**KPMG Oy Ab**
Töölönlahdenkatu 3 A
PO Box 1037
00101 Helsinki, FINLAND

Telephone +358 20 760 3000
www.kpmg.fi

*This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.*

# Auditor's Report

## To the Annual General Meeting of Enedo Plc

## *Report on the Audit of the Financial Statements*

### Opinion

We have audited the financial statements of Enedo Plc (business identity code 0195681-3) for the year ended 31 December 2020. The financial statements comprise the consolidated balance sheet, 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, financial performance and 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.

Our opinion is consistent with the additional report submitted to the Audit Committee.

### 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 the 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.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 8 to the consolidated financial statements.

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

### Material uncertainty related to going concern basis

We would like to draw attention to the accounting principles for the consolidated financial statements "going concern" section stating amongst other that:

- After the balance sheet date, on16 February 2021, the company announced the planning of EUR 12 million share issues and related EUR 8.6 million loan arrangement whereby the company would pay back debts EUR 5.3 million and EUR 3.3 million debts would be cancelled. The planned share issues and loan arrangement, if implemented, will have a significant impact on the company's solvency and liquidity. There is uncertainty about the completion of the overall arrangement.
- At the time of publishing the financial statements on 10 March 2021, the company did not have sufficient working capital to finance the next 12 months of operations without the planned share issues and loan arrangements.

- The realization of the company's cash flow forecast for the next 12 months and thus ensuring going concern require the completion of the share issues, debt arrangements and additionally increase in net sales and improved profitability.
- uncertainty about the impact of the Covid-19 pandemic on business and uncertainty about the realization of the subscription and directed issue are significant uncertainties that may cast significant doubt on the entity's ability to continue as a going concern.

At the date of the auditor's report the execution of the share issues and debt arrangements are pending. In our opinion, the abovementioned events and circumstances involve material uncertainty that may cast significant doubt upon Enedo Plc and the Group to continue as a going concern.

Our opinion has not been qualified by this matter.

### Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

| THE KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN THE AUDIT |
|---|---|
| **Valuation of capitalized development costs, goodwill and allocated fair value to intangible assets / parent company investments in subsidiaries**<br>**(Consolidated financial statements accounting principles and note 14 and parent company's financial statements accounting principles and notes 12, 13 and 14)** | |
| — The Research and Development function is significant for the industry Enedo Group operates in. The development expenditures are capitalised in the consolidated balance sheet to the extent that they meet the capitalisation criteria set out in the relevant accounting standard (IAS 38) and are assessed to contribute future economic benefits. The assessment may change even in a rather short | — We have assessed the appropriateness of the capitalisation process and amortization period of development expenditures and considered whether the development costs capitalised during the year had met the capitalisation criteria under the relevant accounting standard. |

term, e.g. as a result of technical development. The amortization period for the capitalized development costs is five years. At the end of 2020 the capitalised development costs in the consolidated balance sheet amounted EUR 4.9 million.

— At the end of 2020, the value of consolidated goodwill amounted EUR 4.3 million and allocated fair value to intangible assets to EUR 0.8 million.

— Parent company's investments in subsidiaries comprise a significant part of parent company assets. Valuation of these investments depend on the financial performance of the subsidiaries. At year-end 2020 the parent company's shares in the Italian subsidiary has been impaired by EUR 5.3 million.

— The capitalised development costs, goodwill, fair values allocated to intangible assets and parent company investments in subsidiaries are tested for impairment at least annually.

— Management makes several estimates of assumptions used in the impairment calculations. The future cash flow projections require management judgement in regard to eg. sales growth, profitability, terminal growth and discount rates applied.

— We considered the valuation of capitalized development costs, goodwill and allocated fair value to intangible assets and parent company investments in subsidiaries as a key audit matter because of the management judgement involved in the assumptions used in the impairment testings and the significance of their balance sheet values.

— We have assessed the appropriateness of the impairment tests carried out for the goodwill in the consolidated financial statements and the parent company investments in subsidiaries and considered the appropriateness of the impairments recognized to subsidiary shares in parent company.

— Our audit procedures on the impairment testings included, among others, the following:

  – We have evaluated the future cash flow estimates for future financial periods and the key assumptions used in the impairment tests, such as profitability, discount rates and terminal growth.

  – We involved KPMG valuation specialists to test the arithmetical accuracy of the impairment calculations and to compare the assumptions used against market and industry specific data.

— In addition, we assessed the adequacy and appropriateness of the disclosures presented.

## 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 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## *Other Reporting Requirements*

### Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting in 2007 and our appointment represents a total period of uninterrupted engagement of 14 years.

### 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 and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. 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 identified above 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. With respect to the report of the Board of Directors, 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 10 March 2021

KPMG OY AB

HENRIK HOLMBOM
*Authorised Public Accountant, KHT*