

2018

Baseload Capital Sweden AB (publ) (559143-5051)

Annual Report



**BASELOAD  
CAPITAL**

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## Business review

Baseload Capital Sweden AB (publ), "Baseload Capital", is an investment entity focused on investments in electricity production based on geothermal energy, known as Geothermal Heat Power. A Heat Power plant produces electricity from the hot water located below the earth's surface. The drilling depth required to find hot water depends on the geological properties of the soil, but hot water is below the ground all over the world. Baseload Capital works globally with the ambition to provide Heat Power operators with the financial tools necessary to be able to build and operate Heat Power plants and thereby generate renewable electricity.

The need for renewable energy is enormous. Within a few decades, the world is expected to consume twice as much energy as today. Increased energy consumption is a consequence of growing economies and increased prosperity. However, it also puts pressure on the environment and climate to the extent that energy is produced with non-renewable fuels.

Baseload Capital wants to enable energy production that is both environmentally and economically sustainable through a large-scale rollout of Heat Power plants. As Heat Power can supply a renewable, constant and predictable electricity production that is available regardless of weather conditions or time of day, Heat Power can complement other intermittent renewable energy production, such as solar and wind power. Since geothermal energy is available to a varying degree around the world, Heat Power has the potential to generate a significant part of the future electricity production.

## Baseload Capital's vision –

### Investing in a sustainable future

Baseload Capital's vision is a future where all electrical energy is extracted from renewable resources. This requires us to accelerate investments in all forms of renewable energy that contribute to reducing greenhouse gas emissions and while generating a good financial return. Baseload Capital, through the establishment of the Heat Power plants, wants to demonstrate that the transition to a sustainable energy system will create benefits for the environment, people and investors - both locally and globally.

## Investment criteria

All potential investment opportunities are assessed based on a number of criteria. If these criteria are met, a deeper analysis is made where profitability, risks and feasibility are assessed in more detail. If deemed appropriate, the project is summarized and presented to the investment committee, which decides on whether to continue or refrain from the project. Subsequently, the Board takes the formal decision based on the Investment Committee's recommendation. The Investment Committee is appointed by the Board and currently consists of four members, two of whom are external.

The initial criteria used to evaluate a Heat Power Plant investment are briefly described below:

### 1. Heat source

The company mainly seeks projects with an existing and well-documented heat source. A heat source consisting of hot water should be within the temperature range of 70-150 degrees Celsius.

### 2. Power Purchase Agreement (PPA)

PPA is the agreement between the electricity producer, in this case the Heat Power plant, and the electricity company that buys the electricity and distributes it on the electricity grid. Baseload Capital primarily pursues projects where it is possible to sign a PPA with creditworthy electricity companies for at least 10 years.

### 3. Land

The land where the heat source is located and where the power plant is to be built must be secured in the long term, either through acquisition or through a lease agreement that runs for many years.

### 4. Partner

Baseload Capital has very close cooperation with local partners in the development and construction of new power plants, which is why it is of utmost importance that the partner has the necessary knowledge and skills to successfully realize projects in the selected market.

In addition to the previously mentioned criteria, each project's risks are analyzed in relation to the profitability. The risks in a project can, for example, lie in the water's flow and temperature, the partner's competence, technology and construction or the local country's bureaucracy and processes for handling the necessary permits.

If the risks can be eliminated or minimized to a reasonable level in relation to profitability, the project is qualified for further investigation.

# Board of Directors' report

The Board of Directors and CEO of Baseload Capital Sweden AB (publ), corporate identity number 559143-5051, hereby submit the annual report (3 January - 31 December) and consolidated accounts (8 March - 31 December) for the fiscal year 2018, which has been audited by the company's auditor. The Board of Directors' registered office is in Stockholm, Sweden.

## The business in brief

Baseload Capital Sweden AB (publ), "Baseload Capital", is an investment entity that invests in companies that build Heat Power plants (power plants producing electricity from hot water). The power plants consist of Heat Power modules from Climeon AB (publ), corporate no. 556846-1643. However, the company is not limited to using Climeon's technology. At present, Baseload Capital works with projects in Iceland, US and Japan, but continuously evaluates new markets. Baseload Capital Sweden AB (publ) is a wholly owned subsidiary of Baseload Capital Holding AB (org. No. 559172-8224). Climeon AB (publ) owned 19.8% of the shares in Baseload Holding AB as of December 31, 2018

## Significant events during the financial year

### INVESTMENT ACTIVITIES

The company has invested in three markets during its first financial year. Baseload Capital made an investment in Varmaorka in Iceland during the first quarter, where the first power plant was put into operation in November 2018. The investment amounted to EUR 1 million in equity and an additional EUR 2.5 million was invested in the form of a convertible loan.

In the US, the company financed a geothermal power plant through a loan of \$ 1.8 million. In Japan, the company has invested a total of approximately YEN 500 million, corresponding to SEK 40.6 million, of which SEK 0.8 million in the form of equity and SEK 39.8 million in loans to subsidiaries.

### FINANCING

When the company was formed in early 2018 by Blue Seed AB, Gullspång Invest AB, LMK Forward AB and Climeon AB (publ), the owners invested SEK 5 million in share capital and provided the company with an additional SEK 95 million in conditional shareholder contribution. This initial financing was sufficient to establish the company and to carry out the initial project investments during the first financial year.

## Significant post-closing events

### BREAKTHROUGH ENERGY VENTURES NEW PARTNER IN BASELOAD CAPITAL

During the first quarter of 2019, Breakthrough Energy Ventures (BEV) invested USD 12.5 million in Baseload Capital's parent company, Baseload

Capital Holding AB. BEV is an investment fund funded by some of the world's leading business executives and was formed to accelerate the commercialization of solutions that reduce greenhouse gas emissions. BEV has over one billion dollars in capital to fund groundbreaking technologies, for example, technologies with the potential to deliver affordable and reliable clean energy. The purpose of the investment in Baseload Capital is to accelerate the global roll-out of low-temperature geothermal heat power and thus speed up the transition of our energy system.

### 500 MSEK GREEN BOND

During the first quarter, Baseload Capital issued a bond within the framework for green bonds. The bond is the first in Sweden in the field of low-temperature geothermal heat power. A total of SEK 500 million has been issued and the money will be used to finance the establishment of geothermal heat power plants. The investors consist of Nordic institutional investors. Baseload Capital has designed the framework for the bond in cooperation with DnB. The green certification of the bond was carried out by Sustainalytics.

### FINANCING FROM NEFCO

During the first quarter, the parent company Baseload Capital Holding AB raised a green loan from NEFCO of EUR 3 million. NEFCO is an international financial institution established by the five Nordic countries to promote investments in green projects that can contribute positively to the climate and environment. The loan is used to finance project investments made by Baseload Capital.

### INVESTMENT ACTIVITIES

During 2019, the company continued to invest in the Japanese projects and decided to participate in a new share issue in the Icelandic associate company Varmaorka.

## Expected future development

### INVESTMENT ACTIVITIES

In Japan, the company will continue to develop existing projects and identify new ones. The first power plants are expected to be put into operation during the latter part of 2019. In Iceland, new facilities will be built and commissioned, which will primarily be financed through new external partners. The company is examining the conditions in new markets and it is likely that Baseload Capital will enter into a new market.

### FINANCING

Through BEV's investment in Baseload Capital and the issuance of a green bond, the financing has been secured for the immediate future. Within the framework of the first bond, there is an option for issuing additional bonds. As more power plants are commissioned and producing electricity, there are good conditions for raising additional capital in the local markets.

## Proposed appropriation of earnings

The board of directors propose that the available funds:

Shareholders contributions	95 000
Share premium reserve	225
Profit for the year	86 082
<b>Total (tkr)</b>	<b>181 307</b>

is carried forward.

<b>Total (tkr)</b>	<b>181 307</b>
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## Accounting policies

### APPLIED RULES

The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) as adopted by the EU and with application of RFR 1 – Supplementary Accounting Rules for Groups. The annual report for the Parent Company has been prepared in accordance with the Swedish Annual Accounts Act (Årsredovisningslagen (1995:1554)) and with application of RFR 2 – Accounting for Legal Entities. The most important accounting policies applied are specified below.

### PRINCIPLES OF CONSOLIDATION

Baseload Capital Sweden AB (publ) is an Investment Entity according to IFRS 10, which is characterized by the fact that the company has external investors to whom investment services are carried out in order to provide a return on the investor's capital. The company has a clear investment and exit strategy and takes an active role, in the form of board representation and financial advice, in the companies in which it invests. The company monitors all investments and reports the investments at fair value. As an Investment Entity, subsidiaries and associated companies that are investments (portfolio companies) are not consolidated but instead valued continuously at fair value.

### PARENT COMPANY REPORTING

The Parent Company reports shares in subsidiaries, associated companies and other holdings that constitute portfolio companies at market value. Long-term loans to subsidiaries, associated companies and other companies are also reported at market value. The result of the sale of shares is calculated accordingly.

### FOREIGN CURRENCY

The Group's and Parent Company's functional currency is Swedish kronor (SEK), which is also the reporting currency. Transactions in foreign currency are translated to the functional currency using the exchange rates in effect on the transaction date. Assets and liabilities in foreign currency are translated to the functional currency using the exchange rate in effect on the balance sheet date.

When translating items in foreign currencies as of 31 December 2018, the following exchange rates have been used:

SEK/EUR	10,28
SEK/JPY	0,0812
SEK/USD	8,97

See sensitivity analysis in Note 2.

### REPORTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are classified in the following measurement categories: financial assets and liabilities at amortized cost, and financial assets and liabilities at fair value through profit and loss. The classification of financial assets is based on for which purpose the financial item was acquired. Purchases and sales of financial instruments are reported as per the transaction date.

### EMPLOYEE COMPENSATION

#### Pensions

The Group has defined pension plans. Costs for defined contribution pension plans are expensed in pace with payment of premiums.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include – in addition to cash and bank balances – short-term financial investments with remaining terms of less than three months.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is reported at cost less accumulated depreciation and any impairment losses. Depreciation is recognized on a straight-line basis over the asset's estimated useful life, which estimated to be three to five years. Estimation of an asset's residual value and useful life is done yearly.

### LEASES

Leases are recognized in accordance with the rules for operational leases. Lease payments for operating leases are expensed on a straight-line basis over the term of the lease. Starting from 2019, IFRS 16 is applied, which means that the leasing rent is allocated between depreciation of the asset and interest expense on the lease debt, which is reported as a financial expense in the income statement. The leasing debt shall be reported in the balance sheet. Since the company only has two cars as leasing commitment, there will be no significant difference in the accounting as IFRS 16 will be applied starting 2019.

## Financial risk management

### GENERAL

The types of financial risks that Baseload Capital encounters in its business consist primarily of project risks and other financial risks in the form of e.g., interest rate risk and liquidity risk.

### PROJECT RISKS

Since Baseload Capital is an investment entity specialized in Heat Power plants, the project risk is substantial and needs to be managed. The project risk consists of all parts of building a geothermal power plant.

*Do the involved parties, such as project companies, have the right knowledge and skills to be able to complete the project?*

Baseload Capital performs a thorough Due Diligence of all involved parties in order to minimize the risk.

*Does the resource have the expected water flow and the expected temperature?*

If it is not an existing well, the risk can be reduced through sample drilling before investing extensively in the project. The risk is also reduced by the fact that geothermal power plants built with Heat Power modules from Climeon are modular. This means that if, for example, you are calculated with, and ordered, four Heat Power modules, but that it turns out that the source only generates hot water to supply three modules, the fourth can be moved to another source. The same applies if the source can supply 6 modules, then the four ordered modules will be installed and two additional will be ordered and installed once they are delivered.

*Is there a capacity in the electrical grid where the power plant is built and how does the electricity price change over time?*

Depending on the market, knowledge regarding grid capacity and surrounding costs is learnt at different stages in a project. However, in general, a fairly clear understanding of the situation can be made before extensive investments are needed. The risk decreases as experience is built by developing several projects in a particular market. The PPA, i.e. the agreement with the electricity company that buys the electricity, usually runs with a fixed price for 10-15 years.

*Does the technology work as expected?*

Climeon's Heat Power modules are currently installed in ships, steelworks and geothermal plants. The modules produce electricity and meet the expectations for the various projects. However, no module has produced electricity for as long as the geothermal power plants in which Baseload Capital invests. The risk is primarily that components in the modules break down, which can cause production disruptions in the power plants.

*Can you secure the permits and approvals required from the authorities?*

The permits and approvals required and the corresponding application process for these vary depending on market. Before the company enters a new market, such requirements are carefully reviewed. The company also builds up such knowledge internally and through local partners. Since the geothermal power plants that Baseload Capital invests in have very limited environmental impact, both on the land and its surroundings, the risk of not getting an approval is marginal. Instead, the risk rather lies in the fact that permit processes can be delayed, which can delay projects and thus the cash flow.

## **INTEREST RATE RISK**

Interest rate risk is the risk that the value of a financial instrument will vary due to changes in market interest rates. As of December 31, 2018, the company has no loans and lending is given at fixed interest rate.

## **CURRENCY RISK**

Currency risk is the risk that the value of assets and liabilities will vary due to changes in exchange rates. The company's currency risk is mainly linked

to assets in the form of shares in and loans to portfolio companies in foreign currency. The exposure is in JPY, EUR and USD and is shown in Note 2. At present, the company has chosen not to hedge the exposure through any financial instruments since the cost of this is not in proportion to the risk. However, currency exposure is subject to ongoing review and if the situation changes, hedging via financial instruments may be considered.

## **LIQUIDITY RISK AND REFINANCING RISK**

Liquidity risk is the risk of encountering difficulties in accessing liquid assets in order to meet obligations associated with financial instruments. At present, this risk is deemed to be low. Refinancing risk is the risk of a company being unable to obtain financing or that financing can only be obtained at a considerably higher cost. In the aim of minimizing refinancing risk, loan maturities are distributed evenly over time to lower the likelihood of a large portion of loans being refinanced at the same date.

As of December 31, 2018, the company has no loans, but deems that the company has good opportunities for financing. This is based on the fact that a loan of EUR 3 million was raised from NEFCO and that a green bond of SEK 500 million was issued during the first quarter of 2019. In addition, Baseload Capital's owners have considerable financial resources

## **OPERATIONAL RISK**

Operational risk is the risk of incurring a loss due to defects in internal routines and systems. Baseload Capital's risk management rests on a foundation of internally adopted guidelines and rules, and of policies adopted by the Board of Directors, e.g. investment policies and the CEO's instructions.

## **COUNTERPARTY RISK**

Counterparty risk is the risk of a party in a transaction with a financial instrument not being able to meet its obligations and thereby causing loss to the other party. The company's counterparts are mainly local contractors, without significant financial resources, who know the local market and can realize a geothermal power plant project. In order to minimize the counterparty risk, Baseload Capital carefully analyses the counterparty and agrees that the company will receive mortgages in the project as collateral in case the counterparty cannot fulfill its obligations.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

An important part of financial reporting is the valuation of the projects in which the company has invested in. This valuation process is described below under "Significant assessment items for financial reporting".

The assessment is made by the management team and presented to the board for approval. According to the Swedish Companies Act, the Board is responsible for internal control. The instructions on the division of labor between the Board and the CEO contain rules that clarify the CEO's responsibility.

The company has an investment committee consisting of two external members and two representatives from the board. The CEO presents investment proposals to the Investment Committee for approval, and if approved, recommends it to the Board, which makes the formal decision. Minutes are recorded of Investment Committee meetings.

# Significant assessment items for the financial reporting

## ESTIMATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

Since Baseload Capital is an Investment Entity and thus reports investments at fair value through the income statement, the assessment of the fair value of financial instruments is significant for the financial reporting. Assessment of financial instruments fair value primarily consists of assessing the market value of invested capital and loans to portfolio companies, i.e. companies that design, build and operate geothermal power plants.

The company has developed a model for assessing the fair value of shares and loans; it is normally made quarterly but can be made monthly if major changes in value occur.

## ESTIMATION OF FAIR VALUE OF SHARES

The valuation of the shares in a geothermal power plant is, in brief, calculated as follows:

- The annual cash flow is calculated during its estimated life span, which the current power plant is expected to generate after commissioning. Input in the model for calculating cash flow mainly consists of:  
*In going payments:*
  - Number of Heat Power modules
  - Electricity production per module in kWh
  - Electricity price/kWh*Outgoing payments:*
  - Heat Power modules
  - Other investments / installations
  - Licensing fees
  - Operation and support
  - Rent/purchase price for land
- Based on the estimated cash flow, a "gross present value" is calculated according to Gordon's formula. This value corresponds to the project's risk-free value, i.e. when all risks are eliminated. For the present value calculation, a market interest rate shall be used as the discount rate. The company has used a discount rate of 8.1 percent for Japan, which corresponds to what the interest rate had been on December 31, 2018 on the green bond company issued in the first quarter of 2019. For Iceland, which is not financed with money from the bond, a discount rate of 5, 7 percent was used.
- A risk assessment is made where different risk factors are estimated by assessing the likelihood of occurrence and the effect on the cash flow if they occur. Risk factors can for example be the source's flow of hot water, connection to the electrical grid, permits, additional costs for the project etc.
- The original cash flow is adjusted based on the impact of the risk factors. A "net present value" is calculated with the same interest rate.

- The net present value subtracted by the invested amount in the power plant in the form of equity and loans constitutes the value that the shares can be revaluated with and which thus are valued at fair value through the income statement.
- By taking the original cash flow and comparing it to the calculated "net present value", the discount rate including risk premium can be calculated with Gordon's formula and used in comparison to other investments.

The longer a geothermal power plant project progresses, the more the risks are eliminated, thus the fair value of the shares increases. As more projects have been completed and started to produce electricity in a given market, the risk and thus the yield requirement decreases, which enables cheaper financing opportunities. As a result, it reduces the discount rate and thus increases the present value of the shares.

## ESTIMATION OF FAIR VALUE OF LOANS

The determining parameters when assessing the fair value of loans are, above all, the required rate of return and risk, i.e. the risk of being affected by credit losses. When assessing the fair value of loans, the present value is calculated based on future payments of interest and amortizations. The discount rate is the estimated market interest rate for the loan. The interest rate shall reflect the required return and risk premium for the loan in question. The risk is dependent on the underlying security for the loan. Usually the asset (land and plant) is pledged, which means that the project can be continued even if the borrower does not fulfil its payments. Should the project not be completed, it is fairly easy to move Climeon's Heat Power modules to another project.

When calculating the loans to Japanese companies, a discount rate of 8.1 per cent has been used, which corresponds to what the interest rate that Baseload Capital's green bond had been at 31 December. For Iceland, a discount rate of 5.0 percent has been used, which the company considers to be marketable for a convertible loan to a geothermal plant in Iceland. The convertible loan to Varmaorka is not financed by the company's green bond.

When assessing the fair value of the loan to Wendel in the US, the current risk profile has been assessed, which resulted in a conservative assessment and a downgrade of the fair value of SEK 1 681 000.

# Financing

## ORGANIZATION

Baseload Capital's financing and management of financial risks is made in accordance with the guidelines adopted by the Board.

## FINANCING

During the first financial year, Baseload Capital was financed through equity. In the future, financing will take place via both short-term and long-term borrowing and by issuing green bonds. The financing structure gives the company the opportunity to fulfil its investment commitments and to act with short notice on interesting investment opportunities.

## INCOME STATEMENTS

TSEK	Note	Group	Parent Company
		8 Mar - 31 dec 2018	3 Jan - 31 dec 2018
Sales of investment services	1	599	599
Revaluation of shares and long term receivables	2	91 756	91 756
Management cost	3,4,5,6,7	-6 293	-6 293
<b>Operating profit/loss</b>		<b>86 062</b>	<b>86 062</b>
Financial income		-	-
Financial costs		-	-
<b>Profit before tax</b>		<b>86 062</b>	<b>86 062</b>
Tax	8	-	-
<b>Profit/loss for the year</b>		<b>86 062</b>	<b>86 062</b>

## TOTAL PROFIT/LOSS FOR THE PERIOD

Profit/loss for the year	86 062	86 062
<b>Total profit/loss for the year</b>	<b>86 062</b>	<b>86 062</b>

## STATEMENTS OF FINANCIAL POSITIONS

TSEK	Note	Group	Parent Company
		31 dec 2018	31 dec 2018
<b>ASSETS</b>			
Shares in subsidiaries	2,9	76 409	76 409
Shares in associated companies	2,9	23 497	23 497
Long term receivables on subsidiaries	2,10	41 491	41 491
Long term receivables on associated companies	2,10	27 715	27 715
Other long term receivables	2,11	14 913	14 913
<b>Total non-current assets</b>		<b>184 026</b>	<b>184 026</b>
Short term receivables on group companies		100	100
Other short term receivables		944	944
Cash and cash equivalents		2 719	2 719
<b>Total current assets</b>		<b>3 763</b>	<b>3 763</b>
<b>TOTAL ASSETS</b>		<b>187 789</b>	<b>187 789</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital		5 038	5 038
Other capital contributions		225	225
Retained earnings/loss		95 000	95 000
Profit/loss for the year		86 062	86 062
<b>Total equity</b>		<b>186 325</b>	<b>186 325</b>
Accrued expenses and prepaid income		1 203	1 203
Other current liabilities		261	261
<b>Total short term liabilities</b>		<b>1 464</b>	<b>1 464</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>187 789</b>	<b>187 789</b>

## STATEMENTS OF CHANGES IN EQUITY

Group	Share capital	Other capital contributions	Retained profit/loss	Profit/loss for the year	Total equity
<b>Shareholders equity as per March 8, 2018</b>	-	-	-	-	-
Profit/loss for the year	-	-	-	86 062	86 062
<b>Total profit/loss for the year</b>	-	-	-	<b>86 062</b>	<b>86 062</b>
Share issue	5 038	225	-	-	5 263
Shareholders contribution	-	-	95 000	-	95 000
<b>Shareholders equity as per December 31, 2018</b>	<b>5 038</b>	<b>225</b>	<b>95 000</b>	<b>86 062</b>	<b>186 325</b>

## Parent Company

	Restricted capital	Unrestricted capital		Profit/loss for the year	Total equity
	Share capital	Share premium reserve	Retained profit/loss		
<b>Shareholders equity as per January 3, 2018</b>	-	-	-	-	-
Profit/loss for the year	-	-	-	86 062	86 062
<b>Total profit/loss for the year</b>	-	-	-	<b>86 062</b>	<b>86 062</b>
Share issue	5 038	225	-	-	5 263
Shareholders contribution	-	-	95 000	-	95 000
<b>Shareholders equity as per December 31, 2018</b>	<b>5 038</b>	<b>225</b>	<b>95 000</b>	<b>86 062</b>	<b>186 325</b>

## STATEMENTS OF CASHFLOW

TSEK	Note	Group	Parent Company
		2018	2018
<b>OPERATING ACTIVITIES</b>			
Sales of investment services		465	465
Management cost paid		-4 737	-4 737
Other items affecting cash flow		-1 002	-1 002
Cash flow from operating activities before financial items		-5 274	-5 274
Interest received		-	-
Interest paid		-	-
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>-5 274</b>	<b>-5 274</b>
<b>INVESTING ACTIVITIES</b>			
Purchase/sales of shares		-11 150	-11 150
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>		<b>-11 150</b>	<b>-11 150</b>
<b>FINANCING ACTIVITIES</b>			
Share issue		5 263	5 263
Shareholders contribution		95 000	95 000
Change in financing of subsidiaries and associated companies		-65 381	-65 381
Change in financing of other companies		-15 738	-15 738
<b>CASHFLOW FROM FINANCING ACTIVITIES</b>		<b>19 143</b>	<b>19 143</b>
<b>NET CASH FLOW FOR THE YEAR</b>		<b>2 719</b>	<b>2 719</b>
Cash and cash equivalents at start of year		-	-
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>2 719</b>	<b>2 719</b>

## NOTE 1 Sales of investment services

	Group	Parent Company
TSEK	<b>2018</b>	<b>2018</b>
External sales	499	499
Internal sales	100	100
<b>Total</b>	<b>599</b>	<b>599</b>

External sales consist of consulting services. Internal sales consist of services to the parent company Baseload Capital Holding AB. The company has purchased Heat Power modules from Climeon for SEK 24 million, at market prices, which then were resold to the company's Japanese subsidiaries for purchase price without a mark up. The reason why the Japanese subsidiaries did not purchase the modules directly from Climeon was that the companies were not established at the time of invoicing, which make it an exception and is therefore not reported as sales. For the same reason, Baseload Capital has re-invoiced services (including land preparation and drilling) for SEK 6.5 million without a mark up to the Japanese subsidiaries. Climeon AB (publ) owned as of December 31, 2018 19.8% of Baseload Capital Holding AB, which owns 100% of Baseload Capital Sweden AB.

## NOTE 2 Valuation of financial instruments

### Revaluation shares and long term receivables

	Group	Parent Company
TSEK	<b>2018</b>	<b>2018</b>
Revaluation of shares in subsidiaries	75 605	75 605
Revaluation of shares in associated companies	13 151	13 151
Revaluation of loans to subsidiaries	1 676	1 676
Revaluation loans to associated companies	2 118	2 118
Revaluation of loans to other companies	-1 681	-1 681
<b>Total revaluation</b>	<b>90 869</b>	<b>90 869</b>
Exchange rate differences on loans	887	887
<b>Total</b>	<b>91 756</b>	<b>91 756</b>

	December 31, 2018			
TSEK	Level 1	Level 2	Level 3	Total
<b>ASSETS</b>	-	-	-	-
Shares	-	-	99 906	99 906
Loans	-	-	84 119	84 119
<b>Total assets</b>	-	-	<b>184 026</b>	<b>184 026</b>

In accordance with IFRS 13, financial instruments are carried at fair value based on a 3-level hierarchy. The classification is based on the input data used in the valuation of the instruments. Instruments in Level 1 are valued at quoted prices for identical instruments in an active market. Instruments in Level 2 are valued in a valuation model which uses input data that are directly or indirectly observable in the market. Input data used in the valuation models include interest rates, volatility and dividend estimates. Instruments in Level 3 are valued using a valuation technique based on input data which are not observable in a market.

	December 31, 2018		
TSEK	Assets at fair value through profit and loss	Amortized cost	Total
<b>ASSETS</b>			
Shares	99 906	-	99 906
Loans	84 119	-	84 119
Cash and cash equivalents	-	2 719	2 719
<b>Total assets</b>	<b>184 026</b>	<b>2 719</b>	<b>186 745</b>

## Valuation of shares at fair value - method and sensitivity analysis

In the section Significant assessment items for financial reporting under the heading Assessment of fair value of shares on page 7, it is described how the fair value assessment of shares is carried out. There is a description of which parameters affect the annual cash flow and thus the calculated "gross present value". Furthermore, the main risk factors that have been identified and used in calculating a "net present value" based on the gross present value are described. The net present value is the risk-adjusted gross present value and which is used to determine the fair value of shares. At Baseload Capital's portfolio as a whole, the net present value / gross present value ratio is 28%.

### Sensitivity analysis

The table shows that the grid capacity and the flow from the source, it is affecting the present value most. The main parameters are flow from the source, network capacity, investment costs, operating costs and exchange rate. The sensitivity analysis is made on Baseload Capital's portfolio as a whole and is based on the annual cash flow before risk correction, ie the cash flow used in calculating the gross present value. The total gross present value in the sensitivity analysis is SEK 515 million. The table below shows how the present value is affected in TSEK or in percent if different factors increase or decrease by 10 percent.

Change	Flow from the source	Grid capacity	Investment costs	Operating costs	Exchange rate SEK
+ 10%	113 703	113 703	-62 152	-32 610	-51 517
- 10%	-113 703	-113 703	62 152	32 610	51 517
+ 10%	22%	22%	-12%	-6%	-10%
- 10%	-22%	-22%	12%	6%	10%

The table shows that network capacity and the flow from the source is what influences the present value most. The sensitivity analysis shows the impact on the company's portfolio as a whole, however, the effect of different factors' impact can vary between different power plants as the relation between different input values may vary, such as investment costs, operating costs, electricity production and discount rate.

### Discount rate

The table below shows how the discounted value of the company's portfolio is affected if the discount rate changes, given that current risk correction factors are constant. Values in bold show the discount rates and the corresponding fair value used in valuing the company's portfolio as of December 31, 2018.

Discount rate	Fair value		
	Japan	Iceland	Total
4,0%	414 859	118 100	532 959
5,0%	253 475	43 573	297 048
<b>5,7%</b>	187 600	<b>13 151</b>	200 751
6,0%	159 017	774	159 791
7,0%	105 112	-	105 112
<b>8,1%</b>	<b>75 605</b>	-	75 605
9,0%	56 344	-	56 344
10,0%	39 708	-	39 708
11,0%	25 686	-	25 686

### Sensitivity analysis foreign currencies

Currency	Exchange rate December 31	Change SEK in %	Ex-rate Simulated	Effect on the income statement		
				Shares	Loans	Total
<b>SEK get weaker</b>						
EUR	10,28	10%	11,31	2 350	2 772	5 121
JPY	0,0812	10%	0,0893	7 560	4 149	11 710
USD	8,97	10%	9,87	-	1 491	1 491
<b>SEK get weaker</b>						
EUR	10,28	-10%	9,25	-2 350	-2 772	-5 121
JPY	0,0812	-10%	0,0731	-7 560	-4 149	-11 710
USD	8,97	-10%	8,07	-	-1 491	-1 491

The company's assets are exposed to foreign currencies. The table above shows how the income statement item - Revaluation of shares and long term receivables, is affected if the Swedish krona is weakened or strengthened by 10% against the current currencies.

### Liquidity analysis

Maturity structure for undiscounted receivables and liabilities

TSEK	< 1 year	1-2 years	3-5 years	>5 years	Total
<i>Loans</i>					
to subsidiaries	-	-	39 814	-	39 814
to associated companies	1 156	29 296	-	-	30 452
to other companies	1 566	17 755	-	-	19 321
<i>Other receivables</i>					
claims on group companies	100	-	-	-	100
on others	656	-	288	-	944
<i>Liabilities</i>					
	-1 464	-	-	-	-1 464
<b>Total</b>	<b>2 014</b>	<b>47 051</b>	<b>40 102</b>	<b>-</b>	<b>89 167</b>

The company also has loan commitments to the subsidiaries totaling 171 306 TSEK, where payments are uncertain in time and amount, see note 12.

### NOTE 3 Average number of employees, Parent Company

Age group	2018	
	Number of employees	of whom, women
-30	-	-
30-50	2	1
50-	1	-
<b>Total</b>	<b>3</b>	<b>1</b>

### NOTE 4 Wages, salaries and other remuneration; social security costs

2018			
TSEK	Salaries and other remuneration	Social security costs	Of which, pension costs
Directors' fees	-	-	-
	1 571	667	145

### Executive Management's compensation and pension costs for 2018

TSEK	Salaries and other remuneration	Pension costs
CEO	742	98
Other members of the Executive Management (2 persons)	829	47
	<b>1 571</b>	<b>145</b>

## NOTE 5 Leases

	Group	Parent Company
TSEK	2018	2018
Maturity within one year	257	257
Maturity later than one but within five years	467	467
<b>Total</b>	<b>724</b>	<b>724</b>

The Company is a lessee in operational leases for car leases. The year's expensed lease payments for operating leases totaled SEK 116 thousand. Future minimum lease payments for noncancelable operating leases fall due as above.

## NOTE 6 Auditors' fees

	Group	Parent Company
TSEK	2018	2018
PWC		
Audit assignment	361	361
Auditing activities in addition to audit assignment	-	-
Tax consulting	-	-
Other assignments	-	-
<b>Total</b>	<b>361</b>	<b>361</b>

## NOTE 7 Management cost

	Group	Parent Company
TSEK	2018	2018
Personnel costs	2 410	2 410
Costs related to Japanese subsidiaries	6 485	6 485
Invoicing to Japanese subsidiaries	-6 485	-6 485
Other external costs	3 883	3 883
<b>Total</b>	<b>6 293</b>	<b>6 293</b>

Costs related to Japanese subsidiaries consist of costs invoiced to the company before the Japanese subsidiaries were established. The costs include landlease, legal costs and costs for drilling and land preparation in Japan. These costs have been re-invoiced by the company without a mark up to the subsidiaries. Other external expenses consist mainly of legal fees, consulting services, remuneration to auditors, marketing costs and travel expenses.

## NOTE 8 Tax calculation

	Group	Parent Company
TSEK	2018	2018
Reported tax according to the income statement	-	-

	Group	Parent Company
TSEK	2018	2018
Reported earnings before tax	86 062	86 062
Tax at current tax rate (22%)	-18 934	-18 934
Tax effect of non-deductible costs	-15	-15
Tax effect of non-taxable income	20 186	20 186
Tax effect of unrecognized loss carryforwards	-1 238	-1 238
<b>Total reported effective tax</b>	<b>0</b>	<b>0</b>

The company's total loss carry-forwards amount to 5 625 TSEK.

**NOTE 9 Shares in subsidiaries and associated companies**

TSEK	Owner-ship	Group 2018	Parent Company 2018
Baseload Power Japan K.K., reg. nr. 0104-01-141634 , Japan	100%	23 193	23 193
Hayabusa Power G.K., reg. nr. 0104-03-019864 , Japan	100%	5 384	5 384
Iwana Power G.K., reg. nr. 0104-03-019863, Japan	100%	47 832	47 832
Varmaorka ehf., reg. nr. 500817-1430, Iceland	25%	23 497	23 497
<b>Total</b>		<b>99 906</b>	<b>99 906</b>

TSEK	2018	2018
Opening balance	-	-
Acquisition value shares	11 150	11 150
Change in value	88 756	88 756
<b>Closing balance</b>	<b>99 906</b>	<b>99 906</b>

**NOTE 10 Long term receivables on subsidiaries and associated companies**

TSEK	Group 2018	Parent Company 2018
Baseload Power Japan K.K. incl. subsidiaries	41 491	41 491
Varmaorka ehf., reg. nr. 500817-1430, Iceland	27 715	27 715
<b>Total</b>	<b>69 206</b>	<b>69 206</b>

TSEK	2018	2018
Opening balance	-	-
Acquisition value loans	65 541	65 541
Change in value	3 665	3 665
<b>Closing balance</b>	<b>69 206</b>	<b>69 206</b>

**NOTE 11 Other long term receivables**

TSEK	Group 2018	Parent Company 2018
Wendel Energy Operation I, LCC, reg. nr. 13-4008324, USA	14 913	14 913
<b>Total</b>	<b>14 913</b>	<b>14 913</b>

TSEK	2018	2018
Opening balance	-	-
Acquisition value loans	15 738	15 738
Change in value	-825	-825
<b>Closing balance</b>	<b>14 913</b>	<b>14 913</b>

**NOTE 12 Pledged assets and contingent liabilities**

TSEK	Group 2018	Parent Company 2018
Loan commitments to subsidiaries	171 306	171 306

## NOTE 13 Related-party transactions

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### Transactions with owner companies

The company rent promises on market terms from Gullspång Invest AB, who owned 26,2% of the parent company Baseload Capital Holding AB as per December 31, 2018.

Climeon AB (publ) has sold Heat Power modules to Baseload Capital at market prices for a total of 24 MSEK, as the Japanese subsidiaries were not registered at the time of invoicing. The company has sold consulting services for 0,5 MSEK at market prices to Climeon AB (publ), which owned 19,8% of the parent company Baseload Capital Holding AB as of December 31, 2018.

### Transactions with subsidiaries

The company has sold Heat Power modules, purchased from Climeon, to Japanese subsidiaries for 24 MSEK without margin as the subsidiaries were not registered at the time of invoicing. For the same reason, the company, without a mark up, has re-invoiced purchased services related to the subsidiaries.

### Transactions with associated companies

The company has issued convertible loans to the associated company Varmaorka.

### Transactions with parent company

The company has sold administrative services to the parent company Baseload Holding AB for 100 TSEK.

Stockholm 2019-05-15

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Vår revisionsberättelse har avgivits den 15 maj 2019

Öhrlings PricewaterhouseCoopers AB

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