy	-	-1 000 000,00
Total distributable funds	**9 948 292,15**	**2 617 991,02**
Appropriations		
Cumulative accelerated depreciation	4 979 325,26	4 213 409,93
of which shareholders equity	3 983 460,21	3 370 727,94
of which deferred tax liability	995 865,05	842 681,99
Total appropriations	**4 979 325,26**	**4 213 409,93**

	2022	2021
	EUR	**EUR**
Provisions		
Provision for restructuring, personnel	458 379,78	30 715,61
Long-service benefit and defined pension plans	3 025 774,37	3 034 819,97
Warranty reserves	3 629 894,00	5 923 191,14
Provision for losses	902 087,24	-
Total provisions	**8 016 135,39**	**8 988 726,72**
Advances received		
Advances received, POC projects	41 981 612,14	6 160 936,56
Other advances	28 495 967,18	16 963 024,11
Total advances received	**70 477 579,32**	**23 123 960,67**
Specification of accrued income, combined asset and liability amounts		
Long-term contracts, combined amounts		
Accrued receivables related to POC reveneues	-21 706 655,20	-1 543 665,37
Advances received from customers	41 981 612,14	6 160 936,56
Project receivables on the balance sheet, current assets	**20 274 956,94**	**4 617 271,19**
Liabilities to group companies		
Short-term liabilities		
Accounts payable	1 132 742,19	3 430 797,62
Group contribution liabilities	-	2 470 000,00
Other short-term liabilities	13 540 947,24	823 629,47
Short-term liabilities total	**14 673 689,43**	**6 724 427,09**
Total liabilities to group companies	**14 673 689,43**	**6 724 427,09**
Other short-term liablities		
Witholding taxes and social security expenses	2 179 357,39	2 856 121,10
Other short-term liabilities	64,00	-
Total other short-term liablities	**2 179 421,39**	**2 856 121,10**
Accruals		
Wages and salaries including social security expenses	20 030 719,11	26 252 953,30
Accrual on manufacturing materials	50 282 773,01	57 629 287,54
Income tax liabilities	-	1 875 269,35
Other accruals	3 292 213,63	4 814 934,26
Total accruals	**73 605 705,75**	**90 572 444,45**

4. OTHER NOTES

Other notes	2022 EUR	2021 EUR
Revenue recognition on long-term contracts based on POC		
POC revenue booked on long-term contracts not yet delivered to customers, total amount booked in the financial year and in earlier financial years, as of 31.12.	**21 706 655,20**	**1 543 665,37**
Not recognized as revenue 31.12. (order backlog)	**20 274 956,94**	**4 617 271,19**
Deferred taxes		
Deferred tax liabilities		
Revaluations of fixed assets	1 345 503,41	1 345 503,41
Total deferred taxes	**1 345 503,41**	**1 345 503,41**
Deferred tax asset		
Fixed assets (depreciation)	5 400 358,59	4 992 696,97
Accruals	1 603 227,08	1 797 604,94
Total deferred tax asset	**7 003 585,67**	**6 790 301,91**
Total deferred taxes	**5 658 082,26**	**5 444 798,50**
Mortgages and lease contracts		
Lease and rental contracts (Excluding VAT)		
Due in 12 months	2 130 479,72	2 795 206,82
Due in 12-24 months	901 243,45	1 238 230,60
Due in 24-36 months	371 537,64	346 254,00
Due in 37 months and later	5 760,00	32 821,00
Total lease and rental contracts	**3 409 020,81**	**4 412 512,41**
Other commitments		
Solar energy supply	475 890,00	-
Total other commitments	**475 890,00**	-
Other mortgages and pledges		
Mortgages and pledges	593 415 383,00	593 435 471,00
Other guarantees on behalf of group companies	7 253 794,97	6 803 794,97
Total other mortgages and pledges	**600 669 177,97**	**600 239 265,97**

SIGNATURES FOR BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Vantaa, February 21, 2023

JARKKO SAIRANEN
Jarkko Sairanen
Chairman

TIMO KOKKILA
Timo Kokkila
Member

SVEN ENNERST
Sven Ennerst
Member

KARI HEINISTÖ
Kari Heinistö
Member

PHILIP-CHRISTIAN ELLER
Philip-Christian Eller
Member

SABINE NEUSS
Sabine Neuss
Member

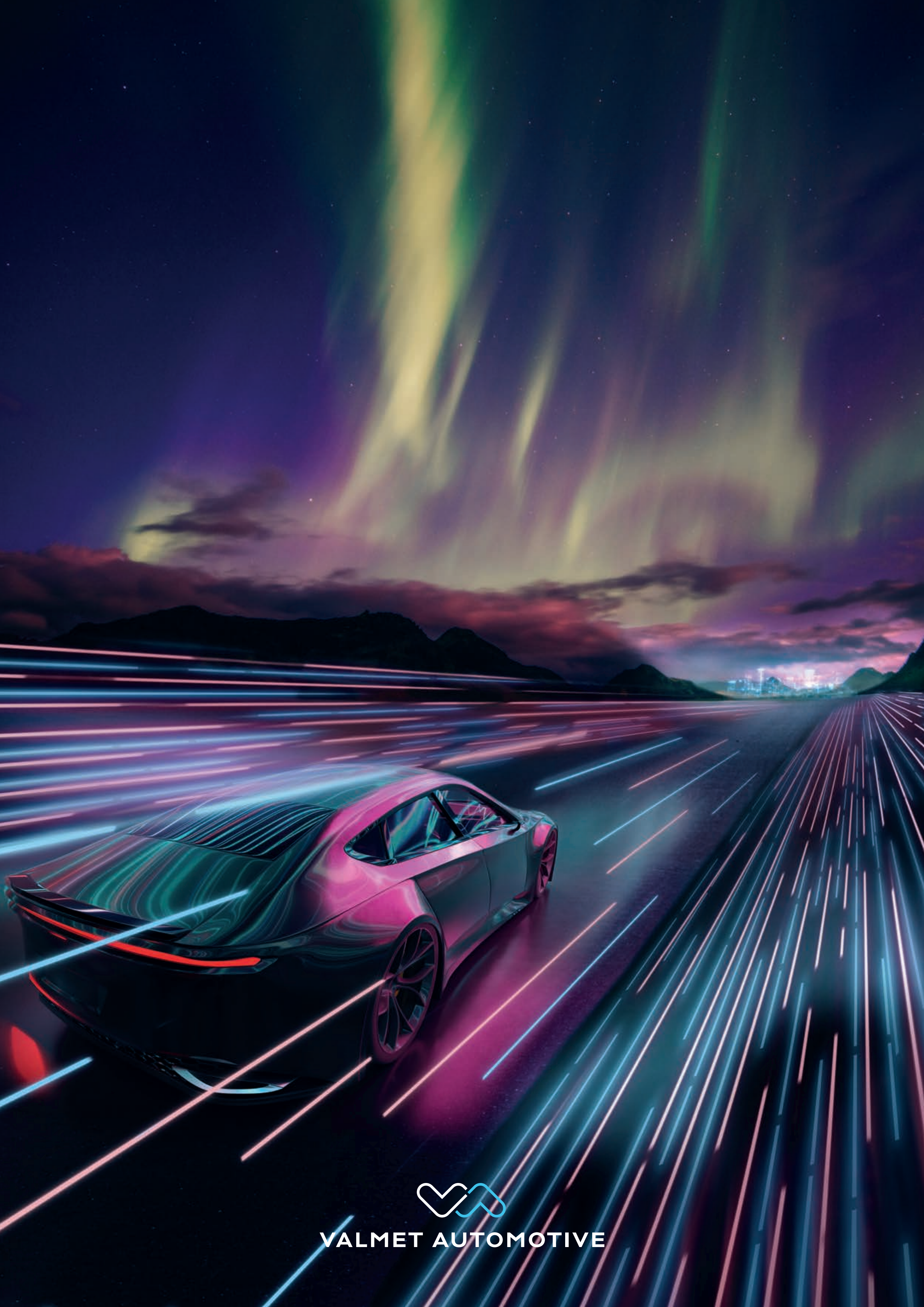
OLAF BONGWALD
Olaf Bongwald
Chief Executive Officer

The Auditor's report has been given today

Ernst & Young Oy
Authorized Public Accountant Firm

Vantaa, February 24, 2023

MIKKO RYTILAHTI
Mikko Rytilahti
Authorized Public Accountant


VALMET AUTOMOTIVE

Building a better
working world

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domicile Helsinki

AUDITOR'S REPORT (Translation of the Finnish original)

To the Annual General Meeting of Valmet Automotive Oyj

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Valmet Automotive Oyj (business identity code 0143991-2) (former Valmet Automotive Oy) for the year ended 31 December, 2022. 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.

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

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- 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 24.2.2023

Ernst & Young Oy
Authorized Public Accountant Firm

MIKKO RYTILAHTI

Mikko Rytilahti
Authorized Public Accountant

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