

CLIMEON

Business for a better world

Climeon is the world leader in converting heat
to clean electricity at low temperatures

ANNUAL REPORT 2017



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Heat power

HEAT POWER, consists of two energy sources. *Industrial heat power* in the form of waste heat and *geothermal heat power*, where heat from the ground is used to produce renewable, clean electricity. Heat power is a renewable baseload, which means that it produces an even flow of electricity irrespective of the weather or the time of day. With today's new technology, Climeon Heat Power-system, it is possible to efficiently extract electricity from heat at low temperatures, from 70°C, which previously was not possible. The technology also has a small footprint, it does not require large land areas and has a high energy density. Heat power can be predicted to be the biggest energy source in the future, replacing much of the energy that today comes from coal, nuclear, oil and gas. Heat power together with solar, wind, water, biomass and storage can provide a completely renewable energy mix for the future.

BUSINESS FOR A BETTER WORLD, THE SUSTAINABLE COMPANY

The global energy consumption has more than tripled during the last 50 years, and over 80 percent of the added consumption was supplied by increased use of fossil fuels. The growth in energy consumption has historically been highly correlated with global GDP growth, increased standard of living and population growth, and it is likely that the global energy consumption will continue to increase in the future as more and more developing countries improve their quality of life. The latest United Nations projections indicate that world population will increase from 7.5 billion in 2017 to 10 billion persons in the year 2056. In parallel, 2.4 billion persons are projected to go from lower incomes to middle class between 2015 and 2030, which will bring an associated increase in environmental impact. To cope with this increased need for energy and electricity, substantial growth in energy production is required while simultaneously shifting to renewable sources.

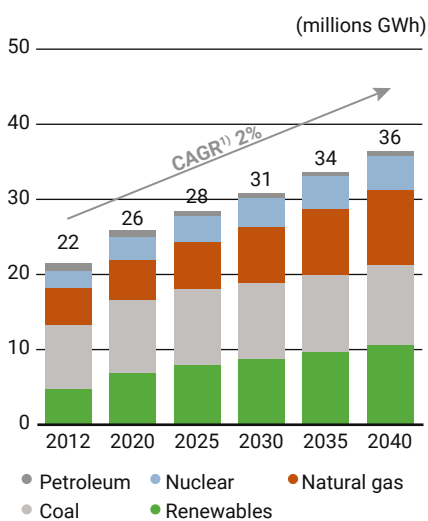
Renewable energy sources have seen considerable absolute and relative growth during the last decade and are becoming a larger part of the global energy supply mix. This trend is expected to continue and accelerate with time. Circa 40–89 percent of the net increase in capacity until 2040 is expected to come from renewable energy sources and the large range covered by the prognosis is due to the fact that different sources of information give different estimates.

This will make renewables the largest source of electricity by 2040, surpassing coal and natural gas.

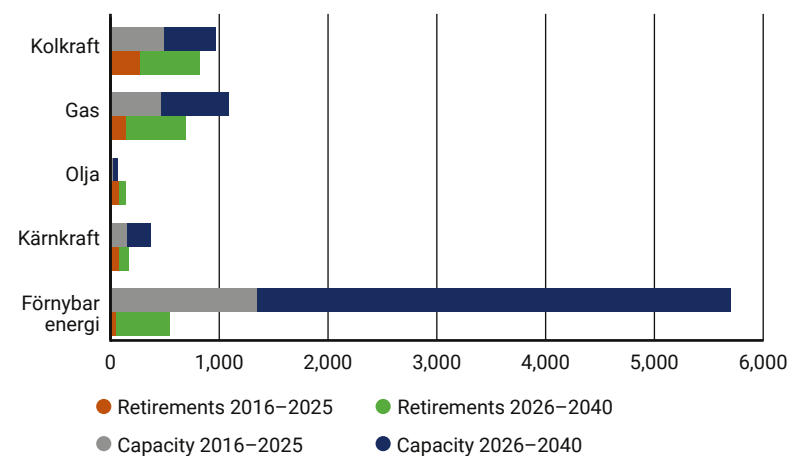
Heat power has a vast potential and is today largely untapped due to technological shortcomings. However, traditional technologies used within the heat power segment has seen strong growth despite its technological limitations. Climeon's Heat Power system is more efficient and cheaper when converting heat energy into electricity which makes it economically viable to generate electricity from low temperature heat (herein defined as temperatures between 70-120°C).

Climeon provides a technology that uses the energy in waste heat from industries and low-temperature geothermal heat to generate electricity. The Company received its first order in 2015 and has since then established a customer base consisting of Viking Line, Virgin Voyages/ Fincantieri, Maersk Line, CP Energy and SSAB, among others. It has now reached a stage where it has established its technology and its commercial marketability through repeat orders from leading players in a number of industries. The product is protected by patents and offers market-leading performance within its areas of application. Climeon has also built a scalable organisation with a high production capacity and an experienced management team primed for rapid growth.

Forecasted world net electricity generation by fuel, 2012–2040



Global power generation capacity, retirements and additions



THE YEAR IN BRIEF



HISTORY

In conjunction with the founding of the Company, Climeon established a seven-year plan consisting of five steps. The plan outlines how Climeon went from an early draft capable of generating clean

electricity from low temperature waste heat. Below follows a summary of the key historical events of the Company.



2011-
2013

TECHNOLOGY INNOVATION

- In 2011 Climeon began to create a first draft of a technology capable of converting heat energy at temperatures of 70 to 120°C into clean electricity
- The first draft was developed into Climeon's C3 technology. The technology was, and still is, based on low pressure/vacuum as opposed to traditional high-pressure systems
- In 2013 the first prototype of Climeon's Heat Power system was finalised. The prototype was able to generate three kilowatt ("kW")



2014

PRODUCT INDUSTRIALISATION

- During 2014 the technology was industrialised as the Climeon Heat Power system, where each system consists of one or many modules. At that time, one module was able to generate 100 kW
- A fundamental part of the product industrialisation was making the product economically justifiable for customers a modular and cost-efficient product that could deliver at least ten percent conversion efficiency



2015

PREPARATION FOR GROWTH

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

2016

TUNING THE PRODUCT AND THE PRODUCTION

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

2017

FOCUS ON SCALING EFFORTS IN MARKETING, SALES AND PRODUCTION

- During the first half of the year, generation 3 of the Heat Power system was released to the market, capable of generating 150 kW per module
- A new management team was recruited to make the Company ready for further expansion.
- In February 2017 SSAB ordered an upgrade to its pilot installation. The system's capacity thus increased from 120 kW to 150 kW
- In March 2017, the Heat Power system received general approval by Lloyd's Register, a certificate that the system meets the strict quality and safety requirements needed to operate within the maritime segment
- In March 2017, the Company received an order for one pilot module by the Japanese biomass power plant Koyo Electric. This was the first order within the genset segment
- In April 2017, the first repeat order was received from Viking Line consisting of a system with a capacity of 900 kW, comprising e.g. four Heat Power modules. The remaining 300 kW is related to add-on products under development
- In May 2017, the Company's large scale production facility was finalised. The facility can be scaled up to 2,500 modules per year. It is owned and operated by the contract manufacturer Mastec
- In July 2017 an order was received from Maersk Line for a module to be used in a pilot installation, and in May 2017 a leading Indian steel producer ordered a pre-study. The order from Maersk Line was the first from an operator of bulk carriers. The Swedish Energy Agency has in parallel awarded a grant to verify the products application on bulk carriers
- In August 2017, Islandic Varmorka (subsidiary of CP Energy), ordered a pilot installation as well as several full scale systems. The order is contingent on a number of conditions being fulfilled before commencement of the installations and consists of seven + 93 Heat Power modules. The order was the first within the geothermal segment
- In December 2017 the first Geothermal American order arrived from Wendel (California, four Heat Power-modules). Climeon replaced equipment from a supplier suitable for higher temperatures where sufficiently high efficiency could not be achieved. Thanks to Climeon's high efficiency in temperatures between 70 and 120°C, these types of replacements are effective

- **(2018)** During January 2018, Gullspång Invest AB, LMK Forward AB and Blue AB went public when they communicated that they are founding a finance corporation called Baseload Capital Sweden AB, to accelerate global Geothermal heat power projects. Climeon participate through a minority up to a maximum of 20 percent of the shares in the company
- **(2018)** In February 2018, the first German Geothermal deal was made with GEK. The order consists of 16 modules
- **(2018)** The conditional agreement signed in August 2018 with Icelandic Varmorka has been converted into a fixed order that will be delivered during the first half of 2018. Climeon's previous financing commitments have been taken over by Baseload Capital

CEO COMMENTS



AT THE START OF 2017 we had a proven technology and a feeling that our competitiveness was high with a market of just about infinite size ahead of us. The main focus in sales was in industrial heat power, Maritime (excess heat from ships) while geothermal (converting hot water in the ground into electricity) was an exciting vision of the future. We had a limited order backlog but good references and strong customer brands. The production was done for individual modules one at a time with the team setup as a startup with 29 employees.

The market believed in the technology but to enable the true take off we ensured to convince more, build confidence and deliver what we promised. Viking Line during spring placing a repeat order for a system 9 times larger than before was therefore important. It was the best proof of the value we deliver for the customer and the trust they have in the company and the technology.

At the same time we gained increased momentum in geothermal heat power with multiple interested customers globally. The team gained deep knowledge about the geothermal application and increased understanding for risks and possibilities. The early assumptions about the advantages of Climeon's modular solution were confirmed in customer discussions and the feeling grew that this is not an energy source of a distant future but that we are in fact on our way to create clean electricity from the ground already soon. At the same time the global energy movement is looking for this kind of base load to complement intermittent (fluctuating) energy sources like solar and wind power.

Already 2016 the preparations for getting listed on the stock market had been initiated in order to increase our transparency as a company and give comfort to our customers. In addition, it became clear

that heat power just like solar- and wind power requires project financing to speed up the build out. The path was defined and the IPO project reached all milestones as planned.

THEN DURING SUMMER AND AUTUMN EVERYTHING HAPPENED RAPIDLY.

The geothermal order on Iceland during summer was extreme in many ways, partly due to its size, 100 modules and over EUR 30 million and over 30 months and partly due to it demonstrating that this kind of stable, clear base load electricity can be generated at low prices. It is also clear that all stakeholders win; municipalities, project company (heat power operator), green house owners and Climeon, which enabled the deal to be signed in less than four months. The order was divided into phases and conditioned but along the road there has been no doubt with anybody that the whole deal will be carried through and that the collaboration will continue beyond that. In February 2018 the key conditions were fulfilled, Baseload Capital took over the financing obligations for phase 1 and the order was made firm.

In the Maritime segment we had been looking for an opportunity to enter the larger freight segment during several years, which takes time since products installed on the ships must be tested and proven for extensive periods before being approved. Maersk Line will now be first with a pilot installation which in itself is an exciting and demanding challenging with large long-term potential. The installation with Maersk requires a new maritime certification from ABS (earlier certification was with Lloyds Register) and the technical certification work largely decides the time plan for this installation. The plan is to deliver the pilot module for Maersk during second half of 2018.

“The geothermal order on Iceland during summer was extreme in many ways, partly due to its size, 100 modules and over EUR 30 million and over 30 months and partly due to it demonstrating that this kind of stable, clear base load electricity can be generated at low prices. It is also clear that all stakeholders win; municipalities, project company (heat power operator), green house owners and Climeon.”

Already 2016 we felt that the business volumes would increase and one year later we were prepared with a new production facility in Vaggeryd with production partner Mastec. To deliver in volumes is completely different challenge than building single modules and requires new competence and methodology. This made the feeling strong when the first series of modules for Fincantieri and Virgin Voyages left the production facility during the autumn and showed the major steps we had taken towards becoming a company in serial production with a significantly stronger team of over 50 employees.

In the middle of all of this, the IPO on First North Premier in October was done at record pace and according to the responsible bank Pareto Securities one of the most successful listings with a significant oversubscription and a very positive reception from the stock market and investors.

The year was concluded in the best possible way when an order was signed with a German geothermal customer for a larger installation in the European energy center Germany as well as yet another order, our first in the global center for geothermal energy; California, USA.

When we started the company in 2011 we had a vision of making a difference for the planet by creating electricity from hot water profitably. When we are summarizing 2017 it is clear what we need to get there. We have the technology, the orders, the team and the financing in place.

Lots of hard work remains but we now see how Climeon shall become the number one Climate Solver, empowering a fossil free world with heat power.

Thomas Öström, CEO

VISION, BUSINESS IDEA AND GOALS



VISION

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



BUSINESS IDEA

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



VALUE PLATFORM

Climeon's core values are Always deliver, Be amazing, Do good.



LONG-TERM GOALS

Operational goals

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

- Becoming the low temperature de facto standard in chosen segments, starting with establishing the Climeon Heat Power system as an industry standard technology for the maritime sector by the end of 2018 and also represent the company in selected countries within Geothermal heat power
- Maintaining the Heat Power system's market leading conversion efficiency
- Optimise the C3 technology and surrounding systems to give users of the Heat Power system a lower electricity cost (LCOE)



FINANCIAL GOALS

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

SUSTAINABILITY

AFFORDABLE AND CLEAN ENERGY

Creating a sustainable world for future generations has been a key driver for Climeon from the start and the company contributes to the United Nations sustainable development goal number 7 “Affordable and clean energy”. Climeon’s Heat Power-system enables less emissions of carbon dioxide and Climeon aims to maximize the net impact on the environment. This means that decisions regarding what methods and materials to use, are made ensuring both high quality and low environmental impact throughout the whole product life cycle.

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

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

SUSTAINABLE WORK ENVIRONMENT

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

As a part of the company’s management system, Climeon systematically works with the latest regulations regarding organizational and social work environment in parallel with value-based work. The regulation guides the work of setting goals, workloads, working hours and offensive discrimination in working life. Climeon’s work on these issues is to create as much commitment, influence and participation as possible in initiatives such as goal setting, vision and value-based work. This means that all employees are involved in the work. Another important aspect is internal communication to keep everybody informed about the status of the company. Every week there is a so-called pulse meeting, where the different teams talk about their most important priorities, and where all employees get the opportunity to ask questions and have a dialogue about the work to be done.

Climeon also works proactively with stress management, for example, all employees have the opportunity to receive professional support and help to prioritize and structure their working hours and life as a whole. Climeon offers a workplace where women and men, regardless of age or other background, meet each other with respect.



MARKET AND SALES

INTRODUCTION TO CLIMEON'S MARKET

The renewable energy sector has grown rapidly over the last decade, a development that likely continues to improve as a technology when political pressure continuously increases. It is relevant to note that this development does not depend on a subsidy advantage. In fact, fossil-fuel consumption received SEK 4.2 trillion in subsidies globally in 2014, more than four times the value of subsidies to renewable energy. There is a distinct division within the sector between intermittent (non-continuous, fluctuating) and baseload (continuous) energy sources, where wind and solar power are intermittent energy sources and hydropower, geothermal energy and bio-mass 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 utilises heat from within the earth as an energy source whereas waste heat energy utilises heat that is generated as a by-product in industrial processes, for example production of cement, steel and transportation. Heat power has a vast potential and is today largely untapped due to technological shortcomings. However, traditional technologies used within the heat power segment has seen strong growth despite its technological limitations, such as the Organic Rankine Cycle ("ORC") that utilises heat at temperatures between circa 120 and 300°C.



Climeon's Heat Power system 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 segments that Climeon is currently focusing on are low temperature geothermal energy as well as waste heat from maritime transportation (ships), cement and steel manufacturing, and gensets (large engines, primarily for production of electricity). Within the geothermal segment, Climeon can also utilise waste heat from oil production sites where water is a by-product, usually with the proportion of over 80 percent.

INTERMITTENT ENERGY SOURCES – THREE FUNDAMENTAL CHALLENGES

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: (1) the non-continuous energy supply from intermittent energy sources; (2) geographical and geological requirements of hydropower, high temperature geothermal energy, wind and solar power; and (3) the physical size of mainly hydropower, wind and solar power plants.

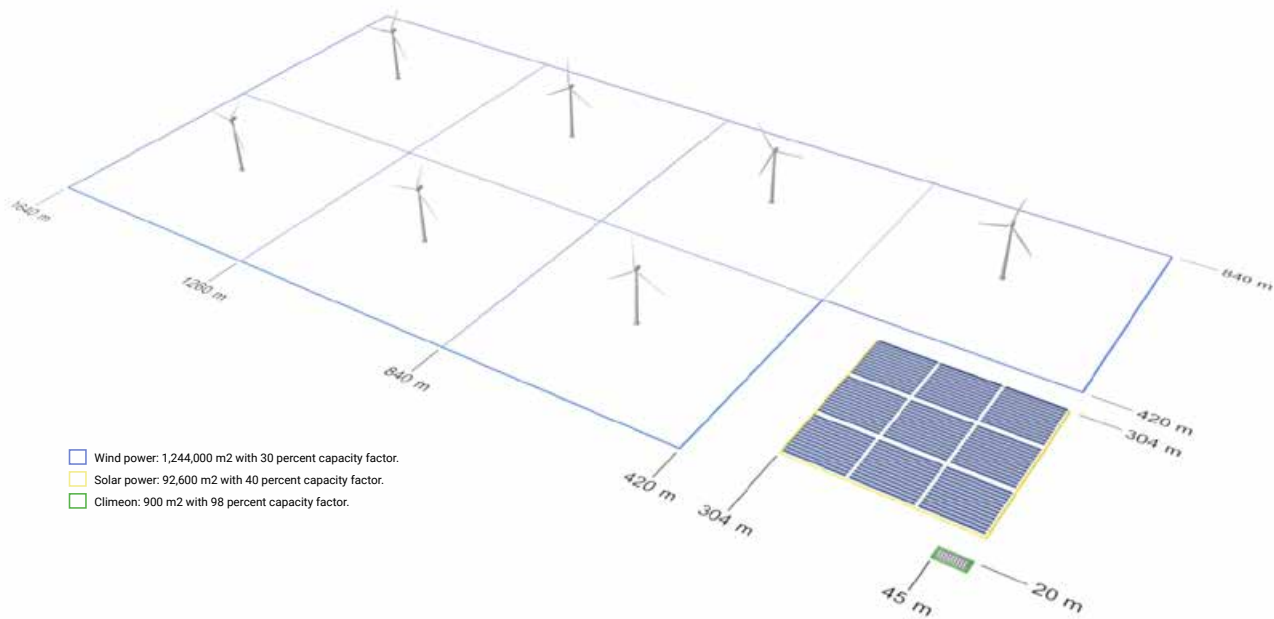
The non-continuous energy supply

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, maintaining (at least) the minimum consumption levels over time in order to be balanced. Today, the only widely adopted renewable energy sources that can provide a baseload power supply are geothermal energy, hydropower and biomass. Though, during long periods of drought, the production from hydropower may also vary.

Geographical and geological requirements

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

Size and MW capacity corresponding to a yearly production of 46,400 MWh



Physical size of hydropower, wind and solar power plants

Another issue is that wind, solar and hydropower often needs considerable amounts of physical space compared to conventional technologies (fossil fuels) or geothermal. For example, hydropower requires space for the construction of dams and reservoirs. For intermittent sources, such as wind and solar power, this is even more evident as they have lower so called capacity factor. The capacity factor is the ratio of actual electricity generated compared to the hypothetical maximum output of the power plant. This leads to a need for an increased installed capacity (megawatt “MW”) to reach the same amount of produced electricity (megawatt hours “MWh”), which is both expensive and requires additional space. The capacity factor for wind power typically range 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 average around 98 percent (geothermal installation). In the illustration above, the physical footprint of a 17 MW windfarm and 13.5 MW solar power park is compared to a 5.4 MW installation of Climeon’s Heat Power system, where all three respectively output 46,400 MWh electricity per year. The illustration demonstrates that the physical area needed per MWh is considerably lower for a Heat Power system than for a solar or wind park.

HEAT AS A BASELOAD ENERGY SOURCE

Different types of technologies based on working temperatures

High working temperatures (>300°C)

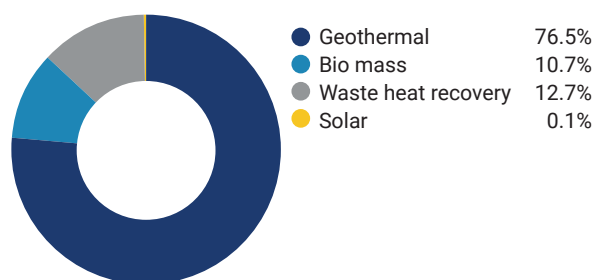
Heat power is the conversion of heat energy to electricity. The most commonly used electricity generating example today, steam turbines, works by exploiting the temperature and pressure differential between the hot and pressurised steam created in a boiler and the low temperatures and pressures of a cooled condensation chamber, with the steam propelling a turbine situated between the two areas. The general rule for heat power is that as the temperature differential between the hot and the cold source increase, so does the potential maximum conversion efficiency of the system. The main drawback of the traditional steam turbine is that it requires high temperatures and pressures in order to be efficient, limiting its application to high temperature heat inputs such as e.g. the burning of coal and natural gas.

Mid working temperatures (120°C–300°C)

In order to be able to exploit lower temperatures a system called Organic Rankine Cycle (ORC) is mainly used. In ORC systems an organic liquid, e.g. hydrocarbons or fluorocarbons, is used instead of water. The organic liquid has, among other things, a lower boiling point than water and is thus able to be more efficient at low temperature differentials, at which a traditional steam turbine would not be able to function. Traditional ORC systems typically utilise heat between 120 and 300°C at a pressure of 10–30 bar, achieving a net conversion efficiency of 8–16 percent (after deduction for internal energy losses, primarily in the form of powering system pumps). This makes ORC systems suitable for some waste heat recovery applications as well as high temperature geothermal.

As of January 2016, the combined capacity of the globally installed base of ORC systems amounted to 2,749 MW, which would be enough energy to provide for the household electricity usage of more than 4.8 million typical Swedish detached villas. Of the total installed capacity, 77 percent resides within geothermal energy, 13 percent within waste heat recovery and eleven percent within biomass. The main drawback of traditional ORC systems is the low conversion efficiency of the systems, especially at heat source temperatures close to 120°C or below, which makes the system less profitable or simply unprofitable in low temperature applications.

The globally installed capacity of ORC systems, per heat source



Source: Orc-world-map.org, ORC Market: A World Overview, retrieved Junet 2017.

Low working temperatures (<120°C)

Compared to ORC systems, Climeon's Heat Power system achieves higher conversion efficiency through the use of a unique low-pressure system and a proprietary condensing solution, among other things. The system can operate efficiently with heat source temperatures between 70 and 120°C at a system pressure of around 2.5 bar. Due to the low pressure, the internal energy consumption (system pumps) can be reduced by 90 percent compared to a typical ORC system, and the individual modules are cheaper to produce as component dimensions are reduced. Collectively, these improvements make it economically justified to generate electricity from low temperature heat sources (below 120°C).

Climeon's Heat Power system targets the same industrial segments as traditional ORC systems, but given the increased performance, Climeon can address a greenfield market that has never on a wide scale been successfully addressed before – waste heat recovery and low temperature geothermal that utilises heat sources below 120°C.

Two types of heat sources – waste heat recovery and geothermal energy

Waste heat recovery

Through the use of heat power technologies significant amounts of waste heat can be recovered. Heat is a by-product in most industries. Examples of sources of recoverable waste heat include combustion engine cooling and exhaust gases or melting processes in steel plants. This heat would otherwise be lost through dissipation into the surrounding environment. As more than half of the global energy consumption today is lost as waste heat, recovering only a few percentages of this would be an enormous source of renewable energy.

Geothermal energy

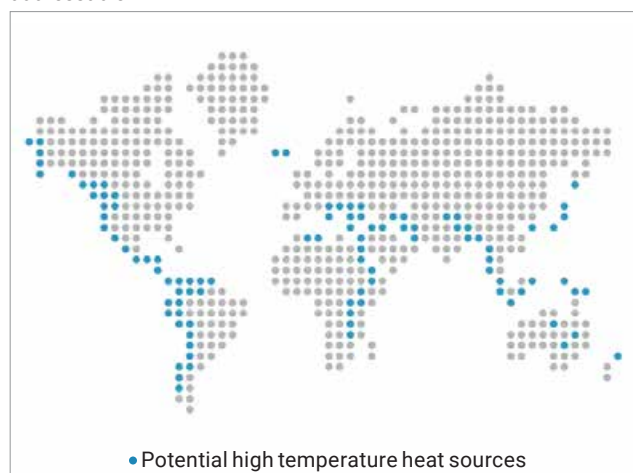
Geothermal energy refers to the heat energy stored in the bedrock of the Earth crust and it is one of few renewable energy baseload sources. Typical high temperature geothermal reservoirs reach circa 3,000 meters below the surface and aim to provide a heat source above 150°C. Most of the geothermal energy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

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

High temperature geothermal energy (>150°C)

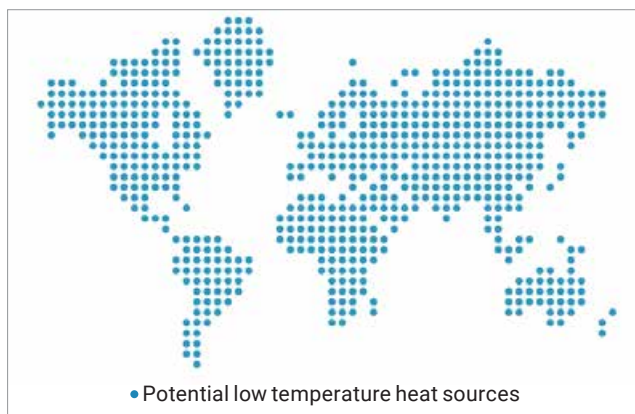
Within the geothermal energy segment there are two different uses for the Climeon Heat Power system, either as a complementary system to existing technology or as the main system for generating electricity at a low temperature geothermal power plant.

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



Low temperature geothermal energy (<150°C)

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



THE GLOBAL MARKET FOR WASTE HEAT RECOVERY SYSTEMS

Climeon estimates the global market potential for waste heat recovery systems utilising heat sources below 120°C to be large. As further described below, the Company has made this assessment based on: the share of total useful waste energy that resides below 120°C, the market appetite for ORC systems within waste heat recovery applications and the total global market size of waste heat recovery systems.

More than half of the global primary energy output (circa 153 thousand TWh) is currently wasted as heat, making it a huge source of energy if it can be efficiently recovered. Energy consumption is divided equally between transportation, industrial and private (housing) use. Within the transportation sector, up to 73 percent of the wasted heat resides within a temperature range that can be recovered

and 46 percent of that is below 100°C. Within the industrial sector, up to 59 percent of the wasted heat resides within a temperature range that can be recovered and 42 percent of that is below 100°C. The housing sector produces a limited amount of useful waste heat.

The value of the total global market for waste heat recovery systems amounted to SEK 374 billion in 2015 and is estimated to reach SEK 561 billion by 2021, growing at a compounded annual growth ("CAGR") of seven percent between 2016 and 2021. The total market estimate includes preheating solutions, steam and electricity generation, and thus not exclusively portraying the market for low temperature waste heat recovery.

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

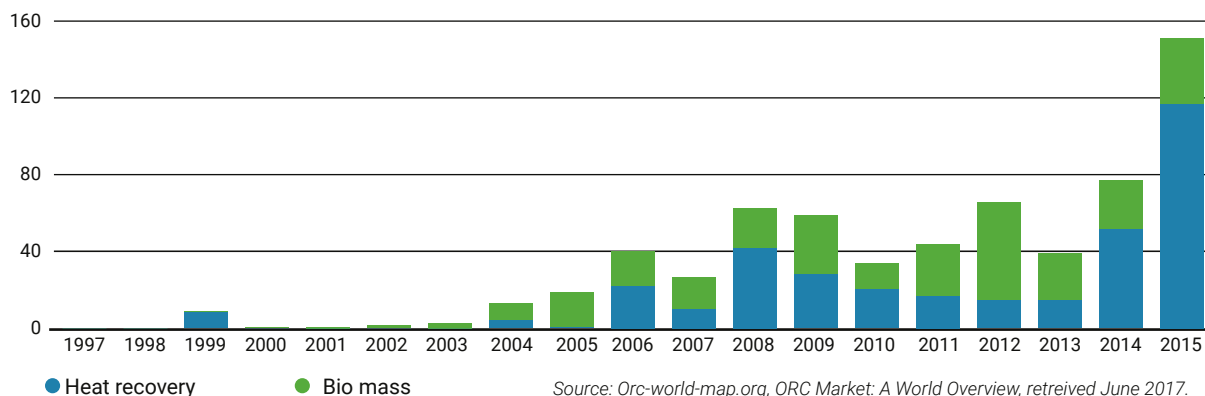
In addition to this, another application area where ORC systems have enjoyed significant growth the past years is within biomass power plants. Within this segment, a Climeon Heat Power system can serve as a complement to an ORC system, utilising heat at temperatures that would otherwise be wasted by an ORC system. The graph below illustrates the annual capacity deployment of ORC systems within waste heat recovery and biomass between 1997 and 2015.

Climeon's current focus segments

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

The industries which Climeon has chosen to initially focus on within waste heat are maritime, steel and cement manufacturing as well as generator sets (gensets). In addition, the Company focuses on the low temperature geothermal energy market. The market potential is divided into retrofit installation at existing plants or ships and annual sales for new plants or ships. The price for a single Climeon Heat Power module may vary slightly from case to case and depending on the volume of the order.

Annual installation of ORCsystem (MW, geothermal and solar thermal not included)



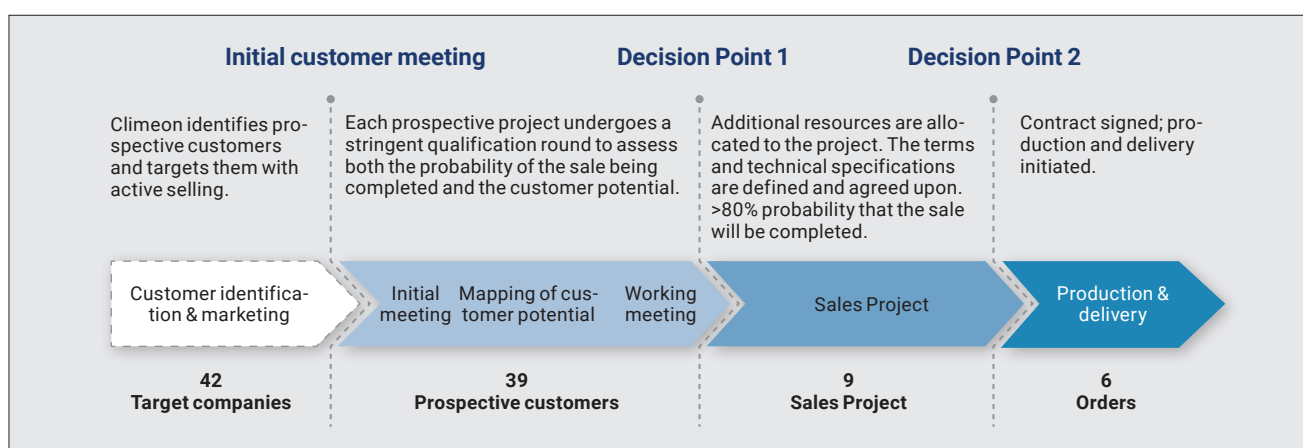
Source: Orc-world-map.org, ORC Market: A World Overview, retrieved June 2017.

SALES PROCESS

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

in order to ensure that the need for qualified internal resources is kept at a minimum.

When a customer becomes a Sales Project, additional resources are allocated to the project (including resources from delivery, technology and senior management). For a customer to be qualified as a Sales Project, the probability of closing the sale should be over 80 percent. For the sales organisation, the Sales Project phase is usually the most time-consuming part of the process. During this phase, all terms and technical specifications are defined and agreed upon. At Decision Point 2, contracts are signed and the production and delivery process is initiated.



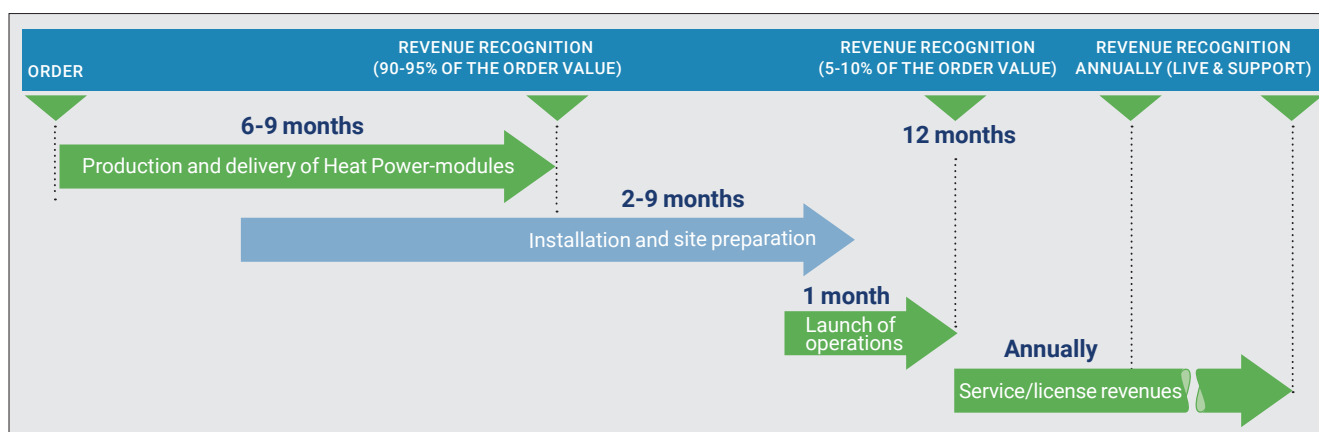
REVENUE MODEL

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

As main principle the revenue from the sale of Climeon Heat Power

modules are recognised when the significant risks and benefits associated with the modules have been transferred to the customer, with an amount that reflects the compensation that the company is expected to be entitled to in return for these goods or services.

The illustration below shows the revenue recognition, from order to launch of operation and service.



The customers normally pay for the products directly, 40% at order, 30% at production start, 20% at delivery and 10% at launch of operations. The lead time from order to delivery of a module is normally around 6-9 months. The customer is recommended to start the preparatory work in parallel to production start. The time from order to launch is typically around 12 months with the exception of orders from ship yards, where the lead time is in the order of 24-36 months.

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

Geothermal deals, like Varmaorka on Iceland, can be divided into multiple installation projects with 10-15 modules in each project where revenue for respective part delivery is recognition at delivery as described above. Financing of such projects can prolong the lead time, a risk that is lowered thanks to Baseload Capital.

For each module, the customer also needs a subscription for the Climeon Live™ software, which the customers pay for annually in advance 5 000 EUR/module per year). The license revenue is recognized when control and right of use is handed over to the customer, typically at delivery of the license.

Also support services are paid annually in advance 2 000–12 000 EUR/module per year). Support revenues are annualized over time.

GEOTHERMAL

The global geothermal segment

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

Within new construction of geothermal power plants, Climeon will initially focus on replacing active but unprofitable geothermal power plants and construct new plants at unused geothermal reservoirs.

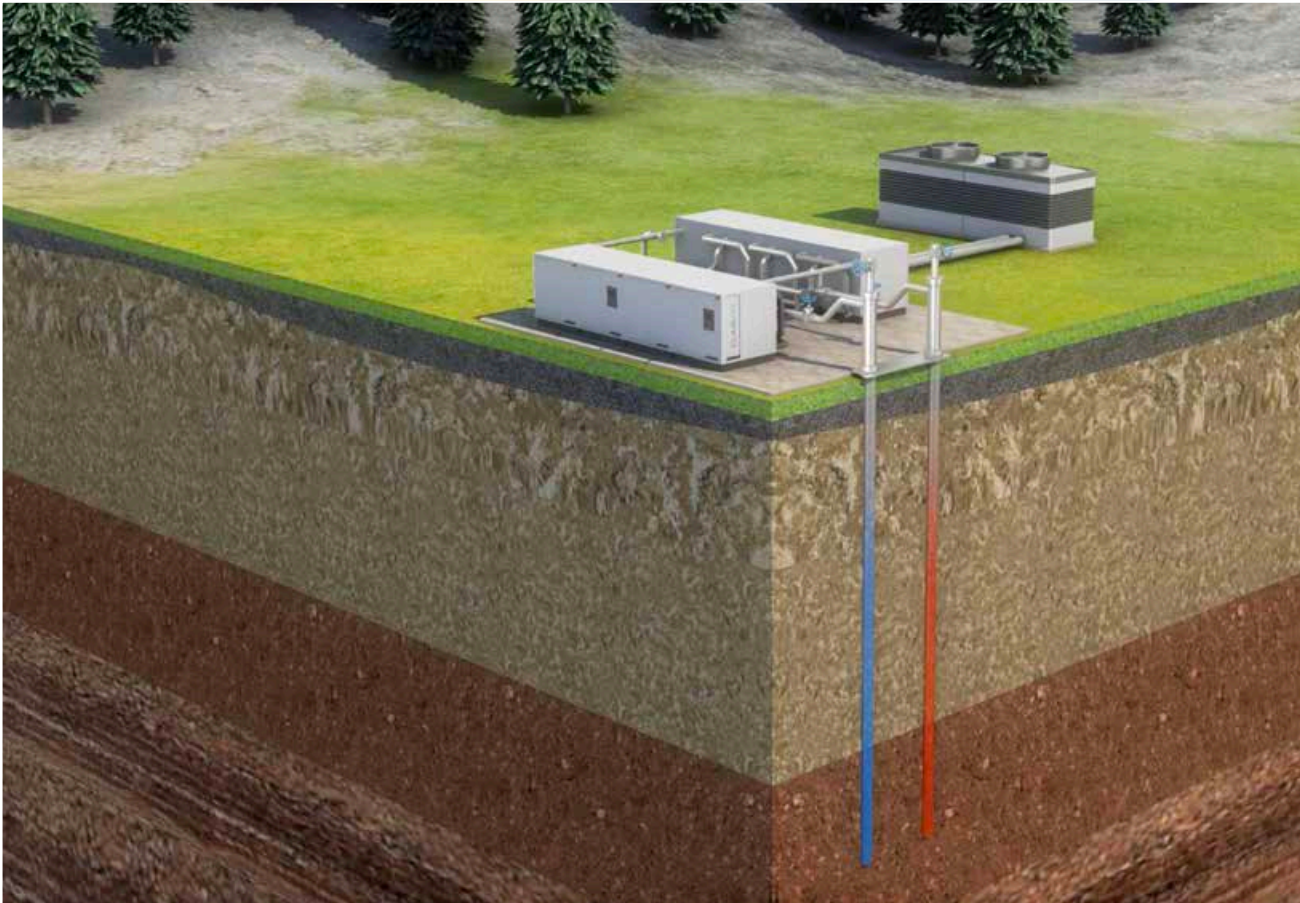
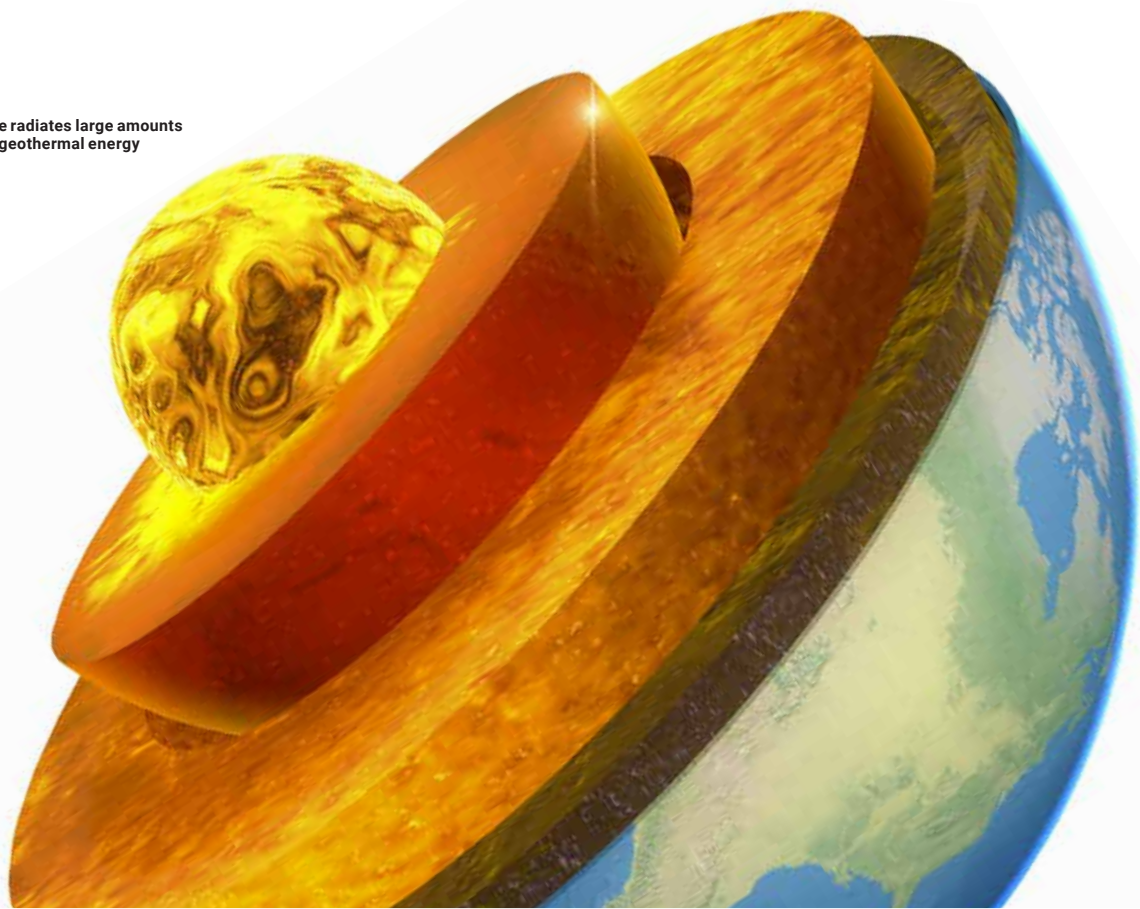
Geothermal waste heat can also be obtained from the oil and gas industry, where extracted oil and gas generally is mixed with hot water. The water content of this oil-water mix can reach as high as 98 percent in older wells, and this water has to be separated, treated and disposed of, which incurs significant costs for the industry, and a potential source for waste heat recovery.

Geographical focus

The prioritized countries for Climeon within Geothermal heat power is USA, Canada, Iceland, Germany, Japan but also Eastern Europe.



The Earth's core radiates large amounts of heat used in geothermal energy



MARITIME

The global maritime segment

Ships are typically driven directly by large diesel engines or, on newer ships, driven 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 utilised. In total, circa 60 percent of the energy used within the maritime industry is wasted as heat within temperatures ranges that can be used for heat recovery. Turning this heat into electricity reduces CO₂ emissions and fuel consumption, helping both the environment and the fuel economy. For example, a cruise ship with circa 6,000 passengers has a potential capacity of twelve Heat Power modules, generating around 1.8 MW electricity from waste heat. This translates to annual fuel savings of circa 1,500 tons of fuel (MGO), corresponding to SEK 6.4 million.

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. A recent indication of this is the newly won order for a pilot installation for Maersk Line (July 2017). In addition, passenger ships differ from bulk carriers

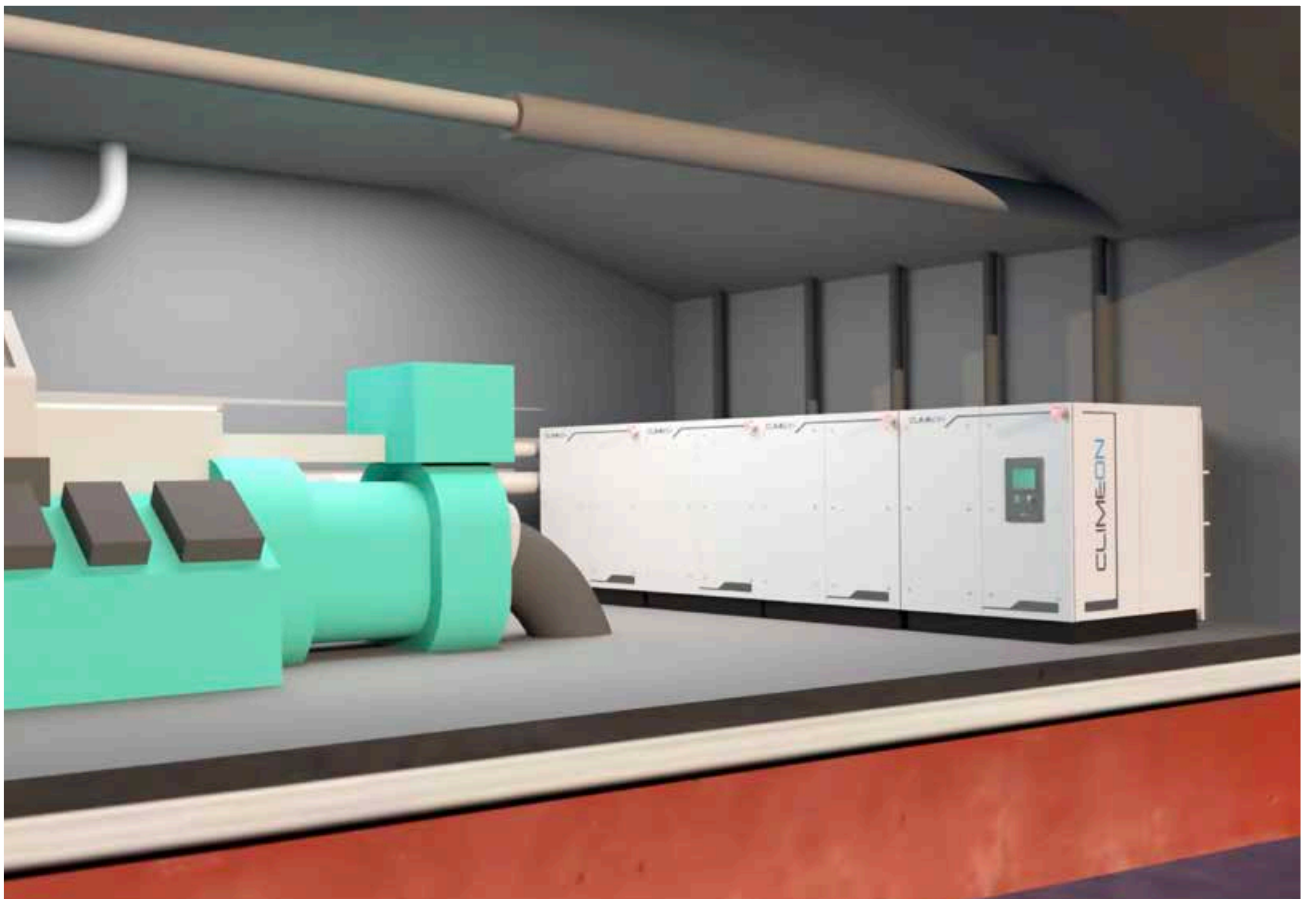
in such way that passenger ships most often are driven by four-stroke engines, whereas cargo ships are driven by two-stroke engines. Given this difference, the installation of a Heat Power-system differs between the two types of ships. In order to contribute to ensuring the systems performance for two-stroke engines, the Swedish Energy Agency co-financed the pilot installation on Maersk Lines' carrier. In addition to type of ship, the Company has identified two segmentation parameters within maritime: new build installations and retrofit installations.

Production volumes of new ships vary over time and ships differ in size and technical specifications. Climeon estimates the number of new ships produced annually that are compatible with a system for utilisation of low temperature waste heat to be circa 500–1,500 ships. Under the assumption that a ship operator chooses to utilise Climeon's Heat Power-system, the Company estimates that one ship has a potential capacity of up to twelve modules, with the average being two modules. Thus, the total segment potential within new build installations, assuming two modules per ship, amounts to 1,000–3,000 modules annually, which corresponds to an annual segment potential of circa SEK 3.4–10.2 billion.



Climeon estimates that out of the circa 85,000 ships that exist worldwide, circa 15,000–30,000 are compatible with a system for utilisation of low temperature waste heat. Converted to installations of Climeon's Heat Power module, this equals a total segment opportunity within retrofit installations of circa 30,000–60,000 modules, which corresponds to a retrofit segment potential of SEK 101.9–203.7 billion. Given an increase in fuel costs driven by the new global sulphur cap on fuels, to be enforced by 2020, Climeon predicts that retrofit installation rates will be significant.

Technologies used in maritime applications have to meet certain quality and security prerequisites, ensuring its suitability for maritime use. In March 2017 the Climeon Heat Power system was approved by Lloyd's Register. The system thereby fulfills all the regulatory requirements needed within the maritime industry.



GENSETS

The global genset segment

Gensets are biomass, biogas, natural gas or diesel-fuelled power generators, with only the purpose of generating electricity. Gensets come in varying sizes and configurations and can be found almost anywhere in an industrial setting, from smaller single off grid units powering telecom sites to large biomass power plants or ships. Diesel-fuelled gensets have historically been the primary technology in the market but gas-driven gensets have become increasingly popular as a result of sharpened emission standards. Large genset manufacturers include Caterpillar, GE, Wärtsilä, Cummins and MHI, among others.

The conversion efficiency of fuel to electricity is essential for its purpose, even to such an extent that genset manufacturers compete on the basis of one or two percentage points of efficiency. Not surprisingly, due to this focus on increasing efficiency, circa 70 per cent of the globally installed base of ORC systems used for heat recovery lies within diesel generators or gas turbines (gensets).

A strong reason for why Climeon is addressing this segment is its technological similarity to the maritime segment. Largely the same type of gensets that power a modern cruise ship is also used for land based applications, with the engine cooling and exhaust gases being the source for waste heat in all cases. Due to the similarity, Climeon believes that successful deployments of the Climeon Heat Power system in the maritime segment may be used as reference installations for the genset segment in whole.

A facility with ten gensets generating 122 MW has a potential capacity of circa 36 Heat Power modules, generating 4.5 MW electricity from waste heat, increasing the efficiency of the plant by 3.7 percent. This translates to annual savings of circa SEK 41 million (EUR 4.2 million), with electricity prices of SEK 1.1 per kWh. Based on an analysis of the combined retrofit potential among the world's eight largest genset manufacturers, including both diesel and natural gas powered gensets, Climeon has concluded that the retrofit potential of waste heat recovery systems amounts to circa SEK 34 billion. Converted to Heat Power modules this corresponds to circa 10,000 modules.

Geographical focus

Climeon does not focus on any specific geographical region due to the nature of the genset segment, instead focusing its sales effort on the major global genset manufacturers.





CEMENT

The global cement segment

The global cement production amounted to some 4.2 billion tonnes in 2016 from a total of 2,273 cement plants, and is estimated to grow at a CAGR of nine percent between 2016 and 2021. The energy intensive cement industry is highly affected by increasing energy prices and CO₂ penalties, and is thereby in need of solutions that are capable of reducing electricity costs and CO₂ emissions. Compared to industries like steel, the cement market has a higher level of local suppliers in each market, due to transportation aspects. This makes the cement industry less exposed to global price reductions.

Cement plants have several different sources from where waste heat can be recovered, including exhaust from cooling, gensets and pre-heating. Some produce higher temperature heat than others, and each plant's potential for systems for utilisation of low temperature waste heat varies depending on the temperature of the heat and how many sources of waste heat that are addressed. Accounting for these factors, Climeon estimates that the current global number of cement plants may be able to support between circa 9,000 and 32,000 Heat Power modules. This corresponds to a retrofit segment potential of SEK 30.6–108.6 billion.

A typical cement plant producing one million tonnes of cement annually has a potential capacity of circa 20 Heat Power modules at

low heat sources, generating around three MW electricity from waste heat, corresponding to around 26.3 percent of the plant's total electricity consumption. This translates to annual savings of circa SEK 28.1 million (EUR 2.9 million), with electricity prices of SEK 1.1 per kilowatt hour ("kWh").

Geographical focus

The Company is currently focusing on Europe within the cement segment. A small number of producers controls the segment. A significant segment penetration can thus be accomplished by targeting a few large producers.

Germany produced 32 million tonnes of cement in 2015 and 35 million tonnes in 2016, corresponding to a growth of nine percent, equivalent to the global average. The growth is expected to continue, as the government plans to invest upwards of SEK 2.6 trillion by 2030 in renovation of the road-, rail- and water way networks. 95 percent of the total production can be derived from 14 companies and 45 individual plants. Climeon estimates that these plants could support between 180 and 315 Heat Power modules, corresponding to circa SEK 0.6–1.1 billion.



STEEL

The global steel segment

The steel industry is an energy intense industry that generates large amounts of waste heat; of the total energy used in steel manufacturing, an average of circa 50 percent is wasted as heat. Waste heat is generated from various sources within a steel mill, including the blast furnace, the LD converter, casting and exhaust gases. The cooling of these energy-intensive processes can incur significant costs, with some steel producers even having to pay for disposal of the water used for cooling the LD converters. Climeon will initially focus on addressing the waste heat from LD converters, which is found in basic oxygen steelmaking.

The global crude steel production amounted to some 1.6 billion tonnes in 2016, more than doubling since 2000. During the past five years, production grew by a CAGR of one percent. 74 percent of the global production can be derived from basic oxygen steelmaking, where LD converters are found, equivalent to 1.2 billion tonnes in 2016. Climeon estimates that the global market for waste heat recovery from LD converters can support a large number of waste heat recovery systems. Converted to Climeon's Heat Power module, the market amounts to between 4,000 and 12,000 modules. This corresponds to a retrofit segment potential of SEK 13.6–40.7 billion for waste heat recovery systems.

A steel mill producing seven million tonnes of steel per year has a potential capacity of circa 50 Heat Power modules at the LD converter, generating around 7.5 MW electricity from waste heat, corresponding to slightly more than 0.5 percent of the steel mill's electricity consumption. This translates to annual savings of circa SEK 64.0 million (EUR 6.6 million), with electricity prices of SEK 1.1 per kWh.

Geographical focus

The Company is currently focusing on Europe within this segment.





THE FIRST ORDER WITHIN THE GEOTHERMAL SEGMENT

In August 2017, Climeon received its first order within the geothermal segment from the Icelandic company Varmaorka (subsidiary of CP Energy). The order comprises, provided that certain conditions are met, a total of 100 Heat Power modules, which will be installed in two phases: (1) a pilot installation of seven modules and (2) 10 to 15 full scale installations, comprising the remaining 93 modules. Provided the fulfillment of both phases, the order value exceeds EUR 30 million.

Iceland – good geothermal conditions but low electricity prices

Iceland is well suited for installations of Climeon's Heat Power system in geothermal applications. Iceland's location on the mid-Atlantic back, on the border of two tectonic plates, provides the country with a great number of geothermal sources in varying temperature segments. In addition, there are plenty of natural sources for water cooling. The access to hot as well as cold sources gives Iceland very good geothermal conditions for the production of electricity from geothermal energy. The country also has a long tradition of using geothermal sources for the production of electricity as well as district heating. It is thus familiarized with the technology and has an established infrastructure.

The widespread production of electricity from geothermal sources in Iceland results in the country having one of the lowest electricity prices in Europe. Traditional (high temperature) geothermal energy is generally the cheapest way to produce electricity. This

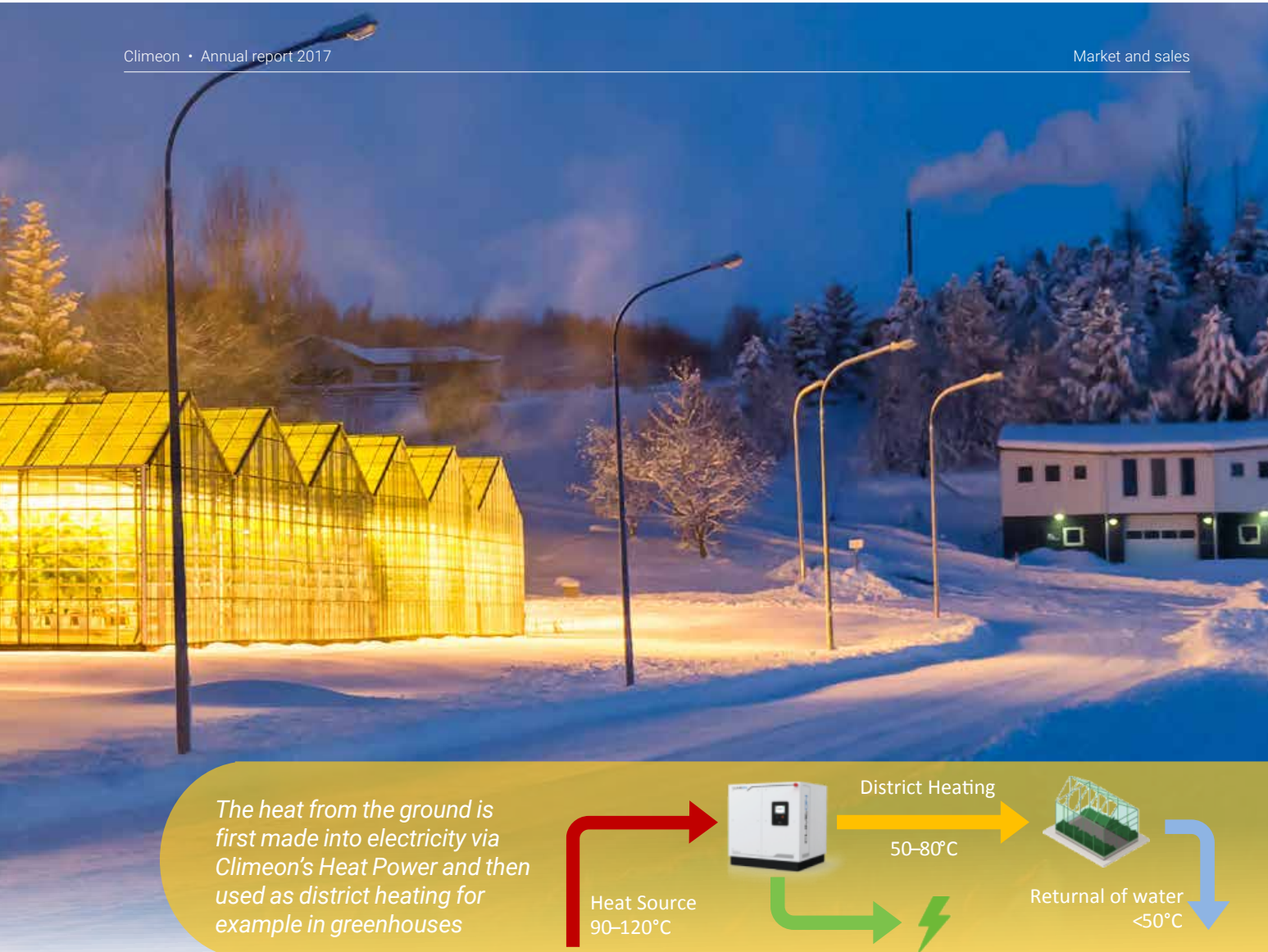
places high demands on electricity producers in order to create profitability in their businesses and gives less room for other competing alternative technologies and energy sources. Despite these conditions, Climeon's Heat Power system is expected to be able to compete and operate with good profitability.

The combination of district heating sources entails good business opportunities

The production of district heating in Iceland is widespread and used for residential purposes and for industrial use. The country has approximately a total of 250 geothermal sources with temperatures below 150°C, which are suitable for extraction of district heating. However, most often a temperature of approximately 80°C is required, which is addressed by mixing the flow of hot water and cold water in order to reduce the temperature. Thus, a lot of the thermal energy is wasted.

Climeon's Heat Power system can use this wasted heat by installing a system between the heat source and the district heating facility. The Heat Power system then generates electricity from the hot water taken from the heat source, which reduces the water temperature, making it suitable to be passed on to the district heating system.

The electricity being produced this way can either be used by the land owner or sold via the transmission grid. Often, the land is owned by the municipality, whereupon private operators can lease the land in order to utilize any geothermal sources, but private land owners do also exist.



It is especially beneficial for energy-intensive industries to own land with geothermal sources because they can then produce their own electricity. For example, greenhouses require large amounts of district heating for heating and electricity for lights. Typically, 25 per- cent of their operational expenses are electricity costs. Thus, self- produced district heating and electricity can reduce their costs significantly.

In addition, the transmission grid in Iceland is not comprehensive and some parts of the country are in need of local power plants in order to secure a stable access to electricity. Hence, there is a demand for a locally produced baseload, which Climeon's Heat Power system can provide.

PROJECT DESCRIPTION

The project comprises 10 to 15 established district heating facilities in the southeastern parts of Iceland which are today being used for heating of greenhouses. Most of these facilities have been active for over 30 years and have a stable operational history in terms of water flows and temperatures. An installation of a Climeon Heat Power system at an existing facility reduces the risk and cost of the project as drilling is avoided (at most of the facilities) and water flows and temperatures are known.

At each installation, a Heat Power system will be connected to the existing infrastructure between the heat source and the district heating plant. Each existing district heating plant has the capacity for five to ten Heat Power modules, depending on size and water temperature. Climeon only delivers the hardware in this project.

Climeon's counterparty in the project is a newly established Icelandic company, so called a Heat Power operator, focusing on development of geothermal power plants.

In the original agreement Climeon took on part of the financing of the project. This responsibility has now been assumed by Baseload Capital Sweden AB, in the form of an investment and a loan.

Phase 1 – pilot installation

The pilot installation consists of seven modules which are intended to be installed approximately 100 kilometres south-east of Reykjavik during the first six months of 2018. The assessment of the pilot installation is expected to take approximately three to six months after the system has been taken into operation.

Phase 2 – Expansion on multiple sites

Phase 2 is expected to comprise a total of 93 Heat Power modules which are gradually delivered at call offs from Varmorka (subsidiary of CP Energy). Delivery and payment for the Heat Power modules shall take place no later than 30 months after the agreement was entered into, i.e. in February 2020. Payment for the 93 modules included in phase 2 is divided into three parts: 20 percent of the agreed price when a call of note is submitted, 50 percent when Climeon initiates the production and the remaining 30 percent at delivery. Thus, Climeon receives 70 percent of the payment before delivery of the Heat Power modules.

TRENDS AND KEY DRIVERS FOR AN INCREASED PRODUCTION OF ENVIRONMENTALLY FRIENDLY ELECTRICITY

International political drivers

Climeon has from the outset strived to be independent of incentives and subsidies, focusing on creating technology that is economically profitable on its own. Nonetheless, the speed of adoption among customers in a market can increase with proactive political actions and regulations.

Carbon emission regulations and renewable energy quotas

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

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

The 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 is likely to increase in the future.

Global sulphur emission cap on maritime fuels

A political trend impacting the maritime industry is the 2012 European Union Directive regarding the sulphur content of maritime fuels, which limited ships operating in the Baltic, North Sea and the English Channel from using fuels with sulphur content higher than 0.1 percent. This has led to a significant increase in fuel costs for shipping in the region. In October 2016, the International Maritime Organisation agreed on a similar cap, limiting 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 entered into effect January 2015, with the aim of cutting emissions of fluorinated greenhouse gases by two-thirds by 2030. It also regulates the use of fluids containing hydrofluorocarbons. This affects the waste heat recovery market by restricting or banning the use of several of the ORC working fluids commonly used by Climeon's peers. Climeon is not affected by the new regulation, as the Heat Power system does not use fluorinated gases as a working fluid.

Decline of nuclear power

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

Local conditions and political drivers

Japan

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

Poland

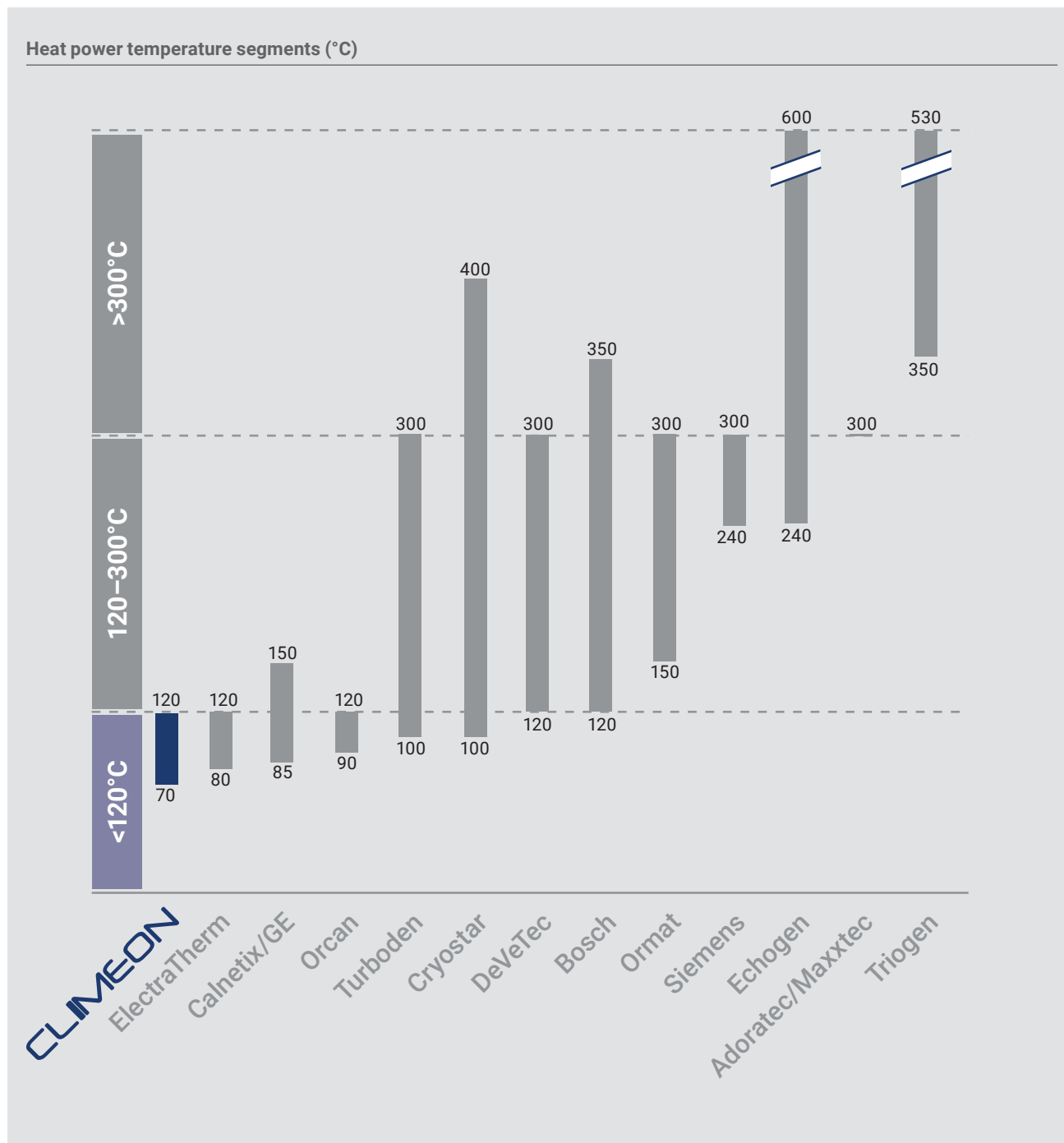
Poland's government has announced its intention to develop Poland's substantial resources of geothermal energy, which primarily consists of low-temperature heat reservoirs at 30 to 130°C. While most of the investments up to this point have been in district heating, the potential for using low-temperature geothermal electricity generation in Poland is considerable.

COMPETITION AND COMPETITORS

Climeon considers itself a pioneer within the heat power market as the Company is active in the greenfield space of utilising 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 utilise heat below 120°C. However, Climeon has to date faced head-to-head competition for individual contracts in less than 15 percent of the negoti-

ations in which the Company has partaken.

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



Sources: Sylvain Quoilin et. al., *Techno-economic survey of Organic Rankine Cycle (ORC) systems*, March 2013; Siemens, *Waste Heat Recovery with Organic Rankine Cycle Technology*, 2014; GE Marine, *Extra Power – With no additional fuel burned*, September 2014.



THE FIRST US ORDER WITHIN GEOTHERMAL

In December 2017, Climeon received its first US order in the geothermal segment from Wendel Energy Operations I. The order includes a total of 4 Heat Power modules which are intended to be installed in 2018.

USA the world's biggest market for geothermal heat power

The United States and specifically the west coast of the United States have extensive installations of geothermal power plants. In California, geothermal heat power accounts for 17 percent of total renewable energy.



"Following an evaluation of different suppliers with the aim of increasing electricity production from our 99°C geothermal source, we chose Climeon because they have the most attractive and flexible offer that best suits our needs. They offered both the best technical and economic solution, which mainly due to Climeon Heat Power's high efficiency and low maintenance costs. Now we are eager to get started with the new power plant."

Peter Blood, Managing Partner, Wendel Energy Operations I.



Replacing of traditional technology

In this Californian case, Climeon replaces traditional technology that, at low temperatures, generates a too weak or even a negative business case. The generated electricity is sold into the transmission network.

Project description

The project includes a heat power plant and four Climeon Heat Power-modules. The Wendel site has been active for 30 years, with a stable level of water flow and temperature. Installing Climeon's Heat Power-systems at existing plants reduces the cost and risk of the project due to that drilling is avoided.

THE COMPANY

Climeon was founded in 2011 by Thomas Öström (CEO), Joachim Karthäuser (CTO) and Sven Löfqvist. It is a technology company, with its headquarter in Kista, Stockholm. The Company mainly offers one product, the Climeon Heat Power system, which utilises the energy in waste heat and low temperature geothermal heat to generate electricity. The Company received its first order in 2015, and its existing customers include, for example, Viking Line, Virgin Voyages/Fincantieri, Maersk Line and SSAB.

The Company has reached a stage where it has the capacity to handle high-volume deliveries, and it has received repeat orders from companies which are leading players in their respective industries. The product is technologically proven and is patented. It provides a unit cost per kWh as low as or lower than competing technologies. Furthermore has the Company established an experienced management team and a scalable organisation poised for high growth.

Thanks to the Heat Power system's higher performance and scalability, the company is able to address a previously largely unexploited market, a so-called greenfield market, within utilisation of energy in waste heat and low temperature geothermal heat. This market is largely unexploited as it resides within a temperature segment that competing technologies are not able to address, and as a result, Climeon faces competitors in as few as 15 percent of all order negotiations. Climeon's Heat Power system can generate electricity independently of the sun, wind and precipitation and thus has the potential to fully replace fossil energy sources and nuclear power as a baseload. At present Climeon's main focus is to provide the Heat Power system to four segments: maritime, steel and cement production, genset (generators) and geothermal.

As of 31 December 2017, the Company had 46 employees, compared to 29 the year before.

STRENGTHS AND COMPETITIVE ADVANTAGES

Climeon believes that the Company will be able to use the strengths described below and utilise identified opportunities to generate growth, sustainable profitability and stable cash flows.

Superior technology with modular design and add-on services

The Climeon Heat Power system offers ten percent conversion efficiency under normal operating conditions, which is twice the conversion efficiency compared to widely adopted ORC systems. Under favourable operating conditions, the system can offer up to 14 percent, which is close to what is theoretically possible. An ORC system seldom reaches a conversion efficiency of more than five percent at 90°C. The Heat Power system also offers a competitive levelised cost of energy (LCOE) that is as low as or lower than competing technologies at low temperatures. These two factors are the most important competitive advantages for the Company.

The modular design of the Heat Power system results in a number of benefits: the system is scalable, allowing for step wise expansion and increased application versatility; a system generating 50 MW is not more complex on a module basis than a system generating 150 kW; the production can enjoy scale benefits as volumes in-

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

Each Heat Power system is complemented by a number of add-on services such as Climeon Live™-licences, consulting services and support agreements. These services add customer value and provide the Company with recurring income in addition to the hardware sales.

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.

Proven technology with repeat orders from global blue chip customers

Climeon has received several orders from a number of global blue chip customers, and has a total of nine paying customers at the end of the year 2017. The Company's two first customers, Viking Line and SSAB have after successful pilot deployments placed repeat orders to expand their Heat Power systems. The pilot installations have currently been in operation for over two years.

By receiving orders from global blue chip companies, getting positive feedback and receiving repeat orders, the Company's technology has passed its most critical stage – proven its commercial viability and readiness for a wider market roll-out.

Climeon has furthermore started to receive larger volume orders. Virgin Voyages/Finactieri has ordered three full-scale Heat Power systems (totalling 18 modules) and CP Energy has ordered a total of 100 Heat Power modules. During the second half of 2017, the six first modules for Virgin Voyages/Finactieri were produced, tested, delivered and invoiced.

Strong patent protection

Climeon's technology is its key asset. The Company therefore works actively with patent applications, trademarks and know-how protection to ensure that the technology is appropriately protected. With regards to patents, Climeon is cooperating with two partners. In 2016, Bergensträhle & Partners performed an Intellectual Asset Mapping of Climeon's operations. The investigation identified 49 intellectual assets possessed by Climeon. Actions to further increase the Company's control was only recommended for one of those, the rest were sufficiently protected.

Climeon has from the start been systematically collaborating with patent attorneys to ensure Freedom to Operate with the purpose of making sure that the products and the technology does not infringe on existing patents.

Greenfield market with a wide range of applications

With Climeon's technology for conversion of waste heat and geothermal energy (both below 120°C) to electricity with over ten percent conversion efficiency a vast energy source, which is mostly untapped today due to shortcomings of existing technologies, is made available. The Heat Power system is the first heat recovery system able to, on a wide scale, utilise this previously untapped energy source and is thus poised to capture a greenfield market in which there is limited competition.

The Heat Power system is usable in a large number of industries. The reliance on particular ones is thus low, and the total market opportunity is significant. Despite the large number of potential applications, Climeon has made the strategic decision to currently focus its efforts on four well-defined segments: maritime, steel and cement manufacturing, gensets and geothermal energy.

As the Heat Power system constitutes one of few technologies providing a renewable baseload (when applied in the geothermal segment), the Company believes the market opportunity within geothermal energy is larger relative other potential applications.

Structured sales process and extensive knowledge

Climeon has a structured and resource efficient sales process targeting identified priority companies within each focus segment; companies that usually are the largest in their respective segment. Climeon has also made an extensive mapping on these clients regarding the account potential, in terms of the size of a potential pilot installation, full scale installation on a single site and a multiple site roll-out across the customer's entire fleet of ships or sites (e.g. factories or power plants).

Strong management team and scalable organisation with volume production in place

Climeon's management team has a balanced mix of experience from leading positions at both smaller fast-growing companies as well as larger more established companies such as Atlas Copco, Ericsson, Shell, Accenture, Tieto and Mycronic Laser Systems. Despite being founded as recently as 2011, the Company has a mature organisational structure with strong but agile internal routines, ISO certification and a production facility with a scalable annual capacity of up to 2,500 modules. The volume production is outsourced to a third-party manufacturer that also handles all purchases of components, reducing the Company's working capital requirements.

Globally recognised and award-winning technology

Climeon has been recognised by a number of independent organisations. The World Wildlife Fund (WWF) recognised the Company as a Climate Solver 2016 and the industry expert firm Frost & Sullivan claimed the system to be the best in the world in its category and stated that it expects the Climeon Heat Power system to take off in the maritime industry. The system is furthermore the winner of the renewable energy category of E-Prize 2016, and has been called *"The greatest energy invention in 100 years"* by the Swedish Energy Agency.



Two heat power-modules (totally 300kW) in cross section.

GROWTH STRATEGY AND DEVELOPMENT POTENTIAL

Continue to take advantage of the Company's product advantages and favorable market position in order to establish the technology as an industry standard in the Company's focus segments.

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

Prioritise growth within particularly profitable geographical areas and segments

Expansion will be prioritised 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. Prioritised countries might include those with underdeveloped electricity infrastructure, high electricity prices, lack of energy storage capabilities, such as hydropower, or major issues with air and water pollution. Other parameters include customer requirements in relation to size, for example ships where Climeon's limited 2x2x2 meter size is an excellent fit in the engine room.

At the same time that new geographical areas are being thoroughly examined, local investments are being avoided until a strong reference customer has been contracted and the Company has gained a thorough understanding of the market. This is being done, for example, by prioritising usage of third-party players to build local service networks. 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 prioritise growth in specific geographical areas within its focus segments, but without excluding growth in other geographical areas or new segments should particularly favorable opportunities present themselves. It is opportunities

of this kind that have contributed to the Company's current initiatives. For example, there are favorable conditions for growth in Iceland due to an inadequate electricity infrastructure (which results in increased demand on local electricity networks and power stations) and in Germany due to high electricity prices (the customer's opportunity cost). Japan is assessed to be favorable for geothermal energy due to its geological conditions and because it needs to find alternative and sustainable sources of energy that can reduce dependency on international energy imports as well as supplement and eventually replace nuclear power. Like Japan, Iceland is deemed to be a favorable market for geothermal energy due to the country's geological conditions. This view of the market was reinforced when the Icelandic company Varmaorka (subsidiary of CP Energy) placed an order of 100 modules (corresponding to circa EUR 30 million) in August 2017. Despite the low electricity prices found on Iceland, Climeon managed to present an attractive business case for Varmaorka (subsidiary of CP Energy).

Continue to build a scalable organisation that requires a limited amount of capital to achieve good profitability and positive cash flows

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

Climeon can utilise the contract manufacturer Mastec's production facility, which was completed in May 2017, for a large-scale production. The facility has the capacity to produce 400 Heat Power modules annually, but can scale up to produce 2,500 modules a year. This scalability is possible primarily because the Heat Power System is based on standardised and commoditised modules, which can be mass produced. As the production volumes increase, the Company expects the contribution margin per module to increase also. In addition, Mastec has primary responsibility for purchasing components. Mastec delivers finished modules to Climeon with 30-day payment terms, which limits the need for working capital.

Scalability of the service and delivery organisation is enabled by the Climeon Live™ control system and standardisation 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 standardised module allows service partners to be used when an on-site visit is required. The service organisation is currently a combination of internal resources for product-oriented services and service partners for standardised services, but the Company is working towards increasing the share of service partners as the Company's technology becomes more established on the market.

” We see great business potential in renewable energy from geothermal heat power and are extremely pleased to now enable the leverage of project finance to grow it. ”

Magnus Brandberg, Partner, Gullspång Invest AB

Climeon's sales and marketing organisation is currently focused on large customers within the Company's focus segments, which allows internal resources to maintain large sales volumes. As sales increase, smaller customers will also be cultivated. Such type of sales will primarily be handled by sales partners.

Actively work with solutions for customer and project financing to achieve quicker 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 been temporarily assisting with customer financing for breakthrough orders in geothermal heat power during 2017. In the Icelandic case, this meant both a loan and a sellers credit, that is, the customer pays in line with the cash flow generated by the Climeon products. When Climeon now is scaling up, it has become apparent that such financing solutions need to come from external parties, someone who can provide attractive funding to customers without being restricted by Climeon's cash or balance sheet.

As a result, Baseload Capital Sweden AB was created by LMK Forward AB, Blue AB and Gullspång Invest 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. Low temperature geothermal power plants, with products from Climeon and other suppliers, will thus have a much easier path to financing and growth.

Keep developing Heat Power-system to obtain lower electricity cost for the customers

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 LCOE for Climeon's Heat Power System. LCOE is a function of the system's conversion efficiency and the cost, including the ancillary components, required to fit into the customer's processes.

The integration cost is also included as part of the customer's cost to generate electricity (and LCOE), and the Company is actively working to simplify the integration. The Company believes that a standardised and modular low-pressure product with clear interfaces will help enable simple integration.

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



Baseload Capital

CLIMEON'S PRODUCT OFFERING

Climeon was founded upon the realisation that should there be a way to convert waste heat at low temperatures (70–120°C) into clean electricity, substantial cost savings and lower CO₂ emissions could be achieved by a lot of companies. In order to make this possible and have a commercially justifiable product, Climeon set up two main goals at the inception of the Company:

- **The Climeon Heat Power system should deliver at least ten percent conversion efficiency**, and thus ensure a market leading performance at low temperatures. Today, the system delivers over ten percent conversion efficiency
- **The payback time for Climeon's customers should be competitive without subsidies.** This implies a payback time of three to seven years depending on the type of customer. Today, waste heat recovery customers have a payback time of approximately three years on their investment. Thus, Climeon's system presents an attractive business case for the Company's customers

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. 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.

Climeon Heat Power system

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

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

Climeon's Heat Power system offers a lower or equivalent LCOE compared to fossil fuels or renewable energy alternatives. Moreover, the Heat Power system delivers twice the efficiency compared to widely adopted ORC systems. Using a heat source with a temperature of 90°C and a cold source with a temperature of 20°C, 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.

150 kW Heat Power module



PRODUCTION

Climeon currently has two producers for its Climeon Heat Power system, Mastec and SLS.

Mastec Components AB

Mastec is a well-established bulk producer of industrial goods and is the large scale producer of the Climeon Heat Power system. Climeon and Mastec have had a partnership since early 2016, and all production is done in Mastec's factory in Vaggeryd, Sweden. In May 2017, Mastec completed an expansion of its production facility, and thereby dedicated comprehensive production area to Climeon. Following the expansion, 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. As the production volume increases the production cost per module will decrease.

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

Svensk Licens Svetsning ("SLS")

SLS is a small scale producer that manufactures based on specific requests rather than bulk orders, its production capacity is therefore limited to circa 50 Climeon Heat Power modules per year. SLS is mainly used for prototypes and special design orders. When SLS is used as manufacturer Climeon purchases and pays for all components needed in the production of the module. The production process with SLS thus requires a larger amount of working capital.

Suppliers

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

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

ORGANISATION AND EMPLOYEES

Climeon's headquarters is located in Stockholm, Sweden. The Company is divided into four departments based on function: Research and Development, Services and Delivery, Sales and Marketing, and Production and Sourcing.

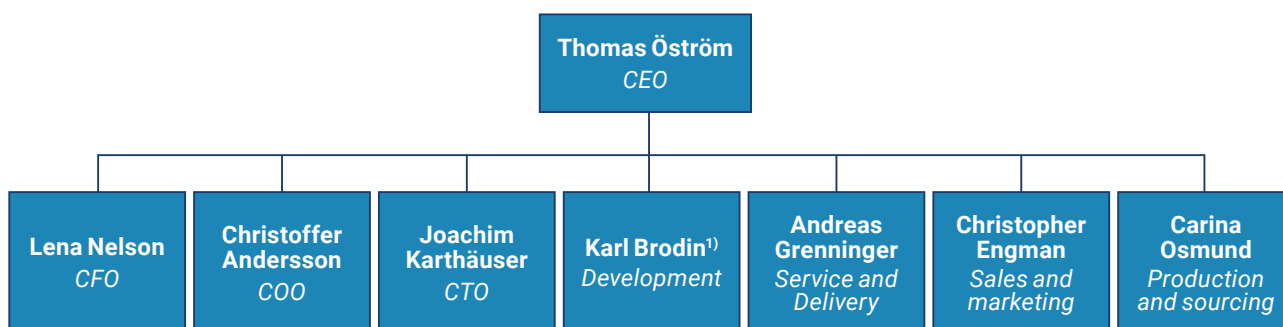
ISO-certificate

Climeon is certified according to ISO 9001 (quality management systems) and also ISO 14001. Quality assurance is a natural part of the Company's business model and it characterises all internal routines. The two ISO certificates assure that Climeon always improves with the customers and the environment in mind.

Employees

As per 31 December 2017, Climeon had 46 employees, all of which were employed at the Company's headquarter in Stockholm, Sweden. In addition, the Company had seven consultants, whereof three were considered to work full time or almost full time with Climeon.

As per the end of 2016, Climeon had 29 employees, all of which were employed at the Company's headquarter in Stockholm, Sweden.



¹⁾ Karl Brodin start his employment in April 2018



THE FIRST GERMAN ORDER WITHIN GEOTHERMAL

In February 2018, Climeon received its first German order in the geothermal segment. The order includes 16 Heat Power modules which are intended to be installed within 12 months. The customer is Geo-energie Kirchweidach (GEK).

Germany – paves the way into Central and Eastern Europe

Unlike California, Central and Eastern Europe is an immature market for geothermal heat power. Central and Eastern Europe uses coal to fuel a large part of its electricity production but more and more coal plants are being shut down and need to be replaced with a renewable alternative. Furthermore, Central and Eastern Europe has favourable conditions for Climeon, due to that hot water (in Climeon's temperature range) is widely available already at 1 000 meters below ground. Low-temperature geothermal heat power has the potential to have a strong foothold in this region since many positive factors coincide.

Utilizing already drilled wells where the water was too cold

Climeon will initially receive the majority of geothermal heat power orders from cases that want to:

1. Replace traditional heat power technology (as in this case)
2. Utilize drilled wells where they searched for higher temperatures but found lower temperatures (unsuitable for traditional technology)
3. Use hot water from oil production (where the water is often at the right temperature for Climeon and usually available in larger volumes than the oil)

In this German case, they drilled for higher water temperatures, but only found water within the range suitable for Climeon Heat Power-systems.



"The high efficiency combined with the modular solution made the Climeon heat power system the obvious choice for GEK. With this project we take an important step to begin providing clean Geothermal heat power to the beautiful municipality of Kirchweidach and later on to entire Germany"

Wolfgang Hageleit, Founder GEK

Project description

The project includes a heat power plant and 16 Climeon Heat Power-modules. In this Kirchweidach case, water is available at 125°C and 80 liter per second and Climeon will make electricity using the delta between 125 and 80°C. 80°C water will then be sent to a very large greenhouse. Supplying the greenhouse with heat is already happening today but it's done by diluting the hot water with colder water so that it reaches 80°C. GEK earns revenue both from the produced electricity and from the hot water. We will likely see more of this type of combined heat and power projects.

The Kirchweidach site has been active since 2013 and has a stable supply of water flow and temperature. Installing Climeon's Heat Power-systems at existing plants reduces the cost and risk of the project due to that drilling is avoided.

Financing of the project is in part provided by Baseload Capital.

THE SHARE AND OWNERSHIP STRUCTURE

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

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

LARGEST SHAREHOLDERS, DECEMBER 31, 2017

SHAREHOLDER	NUMBER OF SHARES		% OF TOTAL CAPITAL	% OF SHARE CAPITAL	% OF VOTES
	CLASS A SERIES	CLASS B SERIES			
Thomas Öström	9,500,000	155,900	22.24	95,155,900	55.43
Joachim Karthäuser	4,750,000	218,300	11.44	47,718,300	27.80
Ålandsbanken AB		1,307,421	3.01	1,307,421	0.76
Stefan Brendgen		1,300,000	2.99	1,300,000	0.76
Olle Bergström		1,050,000	2.42	1,050,000	0.61
Avanza Pension		982,669	2.26	982,669	0.57
BFV Förvaltning AB		982,200	2.26	982,200	0.57
Nordnet Pensionsförsäkringar AB		711,258	1.64	711,258	0.41
Frontcore Logic AB		649,677	1.50	649,677	0.38
Mathias Carnemark		644,977	1.49	644,977	0.38
Andreas Billström		630,920	1.45	630,920	0.37
LMK Stiftelsen		547,741	1.26	547,741	0.32
Klas Händel		543,700	1.25	543,700	0.32
SEB Life International		470,000	1.08	470,000	0.27
Per Olofsson		450,000	1.04	450,000	0.26
Other shareholders		18,524,616	42.66	18,524,616	10.79
Total	14,250,000	29,169,379	100.00	171,669,379	100.00

SHARE DATA³⁾

	Oct-Dec, 2017	Oct-Dec, 2016	Jan-Dec, 2017	Jan-Dec, 2016
Number of shares at period end	43,419,379	35,612,300	43,419,379	35,612,300
Average number of shares outstanding	42,774,218	35,612,300	37,416,863	33,565,633
Earnings per share, before dilution, SEK	-0.48	-0.38	-1.54	-1.06
Earnings per share, after dilution, SEK	-0.48	-0.38	-1.54	-1.06
Equity per share, SEK	5.11	1.50	5.11	1.50

Split 1:100 was executed during second quarter 2017

Share data

Series A (14,250,000 pcs) Quota value is 0.015 SEK 10 votes/share
Series B (21,446,800 pcs) Quota value is 0.015 SEK 1 votes/share

Warrant programs

At December 31, 2017 the company has outstanding warrants, which entitles the holder to subscribe for 3,153,828 class B shares. For further information regarding the warrants, refer to the company's website, Investor/The share/Warrant programs.

BOARD OF DIRECTORS, SENIOR EXECUTIVES AND AUDITOR

BOARD OF DIRECTORS

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



Per Olofsson (born in 1972)

Chair of the Board of Directors since 2015

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

held prominent positions at a number of different technology companies. He is also Executive Director of Girindus Investments AB.

Holdings in the Company: Per Olofsson owns, privately or through companies, no class A shares and 450,000 class B shares as well as 1,600 warrants in the Company that entitle him to subscribe for 160,000 class B shares.



Olle Bergström (born in 1972)

Member of the Board of Directors since 2015

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

of business strategies. Olle Bergström is at the present employed at Telia as Head of IT & SAOps, PPMO.

Holdings in the Company: Olle Bergström owns, privately and through companies, no class A shares and 1,323,500 class B shares as well as 192 warrants in the Company that entitle him to subscribe for 19,200 class B shares.



Stefan Brendgen (born in 1964)

Member of the Board of Directors since 2015

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

several appointments in supervisory corporate bodies, including Allianz Suisse Immobilien AG, IVG Immobilien AG and TRIUVA Kapitalanlage GmbH.

Holdings in the Company: Stefan Brendgen owns, privately and through related parties, no class A shares and 1,300,000 class B shares and no warrants in the Company.



Vivianne Holm (born in 1965)

Member of the Board of Directors since 2017

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

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



Therese Lundstedt (born in 1981)

Member of the Board of Directors since 2017

Education/background: Therese Lundstedt has a Master's Degree in marketing and management from Uppsala University and University of Calgary and has also taken courses at Styrelseakademin. Therese Lundstedt has experience from larger companies, start-ups as well as non-profit associations within the finance and IT segment and has previously worked with marketing, sales and business development at e.g. SEB, Aktiespararna, Unomaly and Redeye. Therese Lundstedt is at the present the CEO of Aktieinvest FK AB,

a company owned by the Swedish Trade Association.

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

Thomas Öström (born in 1973)

Member of the Board of Directors, CEO and co-founder of Climeon

For further information see below in the section "Senior executives".

SENIOR EXECUTIVES



Thomas Öström (born in 1973)
CEO, member of the Board of Directors
as well as co-founder of Climeon.
CEO since 2011

Education/background: Thomas Öström has a master of science degree in computer science and control engineering from Luleå University of Technology, and he completed the leadership and finance programs at Svenska Managementgruppen. He has also taken courses at Styrelseakademin. Thomas Öström is an entrepreneur and a joint founder of

Climeon. Thomas Öström previously worked for over ten years at Micronic AB (publ), and was vice president for technology development, for example. Micronic is a Swedish high-tech company in the electronics industry and is listed on Nasdaq Stockholm. In addition, Thomas Öström also has experience of project management, product development and business development.

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



Christoffer Andersson (born in 1974)
COO since 2016

Education/background: Christoffer Andersson has a master of science degree in computer science and control engineering from Luleå University of Technology. Christoffer has extensive experience in building companies on a global basis, from start-ups to business areas within large companies. Christoffer Andersson was previously CEO of TargetEveryOne AB, a company that he helped list on Nasdaq First North in June 2015. In addition, Christoffer Andersson has had several posts as head of business area at Ericsson, for

example in India and Germany, with up to 750 employees and a turnover of over SEK 1.5 billion. Christoffer Andersson has also written best-selling books on mobile telecommunications and has received several internal awards at Ericsson.

Holdings in the Company: Christoffer Andersson owns, privately and through related parties, no class A shares and 260,200 class B shares as well as 1,585 warrants in the Company that entitle him to subscribe for 158,500 class B shares. †



Lena Nelson (born in 1963)
CFO since 2017

Education/background: Lena Nelson has a bachelor of science in business administration from Stockholm University. Lena Nelson has over 20 years' experience of finance in large and medium companies and previously worked as a management consultant and was responsible for the TMT sector at KPMG. Lena Nelson has also worked as a certified public accountant and head of group at Ernst & Young. Much of her work at KPMG and Ernst & Young was with large listed companies in Sweden. In addition, Lena

Nelson has worked as financial manager at HI3G Access ("3") at the time of the company's establishment and commercial launch on the Scandinavian market. Most recently, Lena Nelson comes from Tieto AB where she was Head of Finance with global responsibility for the group's business areas with 2,000–4,000 employees and a turnover of about EUR 400 million.

Holdings in the Company: Lena Nelson owns, privately or through companies, no class A shares and 22,900 class B shares as well as 544 warrants in the Company that entitle her to subscribe for 54,400 class B shares.



Joachim Karthäuser (born in 1960)
CTO and head of IPR since: 2011

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

Holdings in the Company: Joachim Karthäuser owns, privately and through related parties, 4,750,000 class A shares and 273,300 class B shares and no warrants in the Company.



Christopher Engman (born in 1974)

CRO/CMO and Head of Sales & Marketing since 2017

Education/background: Christopher Engman studied industrial economics at Luleå University of Technology and took courses in systems sciences at Stockholm University. Christopher Engman has many years' experience of sales and marketing. He founded Vendemore AB and was its CEO for over ten years. Vendemore is a B2B partner that helps companies with long and complex sales cycles to increase their sales. Before then Christopher Engman was head of sales and marketing for Taxisystem.com, a company he also co-founded.

Holdings in the Company: Christopher Engman owns, privately or through companies, no class A shares and 281,800 class B shares as well as 2,565 warrants in the Company that entitle him to subscribe for 256,500 class B shares.



Carina Osmund (born in 1967)

Head of Production and Sourcing since 2017

Education/background: Carina Osmund has a master of science degree in industrial economics with a focus on industrial production and manufacturing systems from the Swedish Royal Institute of Technology, and has an MBA with a focus on strategy and marketing from the Blekinge Institute of Technology. Carina Osmund has extensive experience of working with the streamlining of production flows, including

work on optimising costs and reducing lead times in the internal and external processes of a company. Previous posts include responsibility for medium to large teams of employees. Carina Osmund comes most recently from Profoto AB where she was Group Sourcing Manager and Vice President of Global Supply Chain, working mainly on strategy and development and negotiating with suppliers and other third parties at a national and international level.

Holdings in the Company: Carina Osmund owns, privately or through related parties, no class A shares and 12,971 class B shares and 14,242 call options in the Company.



Andreas Grenninger (born in 1978)

Head of Services & Delivery since 2016

Education/background: Andreas has a master of science degree in industrial economics from Luleå University of Technology. Andreas Grenninger has extensive experience of project management, implementation, optimisation, maximizing cost efficiency and integration as well as sales and marketing from Ericsson and Accenture among other companies.

Holdings in the Company: Andreas Grenninger owns no class A shares and 17,200 class B shares as well as 702 warrants in the Company that entitle him to subscribe for 70,200 class B shares.



Karl Brodin (born in 1969)

Head of Development from April 2018

Education/background: Karl Brodin has a Master of Science in Machine Elements from the Swedish Royal Institute of Technology and over 20 years of industrial experience from product development, marketing, operations and management. During the past five years Karl has had the position as Business Manager in Atlas Copco, Industrial Technique Business Area, focusing on the Automotive Industry. Prior to this Karl has been the R&D Manager for the Atlas Copco brand within Industrial Technique business Area.

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

AUDITOR

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



CLIMEON ANNUAL REPORT

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BOARD OF DIRECTORS' REPORT

The board of directors and the chief executive officer of Climeon AB (publ.), corporate identity number 556846-1643, hereby submit their annual report for the financial year 2017-01-01–2017-12-31

NATURE AND FOCUS OF THE BUSINESS

Climeon is a Swedish technology company, founded in 2011, with headquartered in Kista, Stockholm, Sweden. The company is divided into four departments base on function: Research and Development, Service and Delivery, Sales and Marketing, and Produktion and Souricng. The company mainly offers one product, the Climeon Heat Power system, which utilises 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 four segments: geothermal power, maritime, steel and cement manufacturing and gensets. Within maritime, steel, cement and gensets, the usage of the Heat Power system lies within waste heat recovery, whereas within the geothermal segment 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 it self.

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

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

of the company's competitors have difficulties to compete efficiently.

The segments that Climeon is currently focusing on are low temperature geothermal energy as well as waste heat from maritime transportation (ships), cement and steel manufacturing, and gensets (large engines, primarily for production of electricity). Within the geothermal segment, Climeon can also utilise waste heat from existing high temperature geothermal power plants operating at temperatures exceeding 150 °C.

Order intake and order backlog

During the fiscal year, Climeon AB has signed several important customers agreements. Order intake for the full year 2017 amounted to SEK 330.1 million (34.2).

At the end of the period, the order backlog amounted to SEK 352.9 million (34.2), corresponding to 124 Heat Power modules.

During the first half of 2017, the company received an important additional order from Viking Line, within the Maritime segment, for four Climeon Heat Power modules and an additional product under development in the Marine segment. In addition to the purchase of the hardware, Viking Line signed a contract for additional site support in February 2017. During the year, an additional order, within the Maritime segment, was obtained from Maersk Line regarding a pilot installation of Climeon Heat Power modules. The Swedish Energy Agency, in parallel with this, has awarded a grant to verify the technology for use on ships with two-stroke engines, which is the standard on bulk carriers.

A pilot project has also been signed with a Japanese company Koyo Electric has been initiated, with an order for three Heat Power modules intended for a biomass power plant. In addition, a prestudy from one of the largest international steel producer, based in India, was completed.

In August Climeon received its first order within the geothermal segment from Varmaorka (subsidiary to CP Energy). The order is comprised of a total of 100 modules corresponding to a order value of over EUR 30 million. The previously conditional order has been converted into a firm order in February 2018. The installation is distributed over a pilot installation consisting of seven modules as well as 10 to 15 full-scale deployments consisting of a total of 93 modules. Later during the year, the company received an order of four Climeon Heat Power modules, to be delivered during 2018, to a geothermal power plant in California, from Wendel Energy Operations. This leads to an entrance to the strategically important US market. The year ended with the signing of a business agreement with the geothermal power plant in Kirchweidach, Germany with an order value of over EUR 5 million.

Production

During the second quarter, a new production facility, in partnership with Mastec was opened with the capacity to produce up to 2,500 Climeon Heat Power modules per year. The launch is an important step moving from single module production to volume capacity.

An important milestone was reached with successful approval under the Factory Acceptance Test of Climeon's first volume order. The first six Climeon Heat Power units of a total of 18 was delivered to Fincantieri Shipyard in Romania.

LISTING ON NASDAQ FIRST NORTH PREMIER

During October 2017 the company's class B share was listed on Nasdaq First North Premier. In connection to the listing, capital was raised through a new share issue to finance the company's continued growth, broaden the company's ownership base and further increase awareness of the company among potential investors.

CHANGES AMONG SENIOR EXECUTIVES

The management team was composed of CEO Thomas Öström, COO Christoffer Andersson, CFO Lena Nelson, Head of Sourcing & Production, Carina Osmund, Head of Sales & Marketing, Christopher Engman, Head of Service & Delivery, Andreas Grenninger, Head of Development, Anders Marcusson, CTO and Head of IPR Joachim Karthäuser.

New in Management team from April 1, 2018, Karl Brodin is Head of Research and Development. Climeon's current R & D manager, Anders Marcusson, remains in the company and will focus entirely on technical architecture and leave the management team in connection with this.

DEVELOPMENT/COMMENTS OF BUSINESS, POSITION AND RESULTS

TSEK ¹⁾	2017	2016	2015	2014	2013
Net sales	11,856	2,888	36	80	48
Operating profit/loss	-56,667	-35,444	-18,379	-2,675	-3,207
Profit before tax	-57,451	-35,590	-18,346	-2,578	-3,169
Total assets	269,586	81,247	48,559	17,314	6,752
Equity ratio (%)	82.3	65.7	67.3	64.7	85.7
Return on equity					
Return on assets	neg	neg	neg	neg	neg
Average number of employees	37	25	12	6	2

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

NET SALES

Net sales amounted to 11,856 TSEK (2,888) in 2017, an increase of SEK 8,968 thousand, or 311 percent. The increase in net sales was mainly attributable to the sale of Heat Power systems and service assignments.

CAPITALISED WORK FOR OWN ACCOUNT

Capitalized work for own account increased by SEK 7,733 thousand, or 73 percent, from SEK 10,596 thousand in the previous year to SEK 18,329 thousand in 2017. 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 -56,667 thousand (-35,444). The decrease in operating income was primarily attributable to increased costs, mainly related to the build-up of the sales, delivery and service organization, reflected in increased staff costs and other external costs.

TAX

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

The company has unutilised loss carry forwards amounting to SEK 117.3 million (60.6), of which the tax effect has not been recognised as a deferred tax asset in the balance sheet.

EARNINGS AFTER TAX

Profit for the period amounted to SEK 57,451 thousand (-35,590) and the change was attributable to the changes described under "Net sales" and "Operating profit". Net financial items amounted to SEK -784 thousand (-146), which includes interest on short-term and long-term borrowing.

CASH FLOW

Cash flow from operating activities

Operating profit amounted to SEK -56,667 thousand (-35,444). 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 was SEK 26,688 thousand (-16,271). The decrease was mainly being affected by investments in non-current assets mainly capitalized development costs and patents.

Cash flow from financing activities

Cash flow from financing activities increased to SEK 237,950 thousand (62,248). The increase was primarily due to new issues carried out during the fourth quarter in connection with the listing of Nasdaq First North Premier, which provided the company with SEK 224,000 thousand after issue expenses and raising of long-term loans of SEK 12,000 thousand.

LIQUIDITY AND FINANCIAL POSITION

At December 31, 2017, shareholders' equity amounted to SEK 221,841 thousand (53,342). The increase of SEK 168,499 thousand, 316 per cent, was mainly due to new share issues of SEK 224,000 thousand, after issue expenses, during the year. The company's cash register was SEK 203,977 thousand compared to SEK 51,320 thousand in the previous year. The increase was attributable to the changes described under "Cash Flow" above. The company's liabilities amounted to SEK 47,745 thousand (27,905). The increase of SEK 19,840 thousand was mainly attributable to external long-term loans of SEK 12,000 thousand and an increase in other operating liabilities, primarily account payables.

EMPLOYEES

The average number of employees in the company during the year was 37 (25), whereof 26 percent women and 74 percent men. An increase compared with the previous year, which is mainly explained by the build-up of the sales, delivery and service organization. At the end of the period the number of employees was 46 (29).

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, 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 agreement²⁾. 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 2018, with an order backlog of SEK 352.9 million in 2017 (34.2), corresponding to 124 Heat Power modules, which is SEK 318.7 million higher compared with 2016. For 2018, 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, 2017, the registered share capital comprised 14,250,000 A shares and 29,169,379 B shares. The company's B share has been listed on Nasdaq First North Premier on 13th of October 2017 under the short name "CLIME B"

The shares have a quota value of 1.5 öre. The A shares are entitled to ten votes and the B shares to one vote each. At year-end, the number of shareholders in Climeon was 4,049 (352) and as the largest shareholders, Thomas Öström with 22 (27) percent of the capital and 55 (58) percent of the votes, and Joachim Karthäuser with 11 (14) percent of the capital and 28 (29) percent of the votes. No other single shareholder owns more than 10 percent of the votes. The ten largest shareholders together accounted for 51 (58) percent of the capital and 88 (91) percent of the votes.

At December 31, 2017 the company has outstanding warrants, which entitles the holder to subscribe for 3,153,828 class B shares.

NON-FINANCIAL INFORMATION

Environment

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

ANNUAL GENERAL MEETING

Climeon's Annual General meeting is held at Scalateatern in Stockholm on April 19, 2018 at 4 pm. On the company's website, www.climeon.com, more information regarding the Annual General Meeting and the Board's proposal for decision can be found.

FINANCIAL CALENDAR

Annual report published,	March 22, 2018
Annual General Meeting,	April 19, 2018
Interim report first quarter 2018,	May 18, 2018
Interim report second quarter 2018,	August 29, 2018
Interim report third quarter 2018,	November 22, 2018

PROPOSED APPROPRIATION OF EARNINGS

At the disposal of the annual general meeting (SEK)

Share premium reserve	336,491,417
Loss carried forward	-84,724,393
Net loss for the year	-57,450,908
	194,316,116

The board of directors propose that the accumulated loss of SEK 194,316,116 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. All amounts are expressed in thousands of Swedish kronor, unless otherwise stated.

2) theguardian.com/business/2017/dec/12/uk-banks-join-multinationals-pledge-come-clean-climate-change-risks-mark-carney

FINANCIAL REPORTS

INCOME STATEMENTS

TSEK	Note	2017	2016
Net sales	5	11,856	2,888
Capitalized work for own account		18,329	10,596
Other operating income	6	1,499	1,357
Raw materials and consumables		-26,140	-10,768
Other external expenses	7,8	-18,515	-15,170
Personnel expenses	9	-39,760	-22,332
Depreciation of tangible and intangible assets		-3,933	-2,012
Other operating expenses	10	-3	-3
Operating profit/loss		-56,667	-35,444
Profit from financial items			
Interest income and other financial items	11	101	51
Interest expenses and other financial items	12	-885	-197
Profit/loss after financial items		-57,451	-35,590
Tax	13	-	-
PROFIT/LOSS FOR THE YEAR¹⁾		-57,451	-35,590
1) Total profit/loss for the period correspond Profit/loss for the period.			
Result per share, SEK	14		
Before dilution		-1.54	-1.06
After dilution		-1.54	-1.06

BALANCE SHEET

TSEK	Note	31 Dec, 2017	31 Dec, 2016
ASSETS			
Non-current assets			
<i>Intangible non-current assets</i>			
Capitalized expenditures on development work	15	29,601	14,106
Patents, licenses, trademarks, and similar rights	16	4,627	2,707
		34,228	16,813
<i>Tangible non-current assets</i>			
Leasehold improvements	17	2,463	1,481
Plant and machinery	18	7,450	3,137
Equipment, tools and installations	19	647	602
		10,560	5,220
Total non-current assets		44,788	22,033
Current assets			
<i>Inventories</i>			
Work in progress	20	1,975	1,127
Finished goods and goods for resale		3,595	3,424
		5,570	4,551
<i>Current receivables</i>			
Accounts receivable	21	9,978	241
Other current receivables		3,292	2,162
Prepaid expenses and accrued income	22	1,981	940
		15,251	3,343
Cash and cash equivalents		203,977	51,320
Total current assets		224,798	59,214
TOTAL ASSETS		269,586	81,247
EQUITY AND LIABILITIES			
Shareholders' equity			
<i>Restricted equity</i>			
Share capital	23	651	356
Reserve for development costs		26,874	10,200
		27,525	10,556
<i>Unrestricted equity</i>			
Share premium reserve		336,491	111,878
Retained earnings		-84,724	-33,502
Loss for the year		-57,451	-35,590
		194,316	42,786
Shareholders' equity		221,841	53,342
Provisions			
Other provisions	24	1,524	-
		1,524	-
Non-current liabilities			
Other long-term liabilities	25	28,081	16,081
		28,081	16,081
Current liabilities			
Advance payments from customers		1,984	-
Accounts payable		9,557	6,747
Current tax liabilities		1,017	680
Other current liabilities	26	5,412	3,808
Accruals and deferred income	27	170	589
		18,140	11,824
TOTAL EQUITY AND LIABILITIES		269,586	81,247

STATEMENT OF CHANGES IN EQUITY

	Restricted equity		Non-restricted equity			Total equity
	Share capital	Reserve for development costs	Share premium reserve	Retained profit or loss	Profit for the year	
Opening balance, 1 January 2016	329		57,706	-6,998	-18,346	32,691
Appropriation of prior year's profit/loss				-18,346	18,346	-
Capitalisation of development costs		10,596		-10,596		-
Utilisation as a result of the year's depreciation of development costs		-396		396		-
Profit/loss for the year					-35,590	-35,590
Other comprehensive income						-
Total comprehensive income/loss	-	10,200	-	-10,200	-35,590	-35,590
<i>Transactions with owners:</i>						
New issue	20		52,980			53,000
Issue expenses			-281			-281
Premiums paid for warrants				2,042		2,042
Exercise of warrants	7		1,473			1,480
Total transactions with shareholders	27	-	54,172	2,042	-	56,241
Closing balance, 31 December 2016	356	10,200	111,878	-33,502	-35,590	53,342

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

CASH FLOW STATEMENTS

TSEK	Note	2017	2016
Operating activities			
Operating profit		-56,667	-35,444
Adjustment for items not included in cash flow:			
Depreciation/amortisation		3,933	2,012
Provisions for guarantees		1,524	-
Unrealised exchange rate differences		-	-129
Interest paid		101	51
Interest received		-885	-69
Cash from operating activities before changes in working capital		-51,994	-33,579
Cash flow from changes in working capital			
Decrease (+)/increase (-) in inventories		-1,019	322
Decrease (+)/increase (-) in accounts receivables		-9,737	-226
Decrease (+)/increase (-) in current receivables		-2,171	-1,762
Decrease (-)/increase (+) in accounts payable		2,810	3,723
Decrease (-)/increase (+) in other current liabilities		3,506	2,308
Cash flow from operating activities		-58,605	-29,214
INVESTING ACTIVITIES			
Investment in intangible assets	16	-20,250	-11,974
Investment in tangible assets	17-19	-6,438	-4,297
Cash flow from financing activities		-26,688	-16,271
FINANCING ACTIVITIES			
New issue		224,000	52,719
Exercise of warrants		730	1,480
Raise of long-term debt	25	12,000	6,007
Premiums paid for warrants		1,220	2,042
Cash flow from financing activities		237,950	62,248
CASH FLOW FOR THE YEAR		152,657	16,763
Cash and cash equivalents at beginning of the year		51,320	34,557
Cash and cash equivalents at year-end	28	203,977	51,320

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 Jan Stenbecks torg 17, SE-164 40 Kista, Sweden. The company was founded in 2011 and its operations involve developing and selling environmental technology solutions that improve the Earth's climate by improving energy efficiency among the company's customers.

NOTE 2 SIGNIFICANT ACCOUNTING PRINCIPLES

This is Climeon AB's first financial report that has been prepared in accordance with recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board. RFR 2 means that, in the annual accounts for the legal entity, the company must apply all EU-approved International Financial Reporting Standards (IFRS) and interpretations as far as possible within the framework of the Swedish Annual Accounts Act and taking into consideration the connection between accounting and taxation. These recommendations indicate the exemptions and additions that can be made from/to IFRS. The company also applies the Swedish Annual Accounts Act (1995:1554). 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"). The date of transition to RFR2 has been established as 1 January 2015. The transition to RFR2 has not resulted in any significant transitional effects.

New and amended IFRS standards

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. The new and amended RFR that come into force for financial years commencing after 1 January 2018 have not yet started to be applied by the company. Described below are the new and amended standards/RFR that are considered to have an impact for the company.

IFRS 9 Financial Instruments

The new standard for financial instruments covers the classification, measurement and recognition of financial assets and liabilities. RFR 2 allows a legal entity to be exempt from applying IFRS 9. RFR 2 contains provisions for recognising financial instruments that have to be applied by entities that choose to apply this exemption. The amendment to RFR 2 with regard to IFRS 9 will start to apply at the same time as IFRS 9 starts to be applied in the consolidated accounts, i.e. for financial years commencing 1 January 2018 or later. The company will use the exemption from applying IFRS 9 and therefore judges that the changes to RFR 2 will not have a material impact on the company's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 will replace IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 is new a model for revenue recognition (five-step model) based on when the control of goods or services are transferred to a customer. The basic principle is that an entity records revenue to depict the transfer of promised products and services to customers with an amount reflecting the compensation that the company is expected to be entitled to in return for these goods or services. Revenue is recognized when the customer assumes control of the goods or services. IFRS 15 is applicable to financial years commencing on or after 1 January 2018 or later, with earlier application permissible.

Due to the relationship between accounting and taxation the rules in IFRS 15 are not applicable to legal entities regarding revenue recognition of performance obligations met over time when performing fixed cost assignments. The assignments can be recognized as revenue when the work is substantially completed (completion method).

The company has reviewed the existing customer agreements in accordance with the five-step model and concluded that IFRS 15 does not have a material impact on the entity's income statements or balance sheets. However, it lead to more extensive disclosure.

IFRS 16 Leases

This new leasing standard primarily covers changes in the way that leases are recognised by the lessee. A lessee must recognise all leases as assets and liabilities in the balance sheet, except for short-term leases and leases where the underlying assets have a low value. However, there is an exception in RFR 2 which gives an opportunity, for legal entities to be exempt from IFRS 16 due to the rela-

tionship between accounting and taxation. The provision of RFR 2 have been designed for those companies that choose to apply the exception. The amendment will start to apply at the same time as IFRS 16 starts to be applied in the consolidated accounts, i.e. for financial years commencing 1 January 2019 or later. Work is ongoing in assessing the full impact of IFRS 16 as well as designing processes and evaluating system solutions to fulfill the reporting requirements.

REVENUE

Revenue is recognised at the fair value of what has been received or will be received, less value-added tax, discounts, returns and similar deductions. The company recognises revenue when the amount of the revenue can be measured reliably, when it is probable that future economic benefits will flow to the company and the special criteria are met for each of the company's revenue types.

Climeon's revenue for 2016 and 2017 primarily comprise of sales of Climeon Heat Power-modules, customer support and consultancy services. Heat Power-modules are sold using two different models: traditional sales or as a lease agreement called As-a-service. The company is currently focusing on traditional sales.

Sales of modules

Revenue from the sale of Climeon Heat Power modules are recognised 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. This means that Climeon recognize main part of the revenue for the Heat Power-module on delivery, while a minor portion is recognized when the modules are put into operation. If integration services are a significant part of the delivery to the customer, revenue from the sale of the module is recognised when the integration has been carried out.

Support Services

Revenues from sales of support services are distributed over the duration of the contracts.

Sales of services

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

Revenue from the sale of services at a fixed price are recognised by applying the percentage-of-completion method. This means that revenue and expenses are recognised based on the stage of completion of the contract on the closing day. The stage of completion is established by calculating the proportion that contract costs incurred for work performed by the closing day bear to the estimated total contract costs. An expected loss on a service contract is recognised as an expense immediately. When the outcome of a service contract cannot be calculated reliably, revenue should only be recognised at the amount of the contract costs incurred that will probably be recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

Interest income

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

State grants

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

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

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

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

Leases

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

Foreign currency

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

Translating items in foreign currencies

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

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred.

Employee benefits

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

Defined contribution plans

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

Income tax

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

Current tax

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

Deferred tax

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

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

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

Current and deferred tax for the period

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

Intangible assets

Additions through separate acquisitions

Intangible assets that have been acquired separately are recognised at cost, less accumulated amortisation and any accumulated impairment losses. Amortisation is carried out on a straight-line basis over the estimated useful life of the asset, which is estimated at 5 years. Estimated useful lives and

amortisation methods are reviewed if there are indications that they have changed compared to the estimate on the previous closing day. The effect of any changes to estimates and judgments are recognised prospectively. Amortisation starts when the asset can be used.

Additions through internal generation

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

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

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

Removal from the balance sheet

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

Tangible non-current assets

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

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

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

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

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

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

Removal from the balance sheet

The carrying amount of property, plant and equipment is removed from the balance sheet upon disposal or sale, or when no future economic benefits are expected from the use or disposal/sale of the asset or component. The gain or loss that arises when a tangible non-current asset or component is

removed from the balance sheet is the difference between what is possibly obtained, net of direct selling costs, and the asset's carrying value. The capital gain or loss that arises when a tangible non-current asset or component is removed from the balance sheet is recognised in the income statement as other operating income or other operating expense.

Impairment of tangible non-current assets and intangible assets

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

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

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

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

Financial instruments

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

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

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

Long-term receivables and long-term liabilities are valued after initial recognition at amortised cost.

Amortised cost

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

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

Cash and cash equivalents

Cash and cash equivalents include cash at hand and available funds at banks and other credit institutions, and other short-term liquid investments that can

be readily converted into cash and for which the risk of fluctuations in value is insignificant. To be classified as cash and cash equivalents the maturity must not exceed three months from the date of acquisition.

Inventories

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

Cash flow statement

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

NOTE 3 KEY ESTIMATES AND JUDGMENTS

Significant sources of estimation uncertainty

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

Capitalised development expenses

At the start of the year, Climeon AB had capitalised development expenses totalling SEK 29,601 thousand (14,106). They relate to the company's product Climeon Heat Power. When calculating the recoverable value of cash-generating units for assessing any impairment needs for capitalised development expenses, several assumptions have been made on future conditions, and estimates of parameters have also been made. Climeon has found that reasonable changes of the assumptions have not given rise to any impairment needs as of 31 December 2017.

Capitalisation of loss carry forwards

Climeon AB has unutilised loss carryforwards amounting to SEK 117,352 thousand (60,602), of which the tax effect has not been recognised as a deferred tax asset in the balance sheet. This is because the company assesses that it is uncertain whether these loss carryforwards will be able to be utilised, due to uncertainty about when in the future sufficient taxable surpluses will be generated. The tax rate for calculating deferred tax is 22 percent (22).

NOTE 4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

Market risks

Currency risks

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

Transaction exposure is the risk that earnings will be negatively impacted by fluctuations in exchange rates for cash flows that take place in foreign currency. The company's outflows are mainly in SEK, EUR, USD, GBP and JPY, 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	31 Dec, 2017	31 Dec, 2016
EUR	-5,158	-3 383
USD	-296	-424
GBP	-141	-458
JPY	-173	-

Interest-rate risks

Interest-rate risk is the risk that fair value or future cash flows will fluctuate due to changes in market interest rates. The company is mainly exposed to interest-rate risk through its loan financing. Interest on loans is paid using a fixed and 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 transaction exposure, the table shows how the company's profit after tax would have been affected by a change in the exchange rate. This also includes outstanding monetary assets and liabilities in foreign currency on the closing day. The amounts are presented in SEK thousand.

	2017	31 Dec, 2017	2016	31 Dec, 2016
	Effect on profit/loss	Effect on equity	Effect on profit/loss	Effect on equity
<i>Transaction exposure</i>				
EUR +[10]%	-516	-516	-338	-338
EUR -[10]%	516	516	338	338
USD +[10]%	-30	-30	-42	-42
USD -[10]%	30	30	42	42
GBP +[10]%	-14	-14	-46	-46
GBP -[10]%	14	14	46	46
JPY +[10]%	-17	-17	-	-
JPY -[10]%	17	17	-	-
<i>Interest</i>				
Financial expenses +[10]%	-88	-88	-9	-9
Financial income +[10]%	10	10	5	5

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, albeit on a small scale.

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

31 Dec, 2017	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Other long-term liabilities	225	675	29,896	382	31,178
Advance payments from customers	-	-	1,984	-	1,984
Accounts payable	9,557	-	-	-	9,557
Other current liabilities	1,512	5,087	-	-	6,599
Total	11,294	5,762	31,880	382	49,318

31 Dec, 2016	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Other long-term liabilities	23	70	16,820	383	17,296
Advance payments from customers	-	-	-	-	-
Accounts payable	6,748	-	-	-	6,748
Other current liabilities	1,653	3,424	-	-	5,077
Total	8,424	3,494	16,820	383	29,121

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 maximum exposure to credit risk is judged to be reflected in the recognised amounts of all financial assets and are shown in the table below.

	31 Dec, 2017	31 Dec, 2016
Accounts receivable	9,978	241
Other current receivables	3,293	2,162
Cash and cash equivalents	203,977	51,320
Maximum exposure to credit risk	217,248	53,723

Categorisation of financial instruments

The carrying amount of financial assets and financial liabilities by measurement category according to IAS 39 is shown in the table below. With regard to the connection between accounting and taxation, the valuation rules in IAS 39 are not applied; instead the financial instruments are recognised based on cost in accordance with the Swedish Annual Accounts Act.

	31 Dec, 2017	31 Dec, 2016
Financial assets		
Loans and accounts receivable		
Accounts receivable	9,978	241
Other current receivables	3,293	2,162
Cash and cash equivalents	203,977	51,320
Total	217,248	53,723
	31 Dec, 2017	31 Dec, 2016
Financial liabilities		
Other liabilities		
Other long-term liabilities	28,081	16,081
Other current liabilities	16,082	9,143
Total	44,163	25,224

Fair value

Financial assets and financial liabilities that are measured at fair value in the balance sheet, or for which fair value disclosures are made, are classified at one of three levels based on the information used to establish fair value.

Level 1 – Financial instruments for which fair value is established based on observable quoted prices (unadjusted) on active markets for identical assets and liabilities. A market is regarded as active if quoted prices from a stock market, broker, industry group, pricing service or supervisory authority are readily and regularly available and these prices represent actual and regularly occurring market transactions at arm's length.

Level 2 – Financial instruments for which fair value is established using measurement models that are based on observable data for the assets or liabilities other than quoted prices included in level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Examples of observable data within level 2 are:

- Quoted prices for similar assets and liabilities.
- Data that can provide a basis for price assessment, e.g. market interest

Level 3 – Financial instruments for which fair value is established using measurable models in which essential input data is based on non-observable data.

For all financial assets and financial liabilities, the recognised values are considered to be a good approximation of the fair values as the maturities and/or fixed-interest terms are less than three months, which means that a discounting based on the applicable market conditions are not expected to result in any material impacts.

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	2017	2016
Hardware	11,260	2,600
Service contracts	596	288
Total	11,856	2,888

Geographic market	2017	2016
Sweden	55	18
Europe	11,623	2,783
North America	-	87
Asia	178	-
Total	11,856	2,888

NOTE 6 OTHER OPERATING INCOME

	2017	2016
Grants for development projects from Eurostar/Vinnova	99	1,257
Swedish cleantech Business award, support for continued development	-	100
Grants from Swedish Energy Agency	1,400	-
Total	1,499	1,357

NOTE 7 AUDITOR'S FEES

	2017	2016
Deloitte AB		
Audit assignments	510	275
Other services	151	311
Total	661	586

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 and leases for rental premises. The year's expensed lease payments for operating leases totalled SEK 3,398 thousand (2,104). Future minimum lease payments for noncancelable operating leases fall due as follows:

Maturity	2017	2016
Minimum lease payments		
Within one year	3,106	2,922
Later than one but within five years	1,199	3,276
Total	4,305	6,198

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

Average number of employees	2017	2016
Number of employees	37	25
of whom men	27	20

Distribution of senior executives on the closing day	31 Dec, 2017	31 Dec, 2016
Women:		
Board members	2	-
Number of people in the management team	2	1
Men:		
Board members	4	4
Number of people in the management team incl. CEO	6	6
Total	14	11

Salaries and remuneration	2017	2016
Salaries and other remuneration	22,755	14,162
Pensions, defined contribution	3,456	2,097
Social insurance contributions	6,700	4,199
Total	32,911	20,458

Salaries and other remuneration for Board members and employees	2017	2016
Board and CEO	1,295	1,275
Other employees	21,460	12,887
Total	22,755	14,162

Salaries and remuneration to senior executives¹⁾

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

Board members Stefan Brendgen, Vivianne Holm and Therese Lundstedt has notified that they refrain their board fees.

	Salary/ Fee	Variable remuner- ation	Other benefits	Pension costs	Total
2016					
Chairman of the Board Per Olofsson	200	-	-	-	200
Director Olle Bergström	424	-	-	-	424
Director Stefan Brendgen	53	-	-	-	53
CEO Thomas Öström	598	-	-	90	688
Other senior executives (5 people)	3,593	-	-	472	4,065
Total	4,868	-	-	562	5,430

1) There are no costs for the ongoing warrant programs.

Pensions

The retirement age of the CEO is 65. The pension premium amounts to 15 per cent 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 per cent of the pensionable salary.

Severance pay agreement

There is a mutual period of notice of termination between the company and the CEO of 6 months. In case of termination by the company or the CEO, upon termination of employment, a severance pay equivalent to six times the fixed salary applicable at the time of termination.

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.

Number of B shares warrants entitle to²⁾

Number of warrants	2017	2016
Outstanding beginning of year	2,939,200	2,680,500
Allocated during the year	299,128	998,700
Exercised during the year	-84,500	-740,000
Total outstanding at year-end	3,153,828	2,939,200

Of the 3,153,828 (2,939,200) outstanding warrants at the end of the period, 2,136,900 (84,500) of the warrants were redeemable.

Call options

In addition to above warrant programmes two of the company's major shareholders, Joachim Karthäuser and Thomas Öström, have during December 2017, granted totally 58,704 call options to 6 employees (of which 14,242 call options to one employee who belongs to the management team). The call options are based on the same terms as for the company's employees under the incentive program decided at the Extraordinary Meeting on September 18, 2017, i.e. each call option may be exercised for the purchase of one B shares at an exercise price of 125.60 SEK during the exercise period 1 September to 15 September 2020 and the premium to be paid for each call option is calculated in accordance with the Black & Scholes valuation model.

Warrant programmes	Number	Number of B shares warrants entitle to ²⁾	Premium	Issue price	Sub-scription period	Impact on equity (TSEK) ¹⁾
A. Programme 2014/2018, issued 07/01/14	6,500	650,000	1.5	450	01/01/2018-06/30/2018	2,925
B. Programme 2014/2018, issued 12/17/14	4,900	490,000	1.5	450	01/01/2018-12/31/2018	2,205
C. Programme 2015/2019, issued 04/21/15	3,130	313,000	1.5	450	01/01/2018-04/30/2019	1,409
D. Programme 2015/2019, issued 12/21/15	4,030	403,000	46	1,731	01/01/2019-01/31/2019	6,976
E. Programme 2016/2019, issued 02/12/16	2,210	221,000	46	1,731	02/01/2019-02/28/2019	3,826
F. Programme 2016/2019, issued 26/05/16	380	38,000	46	1,731	05/01/2019-05/31/2019	658
G. Programme 2016/2019, issued 12/21/16	899	89,900	130	5,300	01/01/2019-12/31/2019	4,765
H. Programme 2016/2019, issued 04/26/17 ²⁾	1,673	167,300	130	5,300	01/01/2019-12/31/2019	8,867
I. Programme 2017/2020, issued 11/29/17	81,964	81,964	3.37	126	01/09/2020-15/09/2020	10,327
J. Programme 2017/2021, issued 11/29/17	15,764	15,764	4.45	137	01/09/2021-15/09/2021	2,160

Warrants allocated to consultants

Warrant programmes	Number	Number of B shares warrants entitle to ²⁾	Issue price	Sub-scription period	Impact on equity (TSEK) ¹⁾
A. Programme 2016/2018, issued 05/26/16 ²⁾	1,374	137,400	1,400	01/01/2018-12/31/2018	1,924
B. Programme 2016/2018, issued 06/16/16 ²⁾	713	71,300	2,000	01/01/2018-12/31/2018	1,426
C. Programme 2016/2018, issued 12/21/16 ²⁾	4,411	441,100	2,650	01/01/2018-12/31/2018	11,689
D. Programme 2016/2019, issued 04/26/17 ²⁾	341	34,100	2,650	01/01/2018-12/31/2018	904

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 OTHER OPERATING COSTS

	2017	2016
Other bank charges	-3	-3
Total	-3	-3

NOTE 11 INTEREST INCOME AND SIMILAR ITEMS

	2017	2016
Interest income	101	51
Total	101	51

NOTE 12 INTEREST EXPENSES AND SIMILAR ITEMS

	2017	2016
Interest expenses	-886	-69
Exchange rate differences	1	-128
Total	-885	-197

NOTE 13 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 unutilised loss carryforwards amounting to SEK 117,352 thousand (60,602), of which the tax effect has not been recognised as a deferred tax asset in the balance sheet.

The tax rate for calculating deferred tax is 22 percent (22).

NOTE 14 TAX ON PROFIT FOR THE YEAR*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:

	2017	2016
Profit for the year attributable to the company's shareholders	-57,450,908	-35,590,312
Weighted average number of outstanding ordinary shares	37,416,863	33,565,633
Earnings per share before/after dilution, SEK	-1.54	-1.06

The company's warrant programs did not have any dilution effect in 2017 or 2016.

NOTE 15 CAPITALIZED EXPENDITURES ON DEVELOPMENT WORK

	31 Dec, 2017	31 Dec, 2016
Opening acquisition cost	17,548	6,952
Internally developed assets	18,329	10,596
Closing accumulated cost	35,877	17,548
Opening amortisation	-2,778	-1,024
Amortisation for the year	-2,834	-1,754
Closing accumulated amortisation	-5,612	-2,778
Opening impairment losses	-664	-664
Impairment losses for the year	-	-
Closing accumulated impairment losses	-664	-664
Closing carrying amount	29,601	14,106

Expenses for research and development that have been expensed during the year amounted to SEK 2,752 thousand (2,881).

NOTE 16 PATENTS, LICENSES, TRADEMARKS, AND SIMILAR RIGHTS

	31 Dec, 2017	31 Dec, 2016
Opening acquisition cost	2,707	1,329
Purchases	1,920	1,378
Closing accumulated acquisition cost	4,627	2,707
Closing carrying amount	4,627	2,707

NOTE 17 LEASEHOLD IMPROVEMENTS

	31 Dec, 2017	31 Dec, 2016
Opening acquisition cost	1,481	-
Leasehold improvements during the year	1,457	1,481
Closing accumulated cost	2,938	1,481
Opening depreciation	-	-
Depreciation for the year	-475	-
Closing accumulated depreciation	-475	-
Closing carrying amount	2 463	1 481

NOTE 18 PLANT AND MACHINERY

	31 Dec, 2017	31 Dec, 2016
Opening acquisition cost	7,550	5,070
Purchases	5,419	2,480
Reclassification	-720	-
Closing accumulated cost	12,249	7,550
Opening depreciation	-243	-90
Depreciation for the year	-386	-153
Closing accumulated depreciation	-629	-243
Opening impairment losses	-4,170	-4,170
Impairment losses for the year	-	-
Closing accumulated impairment losses	-4,170	-4,170
Closing carrying amount	7,450	3,137

NOTE 19 EQUIPMENT, TOOLS AND INSTALLATIONS

	31 Dec, 2017	31 Dec, 2016
Opening acquisition cost	757	421
Purchases	244	336
Closing accumulated cost	1,001	757
Opening depreciation	-155	-50
Depreciation for the year	-199	-105
Closing accumulated depreciation	-354	-155
Closing carrying amount	647	602

NOTE 20 INVENTORIES

Inventories comprise finished products, work in progress and goods for resale. The impairment losses of inventories, amounting to SEK 869 thousand (1,259), are included in the cost of goods sold.

NOTE 21 ACCOUNTS RECEIVABLE

	31 Dec, 2017	31 Dec, 2016
Accounts receivable, gross	9,978	241
Accounts receivable, net after reserve for insecure receivables	9,978	241

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 0 thousand (0).

Age analysis, accounts receivable	31 Dec, 2017	31 Dec, 2016
Not overdue	9,886	1
Overdue by 30 days	-	146
Overdue by 31-60 days	92	94
Carrying amount	9,978	241

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

	31 Dec, 2017	31 Dec, 2016
Prepaid rent	155	405
Prepaid insurance premiums	325	247
Accrued revenues	1,152	-
Other items	349	288
Total	1,981	940

NOTE 23 SHARE CAPITAL

The share capital comprises 43,419,379 shares (356,123) with a quotient value of SEK 0.015 (1). Bonus issue and one split 1: 100 was executed during second quarter of 2017, which resulted in a change in the quota value.

NOTE 24 PROVISIONS

	31 Dec, 2017	31 Dec, 2016
Warranty provisions	1,524	-
Total	1,524	-

NOTE 25 OTHER LONG-TERM LIABILITIES

	31 Dec, 2017	31 Dec, 2016
Swedish Energy Agency	14,081	14,081
ALMI export credit	12,000	-
ALMI growth loan	2,000	2,000
Total	28,081	16,081

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

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

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

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

NOTE 26 OTHER CURRENT LIABILITIES

	31 Dec, 2017	31 Dec, 2016
Liabilities for grants received	2,050	2,094
Social insurance contributions, retention tax	1,512	886
Total	3,562	2,980

The conditions that are required for the grant to be recognised as revenue are for the project to have been completed and reported back, which is expected to take place in 2018.

NOTE 27 ACCRUALS AND DEFERRED INCOME

	31 Dec, 2017	31 Dec, 2016
Accrued vacancy pay	1,383	631
Accrued social insurance contributions	435	197
Other items	170	589
Total	1,988	1,417

NOTE 28 CASH AND CASH EQUIVALENTS IN THE CASH FLOW

	31 Dec, 2017	31 Dec, 2016
Cash	203,977	51,320
Total	203,977	51,320

NOTE 29 PLEDGED ASSETS AND CONTINGENT LIABILITIES

Pledged assets	31 Dec, 2017	31 Dec, 2016
Floating charge	20,800	2,000
Blocked bank account	2,022	-
Total	22,822	2,000

NOTE 30 TRANSACTIONS WITH RELATED PARTIES

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

Purchase of services	2017	2016
Helen Öström Verksamhetsutveckling AB	336	344
Weseba AB	180	86
B-Garden AB	356	371
Total	872	801

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

In addition to the transactions reported above, Per Olofsson (Chairman of the board) has invoiced Board fees from its own company (Weseba AB) and Olle Bergström (Board member) has invoiced Board fees from own company (B Garden AB). Total amounts for these fees and services are reported in Note 9.

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

Disclosure on remuneration and benefits submitted to senior executives and the Board of Directors are presented in note 9.

NOTE 31 EVENTS AFTER THE CLOSING DAY

In January 2018, it was announced that Climeon owners, Gullspång Invest AB, LMK Forward AB and Blue AB, establish a financing company Baseload Capital Sweden AB (Baseload Capital) to accelerate global geothermal heat power projects. The owners will jointly invest SEK 60 million as initial capital in Baseload Capital and Climeon will participate beyond this through a minority post amounting to a maximum of 20 percent of the shares in the company.

A business agreement worth over EUR 5 million was signed in February with the geothermal power plant in Kirchweidach, Germany resulting from the Letter of Intent signed in the fourth quarter.

Karl Brodin was appointed new Head of Research & Development. His most recent employment was with Atlas Copco where he held leading roles within Business and Product development.

A redemption of outstanding warrants after the closing date resulted in 1,455,800 new B shares.

The conditional agreement signed with Varmorka (subsidiary to CP Energy) in August 2017 has been converted into a firm order with delivery starting in the second quarter 2018. Climeon's previous financing commitments have been taken over by Baseload Capital.

Proposed disposition of earnings

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

Share premium reserve	336,491,417
Accumulated loss	-84,724,393
Loss for the year	-57,450,908
	194,316,116
	194,316,116
The Board's proposal for balanced profit to be carried forward	194,316,116

SIGNATURES

The Board of Directors and the CEO guarantees that the annual report provides a fair overview of the company's operations, position and earnings and describes material risks and factors of uncertainty which the company is facing.

Kista March 19, 2018

Per Olofsson
Chairman

Olle Bergström
Board member

Stefan Brendgen
Board member

Thomas Öström
CEO/Board member

Vivianne Holm
Board member

Therese Lundstedt
Board member

Our Audit Report was submitted on March 19, 2018
Deloitte AB

Johan Telander
Authorised Public Accountant

AUDITOR'S REPORT

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

Report on the annual accounts

Opinions

We have audited the annual accounts of Climeon AB (publ) for the financial year 2017-01-01 - 2017-12-31.

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 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts.

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

Basis for Opinions

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

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

Other Information than the annual accounts

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises pages 1-39 but does not include the annual accounts and our auditor's report thereon.

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

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

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

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

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

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

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

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate,

quate, 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 2017-01-01 - 2017-12-31 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 finan-

cial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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

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

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

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

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

Stockholm 2018-03-19

Deloitte AB

Signature on Swedish original

Johan Telander

Authorized public accountant

KEY NUMBERS

TSEK	2017	2016	2015	2014	2013
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 (%)	82.3	65.7	67.3	64.7	85.6
Debt ratio (times)	0.2	0.5	0.3	0.5	0.2
Net debt ratio (times)	-0.8	-0.7	0.3	-0.6	-0.9
Earnings per share, before dilution, SEK	-1.54	-1.06	-55.81	-8.83	-11.91
Earnings per share, after dilution, SEK	-1.54	-1.06	-55.81	-8.83	-11.91
Equity per share, SEK	5.11	1.50	99.45	34.64	20.38

DEFINITIONS

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

Operating margin	Operating profit as a procent of net sales.
EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization	Operating profit plus depreciation, impairment and amortization.
EBITDA-margin	EBITDA as a percentage of net sales.
Profit margin	Profit/loss for the period after financial items as a percentage of net sales.
Return on equity	Profit/loss after financial items as a percentage of average shareholder's equity for the period.
Return on assets	Operating profit plus financial income as a percentage of total assets.
Return on capital employed	Operating profit plus financial income as a percentage of capital employed.
Capital employed	Total assets minus non interest-bearing liabilities (including other provisions).
Interest coverage	Operating profit plus financial income divided by financial expenses (times).
Equity ratio	Shareholders' equity as a percentage of total assets.
Debt ratio	Liabilities including deferred tax liabilities and provisions divided by shareholders' equity (times).
Net debt ratio	Interest-bearing net debt including cash and cash equivalents divided by shareholders' equity (times).
Earnings per share, before dilution	Profit/loss for the period 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	Shareholders' equity divided by the number of outstanding shares at end of the period.



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