

NORRHYDRO GROUP OYJ

Financial Statement Bulletin

1.1.-31.12.2022

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Ratavartijankatu 2, 96100 Rovaniemi, Finland

NORRHYDRO



Financial Statement Bulletin 2022 of Norrhydro Group Plc:

Successful ramp-up of the new production facility and further strong growth of the turnover

Norrhydro is a Finnish pioneer in motion control and one of the leading providers of energy-efficient hydraulic cylinders in the Nordic countries.

The company develops and manufactures innovative and environmentally friendly hydraulic and linear motion solutions for the needs of the forest machinery, material handling, mining, construction and marine industries, among others. Our NorrDigi® motion control system, which combines artificial intelligence and digitalisation, represents a globally leading state-of-the-art technology that significantly reduces emissions and will revolutionize the entire industry.

Norrhydro has more than 35 years of experience in providing quality hydraulic solutions for demanding environments. The company's customers are mainly Nordic and globally operating manufacturers of mobile machinery and equipment, for whom the company is a long-term strategic partner. Our tailor-made solutions create competitive advantage for our customers and contribute to a cleaner tomorrow

Financial Statement Bulletin has not been audited.

July-December 2022 in brief

- Turnover increased 2.1 % to EUR 13,088 (12,822) thousand
- EBITDA was EUR 36 (1,483) thousand
- EBITDA margin was 0.3 % (11.6 %)
- Operating profit was EUR -457 (1,078) thousand
- Earnings per share were -0.07 euro (-0,3)
- The move to the new production facility, the ramp-down of the old factory and the resulting production shutdowns, as well as the ramp-up of the new production facility, had an estimated impact of EUR -1.5 million on profitability. The effects on profitability caused by the abnormal production shutdown, the commissioning of the new production facility and the ramp-up of production machinery could not be accurately estimated in advance.

January-December 2022 in brief

- Turnover increased 20.3 % to EUR 29,705 (24,693) thousand
- EBITDA was EUR 1,697 (2,968) thousand
- EBITDA margin was 5.7 % (12.0 %)
- Operating profit was EUR 825 (2,177) thousand
- Earnings per share were 0.004 euro (0.04)
- Return on equity was 0.4 % (4.8 %)
- Equity ratio was 38.3 % (50.7 %)
- Cash flow from business operations was EUR -408 (756) thousand
- The Board of Director's proposes a capital repayment of EUR 0.06 (0.06) per share paid in two instalments

Thousand euros	1 July –31 Dec. 2022	1 July –31 Dec.2021	Change	1 Jan. –31 Dec. 2022	1 Jan. –31 Dec. 2021	Change
Turnover	13,088	12,822	2.1 %	29,705	24,693	20.3 %
EBITDA	36	1,483	-97.6 %	1,697	2,968	-42.8 %
EBITDA, %	0.3 %	11.6 %		5.7 %	12.0 %	
Operating profit	-457	1,078	-142.4 %	825	2,177	-62.1 %
Operating profit, %	-3.5 %	8.4 %		2.8 %	8.8 %	
Profit for the financial period	-735	-278		43	353	
Profit for the financial period, %	-5.6 %	-2.2 %		0.1 %	1.4 %	
Cashflow for business operations				-408	756	
Return on investment, %				4.2 %	15.2 %	
Return on equity, %				0.4 %	4.8 %	
Equity ratio, %				38.3 %	50.7 %	
Current ratio				1.53	1.74	
Quick ratio				0.53	1.09	
Earnings per share, undiluted €	-0.07	0.03		0.004	0.04	
Earnings per share, diluted, €	-0.07	0.03		0.004	0.04	
Personnel at the end of the period				175	148	

Guidance for 2023

The Group's turnover is expected to be EUR 34–38 million and EBITDA 8–11 per cent of turnover in 2023.

Estimate of probable future development

Assessing the development of the Group's turnover in the current, still uncertain global economic situation is challenging. The Group aims to continue its growth-oriented strategy and expand its business by increasing its own market share in the hydraulic cylinder market and launching new digital, energy-efficient, and smart products and services to the market. Over the next few years, growth is expected to accelerate significantly as a result of the additional capacity provided by the new facility and the market introduction of the aforementioned digital products and services. The Group's target for 2027 is turnover of over EUR 70 million, digital products and services accounting for over 30 per cent of turnover and EBITDA of at least 16 per cent of turnover.

The investments in product development and the commercialisation of digital solutions will continue during the current financial period. With the new production facility and the investments in machinery and equipment made there, the growth in turnover is expected to continue in the coming years. Similarly, the improvement in productivity and competitiveness is expected to improve with new investments made and planned.

CEO's review

Norrhydro's business developed strongly again in 2022 and, for the second year in a row, the growth was faster than expected, especially considering the simultaneous ramp-up of the new facility. Thanks to strong demand and new customer acquisition, the Group's turnover grew to EUR 29.7 million, or approximately by 20 per cent, from the previous year. Sales for 2022 amounted to approximately EUR 32,000 thousand, which corresponds to an increase of approximately 30 per cent compared to the previous year, but, due to the ramp-up of the new facility, some deliveries were postponed to 2023. Sales growth was driven by strong demand for the Group's products and new, growing customer relationships.

Norrhydro's EBITDA was EUR 1.7 million and EBITDA margin was 5.7% (2021: 12.0%). During the second half of the year, profitability was affected by the move to the new facility, the closure of the old factory, and the resulting production shutdowns and the ramp-up of the new facility. In its guidance for the financial year 2022, the Company estimated that the new production facility project could affect profitability and did not provide precise profitability guidance for the financial year. In the autumn, operations had to be carried out in two production facilities at the same time. All of the aforementioned issues tied the company's human resources to the move and ramping up the new production facility, caused significant additional costs and kept production and delivery volumes at a lower level than usual. The move and the ramp-up of the new production facility also tied significant amounts of capital to stocks and work-in-process. The impact of these is estimated to have weakened EBITDA in the second half of the year by approximately EUR 1.5 million compared to normal operations. The increase in the prices of raw materials and components that continued throughout the year also affected profitability, as the increased prices could be transferred to customer prices with a delay due to the agreements in force.

Demand was good in almost all of our customer sectors and segments.-Most of our growth came again from our profitable and steadily cash flow-generating cylinder business, but we still expect the share of digital solutions to grow to more than 30 per cent of our turnover by 2027.

In 2023, we will focus on the commissioning of the new production facility and on improving productivity as well as on acquiring new international customers outside Scandinavia. The importance of our digital solutions for our future is very high, which is why, during 2023, we will increase the focus and resources on the implementation of these solutions' current projects and the acquisition of new customers, so that we can increase our market share in terms of energy efficiency and environmentally friendly solutions according to our strategy.

We believe that the difficult geopolitical situation, energy-related challenges, and possible recession will not slow down our growth rate in the coming year either. Our business is based on several segments in traditional hydraulics. The versatility of our operations is a factor that provides a strong basis for the company's growth despite many threats. The still-evolving hydraulics market is blowing tailwinds to our growth.

During 2023, we will also offer our customers tailor-made solutions for both traditional cylinder and digital business. We want to continue to be a long-term strategic partner for our customers, helping them to succeed, and at the same time succeeding ourselves. Our motto is "Partner in success".

Matias Parviainen, CEO

Norrhydro's financial targets and strategy

Key Points in Norrhydro's strategy period 2022–2027:

Growth in turnover organically and through selected acquisitions

Norrhydro's aim is to increase turnover organically and through acquisitions. The aim is to achieve profitable growth and a turnover of more than EUR 70 million in 2027. Growth is sought in the internationalising cylinder business and by increasing the share of digital solutions to more than 30 per cent of turnover. In terms of turnover of the hydraulic cylinder business, the company aims to achieve a compound annual growth rate (CAGR) of approximately 10 per cent between 2020 and 2027.

Expansion into new geographical markets will take place in accordance with the company's strategy, especially with the commercialisation of energy-efficient solutions, such as the NorrDigi® motion control system and Motiomax products.

Norrhydro's business consists of two pillars: the profitable hydraulic cylinder business with steady cash flow and innovative digital products – NorrDigi® motion control system and Motiomax electromechanical linear motion solutions – from which Norrhydro will seek strong growth and opportunities to expand into new geographical markets in the future. The NorrDigi® motion control system, which combines artificial intelligence and digitalisation, represents a global and advanced technology that significantly reduces emissions and has the potential to revolutionise the entire industry. Motiomax by Norrhydro electromechanical cylinders are the solution to many of the entirely electric linear motion control needs of industry and mobile machinery.

Expanding technological know-how and production capacity

Norrhydro aims to renew the mobile machinery and equipment industry with its innovations. The company's long-term goal is to be the technology leader in its field, with its patented products and proprietary product development providing a decisive competitive advantage. Norrhydro continues its close development cooperation with leading machinery and equipment manufacturers and research institutes. The company also aims to expand its own technology expertise and production capacity through acquisitions and by investing in the new production facility in Rovaniemi. The new production facility, which was ramped up in the autumn of 2022, serves the traditional cylinder business as well as NorrDigi® and Motiomax solution business.

Position higher up the customer's value chain

A significant part of Norrhydro's turnover comes from customer relationships that go back decades. The products and technology partnership model providing Norrhydro's customers with a competitive advantage enables a higher position in the customer's value chain. The company wants to continue to be more than a supplier of components to its customers: The company aims to be a long-term strategic partner that develops its solutions together with its customers. The company offers services throughout the product life cycle, from design to manufacturing, service and maintenance. In addition, the company sells its solutions to equipment manufacturers without intermediaries. Norrhydro's new energy-efficient solutions, such as NorrDigi® and Motiomax by Norrhydro, create a competitive advantage for customers in industries with huge potential for emission reduction. The aim of the company is the global commercialisation of the NorrDigi® system and Motiomax products.

Key factors for the implementation of the strategy

Key factors for Norrhydro to implement this strategy are the ability of the new facility, which was commissioned in 2022, to meet the growing demand, efficient sourcing through a global supply network and own production close to the current key customers. In addition, it is essential to ensure fast, flexible deliveries, high quality, and cost-effective operations. The growth is also affected by the growth of key customers, and Norrhydro's aim is to continue making significant efforts in acquiring new customers, especially outside Finland. In terms of the implementation of the strategy, emphasis will also be placed on the development of new solutions. Norrhydro's attractiveness as an employer and ability to recruit skilled personnel are also important for the company's success and ability to achieve its strategic goals.

Market trends

Demand for Norrhydro's hydraulics solutions is supported by, among other things, increased demand for machines and appliances due to urbanisation, infrastructure development and construction as well as to machine manufacturers' desire to continuously invest in smarter, more efficient, and more environmentally friendly solutions to improve their competitiveness. The use of hydraulics is expanding to new industries.

Towards sustainable development by reducing emissions

The rapid introduction of modern technology drives the growth of our customers' markets. The tightening of regulations related to mitigating climate change, targets for reducing emissions, development of even completely emission-free machinery and promotion of sustainable business as well as the rise of environmental awareness are driving companies to seek more energy-efficient and low-emission hydraulic solutions. The introduction of hydraulic equipment is also becoming more common in other industries, such as food production.

Sustainable development does not rule out targets for improving productivity. In fact, these two things go hand in hand for both our customers and our own product development. Norrhydro's digital products offer complete solutions for various sustainability trends, and close cooperation with the customers and public authorities is the key to sustainable development both in industry and in the mobile machinery industries.

Equipment manufacturers invest in smart hydraulics

The growing use of automation and the increasing number of autonomous machines have significantly accelerated the use of hydraulics in machinery. The development of smart hydraulic cylinders is an important step forward in the industry, as they can be used to monitor, adjust and control the operation of the machines more efficiently. The data measured from the cylinders can be used to monitor the maintenance needs and efficiency of the machinery, so that unforeseen breakdowns of the machinery can be avoided, and the equipment can be serviced at exactly the right time. Automation improves work efficiency and occupational safety, as it helps to avoid production interruptions and personal injuries caused by machine breakdowns.

Turnover, profitability, and performance

July-December 2022

In July-December 2022 turnover was EUR 13,088 (12,822) thousand, an increase of 2.1 per cent. The EBITDA was EUR 36 (1,483) thousand, representing 0.3 (11.6) per cent of turnover.

Personnel expenses during the second half of 2022 amounted to EUR 3,825 (3,311) thousand. Other operating expenses amounted to EUR 2,428 (1,086) thousand. Net financial expenses amounted to EUR 441 (1,534) thousand. Exchange rate gains and losses due to changes in exchange rates have been recognised in financial items, with a net effect of EUR -1 (1) thousand.

Profit for the period was EUR -735 (-278) thousand. Diluted and undiluted earnings per share were EUR -0.07 (-0.03).

January-December 2022

In January-December 2022 turnover was EUR 29,705 (24,693) thousand, an increase of 20.3 per cent. EBITDA was EUR 1,697 (2,968) thousand, representing 5.7 (12.0) per cent in the period under review. Group's return on capital employed (ROCE) was 4.2 (15.2) per cent.

Personnel expenses during the period amounted to EUR 8,039 (6,585) thousand. Other operating expenses amounted to EUR 4,042 (2,332) thousand. Net financial expenses amounted to EUR 745 (1,812) thousand. Exchange rate gains and losses due to changes in exchange rates have been recognised in financial items, with a net effect of EUR -4 (1) thousand.

Profit for the period was EUR 43 (353) thousand. Diluted and undiluted earnings per share were EUR 0.004 (0.04). Profitability was weakened by overlapping expenses of two facilities, the move to the new facility and the ramp-up of the new facility.

Balance sheet and financial position

Balance sheet total in the end of financial period was EUR 27,925 (22,739) thousand. Current assets amounted to EUR 8,847 (5,891) thousand. Short-term receivables amounted to EUR 1,941 (1,250) thousand and liquid assets to EUR 2,428 (6,653) thousand. Group equity amounted to EUR 10,692 (11,338) thousand and parent company's equity amounted to 15,147 (15,246) thousand.

Interest-bearing liabilities amounted to EUR 10,418 (6,938) thousand. The company has access to a financial facility (EUR 246 thousand) to ensure liquidity. The Group's loans from financial institutions consist of both secured and unsecured loans. Some of these loans are subject to financial covenants that may affect the loan terms, mainly the interest rate payable. The review date of the covenants is at the end of the financial year on 31 December 2022. Some of covenant terms were broken at the end of financial year 2022 and after the reporting period company has received waivers from financiers stating that loans are not subject to premature collection and term will not be changed. The Group's net debt amounted to EUR 7,990 (285) thousand, and the net gearing ratio was 74.7 (2.5) per cent. Equity ratio was in the end of period 38.3 (50.7) per cent. Cash flow from operating activities in 2022 amounted to EUR -408 (756) thousand. Cash flow from investing activities amounted to EUR -5,637 (-3,642) thousand.

Personnel and management

At the end of the financial period, the Group had 175 employees and at the beginning of the financial period, 148 employees. On average, the Group employed 160 people during the financial period. In addition, the Group had an average of 27 leased employees during the financial period, totalling 200 people in the end of 2022.

31.12.2022 the company's Executive Management Team consists of CEO Matias Parviainen from the beginning of November, Director of Sales and Marketing Anniina Piira-Wendeler, Head of Operations Marko Mylläri, CFO Hanne Sarajärvi, HR Manager Johanna Kaikkonen and QEHS Manager Heidi Sederholm from April 2022.

Annual General Meeting and Authorisations of the Board of Directors

Norrhydro's Annual General Meeting was held in Rovaniemi on 17 March 2022 pursuant to the temporary Act so that shareholders and their representatives were able participate in the Annual General Meeting only by voting in advance and by submitting counterproposals and questions in advance. The financial statements were adopted, and the Board of Directors and CEO were discharged from liability for the financial period that ended 31 December 2021. Annual General Meeting distributed dividend amounting EUR 0.06 per share.

Seven members were elected at the Annual General Meeting: Yrjö Trög (Chairman of the Board), Jukka Jokinen (Vice Chairman of the Board), Juhani Kangas and Hannu Rusanen were re-elected and as new members of the Board Asko Myllymäki, Tapio Lehti and Hanna-Maria Heikkinen were elected.

In accordance with the proposal of the Board of Directors, the Annual General Meeting of 2022 held on 17 March 2022 resolved to authorise the Board of Directors to decide on a share issue and issuance of option rights and other special rights entitling to shares referred to in chapter 10, section 1 of the Limited Liability Companies Act in one or more instalments, so that a maximum of 1,000,000 new shares or shares held by the company may be issued on the basis of the authorisation.

The maximum number of shareholders covered by the authorisation corresponds to approximately 9.17 per cent of all shares in the company calculated on the basis of the situation on the day of the notice of the Annual General Meeting.

On the basis of the authorisation, the Board of Directors may also decide on a directed share issue, i.e. in deviation from the shareholders' pre-emptive subscription rights. The Board of Directors may decide on the issue of shares either without payment or against payment and on all other terms and conditions of the share issue.

The Board of Directors may use the authorisation for the implementation of corporate transactions or other arrangements related to the company's business, for the implementation of the personnel incentive scheme or for other purposes decided by the Board of Directors.

The authorisation is valid until the next Annual General Meeting, but not later than 30 June 2023.

The granted authorisation revoked the authorisations granted by the Extraordinary General Meeting held on 7 October 2021 and the Annual General Meeting held on 16 March 2020 to decide on the issue of shares and the granting of special rights entitling to shares.

The minutes of the Annual General Meeting are available on Norrhydro's investor website at www.norrhydro.com/fi/sijoittajat-yhtiökokoukset.

Option programmes and share-based incentive schemes

Norrhydro has two option programmes: 2020a and 2020b. The maximum number of shares that can be subscribed for with the option rights is 186,000 shares. The option programmes are aimed at key employees who are responsible for the development of the company's business. The exercise of the option programme is conditional on the growth and profitability of the business and the successful launch of the digital business.

In August 2022, the Board of Directors of Norrhydro Group Plc decided to implement the Group's share-based incentive scheme. The share-based incentive scheme was established as part of the incentive and commitment scheme for the Group's key personnel. The purpose is to combine the objectives of the company's shareholders and key employees in order to increase the value of the company in the long term and to commit key employees to the company and to offer them a competitive reward system based on the earnings and accumulation of shares. Earning is determined primarily on the basis of the company's turnover and profitability development and, secondarily, on the proportion of digital solutions in relation to the Group's turnover. The fee is paid in shares and in cash. The earning period concerns financial periods 2023–2025.

Shares and shareholders

Norrhydro Group Plc held 10,901,638 shares at the end of the financial period. The average number of shares issued during the financial period was 10,857,888. Each share entitles its holder to one vote at the company's Annual General Meeting, and they confer an equal right to dividends.

At the end of the financial period, the company's share capital amounted to EUR 4,252,200. At the end of the review period, the company does not hold its own shares. The subsidiary Norrhydro Oy owns 36,000 shares of the parent company Norrhydro Group Plc.

Between 1 January and 31 December 2022, a total of 1,695,236 Norrhydro shares were traded, representing 15.6% of the total number of shares. The value of the exchange was approximately EUR 5.9 million.

The closing price of the share on the last trading day of the review period was EUR 3.125 per share. The lowest trading price during the review period was EUR 2.84 per share, the highest EUR 4.35 per share and the average price during the period EUR 3.43 per share. Norrhydro Group's market capitalisation at the end of the review period was EUR 34.1 million.

At the end of the financial period on 31 December 2022, the company had 6,277 (7,298) shareholders.

Largest shareholders on 31 December 2022

	Shares, pcs	Ownership, %
Economica Yrityspalvelut Oy	4,231,033	38.81 %
Helle-Kangas Consulting Oy	1,660,362	15.23 %
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	595,238	5.46 %
Kari Juha Elias	350,993	3.22 %
Myllymäki Invest Oy	287,714	2.62 %
Penttinen Hannu Sakari	262,453	2.41 %
OP-Suomi Mikroyhtiöt - Erikoissijoitusrahasto	127,998	1.17 %
Reinzen Oy	119,048	1.09 %
Triton Seasafety Oy	76,492	0.70 %
Wastmäki Invest Oy	59,524	0.55 %
10 largest, total	1,992,530	72.60 %

Assessment of the most significant risks and uncertainties

The uncertainty of the geopolitical environment poses a risk to the company's customer relationships and international business during the next financial period.

The regulation of the European financial markets and the actions of the European Central Bank have an impact on the financial markets, the availability and price of financing and, thus, on the ability and willingness of end customers to invest, which may have an indirect impact on the demand for the Group's products. The aforementioned financial market measures may also have an impact on the availability and price of the Group's financing.

The economic cycle affects Norrhydro's business, especially through the investment willingness of end users. Increased inflation, future inflationary developments, higher energy prices and expected rising labour costs pose a risk to profitability in the next financial period.

Price competition, suppliers' capacity and security of supply have a direct impact on the Group's business, its profitability and the scope of its operations. The increase in raw material prices seen in the last couple of years seems to have slowed down. The price development of raw materials and components is still difficult to predict, and the transfer of possible price increases to customer prices may be delayed due to market conditions and agreements in force.

The availability of a skilled and professional workforce may pose challenges to the company's growth.

Proposal for the distribution of profit

The Board of Directors proposes that a capital repayment of EUR 654,098.28, or EUR 0.06 per share, be distributed from the invested unrestricted equity reserve of the parent company. The parent company's distributable funds on 31 December 2022 were EUR 10,894,766.06 where profit of financial year 2022 EUR 554,678.28. No dividend shall be distributed.

Financial reporting and the Annual General Meeting 2023

Financial Statements 2022 and Annual Report will be published 24 February 2023. Half-year report January–June 2023 will be published on 11 August 2023. The Annual General Meeting is scheduled for Monday, 3 April 2023. The company's Board of Directors convenes the Annual General Meeting separately.

Rovaniemi, 17 February 2023

Norrhydro Group Plc
Board of Directors

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Norrhydro Group Plc in brief

Norrhydro, founded in 1985, is a Finnish forerunner in motion control and a provider of energy-efficient hydraulic cylinders and system suppliers specialising in high-quality, customised and energy-efficient hydraulic cylinders and demanding linear motion control systems and mobile equipment. The company has more than 35 years of experience in developing and manufacturing customised hydraulic cylinders and liners motion control systems for the most demanding conditions and environments. In 2022, the company generated revenues of EUR 29.7 million, EBITDA of EUR 1.7 million and operating profit of EUR 0,8 million.

Tables 1 January-31 December 2022

Consolidated income statement

Thousand euros	1 July – 31 Dec. 2022	1 July – 31 Dec. 2021	1 Jan.- 31 Dec. 2022	1 Jan. – 31 Dec. 2021
Turnover	13,088	12,822	29,705	24,693
Stocks of finished goods and work in progress increase (+) or decrease (-)	574	-133	1,305	-363
Other operating income	718	47	984	264
Materials and services	-8,092	-6,856	-18,216	-12,709
Personnel expenses	-3,825	-3,311	-8,039	-6,585
Depreciation and impairment	-492	-406	-873	-792
Other operating expenses	-2,428	-1,086	-4,042	-2,332
Operating profit	-457	1,078	825	2,177
Financial income	76	2	134	2
Financial expenses	-441	-1,534	-745	-1,812
Profit (loss) before taxes	-822	-455	214	366
Income taxes	87	175	-171	-15
Minority share	0	-1	0	-1
Consolidated result	-735	-278	43	353

Consolidated balance sheet

Thousand euros	31 Dec. 2022	31 Dec. 2021
ASSETS		
Fixed assets		
Intangible rights	7,843	5,646
Material goods	6,865	3,298
Investments	1	1
Fixed assets, total	14,708	8,944
Short-term assets		
Current assets	8,847	5,891

Short-term receivables	1,941	1,250
Liquid assets	1,000	2,000
Cash and cash equivalents	1,428	4,653
Short-term assets, total	13,216	13,795
ASSETS, TOTAL	27,925	22,739

LIABILITIES		
Equity		
Share capital	4,252	4,252
Invested unrestricted equity	10,362	10,398
Profit/loss from previous financial periods	-3,965	-3,665
Profit/loss for the financial period	43	353
Total equity	10,692	11,338
Current Liabilities		
Capital loan less minority share	0	7
Long-term liabilities		
Loans from financial institutions	8,574	3,471
Long-term liabilities, total	8,574	3,471
Short-term liabilities		
Bond	0	1,670
Loans from financial institutions	1,844	1,797
Deferred income	0	369
Trade payables and other current liabilities	6,815	4,087
Short-term liabilities, total	8,659	7,106
Current liabilities, total	17,233	11,401
LIABILITIES, TOTAL	27,925	22,739

Cash flow statement

31 Dec. 2022

31 Dec. 2021

Cash flow from operating activities		
Profit (loss) before accounting transfers and taxes	214	366
Adjustments:		
Depreciation according to plan	873	792
Financial income and and expenses	611	1,810
Other adjustments	0	0
Cash flow before working capital changes	1,697	2,969
Working capital changes:		
Increase (-) / decrease (+) in short-term non-interest-bearing accounts receivable	-727	-98
Increase (-) / decrease (+) in current assets	-2,956	-326
Increase (+) / decrease (-) in short-term non-interest-bearing liabilities	2,407	-697
Cash flow from operating activities before financial items and taxes	421	1,848
Financial items and taxes:		
Interest paid and payments on other financial expenses for operating activities	-550	-588
Direct taxes paid	-279	-504
Cash flow from operating activities (A)	-408	756
Cash flow from investing activities:		
Investments in tangible and intangible assets	-7,437	-1,607
Investments in other financial securities	1,000	-2,000
Acquisition of subsidiaries	0	-146
Investment grants received	800	0
Sale of shares	0	2
Sale of fixed assets	0	109
Investments in other investments	0	0
Cash flow from investing activities (B)	- 5,637	-3,642
Cash flow from financing activities:		
Sale of (+) acquisition (-) of treasury shares	0	20
Share issue	0	8,000
Share issue costs	0	-830

Dividends paid and other distributions	-653	-494
Finnfund quarantine payment	0	-1,319
Loan disbursements	7,532	828
Loan repayments	-4,059	-1,095
Cash flow from financing (C)	2,819	5,110
Change in cash and cash equivalents (A+B+C) increase (+) / decrease (-)	-3,226	2,224
Cash and cash equivalents at the beginning of the period	4,653	2,429
Cash and cash equivalents at the end of the period	1,428	4,653

Statement of changes in equity

Thousand euros 1 January – 31 December 2022	Share capital	Invested unrestricted equity reserve	Retained earnings	Total equity
Equity at the beginning of the period	4,252	10,398	-3,312	11,338
Dividend payments			-653	
Profit for the financial period			43	
Other changes, acquisition of own shares		-36		
Equity at the end of the period	4,252	10,362	-3,922	10,692

Thousand euros 1 January – 31 December 2021	Share capital	Invested unrestricted equity reserve	Retained earnings	Total equity
Equity at the beginning of the period	4,252	2,230	-3,172	3,310
Share issue		8,000		
Dividend payments			-494	
Profit for the financial period			353	
Other changes, acquisition of own shares		-36		
Other changes: Disposal of own shares		204		
Equity at the end of the period	4,252	10,398	-3,312	11,338

Principles of preparation of financial statements

Financial statement bulletin, including periods 1 July–31 December 2022, 1 July–31 December 2021, 1 January–31 December 2022 and 1 January–31 December 2021, has been prepared in accordance with good accounting practice and Finnish legislation. The figures are unaudited and have been prepared according to the Finnish Accounting Standards (FAS). The consolidated financial statements have been prepared using the acquisition cost method. Figures are presented in thousands of euros unless otherwise stated, and the figures presented have been rounded to the nearest thousand, so that the sum of the figures in a column or row may not always correspond exactly to the figure presented as the final total of the column or row.

Financial information presented here does not include all the notes to the financial statements and should be read in conjunction with the financial statements for the year ended 31 December 2022.

Acquisition cost method is applied when preparing consolidated financial statements. Consolidated statements include Norrhydro Llc (acquired 30 August 2007) and NH Norrdigi Llc, 100 % owned by Norrhydro Llc and Motiomaxx Llc, subsidiary of Norrhydro Group Plc. Norrhydro Llc has not prepared consolidated financial statement. Chinese associate company Norrhydro Hydraulic System Changzhou Co. Ltd has not been included in consolidated financial statements.

Motiomax Oy's minority shareholding has not been separated from the consolidated result or equity, as without the parent company's capital loan, Motiomax Oy's equity would be negative.

Turnover

When calculating turnover, indirect taxes, discounts granted, and exchange differences related to sales are deducted from sales revenue. Sales revenue is recognized when all the material risks and rewards of ownership have been transferred to the buyer.

The Group's turnover also includes sales revenue related to the assignment of the rights to use Norrdigi technology developed and patented by the company as well as the continuous development of this technology. The part of the consideration relating to the transfer of rights to use the technology to the customer has been recognized as income in connection with the transfer. Revenues related to continuing improvement are recognized either over time or according to the degree of completion, based on the work stages specified in the agreements. Advances received are recorded under the item Deferred income.

Grants received

Grants received by the company are recognized in other operating income for the same period for which the company recognizes the expenses that the grants cover. In the balance sheet, amounts receivable relating to grants are recorded under Accrued income and prepaid expenses. Grants received in advance are entered in the balance sheet under the item Deferred income. Grants related to assets in the balance sheet have been recognized to reduce the balance sheet value of the asset. In the cash flow statement, grants paid that relate to assets in the balance sheet are presented in the cash flow of investing activities and other grants are included in the cash flow from operating activities.

Fixed assets

Fixed assets have been valued at acquisition cost. The acquisition cost of the current fixed assets owned by the company are depreciated according to plan.

Intangible and tangible assets are recognized in the balance sheet at acquisition cost less depreciation in accordance with the plan. Planned depreciation has been calculated on the basis of the economic life of the intangible and tangible assets as straight-line depreciation or declining-balance depreciation.

Basis for depreciation according to the plan

Category of commodities	Estimated holding period in years	Depreciation rate	Depreciation method
Intangible rights/patents	10		straight-line depreciation
Consolidated goodwill	10		straight-line depreciation
Development expenses	10		back-loaded depreciation
Other long-term expenditure	3		straight-line depreciation
Alterations to production facilities	10		straight-line depreciation
Machinery and equipment		25 %	declining-balance depreciation
Production equipment	12		straight-line depreciation

As of 1 January 2022, the company has started back-loaded depreciation of development expenses: Annual depreciation increases in proportion to business growth. As of 1 January 2022, the company has changed its depreciation policy for production equipment from straight-line depreciation of 8 years to straight-line depreciation of 12 years.

Current assets

Current assets are valued in accordance with the weighted average price method or at a lower replacement price or a probable sale price. The acquisition cost of current assets includes the variable and fixed costs incurred in the manufacture and acquisition of the product.

Transactions denominated in foreign currencies

Transactions denominated in foreign currencies are converted into EUR at the exchange rate of the day on which the transaction takes place and assets and liabilities denominated in foreign currencies are converted into EUR at the exchange rate of the reporting date. Exchange differences are recorded in financial income and expenses.

Geographical breakdown of turnover

Thousand euros	1 Jan. -31 Dec. 2022	1 Jan. -31 Dec. 2021
Domestic sales	18,902	17,043
Sales to other countries	10,803	7,651
Yhteensä	29,705	24,693

Changes in intangible rights and material goods

Thousand euros	1 Jan.-31 Dec. 2022	1 Jan.-31 Dec. 2021
Intangible rights		
Carrying amount at the beginning of the period	448	453
Increases	71	78
Decreases	0	0
Depreciation	1	83
Carrying amounts at the end of the period	434	448

Thousand euros	1 Jan.-31 Dec. 2022	1 Jan.-31 Dec. 2021
Consolidated goodwill		
Carrying amount at the beginning of the period	432	0
Increases	0	432
Decreases	0	0
Depreciation	43	0
Carrying amounts at the end of the period	389	432

Thousand euros	1 Jan.-31 Dec. 2022	1 Jan.-31 Dec. 2021
Other long-term expenditure		
Carrying amount at the beginning of the period	256	301
Increases	2,141	220
Decreases: Investment grant	109	0
Depreciation	124	155
Carrying amounts at the end of the period	2,164	256

Thousand euros	1 Jan.-31 Dec. 2022	1 Jan.-31 Dec. 2021
Development expenses		

Carrying amount at the beginning of the period	4,509	4,061
Increases	398	448
Decreases	0	0
Depreciation	51	0
Carrying amounts at the end of the period	4,856	4,509

Thousand euros	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Machinery and equipment		
Carrying amount at the beginning of the period	3,287	2,743
Increases	5,372	1,051
Decreases	0	0
Decreases: Investment grant	1,169	
Depreciation	571	507
Carrying amounts at the end of the period	6,854	3,287

Thousand euros	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Other material goods – Art objects		
Carrying amount at the beginning of the period	11	11
Increases	0	0
Decreases	0	0
Depreciation	0	0
Carrying amounts at the end of the period	11	11

During the financial period 2022, Norrhydro Oy received an investment grant of EUR 1,224,491 from the Ely Centre for the procurement of machinery for the new production facility. The purchase price of the investment has been adjusted by the amount of the grant received.

Current assets

Thousand euros	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Raw materials and consumables	4,780	3,129
Work in progress	3,744	2,249
Finished goods	323	512
Deferred income	0	0
Total current assets	8,847	5,891

Maturity of loans

Thousand euros	< 1 year	1–5 years	> 5 years
Long-term financial loans	1,844	7,702	872

Some of covenant terms were broken at the end of financial year 2022 and after the reporting period company has received waivers from financiers stating that loans are not subject to premature collection and term will not be changed.

Pledges and contingent liabilities provided

Guarantees

Thousand euros	31 Dec. 2022	31 Dec. 2021
Guarantees on behalf of subsidiary companies	1,750	1,790
Business guarantees, NH Norrdigi Oy's shares	100 pcs	100 pcs
Business mortgages	6,825	6,225
Business mortgages, free held by the financier	400	1,000
Total	7,225	7,225

Norrhydro Llc, a subsidiary of Norrhydro Group Plc sells most of the trade receivables to the financier and the risk of credit loss is limited to 500 thousand euros.

Pledges given

Thousand euros	31 Dec. 2022	31 Dec. 2021
Deposited security	40	16

Off-balance sheet liabilities

Thousand euros	31.12.2022	31.12.2021
Leasing liabilities payable in the next financial period	257	59
Leasing liabilities payable later	690	59
Leasing liabilities, total	947	117
Residual value liabilities from leasing contracts	64	0

Rents payable

Thousand euros	31 Dec. 2022	31 Dec. 2021
Rents payable in the next financial period	1 055	220
Rents payable later	14 137	
Rental liabilities, total	15 192	220

In 2021, Norrhydro Llc, a subsidiary of Norrhydro Group Plc, has entered into a 15-year lease agreement for the production facility and its land built in Rovaniemi. The rental liability began in August 2022. Lease agreement is covered by bank guarantee where Norrhydro Llc has given counter guarantee, amounting to EUR 491,573.15.

Related party transactions, option programmes and share-based incentive schemes

The company's related parties include the subsidiaries, CEO, members of the Board of Directors and members of the Management Team. On 31 December 2022, the company's related parties owned 6,248,195 shares, which is 57.3 per cent of the company's shares and votes (55.1 per cent on 31 December 2021). In addition, the company's related parties had 125,000 option rights granted by the company.

A medium-term commitment scheme has been created for the Group's key employees and external Board members, within which key employees have acquired shares in the parent company Norrhydro Group Plc. For the acquisition of the shares, Norrhydro Oy has granted key personnel a 5-year loan. The interest on the loan is 1% per annum and the loan is annually repaid at 10% of the outstanding principal. Of any dividends paid by the company, 50 per cent is used to repay the loan. The remaining loan is due five years after its disbursement. The loan is secured by the acquired shares.

In addition, key personnel have received option rights. The subscription price for the option right subscription is EUR 0.10 per share. However, the subscription of shares with option rights requires that the company's strategic objectives have been met. If these objectives are not met in the manner required by the Board of Directors of the company, the option rights do not entitle you to share subscription. The related parties that have subscribed for the shares and option rights have committed to comply with the Minority Shareholder Agreement, according to which the key employee is not entitled to transfer, sell or otherwise dispose of the option rights or shares without the written approval of the company. The Minority Shareholder Agreement includes the usual so-called Good Leaver and Bad Leaver conditions related to the termination of the employment or service contract as well as non-compete and non-solicitation clauses. The Minority Shareholder Agreement is in force despite the listing.

During the financial period, the Board of Directors of Norrhydro Group Plc has decided on the introduction of a share-based incentive scheme for key employees in order to encourage and commit them. The purpose of the scheme is to combine the objectives of the company's shareholders and key employees in order to increase the company's value in the long term and to commit the key employees to the company and to offer them a competitive reward system based on the earnings and accumulation of shares. Earning is determined primarily on the basis of the company's turnover and profitability development and, secondarily, on the proportion of

digital solutions in relation to the Group's turnover. The fee is paid in shares and in cash. The earnings concern financial periods 2023–2025.

Thousand euros

1 Jan. –31 Dec. 2022

Purchases from related parties	36
Related-party sales	0
Loan receivables from related parties	119
Liabilities to related parties	0
Salaries and fees paid to related parties	891

Calculation of key figures

$$\text{Change in turnover, \%} = \frac{\text{turnover} - \text{previous year's turnover}}{\text{previous year's turnover}} \times 100$$

Operating profit = turnover + change in stocks of finished goods and work in progress (+/-) + other operating income – materials and services – personnel expenses – depreciation, amortisation and impairment – other operating expenses

$$\text{Operating profit, \%} = \frac{\text{Operating profit}}{\text{turnover}} \times 100$$

EBITDA = turnover + change in stocks of finished goods and work in progress (+/-) + other operating income – materials and services – personnel expenses – other operating expenses

$$\text{EBITDA, \%} = \frac{\text{EBITDA}}{\text{turnover}} \times 100$$

Cash flow from operating activities = Profit (loss) before accounting transfers and taxes + depreciation according to plan + financial income and expenses +/- working capital changes – interest paid + interest received from operations – direct taxes paid

$$\text{Return on investment} = \frac{\text{Operating profit before tax + financial expenses}}{\text{equity (average over the year) + interest-bearing financial liabilities (average over the year)}} \times 100$$

Net interest-bearing liabilities	= interest-bearing liabilities – cash and cash equivalents	
Return on equity	$\frac{\text{= net result}}{\text{equity (average over the year)}}$	x 100
Profit for the financial period	= Operating profit +/- financial expenses + taxes	
Equity ratio, %	$\frac{\text{= equity}}{\text{total capital on the balance sheet - deferred income}}$	x 100
Net gearing	$\frac{\text{= interest-bearing liabilities – cash and cash equivalents}}{\text{equity}}$	x 100
Earnings per share	$\frac{\text{= profit for the period}}{\text{weighted average number of shares outstanding during the period}}$	x 100
Current Ratio	$\frac{\text{= current assets + short-term receivables + liquid assets + cash and cash equivalents}}{\text{short-term liabilities}}$	x 100
Quick Ratio	$\frac{\text{= short-term receivables + liquid assets + cash and cash equivalents + overdraft limit}}{\text{short-term liabilities}}$	x 100

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