



CLIMEON

ANNUAL REPORT 2018

Leading in converting heat
to clean electricity

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ABOUT CLIMEON

Climeon is a Swedish product company within energy technology. The company's unique technology for geothermal heat power - Heat Power - makes a large untapped energy resource available and provides sustainable electricity around the clock all year round. Heat Power is a cheap and renewable energy source with the potential of replacing much of the energy that comes from coal, nuclear, oil and gas, today.

ABOUT HEAT POWER

Climeon is active within two subdivision of the market for the baseload energy source heat power: geothermal heat power and industrial heat power. Geothermal heat power utilizes heat from within the earth as an energy source whereas industrial heat power utilizes heat that is generated as a by-product in industrial processes. Each of these markets is sufficient to contribute to the earth's electricity supply and together they constitute complementary legs to build the strategy on.

2011-2013

- In 2011 Climeon began to create a first draft of a technology capable of converting heat at temperatures of 70°C to 120°C into clean electricity
- In 2013 the first prototype of Climeon's Heat Power system was finalized. The prototype was able to generate three kilowatt ("kW")

2014

- During 2014 the technology was industrialized as the Climeon Heat Power system, where each system consists of one or many modules. At that time, one module was able to generate 100 kW
- The Heat Power system was made economically justifiable for customers by creating a modular and cost-efficient product delivering at least ten percent conversion efficiency



2015

- A large number of activities related to four development areas were executed during the year: product, production, company structure and sales and marketing
- 2015 was the first year a commercial Heat Power system was produced and installed at a customer site. The first customers were Viking Line and SSAB

2016

- The two existing customers, Viking Line and SSAB, communicated their expansion plans with Climeon in public statements
- Climeon received an order of 18 modules from the Italian shipyard Fincantieri who was appointed by Virgin Voyages for construction of three new cruise ships

2017

- Generation three of the Heat Power system was released, capable of delivering 150kW per module. The Heat Power system was certified by Lloyd's Register
- 2017 was a breakthrough year for Climeon within Geothermal with an order from Wendel in the USA and a large order of 100 modules from Icelandic Varmaorka. In total, order intake amounted to SEK 330 million in 2017

2018

- In 2018, Climeon focused on global expansion and the company delivered Heat Power modules to customers in Europe and the USA. In total, Climeon delivered 21 modules, including the company's first modules to customers within geothermal
- Climeon scaled up all parts of their business and increased sales and the number of deliveries significantly



The first geothermal power plant that uses Climeon's Heat Power modules is located in Fludir in Iceland and produced its first kilowatt hours in November 2018.

HEAT TO ELECTRICITY - A HUGE OPPORTUNITY

HEAT POWER IS ONE OF THE WORLD'S LARGEST UNTAPPED ENERGY SOURCES AND IS DIVIDED INTO TWO AREAS:

GEO THERMAL HEAT POWER



In the interior of the earth, there is enough heat to cover the entire planet's energy needs several times over.

INDUSTRIAL HEAT POWER



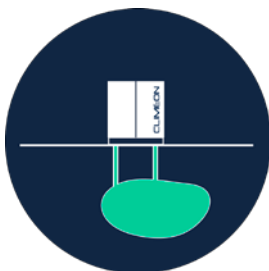
More than half of the energy produced globally is wasted in the form of heat.

CLIMEON TURNS THE HEAT INTO CLEAN ELECTRICITY



Climeon's Heat Power module cost effectively converts geothermal heat and waste heat to profitable green electricity.

TODAY, CLIMEON'S CUSTOMERS ARE FOUND WITHIN:



Geothermal



Industrial



Maritime

THE YEAR IN BRIEF

1

FIRST QUARTER JANUARY - MARCH

QUARTER 1 - SUMMARY

SEK M	2018	2017
Net sales	0.0	0.6
Order intake	51.5	10.4
Order backlog	404.3	44.6

During the first quarter of 2018, Climeon, Gullspång Invest, LMK Forward and Blue founded the investment company Baseload Capital Sweden AB (Baseload Capital) to finance and accelerate geothermal heat power projects globally. The conditional agreement that was signed with

Icelandic Varmaorka in 2017 was converted into a fixed order for 100 Heat Power modules and in connection with that Baseload Capital took over Climeon's previous financing commitment. Climeon also received its first geothermal order from Germany during the quarter.

2

SECOND QUARTER APRIL - JUNE

QUARTER 2 - SUMMARY

SEK M	2018	2017
Net sales	12.2	0.1
Order intake	322.0	13.2
Order backlog	739.7	58.7

During the second quarter of 2018, Climeon was named "New Energy Pioneer" by Bloomberg New Energy Finance, as one of ten energy, transport and tech companies with the potential to change the world. Icelandic Varmaorka extended its order for Heat Power modules to 197 modules, from the

previous 100. In June, Climeon delivered its first modules within Geothermal to Varmaorka. During the quarter, Climeon also opened a representative office in Japan to evaluate the possibilities of a local establishment.

3

THIRD QUARTER JULY - SEPTEMBER

QUARTER 3 - SUMMARY

SEK M	2018	2017
Net sales	8.9	0.0
Order intake	39.0	293.8
Order backlog	815.6	352.6

During the third quarter of 2018, Climeon received its first two orders within geothermal heat power in Japan, eight Heat Power modules with a total value of SEK 39.0 million. Climeon established a branch office in Iceland, one of the most interesting

geographic markets in the world for geothermal heat power. During the third quarter, a patent for a radial turbine was approved in the USA.

4

FOURTH QUARTER OCTOBER - DECEMBER

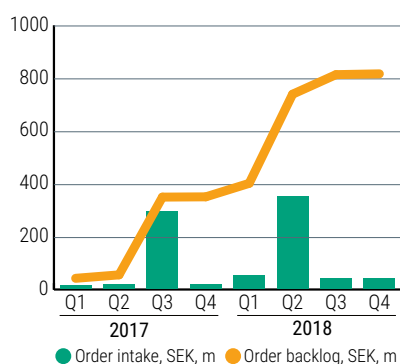
QUARTER 4 - SUMMARY

SEK M	2018	2017
Net sales	37.8	11.1
Order intake	40.0	12.6
Order backlog	818.6	353.7

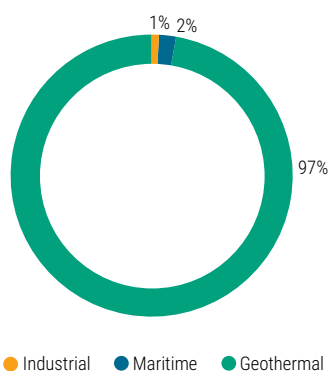
During the fourth quarter of 2018, Climeon expanded its capacity with a new testing center in Kista for the development and testing of Heat Power modules. Climeon won the Japanese Innovation prize "Top 10 Innovation Award" at the Innovation for Cool Earth

Forum hosted by the Japanese government and received another order within geothermal in Japan worth SEK 40.0 million. Climeon delivered 14 Heat Power modules in the fourth quarter, a sharp increase compared with previous quarters and years.

ORDER INTAKE AND ORDER BACKLOG



ORDER BACKLOG PER FOCUS AREA



STRONG MOMENTUM FOR CLIMEON'S TECHNOLOGY IN THE WORLD



***"IT HAS REQUIRED HARD WORK BUT NOW
WE ARE STARTING TO SEE REAL RESULTS -
COMMUNITIES RECEIVING RENEWABLE
ELECTRICITY FROM OUR MODULE"***

BIG STEPS UP AND FORWARD

In the past years, Climeon has gone from startup to scale up. It is evident everywhere in the organization and also when we meet external partners. We have taken a giant step up and forward. After a year characterized by hard operational work to make us ready for increasing deliveries and a global expansion we had the opportunity to finally announce our collaboration with Breakthrough Energy Ventures in March 2019. The fact that the world's foremost energy investors choose to collaborate with Climeon shows that we are headed for something big.

AN ECOSYSTEM WITH THE PURPOSE OF CHANGING THE WORLD

We have always had high ambitions and to build a great ecosystem around our technology is one. To reach our vision of becoming the number one climate solver and to be able to change the world we need strong partners. Therefore, it feels incredible that Breakthrough Energy Ventures (BEV) believes in our technology and wants to be a part of our ecosystem.

Through the collaboration with BEV we gain access to some of the world's most knowledgeable people within energy, tech and finance. The collaboration consists of two important parts: technology development and market establishment. Together with BEV's tech experts we will work to reduce our costs for both our machines as well as the surrounding architecture. At the same time, we will cooperate to further develop the business plans in our focus countries and build larger and better ecosystems when we enter new markets.

Another fundamental part of the ecosystem we have built around the Heat Power technology is Baseload Capital. Early 2018, together with LMK, Gullspång and Blue, we founded Baseload Capital with the purpose of accelerating the deployment of our technology by providing the customers with a good financing partner. About one year after the company's founding, Baseload Capital has not just brought in BEV as a shareholder, but also issued a green bond of SEK 500 million. The fact that a newly founded company has been able to achieve this in such a short period of time, clearly shows the momentum for heat power and that the world is ready for a renewable baseload.

Shortly thereafter, in April 2019, Climeon carried out a strongly oversubscribed directed new share issue and raised SEK 249 million from several renowned institutional investors in the Nordics, Germany, USA and UK. With a strengthened cash position, we now increase the speed of our global expansion.

HIGH QUALITY IN EVERY DELIVERY

With the long-term plan and our vision in mind we can not ever lose focus on the daily, practical and down-to-earth activities that are fundamental for our company. Much of the work in 2018 has been focused on ensuring high quality in the production and delivering on our large order backlog. Through our close collaboration with Mastec we have continuously improved the production line in Vaggeryd. By the end of fall, we could also start conducting full-scale tests at our testing and development site in Kista. Today, we test every machine that is being delivered to ensure high quality.

MORE AND BETTER DELIVERIES TO OUR MARITIME CUSTOMERS

Within Maritime we have gone through an intense scrutiny during the year. The quality requirements for marine installations are sky high and we have worked hard to implement all the improvement areas we noted in the first deliveries to Fincantieri/Virgin Voyages in 2017. Therefore, we were particularly pleased in the fourth quarter when we received great praise from Fincantieri, Virgin Voyages and Viking Line representatives at the factory acceptance tests and were able to deliver ten Heat Power modules completely according to plan. As these first larger Heat Power systems are put into operation, the opportunities for us to do more business in the conservative maritime industry increases.

FIRST DELIVERY AND FIRST ELECTRICITY PRODUCTION WITHIN GEOTHERMAL IN THE SAME YEAR

Our geothermal business has developed at a high pace during the year. In June, we delivered Heat Power modules to a geothermal customer for the first time and in November, the same machines produced their first kilowatt geothermal electricity in Iceland. From prestudy to first kilowatt, it took ten months of intensive work, something that takes several years for high temperature geothermal power plants. After extensive testing of our machines and Varmaorka's surrounding construction, the customer approved the facility in March 2019. Now, we are taking all the learnings from this intensive first power project into the next phase. The short-term goal is clear. For every power plant we set up together with Varmaorka, we will be a little better and a little faster. We will gradually give more and more communities access to locally produced renewable electricity.

In exactly the same way, we will systematically build power plants in Japan together with, among others, Baseload Power Japan and Dios Energy. Not only is there an urgent need for a renewable baseload power in the country, but also a great need for new sources of income for the people in rural areas. With the same geothermal conditions as Iceland but significantly more inhabitants and sky-high electricity prices, the business opportunities are enormous. Just as in all our markets, we will face challenges along the way, but with the team we have in place, I am convinced that we will reach our goals. Just as we have done so far.

RAPID GROWTH, BUT ALWAYS THE GOOD COMPANY

Climeon continues to grow rapidly, by the end of the year we were 67 employees and since then we have become even more. It is a challenge to succeed in maintaining the culture when you grow as fast as we do. To ensure that we continue to live by our values, always deliver, be amazing and do good, has been an important work for me and my colleagues during the year. Since the beginning, we have said that we want to be the good company. It is a principle I firmly believe in and am determined to hold on to when we now intensify our global expansion.

That's why I'm incredibly proud of the team we are at Climeon now. Although the year has been very intensive, our employees have tackled every challenge with great dedication, come up with one innovative solution after another, and delivered in all areas. It has required hard work from many people but now we are starting to see real results - communities receiving renewable electricity from our Heat Power modules.

AN UNBEATABLE NETWORK AND STRONG MOMENTUM FOR OUR TECHNOLOGY

Just like the school children who are demonstrating for the climate, I am convinced that we are in a hurry if we are to save our planet - and that it is our responsibility as adults to act with both force and speed. That's exactly what we plan to do together with Breakthrough Energy Ventures, Baseload Capital, our customers, suppliers and investors.

With a large order backlog and a significantly strengthened cash position, the climate issue getting more attention than ever and a collaboration with a fund backed by some of the world's top entrepreneurs, it is difficult to feel anything but great faith. We have long believed that geothermal heat power from low temperatures has the potential to change the world's energy landscape. Now we know that Breakthrough Energy Ventures agrees. They are also convinced that it is Climeon's technology in combination with Baseload Capital's implementation expertise that has the ability to realize that potential and quickly provide the world with a renewable baseload power.

We now have a global platform and a reach most can only dream of. With the ecosystem we have built up, we have all the prerequisites to take leaps rather than steps towards our vision of becoming the world's number one climate solver and providing the world with a renewable baseload power.

Thomas Öström
CEO

VISION, BUSINESS IDEA AND GOALS



VISION

Climeon's vision is to become the number one climate solver, empowering a fossil-free world with heat power.

BUSINESS IDEA

Climeon contributes to the future of renewable energy with innovative heat power solutions that are profitable for customers – Business for a better world.

LONG-TERM GOALS

OPERATIONAL GOALS

Climeon aims to become the leading provider of low temperature Heat Power solutions by offering competitive products with the lowest possible LCOE for customers. In order to do this, Climeon will focus on:

- Becoming the low temperature de facto standard in chosen segments, starting with establishing the Climeon Heat Power system as an industry standard technology
- Maintaining the Heat Power system's market leading conversion efficiency
- Optimise the C3 technology and surrounding systems to give users of the Heat Power system a lower electricity cost (LCOE)

FINANCIAL GOALS

A long term gross margin of 50 percent and a EBITDA margin of 35 percent.

TRENDS AND DRIVERS FOR RENEWABLE ENERGY AND HEAT POWER

The macroeconomic trend is still very beneficial for renewable energy, while fossil fuels face increasing resistance. In December 2017, the World Bank announced that they cease funding of projects for extraction of oil and natural gas in developing countries, in order to reach the goals of the 2016 climate agreement. This is an important message to the energy sector globally, it changes the rules for players in the industry and increases growth in renewable energy.

The renewable energy sector has grown rapidly over the last decade, a development that likely continues to improve as the technologies get better and the political pressure continuously increases. It is relevant to note that this development does not depend on a subsidy advantage. In fact, fossil-fuel consumption received SEK 4.2 trillion in subsidies globally in 2014, more than four times the value of subsidies to renewable energy. There is a distinct division within the sector between intermittent, meaning fluctuating, and baseload, continuous, energy sources, where wind and solar power are intermittent energy sources and hydropower, geothermal energy and biomass are baseload energy sources. Continuous baseload electricity, independent of sun, wind and also precipitation, is needed to sustain a stable electricity grid.

Climeon is active within a subdivision of the market for the baseload energy sources called heat power, which is comprised of industrial heat power and geothermal heat power. Geothermal heat power utilizes heat from within the earth as an energy source whereas industrial heat power utilizes heat that is generated as a by-product in industrial processes, for example production of cement, steel and transportation. Heat power has a vast potential and is today largely untapped due to technological shortcomings. Each of these markets is sufficient to contribute to the earth's electricity supply and together they constitute complementary legs to build the strategy on.

STRONG DRIVERS TO FIND A RENEWABLE BASELOAD

While the growth of renewable energy technologies is a positive and needed development in order to limit global emissions of CO₂, certain issues exist, slowing their wide scale adoption. Three fundamental issues are: the non-continuous energy supply from intermittent energy sources; geographical and geological requirements; and the physical size of mainly hydropower, wind and solar power plants.

The non-continuous energy supply

Wind and solar power, being the second and third largest renewable energy sources after hydropower, are intermittent. Energy output from these sources is dependent on weather condition, season of the year and hour of the day, which leads to the issue of having variable electricity generation over time. In contrast, electricity consumption is relatively predictable over the course of a day and year. This is an issue as the power grid needs to be balanced at all times between consumption and supply. It can somewhat be mitigated by the use of energy storage solutions e.g. industrial batteries and production of hydrogen gas for fuel cells. This is referred to as peak shaving, where energy from intermittent sources is stored during peak production hours and later used when output decreases. However, none of these technologies are currently competitive for large scale applications. The fact thus remains that the power grid needs a baseload power source to continuously supply electricity. Today, the only widely adopted renewable energy sources that can provide a baseload power supply are geothermal heat power, hydropower and biomass. Though, during long periods of drought, the production from hydropower may also vary.

Geographical and geological requirements

Several renewable energy technologies also have geographical or geological limitations. Hydropower requires mountainous areas with an available water source



and large land areas for reservoirs. Wind power requires large flat landscapes where wind speeds are generally high e.g. along coastal areas. The electricity output of solar power plants is highest in areas with many days of sunshine and a relatively stable amount of daylight hours over a year, making it less suitable in geographies with monsoon seasons or geographies that are closer to the poles, where daylight is scarce during winter. High temperature geothermal power plants need high temperature bedrock, which limits their deployment primarily to areas along the edges of the tectonic plates. In contrast, low temperature geothermal energy can be exploited globally, as the drilling depths required to reach sufficient temperatures are significantly shallower.

Physical size of hydropower, wind and solar power plants

Another issue is that wind, solar and hydropower often need considerable amounts of physical space compared to fossil fuels or geothermal. For example, hydropower requires space for the construction of dams and reservoirs. For intermittent sources, such as wind and solar power, this is even more evident as they have lower so called capacity factor. The capacity factor is the ratio of actual electricity generated compared to the hypothetical maximum output of the power plant. This leads to a need for an increased installed capacity (megawatt "MW") to reach the same amount of produced electricity (megawatt hours "MWh"), which is both expensive and requires additional space. The capacity factor for wind power typically ranges from 25 to 40 percent depending on the height and location of the wind turbine, while the capacity factor for solar power typically range from 15 to 40 percent, mainly depending on geographic location. For comparison, the capacity factor for Climeon's Heat Power system averages around 98 percent for a geothermal installation. In the illustration below, the physical footprint of a 17 MW wind farm and 13.5 MW solar power park is compared to a 5.4 MW installation of Climeon's Heat Power system, where all three respectively output 46,400 MWh electricity per year. The illustration demonstrates that the physical area needed per MWh is considerably lower for a Heat Power system than for a solar or wind park.

INTERNATIONAL POLITICAL DRIVERS

Carbon emission regulations and renewable energy quotas

Carbon taxation regimes and emissions trading schemes have become increasingly common in recent years, with examples being the EU Emissions Trading System ("ETS") and carbon taxes in e.g. Mexico and Japan. Several countries, such as France, the United Kingdom, and Ireland have also adopted additional carbon taxes in supplement to the ETS. Major markets including Brazil, India, and China are in the process of or considering the implementation of carbon pricing schemes. In addition, regulations requiring minimum renewable energy quotas in the energy mix of electricity suppliers are also becoming increasingly common, with Mexico having announced a five percent minimum quota starting in 2018, and 29 US states having adopted quota regulation as of 2017.

The price of emission allowances for carbon dioxide at the end of 2018 was EUR 23 per tonnes of CO₂, compared with EUR 8 per tonne the previous year.

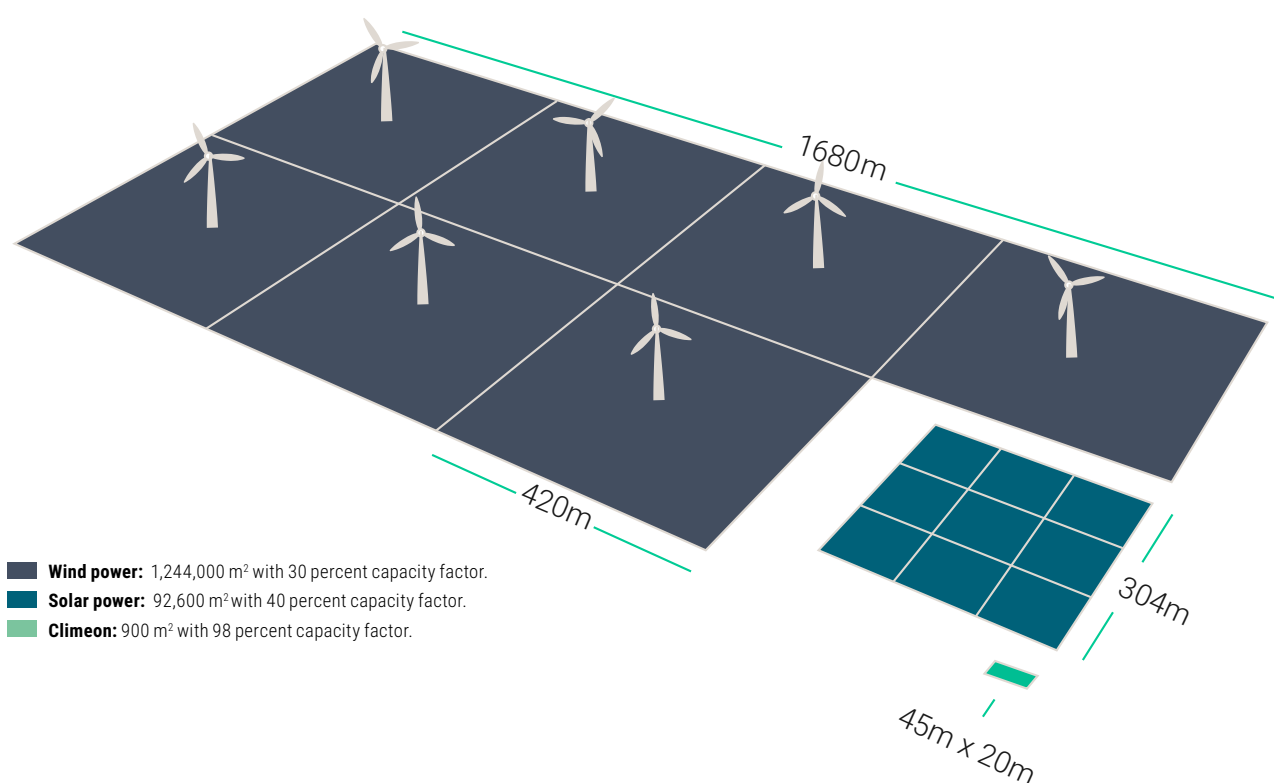
The Paris Climate Agreement

One of the most significant political events in recent years is the Paris Climate Conference held in 2015. During the conference 195 countries adopted the first ever universal, legally binding global climate deal. The agreement, set out to avoid dangerous climate change, outlines a number of actions that are beneficial for the adoption of renewable energy sources. Political pressure for a realignment of the energy market has since then increased.

Global sulphur emission cap on maritime fuels

A political trend impacting the maritime industry is the 2012 European Union Directive regarding the sulphur content of maritime fuels, which limited ships operating in the Baltic, North Sea and the English Channel from using fuels with sulphur content higher than 0.1 percent. This has led to a significant increase in fuel costs for shipping in the region. In October 2016, the International Maritime Organisation agreed on a similar cap, limiting sulphur content in maritime fuels to

Size comparison for a yearly production of 46,400 MWh



0.5 percent, set to be applied globally in 2020. This means, for example that more expensive and environmentally friendly fuel is needed. It is estimated that the agreement will increase shipping costs between 20–85 percent. Climeon believes that this will significantly increase the interest for fuel saving solutions within the maritime industry.

EU directive regulating fluorinated greenhouse gases

The European Union introduced a new F-gas directive that entered into effect January 2015, with the aim of cutting emissions of fluorinated greenhouse gases by two-thirds by 2030. It also regulates the use of fluids containing hydro-fluorocarbons. This affects the waste heat recovery market by restricting or banning the use of several of the ORC working fluids commonly used by Climeon's peers. Climeon is not affected by the new regulation, as the Heat Power system does not use fluorinated gases as a working fluid.

Decline of nuclear power

Nuclear energy, which is one of the more common sources of baseload power, is being dismantled or scaled back in several countries, including e.g. France, Sweden, and Germany. The reasons for this, among others, include safety concerns, issues surrounding the long-term storage of nuclear waste material, and excessive cost. This trend progresses the demand for additional baseload capacity, which can be provided by waste heat and geothermal energy.

LOCAL CONDITIONS AND POLITICAL DRIVERS

Japan

Following the shutdown of the Fukushima nuclear plant, the Japanese government has set a target for the country's renewable energy production. 25–35 percent of the total power consumption should be generated by renewable sources by 2030, by which time circa SEK 6,000 billion will have been invested in new renewable energy. One of the main concerns about the transfer to renewable energy is the intermittent nature of most sources. However, Japan has large geothermal energy resources.

The Japanese government has made policy changes to support smaller installations, <10MW, by increasing the feed in tariffs and streamlining the permitting and environmental impact assessment processes. Many land owners in rural Japan have struggled to find a commercial use for their land as the spa business has been in decline for several years. The interest in leasing their land out for small scale geothermal power development has therefore increased.

Iceland

Iceland is seeing an increased electricity demand, but wind power has had problems taking off because of resistance from the public, just like new large hydro and geothermal projects. Climeon's customer Varmaorka has, in contrary to this trend, received a lot of positive feedback and interest in small-scale geothermal power plants. Both private land owners and municipalities have shown interest in making better use of their geothermal resources and producing more electricity locally.

COMPETITION AND COMPETITORS

Climeon considers itself a pioneer within the heat power market as the Company is active in the greenfield space of utilizing heat power below 120°C. Thus, Climeon has few direct competitors that are active within the same temperature segment. ElectraTherm, Calnetix/ GE, Orcan, Turboden and Cryostar are among those who, according to the companies' own technical specifications, can utilize heat below 120°C.

Climeon meets indirect competition from a number of manufacturers of ORC systems, active in the temperature segment above 120°C. This segment has a few large players, where the largest, Ormat Technologies, controls circa 66 percent of the aggregated installed capacity, and the three largest jointly control circa 88 percent. Even though Climeon can compete directly within this segment, using heat exchangers when addressing higher temperatures, the Company sees its systems as a complement focusing on lower temperatures rather than a competing alternative.



GEOHERMAL HEAT POWER



Geothermal heat power refers to the heat energy stored in the bedrock of the Earth crust. The earth's core can be compared to a small sun within our planet. It is one of few renewable energy baseload sources. Typical high temperature geothermal reservoirs reach circa 3,000 meters below the surface and aim to provide a heat source above 150°C. Most of the geothermal energy that is explored today is derived from high temperature reservoirs, which are primarily located in certain geographical regions along the edges of the tectonic plates. The geothermal heat is more accessible in these regions as the bedrock is hotter at more shallow depths. In the construction of new geothermal plants, costs and risks associated with exploration are the greatest challenges. Drilling costs constitute circa 42 percent of the total cost of setting up a high temperature geothermal plant.

The majority of the potential capacity of reachable geothermal heat power lies within low temperature geothermal reservoirs. Such reservoirs are currently used mainly for district and industrial process heating due to insufficient conversion efficiency of Organic Rankine Cycle systems (ORC systems) to justify electricity generation. With the introduction of Climeon's Heat Power system, low temperature geothermal energy can be used for electricity generation, and is thus not limited to the regions along the edges of the tectonic plates, forming a greenfield segment. If explored in for example Germany, the average reservoir depth for a source of circa 100°C would reach just over 3,000 meters below the surface, while a source above 180°C would require, on average, a well depth of more than 6,000 meters. This reduction in depth can reduce drilling costs by more than 60 percent, which means that upfront investments for geothermal power plants are lower, making the technology more accessible where the risks with drilling becomes considerably lower.

HIGH TEMPERATURE GEOTHERMAL ENERGY (>150°C)

Within the geothermal energy segment there are two different uses for the Climeon Heat Power system, either as a complementary system to existing technology or as the main system for generating electricity at a low temperature geothermal power plant.

In a complementary role the Heat Power system can operate alongside current technology at existing high temperature geothermal power plants, utilizing heat at temperatures that would otherwise be wasted by an ORC system. This makes the globally installed base of geothermal power plants using ORC systems immediately addressable.

LOW TEMPERATURE GEOTHERMAL ENERGY (<150°C)

Many geothermal power plants are unprofitable because they are utilizing geothermal reservoirs with a temperature below 150°C in combination with technology that cannot convert heat into electricity with a sufficient conversion efficiency at low temperatures. Thus, the Climeon Heat Power system also has the potential of replacing the electricity generation equipment of entire sites. There are also a vast number of unused geothermal reservoirs, mainly old oil and gas exploration boreholes or old geothermal boreholes which have failed to reach high enough temperatures for traditional geothermal technologies. Such reservoirs can be utilized and new plants can be constructed at the sites.

INDUSTRIAL HEAT POWER

More than half of the global primary energy output is currently wasted as heat, making it a huge source of energy if it can be efficiently recovered. Energy consumption is divided equally between transportation, industrial and private use (housing). Within the transportation sector, up to 73 percent of the wasted heat resides within a temperature range that can be recovered and 46 percent of that is below 100°C. Within the industrial sector, up to 59 percent of the wasted heat resides within a temperature range that can be recovered and 42 percent of that is below 100°C. The housing sector produces a limited amount of useful waste heat.

Climeon estimates the global market potential for industrial heat power utilizing heat sources below 120°C to be large. As further described below, the Company has made this assessment based on: the share of total useful waste energy that resides below 120°C, the market appetite for ORC systems within waste heat recovery applications and the total global market size of waste heat recovery systems. The value of the total global market for waste heat recovery systems amounted to SEK 374 billion in 2015 and is estimated to reach SEK 561 billion by

2021, growing at a compounded annual growth ("CAGR") of seven percent between 2016 and 2021.

In 2013, the globally installed capacity of ORC systems within waste heat recovery amounted to approximately 180 MW, and has grown at a CAGR of 16 percent between 2008 and 2013. Between 2013 and 2015, the annual capacity increased by over 700 percent and the globally installed capacity grew by a CAGR of 39 percent. By 2015 the globally installed capacity amounted to 349 MW and the installed capacity during the year amounted to 117 MW.

In addition to this, another application area where ORC systems have enjoyed significant growth the past years is within biomass power plants. Within this segment, a Climeon Heat Power system can serve as a complement to an ORC system, utilizing heat at temperatures that would otherwise be wasted by an ORC system.



CLIMEON'S CURRENT FOCUS MARKETS

The total market potential for waste heat recovery and geothermal heat power is deemed to be large, with most industries and transportation sectors generating varying amounts of waste heat. Climeon will focus on the industries and geographies where the Company rapidly can establish itself. However, this does not stop the Company from seizing opportunities that occur in non-focus segments. Climeon has chosen to initially focus on three main areas: Geothermal, Maritime and Industrial.

GEOTHERMAL

THE GLOBAL GEOTHERMAL MARKET

In 2016, the globally installed capacity of geothermal energy amounted to 13.3 GW across 24 countries, with 12.5 GW capacity under construction across 84 countries and 750 individual projects. ORC systems have long been used for electricity generation within the high temperature geothermal segment, with deployments dating back more than 30 years. As of January 2016, the globally installed capacity of geothermal power plants using ORC systems amounted to 2,103 MW with 420 MW of new deployments under construction. Climeon believes that the long-term potential within Geothermal is greater than the company's other focus areas.

Geothermal waste heat can also be obtained from the oil and gas industry, where extracted oil and gas generally is mixed with hot water. The water content of this oil-water mix can reach as high as 98 percent

in older wells, and this water has to be separated, treated and disposed of, which incurs significant costs for the industry, and is a potential source for waste heat recovery.

CLIMEON'S FOCUS

Climeon focuses on building new geothermal power plants at unused geothermal reservoirs and on replacing the technology in active but unprofitable geothermal power plants. Climeon primarily focuses on the geographical areas where the path to profitability for the customer and Climeon is the shortest. That means areas with easily accessible geothermal heat sources, a favorable energy situation and high electricity prices.

At present, Climeon has chosen to focus on a number geographic markets where Japan and Iceland has the highest priority. The United States, Canada and Germany are still prioritized geographical markets that can

be supplemented by countries such as Taiwan and Hungary where the conditions for low-temperature geothermal heat power is good.

DEVELOPMENT 2018

Climeon and Varmaorkka's collaboration further deepened during the year as the previous order for 100 modules was expanded to a total of 197 modules. The expansion of the order was based on the fact that Varmaorkka identified both greater potential and interest for small-scale distributed power plants in Iceland. In addition to more modules, the new agreement also entails deepened cooperation on services related to the function of the power plant.

In November 2018, Climeon's Heat Power Modules delivered the first MWh of geothermal electricity to the power grid through the start-up of the power plant outside Fludir in Iceland. This is despite the fact that



Three of the Heat Power modules inside Varmaorka's first geothermal power plant.

the last contracts for the facility were signed in February the same year. Varmaorka, in cooperation with Climeon, thus has managed to design, approve, produce, construct and execute its first geothermal power plant in less than ten months. Since then, many interested municipalities have visited the power plant in Fludir which has also been recognized in Iceland's largest newspaper and on national TV.

In Japan, Climeon has won three orders during the year with a total value of SEK 79 million. The orders come from Baseload Power Japan and Iwana Power GK, which is part owned by Baseload Capital's. The preparatory work with drilling and plant design is underway, with planned deliveries in 2019.

In addition to this, Climeon has also won business within geothermal in Canada and Germany. However, these customers have encountered challenges

in the permitting processes, causing uncertainty in the time plans.

With the projects underway in 2018, Climeon sees good opportunities to expand their offering in 2019 to also include services related to the design of the surrounding facility. In 2018, Climeon accumulated experiences of all parts of setting up a geothermal power plant. Experiences that can now be used to further increase the value from each installed module by optimizing the design of every part of the power plant. Climeon also sees an opportunity to be able to offer services related to project development and sales support to further the development of new geothermal power plant projects. By creating an integrated ecosystem around Climeon's hardware, software and services Climeon can create greater value for their customers.

EXAMPLE OF CUSTOMERS:

- Varmaorka
- Wendel
- Baseload Power Japan

DELIVERED MODULES 2018:

11

SHARE OF ORDER BACKLOG:

97%



The first geothermal power plant is situated outside Fludir in Iceland.

ICELAND - SMALL POWER PLANTS CHANGING LOCAL SOCIETIES

One of Climeon's largest customers is Icelandic Varmaorka. With 197 Climeon Heat Power modules ordered, they will build small and distributed geothermal heat power plants across Iceland, a leading nation within geothermal and renewable energy.

ICELAND IN FOCUS

Why Iceland?

- Easy access to heat
- Geothermal experience
- Many energy consuming industries

Climeon's customers:

In June 2018, Icelandic Varmaorka increased their order from 100 Heat Power modules to 197. The modules are to be installed as geothermal power plants in about twenty locations in Iceland and will provide local communities and businesses with renewable electricity.

Ingvar Gardarsson, Chairman of the Board of Varmaorka, demonstrating a geothermal well.



- In Iceland there are great opportunities to use geothermal water, but the people here have gotten tired of large power plants. Therefore, Climeon's small modules fit well, they won't harm the environment and you can always move them, says Ingvar Gardarsson, Chairman of the Board of Varmaorka.

Since then, Climeon and Varmaorka have worked together to optimize all parts of the power plant. In March 2019, Varmaorka approved the facility at a so-called site acceptance test where the capacity of the Heat Power modules and Climeon's control system were tested.

- Now that we have the first site up and running we can take the learnings from this site and roll out more small-scale geothermal power plants at a higher speed, concludes Ingvar Gardarsson.

The 197 Heat Power modules will be installed as geothermal heat power plants in about twenty locations in Iceland. Since the transmission network in Iceland is not comprehensive, there is a need for local power plants to ensure a stable electricity supply in some parts of the country. By building small and distributed power plants, Varmaorka makes it possible for smaller municipalities, communities and industries to use locally produced renewable electricity in their daily operations.

- This is a good opportunity for us to contribute to society. If we can supply locally produced renewable electricity, we create opportunities for small business owners to operate greenhouses or other businesses that attract people to the countryside, says Ingvar Gardarsson.

In November 2018, Varmaorka's first geothermal power plant produced its first kilowatt of electricity.



About one year after the start of the pre-study Varmaorka's first geothermal power plant is providing the surrounding community with locally produced renewable electricity.

JAPAN - A FANTASTIC OPPORTUNITY FOR ALL INVOLVED

A difficult energy situation, high electricity prices and lots of easily accessible hot water makes Japan one of Climeon's most prioritized markets. In 2018, Climeon received its first orders within geothermal heat power in Japan. Now, Climeon is getting ready to deploy power plants in Japan together with customers Baseload Power Japan and Dios Energy.

JAPAN IN FOCUS

Why Japan?

- Easy access to heat
- 90 % imported energy
- World's highest feed-in tariffs

Climeon's customers:

In 2018, Climeon won its first orders within geothermal in Japan. The customers consist of Heat Power Operators that are part-owned by Baseload Capital's subsidiary Baseload Power Japan and local energy entrepreneurs such as Dios Energy.

Nigel Coates, CEO of Dios Energy.



Since the nuclear disaster in Fukushima, the energy situation has changed drastically in Japan. Today, most of the country's primary energy is imported and fossil. The need for locally produced renewable energy is huge. Nigel Coates is the owner and CEO of Heat Power Operator Dios Energy and has lived in Japan for almost 30 years.

- Because of the Fukushima disaster, many land and spa owners have lost almost everything. The need to find new sources of income is great and we can help by making use of the hot water, says Nigel Coates.

With a past as an entrepreneur within solar power, as well as vast experience of structured finance and doing business in Japan, Nigel Coates and Dios Energy saw an opportunity to utilize Climeon's technology to enter a new market within cleantech.

- Japan is a great opportunity. The potential for geothermal heat power here is the third largest in the world and the feed-in tariffs are high. I think this could change the energy landscape, says Nigel Coates.

Together with Baseload Power Japan, Nigel's company Dios Energy owns Heat power operators Hayabusa Power and Iwana Power, which will set up their first power plants with Climeon's technology in 2019. For Nigel, there were several reasons behind his choice to work with Climeon and Baseload Capital.

- In Japan there is a resistance to large buildings and solar cell parks that look industrial and lack personality. In this, we differ from solar power because our

units are small and contained inside buildings that fit into the surroundings, says Nigel Coates.

- The most important thing for me is to work with people who share my values, who are honest, want to do the right thing and help people. I am happy to talk about Climeon and Baseload Capital because I am absolutely certain that we are not hurting anyone or harming the environment, concludes Nigel Coates.



The conditions for using geothermal heat power in Japan are very good and the country has a long tradition of using geothermal water in spa facilities, so-called Onsens.

INDUSTRIAL

Since there are many industries that produce waste heat within Climeon's temperature range the company has chosen a narrow focus. Within industrials Climeon focuses primarily on steel production.

THE GLOBAL STEEL SEGMENT

The steel industry is an energy intense industry that generates large amounts of waste heat; of the total energy used in steel manufacturing, an average of circa 50 percent is wasted as heat. Waste heat is generated from various sources within a steel mill, including the blast furnace, the LD converter, casting and exhaust gases. Crude steel production amounted to approximately 1.6 billion tonnes in 2016, more than doubling since 2000.

All steel produced needs to be heated in one reheating furnace to be formed into a steel product which can be delivered. Between 10 and 17 percent of the

primary energy supplied to a reheating furnace is lost to a cooling circuit consisting of water. This heat source represents the largest potential for recycling of waste heat in a steel mill. A reheating oven that has the capacity of heating 150 tons of steel per hour has the potential to produce up to 1.1 MW of electricity from the waste heat in the cooling water circuit. Based on an annual steel production of about 1.6 billion tonnes in 2016, the reheating furnaces provides a potential for Climeon to produce up to approximately 1,125 MW electricity. Converted to installations of Climeon's Heat Power module the market amounts to between 7,000 and 10,000 modules. This corresponds to a potential of waste heat systems for reheating furnaces of SEK 24.5–35 billion.

74 percent of global production comes from the basic oxygen process for steel production, where LD converters are found, corresponding to 1.2 billion

tons in 2016. Climeon estimates that the global market for waste heat recovery from LD converters can accommodate a large number of heat recovery systems. Converted to installations of Climeon's Heat Power module the market potential is between 4,000 and 12,000 modules. This is equivalent to retrofitting segment potential of SEK 13.6–40.7 billion.

CLIMEON'S FOCUS IN STEEL

Today, Climeon's sales team focuses on global steel players and their steel mills in Europe.



EXAMPLE OF CUSTOMERS:

- SSAB

SHARE OF ORDER BACKLOG:

1%



Two Research & Development employees working on a Heat Power module.



MARITIME

THE GLOBAL MARITIME SEGMENT

Ships are typically driven directly by large diesel engines or by diesel gensets that generate electricity for electric engines. The engines' and gensets' cooling water and exhaust gases generate waste heat that most often is not utilized. In total, circa 60 percent of the energy used within the maritime industry is wasted as heat within temperatures ranges that can be used for heat recovery. Turning this heat into electricity reduces CO₂ emissions and fuel consumption, helping both the environment and the fuel economy. For example, a cruise ship with circa 6,000 passengers has a potential capacity of twelve Heat Power modules, generating around 1.8 MW electricity from waste heat. This translates to annual fuel savings of circa 1,500 tons of fuel (MGO), corresponding to SEK 7.4 million.

CLIMEON'S FOCUS

Climeon has found that passenger ship operators have historically been more responsive to heat recovery solutions than e.g. operators of bulk carriers, due to increased brand image awareness. However, the Company expects the interest in heat recovery solutions to increase in all segments within maritime. One indication of this is the order for a pilot installation for Maersk Line in July 2017.

In addition to type of ship, the Company has identified two segmentation parameters within maritime: new build installations and retrofit installations. Production volumes of new ships vary over time and ships differ in size and technical specifications. Climeon estimates the number of new ships produced annually that are compatible with a system for utilisation of low temperature waste heat to be circa 500–1,500

ships. Under the assumption that a ship operator chooses to utilise Climeon's Heat Power-system, the Company estimates that one ship has a potential capacity of up to twelve modules, with the average being two modules. Thus, the total segment potential within new build installations, assuming two modules per ship, amounts to 1,000–3,000 modules annually, which corresponds to an annual segment potential of circa SEK 3.4–10.2 billion.

Climeon estimates that out of the circa 85,000 ships that exist worldwide, circa 15,000–30,000 are compatible with a system for utilisation of low temperature waste heat. Converted to installations of Climeon's Heat Power module, this equals a total segment opportunity within retrofit installations of circa 30,000–60,000 modules, which corresponds to a retrofit segment potential of SEK 101.9–203.7 bil-



lion. Given an increase in fuel costs driven by the new global sulphur cap on fuels, to be enforced by 2020, Climeon predicts that retrofit installation rates will be significant. Technologies used in maritime applications have to meet certain quality and security prerequisites, ensuring its suitability for maritime use. In March 2017 the Climeon Heat Power system was approved by Lloyd's Register. The system thereby fulfills all the regulatory requirements needed within the maritime industry.

As gensets have a large technological similarity to the maritime segment they are also included in Climeon's focus. Gensets are biomass, biogas, natural gas or diesel-fuelled power generators, with only the purpose of generating electricity. Largely the same type of gensets that power a modern cruise ship is also used for land based applications, with the engine cooling and exhaust gases being the source for waste heat in all cases. Due to the simi-

larity, Climeon believes that successful deployments of the Climeon Heat Power system in the maritime segment may be used as reference installations for the genset segment in whole.

DEVELOPMENT 2018

In 2018, Climeon delivered Heat Power modules to Fincantieri and Virgin Voyage's second ship as well additional modules to Viking Line. For the pilot installation on Maersk's vessel, the preparatory integration work has been completed.

The work of certifying Climeon's Heat Power system for maritime use with several certification bodies has continued during the year. The Heat Power modules delivered to Viking Line in December 2018 were approved by the certification body DNV but a general certification remains.

EXAMPLE OF CUSTOMERS:

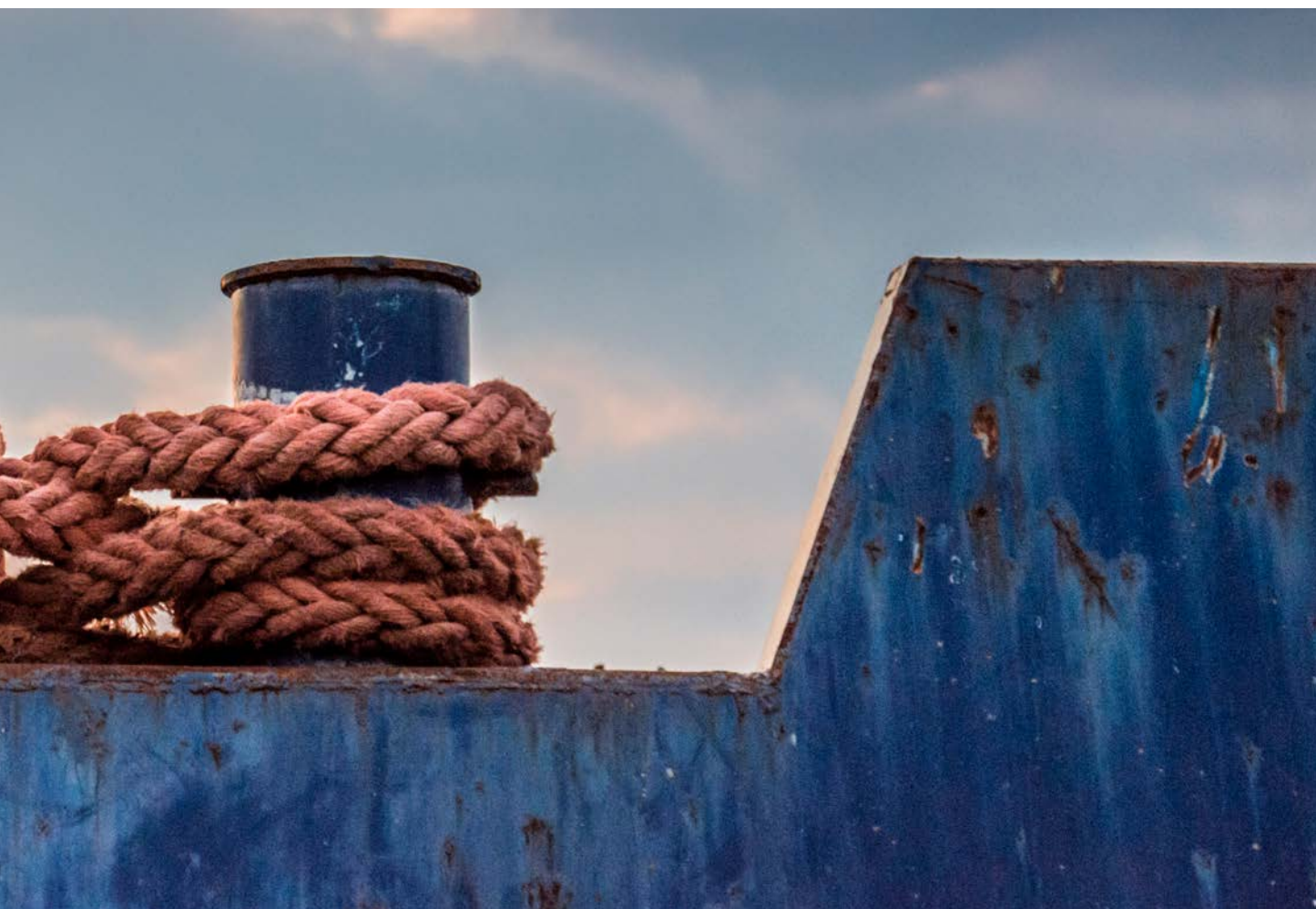
- Virgin Voyages
- Viking Line
- Maersk

DELIVERED MODULES 2018:

10

SHARE OF ORDER BACKLOG:

2%



THE COMPANY

Climeon was founded in 2011 by Thomas Öström (CEO), Joachim Karthäuser (CTO) and Sven Löfqvist and is an energy technology company headquartered in Kista, Stockholm. The Company mainly offers one product, the Climeon Heat Power system, which utilizes the energy in waste heat and low temperature geothermal heat to generate electricity. The Company has reached a stage where it has the capacity to handle high-volume deliveries, and it has received repeat orders from companies which are leading players in their respective industries. The technology is proven and patented. It provides a unit cost per kWh as low as or lower than competing technologies. Climeon believes that the Company will be able to use the strengths described below and utilize identified opportunities to generate growth, sustainable profitability and stable cash flows.

COMPETITIVE CUSTOMER OFFERING

Climeon is both a hardware and software provider. The Company's core offering is the Heat Power system and the system's software Climeon Live™. In addition, Climeon offers consulting services and support services for the Heat Power system. These services add customer value and provide the Company with recurring income in addition to the hardware sales.

SUPERIOR TECHNOLOGY WITH MODULAR DESIGN

The Heat Power system is based on Climeon's C3 technology and uses the temperature difference between hot and cold water to convert heat power into clean electricity. Thermal energy is thereby converted into usable electricity. The heat source is typically 70–120°C, and the cold source is 0–35°C. The Heat Power system exists in two main configurations: one for land based applications and one for maritime applications. The system for maritime applications received approval by Lloyd's Register in March 2017. Each system has an estimated lifetime of circa 30 years.



Climeon's Heat Power system offers a lower or equivalent LCOE compared to fossil fuels or renewable energy alternatives. Moreover, the Heat Power system delivers twice the efficiency compared to widely adopted ORC systems. The system delivers a net conversion efficiency of at least ten percent, and with optimal

temperatures at most 14 percent. Both cases correspond to over 50 percent of the Carnot limit, the theoretical maximum efficiency. Most widely adopted ORC systems only achieve 25–30 percent of this theoretical maximum.

Each Climeon Heat Power module, measuring only 2x2x2 meters, has the capacity to generate 150 kW of electricity and requires only three connections to do so: a hot source, a cold source and a power connection. The modular design makes it easy to scale the system from 150 kW to 50 MW by connecting over 300 modules to each other. Regardless of the number of connected modules only three connections are needed, i.e. scale does not add intrinsic complexity to the system.

SHORT TIME FROM INVESTMENT TO CASH FLOW

The modular design of the Heat Power system results in a number of benefits: the system is scalable, allowing for step wise expansion and increased application versatility; a system generating 50 MW is not more complex on a module basis than a system generating 150 kW; the production can enjoy scale benefits as volumes increase; and system maintenance can be performed separately for each module, which reduces downtime for the system as a whole. This modularity has proven to be a crucial advantage when customers are to finance their installations. On the one hand, customers can start with a smaller number of modules and start generating revenue in order to then expand with better financing conditions and, on the other hand, modules can be moved between facilities under changed conditions and thus reduce the risk considerably.

SHORT CUSTOMER PAYBACK TIME

A Climeon Heat Power module has a capacity of 150 kW, and can generate up to 1,314,000 kWh of renewable electricity from waste heat per year. With electricity prices of SEK 1.1 per kWh, a module generates electricity worth about SEK 1.4 million every year. This equals a payback time for Climeon's waste heat customers of approximately three years, including Climeon Live™-subscriptions and support services. However, the payback time depends on a number of factors such as the temperatures of the hot and cold sources, integration costs and electricity prices. For geothermal sites not in need of drilling we see that Climeon's Heat Power modules represent the largest part of the customer's CAPEX investment.

REPEAT DELIVERIES TO GLOBAL BLUE CHIP CUSTOMERS

Climeon has received several orders from a number of global blue chip customers, and has a total of ten paying customers at the end of the year 2018. The Company's two first customers, Viking Line and SSAB have after successful pilot deployments placed repeat orders to expand their Heat Power systems. The pilot installations have been in operation since 2015. By receiving orders from global blue chip companies, getting positive feedback and receiving repeat orders, the Company's technology has passed its most critical stage – proven its commercial viability and readiness for a wider market roll-out.

Several of Climeon's customer has placed volume orders that Climeon has begun to deliver. Virgin Voyages/Fincantieri has ordered three full-scale Heat Power systems, totalling 18 modules, whereof two systems consisting of six modules have been delivered. Icelandic Varmaorka has increased their order to a total of 197 Heat Power modules and in Japan Climeon has won orders of 16 Heat Power modules in total. In 2018, Climeon delivered 21 modules in total to customers such as Varmaorka, Viking Line, Virgin Voyages and Wendel.

VOLUME PRODUCTION READY FOR GLOBAL DELIVERIES

The production of the system is outsourced to third parties, whereas all research and development is done in-house, with all unique product designs being owned by Climeon. Large scale production of Climeon's Heat Power modules is done by Mastec, a well-established bulk producer of industrial. Climeon and Mastec have had a partnership since early 2016, and all production is done in Mastec's factory in Vaggeryd, Sweden. Mastec's factory has the capacity to produce 400 Heat Power modules per year. However, the production facility is highly flexible and within a short amount of time the production capacity can be expanded by another 400 modules per year if Climeon requests it. With the current factory, the production capacity can be expanded to a maximum of 2,500 modules annually.

Mastec handles the majority of the logistics process of the production, from the ordering of components to the delivery of the complete module to Climeon. Following the delivery, Climeon has 30 days to pay for the complete module. Significantly less working capital is required compared to if Climeon were to purchase and pay for the components by itself.

In 2018, Climeon and Mastec have continued to build the capacity for volume production and processes to ensure production quality. In October 2018, Climeon's own test and development facility in Kista where all machines can be tested before delivery to the customer was inaugurated. The testing was previously carried out in Norrköping. The new facility has room for ten Heat Power modules and enables full-scale testing of the technology. Before volume deliveries have begun, all machines are tested by Climeon's staff in Kista. In the long term, the Heat Power modules will be delivered directly from the contract manufacturer to the customer and the facility in Kista will be used for development and testing of new product releases.

REPUTABLE SUPPLIERS WITH INTERNATIONAL REACH

Climeon groups its suppliers into two different groups: assigned suppliers and unassigned suppliers. The Company has circa 20 assigned suppliers. This group of suppliers delivers products that are custom made for Climeon's Heat Power system, whereas the unassigned suppliers deliver generic products. The unassigned suppliers are thereby easily replaceable, while the assigned suppliers are more difficult to replace. To decrease the reliance on the assigned suppliers Climeon always explores dual sourcing for all components. Also, Climeon owns the design for all critical, non-standard, components, which further mitigates the Company's reliance on specific suppliers.

Still, Climeon strives for long term partnerships with its suppliers, and prefers to work with well renowned companies with an international footprint, which simplifies the handling of spare parts for Climeon's international customer base. Working with well-renowned suppliers gives Climeon access to their high quality production and proven methods for product development. Key suppliers to the Company include Alfa Laval, which produces heat exchangers, and Deprag Schulz which produces turbines.

STRONG PATENT PROTECTION

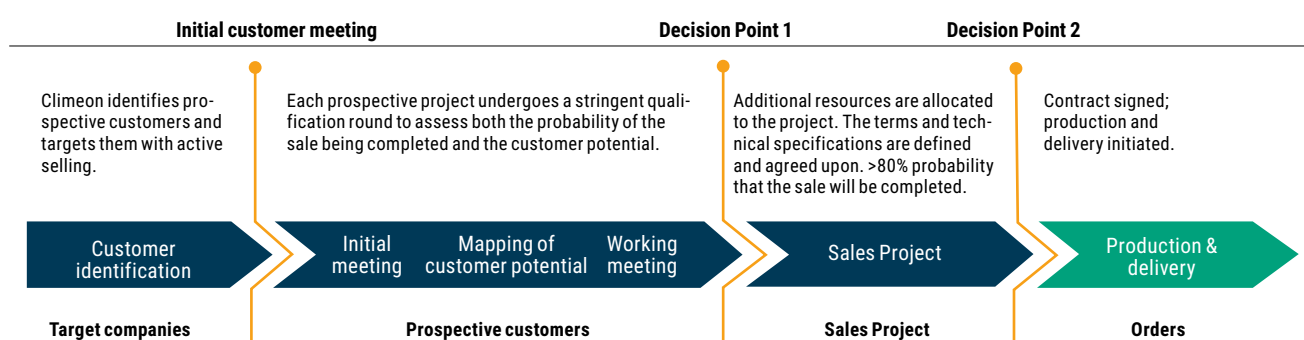
Climeon's technology and intellectual assets are its most important asset. The company therefore works actively to identify, package and protect these. In intellectual property matters, Climeon has two partners; Bergenstråhle and Partners in Sweden and Haynes Beffel & Wolfeld LLP in the USA. In 2016, Bergenstråhle & Partners performed an Intellectual Asset Mapping of Climeon's operations. The survey identified 49 intellectual assets possessed by Climeon. This list has expanded and now includes over 100 assets. The assets that are possible to protect through registration such as a patent or trademark have been protected and the remaining assets are handled in such a way that the company retains ownership of these. From the start, Climeon has systematically collaborated with patent lawyers to ensure that the company's products and technology do not infringe on existing patents, in order to ensure so-called Freedom to Operate activities. In 2018, the company received a patent for a radial turbine approved in the United States. In total, the company now has 3 approved patents.

STRUCTURED SALES PROCESS

Climeon has a structured sales process outlining all steps from lead generation to delivery of a finished Heat Power System or prestudy. The process is described in the illustration below. Early in the process, before Decision Point 1, each prospective customer goes through a stringent qualification round to assess the probability of the sale being completed. At this phase, extensive mapping of the prospective customers regarding account potential is conducted, in terms of the size of a potential pilot installation, a full-scale installation at an initial site and a multiple site roll-out across the customer's entire fleet of ships or sites (e.g. factories or power plants). Before Decision Point 1, no significant resources are allocated to the project in order to ensure that the need for qualified internal resources is kept at a minimum.

When a customer becomes a Sales Project, additional resources are allocated to the project, including resources from delivery, technology and senior manage-

SALES PROCESS



ment. For a customer to be qualified as a Sales Project, the probability of closing the sale should be over 80 percent. For the sales organisation, the Sales Project phase is usually the most time-consuming part of the process. During this phase, all terms and technical specifications are defined and agreed upon. At Decision Point 2, contracts are signed and the production and delivery process is initiated.

REVENUE MODEL AND REVENUE RECOGNITION

Climeon is both a hardware and software provider. The Company's core offering is the Heat Power system and the system's software Climeon Live™. In addition, Climeon offers consulting services and support services for the Heat Power system.

As main principle the revenue from the sale of Climeon Heat Power modules are recognized when the significant risks and benefits associated with the modules have been transferred to the customer, with an amount that reflects the compensation that the company is expected to be entitled to in return for these goods or services. The illustration below shows the revenue recognition of a typical sales project, from order to launch of operation and service.

The customers normally pay for the products directly, 40% at order, 30% at production start, 20% at delivery and 10% at launch of operations. The lead time from order to delivery of a module is normally around six to nine months. The customer is recommended to start the preparatory work in parallel to production start. The time from order to launch is typically around 12 months with the exception of orders from ship yards, where the lead time is in the order of 24-36 months.

Climeon books the main part of the revenues for the Heat Power-product at delivery, while a smaller part of the order value, normally 5-10%, is recognized when the

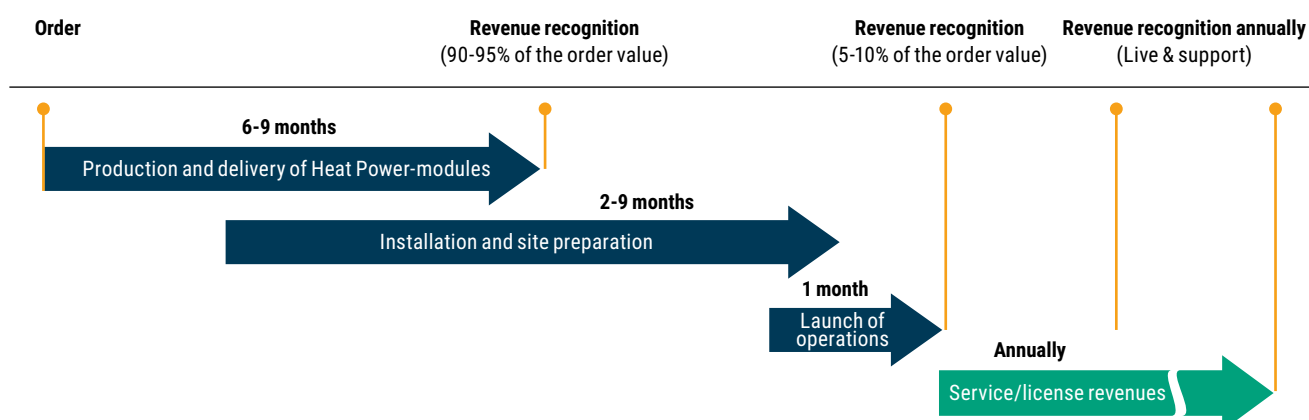
modules are put in operation. Geothermal deals, like Varmaorka on Iceland, can be divided into multiple installation projects with 1-15 modules in each project where revenue for respective part delivery is recognized at delivery as described above. Financing of such projects can prolong the lead time, a risk that is lowered thanks to Baseload Capital.

For each module, the customer also needs a subscription for the Climeon Live™ software, which the customers pay for annually in advance, 5,000 EUR/module per year. The license revenue is recognized when control and right of use is handed over to the customer, typically at delivery of the license. Also support services are paid annually in advance, 2,000–12,000 EUR/module per year. Support revenues are annualized over time.

GLOBALLY RECOGNIZED AND AWARD-WINNING TECHNOLOGY

Climeon has been recognized by a number of independent organisations. The World Wildlife Fund (WWF) recognized the Company as a Climate Solver 2016 and the same year the industry expert firm Frost & Sullivan claimed the system to be the best in the world in its category. The system is furthermore the winner of the renewable energy category of Veckans Affärer's E-Prize 2016, and has been called "The greatest energy invention in 100 years" by the Swedish Energy Agency. In 2018, Climeon was appointed a Bloomberg "New Energy Pioneer" as well as a "Top 10 Innovation" at the Innovation for Cool Earth Forum hosted by the Japanese government.

REVENUE MODEL AND REVENUE RECOGNITION





Climeon's test and development site has room for ten Heat Power modules.

A SUSTAINABLE BUSINESS MODEL

Climeon was founded from a strong drive to create a sustainable world for the next generations. Climeon's entire business idea revolves around the United Nation's sustainable development goal number seven "Affordable and clean energy". Therefore, Climeon also strives for sustainability to permeate the entire company's operations.

DECREASED EMISSIONS WHEN WASTE HEAT IS UTILIZED

Climeon's Heat Power-system turns waste heat and geothermal heat into green electricity and thereby enables less emissions of carbon dioxide. In the maritime segment, Climeon utilizes the waste heat from the engines to make carbon dioxide-free electricity. By utilizing the waste heat, customers can reduce the use of fossil-driven generators to supply the ships with electricity. When the warm water passes through Climeon's modules, it is also cooled down instead of being dumped straight into the ocean.

Within the industrial segment it is also waste heat that is recovered to produce clean electricity, enabling reduced emissions of carbon dioxide.

THE BEST ALTERNATIVE TO FOSSIL FUELS

In the geothermal market, Climeon's Heat Power system can supply clean electricity from a renewable energy source that operates around the clock, all year round, regardless of sun and wind. Electricity from geothermal heat power thereby becomes a competitive and sustainable alternative to fossil energy sources such as coal, oil and gas. By replacing fossil fuels in the global energy mix, geothermal heat power has enormous potential to counter climate change.

CLIMEON STRIVES FOR LOW ENVIRONMENTAL IMPACT THROUGHOUT THE PRODUCT LIFECYCLE

Climeon aims to maximize the net impact on the environment. This means that decisions regarding what methods and materials to use, are made ensuring both high quality and low environmental impact throughout the whole product life cycle.

All renewable energy technology impacts the environment negatively during manufacturing. For example, large amounts of steel and energy are used to manufacture a wind farm. The power plant needs to be in operation a certain amount of time to compensate for the negative impact the manufacturing has had on the environment – what is known as environmental payback time.

For renewable energy technologies such as wind and solar power, the environmental payback time is around six and 18 months, respectively. Adding storage with batteries to smoothen the production will significantly increase the payback time. The production of a Climeon Heat Power-system requires approximately 40,000 kWh of energy. Hence, the module needs up to 15 days to compensate for the amount of energy used in the production, resulting in an environmental payback time of just over two weeks.

3 QUESTIONS TO EMMY WHO WORKS WITH TALENT MANAGEMENT AT CLIMEON

WHAT IS HAPPENING WITHIN TALENT MANAGEMENT AT THE MOMENT?

- We are growing very fast right now, so there is a lot of focus on recruitment and in that process, we put great emphasis on finding the right kind of people. We focus on getting a diversity and the right mix of people in each team.
- We are also putting more and more effort into the onboarding process in order for employees to be able to quickly enter their work role and the community. It is super important when we grow as much as we do.

ANYTHING IN PARTICULAR THAT HAS BEEN IMPORTANT DURING THE YEAR?

- Throughout the year, we have worked extensively on developing the teams and our various roles and responsibilities in order for the organization to function well as we grow.
- With all the new employees, our conference Climeon Camp has become even more important. It is a good opportunity to get to know each other and have fun together.

WHAT IS THE NEXT STEP FOR TALENT MANAGEMENT?

- The next step for us is to recruit locally in other countries and ensure that we have good processes in place for that. We will also continue to work on developing the organization to manage growing globally.



SUSTAINABLE WORK ENVIRONMENT

Also from an employee perspective Climeon has high ambitions within sustainability and has a clear goal that the work environment should be characterized by long-term sustainable performance. This includes both the mental and physical working environment. Sustainable governance is something that permeates the current value base and the way we work to set goals, activities to reach the goals, roles and responsibilities.

Climeon's values are based on three core values: Always deliver, be amazing and do good. In 2018, the employees have been working on the three core values at the company's two annual conferences, Climeon Camp. Working with the core values is ongoing throughout the year to ensure that we practice what we preach and act according to our values in our daily work.

As a part of the company's management system, Climeon systematically works with the latest regulations regarding organizational and social work environment in parallel with value-based work. The regulation guides the work of setting goals, workloads, working hours and offensive discrimination in working life. Climeon's work on these issues is to create as much commitment, influence and participation as possible in initiatives such as goal setting, vision and value-based work. This means that all employees are involved in the work. Employee engagement, workload, influence and participation are regularly monitored through the Winningtemp tool. Every week, questions are sent to all employees via Winningtemp, which enables employees and managers to follow the company's development continuously during the year and quickly identify strengths and development opportunities.

Another important aspect of building an efficient organization is internal communication to keep everybody informed about the status of the company. Every week there is a so-called pulse meeting, where the different teams talk about their most important priorities, and where all employees get the opportunity to ask questions and have a dialogue about the work to be done.

Climeon also works proactively with stress management, for example, all employees have the opportunity to receive professional support and help to prioritize and structure their working hours and life as a whole. As part of reducing stress due to unclear roles and high workload, all teams have worked on producing clear role descriptions and responsibilities during the year.

Climeon offers a workplace where women and men, regardless of age or other background, meet each other with respect. At the end of the year, the share of women in the company was 25 percent, a share that Climeon is actively working to increase. Climeon has joined the "Equal by 30" initiative, which aims to make the renewable energy industry equal by 2030. Climeon is actively working on designing recruitment ads and external materials in an inclusive manner to increase the proportion of female applicants.

Total number of employees amounted to 67 (46) at year end.

NUMBER OF EMPLOYEES SHARE OF WOMEN

67 25%



GROWTH STRATEGY

Climeon is not aware of any other player having developed a commercially viable product that primarily works with heat sources below 120°C. Due to this technological edge and the low price of the product, the Company believes it has created a product advantage and established a favorable position in the market for low temperature heat power within the Company's focus segments. Climeon intends to take advantage of its current position in the market, with the aim of establishing its technology as an industry standard in the Company's focus segments. Having the Company's technology becoming an industry standard, for example within the maritime industry, can result in the Heat Power system becoming a standard component in the specifications for a ship, regardless of which shipyard is contracted to build it.

FOCUS ON PROFITABLE BUSINESS

Expansion will be prioritized within segments and geographical areas in which the Company deems business opportunities to be significant and where the Company has substantial financial and technological competitive advantages compared to the competition and alternative technologies. Relevant industries might include those with companies that have strong motives for becoming Climeon customers, industries that are protected by certification requirements whereupon competitive advantages can be achieved through certification or industries in which requirements for product specifications correspond particularly well with Climeon's product. Prioritized countries might include those with underdeveloped electricity infrastructure, high electricity prices, lack of energy storage capabilities, such as hydropower, or major issues with air and water pollution. Other parameters include customer requirements in relation to size, for example ships where Climeon's limited 2x2x2 meter size is an excellent fit in the engine room.

At the same time that new geographical areas are being thoroughly examined, local investments are being avoided until a strong reference customer has been contracted and the Company has gained a thorough understanding of the market. At present, sales are primarily conducted without middlemen in order to create strong customer relationships and a good understanding of the business. Selected customer accounts are systematically cultivated in order to produce additional reference customers and to establish widespread confidence in each segment.

Over the next few years Climeon will prioritize growth in specific geographical areas within its focus markets, but without excluding growth in other geographical areas or new markets should particularly favorable opportunities present themselves. Primarily, Climeon continues to focus on growth in Iceland and Japan, where the company believes that the conditions for low-temperature geothermal heat power are extra good. Especially in Japan, the path to profitability is judged to be considerably shorter both for Climeon and for the customer than in many other geographical areas.

BUILD FOR GROWTH

The Company is focused on the continued build-up of its business, primarily within three areas: production, service and delivery organization, and sales and marketing organization.

The Heat Power System is based on standardised and commoditised modules, which can be mass produced. As the production volumes increase, the Company expects the contribution margin per module to increase also. In addition, Mastec has primary responsibility for purchasing components. Mastec delivers finished modules to Climeon with 30-day payment terms, which limits the need for working capital.

Scalability of the service and delivery organization is enabled by the Climeon Live™ control system and standardization of the Heat Power module. Climeon Live™ enables various cloud-based services, which in turn enable support to be given without the necessity of an on-site visit to the customer, in addition to providing the Company with recurring income. The standardized module allows service partners to be used when an on-site visit is required. The service organization is currently a combination of internal resources for product-oriented services and service partners for standardized services, but the Company is working towards increasing the share of service partners as the Company's technology becomes more established on the market.

In 2018, Climeon has seen good opportunities to improve its customer offering within geothermal in particular by providing products and services around the Heat Power system, such as power plant design, project management and control systems. This creates opportunities for more revenue streams per customer and project.

FINANCING SOLUTIONS FOR GROWTH

A crucial part for successful renewable energy projects is to have access to favorable financing solutions, this is true for solar and wind power as well as for geothermal heat power. Securing investment and loans to acquire heat power technology along with required installation work is essential for every project.

The basis for every deal is a power purchase agreement (PPA) from the end customer. That is, a state, municipality or electricity company that buys electricity at a certain price per kilowatt hour for a certain period of time, typically 15-20 years. The end customer's long-term strength, as well as the stability and predictability of the geothermal resource, makes it easy to calculate revenue during the given period, which enables an attractive financing solution. Climeon's efficient and cost-effective system creates profitability already at relatively low electricity prices.

In the long run, the goal is for customers to be able to obtain funding from banks and institutions, such as green funds like in the case of solar and wind power. Growth companies with new technology usually do not have access to such funding, it is reserved for large and established companies.

Climeon has therefore, together with LMK Forward AB, Blue AB and Gullspång Invest AB, founded Baseload Capital Sweden AB in the beginning of 2018. Customers of geothermal projects can apply for loans and investments from Baseload Capital in order to build profitable power plants. Consequently, Climeon can focus on developing, selling and delivering leading products while funding of cus-

customer projects is provided by Baseload Capital. This creates the best possible conditions for rapid growth.

In 2018, Baseload Capital has been involved in financing projects for Varmaorka and Wendel. In addition, Baseload Capital's subsidiary, Baseload Power Japan, has joined as a shareholder in a number of Heat Power operators in Japan together with local energy entrepreneurs. In March 2019, it was announced that Breakthrough Energy Ventures invested USD 12.5 million in Baseload Capital. Breakthrough Energy Ventures is a leading energy investor funded by some of the world's top entrepreneurs and business leaders. Shortly thereafter, Baseload Capital issued its first green bond, where they raised SEK 500 million to invest in geothermal heat power plants.

In order to have the best possible conditions for growth and large-scale deployment of Climeon's Heat Power technology, the company intends to cooperate with both Baseload Capital and other financing companies.

LOWER THE CUSTOMER'S ELECTRICITY COST

Being able to offer a commercially competitive product has been Climeon's focus since the very beginning and it is a key to the success of the Company. Consequently, the Company aims to offer the lowest possible Levelized Cost of Elec-

tricity (LCOE) for Climeon's Heat Power System. LCOE is a function of the system's conversion efficiency and the cost, including the ancillary components, required to fit into the customer's processes. The integration cost is also included as part of the customer's cost to generate electricity (and LCOE), and the Company is actively working to simplify the integration. The Company believes that a standardized and modular low-pressure product with clear inter-faces will help enable simple integration.

Furthermore, the Company intends to develop complementary products or to use such products from other suppliers to ensure that the customer's solution is as efficient as possible. These products will facilitate integration and contribute to the customer's ability to maximize its heat recovery.



At the delivery ceremony in Iceland in June 2018, Swedish Minister for EU Affairs and Trade Ann Linde, Ambassador Håkan Juholt and Iceland's Minister of Foreign Affairs Gudlaugur Thór Thórdarson participated.

THE CLIMEON SHARE

The Company's fifteen largest shareholders as of 31 December, are listed below. The Company has issued two share classes, class A shares and class B shares. The only differences between the share classes are in voting rights. Each class A share entitles the holder to ten (10) votes and each class B share entitles the holder to one (1) vote at general meetings.

As far as the Company's Board is aware there are no shareholder agreements or other agreements between the Company's shareholders that aim to jointly affect the Company. Nor is the Company's Board aware of any agreements, or the equivalent, that can lead to a change in the control of the Company.

LARGEST SHAREHOLDERS, DECEMBER 31, 2018

SHAREHOLDER	NUMBER OF SHARES CLASS A SERIES	NUMBER OF SHARES CLASS B SERIES	% OF TOTAL CAPITAL	NUMBER OF VOTES	% OF VOTES
Thomas Öström	9,500,000	155,900	21.4	95,155,900	54.9
Joachim Karthäuser	4,750,000	218,300	11.0	47,718,300	27.5
Försäkringsbolaget, Avanza Pension	0	1,356,808	3.0	1,356,808	0.8
Stefan Brendgen	0	1,300,000	2.9	1,300,000	0.7
Handelsbanken Hållbar Energi	0	1,169,667	2.6	1,169,667	0.7
LMK	0	967,741	2.1	967,741	0.6
Olle Bergström	0	935,000	2.1	935,000	0.5
Nordnet Pensionsförsäkringar AB	0	898,661	2.0	898,661	0.5
Frontcore Logic AB	0	649,677	1.4	649,677	0.4
Mathias Carnemark	0	644,977	1.4	644,977	0.4
Per Olofsson	0	610,000	1.4	610,000	0.4
Andreas Billström	0	598,225	1.3	598,225	0.3
Klas Händel	0	546,930	1.2	546,930	0.3
Skandinaviska Enskilda Banken S.A., W8IMY	0	470,456	1.0	470,456	0.3
Ålandsbanken i ägares ställe	0	464,176	1.0	464,176	0.3
Other shareholders	0	19,861,061	44.2	19,861,061	11.4
Total	14,250,000	30,847,579	100	173,347,579	100

SHARE DATA¹⁾

	Jan-Dec, 2018	Jan-Dec, 2017
Number of shares at period end	45,097,579	43,419,379
Average number of shares outstanding	44,850,379	37,416,863
Earnings per share, before dilution, SEK	-2.30	-1.54
Earnings per share, after dilution, SEK	-2.30	-1.54
Equity per share, SEK	3.14	5.11

1) Split 1:100 was executed during second quarter 2017

Share information

The number of shares in Climeon amounts to 45,097,579 with quota value of SEK 0.015, of which 14,250,000 are class A shares, 10 votes/share, and 30,847,579 are class B shares, 1 vote/share.

Climeon's B share is listed on Nasdaq First North Premier since October 13, 2017. The share price amounted to SEK 51.00 at the end of the period.

Warrant programs

As of December 31, 2018, the company has outstanding warrants, which entitle the holders to subscribe for 1,309,829 class B shares.

For further information regarding the warrants, please refer to the company's website, <http://www.climeon.com/warrantprograms>.

Share price development



BOARD OF DIRECTORS, SENIOR EXECUTIVES AND AUDITOR

BOARD OF DIRECTORS

Climeon's Board of Directors is composed of five ordinary members elected by the shareholders, including the chair of the Board of Directors, all of whom are elected for the period to the end of the Annual General Meeting 2018. According to Climeon's Articles of Association the Board of Directors shall be composed of three to ten members with no more than three deputy members. Holdings in the company are presented per 31 March 2019.



PER OLOFSSON (BORN IN 1972)

Chair of the Board of Directors since 2015

Education/background: Per Olofsson has a master of science degree in industrial economics from the Institute of Technology at Linköping University and has taken courses at Universitat Politècnica de València, Harvard Business School, and Styrelseakademin. Per Olofsson has also taken courses at Styrelseakademin. Per Olofsson is an entrepreneur who has worked mainly with business development, funding and sales. He previously worked as a management consultant and was CEO for ClimateWell for

almost ten years. Per is the Executive Director of Girindus Investments AB, member of the investment committee of Almi Invest Greentech Fund, member of the Board of Baseload Capital AB and Chair of the Board of CleanFlow AB.

Holdings in the Company: Per Olofsson owns, privately or through companies, no class A shares and 610,000 class B shares and no warrants in the Company.



OLLE BERGSTRÖM (BORN IN 1972)

Member of the Board of Directors since 2015

Education/background: Olle Bergström has a master of science degree in engineering physics from Chalmers Institute of Technology, an MBA from University of Warwick, England and he has taken courses at Styrelseakademin. Olle Bergström has experience of board and senior positions in both large and small companies such as Telia, YouBed AB and Skanova. His experience covers everything from project management, product development and business development to the design of business strategies. Olle Bergström is at the present employed at Telia as Head of IT & SAOps, PPMO.

Holdings in the Company: Olle Bergström owns, privately and through companies, no class A shares and 1,323,500 class B shares and no warrants in the Company.



STEFAN BRENDGEN (BORN IN 1964)

Member of the Board of Directors since 2015

Education/background: Stefan Brendgen has an MBA in economics from University of Bayreuth, Germany and University of Cologne, Germany. Stefan Brendgen has over 20 years' experience of the property sector and has worked in executive and strategic and business development roles, as well as with raising capital and asset management. His past experience includes being CEO of Allianz Real Estate Germany and holding prominent positions in Tishman Speyer and DTZ Real Estate Advisers. In addition Stefan Brendgen has had several appointments in supervisory corporate bodies, including Allianz Suisse Immobilien AG, Instone Real Estate Group AG and TRIUVA Kapitalanlage GmbH.

Holdings in the Company: Stefan Brendgen owns, privately and through related parties, no class A shares and 1,050,000 class B shares and no warrants in the Company.



VIVIANNE HOLM (BORN IN 1965)

Member of the Board of Directors since 2017

Education/background: Vivianne Holm has Master in economics and business administration from Stockholm School of Economics. Viviane has an extensive experience from the financial sector and she has in various professions previously worked at e.g. Alfred Berg Fondkommission and Enskilda Securities. Furthermore, Vivianne Holm has experience from advisory work, specialising in business development, raising capital and investor relations.

Holdings in the Company: Vivianne Holm owns no class A shares and 40,000 class B shares and has warrants in the Company that entitle her to subscribe for 7,882 class B shares.



THERESE LUNDSTEDT (BORN IN 1981)

Member of the Board of Directors since 2017

Education/background: Therese Lundstedt has a Master's Degree in marketing and management from Uppsala University and University of Calgary and has also taken courses at Styrelseakademin. Therese Lundstedt has experience from primarily the finance and IT sector, but also from large companies, startups and non-profit organizations. She has held leading positions with focus on business development, sales, digital marketing and communication at SEB, Aktiespararna, Unomaly and Redeye. Therese has also been the CEO of Aktieinvest FK AB.

Holdings in the Company: Therese Lundstedt owns no class A shares and 500 class B shares and has warrants in the Company that entitle her to subscribe for 7,882 class B shares.



THOMAS ÖSTRÖM (BORN IN 1973)

CEO, member of the Board of Directors as well as co-founder of Climeon. CEO since 2011

Education/background: Thomas Öström has a master of science degree in computer science and control engineering from Luleå University of Technology, and he completed the leadership and finance programs at Svenska Managementgruppen. He has also taken courses at Styrelseakademin. Thomas Öström is an entrepreneur and a joint founder of Climeon. Thomas Öström previously worked for over ten years at Micronic AB (publ), and was vice president for technology development, for example. Micronic is a Swedish high tech company in the electronics industry and is listed on Nasdaq Stockholm.

Holdings in the Company: Thomas Öström owns 9,500,000 class A shares and 155,900 class B shares and no warrants in the Company.

SENIOR EXECUTIVES

Climeon's senior executives and their holdings in the Company are presented per March 31, 2019.



THOMAS ÖSTRÖM (BORN IN 1973)

CEO, member of the Board of Directors as well as co-founder of Climeon. CEO since 2011

Education/background: Thomas Öström has a master of science degree in computer science and control engineering from Luleå University of Technology, and he completed the leadership and finance programs at Svenska Managementgruppen. He has also taken courses at Styrelseakademin. Thomas Öström is an entrepreneur and a joint founder of Climeon. Thomas Öström previously worked for over ten years at Micronic AB (publ), and was vice president for technology development, for example. Micronic is a Swedish high tech company in the electronics industry and is listed on Nasdaq Stockholm.

Holdings in the Company: Thomas Öström owns 9,500,000 class A shares and 155,900 class B shares and no warrants in the Company.



CHRISTOFFER ANDERSSON (BORN IN 1974)

CFO and Deputy CEO, employed since 2016

Education/background: Christoffer Andersson has a master of science degree in computer science and control engineering from Luleå University of Technology. Christoffer has extensive experience in building companies on a global basis, from start-ups to business areas within large companies. Christoffer Andersson was previously CEO of TargetEveryOne AB, a company that he helped list on Nasdaq First North in June 2015. In addition, Christoffer Andersson has had several posts as head of business area at Ericsson, for example in India and Germany, with up to 750 employees and a turnover of over SEK 1.5 billion. Christoffer Andersson has also written best-selling books on mobile telecommunications and has received several internal awards at Ericsson.

Holdings in the Company: Christoffer Andersson owns, privately or through companies, no class A shares and 110,600 class B shares as well as warrants in the Company that entitle him to subscribe for 33,134 class B shares



JOACHIM KARTHÄUSER (BORN IN 1960)

Co-founder of Climeon, CTO and Head of IP and Future Technology since 2011

Education/background: Joachim Karthäuser has a doctor of technology degree (Dr. rer. nat.) from University of Göttingen, Germany, and has over 20 years' experience of the global chemicals, plastics and cleantech industry (e.g. Shell, NKT and Linde/AGA Gas) where he has worked primarily on research and development, sales and business development. Joachim Karthäuser has worked as expert evaluator and project manager in research projects funded through the EU Eurostars, FP7 (Framework Programme for Research and Technological Development) and Horizon 2020 projects.

Holdings in the Company: Joachim Karthäuser owns, privately and through related parties, 4,750,000 class A shares and 23,300 class B shares and no warrants in the Company.



OLLE THOLANDER (BORN IN 1967)

Head of Sales & Marketing since 2019

Education/background: Olle Tholander has a Master of Business Studies and Economics from Uppsala University. Olle has vast experience in sales and business development. Olle has great experience of conducting globalization projects, handling complex eco systems and leading global scaling, most recently as partner at H&Z Nordics Management Consulting and before that, leading positions within Ericsson, including CEO of Ericsson Ukraine.

Holdings in the Company: Olle Tholander owns no class A shares and 4,000 class B shares and no warrants in the Company.



CARINA OSMUND (BORN IN 1967)

Head of Production and Sourcing since 2017

Education/background: Carina Osmund has a master of science degree in industrial economics with a focus on industrial production and manufacturing systems from the Swedish Royal Institute of Technology, and has an MBA with a focus on strategy and marketing from the Blekinge Institute of Technology. Carina Osmund has extensive experience of working with the streamlining of production flows, including work on optimising costs and reducing lead times in the internal and external processes of a company. Previous posts include responsibility for medium to large teams of employees. Carina Osmund comes most recently from Profoto AB where she was Group Sourcing Manager and Vice President of Global Supply Chain, working mainly on strategy and development and negotiating

Holdings in the Company: Carina Osmund owns, privately or through related parties, no class A shares and 24,685 class B shares, 14,242 call options in the Company and 9,120 warrants.



ROBIN GOODOREE (BORN IN 1973)

Head of Service, employed since 2018

Education/background: Robin has more than 17 years of experience from service organisation for pattern generators at Mycronic AB having had different positions but last as Customer Support Manager. Robin has a strong customer focus and have the experience of both working hands on at customer sites and later managing the customer support department. Robin is a upper technical college graduate focused in Electric Power.

Holdings in the Company: Robin Goodoree owns no class A shares, 3,861 class B shares as well as warrants in the Company that entitle him to subscribe for 15,466 class B shares.

**JONAS MÅHLÉN (BORN IN 1968)**

Head of Delivery and Operations, employed since 2016

Education/background: Jonas Måhlén holds a Master of Science in Electrical Engineering from Lund University. Jonas has vast experience of managerial roles in project, program and product development and has, as installation manager, delivered to world-leading semiconductor companies. Jonas Måhlén has international experience from Japan to the United States and most recently comes from Tobii and Mycronic.

Holdings in the Company: Jonas Måhlén owns no class A shares, 54,000 class B shares as well as warrants in the Company that entitle him to subscribe for 23,366 class B shares.

**SOFIE KÖNIG (BORN IN 1969)**

Head of Talent Management since 2017

Education/background: Sofie König holds a master's degree in economics with a specialization in strategic marketing. She has worked with marketing within SAS Trading, Kanal5 and Telia. Sofie König is the co-founder of eWork, where she was deputy CEO, responsible for Talent Management and communication. Sofie has many years of experience in issues related to market positioning, corporate culture, employer branding and performance management from, above all, fast-growing and innovative growth companies. Sofie is a board member of Netlight Consulting.

Holdings in the Company: Sofie König owns no class A shares, 7,185 class B shares and no warrants.

**KARL BRODIN (BORN IN 1969)**

Head of Research and Development since 2018

Education/background: Karl Brodin has a Master of Science in Machine Elements from the Swedish Royal Institute of Technology. Karl has over 20 years of experience from leading positions within product development, marketing, operations within Atlas Copco. Karl has also several years of international experience, mainly from China, where focus was to start a new application center for Atlas Copco.

Holdings in the Company: Karl Brodin owns no class A shares, 8,020 class B shares as well as 37,917 warrants in the Company that entitle him to subscribe for 37,917 class B shares.

**CHARLOTTE BECKER (BORN IN 1992)**

Head of Investor Relations and PR, employed since 2018

Education/Background: Charlotte Becker holds a B.Sc. in Business and Economics from Stockholm School of Economics with special focus in Economics and Management and has also studied at National University of Singapore. Charlotte has previously worked as a consultant within investor relations, communication and PR for small and medium sized listed companies. Prior to that, Charlotte worked as a web editor of the Swedish business magazine Veckans Affärer.

Holdings in the Company: Charlotte Becker owns no class A shares, 810 class B shares as well as warrants in the Company that entitle her to subscribe for 4,788 class B shares.

AUDITOR

Climeon's auditor is Deloitte AB, with Johan Telander (born in 1978) as the auditor with primary responsibility since the shareholders' meeting in 2015. Johan Telander is certified public accountant and member of FAR. Johan Telanders' office address is Rehnsgatan 11, 113 57, Stockholm.



CLIMEON ANNUAL REPORT

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BOARD OF DIRECTORS' REPORT

The board of directors and the chief executive officer of Climeon AB (publ.), corporate identity number 556846-1643, hereby submit their annual report for the financial year 2018-01-01 - 2018-12-31

NATURE AND FOCUS OF THE BUSINESS

Climeon is a Swedish technology company, founded in 2011, headquartered in Kista, Stockholm, Sweden. The Company mainly offers one product, the Climeon Heat Power system, which utilizes the energy in waste heat and low-temperature geothermal heat to generate electricity.

The Company received its first order in 2015 and is currently targeting three areas: maritime, industrial and geothermal. Within maritime and industrial the usage of the Heat Power system lies within waste heat recovery, whereas within the geothermal market the system is either used for waste heat recovery in existing high temperature geothermal power plants, or as the main system in low temperature geothermal power plants.

Climeon operates in global markets with customers in Europe, North America and Asia. Climeon's vision is becoming the number one Climate Solver in the world, enabling a fossil-free world using heat power. At the same time enabling profitable business for Climeon's customers as well as the company itself.

IMPORTANT EVENTS DURING THE FINANCIAL YEAR

The market

The renewable energy sector has grown rapidly over the last decade, a development that is likely to continue as technology within the sector improves and political pressure increases.

There is a distinct division within the sector between intermittent (non-continuous, fluctuating) and baseload (continuous) energy sources, where wind and solar power are intermittent energy sources and hydropower, geothermal energy and biomass are baseload energy sources. Continuous baseload electricity, independent of sun, wind and also precipitation, is needed to sustain a stable electricity grid.

Climeon is active within a part of the market for the baseload energy sources called heat power, which is comprised of waste heat recovery and geothermal energy. Geothermal energy utilises heat from within the earth as an energy source whereas waste heat energy utilises heat that is generated as a by-product in industrial processes, for example production of cement, steel and transportation. Heat power has a vast potential and is today largely untapped due to technological shortcomings. However, traditional technologies used within the heat power segment has seen strong growth despite its technological limitations, such as the Organic Rankine Cycle ("ORC") that utilises heat at temperatures between circa 120 and 300°C.

Climeon's Heat Power system, the Company's main product, improves the ORC technology by making it more efficient and cheaper when converting heat energy into electricity. This makes it economically viable to generate electricity from low temperature heat (herein defined as below 120°C), which effectively forms a greenfield market within a temperature segment where the majority of the Company's competitors have difficulties to compete efficiently.

The market that Climeon is currently focusing on are low temperature geothermal energy as well as waste heat from maritime transportation (ships) and steel manufacturing. Within the geothermal market, Climeon can also utilise waste heat from existing high temperature geothermal power plants operating at temperatures exceeding 150°C.

Order intake and order backlog

During the fiscal year, Climeon AB has signed several important customer agreements. Order intake for the full year 2018 amounted to SEK 478.5 million (330.1).

At the end of the period, the order backlog amounted to SEK 818.6 million (353.7), corresponding to 236 (124) Heat Power modules.

Climeon signed an agreement worth over EUR 5 million with German electricity supplier Geoenergie Kirchweidach as a result of the letter of intent signed in the fourth quarter of 2017. Climeon also received an order from Borealis GeoPower in Canada.

The conditional agreement that was signed in August 2017 with Icelandic Varmaorka, a subsidiary of CP Energy, was converted into a firm order and Climeon's previous financing commitment was taken over by Baseload Capital. In connection with the first deliveries to Varmaorka in June 2018, they increased their order for Heat Power modules to a value of SEK 628.2 million, from previously SEK 292.5 million.

During the second half of the year, Climeon received three orders within geothermal in Japan from Baseload Power Japan and Iwana Power. Baseload Power Japan is a subsidiary of Baseload Capital, which Climeon part-owns together with LMK, Gullspång, Blue and Breakthrough Energy Ventures. In total, Climeon has received orders for 16 Heat Power modules worth about SEK 79 million. Due to the high electricity prices in Japan, Climeon can charge substantially higher module prices there.

Operations and production

In January 2018, Climeon shareholders Gullspång Invest AB, LMK Forward AB and Blue AB decided to establish the financing company Baseload Capital Sweden AB (Baseload Capital) to accelerate global, geothermal heat power projects. Climeon participated through a minority share of 19.9 percent.

A representative office was opened in Japan to evaluate Climeon's opportunities in the local market and a branch office was established in Iceland. Climeon also expanded its capacity with a new testing center in Kista for the development and testing of Heat Power modules. In September, a patent for a radial turbine in the United States was approved.

CHANGES AMONG SENIOR EXECUTIVES

The management team was composed of CEO Thomas Oström, COO Christoffer Andersson, CFO Lena Nelson, Head of Production and Sourcing Carina Osmund, Head of Sales and Marketing Christopher Engman, Head of Service Robin Goodoree, Head of Delivery and Operations Jonas Måhlén, Head of Research and Development Karl Brodin, and co-founder, CTO and Head of IP and Future Technology Joachim Karthäuser.

Early 2019, COO Christoffer Andersson was appointed CFO and deputy CEO. Lena Nelson remains in the company but leaves the executive management team. Olle Tholander has been appointed new Head of Sales and Marketing. Christopher Engman has left the company.

NET SALES

Net sales increased by SEK 47,050 thousand, or 397 percent, to SEK 58,906 thousand (11,856) compared with the previous year. The increase in net sales was mainly attributable to the sale of Heat Power systems and service assign-

DEVELOPMENT/COMMENTS OF BUSINESS, POSITION AND RESULTS

(TSEK) ¹⁾	2018	2017	2016	2015	2014
Net sales	58,906	11,856	2,888	36	80
Operating profit/loss	-101,897	-56,667	-35,444	-18,379	-2,675
Profit before tax	-103,273	-57,451	-35,590	-18,346	-2,578
Total assets	241,120	269,586	81,247	48,559	17,314
Equity ratio (%)	58.8	82.3	65.7	67.3	64.7
Return on equity	neg	neg	neg	neg	neg
Return on assets	neg	neg	neg	neg	neg
Average number of employees	62	37	25	12	6

1) The company apply RFR 2 since 1 January 2015. The transition has not resulted in any significant transitional effects

ments.

CAPITALISED WORK FOR OWN ACCOUNT

Capitalized work for own account decreased by SEK 1,502 thousand, or eight percent, from SEK 18,329 thousand in the previous year to SEK 16,831 thousand in 2018. Capital employed on its own account was mainly attributable to further development of the Heat Power system in the form of own time and material acquisition.

OPERATING PROFIT

Operating profit amounted to SEK -101,897 thousand (-56,667). The decrease in operating income was primarily attributable to increased costs, mainly related to the build up of the sales, delivery and service organization, reflected in increased staff costs and other external costs.

TAX

The Company did not have any tax expenses during the compared periods as the Company did not show any taxable profits during the periods.

The company has unutilised loss carry forwards amounting to SEK 219,858 thousand (117,352), of which the tax effect has not been recognised as a deferred tax asset in the balance sheet.

EARNINGS AFTER TAX

Profit for the period amounted to SEK -103,274 thousand (-57,451) and the change was attributable to the changes described under "Net sales" and "Operating profit". Net financial items amounted to SEK -1 377 thousand (-784), which includes interest on short-term and long-term borrowing.

CASH FLOW

Cash flow from operating activities

The cash flow from operating activities amounted to SEK -89,170 thousand (-58,605). The change was primarily attributable to increased costs, mainly related to the build up of the sales, delivery and service organization, reflected in increased staff costs and other external costs.

Cash flow from investing activities

The cash flow from investing activities was SEK - 48,089 thousand (-26,688). The decrease was mainly been affected by continued investments in non-current assets, mainly capitalized development costs and patents and the investment in the partly owned finance company Baseload Capital.

Cash flow from financing activities

Cash flow from financing activities changed to SEK 23,241 thousand (237,952).

This years inflow was primarily due to new issues carried out connected to share option-program. The main inflow 2017 was connected to the listing of Nasdaq First North Premier, which provided the company with SEK 224,730 thousand.

LIQUIDITY AND FINANCIAL POSITION

AT December 31, 2018, shareholders' equity amounted to SEK 141,807 thousand (221,841). The decrease of SEK 80,034 thousand, 36 percent, was mainly due to the result of the year. The company's cash register was SEK 89,959 thousand compared to SEK 203,977 thousand in the previous year. The decrease is attributable to the changes described under "Cash Flow" above.

EMPLOYEES

The average number of employees in the company during the year was 62 (37), whereof 25% women and 75% men. An increase compared with the previous year, which is mainly explained by the construction of the sales, delivery and service organization. At the end of the period the number of employees was 67 (46).

EXPECTED FUTURE DEVELOPMENT

The trend in the macroeconomy remains very favourable for renewable energy, while there is ever greater resistance to fossil fuels. In December 2017, the World Bank announced its decision to stop funding projects for extracting oil and natural gas in developing countries in order to reach the targets from the 2016 climate agreement. This sends out an important signal to the energy sector around the world that changes the ground rules for actors in the industry and strengthens the prerequisites for growth in renewable energy.

The company has a good starting position at the end of 2018, with an order backlog of SEK 818.6 million (353.7), corresponding to 236 (124) Heat Power modules, which is 464.9 million higher compared with 2017. For 2019, the order backlog is expected to be further strengthened.

RESEARCH AND DEVELOPMENT

The production of the system is outsourced to third parties, whereas all research and development and sales and marketing are done in-house, with all unique product designs being owned by Climeon. The Company's target customers are mainly companies producing significant amounts of waste heat and geothermal power plants.

THE CLIMEON SHARE

As of December 31, 2018, the registered share capital comprised 14,250,000 A shares and 30,847,579 B shares. The Company's B-share has been listed on Nasdaq First North Premier on since 2017 under the short name "CLIME B".

The shares have a quota value of 1.5 öre. The A shares are entitled to ten votes and the B shares to one vote each. At year-end, the number of shareholders in Climeon was 7,286 (4,049) and as the largest shareholders, Thomas Öström with 21 (22) percent of the capital and 55 (55) percent of the votes, and Joachim Karthäuser with 11 (11) percent of the capital and 28 (28) percent of the votes. No other single shareholder owns more than 10 percent of the votes. The ten largest shareholders together accounted for 49 (51) percent of the capital and 87 (88) percent of the votes.

At December 31, 2018 the company has outstanding warrants, which entitles the holder to subscribe for 1,309,829 class B shares.

NON-FINANCIAL INFORMATION

Environment

Climeon is certified according to ISO 9001 (quality management system). Quality assurance is a natural part of the Company's business model and characterizes all internal routines. The company is also working towards being ISO 14001 certified. The two ISO certificates ensure that Climeon is always improved with the customer and the environment in mind.

Swedish Code of Corporate Governance

During 2018, Climeon has accelerated the work on implementing the Swedish Code of Corporate Governance ("The Code"). The Company has contracted external experts to identify deviations from The Code and considers itself compliant with large parts of The Code. In 2019, the work will continue by, among other things, establishing a Nomination Committee, Audit Committee and Remuneration Committee. Climeon is also overseeing and strengthening the company's internal control.

CALENDAR

Interim report first quarter 2019, 9 May 2019

AGM, 16 May 2019

Interim report second quarter 2019, 28 August 2019

Interim report third quarter 2019, 5 November 2019

ANNUAL GENERAL MEETING

Climeon's Annual General meeting is held at Meeting Room's venue at Alströmergatan 20 in Stockholm on May 19, 2019 at 5 pm. On the company's website, www.climeon.com, more information regarding the Annual General Meeting and the Board's proposal for decision can be found.

PROPOSED APPROPRIATION OF EARNINGS

At the disposal of the annual general meeting

Share premium reserve	347,365,594
Accumulated loss	-149,185,658
Net loss for the year	-103,272,927
	94,897,009

The board of directors propose that the available funds of SEK 94,897,009 is carried forward.

As regards the company's result and financial position otherwise, please refer to the following income statement, balance sheet, cash flow statement and notes to the financial statements.

FINANCIAL REPORTS

INCOME STATEMENTS

(TSEK)	Note	2018	2017
Net sales	5	58,906	11,856
Capitalized work for own account	13	16,831	18,329
Other operating income	6	3,351	1,499
Operating expenses			
Raw materials and consumables		-67,690	-26,140
Other external expenses	7,8	-32,336	-18,515
Personnel expenses	9	-66,193	-39,760
Depreciation, amortisation and impairment losses of tangible and intangible assets	13,14,15,16,17	-13,377	-3,933
Other operating expenses		-1,388	-3
Operating profit/loss		-101,897	-56,667
Profit from financial items			
Interest income and other financial items		241	101
Interest expenses and other financial items	10	-1,617	-885
Profit before tax		-103,273	-57,451
PROFIT/LOSS FOR THE YEAR ¹⁾		-103,273	-57,451
<i>1) Total profit/loss for the period correspond Profit/loss for the period</i>			
Earnings per share, SEK	12		
Before dilution		-2.30	-1.54
After dilution		-2.30	-1.54

BALANCE SHEET

(TSEK)	Note	2018-12-31	2017-12-31
ASSETS			
Non current assets			
<i>Intangible non-current assets</i>			
Capitalized expenditures on development work	13	37,380	29,601
Patents, licenses, trademarks, and similar rights	14	4,677	4,627
		42,057	34,228
<i>Tangible non-current assets</i>			
Leasehold improvements	15	10,529	2,463
Plant and machinery	16	6,133	7,450
Equipment, tools and installations	17	862	647
		17,524	10,560
Financial non-current assets			
Long term financial assets	18	19,902	-
		19,902	-
Total non-current assets		79,483	44,788
Current assets			
<i>Inventories</i>			
Work in progress	19	18,406	1,975
Finished goods and goods for resale		11,349	3,595
		29,755	5,570
<i>Current receivables</i>			
Accounts receivable	20	28,061	9,978
Other receivables		10,482	3,292
Prepaid expenses and accrued income	21	3,380	1,981
		41,923	15,251
Cash and cash equivalents		89,959	203,977
Total current assets		161,637	224,798
TOTAL ASSETS		241,120	269,586
EQUITY AND LIABILITIES			
Shareholders equity			
<i>Restricted equity</i>			
Share capital	22	676	651
Paid up, non-registrered share capital		11,582	-
Reserve for development costs		34,653	26,874
		46,911	27,525
<i>Unrestricted equity</i>			
Share premium reserve		347,366	336,491
Retained earnings/loss		-149,196	-84,724
Profit/loss for the year		-103,273	-57,451
		94,897	194,316
Shareholders equity		141,808	221,841
Other liabilities			
Other provisions	23	7,416	1,524
		7,416	1,524
Non-current liabilities			
Other long term liabilities	24	12,381	28,081
		12,381	28,081
Current liabilities			
Advance payments from customers	25	24,030	1,984
Accounts payable		24,572	9,557
Current tax liabilities		1,076	1,017
Other current liabilities	26	20,608	3,594
Accruals and deferred income	27	9,229	1,988
		79,515	18,140
TOTAL EQUITY AND LIABILITIES		241,120	269,586

STATEMENT OF CHANGES IN EQUITY

	Restricted equity			Non-restricted equity			
	Share capital	Paid up, non-registered share capital	Reserve for development costs	Share premium reserve	Retained profit or loss	Profit for the year	Total equity
Opening balance, 1 January 2017	356	-	10,200	111,878	-33,502	-35,590	53,342
Appropriation of prior year's profit/loss					-35,590	35,590	-
Capitalisation of development costs			18,329		-18,329		-
Utilisation as a result of the year's depreciation of development costs			-1,477		1,477		-
Profit/loss for the year						-57,451	-57,451
Other comprehensive income							-
Total comprehensive income/loss	-	-	16,852	-	-16,852	-57,451	-57,451
<i>Transactions with owners:</i>							
New issue	116			239,303			239,419
Issue expenses				-15,419			-15,419
Bonus issue	178		-178				-
Premiums paid for warrants					1,220		1,220
Exercise of warrants	1			729			730
Total transactions with shareholders	295		-178	224,613	1,220	-	225,950
Closing balance, 31 December 2017	651	-	26,874	336,491	-84,724	-57,451	221,841

	Restricted equity			Non-restricted equity			
	Share capital	Paid up, non-registered share capital	Reserve for development costs	Share premium reserve	Retained profit or loss	Profit for the year	Total equity
Opening balance, 1 January 2018	651	-	26,874	336,491	-84,724	-57,451	221,841
Appropriation of prior year's profit/loss					-57,451	57,451	-
Capitalisation of development costs			16,831		-16,831		-
Utilisation as a result of the year's depreciation of development costs			-9,052		9,052		-
Profit/loss for the year						-103,273	-103,273
Other comprehensive income							-
Total comprehensive income/loss	-	-	7,779	-	-65,230	-103,273	-103,273
<i>Transactions with owners:</i>							
Premiums paid for warrants					758		758
Exercise of warrants	25			10,875			10,900
Paid-in, unregistered share capital		11,582					11,582
Total transactions with shareholders	25	11,582	-	10,875	758	-	23,240
Closing balance, 31 December 2018	676	11,582	34,653	347,366	-149,196	-103,273	141,808

CASH FLOW STATEMENTS

(TSEK)	Note	2018	2017
Operating activities			
Operating profit		-101,897	-56,667
Adjustment for items not included in cash flow:			
Depreciation/amortisation		13,377	3,933
Provisions for guarantees		5,892	1,524
Interest paid		241	101
Interest received		-1,617	-885
Cash from operating activities before changes in working capital		-84,005	-51,994
Cash flow from changes in working capital			
Decrease (+)/increase(-) in inventories		-24,185	-1,019
Decrease (+)/increase(-) in accounts receivables		-18,083	-9,737
Decrease (+)/increase(-) in current receivables		-8,589	-2,171
Decrease (-)/increase(+) in accounts payable		15,015	2,810
Decrease (-)/increase(+) in other current liabilities		30,667	3,506
Cash flow from operating activities		-89,170	-58,605
Investing activities			
Investment in intangible assets		-18,145	-20,250
Investment in tangible assets		-10,042	-6,438
Investment in financial assets		-19,902	-
Cash flow from financing activities		-48,089	-26,688
FINANCING ACTIVITIES	24		
New issue		-	224,000
Exercise of warrants		10,900	730
Loans		-	12,000
Premiums paid for warrants		759	1,220
Paid-in, unregistered share capital		11,582	-
Cash flow from financing activities		23,241	237,950
CASH FLOW FOR THE YEAR		-114,018	152,657
Cash and cash equivalents at beginning of the year		203,977	51,320
Cash and cash equivalents at year-end	28	89,959	203,977

NOTES

NOTE 1 GENERAL INFORMATION

Climeon AB, corporate registration number 556846-1642, is a limited liability company registered in Sweden and domiciled in Stockholm. The address of the head office is Torshamnsgatan 44, SE-164 40 Kista, Sweden. The Company was founded in 2011 and its operations involve developing and selling environmental technology solutions that improve the Earth's climate by improving energy efficiency among the Company's customers.

NOTE 2 SIGNIFICANT ACCOUNTING PRINCIPLES

This is Climeon AB's second financial report that has been prepared in accordance with recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board. RFR 2 means that, in the annual accounts for the legal entity, the Company must apply all EU-approved International Financial Reporting Standards (IFRS) and interpretations as far as possible within the framework of the Swedish Annual Accounts Act and taking into consideration the connection between accounting and taxation. These recommendations indicate the exemptions and additions that can be made from/to IFRS. The Company also applies the Swedish Annual Accounts Act (1995:1554).

New or changed accounting principles in 2018

RFR 2 is based on the standards and interpretations issued by IASB and the IFRS Interpretation Committee that have been adopted by the EU and indicates exemptions from and additions to the standards issued by IASB and the interpretations issued by the IFRS Interpretation Committee. From January 1, 2018, the company applies IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers to follow the demands of the markets to show a fair picture of the company.

IFRS 9 handles classification, valuation and accounting of financial assets and liabilities. Climeon applies the exempt from applying IFRS 9 to a legal entity and values its financial instruments based on the acquisition value. The company does not apply hedge accounting. Impairment of accounts receivables is made according to the simplified method in IFRS 9. The changes in RFR 2 (IFRS 9) have not had any material impact on the financial report.

IFRS 15 is new a model for revenue recognition (five-step model) based on when the control of goods or services are transferred to a customer. Replaces when transferring the risk and benefits to client. Revenues are recognized to an amount corresponding to the compensation that the company is expected to be entitled to in exchange for these products and services. Another change is the amount to be recognized is what amount the company is entitled to in exchange of transfer of service or goods, not as earlier the fair value of the transfer. The changes in RFR 2 (IFRS 15) have not had any material impact on the financial report.

New or changed accounting principles in 2019 and forward

As of January 1, 2019, Climeon AB applies IFRS 9 and no longer applies the exempt from applying IFRS 9 to a legal entity as it does in this report. This implies that the holdings in Baseload Capital Sweden AB are valued based on fair value instead of the acquisition value. The change is due to the will of showing a fair view of the development of the entity where Baseload Capital plays a significant part. If the exemptions from IFRS 9 in RFR 2 would not have been applied during the financial year 2018 the fair value of the holdings in Baseload Capital would amount to SEK 37.7 million per 2018-12-31 with a net financial effect of SEK 17.9 million for the financial year. Other than that, there would be no significant effects on the financial reports of 2018. The new standard is not used retroactive for the year 2018 or earlier.

IFRS 16 Leases – This new leasing standard primarily covers changes in the way that leases are recognised by the lessee. A lessee must recognise all leases as assets and liabilities in the balance sheet, except for short-term leases and leases where the underlying assets have a low value. However, the Swedish Financial Reporting Board is giving an option for legal entities to be exempt from IFRS 16 that will be followed by the company. The standard will therefore have no impact of the financial situation of the company.

Revenue

Revenue is recognised on basis on the agreement with the client and is valued out of the compensation the company is in entitled to exchange of promised services, excluding third party compensation. The Company recognises revenue when control and right of use is handed over to the customer.

Climeon AB's revenue comprises primarily sales of Climeon Heat Power modules and consultancy services, as well as revenue from service and support agreements.

Sales of modules

Revenue from the sale of Climeon Heat Power modules are recognised when the control over the modules have been transferred to the customer. This generally takes place upon delivery. If integration services are a significant part of the delivery to the customer, that part of the revenue from the sale of the module is recognised when the integration has been carried out. The recognition of revenue requires the judgement that the control is transferred to the customer.

Sales of services

Revenue from service contracts is recognised as revenue in the period in which the work is performed.

Revenue from the sale of services at a fixed price are recognised on a straight-line basis. Climeon offers a service/support agreement - a fixed price per unit and time - and a licence on the Climeon Live, a system for control of the units. An expected loss on a service contract is recognised as an expense immediately. When the outcome of a service contract cannot be calculated reliable, revenue should only be recognised at the amount of the contract costs incurred that will probably be recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

Payment terms

The normal payment structure is 40% at order, 30% at start of production, 20% at delivery and the final 10% at start of operation at site. The time period from order to delivery is usually six to nine months.

Warranties

Climeon offers only standard warranties of up until one year.

Interest income

Interest income is recognised as it accrues using the effective interest method. The effective interest rate is the rate at which the present value of all future cash inflows and outflows during the fixed-interest term equals the recognised value of the receivable.

State grants

Revenue from state grants that are not dependent on future performance requirements are recognised as revenue when the conditions for receiving the grant have been met and when it is probable that the economic benefits associated with the transaction will flow to the Company and the revenue can be measured reliably. State grants have been measured at the fair value of the asset that the Company has received.

Revenue from state grants that are dependent on future performance requirements is recognised as revenue when the performance is carried out and when it is probable that the economic benefits associated with the transaction will flow to the Company and the revenue can be measured reliably. State grants have been measured at the fair value of the asset that the Company has received.

Grants that have been received before the conditions for recognising them as revenue have been met are recognised as a liability.

State grants relating to the acquisition of a fixed asset reduces the cost of the asset."

Leases

Leases are recognised in accordance with the rules for operational leases. Lease payments for operating leases are expensed on a straight-line basis over the term of the lease, unless a different systematic approach better reflects the user's economic benefit over time.

Foreign currency

The Company's accounting currency is Swedish kronor (SEK).

Translating items in foreign currencies

On each closing day, monetary items in foreign currencies are translated at the exchange rate on the closing day. Non-monetary items measured at historical cost in a foreign currency are not translated. Exchange rate differences are recognised in operating profit/loss or as a financial item, based on the underlying business transaction, in the period in which they arise.

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred. Essential amounts are periodised over the time of credit.

Employee benefits

Employee benefits in the form of salaries, vacation pay, sick pay, etc., and pensions are recognised as they are earned. The Company only has defined contribution pension plans. There are no other long-term benefits to employees.

Defined contribution plans

For defined contribution plans, the Company pays fixed contributions to a separate, independent legal entity and has no obligation to pay additional fees. The Company's profit is charged with costs as the benefits are earned, which normally coincides with the time when the premiums are paid.

Income tax

The tax expense represents the sum of current tax and deferred tax.

Current tax

Current tax is calculated on the taxable profit for the period. Taxable profit differs from the profit recognised in the income statement since it has been adjusted for tax-exempt income and non-deductible expenses, and for income and expenses that are taxable or deductible in other periods. The current tax liability is calculated using the tax rates applicable on the closing day.

Deferred tax

Deferred tax is recognised on temporary differences between the recognised value of assets and liabilities in the financial statements and the fiscal value used to calculate taxable profits. Deferred tax is recognised according to the 'balance sheet method'. Deferred tax liabilities are recognised for practically all taxable temporary differences, and deferred tax assets are recognised for practically all deductible temporary differences, to the extent it is likely that the amounts can be utilised against future taxable surpluses. Untaxed reserves are recognised inclusive of the deferred tax liability.

The carrying amount of deferred tax assets is tested on each closing day and reduced to the extent that it is no longer probable that there will be sufficient taxable surplus available to utilise the deferred tax asset, either in full or in part.

The valuation of deferred tax is based on how the Company, on the closing day, expects to recover the carrying value of the corresponding asset or settle the carrying amount of the corresponding liability. Deferred tax is calculated based on the tax rates and tax rules that have been decided before the closing day.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or revenue in the income statement, except when the tax relates to transactions that have been recognised in other comprehensive income or directly in equity. In such cases, the tax is also recognised in other comprehensive income or directly in equity. In the case of current and deferred tax arising when reporting business combinations, the tax effect is to be recognised in the acquisition calculation.

Intangible assets

Additions through separate acquisitions

Intangible assets that have been acquired separately are recognised at cost, less accumulated amortisation and any accumulated impairment losses. Amortisation is carried out on a straight-line basis over the estimated useful life of the asset, which is estimated at 5 years. Estimated useful lives and amortisation methods are reviewed if there are indications that they have changed compared to the estimate on the previous closing day. The effect of any changes to estimates and judgments are recognised prospectively. Amortisation starts when the asset can be used.

Additions through internal generation

The Company applies the activation model, which means that work on producing internally generated intangible assets are divided into a research phase and a development phase. All costs from the Company's research phase are expensed as they are incurred. All costs for the development of Climeon Heat Power are recognised as an asset if all of the following conditions are met:

- it is technically feasible to complete the intangible asset and to use or sell it,
- the Company intends to complete the intangible asset and to use or sell it,
- the conditions are in place for using or selling the intangible asset,
- it is probable that the intangible asset will generate future economic benefit,
- there are the necessary and adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

After initial recognition, internally generated intangible assets are recognised at cost less accumulated amortisation and any accumulated impairment losses. Amortisation starts when the asset can be used. Capitalised expenditure for Climeon Heat Power is amortised on a straight-line basis over the estimated useful life of 5 years.

Removal from the balance sheet

An intangible asset is removed from the balance sheet upon disposal or sale, or when no future economic benefits are expected from the use or disposal/ sale of the asset. The gain or loss that arises when an intangible asset is removed from the balance sheet is the difference between what is possibly obtained, net of direct selling costs, and the asset's carrying value. This is recognised in the income statement as other operating income or other operating expense.

Tangible non-current assets

Tangible non-current assets are recognised at cost following deductions for accumulated depreciation and any impairment losses.

Cost includes the purchase price, expenses directly attributable to the asset in order to bring it to the location and condition to be used, and the estimated expenses for the dismantling and removal of the asset and the restoration of its location. Further expenditure is included in the asset or recognised as a separate asset only if it is probable that future economic benefits associated with the item will accrue to the Company and the cost of these can be measured reliably. All other costs for repairs and maintenance, as well as further expenditure, are recognised in the income statement in the period in which they are incurred.

When the difference in the consumption of the significant components of property, plant and equipment is considered to be significant, the asset is divided into these components.

Depreciation of tangible non-current assets is expensed such that the asset's costs, decreased by any estimated residual value at the end of its useful life, is depreciated on a straight-line basis over its estimated useful life. If an asset has been divided into different components, each component is depreciated separately over its useful life. Depreciation begins when the tangible non-current assets can be taken into use. The useful lives of tangible non-current assets are estimated at:

Plant and machinery	10 years
Equipment	5 years
Computers	3 years
Leasehold improvements	3 and 5 years respectively

Estimated useful lives and depreciation methods are reviewed if there are indications that the expected consumption has changed significantly compared to the estimate on the previous closing day. When the Company changes its assessment of useful lives, the asset's possible residual value is also reviewed. The effect of these changes is accounted for prospectively.

Removal from the balance sheet

The carrying amount of property, plant and equipment is removed from the balance sheet upon disposal or sale, or when no future economic benefits are expected from the use or disposal/sale of the asset or component. The gain or loss that arises when a tangible non-current asset or component is removed from the balance sheet is the difference between what is possibly obtained, net of direct selling costs, and the asset's carrying value. The capital gain or loss that arises when a tangible non-current asset or component is removed from the balance sheet is recognised in the income statement as other operating income or other operating expense.

Impairment of tangible non-current assets and intangible assets

On each closing day the Company analyses the carrying amounts of property, plant and equipment and intangible assets to establish whether there is any indication that these assets have decreased in value. If this is the case, the asset's recoverable amount is calculated in order to establish the level of any impairment loss. Where it is not possible to calculate the recoverable amount of an individual asset, the Company calculates the recoverable amount for the cash-generating unit to which the asset belongs. Capitalised expenditure for development work that is not yet ready for use is tested for impairment annually.

The recoverable amount is the higher of fair value less selling expenses and its value in use. Fair value less selling expenses is the price which the Company expects to receive in a sale between knowledgeable, independent parties and who have an interest in completing the transaction, less the costs that are directly attributable to the sale. When calculating the value in use, estimated future cash flows are discounted to the present value using a discount rate before tax that reflects the current market assessments of the time value of money and the risks specific to the asset. To calculate the future cash flows, the Company has used the budget and forecasts for the next five years.

If the recoverable amount of an asset (or cash-generating unit) is established to be lower than the carrying amount, the carrying amount of the asset (or the cash-generating unit) is written down to the recoverable amount. Any writedowns are expensed in the income statement straight away.

On each closing day, the Company assesses whether the earlier write-down is no longer justified. If this is the case, it is reversed partially or completely. When a write-down is reversed the asset's (the cash-generating unit's) carrying value increases. The carrying value after the reversal of the write-down must not exceed the carrying amount that would have been determined if no write-down had been made of the asset (the cash-generating unit) in prior years. A reversal of a write-down is recognised in the income statement.

Financial instruments

Financial instruments are recognised based on cost in accordance with the Swedish Annual Accounts Act. A financial asset or financial liability is recognised in the balance sheet when the Company becomes a party to the instrument's contractual terms. A financial asset is removed from the balance sheet when the contractual right to the cash flow from the asset ceases, is settled or when the Company loses control over it. A financial liability or part thereof is removed from the balance sheet when the agreed obligation is fulfilled or otherwise ceases.

On initial recognition current assets and current liabilities are measured at cost. Long-term receivables and long-term liabilities are valued on initial recognition at amortised cost. Borrowing costs are accrued as part of the loan's interest expense using the effective interest method (see below).

Climeon is using the simplified standard in calculating expected credit losses. The standard says that expected credit losses during the running-time is used as base for calculation of accounts receivables and other agreement assets. Payment history of client and other known information is the base of calculation of expected credit losses.

After initial recognition, current assets are valued at the lower of acquisition cost and the net sales value as per the closing day. Current liabilities are valued at a nominal amount.

Financial non-current assets and long-term liabilities are valued after initial recognition at amortised cost.

Amortised cost

Amortised cost refers to the amount at which the asset or the financial liability was initially recognised, less repayments, supplements or deductions for accumulated accruals using the effective interest method of the initial difference between the amount received/paid and the amount payable/receivable on the due date, and less impairment losses.

The effective interest rate is the rate at which discounting of all future expected cash flows over the expected term results in the initial carrying amount of the financial asset or financial liability.

Cash and cash equivalents

Cash and cash equivalents include cash at hand and available funds at banks and other credit institutions, and other short-term liquid investments that can be readily converted into cash and for which the risk of fluctuations in value is insignificant. To be classified as cash and cash equivalents the maturity must not exceed three months from the date of acquisition.

Inventories

Inventories are measured at the lower of acquisition cost and net realisable value on the closing day. Cost is determined using the first-in, first-out method (FIFO). Net realisable value is the selling value less the estimated costs that can be directly related to the sales transaction.

Cash flow statement

The cash flow statement shows the Company's changes in cash and cash equivalents during the financial year. The cash flow statement has been prepared using the indirect method. The reported cash flow includes only transactions that involve deposits and payments.

Segment reporting

The company sells and markets a small number of products which are for the most part packaged and sold to the same customers. The company's operational organization and management are organized by function and the company's internal monitoring is currently at the aggregated level only. Monitoring of geographic areas is only done for sales in respective countries or regions. Considering the above, the company recognizes no operating segments in the financial statements.

NOTE 3 KEY ESTIMATES AND JUDGMENTS

Significant sources of estimation uncertainty

The main assumptions concerning the future are reported below, along with other significant sources of uncertainty in estimates on the closing day that represent a material risk of significant adjustments to the carrying amounts of assets and liabilities in the subsequent financial year.

Capitalised development expenses

At the start of the year, Climeon AB had capitalised development expenses totaling SEK 37,380 thousand (29,601). They relate to the Company's product Climeon Heat Power. When calculating the recoverable value of cash-generating units for assessing any impairment needs for capitalised development expenses, several assumptions have been made on future conditions, and estimates of parameters have also been made. Climeon has found that reasonable changes of the assumptions have not given rise to any impairment needs as of 31 December 2018. The time of usage is expected to five years as is the time of depreciation.

Capitalisation of loss carry forwards

Climeon AB has unutilised loss carryforwards amounting to SEK 219,858 thousand (117,355), of which the tax effect has not been recognised as a deferred tax asset in the balance sheet. This is because the Company assesses that it is uncertain whether these loss carryforwards will be able to be utilised, due to uncertainty about when in the future sufficient taxable surpluses will be generated.

NOTE 4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Through its operations the Company is exposed to various types of financial risks, including market risk, liquidity risk and credit risk. The main market risks are interest-rate risk and currency risk. The Company's Board of Directors has the ultimate responsibility for the exposure, management and monitoring of the Company's financial risks. The frameworks that apply to the exposure, management and monitoring of the financial risks are adopted by the Board of Directors. The Board has delegated responsibility for day-to-day risk management to the Company's CFO.

Market risks

Currency risks

Currency risk is the risk that fair value or future cash flows will fluctuate due to changes in foreign exchange rates. The Company carries out operations in several different geographic markets and in different currencies, which means that it is exposed to currency risk. Exposure to currency risk arises mainly from payment flows in foreign currency, which is known as transaction exposure, and from the translation of balance sheet items in a foreign currency.

Transaction exposure is the risk that earnings will be negatively impacted by fluctuations in exchange rates for cash flows that take place in foreign currency. The Company's outflows are mainly in SEK, EUR, JPY, DKK and GBP, while the Company's inflows are mainly in SEK and EUR. The Company is therefore affected by changes in these exchange rates as regards operational transaction exposure. This risk is currently not hedged. This will be reviewed when necessary.

The table below shows the nominal net amounts of the major flows giving rise to transaction exposure. The exposure is stated based on the Company's payment flows in the most significant currencies and is presented in SEK thousand.

Currency	12/31/2018
EUR	35,789
USD	7,171
JPY	-2,425
DKK	-585
GBP	-169

Interest-rate risks

Interest-rate risk is the risk that fair value or future cash flows will fluctuate due to changes in market interest rates. The Company is mainly exposed to interest-rate risk through its loan financing. Interest on loans is paid using a fixed rate, which means that the Company's future financial expenses are not affected by changes in market interest rates. The Company currently judges this risk to be low.

Sensitivity analysis for market risks

The sensitivity analysis for currency risk shows the Company's sensitivity to a 10 percent increase or decrease respectively in the exchange rate for SEK against the most significant foreign currencies. For transaction exposure, the table shows how the Company's profit after tax would have been affected by a change in the exchange rate.

This also includes outstanding monetary assets and liabilities in foreign currency on the closing day. The amounts are presented in SEK thousand.

	2018	12/31/2018	2017	12/31/2017
<i>Transaction exposure</i>	Effect on profit/loss	Effect on equity	Effect on profit/loss	Effect on equity
EUR +[10]%	3,579	3,579	-516	-516
EUR -[10]%	-3,579	-3,579	516	516
USD +[10]%	717	717	-30	-30
USD -[10]%	-717	-717	30	30
JPY +[10]%	-243	-243	-17	-17
JPY -[10]%	243	243	17	17
DKK +[10]%	-59	-59	0	0
DKK -[10]%	59	59	0	0
GBP +[10]%	-17	-17	-14	-14
GBP -[10]%	17	17	14	14
<i>Interest (change in percentage)</i>				
Financial expenses +[10]%	-105	-105	-88	-88
Financial income +[10]%	15	15	10	10

Liquidity and financing risk

Liquidity risk is the risk that the Company encounters problems meeting its financial commitments when they fall due. Financing risk is the risk that the Company is unable to obtain sufficient financing to meet its obligations. Liquidity and financing risks have been managed mainly by carrying out new share issues, targeted at new and existing shareholders. To fully commercialise its business concept and to make the necessary investments, the Company must raise additional risk capital within the next 12 months, and is therefore planning to carry out new share issues in the future to achieve this. The Company is also working actively on a number of different external financing solutions in the short and long term. Operational financing will increasingly come from sales, which have already started, albeit on a small scale.

The maturity distribution of contractual payment commitments related to the Company's financial liabilities are presented in the tables below. The amounts in these tables are not discounted values and they also include interest payments where relevant, which means that these amounts cannot be reconciled with the amounts reported in the balance sheets. Interest payments and amounts in foreign currency are established based on the conditions applicable on the closing day.

The Company's loan agreements contain no special conditions that could result in the payment date being significantly earlier than shown in the tables. Cash equivalent can cover the short term debts.

	Within 3 month	3 - 12 month	1 - 5 years	Over 5 years	Total
12/31/2018					
Other long-term liabilities			12,456	-	12,456
Accounts payable	24,573	-	-	-	24,573
Other current liabilities	8,394	23,630	-	-	32,024
Total	32,967	23,630	12,456	-	69,053
12/31/2017					
Other long-term liabilities	225	675	29,896	382	31,178
Accounts payable	9,557	-	-	-	9,557
Other current liabilities	1,512	5,087	-	-	6,599
Total	11,294	5,762	29,896	382	47,334

Credit and counterparty risk

Credit risk is the risk that a counterparty in a transaction will not fulfill its contractual obligations, therefore incurring a loss for the Company. The Company's exposure to credit risk is mainly attributable to accounts receivable. To limit the Company's credit risk, a credit assessment is performed of every new customer, and credit insurance is taken out where necessary. The financial situation of existing customers is also monitored continuously in order to identify warning signs at an early stage. Cash equivalent is placed in several banks with very low risk.

Accounts receivable are mostly represented by a number of counterparties, where the majority of the payments are made through letters of credit. Accounts receivable are not concentrated to one specific geographical area. The Company therefore assesses that the concentration risks are limited.

The Company's maximum exposure to credit risk is judged to be reflected in the recognised amounts of all financial assets and are shown in the table below. The exposure is not to any counterpart to a major part.

	12/31/2018	12/31/2017
Accounts receivable	28,061	9,978
Other current receivables	10,482	3,292
Cash and cash equivalents	89,959	203,977
Maximum exposure to credit risk	128,502	217,247

Capital management

The Company's goal as regards capital management is to ensure the Company's ability to continue its operations in order to generate a reasonable return for shareholders and for the benefit of other stakeholders.

NOTE 5 DISTRIBUTION OF NET SALES

Revenue type	2018	2017
Modules	58,833	11,260
Consulting and support services	73	596
Total	58,906	11,856

Geographic market	2018	2017
Sweden	52	55
Europe	35,020	11,623
North America	12,051	-
Asia	11,783	178
Total	58,906	11,856

Contract assets and liabilities	2018	2017
Contract assets		
Accrued income	576	1,152
Total	576	1,152

No impairments have been done related to accrued income in the period.

	2018	2017
Contract liabilities		
Advance payments from customers	24,030	1,984
Prepaid income	1,668	-
Total	25,698	1,984

Advances from customers mainly arrives from the increase of orders and production to the geothermal market. All contract liabilities is expected to become revenue in 2019.

NOTE 6 OTHER OPERATING INCOME

	2018	2017
Grants for development projects from Eurostar/Vinnova	-	99
Grants for battery projects from Swedish Energy Agency	-	1,400
Re-invoiced costs	3,351	-
Total	3,351	1,499

NOTE 7 AUDITOR'S FEE

	2018	2017
Deloitte AB		
Audit assignments	637	510
Other services	142	151
Total	779	661

The audit assignment amounts are the fees paid to the auditor for the statutory audit. The audit involves examining the annual accounts and the accounting records, the administration of the Company by the Board of Directors and the CEO, as well as fees for audit advisory services provided in connection with the audit assignment.

Other services essentially comprise advice in areas closely related to the audit, such as advice on accounting issues, as well as other tasks that are incumbent on the Company's auditors to carry out.

NOTE 8 LEASES**Operational leases – lessees**

The Company is a lessee in operational leases for car leases, office equipment and leases for rental premises. The year's expensed lease payments for operating leases totaled SEK 3,616 thousand (3,398). Future minimum lease payments for noncancelable operating leases fall due as follows:

Maturity	2018	2017
<i>Minimum lease payments</i>		
Within one year	8,177	3,106
Later than one but within five years	25,520	1,199
Later than five years	11,284	-
Total	44,981	4,305

NOTE 9 NUMBER OF EMPLOYEES, SALARIES, OTHER REMUNERATION AND SOCIAL INSURANCE CONTRIBUTIONS

Average number of employees	2018	2017
Number of employees	62	37
of whom men	46	27

Distribution of senior executives on the closing day	12/31/2018	12/31/2017
Women:		
Board members	2	2
Number of people in the management team, including CEO	2	2
Men:		
Board members	3	4
Number of people in the management team, including CEO	7	6
Total	14	14

Salaries and remuneration	2018	2017
Salaries and other remuneration	34,777	22,755
Pensions, defined contribution	4,425	3,456
Social insurance contributions	10,143	6,700
Total	49,345	32,911

Salaries and other remuneration for Board members and employees	2018	2017
Board and CEO	1,418	1,295
Other employees	33,359	21,460
Total	34,777	22,755

Salaries and remuneration to senior executives ¹⁾

	Salary/ Fee	Variable remuneration	Other benefits	Pension costs	Total
2018					
Chairman of the Board Per Olofsson	160	-	-	-	160
Director Olle Bergström	80	-	-	-	80
Director Stefan Brendgen	80	-	-	-	80
Director Vivianne Holm	80	-	-	-	80
Director Therese Lundstedt	80	-	-	-	80
CEO Thomas Öström	938	-	93	137	1 168
Other senior executives (8 people)	7,690	-	173	1,241	9,104
Total	9,108	-	266	1,378	10,752

	Salary/ Fee	Variable remuneration	Other ben- efits	Pension costs	Total
2017					
Chairman of the Board Per Olofsson	271	-	-	-	271
Director Olle Bergström	400	-	-	-	400
CEO Thomas Öström	595	-	29	93	717
Other senior executives (7 people)	4,587	-	188	750	5,525
Total	5,853	-	217	843	6,913

1) There are no costs for the ongoing warrant programs

Pensions

The retirement age of the CEO is 65. The pension premium amounts to 15 percent of the pensionable salary. Pensionable salary refers to the basic salary.

The standard retirement age for other senior executives is 65. The pension agreement states that the pension premium amounts to 10–15 percent of the pensionable salary.

Severance pay agreement

There is a mutual period of notice of termination between the Company and the CEO of 3 months. In case of termination by the Company or the CEO, no severance pay is payable.

There is a mutual period of notice of termination between the Company and other senior executives of 3 months. In case of termination from the Company, no severance pay is payable.

Warrant programs

The Company has established several warrant programs, based on warrants that are taxed as capital income, for selected senior executives and other key people and consultants who are considered to have a material impact on the Company's operations and development.

Warrants for Company employees

Holders of warrants are entitled to subscribe for one new B share in the Company for each warrant they have at the issue price shown in the table below. Payment of the issue price for the underlying shares for the warrants must be made in cash. The holders have acquired the warrants at a price (called a 'premium') that corresponds to a fair value that has been assessed for the warrants and does not constitute any share-related benefit in accordance with IFRS 2. The Company has not incurred any expenses in issuing these warrants. The premiums for all of the warrants that have been issued have been determined using the Black-Scholes model.

Warrant program	Number	Number of B-shares warrants entitle to ²⁾	Premium	Issue price	Sub-scription period	Impact on equity (TSEK) ¹⁾
A. Program 2015/2019, issued 12/21/15		403,000	46	1,731	01/01/2019-01/31/2019	6,976
B. Program 2016/2019, issued 02/12/16		221,000	46	1,731	02/01/2019-02/28/2019	3,826
C. Program 2016/2019, issued 26/05/16		38,000	46	1,731	05/01/2019-05/31/2019	658
D. Program 2016/2019, issued 12/21/16		89,900	130	5,300	01/01/2019-12/31/2019	4,765
E. Program 2016/2019, issued 04/26/17		167,300	130	5,300	01/01/2019-12/31/2019	8,867
F. Program 2017/2020, issued 11/29/17		81,964	3.37	126	09/01/2020-09/15/2020	10,327
G. Program 2017/2021, issued 11/29/17		15,764	4.45	137	09/01/2021-09/15/2021	2,160
H. Program 2018/2021, issued 4/19/18		292 901	2.90	99.20	09/01/2021-09/15/2021	29,056
Number of B-shares warrants entitle to ²⁾					2018	2017
Outstanding beginning of year					3,153,828	2,939,200
Allocated during the year					292,901	299,128
Exercised during the year					-2,136,900	-84,500
Total outstanding at year-end					1,309,829	3,153,828

Of the 1,309,829 (3,153,828) outstanding warrants at the end of the period, 1,054,164 (2,136,900) of the warrants were redeemable.

1) Equity will increase by the following amount in the event of maximum utilisation.

2) Split 1:100 was conducted in Q2 2017.

NOTE 10 INTEREST EXPENSES AND SIMILAR ITEMS

	2018	2017
Interest expenses	-1,051	-886
Exchange rate differences	-566	1
Total	-1,617	-885

NOTE 11 TAX ON PROFIT OF THE YEAR

	2018	2017
Tax	-	-
Deferred tax	-	-
Tax on the profit of the year	-	-

Reconciliation of tax of the year	2018	2017
Profit before tax	-103,273	-57,451
Tax with calculated rate of 22%	22,720	12,639
Tax effect of non-deductible costs		
Tax with calculated rate of 22%	-169	-117
Tax effect of non recognised loss carryforwards	-22 551	-12 522
Tax of the year	0	0

Deferred tax assets

Deferred tax assets are measured at no more than the amount that is likely to be recovered based on current and future taxable profits. The Company has unutilised loss carryforwards amounting to SEK 219 858 thousand (117 352), of which the tax effect has not been recognised as a deferred tax asset in the balance sheet. This is because the Company assesses that it is uncertain whether these loss carryforwards will be able to be utilised, due to uncertainty about when in the future sufficient taxable surpluses will be generated.

NOTE 12 EARNINGS PER SHARE

The following amounts for profits and weighted average numbers of ordinary shares have been used in calculating earnings per share:

	2018	2017
Profit for the year attributable to the Company's shareholders	-103,272,927	-57,451,000
Weighted average number of outstanding ordinary shares	44,850,379	37,416,863
Earnings per share before/after dilution, SEK	-2.30	-1.54

The Company's warrant programs did not have any dilution effect in 2018 nor 2017.

NOTE 13 CAPITALIZED EXPENDITURES ON DEVELOPMENT WORK

	12/31/2018	12/31/2017
Opening acquisition cost	35,877	17,548
Internally developed assets	16,831	18,329
Closing accumulated cost	52,708	35,877
Opening amortisation	-5,612	-2,778
Amortisation for the year	-6,570	-2,834
Closing accumulated amortisation	-12,182	-5,612
Opening impairment losses	-664	-664
Impairment losses for the year	-2,482	-
Closing accumulated impairment losses	-3,146	-664
Closing carrying amount	37,380	29,601

Expenses for research and development that have been expensed during the year amounted to SEK 738 thousand (2,881).

NOTE 14 PATENTS, LICENSES, TRADEMARKS, AND SIMILAR RIGHTS

	12/31/2018	12/31/2017
Opening acquisition cost	4,627	2,707
Purchases	1,297	1,920
Closing accumulated acquisition cost	5,924	4,627
Depreciation for the year	-63	-
Closing accumulated depreciation	-63	-
Impairment losses for the year	-1,184	-
Closing accumulated impairment losses	-1,184	-
Closing carrying amount	4,677	4,627

NOTE 15 LEASEHOLD IMPROVEMENTS

	12/31/2018	12/31/2017
Opening acquisition cost	2,938	1,481
Leasehold improvements during the year	8,934	1,457
Closing accumulated cost	11,872	2,938
Opening depreciation	-475	-
Depreciation for the year	-868	-475
Closing accumulated depreciation	-1,343	-475
Closing carrying amount	10,529	2,463

NOTE 16 PLANT AND MACHINERY

	12/31/2018	12/31/2017
Opening acquisition cost	12,249	7,550
Purchases	532	5,419
Sales/decommissioned	-1,641	-
Reclassification	-	-720
Closing accumulated cost	11,140	12,249
Opening depreciation	-629	-243
Sales/decommissioned	89	-
Depreciation for the year	-1,849	-386
Closing accumulated depreciation	-2,389	-629
Opening impairment losses	-4,170	-4,170
Sales/decommissioned	1,552	-
Closing accumulated impairment losses	-2,618	-4,170
Closing carrying amount	6,133	7,450

NOTE 17 EQUIPMENT, TOOLS AND INSTALLATIONS

	12/31/2018	12/31/2017
Opening acquisition cost	1,001	757
Purchases	576	244
Closing accumulated cost	1,577	1,001
Opening depreciation	-354	-155
Depreciation for the year	-361	-199
Closing accumulated depreciation	-715	-354
Closing carrying amount	862	647

NOTE 18 LONG TERM FINANCIAL ASSETS

Long term financial assets consists of investments in the finance company Baseload Capital Sweden AB of SEK 19,902 thousand (0), corresponding to 19,8 percent ownership in the company, of which the company has contributed SEK 18,900 thousand (0) in form of conditional shareholders contributions, which increased the value. The amounts are reported at acquisition cost, the fair value of Baseload Capital estimates to 37,7 MSEK. The fair value is based on the net present value on the cash-flow of Baseload Capital.

NOTE 19 INVENTORIES

Inventories comprise finished products, work in progress and goods for resale. The impairment losses of inventories, amounting to SEK 400 thousand (869), are included in the cost of goods sold.

NOTE 20 ACCOUNTS RECEIVABLE

	12/31/2018	12/31/2017
Accounts receivable, gross	28,061	9,978
Accounts receivable, net after reserve for insecure receivables	28,061	9,978

Accounts receivables is reported by the value of the transaction as they generally are due to payment within 60 days and without any financial component. Expected losses of credit is of no substantial value.

Age analysis, accounts receivable	12/31/2018	12/31/2017
Not overdue	24,684	9,886
Overdue by 30 days	1,577	-
Overdue by 31-60 days	-	92
Overdue by > 90 days	1,800	-
Carrying amount	28,061	9,978

The Company expects payments to be received for accounts receivable that are overdue but have not been impaired, because of the good payment history of the customers. Principles of depreciation of expected losses is described in the not on accounting principles.

NOTE 21 REPAID EXPENSES AND ACCRUED INCOME

	12/31/2018	12/31/2017
Prepaid rent	1,786	155
Prepaid insurance premiums	228	325
Accrued income	576	1,152
Other items	790	349
Total	3,380	1,981

NOTE 22 SHARE CAPITAL

The share capital comprises 45,097,579 shares (43,419,379) with a quotient value of SEK 0,015 (0,015). Bonus issue and one split 1: 100 was executed during second quarter of 2017, which resulted in a change in the quota value.

NOTE 23 OTHER PROVISIONS

The post consists of warranty provisions for possible future claims. Climeon makes warranty provisions based on revenue of the last period.

NOTE 24 OTHER LONG TERM LIABILITIES

	12/31/2018	12/31/2017
Swedish Energy Agency	14,081	14,081
ALMI exportlån	12,000	12,000
ALMI growth loan	2,000	2,000
Short term part of long term loans	-15,700	-
Total	12,381	28,081

Loans that fall due later than five years after the closing day amount to SEK 0 thousand (375).

Climeon AB has a conditional loan from the Swedish Energy Agency for SEK 14,081 thousand with a conditional repayment commitment. The loan is repaid at 5 percent of the net-invoiced amount during the production and sale of goods and services that, according to the Swedish Energy, relate to the project and its results. If invoicing is for license revenue, the amortisation will be 35 percent of the payments received. The amortisation commitment only starts when there are net sales or license payments that relate to the project. Amortisation will then take place every year on the last day of the ninth month, starting the year after the financial year during which the amortisation commitment started. In 2019 Climeon estimates to amortize 3,7 MSEK. The loan is interest free until the amortisation of the loan begins. The interest rate for the loan is then 6 percent above the reference rate of the Riksbank (Sweden's Central Bank). Interest starts to be paid 3 months after the amortisation of the loan has begun.

During 2017 Almi Företagspartner issued a growth loan to Climeon AB of SEK 2,000 thousand. This facility is for a period of 72 months and there is no amortisation for 24 months. The loan has an interest rate of 4.65 percent.

During 2017 Almi Företagspartner issued an order financing loan to Climeon of SEK 12,000 thousand. The facility is for a period of 26 months with an interest rate of 6.72 percent.

Incoming debt

	12/31/2018	12/31/2017
Incoming debt	28,081	16,081
New debts	-	12,000
Outgoing debt	28,081	28,081

NOTE 25 ADVANCE PAYMENTS FROM CUSTOMERS

Advances on orders financed by the partially owned company Baseload Capital.

NOTE 26 OTHER CURRENT LIABILITIES

	12/31/2018	12/31/2017
Short term part of long term loans (note 24)	15,700	-
Liabilities for grants received	3,198	2,050
Social insurance contributions, retention tax	1,710	1,544
Total	20,608	3,594

The conditions that are required for the grant to be recognised as revenue are for the project to have been completed and reported back, which is expected to take place in 2019.

NOTE 27 ACCRUALS AND DEFERRED INCOME

	12/31/2018	12/31/2017
Accrued vacancy pay	2,210	1,383
Accrued social insurance contributions	683	435
Prepaid income	1,668	-
Other items	4,668	170
Total	9,229	1,988

NOTE 28 CASH AND CASH EQUIVALENTS IN THE CASH FLOW

	12/31/2018	12/31/2017
Cash	89,959	203,977
Total	89,959	203,977

NOTE 29 PLEDGED ASSETS AND CONTINGENT LIABILITIES

Pledged assets	12/31/2018	12/31/2017
Floating charge	20,800	20,800
Blocked bank account	2,090	2,022
Total	22,890	22,822

NOTE 30 TRANSACTIONS WITH RELATED PARTIES

Disclosures on transactions between the Company and related parties are presented below.

Purchase of services	2018	2017
Helen Öström Verksamhetsutveckling	131	336
Weseba AB	188	180
B-Garden	220	356
Mercurius	26	-
Total	565	872

Helen Öström Verksamhetsutveckling AB relates to consultancy fees for administration services. Helen is married to the Company's CEO Thomas Öström. Weseba AB, B Garden and Mercurius Financial Comm relates to consultancy services carried out outside the ordinary work of the Board of Directors. Weseba is owned by the Chairman of the Board, Per Olofsson, B Garden is owned by Board member Olle Bergström and Mercurius Financial Comm. is owned by Board member Vivianne Holm.

The sales and purchase of goods and services are carried out on market terms and conditions.

Disclosures on remuneration to senior executives are presented in note 9.

NOTE 31 EVENTS AFTER THE CLOSING DAY

Former COO, Christoffer Andersson was appointed deputy CEO and CFO. Olle Tholander was appointed Head of sales and marketing.

Borealis GeoPower has due to external reasons been significantly delayed. Climeon has therefore decided to remove their orders, value of about SEK 10 million, from the order backlog in the first quarter of 2019.

As of January 1, 2019, Climeon fully applies IFRS9 for valuation of financial assets which implies that the shareholdings of 19,9 percent in Baseload Capital will be valued at fair value, SEK 37.7 million, an increase of SEK 0.40 per share.

Breakthrough Energy Ventures, an investor-led venture fund backed by some of the world's top business executives, has invested in 12.5 MUSD in Baseload Capital, which Climeon owns part of. Following the investment from Breakthrough Energy Ventures, Climeon's shareholdings in Baseload Capital amounts to 12.7 percent. Breakthrough Energy Ventures and Climeon will be collaborating on technology development and market establishment.

Climeon's first geothermal installation has been approved by the customer Varmaorka at a Site Acceptance Test. A longer test period has now begun before a complete handover of the operation will be made to Varmaorka.

On 3 April 2019, the Board of Directors of Climeon AB resolved to carry out a directed new share issue of 3,000,000 Class B shares. The share issue was substantially over-subscribed with large interest from institutional investors in the Nordics, Germany, UK and USA. The subscription price was SEK 83 per share and Climeon received proceeds amounting to SEK 249 million. The Directed New Share Issue entailed a dilution of approximately 6 percent of the number of shares and approximately 2 percent of the votes in the Company. Through the Directed New Share Issue, the number of outstanding shares increased by 3,000,000 from 46,180,279 to 49,180,279, and the number of votes increased from 174,430,279 to 177,430,279. The share capital increased by SEK 45,000 from SEK 692,704.185 to SEK 737,704.185.

NOTE 32 PROPOSED DISPOSITION OF EARNINGS

The following amounts in SEK are at the disposal of the annual general meeting

Share premium reserve	347,365,594
Accumulated loss	-149,195,658
Loss for the year	-103,272,927
	94,897,009

94,897,009

The Board's proposal for balanced profit to be carried forward 94,897,009

SIGNATURES

Kista, 12 April 2019

Per Olofsson
Chairman of the Board of Directors

Olle Bergström
Board member

Stefan Brendgen
Board member

Thomas Öström
CEO

Vivianne Holm
Board member

Therese Lundstedt
Board member

Our Audit Report was submitted on 12 April 2019

Johan Telander
Deloitte AB
Authorized public accountant

AUDITOR'S REPORT

To the general meeting of the shareholders of Climeon AB (publ.) corporate identity number 556846-1643

Report on the annual accounts

Opinions

We have audited the annual accounts of Climeon AB (publ.) for the financial year 2018-01-01 - 2018-12-31. The annual accounts of the company are included on pages 33-49 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of Climeon AB (publ.) as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Climeon AB (publ.) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our 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 opinions.

Other Information than the annual accounts

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises pages 1-32 and 52 but does not include the annual accounts and our auditor's report thereon.

Our opinion on the annual accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, 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.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act. 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 annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern

basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, 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 opinions. 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 the company's internal control relevant to our 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company'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 annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. 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 annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the

planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of Climeon AB (publ) for the financial year 2018-01-01 - 2018-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Climeon AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our 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 opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and

among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Stockholm 12 april 2019

Deloitte AB

Signature on Swedish original

Johan Telander

Authorized public accountant

KEY NUMBERS

(TSEK)	2018	2017	2016	2015	2014
Operating margin (%)	neg	neg	neg	neg	neg
Profit margin (%)	neg	neg	neg	neg	neg
Return on equity (%)	neg	neg	neg	neg	neg
Return on assets (%)	neg	neg	neg	neg	neg
Return on capital employed (%)	neg	neg	neg	neg	neg
Interest coverage (times)	neg	neg	neg	neg	neg
Equity ratio (%)	58.8	82.3	65.7	67.3	64.7
Debt ratio (times)	0.7	0.2	0.5	0.3	0.5
Net debt ratio (times)	-0.4	-0.8	-0.7	0.3	-0.6
Earnings per share, before dilution, SEK	-2.30	-1.54	-1.06	-55.81	-8.83
Earnings per share, after dilution, SEK	-2.30	-1.54	-1.06	-55.81	-8.83
Equity per share, SEK	3.14	5.11	1.50	99.45	34.64

Climeon presents certain financial measures in the interim report that are not defined according to IFRS, so called alternative performance measures. Climeon believes that these measures provide valuable supplemental information to investors and the Company's management as they allow for evaluation of trends and the Company's performance. Since all companies do not calculate financial measures in the same way, they are not always comparable to measures used by other companies. For definitions of the performance measures that Climeon uses, please see below.

DEFINITIONS

In order to facilitate the understanding of the financial statements a list of the most common financial terms and ratios and their definitions is presented below.

Operating margin	Operating profit as a percent of net sales.
EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization	Operating profit plus depreciation, impairment and amortization.
EBITDA-margin	EBITDA as a percentage of net sales.
Profit margin	Profit/loss for the period after financial items as a percentage of net sales.
Return on equity	Profit/loss after financial items as a percentage of average shareholder's equity for the period.
Return on assets	Operating profit plus financial income as a percentage of total assets.
Return on capital employed	Operating profit plus financial income as a percentage of capital employed.
Capital employed	Total assets minus non interest-bearing liabilities (including other provisions).
Interest coverage	Operating profit plus financial income divided by financial expenses (times).
Equity ratio	Shareholders' equity as a percentage of total assets.
Debt ratio	Liabilities including deferred tax liabilities and provisions divided by shareholders' equity (times).
Net debt ratio	Interest-bearing net debt including cash and cash equivalents divided by shareholders' equity (times).
Order intake	Total signed customer orders received during the period.
Order backlog	The value at the end of the period of all received and signed customer orders not invoice to customer at the end of the period.
Earnings per share, before dilution	Earnings per share divided by the weighted average number of outstanding shares during the period.
Earnings per share, after dilution	Earnings per share adjusted by the number of outstanding warrants.
Equity per share	Earnings per share adjusted by the number of outstanding warrants.



CLIMEON

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