

Interim Report Scandinavian Enviro Systems AB (publ) January – March 2017

Memorandum of Understanding (MoU) with Leading Tyre Producer

N.B. The English text is an in-house translation of the original Swedish text. Should there be any disparities between the Swedish and the English text, the Swedish text shall prevail.

Q1 2017

- Net revenues for the period: MSEK 0.1 (0.0)
- Loss after tax for the period: MSEK –9.8 (–7.5)
- Pre-dilution earnings per share for the period: MSEK –0.08 (–0.16)
- Cash flows after tax: MSEK –11.3 (–8.6)
- Execution of two MoU's with leading Chinese tyre producer for plant sales: one for a plant and the other for a future joint venture for subsequent plant sales
- Positive news related to testing of Enviro's reclaimed carbon black from yet another global tyre producer
- Enviro's reclaimed carbon black included in fittings for water pipes
- Approved EU trademark
- Election of two new board directors prompted by Pegroco Venture AB's entry as the largest stockholder
- Hiring of sales manager starting on 1 June 2017

Significant events after the period

- Conclusion that the company's reclaimed pyrolysis oil has such a high quality that it can be used as fuel in diesel driven power stations

A MESSAGE FROM OUR CEO

Dear fellow shareholders:

We are starting this new year with several positive signals from both our existing and new customers. It is gratifying that we are showing higher revenues from our plant in Åsensbruk. Sales remain modest but we are continuously increasing our deliveries to AnVa Polytech for Volvo Cars. The trust that these parties place in us continues to be an important reference point for both new customers of our materials and for our construction customers. Moreover, AnVa has started its deliveries of sealing components to Alvenius, where our material is replacing virgin carbon black use by up to 100%. It is a priority for us to be able to demonstrate additional potential applications for our materials within the General Rubber industry segment.

The biggest news of the quarter – and presumably one of the most important for the company – is that, after conducting extensive testing, one of the world’s biggest tyre manufacturers has approved our material to replace virgin carbon black in its tyre rubber. Additional testing remains: the rubber material will be tested in various parts of their tyres. So far, the tests that have been conducted set our material on par with the properties that they require for virgin material; they have reported that their best test results involve our reclaimed material. In addition to these tests, we are slated to be audited as a potential supplier as mandated by their purchasing process. If we were to go all the way with this player, to my mind, there is no reason why we should not also be able to meet the same needs of other tyre manufacturers. And this means that we and future plant owners will eventually be able to offer our material to the global tyre market. It is commonly said that tyre production represents approx. 70% of the total carbon black market with a value of approx. USD 15 billion.

Based on this, it is particularly important that we trademark our material – which we did by having it approved for protection in the EU. Our material will be marketed as EnviroCB™.

This quarter, to grow our material sales from Åsensbruk, we recruited Fredrik Olofsson as our new sales manager starting on 1 June 2017. He has a solid background within the rubber industry and will help us expand our future sales capacity.

Plant sales

Now that our Basic Design project has been completed in partnership with ÅF, we are on the threshold of an incredibly exciting period. Our material provides us with an opportunity to present a very attractively packaged offer to our plant customers and that kind of documentation will be pivotal for several of the upcoming stages related to sales and pilot study processes.

In the spring, we were engaged in detailed discussions with Southern China’s largest tyre producer, which approved our material for tyre rubber in the first quarter. Vanlead is a state-owned enterprise with strong growth within tyre production and a sharp focus on new technology and, not least, sustainability. They recently invested in and started a highly automated so-called Industry 4.0¹⁾ production plant, which makes it one of the most automated facilities in the world. Both companies’ commitments have resulted in a Memorandum of Understanding (MoU) for a plant with a capacity of 30,000 tonnes of tyres per year to be placed in Guangzhou in China. Vanlead will consume 100% of the plant’s carbon black capacity for its own tyre production, which is unique in the world. For us, this means that we will have a reference plant that is directly linked to the tyre industry, which is also unique in the world.

As a state-owned enterprise, Vanlead is also recognising the opportunities that exist in implementing our technology, in order to meet – in the long term – the growing challenge of handling the great number of used tyres and shortage of material. Both companies see opportunities for synergies in an expanded partnership and have therefore also signed an MoU that seeks to establish a joint venture to address the Chinese market for our plants. The new company will not hold any rights to our patent, our technology, or any other intangible assets but will act as a sales company and business facilitator. We consider it a great asset and a collateral that this kind of an actor is so actively involved in positioning us in this important market.

In parallel, we are continuing our work on our project in Chile, which is somewhat delayed because our counterparty divested itself of another investment within the bioenergy sector over the winter. Now, we are re-intensifying those efforts and the Basic Design forms an important part also in that regard. It has been delivered, which means that we report it to the Chilean public authority CORFO, which previously approved a grant of approx. SEK 1 million for its implementation.

Carbon black

Many of the commercial events that took place over the quarter are described above. More generally, however, there have been many positive signals and confirmations related to the material. I am very confident that we will be able to increase our future sales volumes of carbon black, given our increased sales capacity and increased interest from several parts of the market.

Åsensbruk plant

During the first quarter, in parallel with production to customers, we have performed multiple tests of various types of tyre materials. This is a very important function for the plant and will remain so also in the future. Our tests included such materials as aircraft tyres, re-treading material, and lorry tyres for various purposes. We are doing so both to widen our product selection and to generate new conditions for selling carbon black across various markets. We have continuous plant stakeholders at Åsensbruk and we have a specific competitive advantage in that we are in a position to demonstrate a manufacturing full-scale plant that is supplying customers.

Thomas Sörensson
Chief Executive Officer

Financial overview

JANUARY – MARCH 2017

Consolidated revenues and results

Net revenues totalled MSEK 0.1 (0.0). The operating loss stood at MSEK –9.6 (–7.2) and earnings after tax totalled MSEK –9.8 (–7.5).

The decline in results compared to last year is because the Group has now started depreciating its Åsensbruk plant and its capitalised expenditures. These depreciations are MSEK 2.6 higher than for the same period last year.

Investments and financial position

The Group's investments in fixed assets totalled MSEK 2.3 (0.9). In principle, the investments consist exclusively of a Basic Design. Cash flows from the ordinary course of business, less investment activities, for the period totalled MSEK –11.3 (–8.6). Most of this decline in cash flows was attributable to the Company's high level of investment related to Basic Design and the payment of parts of this investment, which was recognised in 2016.

Cash and cash equivalents stood at MSEK 26.9 (20.6) at the end of the period. The solvency ratio stood at 84% (80%).

Parent company

The parent company's net revenues stood at MSEK 0.8 (0.8) and losses less financial items totalled MSEK –10.5 (–9.3). All revenues were generated by services debited to subsidiaries. The main reason for the decline in results is that the Company has now started depreciating its capitalised development expenditures of MSEK 1.3 for the period. Investments in fixed assets totalled MSEK 2.3 (0.0). These investments

pertained to a Basic Design. The solvency ratio stood at 97% (96%) at the end of the period.

Staff and organisation

At the end of the period, the Group had 18 (19) employees.

Number of shares

Number of outstanding shares at the end of the period totalled 116,370,291 (46,548,117).

Risks and uncertainties

For a detailed account of risks and uncertainties, please refer to pp. 15–20 of the offering prospectus. Apart from the risks listed there, we do not believe any new risks have arisen. The board and the management have concluded that with the current structure of revenue and cost the Group will be in need of a capital injection during the latter part of the year.

FINANCIAL KEY FIGURES

Accounting policies

The Group presents its accounts in accordance with the Swedish Annual Accounts Act [årsredovisningslagen] and as provided in BFNAR Standard 2012:1 Annual Accounts and Consolidated Financial Statements [Årsredovisning och koncernredovisning] (K3). For applicable accounting policies, please see Note 1 of the Company's Financial Statements.

Financial key figures

	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016
EBITDA (TSEK)	–6,608	–6,759	–26,261
Operating margin (%) ¹⁾	Neg.	Neg.	Neg.
Equity ratio (%)	83.9%	80.3%	82.9%
Return on capital employed (%) ²⁾	–5.8%	–4.4%	–19.7%
Interest–bearing liabilities (TSEK) ³⁾	19,334	24,870	21,418
Earnings per share before dilution (SEK)	–0.08	–0.16	–0.49

¹⁾ Operating profit/loss from net revenues.

²⁾ Capital employed; equity plus interest–bearing liabilities. The return on capital employed is calculated as profits/loss less financial items plus interest expenditures, divided by the average of capital employed.

³⁾ Interest–bearing liabilities, closing balance.

Largest shareholders

31 March 2017

Shareholders	Ownership share
Pegroco Venture AB	25.41%
TAMT AB	10.10%
Nordnet Pensionsförsäkring AB	4.33%
Försäkringsaktiebolaget Avanza Pension AB	4.14%
Skandia Leben, Liechtenstein	2.36%
Ten largest shareholders	54.08%
Others	45.92%

Financial calendar

Annual General Meeting 2016	4 May 2017
Interim Report January–March 2017	4 May 2017
Interim Report January–June 2017	31 August 2017
Interim Report January – March 2017	10 November 2017
Year–End Report 2017	28 February 2018

Gothenburg, 4 May 2017

Board of Directors and Chief Executive Officer

Scandinavian Enviro Systems AB (publ)

The present report has not been audited.

Please address inquiries to

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CONSOLIDATED STATEMENT OF INCOME

Amounts in TSEK	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016
Operating income			
Net sales	127	0	205
Other operating income	0	0	0
Changes in stocks of finished goods	–27	37	–65
	100	37	140
Operating expenses			
Raw materials and consumables	–114	–24	–316
Other external costs	–2,945	–3,188	–12,570
Personnel costs	–3,650	–3,583	–13,515
Depreciation of tangible and intangible assets	–2,691	–90	–5,819
Amortization of acquired goodwill	–305	–305	–1,219
Other operating expenses	0	0	0
	–9,703	–7,190	–33,439
Operating profit/loss	–9,604	–7,154	–33,299
Profit/loss from financial items			
Interest income and similar items	46	38	112
Interest expenses and similar items	–243	–344	–1,265
Profit/loss after financial items	–9,801	–7,461	–34,452
Profit/loss for the period	–9,801	–7,461	–34,452
Number of shares at end of period	116,370,291	46,548,117	116,370,291
Average number of shares before dilution	116,370,291	46,548,117	70,341,072
Average number of shares after dilution	116,370,291	46,548,117	70,341,072
Earnings per share before dilution (SEK)	–0.08	–0.16	–0.49
Earnings per share after dilution (SEK)	–0.08	–0.16	–0.49

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in TSEK	31-Mar-17	31-Mar-16	31-Dec-16
ASSETS			
Fixed assets			
<i>Intangible fixed assets</i>			
Capitalized expenditures for development work	49,152	47,505	48,214
Patents and similar rights	4,649	4,325	4,578
Goodwill	8,229	9,448	8,533
	62,029	61,278	61,325
<i>Property, plant and equipment</i>			
Machinery and other technical facilities	74,893	79,739	76,237
Equipment, tools, and installations	114	149	123
	75,007	79,888	76,360
<i>Financial non-current assets</i>			
Other non-current receivables	2	20	2
	2	20	2
Total fixed assets	137,038	141,185	137,688
Current assets			
<i>Inventories, etc.</i>			
Raw materials and consumables	63	79	49
Goods in progress	3	36	12
Finished products and goods for resale	78	210	96
	143	325	156
<i>Current receivables</i>			
Trade receivables	41	0	3
Other receivables	2,186	1,888	1,989
Prepaid costs and accrued income	930	743	817
	3,156	2,631	2,809
<i>Cash and cash equivalents</i>	26,898	20,557	40,315
Total current assets	30,198	23,512	43,281
TOTAL ASSETS	167,236	164,698	180,969
EQUITY AND LIABILITIES			
Equity			
Share capital	4,655	1,862	4655
Other capital contributions	261,742	219,771	261,742
Other capital, including profit/loss for the year	-126,109	-89,316	-116,308
	140,288	132,317	150,089
Non-current liabilities			
Other liabilities to credit institutions	11,366	20,334	13,266
	11,366	20,334	13,266
Current liabilities			
Amounts owed to credit institutions	7,968	4,536	8,152
Trade payables	1,019	1,623	2,664
Other current liabilities	2,868	2,713	2,646
Accrued expenditures and prepaid income	3,728	3,174	4,152
	15,582	12,046	17,614
TOTAL EQUITY AND LIABILITIES	167,236	164,698	180,969
Collaterals and Contingent Liabilities			
Encumbrances	39,350	39,350	39,350
Restricted bank balances	2,769	2,722	2,769

CHANGES IN EQUITY, CONSOLIDATED

Amounts in TSEK	1 Jan – 31 Mar 2017		
	Share capital	Other capital contributions	Other equity, including profit/loss for the year
Opening balance, equity	4,655	261,742	-116,308
Profit/loss for the period			-9,801
Fund for development costs			2,124
Profits brought forward			-2,124
Closing balance, equity	4,655	261,742	-126,109

	1 Jan – 31 Mar 2016		
	Share capital	Other capital contributions	Other equity, including profit/loss for the year
Opening balance, equity	1,862	219,771	-81,855
Profit/loss for the period			-7,461
Closing balance, equity	1,862	219,771	-89,317

	1 Jan – 31 Dec 2016		
	Share capital	Other capital contributions	Other equity, including profit/loss for the year
Opening balance, equity	1,862	219,771	-81,855
Profit/loss for the period			-34,452
Fund for development fees			1,896
Income/loss brought forward			-1,896
New share issue	2,793	49,557	
Expenses related to issue		-7,586	
Closing balance, equity	4,655	261,742	-116,308

STATEMENT OF CASH FLOW, CONSOLIDATED

Amounts in TSEK	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016
<i>Operating activities</i>			
Operating profit/loss	–9,604	–7,154	–33,299
Adjustments for items not part of the cash flow	2,995	395	7,038
Interest received	46	38	112
Interest paid	–243	–344	–1,265
Cash flow from operating activities before changes in working capital	–6,806	–7,066	–27,415
<i>Cash flow from changes in working capital</i>			
Increase (–) / reduction (+) in inventories	13	–37	132
Increase (–) / reduction (+) in trade receivables	–38	0	–3
Increase (–) / reduction (+) in other receivables	–309	–1,344	–1,520
Increase (+) / reduction (–) in trade payables	–1,645	–842	199
Increase (+) / reduction (–) in current liabilities	–202	1,557	2,467
Cash flow from ordinary course of business	–8,987	–7,732	–26,139
Investment activities			
Acquisition of intangible assets	–2,327	–27	–2,467
Acquisition of property, plant and equipment	–20	–884	–1,607
Changes in long-term receivables	0	0	18
Cash flow from investment activities	–2,346	–911	–4,056
Financing activities			
New rights issue	0	0	52,350
Expenses related to issue	0	0	–7,586
Amortisation of debts	–2,084	–1,084	–4,536
Cash flow from financing activities	–2,084	–1,084	40,227
Cash flow for the period	–13,417	–9,726	10,032
Cash and cash equivalents at the beginning of the period	40,315	30,283	30,283
Cash and cash equivalents at the end of the period	26,898	20,557	40,315

STATEMENT OF INCOME, PARENT COMPANY

Amounts in TSEK	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016
Operating revenues			
Net sales	798	798	4,031
	798	798	4,031
Operating expenses			
Other external costs	-7,813	-8,213	-33,303
Personnel expenses	-2,178	-1,838	-7,252
Depreciation of tangible and intangible assets	-1,327	-90	-1,594
Other operating expenses	0	0	0
	-11,318	-10,141	-42,149
Operating profit/loss	-10,520	-9,343	-38,118
Profit/loss from financial items			
Interest income and similar items	41	37	107
Interest expenses and similar items	-7	-31	-81
	35	7	26
Profit/loss after financial items	-10,485	-9,336	-38,092
Paid group contributions	0	0	5,000
Profit/loss after balance sheet allocations	-10,485	-9,336	-33,092
Tax on net profits for the period		-	
Profit/loss for the period	-10,485	-9,336	-33,092

STATEMENT OF FINANCIAL POSITION, PARENT COMPANY

Amounts in TSEK	31-Mar-17	31-Mar-16	31-Dec-16
ASSETS			
Fixed assets			
<i>Intangible fixed assets</i>			
Capitalized expenditures for development work	49,102	47,455	48,164
Patents and similar rights	4,649	4,325	4,578
	53,751	51,780	52,742
<i>Tangible fixed assets</i>			
Equipment, tools, and installations	114	149	123
	114	149	123
<i>Financial non-current assets</i>			
Investments in group companies	36,891	36,891	36,891
Long-term receivables, group enterprises	31,031	30,434	31,646
Other long-term receivables	2	20	2
	67,923	67,345	68,538
Total non-current assets	121,788	119,273	121,403
Current assets			
<i>Current receivables</i>			
Other receivables	2,113	1,823	1,859
Prepaid costs, accrued earnings	542	373	442
	2,655	2,196	2,301
<i>Cash and cash equivalents</i>	23,870	16,569	36,784
Current assets, total	26,525	18,765	39,085
TOTAL ASSETS	148,313	138,038	160,488
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital	4,655	1,862	4,655
Statutory reserve	502	502	502
Fund for development expenses	4,019		1,896
<i>Unrestricted equity</i>			
Share premium reserve	261,240	219,269	261,240
Retained earnings	-116,340	-79,229	-81,124
Profit/loss for the period	-10,485	-9,336	-33,092
	143,591	133,068	154,076
Non-current liabilities	0	368	0
Other liabilities to credit institutions	0	368	0
Current liabilities			
Amounts owed to credit institutions	368	736	552
Trade payables	321	885	1,630
Other current liabilities	1,454	1,337	1,427
Accrued costs and prepaid income	2,580	1,644	2,803
	4,722	4,602	6,412
TOTAL EQUITY AND LIABILITIES	148,313	138,038	160,488
Pledged collaterals and contingent liabilities			
Encumbrances	0	0	0
Restricted bank balances	94	50	94
Guarantees benefiting group enterprises	19,050	20,700	19,450

CHANGES IN EQUITY, PARENT COMPANY

Amounts in TSEK	1 Jan – 31 Mar 2017					
	Restricted equity			Unrestricted equity		
	Share capital	Statutory reserve	Fund for development costs	Share premium reserve	Retained earnings	Profit/loss for the period
Opening balance, equity	4,655	502	1,896	261,240	-81,125	-33,092
Adjustment of previous year's profit and loss					-33,092	33,092
Profit/loss for the period						-10,485
Fund for development costs			2,124		-2,124	
Closing balance, equity	4,655	502	4,020	261,240	-116,341	-10,485

	1 Jan – 31 Mar 2016					
	Restricted equity			Unrestricted equity		
	Share capital	Statutory reserve		Share premium reserve	Retained earnings	Profit/loss for the period
Opening balance, equity	1,862	502		219,269	-49,756	-29,473
Adjustment of previous year's profit/loss					-29,473	29,473
Profit/loss for the period						-9,336
Closing balance, equity	1,862	502		219,269	-79,229	-9,336

	1 Jan – 31 Dec 2016					
	Restricted equity			Unrestricted equity		
	Share capital	Statutory reserve	Fund for development costs	Share premium reserve	Retained earnings	Profit and loss for the period
Opening balance, equity	1,862	502		219,269	-49,756	-29,473
Adjustment of previous year's profit/loss					-29,473	29,473
Profit/loss for the period						-33,092
Fund for development costs			1,896		-1,896	
New share issue	2,793			49,557		
Expenses related to issue				-7,586		
Closing balance, equity	4,655	502	1,896	261,240	-81,125	-33,092

STATEMENT OF CASH FLOW, PARENT COMPANY

Amounts in TSEK	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016
Operating activities			
Operating profit/loss	-10,520	-9,343	-38,118
Adjustments for items not part of the cash flow	1,327	90	1,594
Interest received	41	37	107
Interest paid	-7	-31	-81
Cash flow from operating activities before changes in working capital	-9,158	-9,246	-36,497
<i>Cash flow from changes in working capital</i>			
Increase (-)/reduction (+) in other receivables	-354	-1,735	-1,840
Increase (+)/reduction (-) in trade payables	-1,309	127	872
Increase (+)/reduction (-) in current liabilities	-196	260	1,509
Cash flow from ordinary course of business	-11,018	-10,594	-35,956
Investment activities			
Acquisition of intangible assets	-2,327	-27	-2,467
Acquisition of property, plant and equipment	0	0	0
Changes in non-current receivables	615	565	4,373
Cash flow from investment activities	-1,712	539	1,906
Financing activities			
New rights issue	0	0	52,350
Expenses related to issue	0	0	-7,586
Amortisation of debts	-184	-184	-736
Cash flow from financing activities	-184	-184	44,028
Cash flow for the period	-12,914	-10,239	9,977
Cash and cash equivalents at the beginning of the period	36,784	26,808	26,808
Cash and cash equivalents at the end of the period	23,870	16,569	36,784