

Scandinavian Enviro Systems AB (publ)
Org. No. 556605–6726

N.B. This English document is an in-house translation of the original Swedish annual report. Should there be any disparities between the Swedish and the English version, the Swedish version shall prevail.

**Annual Accounts and Consolidated Financial Statements for Financial
Year 2016**

The Board of Directors and the Chief Executive Officer hereby present the following annual accounts and consolidated financial statements.

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Unless otherwise indicated, all amounts are denominated in thousands of Swedish kronor (TSEK). Information in parentheses refers to last year's figures.

The past year

Major Events

- Regular commercial deliveries of reclaimed carbon black for use for chassis connectors for Volvo Cars.
- Thomas Sörensson was appointed CEO and Urban Folcker was appointed CFO
- His Majesty King Carl XVI Gustaf visited our plant in Åsensbruk, which led to the participation of the company during the following state visit of the president of Chili.
- Additional technical improvements and installations were carried out at the Åsensbruk plant during the year.
- It was established that the Company's reclaimed oil contained up to 79% bio-oils.
- In the autumn, an oversubscribed preferred stock issue was held, which resulted in capital contributions of MSEK 44.8, including issuance costs.
- A new patent for APR (a technique that strengthens the preceding EHD patent).
- Approved EU trademark (EnviroCB™)
- Project funding granted by the state of Chile to establish a Basic Design.
- Signed a memorandum of understanding (MOU) with Chilean investors for one or multiple plants in Chile.
- The Company was named “Waste Management Company of the Year” at the Swedish Recycling Awards event.
- Pegroco Venture AB became the biggest shareholder after taking over KL Ventures AB’s ownership interest.
- Tests involving major rubber product suppliers were conducted with positive results.

Major Events after the Reporting Period

- MoU signed with the Vanlead Group, a leading Chinese and international tyre manufacturer, for a facility and to cultivate the Chinese market for additional plant sales.
- Commercial deliveries of reclaimed carbon black for an additional rubber application in a piping product at Alvenius Industrier.
- Positive news from yet another leading global tyre producer after tests were conducted of the Company's reclaimed carbon black in various rubber mixtures.
- In an extra general meeting held on February 27, 2017, Alf Blomqvist and Peter Möller were elected as members of the board. During the same meeting Johanna Stenman was excused as board member

Message from the CEO

Dear shareholders,

During the year, we have proactively refocused our efforts from development to commercialization of our plant technology and the materials we are producing in Åsensbruk. This shift is customer and business-driven and represents a positive development for the future. And we hope to be able to implement several of the initiated activities already in the spring of 2017. A specific example of this is the inquiries we have received from facilities customers driven by a so-called Basic Design of next generation plants. This has allowed us to refine our experiences from our Åsensbruk plant and prepared us to present early-stage proposals and project documentation more rapidly and more professionally.

Additionally, we have designed plans to widen the range of materials that our plants can generate and increase our focus on material development of both carbon black and oil in order to increase our market appeal. During the late-autumn, we recruited a colleague for a service that focuses on materials development and quality; that person joined the Company on 1 February 2017. We are seeing increased interest in reclaimed materials in the industry; the impact from our reference business has been great; and we are able to deliver consistently high quality from our plant. We have also started recruiting for a sales resource for the purpose of increasing our market presence before the summer.

In the autumn, we were named “Waste Management Company of the Year” at the Swedish Recycling Awards event. It was an honour and tremendous recognition from the industry that we are a force to be reckoned with in the future. Our preferred stock issue was oversubscribed by 16% – we are very pleased with the interest in the Company.

Sales of plants

Ongoing processes related to plants are extended and Basic Design will be an important tool to obtain initial business. Those who have followed us with interest for some time will know that we have been engaged in discussions with stakeholders all over the world and that those discussions have been protracted. We greatly respect that this type of investment requires careful consideration of all market aspects and that the proper timing is extremely important.

We have signed a memorandum of understanding (MoU) with a financial actor in Chile for one or two facilities. We are working intensively on both technological and commercial aspects to create the conditions for a business that is in line with their implementation of manufacturer liability for, among other things, mining tyres.

We have communicated with several other types of stakeholders and markets over the past year, and we are looking positively at our opportunities for more applications and customers for the materials that the facilities can produce. A great deal has been written and discussed in various media about current alternatives to recycling tyres, such as incineration and granulation for such uses as football fields. We are following that debate carefully and see a growing potential for our technology as a consequence of the – justified – questioning of conventional methods in a world where increased materials recovery is a necessity.

Carbon black

During our first year, our existing customers steadily increased volumes and exhibited confidence in our quality and continuity through commercial deliveries. They represent an important reference point for our future customers. Both existing and new customers have shown increased interest in recent months because of the higher oil prices and thus, higher prices on Carbon Black. Our materials are tested for multiple applications and we hope that they will be approved for delivery in early 2017. I have previously

communicated that we are initially focusing on general rubber applications rather than tyres, since the latter is a significantly more complicated product that involves tougher requirements and testing. In parallel with this, testing is in progress with our material at several of the biggest tyre manufacturers with what, in my estimation, is a significantly increased level of interest. This type of approval takes up to a year or more but also generates extensive global potential. Two of the biggest producers recently determined that our material is on par with or better than virgin material with equivalent properties. These very positive verdicts should generate the possibility to shorten the test period mentioned above.

Oil

We are currently delivering oil from the Åsensbruk plant as we produce carbon black. The goal for 2017 is to test and verify methods for purifying the oil in order to increase the product's value. Initial tests have been conducted with an actor that have shown positive results and we intend to continue the process by testing the separated fraction in engines for industrial use. If we succeed, we increase the value of the oil and broaden the potential market for both ourselves and our plant customers. During the summer, it was verified that a major part of the contents of the oil is bio-based and this means that we might eventually be able to classify it more advantageously.

Production

Åsensbruk Plant: We have managed to conclude most of the development work over the year and the results have been positive for, among other things, improvements of cycle times for the new extraction and separation equipment. Certain optimisation and modification efforts will be carried out as the production rate is increased. The objective is for the increased sales volumes of carbon black, oil and steel during the year to produce a greater contribution margin while also having the capacity to perform the material development projects that are necessary to expand our product range.

Outlook

During 2016 and in early-2017, we greatly strengthened our ability to commercialise our plant technology through new patents, the implementation of a basic design, providing materials for new applications, and recruitment of expertise in materials development and sales. By obtaining verification of the material in tyre rubber from several different international manufacturers, we have taken a giant step toward entering a volume market that favours plant sales.

In 2017, we have signed a memorandum of understanding (MoU) with the Vanlead Group, a leading Chinese and international tyre manufacturer, for the sale of a plant that, among other things, will produce carbon black for their own tyre production. We have also signed an MoU with the Vanlead Group to start a joint venture designed to capitalize on the Chinese market to sell additional plants.

The increased interest from the automotive industry in reclaimed material was clearly in evidence during the March International Automobile Recycling Congress in Berlin and we will cultivate the contacts that were created there in the coming months. The volumes for AnVa, which will deliver up to 75 components per car to Volvo Cars has grown steadily over the year and we are looking forward to a continued, positive trend.

There are challenges on the financing side and we are continually working to create the best possible conditions for maintaining our momentum. We have a strong team that is working hard with their hearts and souls to get us closer to the goal and to realise the first plants.

Thomas Sörensson

Chief Executive Officer

Market Overview

The global market for used tyres

Used vehicle tyres are a global problem, with major environmental and economic consequences. Historically, landfills have been the most common way of dealing with the huge volumes of tyres discarded each year. Development has progressed in recent years in some parts of the world, e.g. through the introduction of so-called Producer Responsibility in the EU.

In Europe and North America, a large proportion of used tyres are recycled, while the degree of recycling in emerging and developing countries is much lower or non-existent. Recycling of used tyres is an important industry, even as other environmental problems are created, through techniques such as incineration in the cement-, power- and heating industries, that call for a powerful solution. What is crucial here is, among other things, to control emissions into the air through purification of combustion gases.

Annually, about 14 million tons of tyre waste is created on the global market. The US accounts for the largest part, with 5.0 million tonnes, Europe for 3.5 million tonnes, and the rest of the world for 5.7 million tonnes. Landfills, past and future, are significant global environmental problems.¹

The largest markets for used tyres in Europe are Germany, England, Italy, Spain and Poland. In Sweden, about 85,000 tonnes of used tyres are generated per year. With growing fleets of vehicles in Asia, the market is in for some very big challenges.

Landfills of used tyres create considerable environmental problems; large-scale air pollution through burning, leakage of chemicals into ground water from land-based tyre dumps, and the spread of diseases vermin and insects in the damp and warm environments that tyre dumps create.

In 1999, the EU adopted a directive banning the disposal of used tyres in land-based dumps. This meant that, starting in 2003, the disposal of whole tyres in dumps was banned, and starting in 2006, it was not permitted to discard shredded tyres, either. The directive encourages recycling of materials from used tyres. After the EU directive was adopted, the degree of tyre recycling has increased markedly, and today has stabilised relatively evenly between incineration and recycling, mainly through granulation. However, these methods are often both inefficient and environmentally dangerous and/or do not fulfil the need to absorb the large amounts of used tyres generated each year. Enviro competes partly with these existing methods, and with a smaller number of groups, who also develop technology for pyrolysis or devulcanisation. Of the groups who have achieved commercial capacity, Enviro is at the forefront both in the technology of its facilities and the quality of its materials.

The growing interest in recycled material favours Enviro, because the company's recycled carbon black can be used in several different production methods for rubber, including tyres, which opens up further potential for the sale of facilities worldwide.

The number of cars produced globally is expected to grow, and besides tyres, each passenger car contains another 35 kg of other rubber components. In addition, many millions of light, medium-weight and heavy trucks, construction vehicles and buses are produced. This means that Enviro's market will continue growing, along with the problem of how to handle used tyres.

The market for end products

Carbon black

Carbon black is coal in finely-separated form, obtained through the incomplete combustion of organic substances. It is usually produced by virgin fuels such as oil and natural gas. About 1.5-2 kg of crude oil is required to produce 1 kg of carbon black, depending on the carbon content in the oil used. Of all carbon black

¹ Scrap tyre markets in the United States, 11th Biennial Report, May 2011, Rubber Manufacturers Association.

produced, about 90 percent is used as a strengthening component for rubber materials, such as colour pigments or UV protection for plastic products.

The global market for carbon black is 12 million tonnes per year, and approximately 65 billion SEK's worth is turned over per year. It is estimated that the market will see a compound annual growth (CAGR) of 5.9 until 2020.² Asia is currently the largest producer and consumer of carbon black, with about 55 percent of global production and consumption, according to figures from 2014. China accounts for almost half of Asian consumption. Most of the increase in production capacity that is expected to come in the next five years in the carbon black production comes from Asia, led by China. The US has banned the construction of new production facilities for virgin carbon black due to the negative environmental impacts associated with this.

Growth in carbon black production is closely tied to the automotive industry and tyre production. When an increasing share of global vehicle production is moving to China, India and Eastern Europe, the tyre industry, and with it the carbon black producers, follow after. There is a steady trend towards concentration and consolidation of carbon black producers. Petroleum companies have reduced their production of carbon black, and the sector is now dominated by chemical companies with carbon black as the main product. All the larger producers are global players. Approximately 70% of all carbon black is consumed by the tyre industry, and with Enviro's breakthrough with approved materials testing from several of them, a very interesting potential is opening up for both recycled carbon black and its production facilities.

Oil

Heating oil is a product produced only by petroleum distillation, either as a distillate or as a slag product. Global refineries produce about 8 million barrels of oil per day, of which about 4 million barrels will be traded in the commodities market. The price of heating oil is low, and there are large quantities available.

The primary usage areas for heating oil are power generation and use as bunker fuel for ships. The price of fuel oil is determined mainly by the price of crude oil, but short-term price fluctuations may occur as a result of bottlenecks at refineries. Although the price primarily correlates with the price of crude oil, the price can vary particularly because of e.g. differences in the quality, characteristics and classification of heating oil. Enviro carries out projects to increase the value of the oil that can be produced in the plants, including through further purification and market-adaptation. One possibility is to clean the oil so that it can be used in industrial motors. Because large portions of the oil from tyres contain bio-based material from natural rubber, there is potential in the slightly longer term to classify the oil as a form of bio-fuel.

Steel

The amount of steel scrap used in the production of crude steel is around 37 percent, but varies over time depending on the price movements of iron ore. Italy is the EU's largest consumer of steel scrap, with a consumption of about 21 million tonnes per year. Sweden consumed 2 million tonnes of steel scrap in 2012.

The price of steel scrap has climbed over time, and scrap steel is now thought to be a relatively valuable commodity. The price of steel scrap correlates with the demand for crude steel. Infrastructure projects in developing countries are the primary source of increased demand. The steel that is materially recycled from tyres is of high quality, and it is relatively easy to sell on the market. There is likely potential to target stakeholders in a more focused way with the quality that can be delivered from Enviro's facilities.

² http://www.lucintel.com/carbon_black_market_2020.aspx

Director's Report

Information about the Business

The Board of Directors and Chief Executive Officer of Scandinavian Enviro Systems AB (publ), Gothenburg, 556605–6726, hereby present their 2016 Annual Financial Statement and Consolidated Financial Statements.

Company's Activities

Business Concept

End-of-life car tyres represent a major, global environmental issue. Current methods for storing and recycling tyres are either inefficient, hazardous to the environment, and/or target areas of use that are unable to accommodate the vast number of tyres that are consumed each year globally. An additional issue is that tyres and rubber products are largely manufactured from newly produced, non–recycled raw materials. Scandinavian Enviro Systems' patented process entails a unique method for recovering end-of-life tyres and extracting high-grade products from these, which can then be re-used for industrial applications.

Business model

The company's business model is based on the following potential sources of revenue:

- Sales of turn-key facilities;
- Continuous revenues from royalties related to Scandinavian Enviro Systems' patented technology from installations sold by the Company;
- Sales of servicing and training for established facilities; and
- Revenues from production in the wholly-owned plant in Åsensbruk, Dalsland, as well as dividends from any joint ventures into which the Company enters for the sale of facilities.

Business Activities

The Company has had the technologies on which the Company's patents under development since 2001. During this period, the Company has built multiple test facilities. The plant that was built in Åsensbruk from 2013 to 2016 performs an important function: it serves as a large-scale production test and demo plant and includes all the process steps and solutions featured in a full-scale plant. The plant is operated by the wholly-owned subsidiary Tyre Recycling in Sweden AB. Some of the products manufactured by the process are new, in full or in part, to the market. The plant allows prospective customers to test products for industrial scale production. In 2016, our first commercial customer deliveries took place. The plant is estimated to be able to reach a processing rate of approx. 6,000 tonnes of tyres annually.

An important factor in the Company's process calculation is reclaimed carbon black. This product represents approx. 65% of the sales value that the Company is expecting to generate from each reclaimed tyre. Carbon black is a central product for the rubber industry for tyres and other applications. Newly produced virgin carbon black is produced from oil; approx. 1.5–2 kg oil will produce 1 kg carbon black. Based on its properties, there are a number of different quality grades for carbon black. Scandinavian Enviro Systems is focused on producing high-grade carbon black. Potential customers have tested the carbon black produced at the Company's plant in both lab environments and in production tests. The tests have shown product properties to be comparable to newly produced carbon black. Moreover, the product can be produced at a competitive price as well as at a qualitatively guaranteed and consistent level.

During the year, AnVa Polytech has purchased reclaimed carbon black for production of chassis connectors for Volvo Cars. In 2017, the company has also delivered reclaimed carbon black to AnVa Polytech intended as a sealing application for piping products.

In parallel with the demo plant efforts, multiple negotiations are being conducted for the sale of plants to customers around the world. During the autumn of 2016, an MoU was signed with a financial actor in Chile for the delivery of one or two plants. After the end of the fiscal year, yet another MoU was signed, with the Vanlead Group, which is a leading Chinese and international tyre manufacturer, for the delivery of a plant. We anticipate that at least one of these negotiations will result in a sales agreement during the year. Scandinavian Enviro Systems seeks to provide the plants in partnership with third parties (ÅF). These facilities are modular in nature and have a maximum processing capacity of 30,000 tonnes end-of-life tyres a year. After the end of the fiscal year, a project to develop a so-called Basic Design has been completed. Its purpose is to define and describe the next generation facilities. The volume can be compared with the annual consumption of tyres in Sweden, which totals approx. 85,000 tonnes of tyres per year. Worldwide, tyre consumption totals approx. 14,000,000 tonnes annually.

Corporate Structure

The Enviro Group comprises the parent company Scandinavian Enviro Systems AB (publ), headquartered in Gothenburg, and three wholly-owned Swedish subsidiary undertakings. The parent company's activities include, in addition to the sale of facilities, intra-group functions, such as management, finance, and technology development.

Company's Results and Financial Position

Group

Net revenues totalled MSEK 0.2 (0.2). The operating loss stood at MSEK –33,3 (–25.9) and earnings after tax totalled MSEK –34.5 (–27.3). In addition to this, issuing costs of MSEK 7.6 (6.1) were recognised directly in equity. Net interest improved at MSEK –1.2 (–1.4). MSEK 5.4 of the year-to-year decline in earnings was related the fact that the company started to depreciate on the plant in Åsensbruk as well as balanced development costs as of Q4. In this amount a one-off write-down of MSEK 2.8 is included.

In the first half-year, a preferred rights issue was executed with subscriptions for MSEK 52.4. Less issuing costs, the issue generated MSEK 44.8 in cash and cash equivalents. The capital contribution was applied to additional development, Basic Design, additional investments, and to bring down interest-bearing liabilities which, over the year, were reduced by MSEK 4.5 and, at 31 December 2016, stood at MSEK 21.4. Cash and cash equivalents stood at MSEK 40.3 (30.3) at year's end.

Consolidated investments in fixed assets totalled MSEK 4.1 (3.7). These were primarily investments directly in or related to Basic Design, the plant in Åsensbruk and in patent The solvency ratio stood at 83% (81%) at year's end.

Parent Company

The parent company's net revenues stood at MSEK 4.0 (3.2) and the loss after financial items totalled MSEK –38.1 (–9.5). All revenues were generated by services debited to subsidiaries. A group contribution of MSEK 5 (0) was received from Tyre Recycling in Sweden AB in December. The solvency ratio stood at 96% (97%) at year's end.

Staff

At year's end, the Group had 18 (19) employees of which 6 (5) were employed by the parent company.

Outlook and Financing

In order to ensure a going concern, future investment needs, and the participation in any joint ventures related to the sale of facilities, the Company believes that capital contributions will be needed in the second half-year of 2017. The structure and amount of the capital contribution will depend in part on the outcome of commercial negotiations and decision made over the year. A failure to ensure capital contributions will result in uncertainties with respect to the Company's financing situation, which might lead to doubt about the Company's ability to continue its planned activities. The present report is presented on the assumption of a going concern with, in the Management's assessment, realistic alternative options for ensuring the financing in question. At the 2017 Annual Stockholders' Meeting, the Board of Directors will seek a prolongation of the already existing authorisation from the assembled stockholders to execute one or more directed and/or preferred stock issue(s), which might be exercised as part of this process.

Multi-Year Comparisons

Overview of Group's Financial Development

The expenses listed in the multi-year overview have not been translated for the 2014 transition to the K3 rules. (Please refer to K3, p. 35.3 and 35.32.)

	2016	2015	2014	2013
EBITDA, TSEK	-26 261	-24 335	-12 672	-9 323
Equity ratio, %	82,9	81,0	76,4%	46,6%
Operating margin, %	neg	neg	neg.	neg.
Return on invested capital, %	-19,7	-16,0	-11,8%	-9,0%
Interest-bearing liabilities, TSEK	21 418	25 954	32 240	77 023
Basic earnings per share, SEK	-0,49	-0,60	-1,02	-1,13

Please see Note 1 for key figure definitions

Activities subject to authorisation or reporting under the Swedish Environmental Code

The Company's subsidiary Tyre Recycling in Sweden AB conducts activities subject to authorisation or reporting under the Swedish Environmental Code. The reporting obligation/authorisation in question pertains to an environmental permit to operate the plant in Åsensbruk. The activities subject to reporting or authorisation corresponds to 100% of the Group's net revenue.

Proposal for Distribution of Profit

Unrestricted equity as set out in the balance sheet:

Share premium reserve	261 239 775
Retained earnings	-81 124 338
Profit and loss for the year	<u>-33 091 646</u>

147 023 791

The Board of Directors propose that the retained earnings, SEK 147 023 791, be carried over to the next financial year.

Consolidated Profit and Loss Statement	Note	2016	2015
Net revenues	3	205	180
Changes to inventory of products in progress, finished goods, and ongoing work for hire		-65	161
Own work capitalised		-	-
Other operating income		=	<u>232</u>
		140	573
Operating expenses			
Raw materials and consumables		-316	-376
Other external costs	4, 5	-12 570	-11 306
Employee costs	6	-13 515	-13 046
Depreciation, amortization and impairment losses; property, plant and equipment as well as intangible assets	7, 8, 9, 10	-7 038	-1 579
Other operating expenses		=	<u>-180</u>
Total operating expenses		-33 159	-26 487
Operating income		-33 299	-25 914
Profit and loss from financial items			
Other interest income and similar income	11	112	183
Interest costs and similar charges	12	<u>-1 265</u>	<u>-1 607</u>
Total profit and loss from financial items		-1 154	-1 424
Profit and loss after financial items		-34 452	-27 339
Tax on income and loss for the year	13	=	=
Loss for the year		<u>-34 452</u>	<u>-27 339</u>

Consolidated Balance Sheet	Note	31 Dec 2016	31 Dec 2015
Assets			
Fixed assets			
<u>Intangible fixed assets</u>			
Capitalized expenditures for development work	14	48 214	47 505
Concessions, patents, licenses, trademarks, and similar rights	9	4 578	4 380
Acquired goodwill	7	<u>8 533</u>	<u>9 753</u>
		61 325	61 638
<u>Property, plant and equipment</u>			
Machinery and other technical facilities	10	76 237	78 855
Equipment, tools, and installations	8	<u>123</u>	<u>157</u>
		76 360	79 012
<u>Financial fixed assets</u>			
Other non-current securities holdings	15	-	-
Other non-current receivables		<u>2</u>	<u>20</u>
		<u>2</u>	<u>20</u>
Total fixed assets		137 688	140 670
Current assets			
<u>Inventories, etc.</u>			
Raw materials and supplies		49	115
Products in progress		12	22
Finished goods		<u>96</u>	<u>151</u>
		<u>156</u>	<u>288</u>
<u>Current receivables</u>			
Trade receivables		3	-
Tax receivables		249	120
Other current receivables		1 740	593
Prepaid costs and accrued income	16	<u>817</u>	<u>574</u>
		2 809	1 287
<u>Cash and cash equivalents</u>			
		40 315	30 283
Total current assets		<u>43 281</u>	<u>31 858</u>
Total assets		<u>180 969</u>	<u>172 528</u>

Consolidated Balance Sheet	Note	31 Dec 2016	31 Dec 2015
Equity and liabilities			
Equity			
Share capital		4 655	1 862
Other capital contributions		261 742	219 771
Other equity, including profit and loss for the year		<u>-116 308</u>	<u>-81 855</u>
Total equity		150 089	139 778
Non-current liabilities			
	17		
Other liabilities to credit institutions		<u>13 266</u>	<u>18 618</u>
Total non-current liabilities		13 266	18 618
Current liabilities			
Amounts owed to credit institutions		8 152	7 336
Trade payables		2 664	2 465
Other current liabilities		2 646	1 221
Accrued expenditures and prepaid income	18	<u>4 152</u>	<u>3 110</u>
Total current liabilities		17 614	14 132
Total equity and liabilities		<u>180 969</u>	<u>172 528</u>

Consolidated changes in equity

	Note	Capital stock	Other capital contributions	Other equity	Total equity
Opening balance 2015		846	176 136	-54 516	122 466
Profit and loss for the year		-	-	-27 339	-27 339
Rights issues, cash and cash equivalents		1 015	49 764	-	50 780
Expenses related to issue		-	<u>-6 129</u>	-	<u>-6 129</u>
Equity at Dec 31, 2015		1 862	219 771	-81 855	139 778
Profit and loss for the year		-	-	-34 452	-34 452
Fond för utvecklingsavgifter		-	-	1 896	1 896
Balanserad vinst		-	-	-1 896	-1 896
Rights issues, cash and cash equivalents		2 793	49 557	-	52 350
Expenses related to issue		-	<u>-7 586</u>	-	<u>-7 586</u>
Equity at Dec 31, 2016		4 655	261 742	-116 308	150 089

Consolidated Statement of Cash Flows	Note	2016	2015
Operating activities			
Operating profit before financial items		-33 299	-25 914
Adjustments for items not included in cash flows, etc.	22	7 038	1 759
Interest received		112	183
Interest paid		<u>-1 265</u>	<u>-1 607</u>
		-27 415	-25 580
Increase/reduction in inventories		132	-209
Increase/reduction in accounts receivables		-3	7
Increase/reduction in other current receivables		-1 520	-183
Increase/reduction in trade payables		199	1 082
Increase/reduction in other current operating liabilities		<u>2 467</u>	<u>46</u>
Cash flows from ordinary course of business		-26 139	-24 836
Investing activities			
Investments in intangible assets		-2 467	-250
Investments in property, plant and equipment		-1 607	-3 467
Increase/reduction in non-current receivables		<u>18</u>	<u>18</u>
Cash flows from investment activities		-4 056	-3 699
Financing activities			
New rights issue	23	52 350	50 780
Expenses related to issue		-7 586	-6 129
Amortisation of debts		<u>-4 536</u>	<u>-6 286</u>
Cash flow from financing activities		40 227	38 365
Cash flows for the year		10 032	9 828
Cash and cash equivalents at 1 January		<u>30 283</u>	<u>20 455</u>
Cash and cash equivalents at 31 December	24	<u>40 315</u>	<u>30 283</u>

Profit and loss account, parent company	Note	2016	2015
Net revenues	3	4 031	3 201
Operating costs			
Commodities		-	-
Other external costs	4, 5	-33 303	-6 348
Personnel costs	6	-7 252	-5 865
Depreciation, amortization and impairment losses; property, plant and equipment as well as intangible assets	8, 9	-1 594	-360
Other operating expenses		=	<u>-180</u>
Total operating expenses		-42 149	-12 753
Operating profit		-38 118	-9 552
Profit and loss from financial items			
Other interest income and similar profit and loss items	11	107	179
Interest expenses and similar income and loss items	12	<u>-81</u>	<u>-100</u>
Total profit and loss from financial items		26	79
Profit and loss after financial items		-38 092	-9 473
Balance sheet allocations	25	5 000	-20 000
Tax on income and loss for the year	13	=	=
Loss for the year		<u>-33 092</u>	<u>-29 473</u>

Balance sheet, parent company	Note	2016-12-31	2015-12-31
Assets			
Fixed assets			
<u>Intangible fixed assets</u>			
Capitalized expenditures for development work	14	48 164	47 455
Concessions, patents, licenses, trademarks and similar rights	9	<u>4 578</u>	<u>4 380</u>
		52 742	51 835
<u>Property, plant and equipment</u>			
Equipment, tools, and installations	8	123	157
<u>Financial fixed assets</u>			
Shares in subsidiary undertakings	26	36 891	36 891
Other non-current securities holdings	15	-	-
Receivables from group undertakings		31 646	30 999
Other non-current receivables		<u>2</u>	<u>20</u>
		<u>68 538</u>	<u>67 910</u>
Total fixed assets		<u>121 403</u>	<u>119 902</u>
Current assets			
<u>Current receivables</u>			
Current tax receivables		139	71
Other current receivables		1 720	165
Prepaid costs and accrued income	16	<u>442</u>	<u>225</u>
		2 301	461
<u>Cash and cash equivalents</u>			
		36 784	26 808
Total current assets		<u>39 085</u>	<u>27 269</u>
Total assets		<u>160 488</u>	<u>147 171</u>

Balance sheet, parent company	Note	2016-12-31	2015-12-31
Equity and liabilities			
Equity			
<u>Restricted equity</u>			
Share capital		4 655	1 862
Restricted reserves		502	502
		<u>1 896</u>	<u>-</u>
		7 053	2 364
<u>Unrestricted equity</u>			
Share premium reserve			
Profit and loss brought forward		261 240	219 269
Loss for the year		-81 124	-49 756
		<u>-33 092</u>	<u>-29 473</u>
Total equity		<u>147 024</u>	<u>140 040</u>
		154 076	142 404
Non-current liabilities			
Other liabilities to credit institutions	17		
Total non-current liabilities		-	<u>552</u>
		-	552
Current liabilities			
Amounts owed to credit institutions			
Trade payables		552	736
Current tax liabilities		1 630	758
Other current liabilities		1 427	1 112
Accrued expenditures and prepaid income	18	<u>2 803</u>	<u>1 609</u>
Total current liabilities		<u>6 412</u>	<u>4 215</u>
Total equity and liabilities		<u>160 488</u>	<u>147 171</u>

Changes in equity, parent company

	Share Capital*	Reserve- fund	Fund for development costs	Share Premium Reserve	Retained Earnings	Profit & Loss for the period	Total Equity
Equity 2014-12-31	846	502	0	175 634	-21 427	-28 329	127 227
Adjustment of previous years profit & loss	-	-	-	-	-28 329	28 329	-
Profit & Loss for the year	-	-	-	-	-	-29 473	-29 473
Rights issue, cash and cash equivalents	1015	-	-	49 764	-	-	50 780
Expenses related to issue	=	=	=	<u>-6 129</u>	=	=	<u>-6 129</u>
Equity 2015-12-31	1862	502	0	219 269	-49 756	-29 473	142 404
Adjustment of previous years profit & loss	-	-	-	-	-29 473	29 473	-
Profit & Loss for the year	-	-	-	-	-	-33 092	-33 092
Fund for development costs	-	-	1 896	-	-1 896	-	-
Rights issue, cash and cash equivalents	2 793	-	-	49 557	-	-	52 350
Expenses related to issue	=	=	=	<u>-7 586</u>	=	=	<u>-7 586</u>
Equity 2016-12-31	4 655	502	1 896	261 240	-81 125	-33 092	154 076

* The share capital
consists of
116 370 291 shares

Statement of Cash Flows, Parent Company	Note	2016	2015
Operating activities			
Operating profit before financial items		-38 118	-9 552
Adjustments for items not included in cash flows, etc.	22	1 594	540
Interest received		107	179
Interest paid		<u>-81</u>	<u>-100</u>
		-36 497	-8 933
Increase/reduction in other current receivables		-1 840	-41
Increase/reduction in trade payables		872	497
Increase/reduction in other current operating liabilities		<u>1 509</u>	<u>-13</u>
Cash flows from ordinary course of business		-35 956	-8 491
Investment activities			
Investments in intangible assets		-2 467	-250
Investments in property, plant and equipment		-	-
Changes in non-current receivables		<u>4 373</u>	<u>-24 909</u>
Cash flows from investment activities		1 906	-25 158
Financing activities			
New rights issue	23	52 350	50 780
Expenses related to issue		- 7 586	-6 129
Amortisation of debts		<u>-736</u>	<u>-1 336</u>
Cash flow from financing activities		44 028	43 315
Cash flows for the year		9 977	9 666
Cash and cash equivalents at 1 January		<u>26 808</u>	<u>17 143</u>
Cash and cash equivalents at 31 December	24	<u>36 784</u>	<u>26 808</u>

Joint Notes for Parent Company and Group

Note 1 Accounting Recognition and Measurement Principles

General Accounting Principles

Scandinavian Enviro System AB's annual accounts and consolidated financial statements are presented in accordance with the Swedish Annual Accounts Act (årsredovisningslagen) and the Swedish Accounting Standards Board's (Bokföringsnämnden) BFNAR Standard 2012:1 *Annual Accounts and Consolidated Financial Statements [Årsredovisning och koncernredovisning]* (K3).

This year's accounting principles remain unchanged from last year with exception for an addition of a fund in restricted equity for balanced development costs.

Foreign Currencies

Receivables and liabilities in foreign currencies are valued at the prevailing rate on the reporting date. Foreign currency transactions are translated into the spot exchange rate prevailing on the day of the transaction.

Revenue

Goods

The sale of goods is recognised once material risks and benefits are transferred from seller to buyer under the relevant terms of sale. Sales are recognised less value-added tax and rebates.

Service Engagements

For future service engagements at fixed prices, income and expenses attributable to a performed service engagement are recognised as revenues or expenses, respectively, in relation to the engagement's stage of completion at the reporting date (percentage-of-completion method). The stage of completion for an engagement is determined by comparing any accrued expenses at the reporting date with estimated total expenses. In the event that an engagement cannot be reliably estimated, revenues are recognised only to the extent they correspond to the incurred contract expenses that are likely to be recoverable. An expected loss on an engagement is recognised immediately as an expense.

For cost-plus service engagements, income that is attributable to a performed service engagement is recognised as revenue in step with the completion of the work in question and materials supplied or consumed.

Other Types of Revenues

Future income from royalties is usually based on revenues generated by the facility that is based on the Company's patent. The income is recognised in accordance with the substance of the relevant agreement.

Interest income is recognised in accordance with the effective interest method.

Tax on Income

Current taxes are measured using the tax rates and tax rules that apply at the reporting date. Deferred taxes are measured applying the tax rates and tax rules that were enacted before the reporting date.

Deferred taxes related to temporary differences attributable to investments in subsidiaries are not recognized in the consolidated accounts, since the parent company, in any event, has the capacity to manage the date for the reversal of temporary differences, and it is not deemed probable that a reversal will occur within the near future.

Deferred tax assets related to loss carry forwards or unused tax credits are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

Assets and liabilities are netted only when there is a legally enforceable right to set off.

Intangible Assets

Intangible fixed assets are recognised at acquisition value less accumulated amortisation and impairment losses. Depreciation and amortisation are performed on a straight-line basis across the anticipated useful life.

The capitalisation model is applied for internally generated intangible assets. The amortisation period for internally generated intangible fixed assets is 10 years. The asset is depreciated as of quarter 4, 2016.

Goodwill is amortised on a straight-line basis across the asset's estimated useful life. At the parent company's 2013 acquisition of BSIP Innovation AB, the total right to future income from royalties from plant sales was transferred to Scandinavian Enviro Systems AB. The goodwill that arose from the acquisition is being amortised over 10 years.

Property, plant and equipment

Property, plant and equipment are recognised at acquisition value less amortisation. The acquisition cost includes expenses that are directly attributable to the acquisition of the asset. If a component of a fixed asset is substituted, any remaining part of the old component is disposed of and the new component's acquisition value is capitalised. Subsequent costs related to assets not divided into components are added to the acquisition value if they are estimated to accrue future financial benefits to the company to the extent that the asset's performance increases in relation to the asset's value at the time of acquisition.

Expenses related to ongoing repairs and maintenance are recognised as costs.

Capital gains or losses from the disposal of a fixed asset are recognised as 'Other operating income' or 'Other operating costs', respectively.

Property, plant and equipment are impaired and depreciated systematically over the relevant asset's estimated useful life. When the assets' depreciable amount is taken into account, the asset's residual value is considered where appropriate. The straight-line method is used for other types of fixed assets.

The following depreciation periods are applied:

Machinery and other technical plants	5-15 years
Equipment, tools, and installations	5-15 years

As of quarter 4, depreciation has been initiated for the plant. Depreciation is made according to the so called component method, which is in accordance with the rules in K3.

No borrowing costs are capitalised.

Impairment of Non-Financial Assets

When there is indication that an asset's value has decreased, the need for impairment is tested. If the asset has a recoverable value that is lower than its recognised value, it is impaired to its recoverable value. In determining impairment need, assets with identifiable cash flows (cash-generating units) are classified at the lowest levels. On each reporting date, a test is performed to determine if a reversal should be performed for assets other than previously impaired goodwill.

Impairment losses and reversals of impairments in the function where the asset is in use are recognised in the profit and loss statement.

Lease Agreements

All the Group's lease agreements where the Company is listed as the Lessee are classified as operational leasing (lease agreements). Lease payments are recognised as cost on a straight-line basis over the term of the lease.

Financial Instruments

Financial instruments recognised in the balance sheet include trade receivables and other receivables, trade payables and loans payable. Such instruments are recognised in the balance sheet once the Company becomes a party to the instrument's contractual terms and conditions. Financial instruments are removed from the balance sheet once the right to receive cash flows from the instrument has expired or been transferred and the Group has largely transferred all risks and benefits associated with ownership. Financial liabilities are eliminated from the balance sheet once they are regulated or otherwise settled.

Trade Receivables and Other Receivables

Receivables are recognized as current assets with the exception of line items with a due date in excess of 12 months after the reporting date, which are classified as fixed assets. Receivables are recognised in the amounts at which they are expected to be deposited, less any doubtful allowances on receivables.

Loan Payables and Trade Payables

Loan payables and trade payables are initially recognised at the acquisition value, less any transaction costs. If the recognised amount differs from the amount for repayment at the due date, the balance is amortised as an interest charge over the term of the loan at the instrument's effective interest rate. This reconciles the recognised and the repayment amounts.

Impairment Testing of Financial Fixed Assets

At each reporting date, Scandinavian Enviro Systems AB (publ) makes a determination whether there is any indication of an impairment need in any of the financial fixed assets. An impairment is performed if the impairment loss is determined to be permanent. Impairments are recognised under the profit and loss statement item 'Profit and loss from other securities and receivables that are fixed assets.' The impairment need is tested individually for stocks and shares and other individual major financial fixed assets. Examples of impairment need indications would include negative financial circumstances or unfavourable changes in industry terms in companies in whose stocks Scandinavian Enviro Systems AB (publ) has invested. Impairment of assets valued at amortised cost is calculated as the difference between the asset's recognised value and the current value of the management's best estimate of future cash flows discounted by the asset's original effective interest rate. If shares are impaired, the impairment amount is recognised as the difference between the recognised value and the highest of the fair value less sales costs and the present value of future cash flows (which is based on the best assessment of the company management).

Stocks and Shares in Subsidiary Undertakings

Stocks and shares in subsidiary undertakings are recognised at their present value, less any impairments. The acquisition value includes the purchase price paid for the stocks as well as the acquisition costs.

Inventories

Inventory is assessed according to the provisions set out in the Swedish Income Tax Act [inkomstskattelagen] at the lowest of 97 per cent of the acquisition value and the net sales value. Cut tyres and LPG storage intended for use in production as well as produced oil are considered a homogeneous group of goods and they are therefore assessed collectively.

The acquisition value is determined using the first-in, first-out method (FIFU). For raw materials, all expenses are included in the acquisition value directly attributable to the acquisition of the goods. For work in progress and finished products, the acquisition value includes raw materials, direct labour, as well as other direct production costs.

Reporting for Branches of Activities and Geographic Markets

The Group's branches of activities are comprised of sales of facilities, services, and products. The sale of facilities can, in principle, take place globally and will generate revenues from both construction costs for facilities as well as revenue from royalties based on a percentage rate of the revenues of the constructed facility. Service and training, etc. will also be offered as sales of services for installed facilities. Production and product sales of reclaimed carbon black, oil, and steel will take place in facilities operated under the Company's auspices, which in the current situation means the plant in Åsensbruk. The Company is not yet operating with geographic market segmentations.

Statement of Cash Flows

The cash flow statement is presented applying the indirect method. Recognised cash flows include only transactions that entail outgoing or incoming payments. Restricted bank balances are recognised as cash or cash equivalents. Changes in bank balances will therefore not affect the cash flow statement but will be disclosed separately in Note 24.

Reclassifications

In accordance with the rules of K# a fund for balanced development costs has been created. The value of the fund equals the book value of the balanced development costs that have been added as of 2016. No other reclassifications have been made.

Company's Ability to Continue as a Going Concern

The Company's activities require financing which, in the short term, operations alone will not be able to cover. Financing of the business therefore depends on – and is assessed to be guaranteed through – either a directed issue or an issue with preferential rights of stocks and warrants, which will be conducted through the authorization of the board or through a proposal for adoption at an extraordinary stockholders' meeting in 2017.

Parent Company's Accounting Principles

The same accounting and assessment principles are applied to the parent company as are applied to the Group, in addition to those specified below.

Balance Sheet Allocations

Group contributions are recognised as balance sheet allocations. A group contribution paid to a subsidiary undertaking is recognised as a charge and reduces the parent company's results for the period.

Stocks in Subsidiary Undertakings

Stocks in subsidiary undertakings are recognised at their acquisition value less any impairments. Conditional stockholder contributions are added to the acquisition value upon payment.

Key Figure Definitions

Solvency Ratio

Equity and untaxed reserves (less deferred taxes) in relation to the balance sheet total.

Operating Margin

Operating profit from net revenues.

Return on Capital Employed

Profit and loss after financial items plus interest charges in relation to the average capital employed, where capital employed consists of equity and interest-bearing liabilities.

Note 2 Estimates and Assessments

Scandinavian Enviro Systems makes estimates and assessments about the future that from an accounting perspective are material to the assessment of the Group's assets. Asset impairment tests are performed based on the cash flows that are expected to be generated in the future.

The assessment of the Group's intangible assets is based on the Group's sale of plant with associated returns. The underlying assumptions for the assessment is that sales of facilities are completed during 2017 and that continuous sales of facilities take place over the next years. The assumptions are ultimately based on existing market conditions with respect to volumes and the lack of alternative recycling solutions for end-of-life tyres combined with the profitability provided by the Company's processes.

Asset impairment tests are performed based on the future cash flows that they are expected to generate. As of 2016, the subsidiary undertaking Tyre Recycling in Sweden AB receives a marketing and sales contribution from the parent company of MSEK 25.0. The purpose of the contribution is to cover the additional expenses that the Company will incur in combination with the parent company's activities related to the sale of facilities. An impairment test, where this contribution was included, has been performed and resulted in positive future cash flows.

The assessment of the Company's plant in Åsensbruk will be performed based on its entering into service in 2016 and that the products that are being produced can be sold. The assessment includes a wide variety of estimates where the most important ones relate to the plant's capacity, capacity utilisation and its rate of yield. Since the plant has only been entered into limited service, this can be considered an uncertainty factor.

A condition to the realisation of the Company's sales projections is also that all the products that are produced during the process will attain a continued level of market acceptance at the customer level.

A condition for realising the Group's overall sales plans is also that all the products that are projected to be produced in the process will achieve market acceptance at the customer level. Until the conducted customer tests are accepted, the assessment is subject to uncertainty.

In order to ensure a going concern, future investment needs, and the participation in any joint ventures related to the sale of facilities, the Company believes that capital contributions will be needed in the second half-year of 2016. The structure and amount of the capital contribution will depend in part on the outcome of commercial negotiations and decision made over the year. A failure to ensure capital contributions will result in uncertainties with respect to the Company's financing situation, which might lead to doubt about the Company's ability to continue its planned activities. The present report is presented on the assumption of a going concern with, in the Management's assessment, realistic alternative options for ensuring the financing in question. At the 2017 Annual Stockholders' Meeting, the Board of Directors will seek authorisation from the assembled stockholders to execute one or more directed and/or preferred stock issue(s), which might be exercised as part of this process.

Note 3 Net Revenue Allocation by Branches of Activities

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net revenues are distributed by branches of activities as follows:				
Product sales	205	171	-	-
Sales of facilities	-	-	-	-
Other revenues	-	9	-	9
Revenues from services	-	-	<u>4 031</u>	<u>3 192</u>
Total	205	180	4 031	3 201

Note 4 Auditor compensation

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<u>PwC</u>				
Audit engagement	-104	-105	-73	-86
Tax consultancy services	-33	-45	-33	-45
Other services	<u>-303</u>	<u>-233</u>	<u>-303</u>	<u>-127</u>
Total	-440	-383	-409	-258

Note 5 Operating Leases

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Future payable minimum lease payments for non-cancellable leases:				
Amounts coming due for payment within 1 year	-1 444	-1 412	-134	-130
Amounts coming due for payment later than 1 but no later than 5 years	<u>-2 942</u>	<u>-182</u>	<u>-212</u>	<u>-76</u>
	-4 386	-1 594	-346	-206
Lease payments recognised as an expense for the period				
	-1 518	-1 484	-143	-130

In the consolidated statements, operational leasing consists of leased properties/premises. The lease agreement for the Swedish factory property expires on January 31, 2020. The lease agreement for the office at Regnbågsgatan, Gothenburg, expires on July 31, 2018.

Note 6 Wages, Other Compensation, and Social Security Contributions

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Average number of employees				
Women	1	1	1	1
Men	<u>17</u>	<u>18</u>	<u>5</u>	<u>4</u>
Total	18	19	6	5
Wages, compensation, social contributions, and retirement benefit costs				
Wages and other compensation	10 051	10 072	5 563	4 855
Social contributions	3 010	2 861	1 595	1 273
Retirement plan contributions	<u>1 052</u>	<u>1 320</u>	<u>808</u>	<u>1 079</u>
Total	14 113	14 253	7 966	7 207
<u>Board of Directors, CEO, and Management</u>				
Wages and other compensation	5 582	5 085	5 078	4 595
Retirement plan contributions	792	1 103	749	1 061
<u>Other employees</u>				
Wages and other compensation	4 469	4 648	424	260
Retirement plan contributions	260	217	59	19

Of the parent company's retirement plan contributions, TSEK 749 (1 061) pertains to the Company's management of 6 (5) personer. Of the Group's retirement plan contributions TSEK 792 (1 103) pertains to the Company's management of 7 (6) persons.

Of the Group's wage costs, directors' remuneration is recognised as 'Other external charges' at TSEK 778 (659) for the Company's Board of Directors of 7 (7) persons.

The following individuals have received compensation

Thomas Sörensson, CEO, started 160215, TSEK 853 and pension contribution of TSEK 177
 Martin Hagbyhn, former CEO, stopped 160331, TSEK 645 (1 215) and pension contribution of TSEK 73 (292)
 Stig-Arne Blom, oard chairman TSEK 176 (210)
 Bengt Andersson, board member TSEK 105 (105)
 Mikael Fryklund, board member TSEK 105 (70)
 Anders Ilstam, board member TSEK 88 (88)
 Lennart Persson, board member TSEK 88 (88)
 Johanna Stenman, board member TSEK 105 (105); stopped 2017-02-27
 Stefan Tilk, board member TSEK 105 (70)
 Rest of Management TSEK 2 543 (2 393) and pension contribution of TSEK 458 (302), concerning 4 (4) persons

Agreements for severance pay

An agreement has been entered into with the chief executive officer for severance pay for 12 months' salary in the event of involuntary termination. No severance pay has or will be paid to Martin Hagbyhn in connection with his leaving his office as chief executive officer of the Company in the spring 2016, since this occurred at his own request.

Board directors and senior executives

Number at board directors at the reporting date

	Group		Parent Company	
	2016	2015	2016	2015
Women	1	1	1	1
Men	<u>7</u>	<u>7</u>	<u>6</u>	<u>6</u>
Total	8	8	7	7

The number of chief executive officers and other senior executives

	2016	2015	2016	2015
Women	1	1	1	1
Men	<u>5</u>	<u>5</u>	<u>4</u>	<u>4</u>
Total	6	6	5	5

Note 7 Goodwill

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Opening acquisition value	12 191	12 191	-	-
Changes over the year				
Closing accumulated acquisition value	12 191	12 191	0	0
Opening balance impairments	-2 438	-1 219	-	-
Changes over the year				
– Impairments	<u>-1 219</u>	<u>-1 219</u>	<u>-</u>	<u>-</u>
Closing accumulated impairment losses	-3 657	-2 438	0	0
Closing residual value as planned	<u>8 533</u>	<u>9 753</u>	<u>0</u>	<u>0</u>

Note 8 Equipment, tools, and installations

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Opening acquisition value	368	368	368	368
Changes for the year				
– Purchases	=	=	=	=
Closing accumulated acquisition value	368	368	368	368
Opening impairments	-210	-177	-210	-177
Changes over the year				
– Impairments	<u>-35</u>	<u>-33</u>	<u>-35</u>	<u>-33</u>
Closing accumulated impairment losses	-245	-210	-245	-210
Closing residual value as planned	<u>123</u>	<u>157</u>	<u>123</u>	<u>157</u>

Note 9 Concessions, Patents, Licenses, Trademarks, and Similar Rights

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2015</u>
Opening acquisition value	5 742	5 717	5 742	5 717
Capitalised costs, purchases for the year	572	250	572	250
Sales and disposals	=	<u>-225</u>	=	<u>-225</u>
Closing accumulated acquisition value	6 313	5 742	6 313	5 742
Opening impairments	-1 362	-1 081	-1 362	-1 081
Sales and withdrawals from services	-	45	-	45
Depreciations for the year	<u>-373</u>	<u>-326</u>	<u>-373</u>	<u>-326</u>
Closing accumulated impairment losses	-1 735	-1 362	-1 735	-1 362
Closing residual value as planned	<u>4 578</u>	<u>4 380</u>	<u>4 578</u>	<u>4 380</u>

Note 10 Machinery and Other Technical Installations

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Opening acquisition value	78 854	75 387	-	-
Changes for the year				
Purchases	1 607	3 467	-	-
– Sales and disposals	<u>-2 860</u>	=	=	=
Closing accumulated acquisition value	77 601	78 854	-	-
Closing residual value as planned	<u>77 601</u>	<u>78 854</u>	=	=
	-	-	-	-

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Opening depreciations				
Sales and write-downs	-	-	-	-
Depreciation of the year	<u>-1 364</u>	-	-	-
Closing accumulated depreciations	<u>-1 364</u>	-	-	-
Closing residual value as planned	<u>76 237</u>	=	=	=

Note 11 Other interest earnings and similar profit and loss items

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Interest earnings	<u>112</u>	<u>183</u>	<u>107</u>	<u>179</u>
Total	<u>112</u>	<u>183</u>	<u>107</u>	<u>179</u>

Note 12 Interest charges and similar profit and loss items

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Other interest charges and similar profit and loss items	<u>-1 265</u>	<u>-1 607</u>	<u>-81</u>	<u>-100</u>
Total	<u>-1 265</u>	<u>-1 607</u>	<u>-81</u>	<u>-100</u>

Note 13 Tax on Profit and Loss for the Year

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Tax on income and loss for the year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net profit and loss before tax	-34 452	-27 339	-33 092	-29 473
Tax based on current tax rate (22%)	7 579	6 015	7 280	6 484
Tax effect of non-deductible costs	-16	-281	-10	-7
Tax effect of deductible costs recognised in equity	1 669	1 348	1 669	1 348
Loss carry forwards not recognised	<u>-9 233</u>	<u>-7 083</u>	<u>-8 939</u>	<u>-7 825</u>
Tax costs	=	=	=	=

The parent company as well as companies within the group have accumulated carry forwards of unused tax losses. For the tax year 2016, loss carry forwards stood at TSEK 137 165 (95 948) for the group and at TSEK 132 913 (91 812) for the parent company. Owing to historical results, no deferred tax assets relating to tax loss carry forwards were reported. The underlying value of the deferred taxes attributable to these losses stood at TSEK 30 176 (21 108) for the group and at TSEK 29 241 (20 199) for the parent company.

Note 14 Capitalized Expenditures for Development Work

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Opening acquisition value	47 505	47 505	47 455	47 455
Capitalised expenses, internal development, for the year	1 896	-	1 896	-
Through acquisition from subsidiary undertakings	-	-	-	-
Closing accumulated acquisition value	<u>49 401</u>	<u>47 505</u>	<u>49 351</u>	<u>47 455</u>
Closing residual value as planned	<u>49 401</u>	<u>47 505</u>	<u>49 351</u>	<u>47 455</u>
Opening depreciations	-	-	-	-
Sales and write-downs	-	-	-	-
Depreciation of the year	<u>-1 186</u>	-	<u>-1 186</u>	-
Closing accumulated depreciations	<u>-1 186</u>	-	<u>-1 186</u>	-
Closing residual value as planned	<u>48 214</u>	<u>47 505</u>	<u>48 164</u>	<u>47 455</u>

The amortisation period for capitalised expenditures is 10 years. This is because the Company expects that the expenses that are capitalised will generate added value that is greater than this period. The amortisation period is also motivated by the Company's intellectual property protection from a broader perspective, as reflected by the Company's patents to which these expenses are partly linked and in essence extends over a longer period than that.

Note 15 Financial fixed assets

At 31 December 2015, the parent company held a share recognised at a value of SEK 50 in the company Däcktrusten AB, 556914-0154, corresponding to an ownership interest of 0.1%. Däcktrusten AB is otherwise held by related persons of the Company. See also Note 21. On 12 December 2016, Däcktrusten AB was assigned to Bengt Sture Ershag by the existing owners.

Note 16 Prepaid costs and accrued earnings

	Group		Parent Company	
	<u>2016-12-31</u>	<u>2015-12-31</u>	<u>2016-12-31</u>	<u>2015-12-31</u>
Prepaid rent	367	364	33	33
Accrued interest income	-	-	-	-
Other items	<u>450</u>	<u>210</u>	<u>409</u>	<u>192</u>
	<u>817</u>	<u>574</u>	<u>442</u>	<u>225</u>

Note 17 Non-current liabilities

	Group		Parent Company	
	<u>2016-12-31</u>	<u>2015-12-31</u>	<u>2016-12-31</u>	<u>2015-12-31</u>
Non-current liabilities come due for payment according to the following:				
<u>Amounts owed to credit institutions</u>				
From 1 to 5 years	<u>13 266</u>	<u>18 618</u>	-	<u>552</u>
Total	13 266	18 618	-	552

Note 18 Accrued costs and prepaid earnings

	Group		Parent Company	
	<u>2016-12-31</u>	<u>2015-12-31</u>	<u>2016-12-31</u>	<u>2015-12-31</u>
Accrued interest costs	35	50	2	5
Accrued vacation pay	920	1 055	399	478
Accrued social security payments	508	539	238	234
Other items	<u>2 689</u>	<u>1 466</u>	<u>2165</u>	<u>892</u>
Total	<u>4 152</u>	<u>3 110</u>	<u>2 803</u>	<u>1 609</u>

Note 19 Security pledged

	Group		Parent Company	
	<u>2015-12-31</u>	<u>2015-12-31</u>	<u>2015-12-31</u>	<u>2015-12-31</u>
För egna avsättningar och skulder				
For own provisions and liabilities				
Related to amounts owed to credit institutions	39 350	39 350	-	-
Encumbrances	<u>2 768</u>	<u>2 722</u>	<u>93</u>	<u>50</u>
Restricted funds	<u>42 118</u>	<u>42 072</u>	<u>93</u>	<u>50</u>

Out of booked patents of a total of TSEK 2,615, some have been pledged on the subsidiary's behalf..

Note 20 Contingent Liabilities

	Group		Parent Company	
	<u>2016-12-31</u>	<u>2015-12-31</u>	<u>2016-12-31</u>	<u>2015-12-31</u>
Contingent liabilities				
Sureties for subsidiary undertakings	-	-	<u>19 450</u>	<u>20 250</u>
Total contingent liabilities	<u>0</u>	<u>0</u>	<u>19 450</u>	<u>20 250</u>

Note 21 Transactions with related parties

Transactions with related parties carried out on other than market terms

No transactions were carried out with related parties during the year.

	<u>2016</u>	<u>2015</u>
Sales to group companies		
The share of purchases and sales related to group companies is listed below.		
Purchases (%)	-	75
Sales (%)	100	100
	-	-
Loans to group companies	-	-
Loans to Tyre Recycling in Sweden AB		
Opening balance	30 996	26 069
Additional loans	650	24 927
Amortisation	-	<u>-20 000</u>
Closing balance	<u>31 646</u>	<u>30 996</u>

The loan to Tyre Recycling in Sweden AB is interest-free and has no fixed repayment term.

Loans and liabilities benefitting senior executives

The Company has extended a loan of TSEK 20 (38) to Olov Ershag, member of the management of Scandinavian Enviro Systems AB (publ). The loan was provided in 2012 as part of the establishment of Däcktrusten AB and is amortised over 5 years bearing interest at STIBOR 3 months plus 3%. TSEK 18 (18) was amortised over the year.

Outstanding stock options to related parties

No new stock options have been issued over the year to related parties. A previous issue by the company Däcktrusten AB that holds warrants entitling holders to subscribe for the equivalent of 579,335 shares with an exercise price of SEK 11.65 and the right to subscribe from 15 January to 15 March 2017. The subscription was not completed and the company was sold to one of the shareholders on 31 December 2016. Däcktrusten was held directly or indirectly by board chairman Stig-Arne Blom, former CEO Martin Hagbyhn as well as the present members of the executive management group Bengt-Sture Ershag and Olov Ershag.

Other

The separate notes contain disclosures related to

- wages, etc. for the board of directors and CEO
- security pledged for group undertakings
- contingent liabilities for group undertakings
- KL Ventures AB and H Andersson Recycling AB have made a guarantee on 50% of a loan that the parent company has in SEB. The size of the loan was TSEK 552 at 2016-12-31.

Note 22 Adjustments for items not included in the cash flow, etc.

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Depreciations	-4 178	-1 579	-1 594	-360
Disposals	<u>-2 860</u>	<u>-180</u>	=	<u>-180</u>
Total adjustments	<u>-7 038</u>	<u>-1 759</u>	<u>-1 594</u>	<u>-540</u>

Note 23 Transactions Related to Investment and Financing Activities with No Effect on Cash Flows

No transactions with any effect on cash flows were carried out this year.

Note 24 Cash and Cash Equivalents

	Group		Parent Company	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Cash at bank	<u>40 315</u>	<u>30 283</u>	<u>36 784</u>	<u>26 808</u>
Cash and cash equivalents in cash flow statement	<u>40 315</u>	<u>30 283</u>	<u>36 784</u>	<u>26 808</u>

TSEK 2 768 tkr (2 722 tkr) of the Group's cash at bank consists of TSEK 93 tkr (50 tkr) in restricted bank balances.

Note 25 Balance Sheet Allocations

	<u>2016</u>	<u>2015</u>
Paid group contributions	=	<u>-20 000</u>
Received group contributions	<u>5 000</u>	=
Total	<u>5 000</u>	<u>-20 000</u>

Note 26 Shares in Group Undertakings

	<u>2016</u>	<u>2015</u>
Opening acquisition value	<u>36 891</u>	<u>36 891</u>
Closing accumulated acquisition value	36 891	36 891
Closing residual value as planned	<u>36 891</u>	<u>36 891</u>

<u>Group</u>	<u>Org no</u>	<u>HQ</u>	<u>Capital share (%)</u>
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Tyre Recycling in Sweden AB	556784-1787	Göteborg	100,0
SES IP AB	556894-0695	Göteborg	100,0
BSIP Innovation AB	556950-7469	Piteå	100,0

Parent company	Capital share %	Voting share %	Number of shares	Equity	Book Value 16-12-31	Book Value 15-12-31
Tyre Recycling in Sweden AB	100	100	1 000 000	24 285	24 600	24 600
SES IP AB	100	100	500	38	50	50
BSIP Innovation AB	<u>100</u>	<u>100</u>	<u>100</u>	<u>47</u>	<u>12 241</u>	<u>12 241</u>
Summa				<u>24 370</u>	<u>36 891</u>	<u>36 891</u>

The present Statement of Profit and Loss and Balance Sheet will be presented at the Annual Stockholders' Meeting on May 4, 2017, for approval.

Gothenburg April 10, 2017

Thomas Sörensson
VD

Stig-Arne Blom
Ordförande

Bengt-Göran Andersson

Mikael Fryklund

Alf Blomqvist

Anders Ilstam

Lennart Persson

Stefan Tilk

Peter Möller

Our auditor's report was submitted on _____ – ____ – ____ and deviates from the standard form.

PricewaterhouseCoopers AB

Johan Palmgren
Certified Public Accountant

Revisionsberättelse

Till bolagsstämman i Scandinavian Enviro Systems AB (publ), org.nr 556605-6726

Rapport om årsredovisningen och koncernredovisningen

Uttalanden

Vi har utfört en revision av årsredovisningen och koncernredovisningen för Scandinavian Enviro Systems AB för år 2016. Bolagets årsredovisning och koncernredovisning ingår på sidorna 1-4 och 7-34 i detta dokument.

Enligt vår uppfattning har årsredovisningen och koncernredovisningen upprättats i enlighet med årsredovisningslagen och ger en i alla väsentliga avseenden rättvisande bild av moderbolagets och koncernens finansiella ställning per den 31 december 2016 och av dessas finansiella resultat och kassaflöde för året enligt årsredovisningslagen.

Förvaltningsberättelsen är förenlig med årsredovisningens och koncernredovisningens övriga delar.

Vi tillstyrker därför att bolagsstämman fastställer resultaträkningen och balansräkningen för moderbolaget och koncernen.

Grund för uttalanden

Vi har utfört revisionen enligt International Standards on Auditing (ISA) och god revisionssed i Sverige. Vårt ansvar enligt dessa standarder beskrivs närmare i avsnittet Revisorns ansvar. Vi är oberoende i förhållande till moderbolaget och koncernen enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Annan information än årsredovisningen och koncernredovisningen

Detta dokument innehåller även annan information än årsredovisningen och koncernredovisningen och återfinns på sidorna 5-6. Det är styrelsen och verkställande direktören som har ansvaret för denna andra information.

Vårt uttalande avseende årsredovisningen och koncernredovisningen omfattar inte denna information och vi gör inget uttalande med bestyrkande avseende denna andra information.

I samband med vår revision av årsredovisningen och koncernredovisningen är det vårt ansvar att läsa den information som identifieras ovan och överväga om informationen i väsentlig utsträckning är oförenlig med årsredovisningen och koncernredovisningen. Vid denna genomgång beaktar vi även den kunskap vi i övrigt inhämtat under revisionen samt bedömer om informationen i övrigt verkar innehålla väsentliga felaktigheter.

Om vi, baserat på det arbete som har utförts avseende denna information, drar slutsatsen att den andra informationen innehåller en väsentlig felaktighet, är vi skyldiga att rapportera detta. Vi har inget att rapportera i det avseendet.

Upplysning av särskild betydelse

Utan att det påverkar våra uttalanden ovan vill vi fästa uppmärksamheten på skrivningen i förvaltningsberättelsen i årsredovisningen och koncernredovisningen av vilken framgår att bolaget för att klara likviditeten under 2017 planerar en nyemission. Denna är som framgår av förvaltningsberättelsen ännu inte säkerställd. Detta förhållande tyder på att det finns en osäkerhetsfaktor som kan leda till betydande tvivel om företagets förmåga att fortsätta verksamheten.

Styrelsens och verkställande direktörens ansvar

Det är styrelsen och verkställande direktören som har ansvaret för att årsredovisningen och koncernredovisningen upprättas och att de ger en rättvisande bild enligt årsredovisningslagen. Styrelsen och verkställande direktören ansvarar även för den interna kontroll som de bedömer är nödvändig för att upprätta en årsredovisning och koncernredovisning som inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller på fel.

Vid upprättandet av årsredovisningen och koncernredovisningen ansvarar styrelsen och verkställande direktören för bedömningen av bolagets och koncernens förmåga att fortsätta verksamheten. De upplyser, när så är tillämpligt, om förhållanden som kan påverka förmågan att fortsätta verksamheten och att använda antagandet om fortsatt drift. Antagandet om fortsatt drift tillämpas dock inte om styrelsen och verkställande direktören avser att likvidera bolaget, upphöra med verksamheten eller inte har något realistiskt alternativ än att göra något av detta.

Revisorns ansvar

Våra mål är att uppnå en rimlig grad av säkerhet om huruvida årsredovisningen och koncernredovisningen som helhet inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller på fel, och att lämna en revisionsberättelse som innehåller våra uttalanden. Rimlig säkerhet är en hög grad av säkerhet, men är ingen garanti för att en revision som utförs enligt ISA och god revisionssed i Sverige alltid kommer att upptäcka en väsentlig felaktighet om en sådan finns. Felaktigheter kan uppstå på grund av oegentligheter eller fel och anses vara väsentliga om de enskilt eller tillsammans rimligen kan förväntas påverka de ekonomiska beslut som användare fattar med grund i årsredovisningen och koncernredovisningen.

En ytterligare beskrivning av vårt ansvar för revisionen av årsredovisningen och koncernredovisningen finns på Revisorsinspektionens webbplats:
www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf.
Denna beskrivning är en del av revisionsberättelsen.

Rapport om andra krav enligt lagar och andra författningar

Uttalanden

Utöver vår revision av årsredovisningen och koncernredovisningen har vi även utfört en revision av styrelsens och verkställande direktörens förvaltning för Scandinavian Enviro Systems AB för år 2016 samt av förslaget till dispositioner beträffande bolagets vinst eller förlust.

Vi tillstyrker att bolagsstämman disponerar vinsten enligt förslaget i förvaltningsberättelsen och beviljar styrelsens ledamöter och verkställande direktören ansvarsfrihet för räkenskapsåret.

Grund för uttalanden

Vi har utfört revisionen enligt god revisionssed i Sverige. Vårt ansvar enligt denna beskrivs närmare i avsnittet Revisorns ansvar. Vi är oberoende i förhållande till moderbolaget och koncernen enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Styrelsens och verkställande direktörens ansvar

Det är styrelsen som har ansvaret för förslaget till dispositioner beträffande bolagets vinst eller förlust. Vid förslag till utdelning innefattar detta bland annat en bedömning av om utdelningen är försvarlig med hänsyn till de krav som bolagets och koncernens verksamhetsart, omfattning och risker ställer på storleken av moderbolagets och koncernens egna kapital, konsolideringsbehov, likviditet och ställning i övrigt.

Styrelsen ansvarar för bolagets organisation och förvaltningen av bolagets angelägenheter. Detta innefattar bland annat att fortlöpande bedöma bolagets och koncernens ekonomiska situation, och att tillse att bolagets organisation är utformad så att bokföringen, medelsförvaltningen och bolagets ekonomiska angelägenheter i övrigt kontrolleras på ett betryggande sätt. Den verkställande direktören ska sköta den löpande förvaltningen enligt styrelsens riktlinjer och anvisningar och bland annat vidta de åtgärder som är nödvändiga för att bolagets bokföring ska fullgöras i överensstämmelse med lag och för att medelsförvaltningen ska skötas på ett betryggande sätt.

Revisorns ansvar

Vårt mål beträffande revisionen av förvaltningen, och därmed vårt uttalande om ansvarsfrihet, är att inhämta revisionsbevis för att med en rimlig grad av säkerhet kunna bedöma om någon styrelseledamot eller verkställande direktören i något väsentligt avseende:

- företagit någon åtgärd eller gjort sig skyldig till någon försummelse som kan föranleda ersättningsskyldighet mot bolaget
- på något annat sätt handlat i strid med aktiebolagslagen, årsredovisningslagen eller bolagsordningen.



Vårt mål beträffande revisionen av förslaget till dispositioner av bolagets vinst eller förlust, och därmed vårt uttalande om detta, är att med rimlig grad av säkerhet bedöma om förslaget är förenligt med aktiebolagslagen.

Rimlig säkerhet är en hög grad av säkerhet, men ingen garanti för att en revision som utförs enligt god revisionssed i Sverige alltid kommer att upptäcka åtgärder eller försummelser som kan föranleda ersättningsskyldighet mot bolaget, eller att ett förslag till dispositioner av bolagets vinst eller förlust inte är förenligt med aktiebolagslagen.

En ytterligare beskrivning av vårt ansvar för revisionen av förvaltningen finns på Revisorsinspektionens webbplats:

www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf.

Denna beskrivning är en del av revisionsberättelsen.

Göteborg den 12 april 2017
PricewaterhouseCoopers AB

Johan Palmgren
Auktoriserad revisor