



CLIMEON

ANNUAL REPORT

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THIS IS CLIMEON

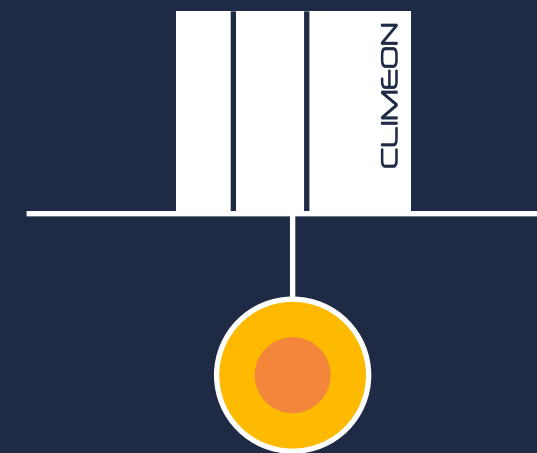
Climeon is a Swedish product company within energy technology, founded with a strong drive to create a sustainable world for the next generations. Climeon's entire business idea revolves around the United Nation's sustainable development goal number seven "Affordable and clean energy".

The company's unique technology 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.

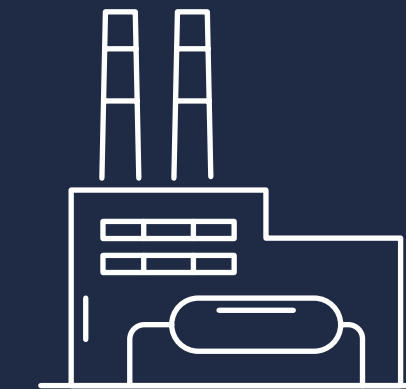
Climeon is active within two subdivisions of the market for the baseload energy source heat power: geothermal heat power and industrial heat power. Geothermal heat power utilizes heat from within the earth as an energy source whereas industrial heat power utilizes heat that is generated as a by-product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

TODAY, CLIMEON'S CUSTOMERS ARE FOUND WITHIN:

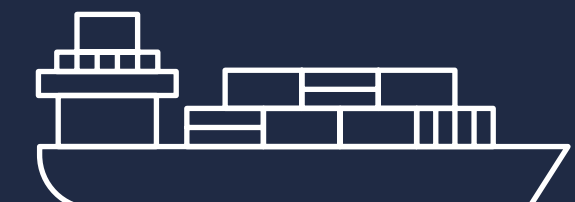
1. Geothermal



2. Industrial



3. Maritime



HEAT TO ELECTRICITY – A HUGE OPPORTUNITY

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

1.

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



Geothermal heat power

2.

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



Industrial heat power

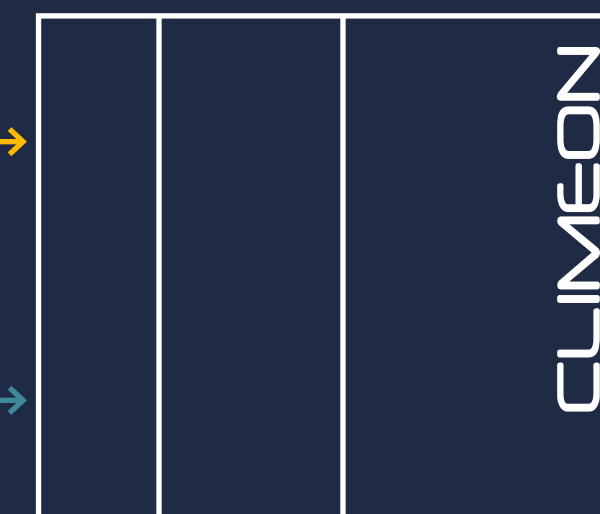
CLIMEON TURNS THE HEAT INTO CLEAN ELECTRICITY



Heat source
80–120°C



Cold source
0–30°C



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



150 kW
renewable energy

HIGHLIGHTS 2019

Entered Genset market

Climeon won the company's first order within powerplants based on reciprocating engines, gensets, in the UK.

Geothermal approval

Climeon's first geothermal power plant in Iceland was approved by the customer after a successful test period.

Directed share issue

Climeon completed a directed share issue, raising SEK 249 million and adding international institutional investors.

Scarlet Lady sailing

Climeon successfully completed Sea Trials with Virgin Voyages' first ship the Scarlet Lady, which means the ship is now ready for commercial operation.

Global collaboration

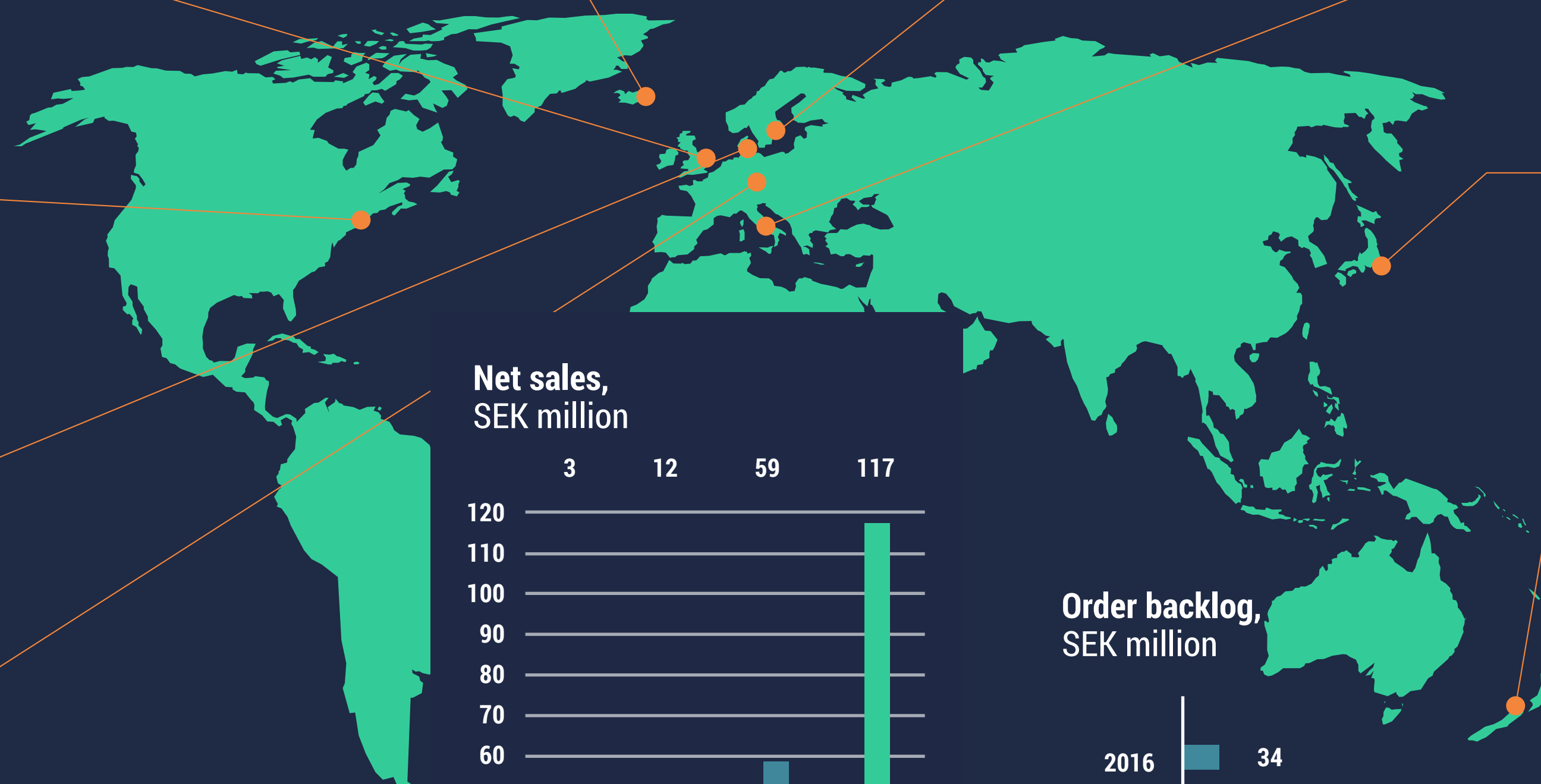
Climeon entered a collaboration with leading energy investor Breakthrough Energy Ventures to accelerate the deployment of geothermal Heat Power. .

Container premiere

Climeon began its first installation onboard a container ship, a Maersk 14k vessel.

Repeat order in maritime

Climeon won a repeat order from Fincantieri and Virgin Voyages, securing deliveries to the fourth Virgin Voyages ship.



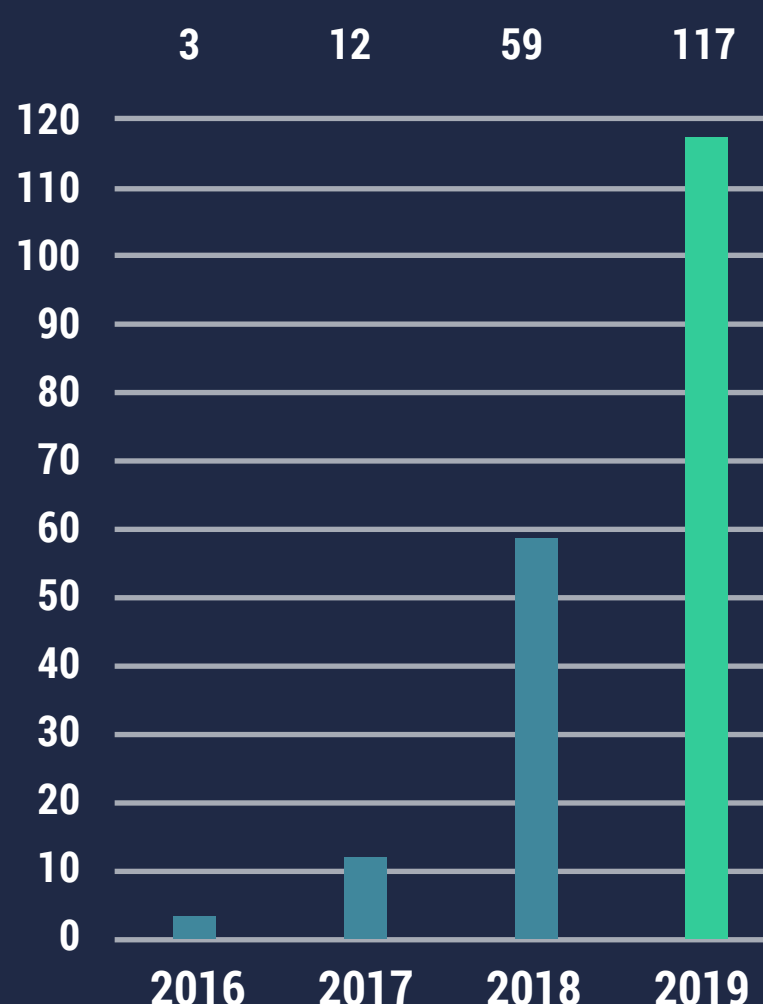
Subsidiary in Japan

Climeon's first subsidiary was established in Japan, where the company is now building two power plants.

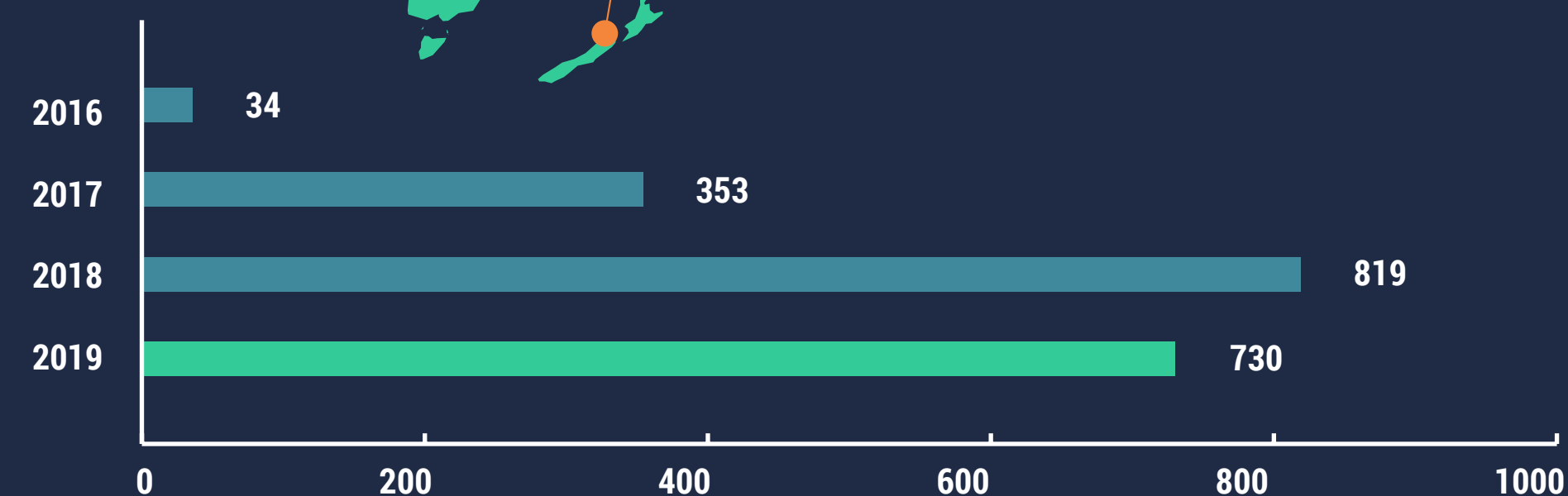
Geothermal waste heat

Climeon entered a partnership with Geo40 which opens up a new market within geothermal heat power, waste heat recovery from high temperature geothermal power plants.

Net sales, SEK million



Order backlog, SEK million



MESSAGE FROM THE CEO

2019 was an exciting, but at times tough, year for Climeon. It has been a year of hard work, learning and deepened collaborations. Looking at the full year, net sales grew significantly to SEK 117 million (59). For me as an entrepreneur, surpassing 100 million in revenue is an exciting milestone. It shows that we are no longer a pre-revenue startup and, more importantly, that we are contributing to our vision of empowering a fossil free future with heat power.

During the spring, we entered into a collaboration with the world's leading energy investor, Breakthrough Energy Ventures. Throughout the year we have deepened that collaboration and focused on technology development, finding new suppliers and establishing Climeon, Baseload Capital and geothermal heat power on the Japanese market.

New sales organization starting to deliver

Shortly after announcing the collaboration with Breakthrough Energy Ventures we completed a directed share issue, adding several well-renowned institutional investors. One of the reasons behind this capital raise was to accelerate our market entry in Japan, but also to strengthen our sales organization. We have re-organized and re-focused the sales team, adding resources to target a few selected markets and adding services to deliver more complete power plants, which will give us better conditions to turn the growing interest in fossil free electricity production into orders.

The first results of these efforts started to show during the fall when we won our first order for power plants based on reciprocating engines, so-called gensets, an area with large potential for us. We also entered a new partnership with the New Zealandic company Geo40, which opens up the opportunity to approach a new part of the geothermal market, waste heat from existing high temperature geothermal power plants.

Surpassing 100 million in revenue is an exciting milestone, proving that we are no longer a pre-revenue startup.

Prioritizing to reach important milestones

While re-organizing the sales organization we have also increased our focus on specific geographical markets within each application area. Entering a new geographical market and establishing a new technology requires focus. Therefore, we have chosen to prioritize getting the first couple of power plants up and running in Iceland and Japan, where we already have significant orders, before shifting to other geothermal markets. As I write this, we are days away



from having a first power plant up and running in Japan, and a few weeks away from first electricity production in the second power plant in Iceland.

The road to the first kW produced in Japan has been long and winding. When we took our first orders in Japan in 2018 and began the process of developing the first projects there were many things we did not know. Not only have we had to pass through eleven different permits and certifications, we have also had to make significant investments. One such example is the testing equipment we had to purchase to prove to the Japanese authorities that the quality of the electricity our Heat Power systems produce is high enough. Not to mention the many extra hours our brilliant engineers have had to put in to complete the tests. Now that we have completed the grid code tests and proven ourselves, we can continue the roll-out. This process has taken time but also taught us a lot, which we will now be able to apply on future projects, speeding up our delivery projects not only in Japan but also in other countries.

Waste heat recovery and baseload power is the future

The many hours put into grid code compliance will also help us now that we are entering the UK with a first order within power plants based on engines. Already in 2014, when we were working on our first Heat Power modules, we identified gensets as an area with large potential for Climeon. Now that solar and wind power have expanded quickly, even more countries use power plants based on large combustion

“Climeon’s technology is producing clean electricity not only on one, but on several cruise ships, in the steel industry and in geothermal power plants. Together we have saved about 4,000 tons of CO₂.”

engines to balance the power grid. These power plants work as a more sustainable baseload power in countries where geothermal heat power or hydro power can’t be used. Climeon’s modules recover the waste heat from the power plants which increases their efficiency and reduces CO₂. This creates significant cost benefits for the power plant operators, making it an attractive business case not only for the customer but also for Climeon and the environment. I believe this is an application where our business will grow in the coming years and where we can make an impact. Therefore, we will prioritize getting the first installation up and running together with Energy Circle and Cooper Östlund, prove the concept and win more projects within this area.

Faster roll-out means faster CO₂ reductions

Given the learnings from these first installation projects we have developed solutions for the surrounding power plant, aiming to lower total power plant cost for the customer and speed up the installations while creating an additional revenue stream for us. One such innovation is the Backbone solution, a standardized and modular set of pre-produced piping for the hot and cold water. The first backbone prototype is now installed in Reykholt, the second power plant in Iceland. Thanks to our cloud software Climeon Live and the many sensors placed in our modules, we are able to follow each Heat Power module in detail, regardless of where it is placed. We continuously evaluate the feedback from all Heat Power Systems in operation and use it to simplify and improve the design, switch out components and lower production costs. This has been an important focus area for many in the organization during 2019 and will continue to be so during 2020.

Although all of this year’s effort might not be visible from the outside, I am incredibly proud of the work the entire Climeon team has done this year. Without our amazing team completing the endless certification documents, testing protocols and upgrades we would not be nowhere near where we are today. Climeon’s technology is producing clean electricity not only on one, but on several cruise ships, in the steel industry and in geothermal power plants in Iceland and, within the next days, Japan.

Together we have saved about 4,000 tons of CO₂. I want to thank my team, our customers, suppliers and partners for another year of trying to reduce as much CO₂ emissions as possible. Together we really are doing business for a better world.

Right now at Climeon, we are focused on keeping our employees safe while delivering on our projects to make sure that our quest to provide the world with a renewable baseload can continue despite the on-going pandemic and the challenges it causes for companies and people worldwide, I believe that 2020 has the potential to become an exciting year for Climeon. We will deliver more heat power to the world in 2020 and through that continue towards our vision of becoming the number one climate solver, empowering a fossil free world.

Thomas Öström
CEO



TRENDS AND DRIVERS FOR RENEWABLE ENERGY AND HEAT POWER

With a year of climate protests around the world, fossil fuels are facing increasing resistance and the macroeconomic trend is beneficial for renewable energy.

The renewable energy sector has grown rapidly over the last decade, a development that likely continues 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 subsidies amounted to more than 400 billion USD in 2018, according to the International Energy Agency, more than double the value of subsidies to renewable energy. Costs from all commercially available renewable power generation technologies declined in 2018 and renewable energy and energy efficiency measures can potentially achieve 90 percent of the required carbon reductions to mitigate climate change.

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 hydro- power, geothermal energy and biomass are baseload energy sources. Continuous baseload electricity, independent of sun, wind and 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.

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

“The physical area needed per MWh is considerably lower for a Heat Power system than for a solar or wind park.”

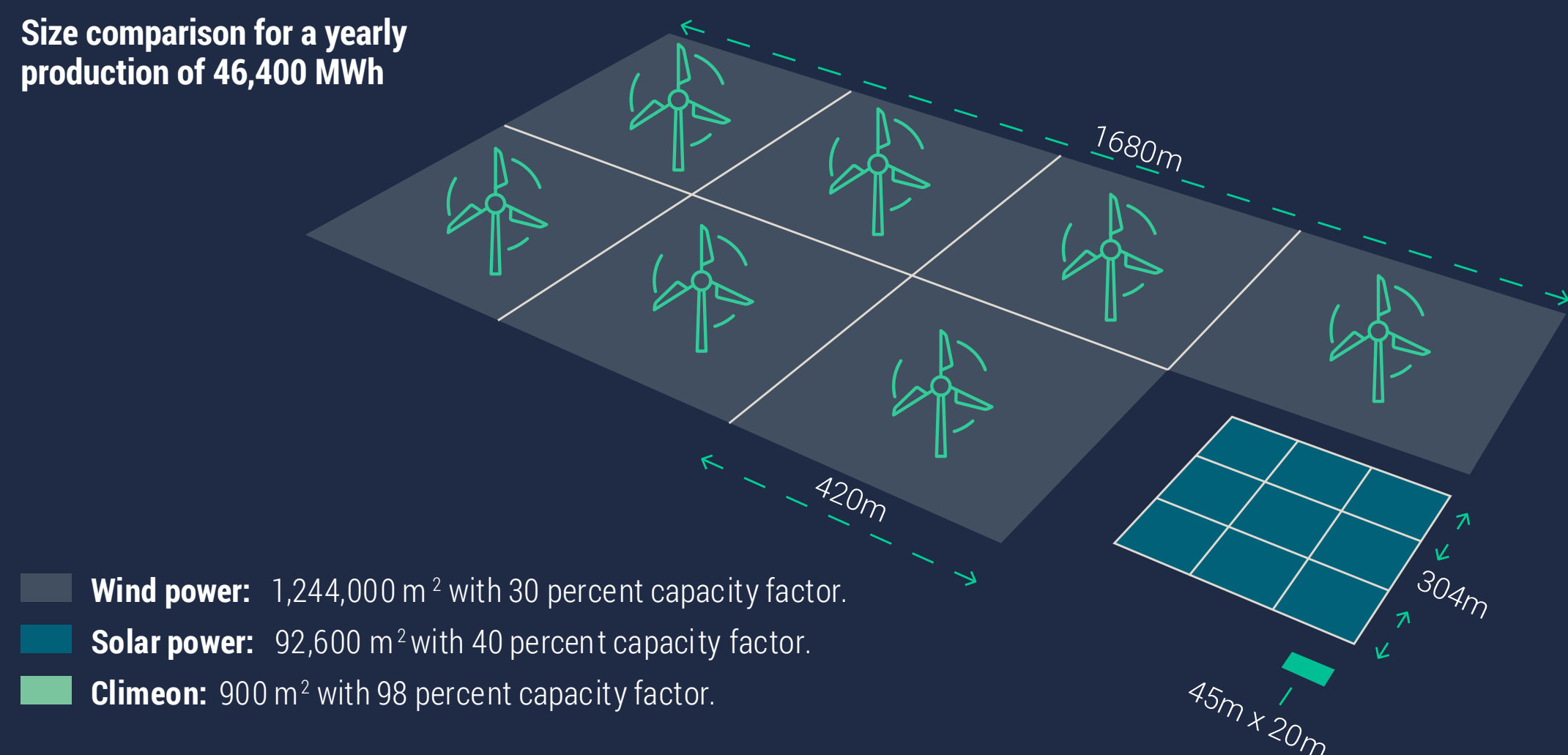
for the construction of dams and reservoirs. For intermittent sources, such as wind and solar power, this is even more evident as they have lower so-called capacity factor. The capacity factor is the ratio of actual electricity generated compared to the hypothetical maximum output of the power plant. 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. 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

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.

Size comparison for a yearly production of 46,400 MWh



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”). The price of emission allowances for carbon dioxide at the end of 2019 was EUR 24 per tonnes of CO₂, compared with EUR 23 per tonne the previous year.

In addition, regulations requiring minimum renewable energy quotas in the energy mix of electricity suppliers are also becoming increasingly common. In 2019, the EU formally adopted into law a series of measures that included a binding target for 32 percent of electricity production to come from renewables by 2030.

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. In 2016, the International Maritime Organization agreed on a similar cap, limiting sulphuric content in maritime fuels to 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

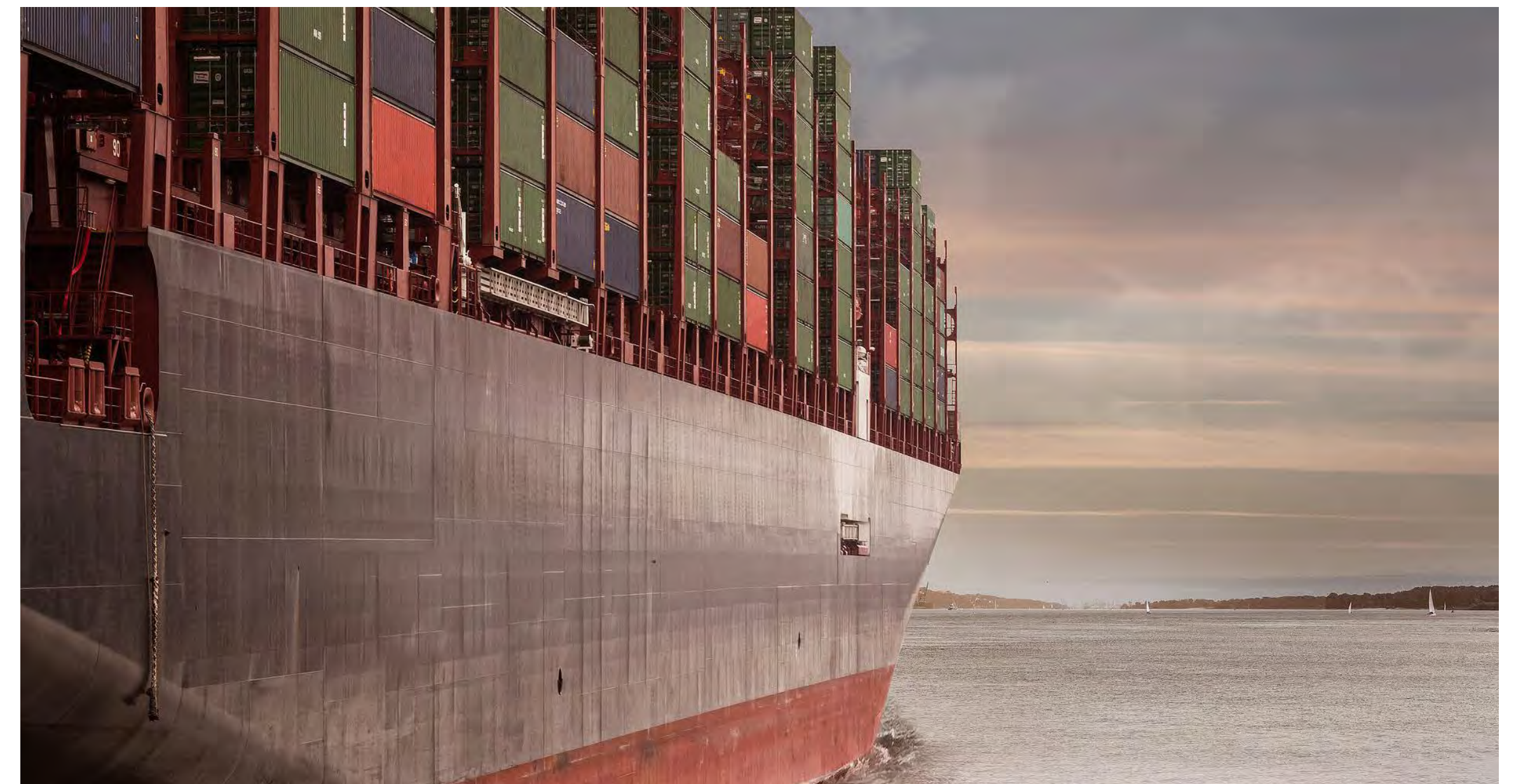
The European Union introduced a new F-gas directive that came into effect in January 2015, with the aim of cutting emissions of fluorinated greenhouse gases by two-thirds by 2030. It also regulates the use of fluids containing hydro-fluorocarbons. This affects the waste heat recovery market by restricting 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 heat power.

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 play-

ers, 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 could 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.

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 levelized cost of energy (LCOE) for customers. In order to do this, Climeon will focus on:

- Becoming the low temperature de facto standard in chosen segments
- Maintaining the Heat Power system's market leading conversion efficiency
- Optimize the 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 an EBITDA margin of 35 percent.

GROWTH STRATEGY

Climeon aims to establish 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 hydro-power, 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 markets with favorable conditions. 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 favorable. 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 due to the high electricity prices for geothermal electricity.

Build for growth

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

The Heat Power System is based on standardized and commoditized 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, limiting 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.

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.

“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.”

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

Baseload Capital has been involved in financing projects for Varmaorka and Wendel. In addition, Baseload Capital's subsidiary, Baseload Power Japan, has together with local energy entrepreneurs started several Heat Power operators, and thus become a customer of Climeon's. In March 2019, 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 and speed up installation

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 Electricity (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

“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.”

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. Climeon believes that a standardized and modular low-pressure product with clear interfaces will help enable simple integration.

Furthermore, Climeon intends to develop supporting products or 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. During 2019, Climeon has developed and pre-produced piping, a backbone, for the customer sites, in order to decrease cost for the customer and speed up integration. The first prototypes for this will be installed in Iceland during 2020.



CLIMEON'S BUSINESS

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. Climeon markets and sells the company's main innovation, 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 has received repeat orders from companies which are leading players in their respective industries. The company's technology has now passed its most critical stage – proven its commercial viability and readiness for a wider market roll-out. It provides a unit cost per kWh as low as or lower than competing technologies.

Competitive customer offering

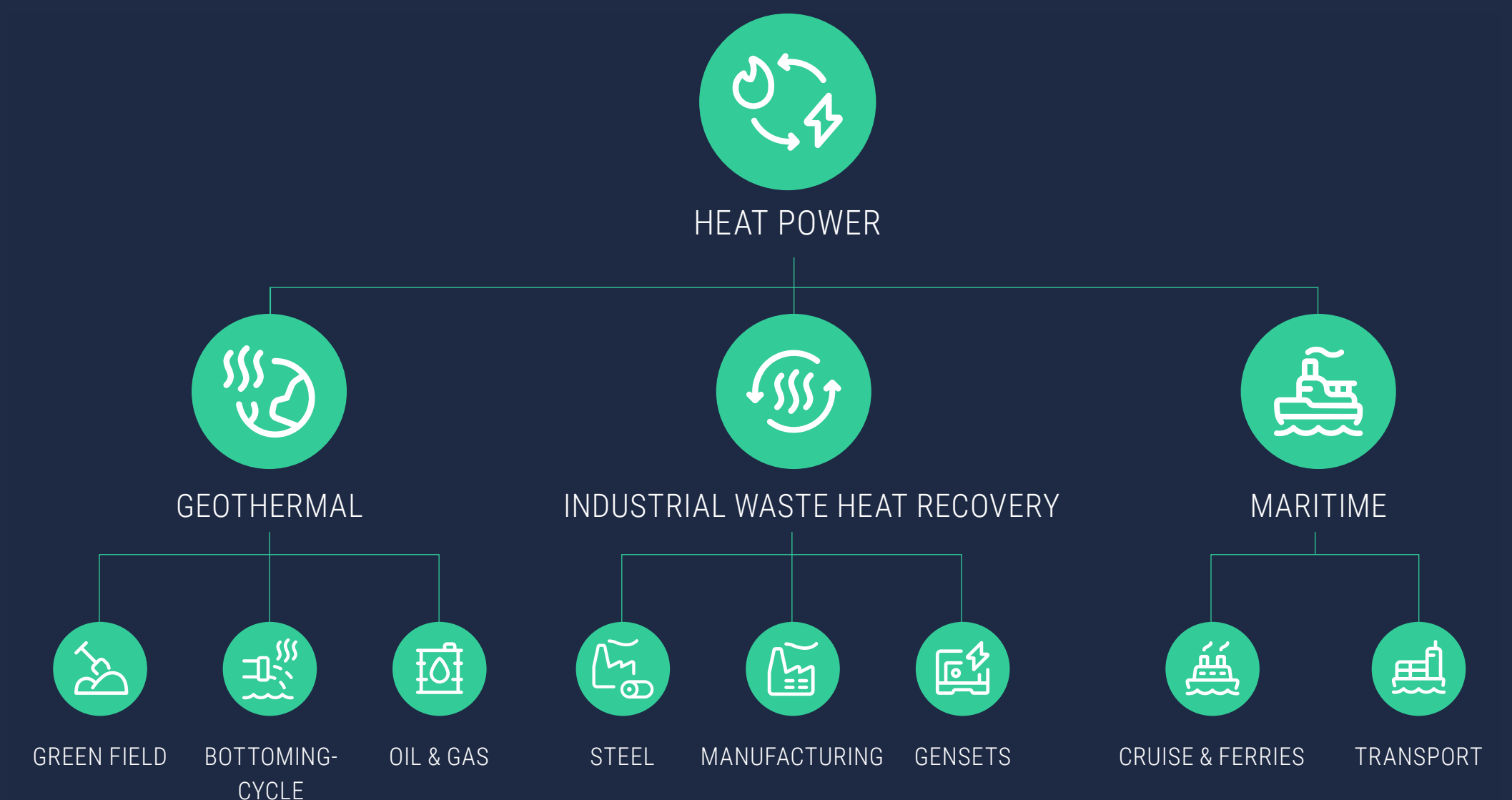
Climeon is both a hardware and software provider. The company's core offering is the modular and standardized Heat Power system and the system's software Climeon Live, which is a cloud-based monitoring and control system. In addition, Climeon offers site design and consulting services, as well as support services. 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 80–120°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 life-time of circa 25-30 years.

Climeon's Heat Power system offers a lower or equivalent Levelized Cost of Electricity (LCOE) compared to fossil fuels or renewable energy alternatives. Moreover, the Heat Power system delivers up to 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.

Business segments and applications



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 up to several MW by connecting more 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 20 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.

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,

“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 and system maintenance can be performed separately for each module, which reduces downtime for the system as a whole.”

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. In total, the company now has 7 approved patents.

Structured sales process

Climeon has a structured marketing and sales process outlining all steps from lead generation to delivery of a finished Heat Power System or pre-study. 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 lead becomes a Sales Project, additional resources are allocated to the project, including resources from delivery, technology and senior management. For the sales organization, 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 processes are initi-

ated. In 2019, Climeon re-organized and strengthen the sales team, adding resources focusing on industrial and maritime sales.

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 a main principle, the revenue from the sale of Climeon Heat Power modules is 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 to the right 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 percent at order, 30 percent at production start, 20 percent at delivery and 10 percent at launch of operations. The lead time

from order to delivery of a system is normally around six to twelve months. The customer is recommended to start the preparatory work in parallel to production start, as Climeon's delivery date is typically dependent on the customer's ability to build or prepare the surrounding power plant. The time from order to delivery is typically around 6–12 months with the exception of orders from shipyards, where the lead time is in the order of 24–36 months.

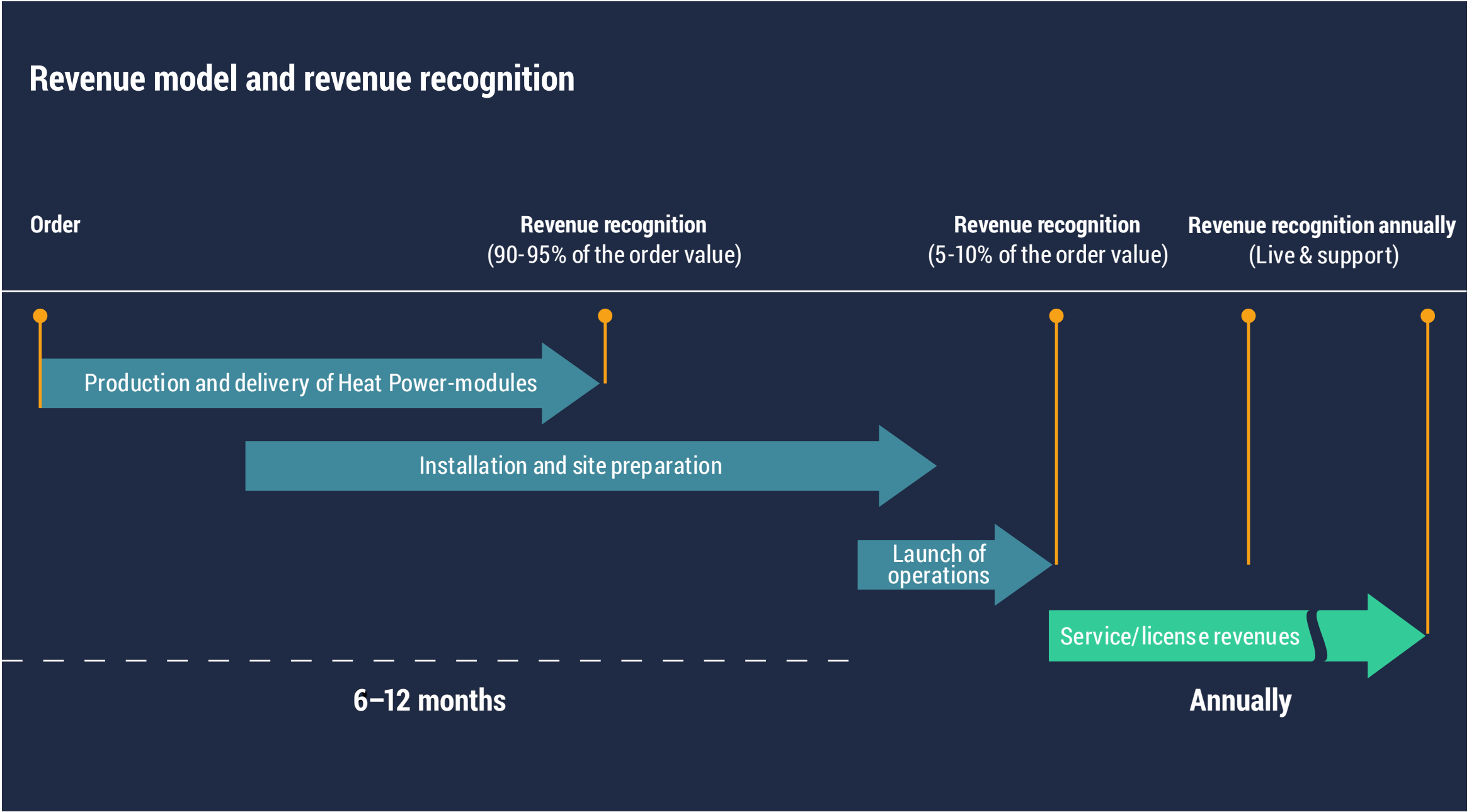
Climeon recognizes the main part of the revenues for the Heat Power system at delivery, while a smaller part of the order value, normally 5-10 percent, is recognized when the modules are put in operation. Geothermal deals, like Varmaorka on Iceland, can be divided into multiple installation projects 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. 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 organizations. 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. Climeon has also been 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.



GEOTHERMAL

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. Organic Rankine Cycle (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, on replacing the technology in active but unprofitable geothermal power plants as well as on recovering waste heat from high temperature 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 of geographic markets where Japan and Iceland have the highest priority in order to achieve volume roll-out. Other countries with large potential for Climeon, where the company has or intends to take strategic entry orders, are the United States, Germany, Hungary, Canada, Taiwan and New Zealand.

Example of customers:

• Varmaorka • Wendel • Baseload Power Japan •

Delivered modules
2019:

23

Share of order
backlog:

94%

Outperforming expectations

In 2018, Climeon and Varmaorka started building their first geothermal power plant in Flúðir in Iceland. Now the power plant has been producing electricity for about a year, has been handed over to the customer and had visitors from near and far.

The construction of the power plant began in May 2018 and commissioning was finished in March 2019. Following the two-month testing period, the power plant was then successfully handed over to the customer who stated that the power plant had outperformed their expectations.

However, being the first geothermal power plant built using Climeon's technology, others were also curious to see how the power plant performed. One of stakeholders monitoring the development closely was RARIK, Iceland State Electricity.

- When new electricity users arrive, it places demands on our power distribution system, which is not designed to accommodate a lot of power producers. Location really matters, along with a strong connecting port. That's what makes the new power plant at Flúðir so great. It's expected to reduce losses for our power distribution

system, and that will lower costs for everyone, says Kjartan Rolf Árnason, RARIK.

With the Flúðir power plant showing 96 percent uptime after summer, and having proven the concept among the local communities, Varmaorka has now shifted focus to building the next two power plants. Their quest to make local communities independent through clean electricity continues.

ABOUT

Customer: Varmaorka
Application: Geothermal
Location: Iceland





Development 2019

2019 has been a year of proving the Climeon Heat Power concept in Iceland. Municipalities, landowners, utilities and grid owners have been watching Varmaorka and Climeon's first geothermal power plant in Fludir closely throughout the year. Mid-2019 Climeon reached an important milestone as the power plant was officially handed over to the customer Varmaorka. With the power plant showing an uptime well over 96 percent over time, the concept has now gained trust among local stakeholders and Varmaorka has started preparing for the next two power plants.

In Japan, permit processes have taken a long time for both the customer and Climeon. Climeon has made several deliveries to Baseload Power Japan throughout the year, but site preparation work has been slow due to local permits and grid connection. Baseload Power Japan passed the permit processes for the two first power plants in late 2019 and the power plants will be ready for operation in 2020.

In addition to this, Climeon has also won business within geothermal in Hungary. Hungary, as well as many other countries in central and eastern Europe, have favorable geothermal properties. Climeon also entered into a strategic partnership with New Zealandic company Geo40 to open up a new area of the geothermal market, waste heat recovery at high temperature geothermal power plants, so called bottoming- cycles.

“With the power plant showing an uptime over 96 percent over time, the concept has now gained trust among local stakeholders.”



As a way to expand the company's offering and speed up the roll-out process, Climeon has added services related to the design of the surrounding power plant. By supplying the customer with a more complete power plant and optimizing the design of every part of the power plant, Climeon creates greater value for their customers by reducing time from order to power production and increasing the value of each installed module, while gaining additional income streams.

INDUSTRIAL

More than 50 percent of energy used in the world is wasted as heat. 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 industrial waste heat segment is large, with numerous industries producing significant amounts of waste heat that could be recovered using Climeon's Heat Power technology. However, Climeon has decided to initially focus on only a few application areas where the company sees a combination of simple integration and large potential.

Example of customers:

• SSAB • COOPER ÖSTLUND •

Share of order backlog:

3%

Climeon's focus

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, which makes it a prioritized industry for Climeon. Waste heat is generated from various sources within a steel mill, including the blast furnace, the LD converter, casting and exhaust gases.

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. Another process in the steel production with large potential for Climeon is the LD converter. Climeon estimates that the global market for waste heat recovery from LD converters can accommodate a large number of heat recovery systems.

Increased efficiency, decreased emissions

Late 2019, Climeon won its first order for power plants based on reciprocating engines, so-called gensets, a growing business with large potential for waste heat recovery.

With solar and wind power expanding quickly, many countries are turning to power plants based on large engines to balance the power grid, for example when there is no wind, or at night. These power plants work as a sustainable baseload power in countries where geothermal heat power or hydro power can't be used but they still want to move away from dirty power sources such as coal.

These are the type of power plants Climeon's customers Energy Circle and CooperÖstlund are developing. The power plants are based on Natural Gas and Liquefied Natural Gas (LNG) reciprocating engines that will be delivering power to the national UK Electricity Grid. Climeon's modules recover the waste heat from the power plants which increases their efficiency and reduces CO₂ emissions. Besides environmental benefits this also creates significant cost benefits for the power plant operators.

- The Heat Power modules are a great way to improve the efficiency of the engines and decrease the emissions. We look forward to continuing and extending our cooperation with Climeon, says Duncan McPherson, CEO of CooperÖstlund.

ABOUT

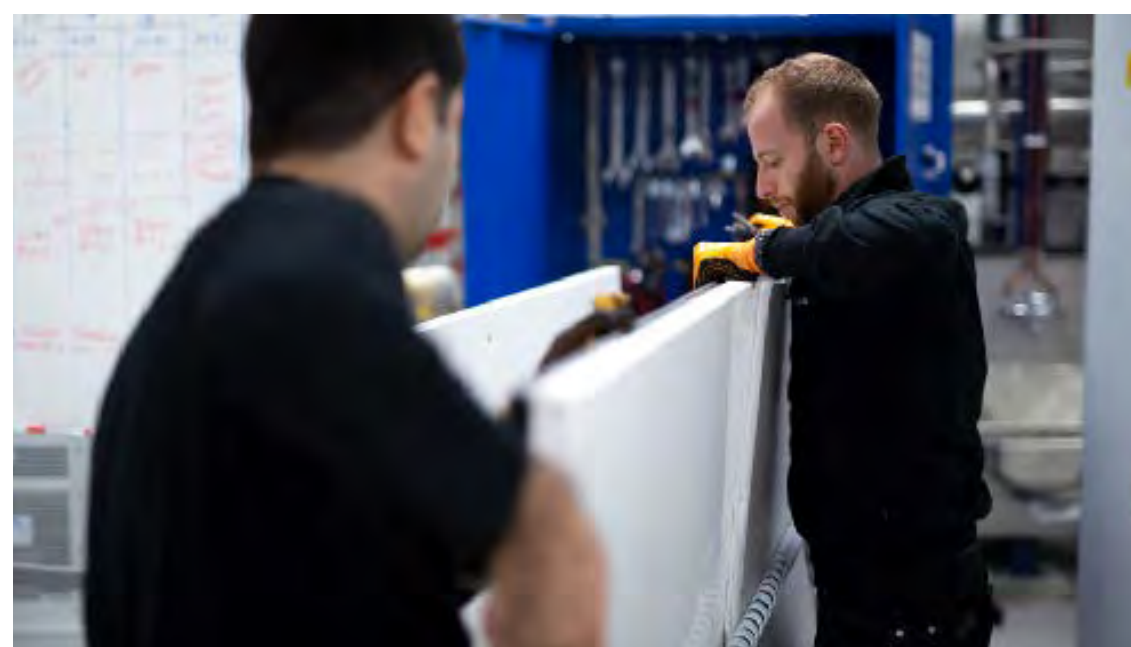
Customer: Energy Circle and CooperÖstlund
Application: Industrial waste heat recovery-
Location: United Kingdom



Converted to installations of Climeon's Heat Power module the market potential is between 4,000 and 12,000 modules.

Another prioritized area within the industrial segment is power plants based on reciprocating engines, so-called gensets. Gensets are biomass, biogas, natural gas or diesel-fueled power generators, with only the purpose of generating

electricity. As solar and wind power have expanded quickly, many countries use power plants based on large combustion engines to balance the power grid. These power plants work as a sustainable baseload power in countries where geothermal heat power or hydro power can't be used but they still want to move away from dirty power sources such as coal. For every two MW installed of gensets, Climeon estimates that one Heat Power module could be installed.



“Climeon believes that gensets will be an important part of the company's growth over the coming years.”

Development 2019

During 2019, Climeon has re-organized and expanded the sales team to increase focus on industrial sales. The first result of this investment is the company's first order where the Heat Power system will be used in a power plant based on reciprocating engines, so-called gensets. The order comes from gas engine specialists Cooper Östlund and Energy Circle in the UK. The genset market is growing significantly due to the large growth of solar and wind power plants in the past years, in particular in island countries lacking sustainable baseload power. Climeon's modules recover the waste heat from the power plants which increases their efficiency and reduces CO₂. Besides environmental benefits this also creates significant cost benefits for the power plant operators, making the business case very attractive. Climeon believes that gensets will be an important part of the company's growth over the coming years.



MARITIME

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).

Example of customers:

• Virgin Voyages • Viking Line • Maersk

Delivered modules 2019:	Share of order backlog:
8	3%

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 as the environmental and emission requirements have become stricter also there. 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 utilization of low temperature waste heat to be circa 500–1,500 ships. Climeon 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.

Climeon estimates that out of the circa 85,000 ships that exist worldwide, circa 15,000–30,000 are compatible with a system for utilization 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

Delivering a new solution to increase energy efficiency

In 2015, Viking Line became the first company in the world to install a Climeon Heat Power module to utilize the waste heat from the ship's engines. After personnel, energy is the second biggest cost for Viking Line and therefore energy efficiency is crucial, so when Viking Line began designing their new ship, Viking Glory, they were sure of their plans to once again install a Climeon Heat Power module. At the same time, they wanted to find more ways to save additional energy and reduce carbon dioxide emissions.

Climeon therefore developed a steam turbine solution to further increase the energy recovery on board Viking Glory. The solution combines a proprietary steam turbine with Climeon's Heat Power module to optimally utilize waste heat at both high and low temperatures. The steam turbines, like Climeon's Heat Power modules, are scalable and easy to adjust based on runtime and heat supply.

- Since 2015, when we first installed Climeon's module, we have had a close cooperation between the companies, says Kari Granberg, project manager for Viking Glory at Viking Line. We are very proud to now be the first ones to test steam turbines in combination with Heat Power modules, continues Kari Granberg.

- Through our close collaboration with Climeon, we continue to find ways to recycle as much waste heat as possible and make our vessels even more climate friendly, Kari Granberg concludes.

The steam turbines were delivered in 2019 and have been specially developed for Viking Line. The technology will now be evaluated, refined and further developed in close collaboration with Viking Line. The two steam turbines use temperatures around 180 degrees Celsius and can generate a maximum of 150 kW each. The energy remaining in the steam coming out from the steam turbines is then used to generate electricity using Climeon's Heat Power modules, which maximizes the electrical output and recovery of the ship's waste heat.

Climeon's waste heat recovery system is estimated to generate up to 40 percent of the electricity required for passenger functions, making Viking Glory one of the most climate friendly cruise ships in the world.

ABOUT

Customer: Viking Line

Application: Maritime waste heat recovery

Location: Åland





modules. 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 the regulatory requirements needed within the maritime industry.

Development 2019

2019 has been a busy year installation wise for Climeon in the maritime industry. Installation has been on-going onboard five different vessels; three Virgin Voyages and Fincantieri cruise ships, one Viking Line cruise ship, Viking Glory, as well as one Maersk container ship. The installation onboard Virgin Voyages and Fincantieri's first ship, the Scarlet Lady, was completed during the year and Climeon successfully passed the Sea Trials. The ship has since been handed over from the shipbuilder Fincantieri to the owner Virgin Voyages and commercial operation has begun. Sea Trials for the second ship, Valiant Lady, is expected to take place in 2020.

An important milestone during the year was when Climeon's Heat Power module was approved by the certification body American Bureau of Shipping (ABS) and installation onboard Maersk's vessel could begin. This is Climeon's first installation onboard a containership. Commissioning and final installation approvals are expected to be completed during 2020.

“An important milestone was when the Heat Power module was approved by ABS and installation onboard Maersk's vessel could begin.”

During the year, Climeon also delivered two steam turbine solutions to Viking Line and their ship Viking Glory. The steam turbines have been specially developed for Viking Line and the technology will now be evaluated, refined and further developed in close collaboration with Viking Line. It combines a proprietary steam turbine with Climeon's Heat Power module to optimally utilize waste heat at both high and low temperatures. The two steam turbines use temperatures around 180 degrees Celsius and can generate a maximum of 150 kW each. The energy remaining in the steam coming out from the steam turbines is then used to generate electricity using Climeon's Heat Power modules, which maximizes the electrical output and recovery of the ship's waste heat. The steam turbines, like Climeon's Heat Power modules, are scalable and easy to adjust based on runtime and heat supply.

VALUE CHAIN

The production of Climeon's Heat Power system is outsourced to third parties, whereas all research and development is done in-house, with all unique product designs being owned by Climeon. The value chain shows how Climeon's unique solution is sourced, produced and distributed around the world.

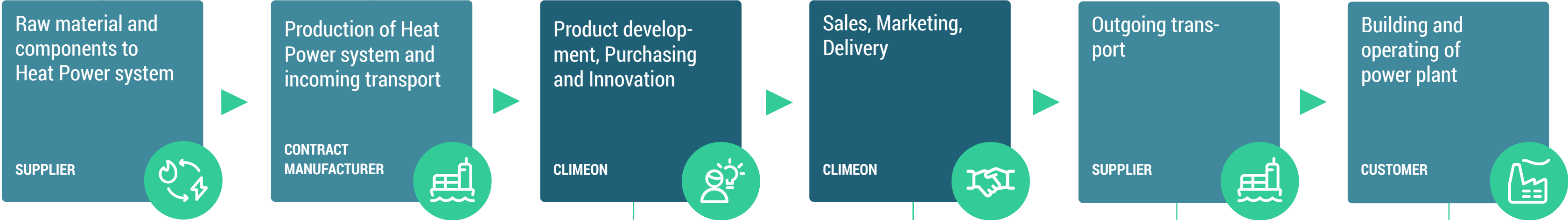
REPUTABLE SUPPLIERS WITH INTERNATIONAL REACH

Climeon has two different groups of suppliers: assigned suppliers and un-assigned 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 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.



READY FOR VOLUME PRODUCTION

The production of Climeon's Heat Power modules is done by Mastec, a renowned contract manufacturer working with several large industrial customers. 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 from Mastec, 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.

Following the delivery from Mastec, all machines are tested by Climeon's staff at the company's testing and development

site 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.

INNOVATION AND CONSTANT IMPROVEMENTS

Climeon's two first pilot installations were made in 2015. Since then, the company has been collecting data from the field and analyzing it to further improve the Heat Power system. Climeon's Research & Development team works closely with Supply Chain Management as they focus on decreasing cost of the product, designing for easy maintenance

and other improvements that create customer value. New designs and new suppliers are then sent back to Mastec to be incorporated in production.

With the learnings from the first couple of customers within each segment, Climeon has also found more business opportunities. In 2019, Climeon delivered its first steam turbine solution, which has

been specially developed for cruise ship operator Viking Line. The solution was built around Viking Line's desire to further increase the energy recovery on board their ships. The steam turbines will now be evaluated, refined and further developed in close collaboration with Viking Line. For geothermal customers, Climeon has developed solutions for the sur-

rounding power plant that will speed up the power plant project while decreasing costs for customers.

The Heat Power solutions are then marketed and sold by Climeon. Part of the sales team is also a Delivery Project Manager, who will facilitate the project from start to finish, ensuring an efficient customer journey.

EFFICIENT TRANSPORT

Climeon uses a few carefully selected suppliers for transporting the Heat Power systems. The small footprint and modular solution makes it easy to ship the systems in containers. Depending on the customer's location, freight options will vary but typically a combination of trucks and ships are used. However, ensuring an environmentally friendly transport is prioritized.

GLOBAL CUSTOMER BASE

Climeon's customers are found in various parts of the world and in different industries. Power plant design, construction and operation are typically the customer's responsibility. However, Climeon offers consulting and design services for those who wish to buy a more complete power plant. Once the commissioning of the Heat Power system is completed, operation is handed over to the customer.

BUSINESS FOR A BETTER WORLD

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.

Dialogue with our stakeholders

Stakeholder engagement is part of our commitment to making a better world. An ongoing dialogue involves sharing our progress with stakeholder groups and understanding how their interests relate to our company and our business. Our stakeholders comprise of shareholders, employees, customers, the management team and board members. Based on our dialogue Climeon has identified a number of prioritized sustainability issues within three main areas: Environment, Employees and Responsible governance. Key figures or activities within these areas are reported to the Board of Directors. We strive to develop our sustainability work continuously and further improve our ways of measuring targets related to our material focus areas within sustainability.

Focus on what's most important

Environment

CO₂
Water
Production

Employees

Healthy and committed
employees
Safe working environment
for all

Responsible governance

Code of conduct and ethics
Policies and follow-up

ENVIRONMENT

Environmental impact lies at the heart of our operations. In this area, Climeon has identified three material issues: CO₂ emissions, water and production. During 2019, Climeon has developed a new environmental policy to reflect the organizations' growth and increased business. The new policy includes stricter requirements when evaluating suppliers, as well as environmental targets for Climeon. Climeon is certified according to ISO 14001 and 9001, which guarantees that Climeon is constantly improving with the customer and the environment in mind.

Reducing emissions while growing the company

Climeon's Heat Power-system turns waste heat and geothermal heat into green electricity and thereby enables less emissions of carbon dioxide, contributing to a greener environment. Since the beginning, the company's number one KPI has been tons of CO₂ reduced, a target which is reported monthly to the Board of Directors. Depending on the energy mix, and run time, one Heat Power module can save up to 900 tons of CO₂ per year. In 2019, the Climeon Heat Power units in operation reduced CO₂ emissions by about 4,000 tons.

However, with a global customer base and complex sales processes, Climeon's business requires a significant amount of



travels. The company strives to only make business critical trips and has a travel policy in place, stipulating that domestic travels should be made by train and that trips to/from airports should be made in the most environmentally friendly way possible. The company's car policy also requires all leased cars to be electrical or hybrids. As a way to reduce CO₂ emissions from travels, the service and delivery teams typically plan for the traveling employees to stay for a significant amount of time in each location, minimizing the need to travel back and forth many times during a project.

All Climeon employees use a travel agency for domestic and international trips and during 2019 the registered travels corresponded to CO₂ emissions of about 230 tons, significantly less than the CO₂ reduced by the Heat Power modules in operation.

Another focus area for Climeon when it comes to CO₂ emissions is transports. A key priority when Climeon evaluates partners within logistics is sustainability and environmental friendly transports. Given the size and weight of the Heat Power modules and location of the customers, shipping and trucks are typically used. During next year, Climeon will refine the methods of measuring the environmental impact of the transports.

Climeon strives for low environmental impact throughout the product life cycle

Methods and materials

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 — this is known as environmental payback time.

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.

Considering the whole value chain

When it comes to choosing suppliers, low environmental impact is a high priority. Our target is that all suppliers should be ISO 14000 certified or work according to those principles. For components where the production process is energy intensive, Climeon evaluates where the electricity comes from. Climeon has several times declined suppliers with production in countries where large parts of the electricity come from coal. By having only 15-20 suppliers for the Heat Power module, Climeon can have a close dialogue with suppliers. During the annual supplier audits, Climeon focuses on quality, work environment and sustainability.

Managing the geothermal water

When building small scale distributed geothermal power plants, the main resource utilized is water. Within the geothermal business, Climeon takes into account and complies with coming and already established EU Taxonomy requirements regarding emission targets, risks related to earthquakes, water contamination, and CO₂ dissolved in the water.

The geothermal industry is well-established, as is drilling. All drilling is preceded by thorough seismological studies to

eliminate the risk of earthquakes. This risk is also reduced by the fact that Climeon utilizes low temperature geothermal heat and can thus be further away from areas with very high seismologic activity.

The geothermal water Climeon uses for electricity production is typically found at depths well below groundwater. As there is no hydraulic connection between the water used in the power plant and the groundwater, the risk of contaminating drinking water is eliminated. As Climeon's internal working media is in a closed loop, the hot and cold water used in the machines can be re-used in the process or pumped back into the ground.

“The Heat Power module needs about two weeks in operation to compensate for the amount of energy used in the production.”

EMPLOYEES

Sustainable work environment

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. When it comes to employees, Climeon has identified two material risks: Safety and Health.

A safe working environment for all

Number one priority for Climeon is the safety of our employees and we have a target of zero accidents. Our employees handle high voltages, hot liquids and gases, which poses significant risks unless handled correctly. These risks are present not only at our own test site, but also at customer sites.

As part of the onboarding process, all employees must go through the safety guidelines and record the completion of this with HR. There are also regular safety trainings for all employees working in the test site and/or on customer sites. Everyone working in the test or customer sites must have completed the trainings for electrical safety and injury prevention "Heta Arbeten". The safety team regularly follows up the safety at our premises and customer sites and ensures that any deficiencies are rectified promptly. Inci-

dents are also followed up by the management team, as well as relevant teams. In case of serious incidents, they are also reported to the Board.

In 2019, we had zero fatalities and zero serious injuries.

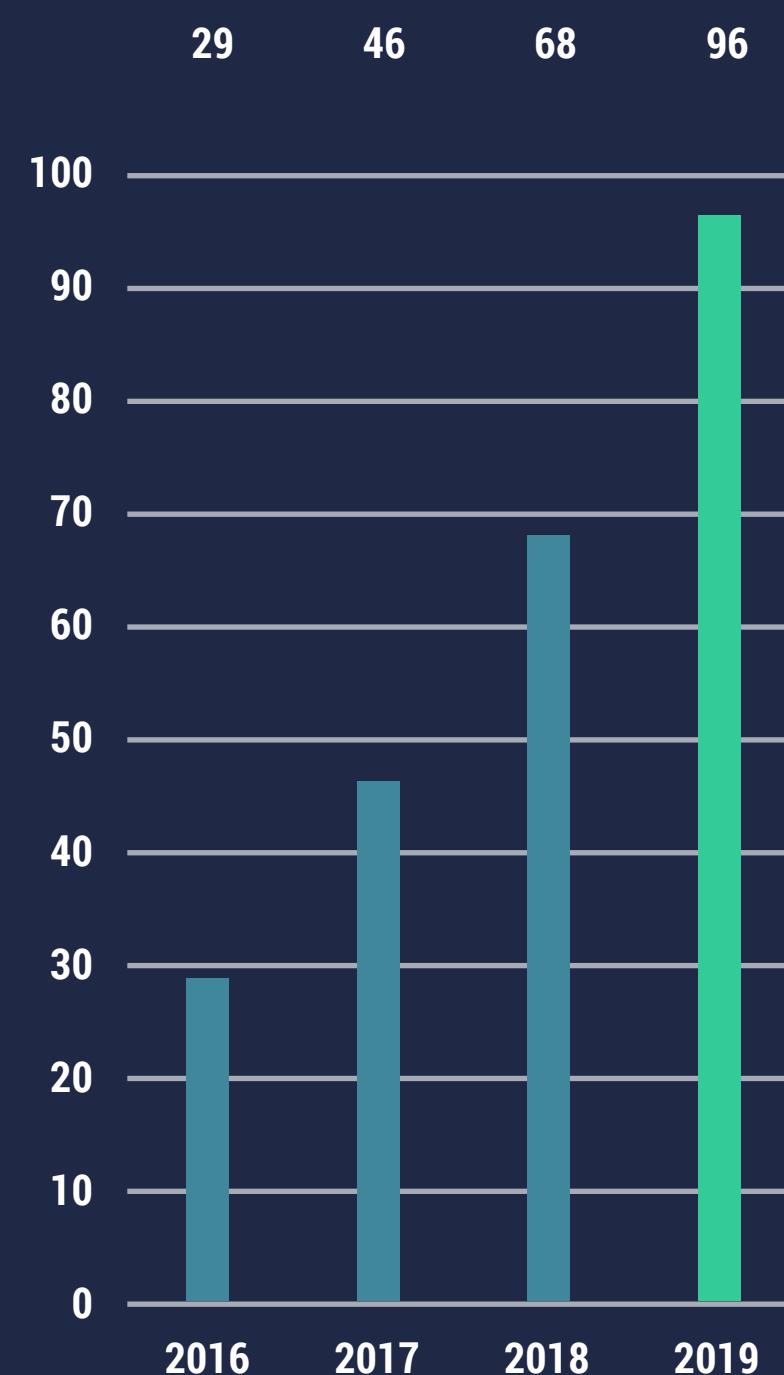
As Climeon's Heat Power units are produced by contract manufacturer Mastec, they are responsible for the safety in the production. However, Climeon has a close relationship with Mastec and has regular visits and contact with employees on all levels in the organization. As a part of the yearly supplier audit, Climeon evaluates the working environment and safety procedures at Mastec, as well as subsuppliers.

Healthy and committed employees

To achieve the company's goals of reducing CO₂ emissions and enabling a fossil free future, it is crucial that Climeon's employees are healthy, feel committed and are engaged in the work we do. We recruit employees who believe in the same values that we do: Do Good, Always Deliver and Be Amazing. These core values should guide all employees in everything we do and we strive to always be the good company. Climeon strives 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 developing ways of working and setting up targets. Employee engagement, workload, influence, participation and Employee Net Promotor Score (ENPS) are followed up



Number of employees



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. ENPS and key indicators from Winningtemp are reported to the Board of Directors monthly.

During 2019, Climeon developed a new model for performance development dialogues (PDD), which has been implemented during the beginning of 2020. The goal of the PDD is to engage employees in their own development and have them work together with their manager to set targets and plans for the upcoming year.

With ambitious and engaged employees in a fast growing company, there is a clear risk of high stress. Climeon therefore 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. In the case that an employee needs to go on stress related sick leave, Climeon has a rehabilitation policy and clear procedures for how to help the employee recover.

Another important aspect of building an efficient organization is internal communication to keep everybody informed about the status of the company and maintain the culture we take pride in. The company has grown significantly and to ensure transparent communication and maintained team spirit,

monthly All Employee Meetings followed by a social activity have been initiated. In the meetings the leadership team explains the strategy forward, follows up on targets and give all employees the opportunity to ask questions and have a dialogue about the work to be done. Twice a year, the company also gathers for at least a full day of team building and workshops during what we call "Climeon Camp". This is a way to utilize the collective intelligence of the organization while nurturing the company culture and having fun as a team.

To support company growth, Climeon's talent management team continuously develops our recruiting, onboarding and offboarding processes. The onboarding package together with the employee handbook and online courses tailored for the different company functions helps new employees quickly get up to speed.

An important part of doing good is of course to make sure that Climeon is a diverse workplace where women and men, regardless of age or background, meet each other with respect. With an international and diverse workforce, the Company language is English. At the end of the year, the share of women in the company was 24 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, and has also established an equality board. Climeon is actively working on designing recruitment ads and external material in an inclusive manner to increase the proportion of female applicants.



"We recruit employees who believe in the same values that we do: Do Good, Always Deliver and Be Amazing."

RESPONSIBLE GOVERNANCE

Climeon's values are based on three core values: Always deliver, be amazing and do good. A critical part of this is to behave in an ethical and sustainable way. The key risks identified within responsible governance are related how Climeon, our suppliers and our customers act.

Code of Conduct and ethics

Climeon has one Code of Conduct for all employees and one Code of Conduct for suppliers and partners. The Code of Conduct covers areas such as ethics, human rights, employee health and safety, equality, discrimination, corruption, environment and whistle blowing. At both Climeon, and our suppliers, all employees are to be afforded equal opportunities for development, regardless of gender, age, ethnic origin, religion, political views, sexual orientation, disability or other distinguishing characteristics. We defend human rights, and require that all of our suppliers, as a minimum, comply with the minimum requirements under national legislation with regard to labor law. We have zero tolerance regarding forced labor and work actively to prevent regulatory violations within our operations or value chain. We adhere to The Ten Principles of the United Nations Global Compact.

All suppliers are informed about our Code of Conduct (CoC) and the majority of the suppliers that deliver components to our Heat Power systems have also signed it. The target is to have all suppliers delivering components to the systems signing the CoC. The suppliers' adherence to the Climeon



CoC is evaluated every year, in supplier meetings as well as audits made by Climeon's Quality Manager. Those who do not meet our requirements are asked to present an action plan showing how they will close the gaps identified.

The Code of Conduct and Climeon's view on ethics is also presented to our customers and attached to sales agreements. During 2019, we identified a safety flaw at a customer site which urged us to send a member of Climeon's Management team to the customer and educate them about

security and monitor that the flaw was corrected, ensuring that the site is safe not only for our employees but also for the customer's employees.

Policies and follow-up

As complements to the Code of Conduct, Climeon has also implemented a policy for work environment, a quality and environmental policy, transport policy, safety guidelines and a rehabilitation policy.

“All suppliers are informed about our Code of Conduct (CoC) and the majority of the suppliers that deliver components to our Heat Power systems have also signed it. The target is to have all suppliers delivering components to the systems signing the CoC.”

Policies related to the working environment and personnel are followed up by the Talent Management team, quality and environmental issues are followed up by the Quality Manager, and the safety guidelines are followed up by the safety team at regular meetings. The findings are then reported to the leadership team, and critical issues are reported to the board of directors.

CORPORATE GOVERNANCE REPORT

Climeon AB (publ) is a Swedish public company, with its registered office in Kista and its B-shares listed on Nasdaq Stockholm First North Premier Growth Market.

Corporate governance

The general meeting of the company is the company's highest decision-making body at which shareholders exercise their right to vote. The Board of Directors and the Chairman are elected by the Annual General Meeting (AGM). The Board appoints the Chief Executive Officer (CEO). The Board and CEO's management and the company's financial reporting is audited by the external auditor, also appointed by the AGM. To strengthen work on certain issues and to comply with the Swedish Corporate Governance Code, the Board has during 2019 established an Audit Committee and a Remuneration Committee.

As of 2019, Climeon applies the Swedish Corporate Governance Code (the Code) and has during the year taken action to fulfill the main part of the requirements. However, certain deviations existed during the year and those are explained under the affected sections. Climeon AB complies with Nasdaq Stockholm First North Premier Growth Market's Regulations for Issuers and good equity market practice. The most important internal governance instrument is the Articles of Association established by the general meeting of the company. In addition to this are the Board's proce-

dural rules and the Board's instruction for the CEO. Internal policies and instructions that clarify responsibilities and powers within specific areas such as environment, ethics, data security, compliance and risk management are key guideline documents for the entire company.

Ownership structure

At year-end 2019 Climeon had 12,464 owners of ordinary shares according to the shareholder register maintained by Euroclear Sweden. The five largest owners at 31 December 2019 were Thomas Öström with 54 percent of the votes, Joachim Karthäuser with 26 percent of the votes, Handelsbanken Hållbar Energi with 1 percent of the votes, Stefan Brendgen with 1 percent of the votes and Olle Bergström with one percent of the votes.

Corporate bodies

General meeting of shareholders

The shareholders' right to make decisions on matters relating to the company is exercised at general meetings of the company. This is the highest decision-making body, which all shareholders are entitled to attend. The term 'Annual General Meeting' (AGM) refers to the general meeting of the company that is held within six months of the end of the financial

year, at which the consolidated financial statements and the group auditors' report are submitted and decisions are taken regarding the adoption of the income statements and balance sheets of the company and the Group, the appropriation of profits, and the discharge from liability of the Board and the Chief Executive Officer. The AGM 2019 gave the Board of Directors a mandate to issue 3,000,000 B shares.

Climeon's 2020 AGM will take place on 19 May in Stockholm, Sweden. Shareholders who wish to submit a proposal to the Nomination Committee or have a matter addressed by the AGM may submit such proposal to the Nomination Committee and such matter to be addressed to the company well in time before the AGM. Contact information can be found at www.climeon.com

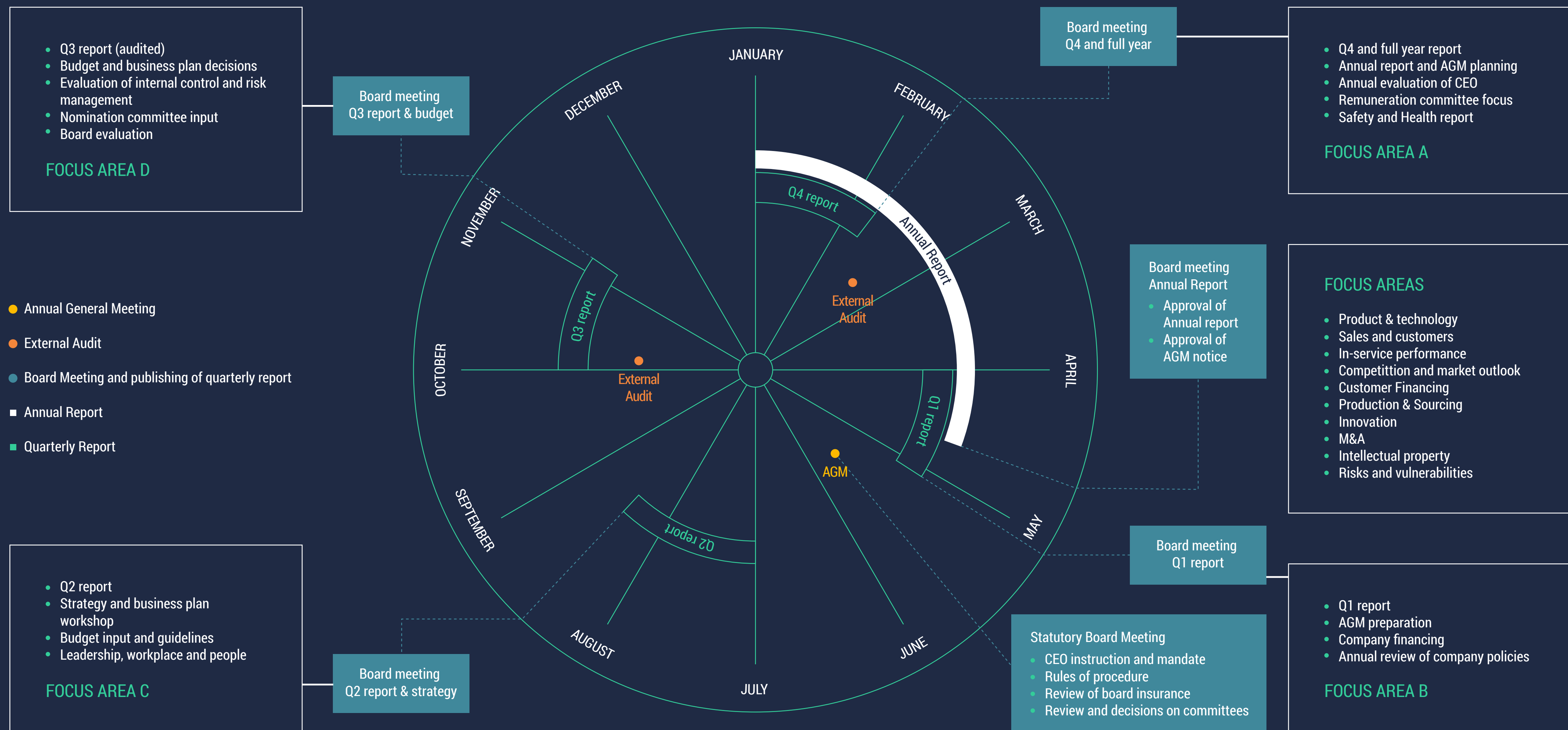
Each Class A share entitles the holder to ten votes at general meetings and each Class B share entitles the holder to one vote. Shareholders are entitled to vote in proportion to the shares that they own in the company.

Notice convening general meetings should be given no earlier than six weeks and no later than four weeks before the meeting. Shareholders wishing to attend a general meeting must give notification of their attendance within the time period stated in the convening notice. All documentation relating to the AGM can be found at www.climeon.com

Nomination Committee

In 2019, Climeon established a Nomination Committee, which will nominate Board members prior to the election at the AGM. In addition, the Nomination Committee will propose fees for Board members, as well as proposing the election of and fees for the auditor. The current Nomination Committee instruction stipulates that Climeon should have a Nomination Committee consisting of Climeon's Chairman and a representative for each of the four largest shareholders or shareholder groups, by number of votes, that wish to appoint a representative. For the forthcoming year the Nomination Committee should be based on the list provided by Euroclear Sweden of registered shareholders and shareholder groups and other reliable information as of the last business day of September. All documentation relating to the AGM can be found at www.climeon.com. See the company website for further information about the Nomination Committee.

The Nomination Committee, appointed by the largest shareholders of Climeon as per 30 September 2019 in accordance with the so called Q3 model, consists of the following representatives: Helen Öström, appointed by the shareholder Thomas Öström (53,6% of the votes and 19,6% of the shares), Anne Holm Rannaleet, appointed by Joachim Karthäuser (26,4% of the votes and 9,5% of the shares), Niklas Johansson, appointed by Handelsbanken Fonder (0,7% of the votes and 2,3% of the shares), Annelie Enquist,



appointed by Skandia Sverige Hållbar (0,4% of the votes and 1,4% of the shares), Per Olofsson, the Chairman of the Board. No remuneration has been paid for Nomination Committee work. The Nomination Committee and their guidelines were adopted by the Extra General Meeting held on December 17th. The Nomination Committee's proposals, report on the Nomination Committee's work for the 2019 AGM and additional information about proposed Board members are published in conjunction with the convening notice and are to be presented at the 2020 AGM.

Composition of the Board

According to the Articles of Association, Climeon's Board of Directors should consist of no less than three and no more than 10 Board members and a maximum of three deputy members, who are appointed by the Annual General Meeting. Climeon has no deputy board members.

Board members are elected for a period of one year. In 2019, six Board members were elected by the AGM. One board member was also elected at an Extra General Meeting in December 2019.

The composition of the board should be such that it maintains and improves the overall effectiveness of the Board. To fulfil this, the Board aims to achieve a broad range of characteristics and capabilities and it is explicitly stated

that diversity regarding aspects such as age, gender, geographic origin, education and professional background are important to take into account.

The AGM of 16 May 2019 re-elected Board members Olle Bergström, Stefan Brendgen, Vivianne Holm, Therese Lundstedt, Per Olofsson and Thomas Öström. The AGM elected Per Olofsson as Chairman for the period until the next AGM. For further information about the Board of Directors, please refer to page 36.

Climeon's largest shareholder Thomas Öström summoned an Extra General Meeting to be held on December 17th 2019, with the purpose of electing Jan Svensson as member of the board and vice chairman. This was a deviation from the Swedish Code of Corporate Governance as the nomination committee should be nominating board members prior to the election at the AGM. The deviation was made due to the fact that the discussions with Jan Svensson had been on-going for a long time and that his competence and experience where of such importance to Climeon that the company did not want to risk the chance of having him join the board nor delay such a recruitment. The EGM of 17 December 2019 elected Jan Svensson as board member of Climeon.

The composition of Climeon's Board meets the requirements regarding independent Board members. However, Climeon has

utilized Board members for operational consultancy assignments during 2019. Until the 2020 AGM Climeon will further reduce the use of Board members for operational consultancy assignments to increase the independence of the board.

The Board's work

The board of directors shall on behalf of the shareholders, administer the company's business so that shareholders' interest of return of capital is accommodated in the best way. The board of directors is responsible for the company's organization and the management of its affairs.

The Board held 12 meetings during the year, including five extraordinary board meetings and one statutory meeting. Board member attendance is shown in the table on page 33. The company's CFO acted as secretary at the majority of the Board meetings. Board members received written material about the issues being addressed before each Board meeting.

The work of the Board mainly comprises strategic issues, accounts, the establishment and monitoring of business goals, business plans, internal control, risk management, financing and other decisions which, according to the procedural rules, should be addressed by the Board. A key aspect of the Board's work is its review of the financial statements that are presented at each ordinary Board meeting and this

also encompasses in-depth analysis of ongoing work by the company. The Board also receives monthly reporting on the Group's financial position as well as HR issues and general well-being of the employees.

During the year, the Board followed up business plans submitted by management and the development potential across Climeon's business areas. Climeon has also further developed the Board's procedural rules to ensure adherence to the Swedish Code of Corporate Governance.

In accordance with the Swedish Code of Corporate Governance, the Board of Directors has met with the auditor, without management present, in connection with the presentation of the annual accounts.

Board committees

During 2019, the Board has established two committees as part of strengthening the Board's work with regard to certain issues: An Audit Committee and a Remuneration Committee. They are appointed for one year at a time and the work and authority of the committees are regulated by the committee instructions, which are established annually. The committees have a preparatory and administrative role. The issues addressed at the committees' meetings are minuted and a report is submitted at the subsequent Board meeting.

The Audit Committee consists of Vivianne Holm (Chairwoman), Stefan Brendgen and Per Olofsson. The committee is also attended by the company's CFO and Head of Investor Relations. The Audit Committee's main tasks are to:

- monitor the company's financial reporting;
- monitor the effectiveness of the company's internal control and risk management with regard to financial reporting;
- stay informed about the audit of the annual accounts and the consolidated financial statements;
- review and monitor the auditor's impartiality and independence and, in so doing, pay particular attention to whether the auditor is providing the company with services other than auditing services;
- assist in the preparation of proposals for the AGM's election of auditor;
- assist in monitoring the compliance with legal and regulatory requirements that have a material impact on financial statements;
- assist in monitoring transactions with related parties; and
- assist in monitoring and evaluating selected projects.

The audit committee held one meeting in 2019, with full attendance.

The Remuneration Committee comprises Therese Lundstedt (Chairwoman) and Per Olofsson. The Remuneration Committee's main tasks are to:

- prepare Board decisions on issues regarding remuneration policies, remuneration and other terms of employment for senior executives;
- monitor and evaluate ongoing variable remuneration programs for senior executives and such programs that conclude during the year; and
- monitor and evaluate application of the guidelines for the remuneration of senior executives that are determined by the AGM and the applicable remuneration structure and remuneration levels in the Group.

The Remuneration Committee held one meeting during 2019 with full attendance.

Assessment of the Board and the CEO

In accordance with the Board's procedural rules, the Chairman of the Board should initiate an evaluation of the Board's work once a year. An assessment of the Board's work was conducted in 2019, through a questionnaire sent to all Board members. In addition, the chairman conducted individual evaluation discussions with all Board members.

The purpose of the evaluation was to gain an understanding of Board members' views of the work conducted by the Board and what measures could be taken to improve the Board's activities. It also aims to gain an understanding of what type of issues the Board believes should be accorded more scope and what areas may require additional capabilities within the Board. The results of the evaluation have been reported to the Board.

Once a year the Board carries out a formal evaluation of the CEO. However, the Board also evaluates the CEO on an ongoing basis by monitoring the performance of the business against set targets.

The Chief Executive Officer, company management and organization

The CEO of Climeon is Thomas Öström. The CEO's responsibilities include personnel, financial and business management issues, as well as ongoing contact with the company's stakeholders such as authorities and the financial markets. The CEO's work is governed by the CEO instruction, provided by the Board. The CEO ensures that the Board receives the information it needs to take well-informed decisions.

Climeon's management team holds a shorter operational meeting once a week, as well as a longer strategic meeting

once a month. The CEO together with the management team has decided on this set-up to be able to make quick operational decisions necessary in a fast-growing company, while at the same making time for the more strategic discussions and decisions. Management meetings discuss and address ongoing corporate initiatives, changes in the market, current issues in functions and staffs, delivery and sales projects, and the follow-up of operating target achievement.

During 2019, there has been continued focus on developing the organization to support the company's growth and strategic direction, as well as clarifying roles and targets. Increasing safety procedures at own and customer sites has also been a priority in combination with general employee health. To ensure a motivated and aligned workforce in this period of growth, internal communication efforts have been increased and improved, including but not limited to monthly all employee meetings.

Governance at Climeon

Board of Directors

Board and committee meetings and attendance in 2019.

Board member	Board meetings	Remuneration Com.	Audit Com.
Per Olofsson	12/12	1/1	1/1
Thomas Öström	12/12		
Olle Bergström	12/12		
Stefan Brendgen	12/12		1/1
Vivianne Holm	12/12		1/1
Therese Lundstedt	12/12	1/1	
Jan Svensson	1/1		

Code of Conduct

Being the “good company” and behaving in an ethical way is important to Climeon. Climeon has two Codes of Conduct, one for suppliers and one for employees, stipulating how we should conduct business and behave. Climeon’s code of conduct can be found at www.climeon.com

Remuneration

Board remuneration

The Board fee for 2019 was set by the 2019 AGM. The fees were allocated as per Note 9.

The Chief Executive Officer’s total remuneration is determined by the Board. During 2019, Climeon established a Remuneration Committee that will propose guidelines on remuneration for other members of Group management to be determined by the Board.

The Board’s proposed guidelines for salaries and other remuneration for the Chief Executive Officer and other members of Group management:

Climeon aims to offer a remuneration package that allows it to recruit and retain the right senior executives. Total remuneration is based on factors such as position, performance and individual profile.

Total remuneration for the Group management consists of:

- a fixed cash salary;
- a long-term incentive programme;
- a pension; and
- other remuneration and benefits.

Fixed cash salary

Fixed cash salaries are reviewed annually.

Long-term incentive programme

Selected senior executives and key personnel at Climeon have been offered long-term share-based incentive 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. The purpose is to create a common interest for the Company’s shareholders and key individuals and other employees to work for and aim at the company achieving the best development possible with respect to its business and value. Decisions regarding the structure of long-term incentive programs are taken by the Board and approved by the AGM. Further details of the long-term incentive programs can be found at www.climeon.com and in Note 9.

Other remuneration and benefits

Other remuneration and benefits should be competitive and contribute to making it easier for senior executives to perform their work duties.

Notice and severance pay

Notice period for senior management is three months. None of the members of the senior management are entitled to severance pay.

The Board of Directors may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company’s long term interests, including its sustainability or to ensure the company’ financial viability.

The Board’s complete proposal of guidelines in accordance with the above will be available at the company and at the web site www.climeon.com.

A breakdown of salaries and other remuneration of the Board, CEO and senior executives is provided in Note 9 of the company’s annual accounts.

Audit

The auditor is tasked with auditing the annual report and the accounts, as well as the administration by the Board of Directors and the Chief Executive Officer. After each financial year, the auditor submits an auditor’s report and a Group auditor’s report to the AGM.

Auditor

Pursuant to the Articles of Association, Climeon should have one or two auditors with or without deputy auditors. The auditor is appointed by the AGM for a term of one year.

The 2019 AGM re-elected registered auditing firm Deloitte AB as auditor for the period until the end of the 2020 AGM. Authorised Public Accountant Johan Telander is the principal auditor for the company and the Group.

- Climeon's auditors: Deloitte AB
- Principal auditor: Johan Telander
- Principal auditor of Climeon since: 2015
- Shareholdings in Climeon AB: 0 shares

The auditor's independence in relation to the company is ensured by the elected auditor being only allowed to a limited extent to carry out services other than the audit.

The Board's report on internal control of financial reporting

Control environment

The Board of Directors has responsibility for internal control in relation to financial reporting. Internal control regarding financial reporting aims both to provide reasonable certainty in terms of the reliability of external financial reporting, and to ensure that external financial reporting has been prepared in accordance with the law, applicable reporting standards and other requirements.

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. It includes factors such as organizational culture, integrity, ethical values, competence, management philosophy, organizational structure, responsibilities and authorities as well as policies and routines.

The control environment for financial reporting is based on the allocation of roles and responsibilities within the organization, established and communicated decision-making pathways, instructions relating to powers and responsibilities, and accounting and reporting instructions. The Board of Directors has adopted procedural rules, a CEO instruction and an instruction for financial reporting. In addition to the

Board's procedural rules, the CEO instruction and the reporting instruction, there is an overarching authorization instruction for the entire Group and policies and guidelines in a number of areas for operational activities. During 2019, Climeon adopted a new authorization policy, as the company has grown significantly resulting in more transactions and more people involved.

Climeon has established policies, instructions and detailed process descriptions covering all significant aspects of its operations. These documents are available on Climeon's intranet for employees. These documents are updated annually or as necessary to reflect applicable laws and regulations and the changes to processes that have been implemented. During the year, Climeon has worked on improving internal control and monitoring of compliance with key processes.

Risk assessment

The company works in a structured way with risk assessment to enable risk identification in significant processes, which affect internal control with regards to the financial presentation. Identification of these risks occur on company level. Risk assessment results in the following control targets regarding the financial reporting: Existence, occurrence, completeness, valuation and ownership of assets, debts and business transactions. The risk assessment is updated on a yearly basis and communicated to the Board of Directors.

Information and communication

The CEO is responsible for ensuring, by means of independent, objective evaluations, that the Company's internal control and risk-management processes are systematically assessed and potential improvements canvassed. The CEO is also responsible for ensuring that the guidelines from the Board of Directors are communicated to the organization. The CEO is also responsible for ensuring that the Board of Directors receive a business summary, a description of new sales or cooperation agreements, update on on-going and possible future legal matters, report on financial status and organizational changes, at every board meeting.

Control activities

To prevent, detect and correct errors and deviations control activities are established in relation to the control targets. They help ensure that necessary actions are taken to address risks to achievement of the company's objectives. Examples of control activities that the company conducts are: Control that there is an authorized approval of business transactions according to the authorization rules, control that the accounting process including year-end closing is consistent to applicable laws, regulations and requirements for listed companies, control that essential and irregular business transactions or valuation of assets and debts include reasonable elements of judgement.

Monitoring

Internal control systems need to be monitored – a process that assesses the quality of the system’s performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

The CFO is responsible for ensuring that appropriate processes for monitoring and yearly analysis of the compliance of the internal policies are in place, and that there is a specific process regarding monitoring and measures of reported deficiencies. The CFO regularly presents information about the internal control monitoring at the audit committee meetings.

As of today, Climeon does not see a need for internal auditing as the control is satisfactory given the size of the company.



BOARD OF DIRECTORS, SENIOR EXECUTIVES AND AUDITOR

BOARD OF DIRECTORS

Climeon's Board of Directors is composed of seven 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 2020. 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 2020.



PER OLOFSSON
(BORN IN 1972)

**Chair of the
Board of Directors
since 2015**

**Member of the Audit and
Remuneration Committees**

Education/background: Per Olofsson has a Master of Science degree in industrial engineering from the Institute of Technology at Linköping University and has taken courses at Universitat Politècnica de València, Harvard Business School, and 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 of ClimateWell. Per is the Executive Director of Girindus Investments AB, member of the investment committee of Almi Invest Greentech Fund, Chair of the Board of CleanFlow Black AB and Board Director of SilviCapital and SilviLao AB. Per is also a co-founder of the forestry and pulp company Paracel S.A.

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. Independent in relation to company, management and major shareholders.



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.

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. Dependent in relation to company and management, independent in relation to major shareholders.



STEFAN BRENDGEN
(BORN IN 1964)

**Member of the
Board of Directors
since 2015**

**Member of the Audit
Committee**

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. Independent in relation to company, management and major shareholders.



VIVIANNE HOLM
(BORN IN 1965)

Member of the
Board of Directors
since 2017

Chair of the Audit Committee

Education/background: Vivianne Holm holds a Master of Science in Business and Economics from Stockholm School of Economics. Vivianne has extensive experience from the financial sector and she has in various roles previously worked with equity research, corporate finance and as an advisor with focus on business development, raising capital and investor relations. Vivianne Holm is an active clean tech investor and a board member of Advanced Soltech AB, Inzile AB, Meva Energy AB, Rocker AB and Volta Greentech AB.

Holdings in the Company: Vivianne Holm owns no class A shares and 100,991 class B shares and has warrants in the Company that entitle her to subscribe for 7,882 class B shares and call options that entitle her to purchase 15,000 class B shares in the company. Independent in relation to company, management and major shareholders.



THERESE LUNDSTEDT
(BORN IN 1981)

Member of the
Board of Directors
since 2017

Chair of the Remuneration
Committee

Education/background: Therese Lundstedt holds 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 was formerly the CEO of Aktieinvest FK AB and is now the CEO of Urbangreen.

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 and call options that entitle her to purchase 10,000 class B shares in the company. Independent in relation to company, management and major shareholders.



JAN SVENSSON
(BORN IN 1956)

Vice Chair of the
Board of Directors
since 2019

Education/background: Jan Svensson is a mechanical engineer and holds a Master of Science in Business and Economics from Stockholm School of Economics. Jan Svensson has extensive experience in managing companies, most recently as President and CEO of Investment AB Latour 2003-2019 and previously as CEO of Sigfrid Stenberg 1986-2002. Jan Svensson also has significant experience as a board member and chairman of listed companies. He is currently active as Chairman of the Board of AB Fagerhult, Troax Group AB, Alimak Group AB as well as Tomra Systems ASA, and a Member of the Board of Assa Abloy AB and Loomis AB.

Holdings in the Company: Jan Svensson owns, privately or through related parties, no class A shares and 12,000 class B shares in the company, as well as call options that entitle him to purchase 75,000 class B shares. Independent in relation to company, management and major shareholders.



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 holds 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 co-founder of Climeon. Thomas Öström previously worked for over ten years at Mycronic AB (publ), where he served as was vice president for technology development, for example.

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. Dependent in relation to company, management and major shareholders

SENIOR EXECUTIVES

Climeon's senior executives and their holdings in the company are presented per March 31, 2020.

Change in the Senior Executives Team during the year

Carl Frykfeldt assumed the role of Acting CFO and Head of Supply Chain in November 2019 as Christoffer Andersson, CFO and Deputy CEO left his position. Carina Osmund, Head of Production and Sourcing left her position in January 2020. As of April 1, 2020, Christina Bäck, Head of Corporate Development, is also part of Climeon's Executive Management.



THOMAS ÖSTRÖM
(BORN IN 1973)

CEO, member of the Board of Directors and 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 Management-gruppen. He has also taken courses at Styrelseakademin. Thomas Öström is an entrepreneur and a co-founder of Climeon. Thomas Öström previously worked for over ten years at Mycronic AB (publ), where he served as vice president for technology development, for example.

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.



CARL FRYKFELDT
(BORN IN 1965)

Acting CFO and Head of Supply Chain, employed since 2018

Education/background: Carl Frykfeldt holds a Master of Science degree in Finance and Business from Stockholm University. Carl Frykfeldt has extensive experience from various roles within financial and business controlling. Carl has held managerial roles within logistics and finance throughout his career, both as Supply Chain Manager, Material Manager and Planning Manager. Before joining Climeon, Carl was CFO at Safe Logistics Sweden.

Holdings in the Company: Carl Frykfeldt owns no class A shares, no class B shares as well as warrants in the Company that entitle him to subscribe for 15,020 class B shares.



JOACHIM KARTHÄUSER
(BORN IN 1960)

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

Education/background: Joachim Karthäuser has a Doctor of Technology degree (Dr. rer. nat.) from University of Göttingen, Germany, and has over 30 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 and Horizon 2020 projects. He is a board member of several startups.

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.

SENIOR EXECUTIVES

Climeon’s senior executives and their holdings in the Company are presented per March 31, 2020.



OLLE THOLANDER
(BORN IN 1967)

Head of Sales & Marketing
since 2019

Education/background: Olle Tholander has a Master of Business 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 as well as warrants in the Company that entitle him to subscribe for 27,000 class B shares



ROBIN GOODOREE
(BORN IN 1973)

Head of Service,
employed since 2018

Education/background: Robin Goodoree has more than 17 years of experience from the service organization for pattern generators at Mycronic AB having had different positions but last as Customer Support Manager. Robin has a strong customer focus and international experience of both working hands on at customer sites and later managing the customer support department. Robin is an 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 40,466 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, 50,750 class B shares as well as warrants in the Company that entitle him to subscribe for 31,066 class B shares.

SENIOR EXECUTIVES

Climeon’s senior executives and their holdings in the Company are presented per March 31, 2020.

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 a Certified Public Accountant and member of FAR. Johan Telanders’ office address is Rehnsgatan 11, 113 79, Stockholm.



SOFIE KÖNIG
(BORN IN 1969)

Head of Talent Management
since 2017

Education/background: Sofie König holds a Master of Science degree in economics from Stockholm University. 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 and operations within Atlas Copco. Karl also has several years of international experience, mainly from China, where his 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 warrants in the Company that entitle him to subscribe for 64,917 class B shares.



CHARLOTTE BECKER
(BORN IN 1992)

Head of Communications & Investor Relations,
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 23,788 class B shares.

AUDITOR’S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

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

Engagement and responsibility

It is the board of directors who is responsible for the corporate governance statement for the financial year 2019-01-01 - 2019-12-31 on pages 29–40 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR’s auditing standard RevU 16 The auditor’s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm 21 April 2020

Deloitte AB

Johan Telander
Authorized public accountant

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 2019-01-01--2019-12-31.

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 subdivision of the market for the baseload energy sources called heat power, which is comprised of waste heat recovery and geothermal energy. Geothermal energy utilizes heat from within the earth as an energy source whereas waste heat energy 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. 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 utilizes 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 markets that Climeon is currently focusing on are low temperature geothermal energy as well as waste heat from maritime transportation (ships), manufacturing and gensets. Within the geothermal market, Climeon can also utilize 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 2019 amounted to SEK 44.2 million (478.5).

At the end of the period, the order backlog amounted to SEK 729.7 million (818.6), corresponding to 214 (236) Heat Power modules.

In the beginning of the second quarter, Climeon received an additional order from Fincantieri/Virgin Voyages. This sent a clear signal to the industry and the company now sees an increased interest in Climeon's Heat Power technology.

Climeon received a first order within geothermal in Hungary, a new geographical market for the company.

During the last quarter a first order within power plants based on reciprocating engines, gensets, was won.

Climeon entered a strategic partnership with mineral extraction company Geo40 to open up the market for waste heat recovery within geothermal, so called bottoming cycles.

Operations and production

Climeon has entered a collaboration with Breakthrough Energy Ventures to accelerate technology development and market establishment.

Climeon's first geothermal installation has been approved by the customer Varmaorka at a Site Acceptance Test. The site has now been handed over to the customer.

Climeon established its first subsidiary in Japan to strengthen and develop the Company's business in the country.

Changes among senior executives

During the year, the management team was composed of CEO Thomas Oström, CFO and Deputy CEO Christoffer Andersson,

Head of Investor Relations & PR Charlotte Becker, Head of Sales and Marketing Olle Tholander, Head of Delivery and Operations Jonas Måhlén, Head of Research and Development Karl Brodin, Head of Production and Sourcing Carina Osmund, Head of Service Robin Goodoree, and Founder, CTO and Head of IP and Future Technology Joachim Karthäuser. Carl Frykfeldt was appointed Acting CFO in Novemember 2019 as Christoffer Andersson left his position. Since March 2020, Carl Frykfeldt is also Head of Supply Chain, replacing Carina Osmund.

In the beginning of 2020, Climeon recruited Jack (Masao) Watanabe, former SVP Chief Strategist Energy Business Group Mitsubishi Corporation, to lead Climeon Japan K.K.

Development/comments of business, position and results

TSEK	2019	2018	2017	2016	2015
Net sales	116,758	58,906	11,856	2,888	36
Operating profit/loss	-117,591	-101,897	-56,667	-35,444	-18,379
Profit before tax	-110,950	-85,475	-57,451	-35,590	-18,346
Total assets	385,888	258,918	269,586	81,247	48,559
Equity ratio	83.0%	61.6%	82.3%	65.7%	6.3%
Return on equity	neg	neg	neg	neg	neg
Return on assets	neg	neg	neg	neg	neg
Average number of employees	84	62	37	25	12

Net sales

Net sales increased by SEK 57,852 thousand, or 98 percent, to SEK 116,758 thousand (58,906) compared to the previous year. The increase in net sales was mainly attributable to the sale of Heat Power systems and service assignments.

Capitalized work for own account

Capitalized work for own account increased by SEK 9,523 thousand, or 57 percent, from SEK 16,831 thousand in the previous year to SEK 26,350 thousand in 2019. The increase in 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 -117,591 thousand (-101,897). 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. Climeon has unutilized loss carry forwards amounting to SEK 337.7 million (219.9), of which the tax effect has not been recognized as a deferred tax asset in the balance sheet.

Earnings after tax

Profit for the period amounted to SEK -110,950 thousand (-85,475) and the change was attributable to the changes described under “Net sales” and “Operating profit”. Net financial items amounted to SEK 6,641 thousand (16,422), which includes interest on short-term and long-term borrowing and revaluation of financial assets..

Cash flow

Cash flow from operating activities

Operating profit amounted to SEK -159,227 thousand (-89,170). 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.

Cash flow from investing activities

Cash flow from investing activities amounted to SEK -77,023 thousand (-48,089). The decrease was mainly attributable to continued investments in non-current assets mainly capitalized development costs and the acquisition of current investments.

Cash flow from financing activities

Cash flow from financing activities increased to SEK 253,948 thousand (23,241). The inflow was primarily attributable to the directed new share issue and the share issues in connection to redemption of warranty programs that was carried out during the year.

Liquidity and financial position

On December 31, 2019, shareholders’ equity amounted to SEK 320,304 thousand (159,606). The increase of SEK 160,698 thousand, 101 percent, was mainly due to the directed new share issue of SEK 249,000 thousand, excluding transaction costs, that was carried out during the first part of year. Cash and other cash equivalents amounted to SEK 107,657 thousand compared to SEK 89,959 thousand in the previous year. The increase is attributable to the changes described under “Cash flow” above.

Employees

The average number of employees in the company during the year was 84 (62), whereof 24 percent women and 76 percent men. An increase compared to 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 96 (68).

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 beginning of 2020, with an order backlog of SEK 729.7 million (818.6), corresponding to 214 Heat Power modules. For 2020, 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, 2019, the registered share capital comprised 14,250,000 A shares and 35,045,179 B shares. The Company's B-share has been listed on Nasdaq First North

Premier Growth Market on October 13, 2017 under the short name "CLIME B".

The shares have a quota value of SEK 0.015. 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 12,464 (7,286) and as the largest shareholders, Thomas Öström with 20 (21) percent of the capital and 54 (55) percent of the votes, and Joachim Karthäuser with 10 (11) percent of the capital and 26 (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 (50) percent of the capital and 84 (87) percent of the votes.

At December 31, 2019, the company has outstanding warrants, which entitles the holder to subscribe for 987,129 class B shares.

Risks and risk mitigation

An integral part of the management work of the Board of Directors and the Group management is a broad-based risk assessment. Climeon's management and Board continually monitors risk exposure.

The CEO is responsible for ensuring that the business applies and monitors established procedures for ongoing monitoring and management of risks within the organization.

Risk

Risk mitigation

Economic environment

Like most businesses Climeon is affected by the economic environment, the stability of financial markets, political situation in, and trade between, target countries as this can decrease willingness to invest in and finance new technology.

Climeon monitors the global situation closely with regular macro updates in the Board. The company researches each potential new geographical market thoroughly and strives to build a local understanding before making any investment decisions. Climeon strives to have positive relationships with relevant governmental instances in target countries as well as close contact with investors.

Financial risks

Through its operations Climeon 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 financial risks are further described in Note 4.

Climeon's Board of Directors has adopted frameworks that apply to the exposure, management and monitoring of the financial risks. The day-to-day financial risk management is conducted the Company's CFO. For more information about how Climeon managed financial risks during 2019, see Note 4.

Technology

As a relatively young company with a limited number of Heat Power systems in field a technology risk remains. The company's first Heat Power systems have been running for five years, and thus not reached their full life length yet, which poses a certain degree of uncertainty in terms of component life lengths and service needs.

Climeon has throughout the years performed many tests of the Heat Power systems and is constantly upgrading the technology with findings from the machines in operation. All Heat Power systems have a large number of sensors, enabling Climeon to monitor the systems 24/7 and making large amounts of data available for analyzation. Through this, Climeon can easily detect issues that have occurred or are likely to occur. Climeon works closely with the first customers within each application to evaluate and if needed improve the technology. Climeon's Heat Power systems have also been approved by Lloyd's Register and American Bureau of Shipping, providing a quality marking of the products and their life length.

Risk	Risk mitigation
Employees Climeon's highly motivated and capable employees are key for the company to reach its targets. Climeon's employees handle high voltages, hot liquids and gases, which poses significant risks unless handled correctly. The safety and health of our employees is the number one priority. Key personnel leaving the company also poses a risk.	Climeon works continuously with safety, at the company's own premises as well as customer sites. All employees working with the Heat Power systems regularly go through safety trainings. To retain employees, Climeon strives to create as much commitment, influence and participation as possible and measures this weekly. All key employees are also offered warrants, as a way to align shareholder and employee interests.
Customers Climeon's technology is new on the market, meaning that customers are also new to this technology. This poses a risk as Climeon is dependent on the customer's ability to complete the necessary site preparation before Climeon can deliver the Heat Power systems, and thus recognize revenue.	Climeon works closely with customers to educate them about the technology and help speed up the deployment of Heat Power systems. Climeon has started selling services such as consulting, site design and support to facilitate the customer's project. Climeon has also developed technical solutions that speed up installation and make the company's power plant solution offering more complete.
Suppliers Climeon relies on a contract manufacturer and sub-suppliers to produce and deliver the Heat Power solutions. Lacking quality, ethical adherence, environmental impact or an inability to meet production requirements are typical risks related to this.	Climeon evaluates all suppliers regularly and strive to have dual sources for all key components. All suppliers should also follow Climeon's code of conduct to ensure that the company's requirements in terms of ethical business, environmental impact and quality are met. Climeon regularly performs audits of the suppliers and if any deviations are identified, actions must be taken.
Environment All renewable energy technology impacts the environment negatively to some extent during manufacturing. Apart from production of the technology, there are also environmental risks related to building the power plants and utilizing water for electricity production.	Environmental impact lies at the heart of our operations. Decisions regarding what suppliers, methods and materials to use, are made ensuring both high quality and low environmental impact throughout the whole product life cycle. Climeon takes into account and complies with coming and already established EU Taxonomy requirements for Geothermal electricity production regarding emission targets, risks related to earthquakes, water contamination, and CO ₂ dissolved in the water.

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 Conduct

During 2019, Climeon has implemented the Swedish Code of Corporate Governance ("The Code") by establishing a Nomination Committee, Audit Committee and Remuneration Committee. The company has contracted external experts to identify deviations from The Code and considers itself compliant with large parts of The Code. Climeon is also overseeing and strengthening the company's internal control.

Proposed appropriation of earnings

The board of direrctors propose that the available funds of SEK 265,090,603 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	Not	2019	2018
Net sales	5	116,758	58,906
Capitalized work for own account		26,350	16,831
Other operating income	6	3,904	3,351
Operating expenses			
Raw materials and consumables		-109,623	-67,690
Other external expenses	7,8	-49,154	-32,336
Personnel expenses	9	-90,245	-66,193
Depreciation, amortization and impairment losses of tangible and intangible assets		-15,580	-13,377
Other operating expenses		0	-1,388
Operating profit/loss		-117,591	-101,897
Profit from financial items			
Interest income and other financial items	10	9,451	18,039
Interest expenses and other financial items	11	-2,810	-1,617
Profit before tax		-110,950	-85,475
PROFIT/LOSS FOR THE YEAR ¹⁾		-110,950	-85,475
1) Total profit/loss for the period correspond to Profit/loss for the period			-439
Earnings per share, SEK	13		
Before dilution		-2.30	-2.30
After dilution		-2.30	-2.30

BALANCE SHEET

TSEK	Note	12/31/2019	12/31/2018
ASSETS			
Non current assets			
<i>Intangible non-current assets</i>			
Capitalized expenditures on development work	14	55,831	37,380
Patents, licenses, trademarks and similar rights	15	5,852	4,677
		61,683	42,057
<i>Tangible non-current assets</i>			
Leasehold improvements	16	10,436	10,529
Plant and machinery	17	5,788	6,133
Equipment, tools and installations	18	1,292	862
		17,516	17,524
<i>Financial non-current assets</i>			
Shares in group companies		439	0
Other long term receivables		6,387	0
Long term financial assets	19	45,800	37,700
		52,626	37,700
Total non-current assets		131,825	97,281

TSEK	Note	12/31/2019	12/31/2018
Current assets			
<i>Inventories</i>	20		
Work in progress		8,402	18,406
Finished goods and goods for resale		45,148	11,349
		53,550	29,755
<i>Current receivables</i>			
Accounts receivable	21	24,625	28,061
Other receivables		16,340	10,482
Prepaid expenses and accrued income	22	16,891	3,380
		57,856	41,923
<i>Current investments</i>			
Current investments		35,000	0
		35,000	0
Cash and cash equivalents		107,657	89,959
Total current assets		254,063	161,637
TOTAL ASSETS		385,888	258,918

BALANCE SHEET CONT.

TSEK	Note	12/31/2019	12/31/2018
EQUITY AND LIABILITIES			
Shareholders equity			
<i>Restricted equity</i>			
Share capital	23	740	676
Ongoing issue		2	13
Reserve for development costs		54,471	34,653
		55,213	35,342
<i>Unrestricted equity</i>			
Share premium reserve		630,530	358,935
Retained earnings/loss		-254,489	-149,196
Profit/loss for the year		-110,950	-85,475
		264,652	124,264
Shareholders equity		320,304	159,606
Other liabilities			
Other provisions	24	14,363	7,416
		14,363	7,416

TSEK	Note	12/31/2019	12/31/2018
Non-current liabilities			
Other long term liabilities	25	10,381	12,381
		10,381	12,381
Current liabilities			
Advance payments from customers		4,387	24,030
Accounts payable		7,851	24,572
Current tax liabilities		1,166	1,076
Other current liabilities	26	6,174	20,608
Accruals and deferred income	27	21,262	9,229
		40,840	79,515
TOTAL EQUITY AND LIABILITIES		385,888	258,918

STATEMENT OF CHANGES IN EQUITY

TSEK	Restricted equity			Non-restricted equity			Total equity
	Share capital	Ongoing issue	Reserve for development costs	Share premium reserve	Retained profit or loss	Profit for the year	
Opening balance, 1 January 2018	651	0	26,874	336,491	-84,724	-57,451	221,841
Appropriation of prior year's profit/loss					-57,451	57,451	-
Profit/loss for the year						-85,475	-85,475
Other comprehensive income							-
Capitalization of development costs			16,831		-16,831		0
Utilization as a result of the year's depreciation of development costs			-9,052		9,052		0
Total comprehensive income/loss	-	-	7,779	-	-7,779	-85,475	-85,475
<i>Transactions with owners:</i>							
Premiums paid for warrants					758		758
Exercise of warrants	25			10,875			10,900
Ongoing issue		13		11,569		0	11,582
Total transactions with shareholders	25	13	0	22,444	758	0	23,240
Closing balance, 31 December 2018	676	13	34,653	358,935	-149,196	-85,475	159,606

x

TSEK	Restricted equity			Non-restricted equity			Total equity
	Share capital	Ongoing issue	Reserve for development costs	Share premium reserve	Retained profit or loss	Profit for the year	
Opening balance, 1 January 2019	676	13	34 653	358 935	-149 196	-85 475	159 606
Appropriation of prior year's profit/loss					-85,475	85,475	-
Capitalization of development costs			26,359		-26,359		-
Utilization as a result of the year's depreciation of development costs			-6,541		6,541		-
Profit/loss for the year						-110,950	-110,950
Other comprehensive income							-
Total comprehensive income/loss	0	0	19,818	0	-105,293	-25,475	-110,950
<i>Transactions with owners:</i>							
Rights issue	45			238,388			238,433
Premiums paid for warrants				9,968			9,968
Exercise of warrants	19	-13		16,340			16,346
Ongoing issue		2		6,899			6,901
Total transactions with shareholders	64	-11	0	271,595	0	-	271,648
Closing balance, 31 December 2019	740	2	54,471	630,530	-254,489	-110,950	320,304

CASH FLOW STATEMENTS

TSEK	Note	2019	2018
Operating activities			
Operating profit		-117,591	-101,897
Adjustment for items not included in cash flow:			
Depreciation/amortization		15,580	13,377
Provisions for guarantees		6,947	5,892
Interest paid		1,342	241
Interest received		-2,810	-1,617
Tax paid		90	-2
Cash from operating activities before changes in working capital		-96,442	-84,006
Cash flow from changes in working capital			
Decrease (+)/increase(-) in inventories		-23,795	-24,185
Decrease (+)/increase(-) in accounts receivables		3,436	-18,083
Decrease (+)/increase(-) in current receivables		-19,369	-8,589
Decrease (-)/increase(+) in accounts payable		-16,721	15,015
Decrease (-)/increase(+) in other current liabilities		-6,336	30,677
Cash flow from operating activities		-159,227	-89,170
Investing activities			
Investment in intangible assets		-27,711	-18,145
Investment in tangible assets		-7,486	-10,042
Investment in financial assets		-41,826	-19,902
Cash flow from investment activities		-77,023	-48,089

TSEK	Note	2019	2018
Financing activities			
Rights issue		238,433	0
Exercise of warrants		16,346	10,900
Loans		-17,700	0
Premiums paid for warrants		9,968	759
Paid in, non registred share capital		6,901	11,582
Cash flow from financing activities		253,948	23,241
CASH FLOW FOR THE YEAR	25	17,698	-114,018
Cash and cash equivalents at beginning of the year		89,959	203,977
Cash and cash equivalents at year-end	28	107,657	89,959

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 financial report 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). In addition the Company has applied the Swedish Accounting Standards Board's (BFN) general guidelines BFNAR 2012:1 Annual Accounts and Consolidated Financial Statements ("K3").

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 Revenue from contracts with customers.

Due to the relationship between accounting and taxation, the rules in IFRS 16 do not need to be applied in a legal entity. Instead, for companies that choose to apply the exemption, rules are introduced that include the principles that apply to the accounting of leasing contracts with lessees and lessors, accounting for sale-and-lease-back transactions and disclosure requirements. The amendments to RFR 2 regarding IFRS 16 shall begin to apply for fiscal years beginning January 1, 2019 or later.

Consolidated accounts

Since mid-2019, the company has a subsidiary in Japan. At the end of 2019, the subsidiary's operations and financial position were not of significant size and no consolidated accounts have therefore been prepared.

Revenue

Revenue is recognized on basis of the agreement with the client and is valued out of the compensation the company is entitled to exchange of promised services, excluding third party compensation. The company recognizes 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 services, as well as revenue from "as a service" agreements.

Sales of modules

Climeon normally sells Climeon Heat Power modules together with installation services and / or significant integration services. The customer is considered to be able to purchase the installation service from other suppliers. Therefore, in contracts that include installation services but not significant integration services, modules are considered a separate performance commitment. Revenue from the sale of hardware is reported at the time the control for the module is transferred to the customer, which normally occurs when the risk has been transferred to the customer based on the applicable freight conditions.

In agreements where modules are sold together with significant integration services, modules together with integration services are considered a performance commitment. For a description of how this performance commitment is presented, see the section "Significant integration services" below.

Sales of services

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

Climeon provides installation services for modules. The installation service includes a minor modification of modules. The installation is simple and can be performed by another supplier and is therefore reported as a separate performance commitment. Revenue from sales of installation services is recognized over time based on the actual hours worked, in proportion to the total expected working time to fulfill the performance commitment.

In some agreements, Climeon provides significant integration services for modules. The integration services include significant integration and adaptation of Climeon's modules to the customer's technical facility. Integration services are sold in conjunction with modules and the modules are strongly considered to be dependent on the Integration Services and the customer is not easily found to be able to obtain the integration services from suppliers other than Climeon. In the agreement Climeon sells integration services, integration services and modules are considered to be a performance commitment. Revenue from sales of integration services and modules is reported [over time based on costs incurred in proportion to total expected costs to meet the performance commitment.

Contract assets and liabilities

Contract assets is categorized as prepaid costs & accrued income. Contract liabilities is categorized as customer prepayments and accrued cost & prepaid income. If reported revenue exceeds the payment for a performance commitment, a contract asset is reported and if the payment exceeds

reported income from a performance commitment, a contractual liability is reported.

Payment terms

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

Warranties

Sales of modules also include a customary warranty where Climeon guarantees that sold hardware works in accordance with the agreed specification. Climeon therefore recognizes guarantees in accordance with IAS 37, see section “Provisions” for applied principles.

Interest income

Interest income is recognized 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 recognized value of the receivable.

State grants

Revenue from state grants that are not dependent on future performance requirements are recognized 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 meas-

ured at the fair value of the asset that the company has received.

Revenue from state grants that are dependent on future performance requirements is recognized 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 recognized as a liability.

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

Leases

Leases are recognized 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 recognized 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 recognized in the income statement in the period in which they are incurred.

Employee benefits

Employee benefits in the form of salaries, vacation pay, sick pay, etc., and pensions are recognized 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 recognized 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 recognized on temporary differences between the recognized value of assets and liabilities in the financial statements and the fiscal value used to calculate taxable profits. Deferred tax is recognized according to the 'balance sheet method'. Deferred tax liabilities are recognized for practically all taxable temporary differences, and deferred tax assets are recognized 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 recognized 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 recognized as an expense or revenue in the income statement, except when the tax relates to transactions that have been recognized in other comprehensive income or directly in equity. In such cases, the tax is also recognized 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 recognized in the acquisition calculation.

Immateriella Intangible assets

Additions through separate acquisitions

Intangible assets that have been acquired separately are recognized at cost, less accumulated amortization and any accumulated impairment losses. Amortization 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 amortization 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 recognized prospectively. Amortization 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 recognized 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 recognized at cost less accumulated amortization and any accumulated impairment losses. Amortization starts when the asset can be used. Capitalized 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 recognized in the income statement as other operating income or other operating expense.

Tangible non-current assets

Tangible non-current assets are recognized 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 recognized 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 recognized 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	5 and 10 years resp.
Equipment	5 years
Computers	3 years
Leasehold improvements	5 and 7 years resp.

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 recognized 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. Capitalized 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 recognized in the income statement.

Financial instruments

Financial instruments reported in the statement of financial position include on the asset side Other long-term securities holdings, Accounts receivable, Other short-term investments and Cash and cash equivalents. On the debt side are Borrowing, accounts payable and Other liabilities.

Accounting in and deletion from the statement of financial position

A financial asset or financial liability is included in the statement of financial position when the company becomes a party in accordance with the contractual terms of the instrument. A receivable is recognized when the company has performed and a contractual obligation exists for the counter-

party to pay, even if an invoice has not yet been sent. Accounts receivable are included in the statement of financial position when an invoice has been sent. Debt is recognized when the counterparty has performed and a contractual obligation exists to pay, even if an invoice has not yet been received. Accounts payable are recognized when an invoice is received. A financial asset is removed from the statement of financial position when the rights in the agreement are realized, expire or the company loses control of them. The same applies to part of a financial asset. A financial liability is removed from the statement of financial position when the obligation in the agreement is fulfilled or otherwise extinguished. The same applies to part of a financial liability. No financial assets and liabilities are offset in the statement of financial position, as conditions for offsetting are not met. Acquisitions and divestments of financial assets are reported on the business day. The business day is the day the company undertakes to acquire or sell the asset.

Classification and valuation

Financial assets are classified on the basis of their cash flow nature. When the financial asset is held to collect contractual cash flows and the agreed terms for the financial asset give rise at specific times to cash flows that are only payments of capital amount and interest on the outstanding capital amount, the asset is recognized at amortized cost. This business model is categorized as "hold to collect".

All financial assets except holdings in Baseload Capital (classified as Other long-term securities holdings in the balance

sheet) and Short-term investments classify Climeon as "hold to collect", which means that the assets are reported at amortized cost. Climeon classifies its holdings in Baseload Capital and Short-term investments as "other", which means that they are valued at fair value through profit or loss.

The classification of financial liabilities does not follow the same approach as for financial assets. Financial liabilities are either measured at fair value through profit or loss or amortized cost.

Financial liabilities are measured at fair value through profit or loss when they meet the definition of a financial instrument held for trading, whether they are irrevocably identified as such at the initial accounting date or if they are derivatives. All financial liabilities in Climeon are reported at amortized cost.

Depreciations

The company recognizes a loss reserve for expected credit losses on a financial asset that is valued at amortized cost or fair value through other comprehensive income, for a lease receivable and for a contract asset. At each balance sheet date, the company must report the change in expected credit losses in the income statement since the first reporting date.

For accounts receivable, contractual assets and leasing receivables, there are simplifications that mean that the company must immediately report expected credit losses for the remaining maturity of the asset. The expected credit losses for these financial assets are calculated using a commission

matrix that is based on past events, current conditions and forecasts of future financial conditions and the time value of the money if applicable.

For all other financial assets, the company shall value the loss reserve at an amount corresponding to 12 months expected loan losses. For financial instruments for which there has been a significant increase in credit risk since the first reporting date, a reserve is based on credit losses for the entire maturity of the asset.

Equity instruments are not covered by the write-down rules.

Amortised cost

Amortised cost refers to the amount at which the asset or the financial liability was initially recognized, 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.

Current investments

Short term investment of liquid funds with a maturity exceeding three months from acquisition, not readily to convert into cash, is classified as current investments.

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.

Capitalized development expenses

At the start of the year, Climeon AB had capitalized development expenses totaling SEK 55,831 thousand (37,380). 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 capitalized 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 2019.

Long term financial assets

The company's holding in Baseload Capital is measured at fair value. The valuation is based on Baseload's own valuation with a certain lag. Baseload uses a valuation model that Climeon's management assesses as reasonably consistent with fair value. The valuation is based on cash flow on its portfolio of installations. The company reassesses the value of the holding at least once a quarter.

Revenue

For each delivery, Climeon makes an assessment of when the control for a product or service has been transferred to the customer in accordance with the five-step model in IFRS 15. The assessment determines the performance commitment that Climeon has undertaken and when it has been performed.

Capitalisation of loss carry forwards

Climeon AB has unutilised loss carryforwards amounting to SEK 337,739 thousand (219,858), of which the tax effect has not been recognized 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. The tax rate for calculating deferred tax is 21.4% (21.4%).

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.

Financial assets per level

12/31/2019	Assets valued at accrued acquisition value	Assets valued at fair value, level 2	Assets valued at fair value, level 3	Total
Long term financial assets	-	-	52,187	52,187
Accounts receivables	24,625	-	-	24,625
Other receivables	16,340	-	-	16,340
Current investments	-	35,000	-	35,000
Cash and cash equivalents	107,657	-	-	142,657
Accounted value	148,622	35,000	52,187	235,809

12/31/2018	Assets valued at accrued acquisition value	Assets valued at fair value, level 2	Assets valued at fair value, level 3	Total
Long term financial assets	-	-	37,700	37,700
Accounts receivables	28,061	-	-	28,061
Other receivables	10,482	-	-	10,482
Cash and cash equivalents	89,959	-	-	89,959
Accounted value	128,502	0	37,700	166,202

Financial assets categorized as accrued acquisition value have determinable cash receipts and are not listed at any market place. In this category there are investments where the company expects to return mainly the entire initial investment.

Financial assets recognized at fair value are categorized on the basis of the fair value calculation. Level 2 includes financial instruments with input data based on observable data from known marketplaces. Level 3 Includes input data that is not based on observable market information.

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, USD 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	12/31/2019	12/31/2018
EUR	8,408	35,789
USD	-282	7,171
JPY	-4,135	-2,425
GBP	-277	0
ISK	-1,187	-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 variable rate, which means that the company's future financial expenses are 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 currency 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.

	2019	12/31/2019	2018	12/31/2018
<i>Currency exposure</i>	Effect on profit/loss	Effect on equity	Effect on profit/loss	Effect on equity
EUR +[10]%	841	3,626	3,579	2,678
EUR -[10]%	-841	-3,626	-3,579	-2,678
JPY -[10]%	414	0	243	-40
JPY +[10]%	-414	0	-243	40
ISK -[10]%	119	-10	17	2
ISK +[10]%	-119	10	-17	-2
USD -[10]%	28	4	-717	2
USD +[10]%	-28	-4	717	-2
GBP -[10]%	28	0	59	0
GBP +[10]%	-28	0	-59	0
<i>Interest</i>				
Financial expenses +[10]%	-42	0	-105	-105
Financial income +[10]%	26	0	15	15

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 by raising loans and carrying out new share issues, targeted at new and existing

shareholders. 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.

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 are established based on the conditions applicable on the closing day. Amounts in foreign currency have been translated into SEK at closing day exchange rates.

The company's loan agreements contain no special conditions that could result in the payment date being significantly earlier than shown in the tables.

12/31/2019	Within 3 month	3 - 12 month	1 - 5 years	Over 5 years	Total
Other long-term liabilities	-	-	10,381	-	10,381
Accounts payable	7,851	-	-	-	7,851
Other current liabilities	2,852	3,322	-	-	6,174
Total	10,703	3,322	10,381	0	24,406

12/31/2018	Within 3 month	3 - 12 month	1 - 5 years	Over 5 years	Total
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	0	69,053

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.

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 accounts receivable consists of relatively few and large receivables to relatively few customers. The credit risk assessment is done for that reason item by item.

	12/31/2019	12/31/2018
Incoming reserve uncertain accounts receivable	-	-
Reservations of the year	2,059	-
Outgoing reserve uncertain accounts receivable	2,059	-

The company's maximum exposure to credit risk is judged to be reflected in the recognized amounts of all financial assets and are shown in the table below.

	12/31/2019	12/31/2018
Accounts receivable	24,625	28,061
Other long term receivables	6,387	-
Other current receivables	16,340	10,482
Current investments	35,000	-
Cash and cash equivalents	107,657	89,959
Maximum exposure to credit risk	190,009	128,502

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	2019	2018
Modules and other hardware	116,599	58,833
Services	159	73
Total	116,758	58,906

Geographic market	2019	2018
Sweden	627	52
Europe	38,971	35,020
North America	0	12,051
Asia	77,160	11,783
Total	116,758	58,906

Contract assets and liabilities

Contract assets	2019	2018
Accrued income	12,791	576
Total	12,791	576

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

Contract liabilities	2019	2018
Advance payment from customer	4,387	24,030
Deferred income	2,441	1,668
Total	6,828	25,698

All contract liabilities is expected to be come revenue in 2020.

Note 6 Other operating income

	2019	2018
Grants for development projects from Eurostar/Vinnova	2,063	0
Grants for battery projects from Swedish Energy Agency	1,750	0
Re-invoiced costs	91	3,351
Total	3,904	3,351

Note 7 Auditor's fee

	2019	2018
Deloitte AB		
Audit assignments	756	637
Other services	125	142
Total	881	779

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 8,257 thousand (3,616). Future minimum lease payments for noncancelable operating leases fall due as follows:

Maturity	2019	2018
<i>Minimum lease payments</i>		
Within one year	7,161	8,177
Later than one but within five years	25,484	25,520
Later than five years	5,642	11,284
Total	38,287	44,981

Note 9 Number of employees, salaries, other remuneration and social insurance contributions

Average number of employees	2019	2018
Number of employees	84	62
of whom men	64	46

Distribution of senior executives on the closing day	12/31/2019	12/31/2018
Women:		
Board members	2	2
Number of people in the management team	2	2
Men:		
Board members	5	3
Number of people in the management team	6	7
Total	15	14

Salaries and remuneration	2019	2018
Salaries and other remuneration	55,308	34,777
Pensions, defined contribution	7,149	4,425
Social insurance contributions	17,468	10,143
Total	79,925	49,345

Salaries and other remuneration for Board	2019	2018
Board and CEO	1,587	1,418
Other employees	53,721	33,359
Total	55,308	34,777

Salaries and remuneration to senior executives *)

2019	Salary/Fee	Variable remuneration	Other benefits	Pension costs	Total
Chairman of the Board Per Olofsson	240	-	-	-	240
Director Olle Bergström	120	-	-	-	120
Director Stefan Brendgen	120	-	-	-	120
Director Vivianne Holm	120	-	-	-	120
Director Therese Lundstedt	120	-	-	-	120
Director Jan Svensson	5	-	-	-	5
Director & CEO Thomas Öström	862	-	129	174	1,165
Other senior executives (8 people)	8,826	-	156	1,513	10,495
Total	10,413	-	285	1,687	12,385

2018	Salary/Fee	Variable remuneration	Other benefits	Pension costs	Total
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

*) 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.

Warrantprogram	Number	Number of B-shares warrants entitle to	Premium	Issue price	Sub-scription period	Impact on equity (TSEK) ¹⁾
A. Program 2017/2020, issued 11/29/17	81,964	81,964	3.37	126	09/01/2020-09/15/2020	10,327
B. Program 2017/2021, issued 11/29/17	15,764	15,764	4.45	137	09/01/2021-09/15/2021	2,160
C. Program 2018/2021, issued 4/19/18	292,901	292,901	2.90	99.20	09/01/2021-09/15/2021	29,056
D. Program 2019/2022, issued 7/7/19	596,500	596,500	16.71	164.90	1/12/2022-30/12/2022	98,363

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

Number of B-shares warrants entitle to ²⁾	2019	2018
Outstanding beginning of year	1,309,829	3,153,828
Allocated during the year	596,500	292,901
Exercised during the year	-919,200	-2,136,900
Total outstanding at year-end	987,129	1,309,829

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 income and similar items

	2019	2018
Interest income	258	241
Result in sale of financial assets	425	0
Revaluation of financial assets	8,768	17,798
Total	9,451	18,039

Note 11 Interest expenses and similar items

	2019	2018
Interest expenses	-439	-1,051
Exchange rate differences	-2,371	-566
Total	-2,810	-1,617

Note 12 Tax on profit for the year

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 unutilized loss carryforwards amounting to SEK 337,739 thousand (219,858), of which the tax effect has not been recognized 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 utilized, due to uncertainty about when in the future sufficient taxable surpluses will be generated.

Note 13 Earnings per share

Earnings per share before/after dilution

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

	2019	2018
Profit for the year attributable to the Company's shareholders	-110,950,579	-103,272,927
Weighted average number of outstanding ordinary shares	48,190,791	44,850,379
Earnings per share before dilution, SEK	-2.30	-2.30

The Company's warrant programs did not have any dilution effect in 2019 or 2018.

Profit of the year, after dilution

The following earnings and number of shares have been used in the calculation of earnings per share after dilution:

	2019	2018
Profit for the year attributable to the Company's shareholders	-110,950,579	-103,272,927
Number of shares, before delution	48,190,791	44,850,379
Number of shares, after delution	48,320,791	44,850,379
Earnings per share after dilution, SEK	-2.30	-2.30

Note 14 Capitalized expenditures on development work

	12/31/2019	12/31/2018
Opening acquisition cost	52,708	35,877
Internally developed assets	26,358	16,831
Closing accumulated cost	76,584	52,708
Opening amortization	-12,182	-5,612
Amortization for the year	-7,338	-6,570
Closing accumulated amortization	-19,520	-12,182
Opening impairment losses	-3,146	-664
Impairment losses for the year	-569	-2,482
Closing accumulated impairment losses	-1,233	-3,146
Closing carrying amount	55,831	37,380

Expenses for research and development that have been expensed during the year amounted to SEK 4 thousand (738).

Note 15 Patents, licenses, trademarks, and similar rights

	12/31/2019	12/31/2018
Opening acquisition cost	5,924	4,627
Purchases	1,354	1,297
Closing accumulated acquisition cost	7,278	5,924
Opening amortization	-63	0
Amortization for the year	-111	-63
Closing accumulated amortization	-174	-63
Opening impairment losses	-1,184	0
Impairment losses for the year	-68	-1,184
Closing accumulated impairment losses	-1,252	-1,184
Closing carrying amount	5,852	4,677

Note 16 Leasehold improvements

	12/31/2019	12/31/2018
Opening acquisition cost	11,872	2,938
Leasehold improvements during the year	3,050	8,934
Closing accumulated cost	14,922	11,872
Opening depreciation	-1,343	-475
Depreciation for the year	-1,524	-868
Closing accumulated depreciation	-2,867	-1,343
Impairment losses for the year	-1,619	0
Closing accumulated impairment losses	-1,619	0
Closing carrying amount	10,436	10,529

Note 17 Plant and machinery

	12/31/2019	12/31/2018
Opening acquisition cost	11,140	12,249
Purchases	3,425	532
Sales/Scrapping	0	-1,641
Closing accumulated cost	14,565	11,140
Opening depreciation	-2,389	-629
Sales/Scrapping	0	89
Depreciation for the year	-2,133	-1,849
Closing accumulated depreciation	-4,522	-2,389
Opening impairment losses	-2,618	-4,170
Sales/Scrapping	0	1,552
Impairment losses for the year	-1,637	0
Closing accumulated impairment losses	-4,255	-2,618
Closing carrying amount	5,788	6,133

Note 18 Equipment, tools and installations

	12/31/2019	12/31/2018
Opening acquisition cost	1,577	1,001
Purchases	1,011	576
Closing accumulated cost	2,588	1,577
Opening depreciation	-715	-354
Depreciation for the year	-581	-361
Closing accumulated depreciation	-1,296	-715
Closing carrying amount	1,292	862

Note 19 Long term financial assets

Long term financial assets consists of investments in the finance company Baseload Capital of SEK 45,800 thousand (37,700), corresponding to 15.7 (19.9) percent ownership in the company, of which the company has contributed SEK 18,900 thousand in form of conditional shareholders contributions. The amounts are reported at fair value.

Note 20 Inventories

Inventories comprise finished products, work in progress and goods for resale. The impairment losses of inventories, amounting to SEK 402 thousand (400), are included in the cost of goods sold.

Note 21 Accounts receivable

	12/31/2019	12/31/2018
Accounts receivable, gross	26,684	28,061
Accounts receivable, bad debts	-2,059	0
Accounts receivable, net after reserve for insecure receivables	24,625	28,061

Management considers the carrying amounts of accounts receivable, net after reserve for insecure receivables, to be the same as fair value. The reserve for insecure receivables amounted to SEK 2,059 thousand (0).

Age analysis, accounts receivable	12/31/2019	12/31/2018
Not overdue	21,182	24,684
Overdue by 30 days	15	1,577
Overdue by 31-60 days	1,408	0
Overdue by > 90 days	4,079	1,800
Carrying amount	26,684	28,061

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.

Note 22 Prepaid expenses and accrued income

	12/31/2019	12/31/2018
Prepaid rent	1,815	1,786
Prepaid insurance premiums	221	228
Accrued income	12,791	576
Other items	2,064	790
Total	16,891	3,380

Note 23 Share capital

The share capital comprises 49,310,479 shares (45,097,579) with a quotient value of SEK 0,015 (0,015).

Note 24 Other provisions

Warranty provisions	12/31/2019	12/31/2018
Incoming warranty provision	7,416	0
Change of the year	6,947	7,416
Outgoing warranty provision	14,363	7,416

Note 25 Other long term liabilities

	12/31/2019	12/31/2018
Swedish Energy Agency	10,381	14,081
ALMI export loan	0	12,000
ALMI growth loan	0	2,000
thereof short term liability	0	-15,700
Total	10,381	12,381

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

Climeon AB has a conditional loan from the Swedish Energy Agency for SEK 10 381 (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 amortization will be 35 percent of the payments received. The amortization commitment only starts when there are net sales or license payments that relate to the project. Amortization will then take place every year on the last day of the ninth month, starting the year after the financial year during which the amortization commitment started. The loan is interest free until the amortization 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 amortization of the loan has begun.

Pledged assets	12/31/2019	12/31/2018
Incoming debt	28,081	28,081
Amortizations of the year	-17,700	0
Outgoing debt	10,381	28,081

Note 26 Other current liabilities

	12/31/2019	12/31/2018
Short time part out of long term liabilities	0	15,700
Liabilities for grants received	3,322	3,198
Social insurance contributions, retention tax	2,795	1,710
Other	57	0
Total	6,174	20,608

The conditions that are required for the grant to be recognized as revenue are for the project to have been completed and reported back, which is expected to take place in 2020.

Note 27 Accruals and deferred income

	12/31/2019	12/31/2018
Accrued vacancy pay	3,034	2,210
Accrued social insurance contributions	953	683
Prepaid income	2,441	1,668
Accrued operating costs	13,613	0
Other items	1,221	4,668
Total	21,262	9,229

Note 28 Cash and cash equivalents in the cash flow

	12/31/2019	12/31/2018
Cash	107,657	89,959
Toal	107,657	89,959

Note 29 Pledged assets and contingent liabilities

Pledged assets	12/31/2019	12/31/2018
Floating charge, in own custody	20,800	20,800
Blocked bank funds	772	2,090
Total	21,572	22,890

Note 30 Transactions with related parties

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

Purchase of services	2019	2018
Helen Öström Verksamhetsutveckling	0	131
Weseba AB	123	188
B-Garden	346	220
Mercurius Finans	49	26
Total	518	565

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

Climeon has been selected to participate in H&M and WWF's cleantech initiative for H&M's suppliers. The initiative aims to stimulate cleantech investments in the best available technology to reduce emissions and costs in H&M's supply chain.

Climeon has recruited Jack (Masao) Watanabe as President and Representative Director of Climeon Japan K.K. Jack Watanabe has long experience in both the energy and maritime industries and most recently comes from the role of SVP Chief Strategist Energy Business Group Mitsubishi Corporation. Jack Watanabe will lead and develop Climeon's operations in Japan.

SIGNATURES

Climeon has received an order from Norwegian Havila Voyages to install Heat Power systems on all four newly built vessels. The order value amounts to approximately SEK 15.4 million and delivery is expected to take place during 2021 and 2022.

Like all companies, Climeon has been affected by the outbreak of the Corona virus. The cruise industry, which Climeon is working against, has been severely affected, but Climeon is primarily involved in new production that is not affected in the short term. In geothermal, the business model is not affected as the processes are long-term and not affected by short-term changes in the market. Climeon follows the development of the situation closely. Climeon is confident that the liquidity is of no concern for at least 12 months.

Proposed disposition of earnings

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

Share premium reserve	613,662,795
Accumulated loss	-237,621,613
Loss for the year	-110,950,579

265,090,603

The Board's proposal for balanced profit to be carried forward 265,090,603

Kista, 21 April 2020

Per Olofsson
Chairman of the Board of Directors

Jan Svensson
Vice chairman of the Board of Directors

Stefan Brendgen
Board member

Olle Bergström
Board member

Vivanne Holm
Board member

Therese Lundstedt
Board member

Thomas Öström
CEO

Our audit report was submitted on
21 April 2020

Johan Telander
Deloitte AB
Authorized public accountant

KEY NUMBERS

TSEK	2019	2018	2017	2016	2015
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 (%)	82.9	58.8	82.3	65.7	67.3
Debt ratio (times)	0.2	0.7	0.2	0.5	0.3
Net debt ratio (times)	-0.3	-0.4	-0.8	-0.7	0.3
Earnings per share, before dilution, SEK	-2.30	-2.30	-1.54	-1.06	-55.81
Earnings per share, after dilution, SEK	-2.30	-2.30	-1.54	-1.06	-55.81
Equity per share, SEK	6.50	3.14	5.11	1.50	99.45

Climeon presents certain financial measures in the annual 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 Definitions.

DEFINITIONS

Operating margin	Operating profit as a procent of net sales.
Profit margin	Profit for the period after financial items as a percentage of net sales.
Return on equity	Profit 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).
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.

AUDITOR'S REPORT

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 2019-01-01 - 2019-12-31. The annual accounts of the company are included on pages 42-64 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 2019 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 stand-

ards 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 1-41 and pages 65 and 69 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.

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 2019-01-01 - 2019-12-31 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 ful-

fill 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 compa-

ny'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 21st of April 2020

Deloitte AB

Signature on Swedish original

Johan Telander

Authorized public accountant

THE CLIMEON SHARE

The company's fifteen largest shareholders as of December 31, 2019, are listed on the right. The company has issued two share classes, class A shares and class B shares. The only difference 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.

Share information

The number of shares in Climeon amounts to 49,310,479 with a quota value of SEK 0.015, of which 14,250,000 are Class A shares, 10 votes/share, and 35,045,179 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 68.40 at the end of the year.

Warrant programs

As of December 31, 2019, the company has outstanding warrants, which entitle the holders to subscribe for 1,152,129 class B shares. For further information regarding the warrants, please refer to the company's [website](#) or note 9.

Share price, SEK



The 15 largest shareholders in Climeon, 31 December 2019

Shareholders	Number of shares		% of total shares	Number. of votes	% of total votes
	Class A shares	Class B shares			
Thomas Öström	9,500,000	155,900	20	95,155,900	54
Joachim Karthäuser	4,690,000	4,300	10	46,904,300	26
Försäkringsbolaget, Avanza Pension	0	1,635,246	3	1,635,246	1
Handelsbanken Hållbar Energi	0	1,335,295	3	1,335,295	1
Stefan Brendgen	0	1,050,000	2	1,050,000	1
Olle Bergström	0	1,020,000	2	1,020,000	1
LMK-bolagen	0	1,000,000	2	1,000,000	1
Mathias Carnemark	0	744,651	2	744,651	0
Skandia Sverige Hållbar	0	699,649	1	699,649	0
Nordnet Pensionsförsäkringar AB	0	669,830	1	669,830	0
Per Olofsson	0	610,000	1	610,000	0
AMF Aktiefond Småbolag	0	552,539	1	552,539	0
Klas Händel	0	545,316	1	545,316	0
Andreas Billström	0	542,975	1	542,975	0
Ålandsbanken i ägares ställe	0	540,026	1	540,026	0
Others	60,000	23,939,452	49	24,539,452	14
Total	14,250,000	35,045,179	100	177,545,179	100

Share information

	2019	2018
Total number of issued shares at period end	49,310,479	45,097,579
Average number of shares outstanding	48,190,791	44,850,379
Earnings per share, before dilution, SEK	-2.30	-2.30
Earnings per share, after dilution, SEK	-2.30	-2.30
Equity per share, SEK	6.50	3.54

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Climeon AB
Torshamnsgatan 44,
164 40 Stockholm,
Sweden

Contact:
Charlotte Becker,
Head of Communications & Investor relations
Investor@climeon.com

Telephone: +46 10-160 44 33
www.climeon.com