

# ANNUAL REPORT 2017

SCANDINAVIAN ENVIRO SYSTEMS AB




**enviro**  
SCANDINAVIAN ENVIRO SYSTEMS  
TYRE RECYCLING

# CONTENTS

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.

4	LOOKING BACK ON THE YEAR
6	THE CEO HAS THE FLOOR
8	THE BUSINESS MODEL
11	TECHNOLOGY COMMERCIALIZATION — BASIC DESIGN
12	RESEARCH AND DEVELOPMENT
13	TECHNICAL PROGRESS
14	GROWING GLOBAL MARKET FOR RECYCLING
18	COMPETITORS
19	THE ENVIRO SHARE
20	GROUP MANAGEMENT, BOARD OF DIRECTORS, AUDITOR
	FINANCIAL REPORTS
	<hr/>
24	DIRECTORS' REPORT
26	CONSOLIDATED INCOME STATEMENT
27	CONSOLIDATED BALANCE SHEET
29	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
30	CONSOLIDATED STATEMENT OF CASH FLOWS
31	STATEMENT OF INCOME, PARENT COMPANY
32	BALANCE SHEET OF PARENT COMPANY
34	PARENT COMPANY'S CHANGES IN EQUITY
35	CASH FLOW STATEMENT FOR THE PARENT COMPANY
36	NOTES FOR GROUP AND PARENT COMPANY
47	AUDITOR'S REPORT



“We aim to lead the way internationally in the transition to an environmentally sound way of processing end of life tyres by recovering their valuable materials.”

CEO THOMAS SÖRENISSON

# LOOKING BACK ON THE YEAR

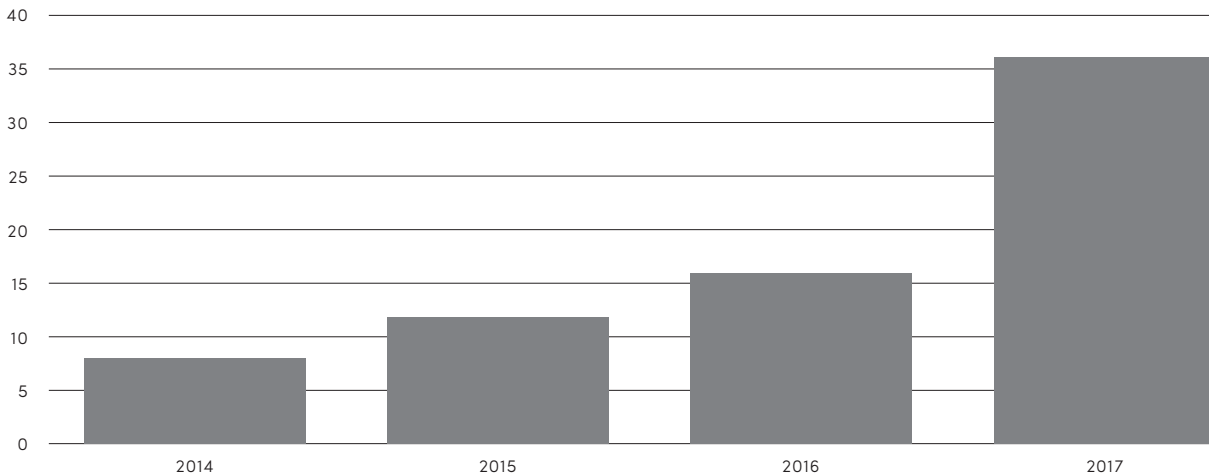
## Significant events

- For the second year in a row, Enviro has delivered high-quality recovered carbon black for use in chassis plugs for Volvo Cars.
- Chinese authority assigns Enviro to complete negotiations with Vanlead Group regarding a tyre recycling plant in Guangdong, China.
- The company has successfully worked together with ÅF in the completion of a Basic Design.
- Together with Wärtsilä it has been concluded that the company's purified pyrolysis oil is of such a high quality that it can be used as fuel in diesel motor-driven power plants.
- MoU with Vanlead Group, a leading Chinese and international tyre manufacturer, for the construction of a plant and cultivation of the Chinese market for additional plant sales.
- Existing MoU with Chile has been extended during the year.
- Commercial deliveries of recovered carbon black for an additional rubber application in a heating, ventilation, and sanitation product at Alvenius Industries.
- Positive response from another leading global tyre producer after tests of the company's recovered carbon black in different rubber compounds.
- The corporation has received bridge financing to a total of 6 MSEK from shareholders and the Board of Directors.

## Significant events after the end of the period

- An order for carbon black from an international tyre manufacturer in Sri Lanka.
- Termination of the current MoU in Chile, which is planned to be replaced by an MoU with a new company.
- The company will receive a further bridge loan of SEK 7.5 million from Pegerco Holding AB, the company's largest owner.
- As earlier reported via a press release the chairman of the board has made his place on the board available per 2018-03-13.
- An MoU has been signed together with ArticCan Energy Service for a plant in Canada.
- The cooperation with Vanlead Group regarding a recycling plant in Guangzhou, China, has been discontinued.
- Enviro has delivered carbon black for usage in more than 40 million chassispluggs at Volvo Cars.

## FAST GROWING INTEREST IN ENVIRO'S TECHNOLOGY



The number of requests regarding Enviro's technology is globally increasing among plant investors.

## THE VALUE OF RECYCLING IS BEING HIGHLIGHTED

Increased producer responsibility is changing the way we look at used tyres, which were previously regarded as waste. This is reflected in the environmental ambitions of tyre manufacturers, including Michelin's targets for 2020:

*Contribute to the development of a circular economy by increasing the percentage of renewable or recycled materials in our tires to 30%. (Michelin ambitions 2013–2020)*

### SCANDINAVIAN ENVIRO SYSTEMS AB

has developed a unique technology for recycling used tyres through pyrolysis, a process which heats up a substance in an oxygen-poor environment and then decomposes it without the occurrence of combustion.

The substances that are recycled from this process are carbon black (charcoal), oil, steel and gas. The company's business concept is to sell plants that can recover these valuable materials via our unique technology.

The company has its own recycling plant in Åsensbruk, Dalsland, which is used as a demonstration, production and testing plant. For two years now, the plant has been delivering recovered carbon black, which is used in the chassis plugs on all Volvo Cars.

The company was founded in 2001, has three basic patents for its recycling process and has been listed on Nasdaq First North in Stockholm since 2014. Today, Enviro has approximately 3,000 shareholders.

# THE CEO HAS THE FLOOR

Development has been good throughout 2017 and we have taken some significant steps in our work toward commercializing our technology for the recycling of end of life tyres. Thanks to our Basic Design – the template design that we produced at the start of the year – we now have a tool for calculating, presenting and implementing plant projects in a more effective way than before. This has facilitated sales and increased the general level of interest, and it is our experience that multiple serious players in the market now want to know more about our technology. We sense a very positive development.

Interest is also growing in our most valuable recovered material, carbon black. Tests from rubber producers indicate that we have a better material in place than our competitors do, and we are now seeing a strong increase in the level of interest from the tyre and rubber industries.

As an example, during 2017 the Chinese tyre manufacturer Guangzhou Vanlead Ecotechnology has approved our material in rubber for new tyres. This recognition has resulted in a general increased interest from the tyre industry. An example of this is that we have had visitors at our plant in Åsensbruk from the development departments from, apart from Vanlead, two of the major tyre manufacturers during the last year.

## CONSIDERABLY INCREASED INTEREST FROM SEVERAL MARKETS

At the beginning of the fourth quarter 2017, we also held in-depth discussions with the Canadian company, ArticCan Energy Services. These discussions resulted in a Memorandum of Understanding (MoU) in the first quarter of 2018. The goal is to build a plant in Canada with the capacity for 30,000 end of life tyres per year.

Development throughout the year has put us in a strong position. We aim to lead the way internationally in the transition to an environmentally sound way of processing end of life tyres by reusing their valuable materials.

During the autumn Enviro won a government tender process issued by Guangzhou Vanlead Ecotechnology, which has strengthened our experience in this type of process. Local legislation delayed the process during the autumn, but the negotiations continued during the spring. Now the customer has concluded that they are not able to receive permits, for handling the flash point of the oil, in line with Enviro's earlier proposal. Here it is important to emphasize that the problem regarding the permits is related to the specific site for the plant, which was chosen by the customer. After this conclusion the parties have agreed to discontinue the cooperation regarding this specific project.

In Chile, we are continuing with another significant project that has been underway for quite some time. This is primarily directed towards solving problems with regards to mining tyres. Our technology has generated a lot of interest amongst those that we are discussing the project with: investors, authorities, the mining industry and tyre importers. Thanks to a contribution of SEK 1.1 million from the government authority CORFO, we have ensured a Basic Design for a plant that meets Chilean requirements. We have made changes to our constellation of collaborative partners over the course of the work. The goal is to sign a new MoU with a partner in this new constellation in the spring of 2018, with a clear time frame for the project.

## GROWING INTEREST IN NORTH AMERICA

With regards to North America, in addition to the discussions that gave way to the ArticCan Energy Services project, we have also received inquiries from several US states, and we notice a general trend toward growing interest across the American market. Since last summer, we have also had a number of visits from an interested party in Mexico, who has ambitions to invest in one or more plants in the northern part of the country. The region is very promising in terms of both the tyre problem and the proximity to extensive need for carbon black.

## EUROPE, MIDDLE EAST, RUSSIA, AFRICA

An authority initiative has driven increased interest from the Turkish market during the autumn in the form of inquiries. We have also established good contacts with interested parties in Iran and have noticed interest in our technology from other countries in the Middle East. Closer to home, there is also interest from Denmark, Great Britain and Poland. We have also made initial contact with operators in Russia.

Interest has once more increased in South Africa, where the collection system for tyres has experienced internal difficulties for a couple of years, and we have engaged in dialog with an operator regarding one or multiple potential projects in the country. Even the large Indian market is showing a lot of interest in our technology and the opportunities for replacing significantly inferior solutions. Furthermore, representatives from a total of ten additional markets have been in contact with us and visited our plant in Åsensbruk.

## ÅSENSBRUK IS IMPORTANT FOR MARKETING PURPOSES

There have been many visits to Åsensbruk during the year, all of them positive. The plant is an important part of the

sales process for new plants. It is verified again and again by our visitors. In addition, we continue to conduct development tests on different types of materials in order to further broaden the range of carbon black, for both our own sales and for future plant investors. One of our goals is to reach a position where we can process materials other than tyres, such as waste from the rubber production process, in order to further increase the rate of recycling in that industry. It gives us a boost to see that all of our visitors are impressed by the plant. Many express how important it is to see for themselves that we are producing consistently high-quality materials for the market.

### GROWING DEMAND FOR CARBON BLACK

As I initially mentioned, our high quality has been confirmed by the positive results that we get when rubber manufacturers evaluate our materials. Several of these companies are also in the process of implementing the material into their internal processes. One example of this is that for the last nine months, we have been supplying recovered carbon black that is used in gaskets for heating, ventilation and sanitation products. We expect that several of our collaborative partners will order material for new applications in spring 2018. At the beginning of the year, we received an initial order for a small volume of carbon black from a global player in the Sri Lankan rubber industry. In this case, the product is to be used for industrial tyres.

### SUPPLYING VOLVO CARS

At the beginning of January 2018, we celebrated two years of supplying AnVa Polytech and Volvo Cars, which is something we are very proud of. To the best of our knowledge, we are still the only company to 100% replace virgin carbon black in rubber components for premium vehicles. Since the start of 2016, well over 40 million components have been supplied to Volvo from AnVa Polytech using our material.

### EXPECTATIONS FOR 2018

Our team will continue to build structural value in the company by further documenting and deepening the completion of our plant design. In addition to shorter lead times in plant sales, this will create concrete value around our technology, and demonstrate how it can be efficiently implemented in the market in a scalable way. In collaboration with Siemens, we have chosen to develop this aspect as part of their COMOS solution. In order to deliver a project of our size, we need strategic partners and suppliers, and in certain cases, we need alternative suppliers for situations where several projects are to be delivered in parallel. We have established further contact with several of these strategic partners and discussed concrete solutions for selected projects. Over the coming year, we believe that it will be necessary to take further steps in this direction as interest in our technology increases. Our



CEO Thomas Sörensson.

goal over time is to be able to focus even more on our core delivery in the projects, and for our partners to take greater responsibility when it comes to more peripheral equipment – something that many of them are very interested in.

I also expect that our collaborations within research and development will start to bear fruit going forward. We have already seen a lot of interest in test results from these collaboration projects, particularly with regards to exciting trends in the area of lightweight materials in vehicles.

### FINANCING

In terms of financing our operations, work continues in the same line as was communicated previously, and the board is continuously reviewing which options are most suitable for the company. We continue to work energetically and with a great deal of optimism on the commercialization of Enviro's operations on the world market, and we are leading the way in the transition towards an environmentally-friendly way of processing the enormous quantity of used tyres that cause both environmental problems, and the loss of valuable materials in markets the world over.

---

THOMAS SÖRENSSON CEO

# THE BUSINESS MODEL

## External value creation streams

### Enviro solves environmental problems

End of life tyres are currently a global environmental problem. This includes chemicals that are secreted from used tyres and leak out into nature, as well as air pollutants associated with fires in tyre stockpiles. Tyre stockpiles are also a breeding ground for different types of pest, including disease-spreading mosquitoes in warmer countries. Within the EU, approximately 50% of all used tyres are incinerated, and the remaining 50% are primarily spread in granulate form over football fields, playgrounds, etc. Enviro's technology makes possible a more efficient recovering option for the substances in the tyre.

### Limiting the use of fossil fuels

Enviro's technology makes it possible to limit the use of fossil fuels. Approximately 1.5–2 kg of crude oil is needed to produce 1 kg of carbon black, which makes up approximately 30% of the tyre's weight. By using recovered carbon black in the production of rubber, instead of newly produced carbon black, around 1.5–2 kg of crude oil is saved for every kg of carbon black produced. That is equivalent to approximately 5 kg of crude oil per passenger car tyre produced. Furthermore, the oil recovered from end of life tyres can be used as fuel oil, and therefore replaces the oil that is currently being taken up out of the ground.

### Contributing to reduced CO<sub>2</sub> emissions

The recovering of carbon black, oil, steel and gas from used tyres results in a significant reduction in CO<sub>2</sub> emissions compared with the production of new equivalent raw materials and products.

### Promoting the recycling of materials

Enviro's unique technology makes it possible for valuable materials in tyres to be extracted and reused for the production of new rubber within the rubber industry.

### Supporting development of the rubber industry towards a circular economy

Thanks to its new technology, Enviro can recover high-quality carbon black that can be reused within the rubber industry, and more specifically, within the automotive industry, for example. This means that by using recovered carbon black

in new production processes, the rubber industry increases its participation in a circular and healthier economy. Many of the biggest rubber manufacturers, including the large tyre manufacturers, state very ambitious targets to, in the near future, use an increased degree of recovered materials in their end products.

## Internal value creation streams

### Plant sales

Our primary business concept is the sale of modular plants. In brief, this entails the sale of complete plants with deductions made for buildings/land, local permits and local installation. A standard plant can process 30,000 metric tons of end of life tyres per year. Enviro can also offer plants with the capacity to process between 18,000 and 60,000 metric tons of end of life tyres per year. The plants offered by the company are module-based. Our customization program also offers a number of options that can be either selected or deselected in comparison with the standard version.

### Service & Maintenance

Enviro offers a service and maintenance package to clients once a sufficient volume built up. To a large extent, service can be offered remotely, but it is also performed with physical local presence in certain cases as well.

### Royalties

When a sold factory is put into operation, Enviro will collect an annual royalty, which will cover the development costs for its unique and patented technology. The annual royalty will apply for 10 years from the completion of a plant. Enviro also has different options for this royalty during construction.

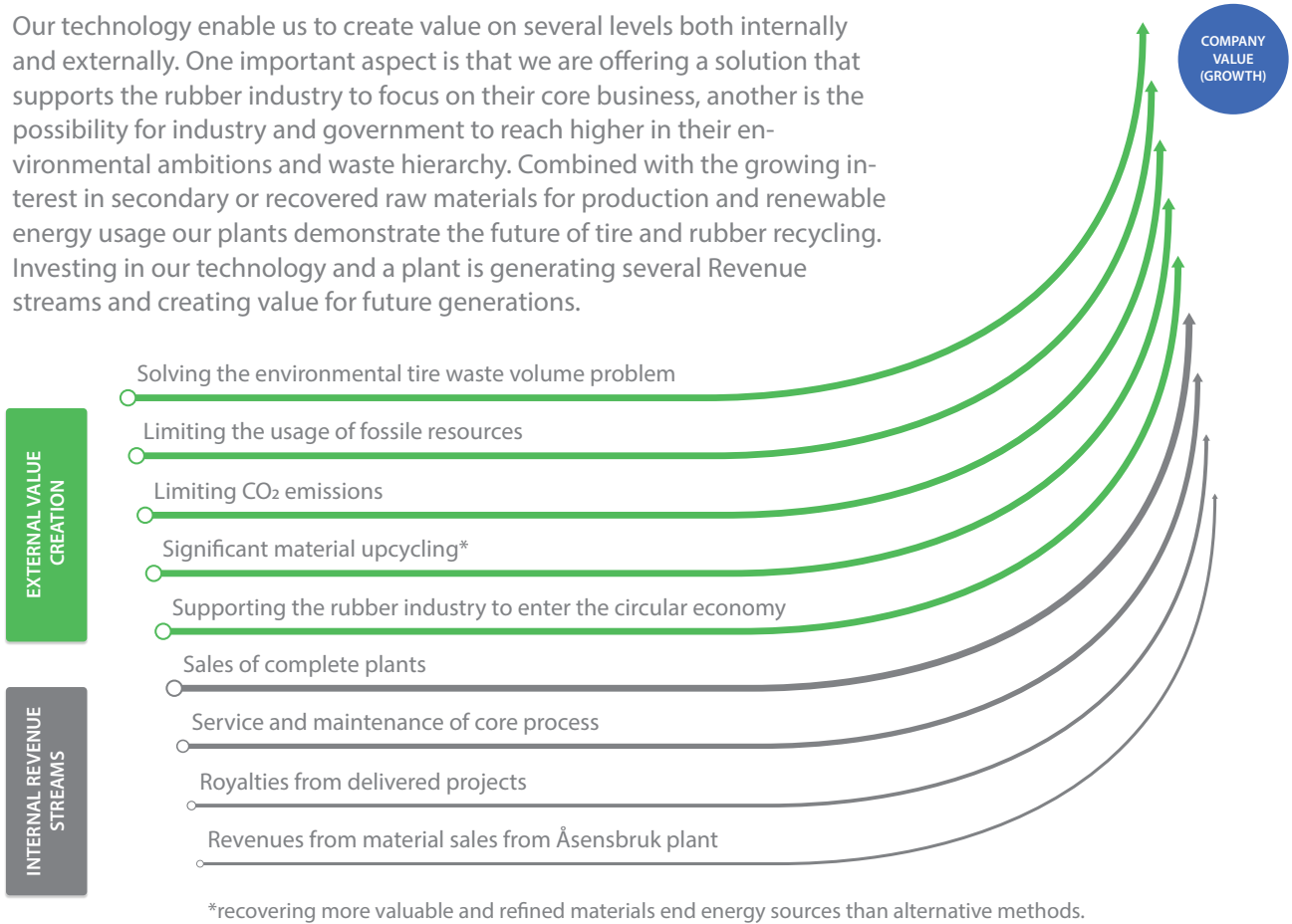
### External sales from Åsensbruk

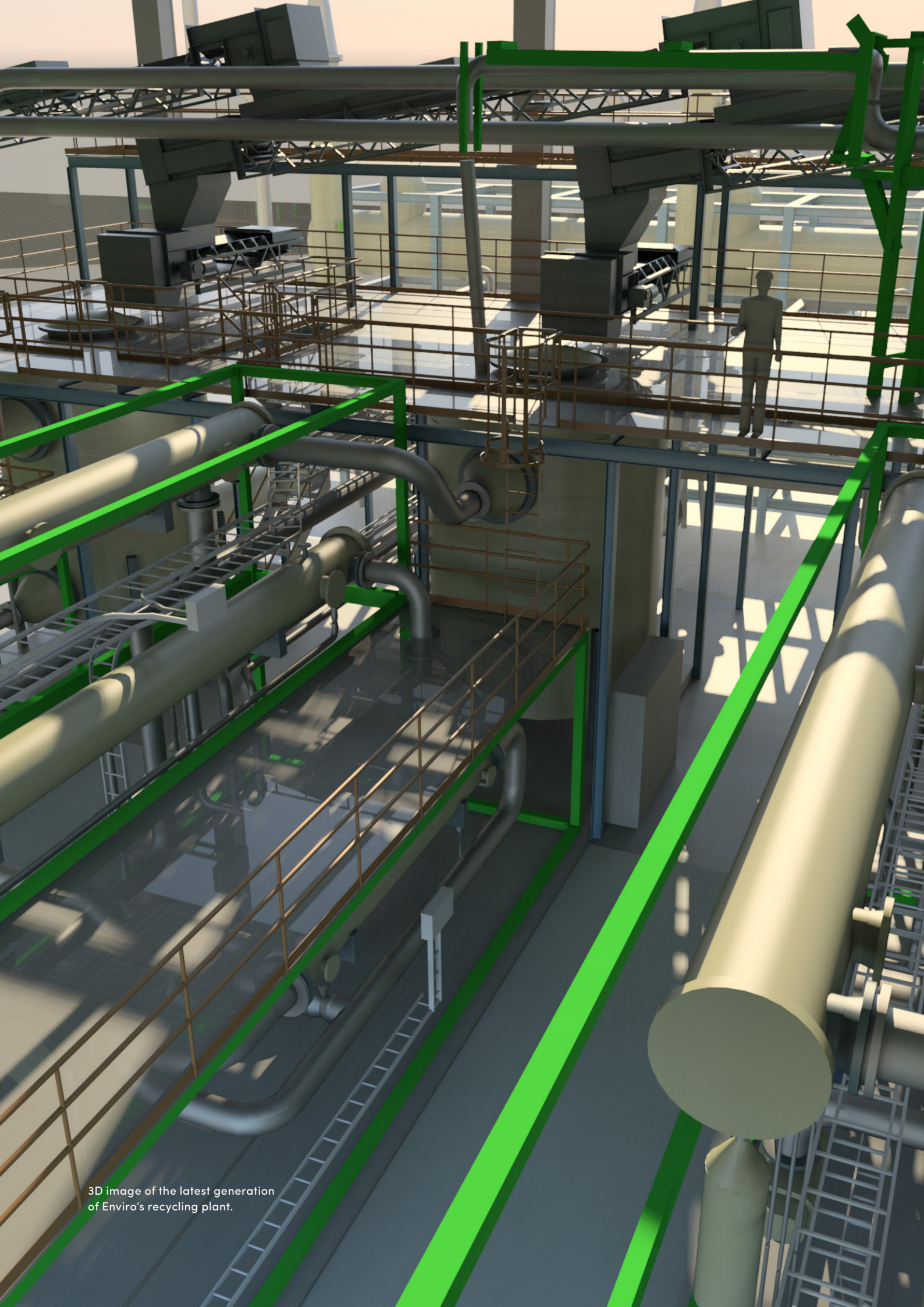
The revenues are divided into four areas:

- Sale of recovered carbon black
- Sales of recovered oil
- Sales of recovered steel
- Consultancy hours in combination with tests, laboratory work and similar on behalf of the client



Our technology enable us to create value on several levels both internally and externally. One important aspect is that we are offering a solution that supports the rubber industry to focus on their core business, another is the possibility for industry and government to reach higher in their environmental ambitions and waste hierarchy. Combined with the growing interest in secondary or recovered raw materials for production and renewable energy usage our plants demonstrate the future of tire and rubber recycling. Investing in our technology and a plant is generating several Revenue streams and creating value for future generations.





3D image of the latest generation of Enviro's recycling plant.

# COMMERCIALIZATION OF THE TECHNOLOGY – BASIC DESIGN

As part of the process of commercializing the company's technology, a larger, so-called "Basic Design" project was completed in 2017, in collaboration with the engineering and design company ÅF. The purpose was to calculate and document a full-scale plant which implements the experiences acquired from the plant in Åsensbruk and the verified development that has taken place over recent years. The starting point is a plant capacity of 30,000 tons of end of life tyres per year, with the concept being based on a modular design that provides an effective opportunity for scaling up to full capacity over time.

Each reactor module with associated condenser stage has a capacity of 6,000 metric tons per year and can be shipped in a format equivalent to four 40-foot containers. The plant is controlled through automation which is based on a Siemens platform that keeps integration between construction, automation, operation, maintenance and documentation together. This means that scalability will increase in each additional plant, as the elements are reused, with efficient quality ensured. In addition to the main process, which includes the patented pyrolysis technology (CFC), plants also include an after process which comprises the extraction and separation of steel and charcoal, interim storage, grinding,

mixing, pelleting and drying equipment. All of these process steps are necessary in order to produce black carbon at the high quality the industry demands.

Enviro's completed plants meet European requirements and regulations, and documentation from Basic Design includes, among other things, the supporting basis required for permit applications.

Basic Design also includes a great deal of the documentation that supports the different stages of the sales process, and it has proven to be very valuable and highly appreciated in the business dialogs the company has had since completion.

When a plant is ordered, Basic Design forms the basis for the entire project where the planning of resources, time and costs is calculated. In addition to the process documentation, there are also procurement instructions, supplier selections, different types of calculations and measurements, etc for the final Detail Design which is implemented at the start of a plant project.

Enviro has constructed and prepared Basic Design in order to be in a position to reuse extensive parts of the project for the purpose of optimizing profitability and capitalizing on the investments that have been made over a long period.



The factory in Åsensbruk is operated by our subsidiary company, Tyre Recycling in Sweden AB.

# RESEARCH AND DEVELOPMENT

Enviro collaborates with primarily international, but also Swedish operators in different ways for the purposes of research and development. One example of such an engagement is our participation in a group tasked with producing an ASTM standard for recovered carbon black. An internationally significant standard should make it easier for customers to compare materials and provide peace of mind regarding quality and properties.

Enviro is also working together with operators such as Volvo Trucks and RISE (Research Institutes of Sweden AB) on the development of new materials and processes to increase the proportion of circular tyre material in the heavy vehicle industry.

RISE and Enviro are also collaborating on a research project on material recycling and circular solutions for light-weight materials in the automotive industry.

Chassis plugs for Volvo Cars which contain recovered carbon black from Enviro.



## CARBON BLACK – RECYCLED INTO A REINFORCER AND STABILISER

Rubber consists of approximately 30% carbon black, which is a filler that provides a reinforcing effect, and which serves to improve the material's mechanical properties. Some examples include tensile strength, abrasion resistance and tear strength. The use of carbon black also provides UV protection in rubber, plastic, and other applications. Carbon black increases service life and improves the resilience of materials. Because carbon black is a very fine and volatile material, it is processed into larger pellets that can be efficiently handled and transported.

With its patented technology, Enviro has successfully recycled carbon black from used tyres into material of a quality that meets the high demands placed by the automotive industry, and the heating-/water-/sanitation industry, on components used in rubber products. Examples include more than 40 million rubber components used in Volvo Cars' passenger vehicles. Another example are gaskets used in various different types of water pipes.

Enviro's recycled carbon black, EnviroCB, has also been approved by a number of tyre manufacturers, for use in rubber compounds for tyre production. The company has also supplied carbon black for a rubber compound that is used for solid tyres.

# TECHNICAL PROGRESS

Enviro's pyrolysis technology has undergone a number of development phases. The initial concept and the first patent laid the grounds for the first pilot plant, SVAN 1 (Swedish Plant 1). The technology was refined and streamlined in the next pilot plants, Spirit and Goose, where further verification of the technology was undertaken. Based on the successful results from these early plants, the decision was taken to invest on an industrial scale.

From 2013 onwards, SVAN 2 has been operational and undergoing continuous development and optimization. In the very same year, the company also commenced development of the commercial generation that it offers on the market today (SVAN 3).

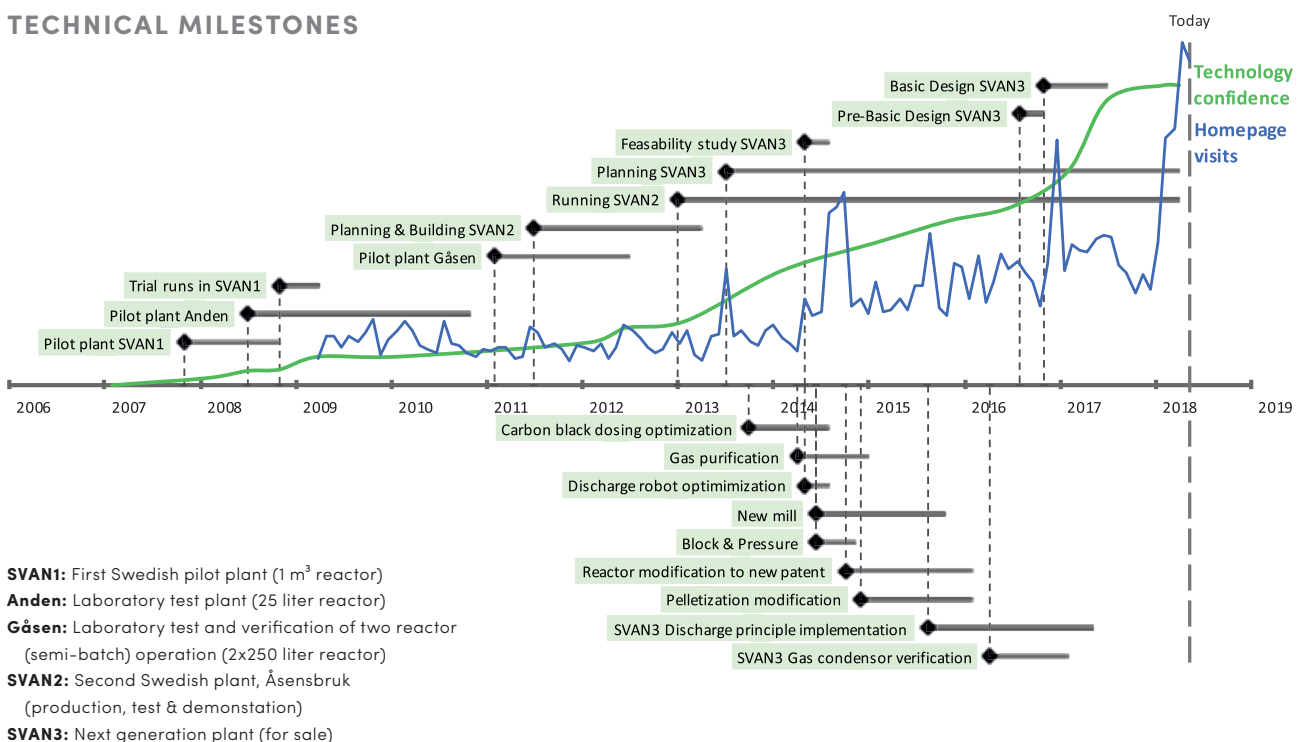
Another patent was secured in 2016, and this prompted the decision to invest in a Basic Design that would make it possible to package SVAN 3 based on technology and experiences that achieved very good verification through commercial deliveries of carbon black, oil and steel to the market.

The investment in Basic Design has resulted in a qualified technical platform and documentation that simplifies both the sales process and the execution of projects.



The process is monitored from the control room at the factory in Åsensbruk, Dalsland.

## TECHNICAL MILESTONES



# GROWING GLOBAL MARKET FOR RECYCLING

## Plants

Since the company was listed in 2014, there has been a significant shift on the market towards the recycling of materials in general. Both political and fundamental market forces have promoted a clearer focus on reducing resource consumption, reducing landfill and replacing combustion with material recycling to a greater extent than before. Several markets have implemented, or are planning to introduce, producer responsibility for waste fractions with a clear impact on the environment and society. Examples include batteries, electronics, packaging and not least, tyres. Sending tyres to landfill has long been banned in Europe and several other developed markets, although it still occurs in most parts of the world to a large extent. For a long time, even in regulated markets with producer responsibility, the answer has been incineration or granulation.

The granulation market in Europe is showing clear signs that the market is saturated, and that profitability will decrease rapidly. The over-establishment that has been happening for more than a decade is starting to take its toll and the market for granulated rubber in areas such as football fields and playgrounds is limited. Whether or not it is a good thing that materials deemed unsuitable for landfill are instead placed close to our children and spread around as even smaller particles in groundwater and washing machines, is something we will leave for others to evaluate. The other main alternative is the incineration of tyres in facilities for burning waste, or within the cement industry. China recently introduced strict bans against the import of materials such as plastic waste and other waste. This means that both Europe and the USA have lost one of their most important markets for surplus waste. One consequence of this is that larger amounts of waste will now likely need to be incinerated in domestic markets, with the results being a reduced capacity for certain types of waste, such as tyres, which then in turn leads to surpluses and problems in regulated markets.

Global interest in more material recycling is also growing, and tyres are an interesting fraction as they contain several materials that, if recovered with the right degree of quality, can generate very good revenues. Another driving force is the tyre industry, which recognizes the strategic im-

portance of materials such as carbon black, and that it is one of the few tyre materials that can be recovered in noteworthy volumes. Producer responsibility in certain markets and within certain segments, such as the mining industry, are imposing even tougher requirements, while also changing the way materials are viewed in this context. Over time, the market players have increasingly begun to recognize the material's value, rather than merely considering it as an expense in the form of raw materials and waste. Some examples as to how some market players view recovered materials can be seen in the citation below;

In *Continental's* sustainability report it states the following: "They will increase the recycled materials in new tire production to 10% before 2025."<sup>1</sup>

On *Michelin's* homepage you can see the following statement. Goals for 2020 "Contribute to the development of the circular economy, with 30% of renewable or recycled materials, in the manufacture of tires."<sup>2</sup>

*Bridgestone* shows in their environmental report that they will increase the recycled materials in production in the vision for 2050 The graph shows a goal for 25–50% recycled materials.<sup>3</sup>

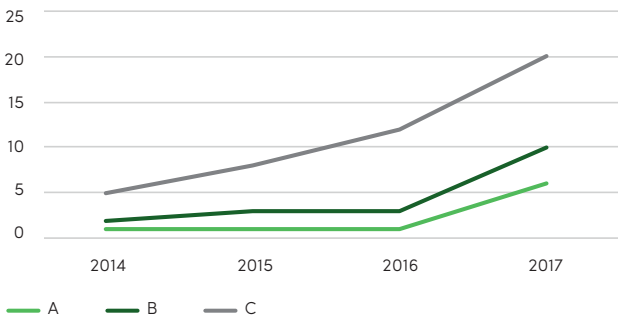
*Pirelli* writes in their sustainability leaflet: "From green sourcing and new materials innovation to end-of-life tire management, Pirelli takes an active leadership role."<sup>4</sup>

Or as one of the leading producers of traditional virgin carbon black says:

"Regarding collaborations between producers of recycled carbon black and established carbon black players, he said: "The focus on sustainability and the environment will necessitate all industries to look closely at topics like recycling and create economic opportunities as new technologies evolve. We will continue to look at all aspects of the carbon black value chain for these opportunities."

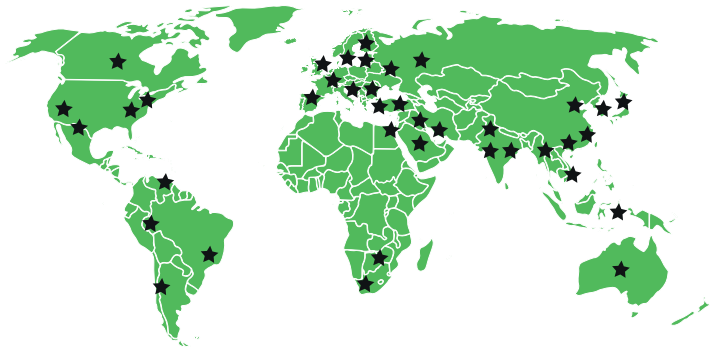
*Birla Carbon COO; John Loudermilk*

**Increasing interest in Enviro's technology**

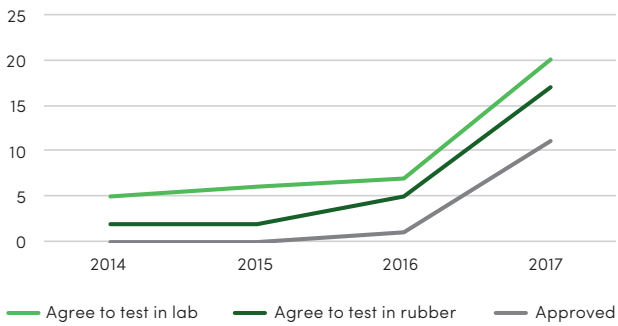


The number of requests for Enviro's technology is increasing. Customer category A is estimated to be closest to a deal and is followed by customer categories B and C.

**Geographical distribution of projects and customer requests**

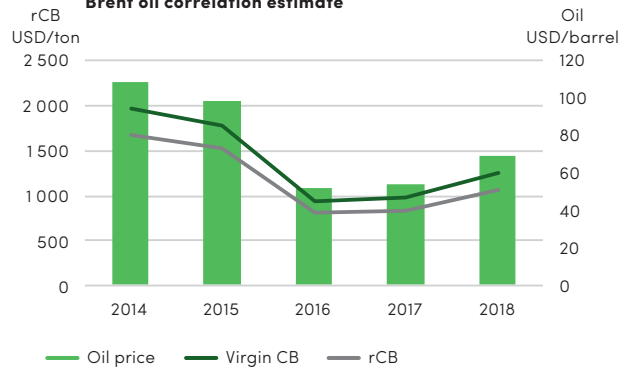


**Customers testing and approving EnviroCB™**



Customers' tests of Enviro's produced carbon black, EnviroCB™.

**Brent oil correlation estimate**



The rCB is not connected to the oil price. Potentially this enables a much less volatile resource for the customers than Virgin CB. (Source for oil price: Statista.com)

Notes page 14

- <https://www.continentalcorporation.com/resource/blob/62996/e0b1081d775701b0b0858d40d88746d/gri-report-2015-en-data.pdf>
- <https://www.michelin.com/fre/groupe-michelin/strategie/mobilite-durable-innovation-ambitions-2020>
- [http://www.bridgestone.com/responsibilities/library/pdf/BS\\_EnvReport2015.pdf](http://www.bridgestone.com/responsibilities/library/pdf/BS_EnvReport2015.pdf)
- <https://www.pirelli.com/asset/index.php?idelement=53154>

We are seeing increased interest in Enviro's technology from strategically important international stakeholders, such as recycling companies, tyre manufacturers and within industrial engineering. The demand for qualified technology with proven and verified commercial in-service experience is increasing in line with the above trends, but also as a result of the fact that alternative technologies and simpler solutions do not meet the market requirements for quality.

Development has, throughout the period up until today, been strengthened as demand for the recovered material has increased.

### CARBON BLACK

Enviro's technology makes it possible to recycle used tyres and recover valuable materials that can be extracted and reintroduced into the market. The process extracts oil, steel and carbon black from tyre materials. Large parts of the main process are driven in an energy-efficient manner by the gas that is produced.

The most valuable recoverable product is carbon black. It is a material that is traditionally extracted primarily from virgin fossil oils in energy and resource intensive industries. In traditional production, it takes approximately 1.5–2 kg of oil to produce 1 kg of carbon black. For each kilo of carbon black that

Enviro's technology can replace with recovered material, the need for fossil raw materials decreases by up to 2 kg. Traditional production also has a significantly larger CO<sub>2</sub> impact than Enviro's technology throughout the value chain. This means that many market players with extensive and aggressive sustainability targets see the potential to achieve their goals in replacing virgin material with recovered alternatives.

Carbon black adds properties to different types of rub-

ber and plastic materials that are required in order to meet the demands placed on the end product. Examples of such properties may include tensile strength, wear resistance, abrasion (friction), durability, flexibility, etc. A rubber component or tyre contains approximately 30% carbon black. It is therefore an important and valuable material within these industries. Different qualities of carbon black are found in materials with different properties. Choice of carbon black will depend on what properties need to be reached for the end product. The material's properties depend on a range of factors, such as its particle size, structure and purity.

Over the last two years, Enviro has supplied stable and high-quality carbon black from its plant in Åsensbruk to subcontractors in the automotive industry. One example is AnVa Polytech, which has replaced 100% of virgin materials in more than 40 million components for Volvo Cars during this period. Several clients in the rubber and tyre industry have also carried out tests on the material with positive results and very good indications. Several of them have approved the material in laboratories, rubber samples and in production, which means that they are on well on their way towards replacing parts of their carbon black consumption with materials produced by Enviro's technology. In 2017, several tyre manufacturers approved the use of the material in new tyres. This is a very important step in order to reach significant global volumes for plant stakeholders. The step between this approval and tyres making it onto the market depends on the processes and plans of each tyre manufacturer, and the processes vary between them.

To further strengthen the market position for carbon black, Enviro has trademark protected the quality of carbon black supplied to the market under EnviroCB™.

Carbon black is traded globally and partially follows the price of oil as a result of its origin. This connection to oil means that the price of the material is relatively volatile, which in turn results in a degree of uncertainty around pricing trends over time. Recovered carbon black has a more stable raw material cost, and can thus compete with lower volatility, while also offering a relative price advantage. Oil price developments over the last few years have had a significant impact on the demand for Enviro's materials. In addition, barriers to trade between markets such as China and India, and significantly increased demand for carbon black, have generally meant a shortage in certain markets.

Recovered pelletized carbon black from Enviro's recycling plant.

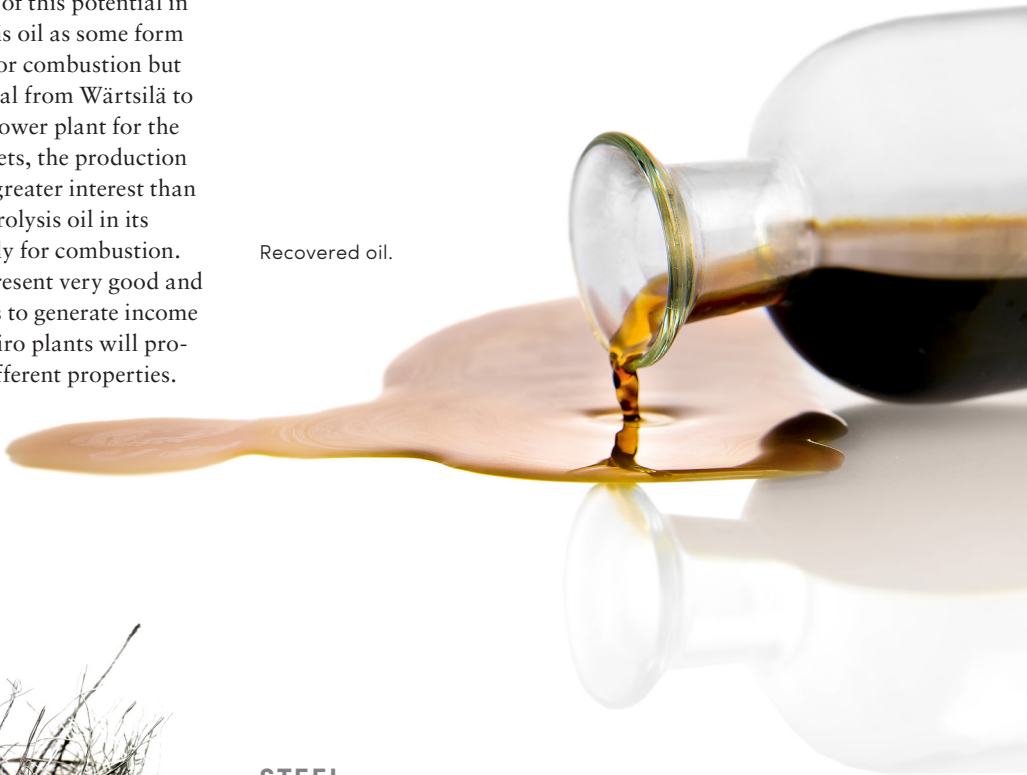




## OIL

In terms of volume, oil is the largest fraction produced via Enviro's technology, at a total of around 45%. Depending on the mix of tyre materials that go into process, the pyrolysis oil contains large parts of bio-based materials that originate in the natural rubber that comprises an important raw material in most types of tyres. The oil that is normally produced from Enviro's standard mix of tyres contains approximately 48% bio-based substances, while production that uses mining tyres contains up to 79%. Over time, there should be room for further development of this potential in order to reintroduce parts of the pyrolysis oil as some form of bio-oil. Enviro currently sells the oil for combustion but has also been attained important approval from Wärtsilä to use the oil as fuel in their diesel-driven power plant for the generation of electricity. In several markets, the production of electricity for sale to the market is of greater interest than the sale of oil. Many markets classify pyrolysis oil in its current form as waste and use it primarily for combustion. Enviro's experience is that all markets present very good and stable opportunities for plant purchasers to generate income from the oil. The next generation of Enviro plants will produce three different oil fractions with different properties.

Recovered oil.



## STEEL

The recovered steel fraction is of a good quality and is relatively clean, which means that there are good opportunities to easily sell the material as steel scrap. Demand varies over time, as does the price, but steel is generally easy to sell on the market.

Recovered steel.



# COMPETITORS

Enviro's competitive landscape is a complex mix of existing material suppliers, alternative recycling technologies, competing pyrolysis technologies and new, developed materials.

Traditional and current solutions for the recycling of tyres will remain in place as necessary waste streams for many tyres going forward. But new technical solutions are on the way and will take their shares of the market as market forces move toward more sustainable solutions. We expect that more technologies will be developed in the area of material recycling and recovery. Success factors will include the quality of the material produced, the price level for these materials and CAPEX and OPEX for such investments. Examples of new methods include cryotechnology, microwave technology and desulphurization. None of these have yet established themselves on an industrial scale with any great success.

The market for rubber granulate is becoming less and less profitable as a consequence of price competition, over-establishment, and the limited market for the end products. Statistics show that the initial growth experienced by granulation following the introduction of a ban on landfills in the EU has now evened out and even begun to decrease in relation to incineration. It is worrying that incineration, even in mature markets such as the EU, the US and Japan, is still the leading solution. We expect that this will change over time. In line with the fact that new technology can offer a more profitable channel for tyre collection companies, the market will replace incineration with recovery to a greater extent.

Re-treading is a sustainable solution that can give truck and bus tyres a long service life, and which is used globally.

This solution can be used up to three or four times per tyre, but not for every tyre, depending on wear. Therefore, this does not provide a solution for a circular cycle.

The main competitors for pyrolysis technology are still the producers of virgin carbon black. They correspond to large, multinational companies with significant resources, networks, ranges and channels for supplying a standardized material. These companies made their investments many years ago and have a strong position, despite the fact that their production consumes large quantities of fossil fuel. They invest heavily in technology to limit their CO<sub>2</sub> footprint, and strategically communicate their efforts to minimize environmental impact. Their range of products and properties are standardized by ASTM and ensure quality and performance. As a result of their long market presence and structural integration with customers, they constitute an obstacle to new players. Virgin carbon black (Virgin CB) normally contains significantly higher proportions of PAH (Polycyclic Aromatic Hydrocarbons, which are subject to rules and restrictions on most markets). The USA has introduced a ban on the establishment of new factories for the production of virgin carbon black due to the environmental impact.

In terms of competitors within pyrolysis, there are some companies offering different technical solutions on the international market. Our opinion is that the market is definitely big enough for at least 3–4 global competitors in this technology, depending on how the tyre segment is developed. Approximately ten companies claim that they have commercial production and products. Of these, we identify around five with technology that is potentially scalable, and therefore potentially able to become significant competitors, two of them on a global scale. The two operators that we consider having come the furthest are Pyrolyx from Germany and BlackBear from The Netherlands.

In collaboration with several other operators, we now form the ASTM subgroup 36 which seeks to establish a standardized system for recycled carbon black in collaboration with the Artis Institute in the UK, with the goal being to strengthen the more sustainable alternative to virgin material.

# ENVIRO SHARE

Enviro's long-term objective is to create a good risk-adjusted return for its shareholders.

## TRADE AND THE NUMBER OF SHARES

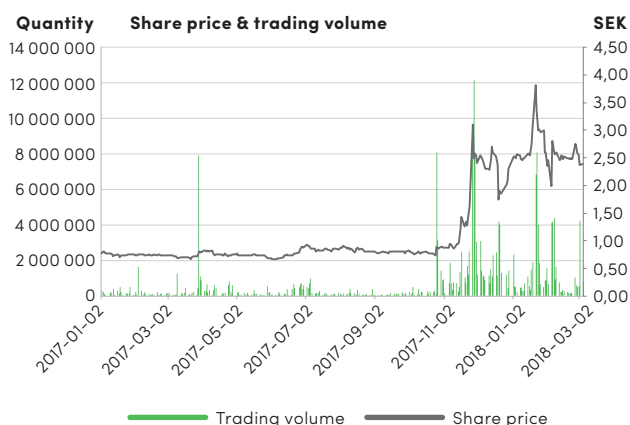
Scandinavian Enviro Systems AB has been listed for trade on the Nasdaq First North since 2014, with the ticker symbol SES. Mangold Fondkommission AB is the Certified Adviser for the company and is also market maker. The total number of shares is 116,370,291 (116,370,291) and each share entitles the holder to one vote at General Meetings. The shares are denominated in SEK and each share has a quota value of SEK 0.04. All shares are freely transferable.

## PRICE MOVEMENTS AND MARKET CAPITALIZATION

As of December 31, 2017, our closing price for the share was SEK 2.30 (0.79) and the market capitalization was SEK 267.7 (91.9) million. The share price and market capitalization have risen by 191% during 2017, while in 2016, market capitalization increased by 12%. During the year, there were approximately 146 (40) million shares traded.

## ENVIRO'S OWNERS

As of December 31, 2017, Enviro had 2,791 (1,559) shareholders with respective holdings of more than 500 shares. Enviro's largest shareholder was Pegraco Holding AB (formerly Airglow AB). Other large shareholders, in descending order, were Insurance company Avanza Pension, Nordnet Pension Insurance AB, Veolia Recycling Solutions Nordic AB and Mardal Invest AB.



## Share holders list per Dec 29, 2017

<b>Total number of shares</b>	<b>116 370 291</b>
<b>Number of share owners with a possession of more than 500 shares</b>	<b>2 791</b>

Share owner	Number of shares	Owner share %
Pegraco Holding AB (earlier Airglow AB)	22 574 412	19,40%
Försäkringsbolaget Avanza Pension	5 586 356	4,56%
Nordnet Pensionsförsäkring AB	4 048 017	3,96%
Veolia Recycling Solutions Nordic AB (earlier H. Andersson Recycling AB)	2 414 922	2,08%
Mardal Invest AB	2 400 000	2,06%
Swedbank Försäkring AB	2 273 782	2,03%
Lennart Persson (through Coeli AB)	2 080 905	1,79%
TAMT AB	2 000 000	1,72%
Homa Aryan	1 269 261	1,09%
Stig-Arne Blom (including Conatum AB)	1 266 883	1,09%
Other share holders	70 455 753	60,23%
<b>Total</b>	<b>116 370 291</b>	<b>100%</b>

Source: Euroclear Sweden AB and information available to the company

Year	Event	Change number of shares	Total number of shares	Nominal share value, SEK	Changes in share capital, SEK	Share capital, SEK
	Opening balance amount 2015		21 158 235	0,04		273 043
2015	Share rights issue	25 389 882	46 548 117	0,04	1 015 595	1 861 925
2016	Share rights issue	69 822 174	116 370 291	0,04	2 792 887	4 654 812

# GROUP MANAGEMENT, BOARD OF DIRECTORS AND AUDITOR

## GROUP MANAGEMENT



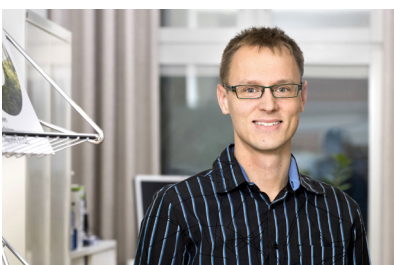
**THOMAS SÖRENSSON** (born 1976)

CEO since 2016. Market economist from IHM and MBA from Heriot-Watt University. Board member of Weester AB and subsidiary company, Tyre Recycling in Sweden AB, SES IP AB and BSIP AB. Thomas has a background that includes working as Export Director at Opus Equipment AB and as General Manager at B&B Tools i Shanghai, China. Shareholding: 74,096 shares.



**URBAN FOLCKER** (born 1961)

CFO since 2016. Master of Science Economics & Business from Stockholm University. Board member of subsidiary company, Tyre Recycling in Sweden AB. Urban has a background as CFO for companies such as Svendborg Brakes A/S, Container Centralen A/S (Denmark) and Stago B.V. (The Netherlands), part of the Schneider Electric Group. Shareholding: 50,000 shares.



**OLOV ERSHAG** (born 1984)

COO since 2017. Master of Science in Engineering from Luleå University of Technology. Has been employed by the company since 2008. Shareholding: 0 shares.

## BOARD OF DIRECTORS



**ALF BLOMQVIST** (born 1956)

CHAIRMAN OF THE BOARD OF DIRECTORS, board member since 2017. Education at Stockholm School of Economics. Alf has a background that includes working as CEO for Ledstiernan, as manager of Corporate Finance at Swedbank Markets and as manager of Equity Capital Markets at Carnegie. Other relevant titles: Board member and Chairman of the Audit Committee of B3IT AB (publ.) since 2012, Board Chairman of Destination Fjällen Sverige AB since 2012, member of the Market Council for the Alternative Stock Market since 2004, board member of Blomqvist Unlimited AB since 1988. Shareholding: 0 shares

**ANDERS ILSTAM** (born 1941)

BOARD MEMBER since 2013. Bachelor of Science in Engineering, Örebro University. Board assignments at companies such as Cycle Europe, Grimaldi (Chairman), Plockmatic International and TimeZynk AB. Anders' background includes VP Sandvik AB, CEO Sandvik Mining & Construction and a number of titles within the SKF Group and Beijerinvest. Direct and indirect shareholding: 225,930 shares.

**PETER MÖLLER** (born 1952)

BOARD MEMBER since 2017. Master of Science in Engineering from Chalmers University of Technology, in addition to studies at Uppsala University. Peter has a background that includes CEO and COO posts within the SAS Group, CEO of Atlas Copco Tool Division and COO of SAAB Automobiles. Shareholding: 0 shares

**LENNART PERSSON** (born 1948)

BOARD MEMBER since 2001 and Chairman until 2011. Master of Science in Engineering from Lund University of Technology. Lennart is also a member of the board at BBI Basic Board Industries. Direct and indirect shareholding: 2,080,905 shares

**STEFAN TILK** (born 1964)

BOARD MEMBER since 2015. Master of Science in Engineering from Chalmers University of Technology. Board assignments in companies such as Alnova Balkongssystem AB, Noxon and NEVS. Stefan's background includes posts as CEO for NEVS Group, CEO for Elof Hansson Group and Senior Vice President of Volvo Bus Corporation. Direct and indirect shareholding: 120,000 shares

**AUDITOR****JOHAN PALMGREN** (born 1974)

Johan Palmgren is a partner at PwC and a Certified Public Accountant with approximately 20 years experience of working with listed companies in different industries, including companies such as AB Volvo and Hexatronic Group AB.

“Our team continues to build structural value in the company by optimizing lead times for plant sales and the implementation process, as well as increasing value of our technology through scalable solutions on the market.”

CEO THOMAS SÖRENSSON

# FINANCIAL REPORTS

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.

24	DIRECTORS' REPORT
26	CONSOLIDATED INCOME STATEMENT
27	CONSOLIDATED BALANCE SHEET
29	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
30	CONSOLIDATED STATEMENT OF CASH FLOWS
31	STATEMENT OF INCOME, PARENT COMPANY
32	BALANCE SHEET OF PARENT COMPANY
34	PARENT COMPANY'S CHANGES IN EQUITY
35	CASH FLOW STATEMENT FOR THE PARENT COMPANY
36	NOTES FOR GROUP AND PARENT COMPANY
47	AUDITOR'S REPORT

# DIRECTORS' REPORT

## INFORMATION ABOUT THE BUSINESS

The Board of Directors and the CEO of Scandinavian Enviro Systems AB (publ), Gothenburg, 556605-6726, hereby submit the annual report and consolidated financial statements for 2017.

## THE COMPANY'S OPERATIONS

### Business Concept

End-of-life tyres is a large and world-wide environmental problem. Methods of storage or recycling of tyres are either ineffective, dangerous for the environment and/or target areas of usage not able to absorb the large amounts of tyres consumed in the world every year. At the same time, tyres and rubber products are largely produced by newly produced, non-recovered raw materials. Scandinavian Enviro Systems has a patented process which provides a unique method for recycling end-of-life tyres, and from this extract the high-quality products which can be reused in industrial applications.

### Business model

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

- Sale of modular built plants.
- Continuous revenues in the form of royalties for the Scandinavian Enviro Systems' patented technology from upcoming sales of plants.
- Sales of service and training to the constructed plants.
- Revenues from the production of the wholly-owned plant in Åsensbruk, Dalsland and dividends from eventual joint ventures that the company enters into in connection with the sales of facilities.

## BUSINESS OPERATIONS

The company has, since 2001, developed the technology which is the basis for the company's patents, and during this time has built a number of test facilities. The plant constructed in Åsensbruk 2013–2016 has an important function in serving as a large-scale production, testing and demo plant with all the process steps and solutions a full-scale plant would contain. The plant is operated by the wholly owned subsidiary Tyre Recycling in Sweden AB. As some of the products prepared by the process are completely or partly new on the market, they also allow the plant for potential customers to test the products as they would be produced on an industrial scale. In 2017, the company has continued with its commercial deliveries to the customer.

An important part of the calculations concerning the company's process is the recovered carbon black. The product

represents about 65% of the value of sales which the company expects to generate from each recovered tyre. Carbon black is a core product for the rubber industry, in terms of tyres and other industrial applications. Newly produced "virgin" carbon black is made from oil, where roughly 1.5–2 kg of oil is needed to produce 1 kg of carbon black. There are a number of different quality grades of carbon black, based on its actual properties. Scandinavian Enviro Systems focuses on producing a high-grade carbon black. Potential customers have tested the carbon black produced in the company's plant in a lab environment as well as in production tests. Tests have shown that the properties of the product are comparable with newly produced carbon black. Furthermore, the product can be produced to a competitive price and a quality assured and steady level.

AnVa Polytech has in 2017 also bought recovered carbon black for production of chassis plugs to Volvo Cars. During 2017, the company also supplied the recovered carbon black to AnVa Polytech intended for a seal application for a VVS product.

Parallel with the work in the demo plant, a number of negotiations for the sale of plants to customers around the world are being conducted. During 2017 negotiations have been conducted with, amongst others, Vanlead, which is a leading international tyre manufacturer. However, Vanlead has relatively late in the process concluded that they have no possibility to get a permit for the plant to handle oil with a flash point under 60 degrees (C) at the selected site. Therefore, the negotiations, at least for the time being, have been discontinued. Further the Company has signed an MoU with ArcticCan Energy Servic, a Canadian energy service company, regarding a recycling plant designed for 30,000 end of life tyres per year in Canada. Enviro also has other serious potential investors for a recycling plant. The expectation is that at least one of the ongoing negotiations will lead to an agreement during coming year. Scandinavian Enviro Systems intends to deliver the facilities through cooperation with third party, (ÅF).

### Group structure

Enviro Group comprises of the parent company, Scandinavian Enviro Systems AB (publ), with headquarters in Gothenburg, as well as three wholly-owned Swedish subsidiaries. The parent company's activities include, in addition to the sale of plants, joint Group of companies with functions such as management, finance, and technology development.

## THE COMPANY'S RESULTS AND FINANCIAL POSITION

### The Group

Net sales amounted to MSEK 0.7 (0.2). Operating result amounted to MSEK -36.2 (-33.3) and profit/loss after tax to MSEK -36.9 (-34.5). The decline in profit compared to the pre-



vious year of MSEK 2.4 is mainly due to the Group's depreciation for the entire 2017 of the Åsensbruk plant and capitalized development costs compared to depreciation in 2016 limited to Q4. This corresponds to a deterioration of MSEK 5.3. To counteract this, the company has received a grant from the Chilean State of 1.1 m in 2017 and made savings of fixed overhead costs of MSEK 0.8. Furthermore, the increase in turnover has given an extra gross contribution compared to 2016 compared with MSEK 0.6. Finally, net interest income improved by MSEK 0.4 compared to 2016.

The Group's investments in fixed assets amounted to MSEK 2.2 (4.1). The investments consist almost exclusively of a Basic Design. Cash flow from operating activities after investing activities amounted during the period to MSEK -29,1 (-30,2). The improvement in cash flow of MSEK 1.1 is primarily related to the following factors: An improvement of the company's continuous operation of MSEK 2.8, an increase of the company's working capital (compared with the change in 2016) of MSEK 3.6 and a lower level of investment of MSEK 1.9. The difference in the build-up of working capital between 2017 and 2016 related mainly to accrued liabilities concerning investment in the company's Basic Design. The equity ratio at the end of the year was 81% (83%).

#### Parent Company

The parent company's net sales amounted to MSEK 3.2 (4.0) and profit/loss after financial items MSEK -40.5 (-38.1). The major part of the turnover refers to debited services to subsidiaries. The main reason for the lower result is that the company has carried out depreciations throughout 2017 compared with only Q4 for 2016 regarding capitalized development costs to an amount which is MSEK 3.9 higher than the previous year. This is offset by, among other things, fixed cost savings and a received contribution from the Chilean state. A Group contribution of MSEK 5.0 (5.0) was received from the subsidiary Tyre Recycling in Sweden AB.

Investments in fixed assets amounted to MSEK 2.2 (2.5 m). These investments are for a Basic Design. The equity ratio at the end of the year was 92% (96%).

#### Staff

At the end of the year, there were 16 (18) employees in the Group of which 7 (6) of whom were employed in the parent company.

#### Future prospects and financing

After extensive negotiations concerning sales of plants in both China and Chile, a number of other interesting potential customer prospects have also surfaced. Our expectations for 2018 are that we will sign one contract with a plant customer during the next 12 months and we will make headway for a number of new contracts during the coming years.

To ensure continuous operation, needs for future investment and participation in any joint ventures in connection with the sale of plants, the company predicts that there will be a need for an increase in capital in the second quarter of 2018. The form and size of the capital injection is partially dependent on the results of commercial negotiations and future decisions during the year. Unless such capital investment is secured, there will be uncertainty factors regarding the company's financial situation, which may lead to doubts about the

company's ability to continue its planned activities. The report is prepared based on the premise of continued operation as the management believes that there are realistic alternatives in securing the necessary funds. In connection with the annual meeting 2018, the Board of Directors will ask shareholders for the extension of the already existing authorization from the general meeting 2017 to get carry out one or more targeted and/or rights issue/s/, which can be used as part of this process.

#### MULTI-YEAR COMPARISON

The Group's economic development in summary.

	2017	2016	2015	2014
EBITDA (KSEK)	-23 844	-26 261	-24 335	-12 672
Equity ratio, %	80,7	82,9	81,0	76,4%
Operating margin, %	neg	neg	neg	neg
Return on capital employed, %	-23,7	-19,7	-16,0	-11,8%
Interest-bearing liabilities, in KSEK	19 656	21 418	25 954	32 240
Earnings per share before dilution, SEK	-0,32	-0,49	-0,60	-1,02

Key ratio definitions explained in note 1

#### PERMIT OR NOTIFICATION REQUIRED UNDER THE ENVIRONMENTAL CODE

The Company's subsidiary, Tyre Recycling in Sweden AB conducts notification/permit under the Environmental Code. The notification obligation/permit relates to environmental permits to operate the plant in Åsensbruk. The activities notifiable/subject to license equal to 93% of consolidated net sales.

#### PROPOSED ALLOCATION OF PROFIT

Unrestricted equity according to balance sheet:

	KSEK
Premium fund	261 240
Balanced result	-115 885
<b>Results for the year</b>	<b>-35 493</b>
	<b>109 862</b>

The Board of Directors proposes that the retained earnings, KSEK 109 862 is carried forward.

## CONSOLIDATED INCOME STATEMENT

KSEK	Note	2017	2016
Net sales	3	736	205
Changes in inventories of products in progress, finished goods and products in progress on behalf of others		88	-65
Other operating income	4	1 102	-
		<b>1 926</b>	<b>140</b>
<b>Operating expenses</b>			
Raw materials and consumables		-434	-316
Other external costs	5, 6	-11 453	-12 570
Personnel expenses	7	-13 883	-13 515
Depreciation amortization of tangible and intangible fixed assets	8, 9, 10,11	-12 326	-7 038
<b>Total operating expenses</b>		<b>-38 095</b>	<b>-33 159</b>
<b>Operating result</b>		<b>-36 170</b>	<b>-33 299</b>
<b>Result from financial items</b>			
Other interest income and similar items	12	106	112
Interest expenses and similar expenses	13	-854	-1 265
<b>Total result from financial items</b>		<b>-748</b>	<b>-1 154</b>
<b>Result after financial items</b>		<b>-36 918</b>	<b>-34 452</b>
Tax on result for the year	14	-	-
<b>Net loss for the year</b>		<b>-36 918</b>	<b>-34 452</b>

## CONSOLIDATED BALANCE SHEET

ASSETS KSEK	Note	2017-12-31	2016-12-31
<b>Fixed assets</b>			
<b>Intangible fixed assets</b>			
Capitalized expenditures for development	15	45 137	48 214
Concessions, patents, licenses and similar rights	10	4 414	4 578
Goodwill	8	7 314	8 533
		<b>56 865</b>	<b>61 325</b>
<b>Tangible fixed assets</b>			
Machinery and other technical facilities	11	70 628	76 237
Equipment, tools and installations	9	89	123
		<b>70 717</b>	<b>76 360</b>
<b>Financial fixed assets</b>			
Other long-term receivables		-	2
		-	2
<b>Total fixed assets</b>		<b>127 582</b>	<b>137 688</b>
<b>Current assets</b>			
<b>Inventories etc.</b>			
Raw materials and consumables		84	49
Goods in progress		51	12
Finished products and goods for resale		145	96
		<b>280</b>	<b>156</b>
<b>Short-term receivables</b>			
Trade receivables		70	3
Tax receivables		403	249
Other short-term receivables		1 653	1 740
Prepaid costs and accrued income	16	836	817
		<b>2 962</b>	<b>2 809</b>
<b>Cash and cash equivalents</b>		<b>9 466</b>	<b>40 315</b>
<b>Total current assets</b>		<b>12 708</b>	<b>43 281</b>
<b>Total assets</b>		<b>140 290</b>	<b>180 969</b>

## CONSOLIDATED BALANCE SHEET (CONT.)

<b>EQUITY AND LIABILITIES</b> KSEK	<b>Note</b>	<b>2017-12-31</b>	<b>2016-12-31</b>
<b>Equity</b>	20		
Share capital		4 655	4 655
Other capital contributions		261 742	261 742
Other equity including result for the year		-153 226	-116 308
<b>Total equity</b>		<b>113 171</b>	<b>150 089</b>
<b>Non-current liabilities</b>			
Other liabilities to credit institutions	17, 18	7 056	13 266
<b>Total non-current liabilities</b>		<b>7 056</b>	<b>13 266</b>
<b>Current liabilities</b>			
Liabilities to credit institutions		11 100	8 152
Accounts payable		1 564	2 664
Other current liabilities		4 419	2 646
Accrued expenses and prepaid revenues	19	2 980	4 152
<b>Total short-term liabilities</b>		<b>20 063</b>	<b>17 614</b>
<b>Total equity and liabilities</b>		<b>140 290</b>	<b>180 969</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

KSEK	Note	Sharecapital	Other contributed capital	Other equity	Total equity
<b>Equity 2015-12-31</b>		<b>1 862</b>	<b>219 771</b>	<b>-81 855</b>	<b>139 778</b>
Results for the year		-	-	-34 452	-34 452
Fund for development costs		-	-	1 896	1 896
Retained earnings		-	-	-1 896	-1 896
New share issue		2 793	49 557	-	52 350
Expenses related to issue		-	-7 586	-	-7 586
<b>Equity 2016-12-31</b>		<b>4 655</b>	<b>261 742</b>	<b>-116 308</b>	<b>150 089</b>
Results for the year		-	-	-36 918	-36 918
Fund for development costs incoming		-	-	1 824	1 824
Fund for development costs outgoing		-	-	-155	-155
Retained earnings		-	-	-1 669	-1 669
<b>Equity 2017-12-31</b>		<b>4 655</b>	<b>261 742</b>	<b>-153 226</b>	<b>113 171</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

KSEK	Note	2017	2016
<b>Operating activities</b>			
Operating result		-36 170	-33 299
Adjustment for items not included in the cash flow	23	12 326	7 038
Interest received		106	112
Interest paid		-854	-1 265
		<b>-24 592</b>	<b>-27 415</b>
Increase/decrease in inventories		-124	132
Increase/decrease in trade receivables		-67	-3
Increase/decrease in other current receivables		-85	-1 520
Increase/decrease in trade payables		-1 100	199
Increase/decrease in other current operating liabilities		-899	2 467
		<b>-26 867</b>	<b>-26 139</b>
<b>Investment activities</b>			
Investments in intangible fixed assets		-2 204	-2 467
Investments in property, plant and equipment		-19	-1 607
Increase/decrease in long-term receivables		2	18
		<b>-2 220</b>	<b>-4 056</b>
<b>Financing activities</b>			
New rights issue		-	52 350
Expenses related to issue		-	-7 586
Amortization of debt		-1 763	-4 536
		<b>-1 763</b>	<b>40 227</b>
<b>Cash flow for the year</b>		<b>-30 849</b>	<b>10 032</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>40 315</b>	<b>30 283</b>
<b>Cash and cash equivalents at the end of the year</b>	25	<b>9 466</b>	<b>40 315</b>

## STATEMENT OF INCOME, PARENT COMPANY

KSEK	Note	2017	2016
Net sales	3	3 242	4 031
Other Operating Income	4	1 101	-
		<b>4 343</b>	<b>4 031</b>
<b>Operating expenses</b>			
Other external costs	5, 6	-30 752	-33 303
Personnel expenses	7	-8 628	-7 252
Depreciation and amortization of tangible and intangible fixed assets	9, 10	-5 478	-1 594
<b>Total operating expenses</b>		<b>-44 858</b>	<b>-42 149</b>
<b>Operating result</b>		<b>-40 515</b>	<b>-38 118</b>
<b>Result from financial items</b>			
Other interest income and similar profit/loss items	12	90	107
Interest expenses and similar profit/loss items	13	-68	-81
<b>Total result from financial items</b>		<b>22</b>	<b>26</b>
<b>Result after financial items</b>		<b>-40 493</b>	<b>-38 092</b>
Group Contributions	26	5 000	5 000
Tax on result for the year	14	-	-
<b>Net loss for the year</b>		<b>-35 493</b>	<b>-33 092</b>

## BALANCE SHEET OF PARENT COMPANY

ASSETS KSEK	Note	2017-12-31	2016-12-31
<b>Fixed assets</b>			
<b>Intangible fixed assets</b>			
Capitalized expenditures for development	15	45 087	48 164
Concessions, patents, licenses and similar rights	10	4 414	4 578
		<b>49 501</b>	<b>52 742</b>
<b>Tangible fixed assets</b>			
Equipment, tools and installations	9	89	123
<b>Financial fixed assets</b>			
Shares in subsidiaries	27	36 891	36 891
Receivables from group companies		31 371	31 646
Other long-term receivables		-	2
		<b>68 262</b>	<b>68 538</b>
<b>Total fixed assets</b>		<b>117 852</b>	<b>121 403</b>
<b>Current assets</b>			
<b>Short-term receivables</b>			
Current tax receivables		342	139
Other short-term receivables		1 653	1 720
Prepaid costs and accrued income	16	412	442
		<b>2 407</b>	<b>2 301</b>
<b>Cash and cash equivalents</b>		8 342	36 784
<b>Total current assets</b>		<b>10 750</b>	<b>39 085</b>
<b>Total assets</b>		<b>128 601</b>	<b>160 488</b>



## BALANCE SHEET OF PARENT COMPANY (CONT.)

<b>EQUITY AND LIABILITIES</b> KSEK	<b>Note</b>	<b>2017-12-31</b>	<b>2016-12-31</b>
<b>Equity</b>	20		
<b>Restricted equity</b>			
Share capital		4 655	4 655
Restricted reserves		502	502
Fund for development expenses		3 564	1 896
		<b>8 721</b>	<b>7 053</b>
<b>Unrestricted equity</b>			
Share premium reserve		261 240	261 240
Retained earnings		-115 885	-81 124
Net loss for the year		-35 493	-33 092
		<b>109 862</b>	<b>147 024</b>
<b>Total equity</b>		<b>118 583</b>	<b>154 076</b>
<b>Current liabilities</b>			
Liabilities to credit institutions	18	4 500	552
Accounts payable		445	1 630
Other current liabilities		3 058	1 427
Accrued expenses and prepaid revenues	19	2 015	2 803
<b>Total short-term liabilities</b>		<b>10 018</b>	<b>6 412</b>
<b>Total equity and liabilities</b>		<b>128 601</b>	<b>160 488</b>

## PARENT COMPANY'S CHANGES IN EQUITY

KSEK	Share- capital*	Statutory reserve	Fund for development costs	Share premium	Retained earnings	Result of the period	Total equity
<b>Equity 2015-12-31</b>	<b>1862</b>	<b>502</b>	<b>0</b>	<b>219 269</b>	<b>-49 756</b>	<b>-29 473</b>	<b>142 404</b>
Adjustment of previous year's profit & loss	-	-	-	-	-29 473	29 473	-
Results for the year	-	-	-	-	-	-33 092	-33 092
Fund for development costs	-	-	1 896	-	-1 896	-	-
New shares issue	2 793	-	-	49 557	-	-	52 350
Expenses rela- ted to issue	-	-	-	-7 586	-	-	-7 586
<b>Equity 2016-12-31</b>	<b>4 655</b>	<b>502</b>	<b>1 896</b>	<b>261 240</b>	<b>-81 125</b>	<b>-33 092</b>	<b>154 076</b>
Adjustment of previous year's profit & loss	-	-	-	-	-33 092	33 092	-
Results for the year	-	-	-	-	-	-35 493	-35 493
Fund for development costs incoming	-	-	1 824	-	-1 824	-	-
Fund for development costs outgoing	-	-	-155	-	155	-	-
<b>Equity 2017-12-31</b>	<b>4 655</b>	<b>502</b>	<b>3 565</b>	<b>261 240</b>	<b>-115 885</b>	<b>-35 493</b>	<b>118 583</b>

\*The share capital consists of 116 370 291 shares

## CASH FLOW STATEMENT FOR THE PARENT COMPANY

KSEK	Note	2017	2016
<b>Operating activities</b>			
Operating profit/loss		-40 515	-38 118
Adjustment for items not included in the cash flow	23	5 478	1 594
Interest received		90	107
Interest paid		-68	-81
		-35 015	-36 497
Increase/decrease in other current receivables		-107	-1 840
Increase/decrease in trade payables		-1 186	872
Increase/decrease in other current operating liabilities		-656	1 509
<b>Cash flow from operating activities</b>		<b>-36 964</b>	<b>-35 956</b>
<b>Investment activities</b>			
Investments in intangible fixed assets		-2 204	-2 467
Change in long-term receivables		277	-628
<b>Cash flow from investing activities</b>		<b>-1 927</b>	<b>-3 095</b>
<b>Financing activities</b>			
New rights issue		-	52 350
Expenses related to issue		-	- 7 586
Acquired/Paid Group contributions		5 000	5 000
Amortization of debt		5 448	-736
<b>Cash flow from financing activities</b>		<b>10 448</b>	<b>49 028</b>
<b>Cash flow for the year</b>		<b>-28 442</b>	<b>9 977</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>36 784</b>	<b>26 808</b>
<b>Cash and cash equivalents at the end of the year</b>	25	<b>8 342</b>	<b>36 784</b>

# NOTES, JOINT TO PARENT COMPANY AND GROUP

## NOTE 1 ACCOUNTING AND VALUATION PRINCIPLES

### General accounting principles

Scandinavian Enviro System AB's Annual Report and Consolidated Financial Statements have been prepared in accordance with the Annual Accounts Act and the Board of Directors' General Advice BFAR 2012: 1 *Annual Report and Consolidated Financial Statements* (K3).

The accounting principles remain unchanged in comparison with the previous year.

### Foreign currencies

Monetary assets and liabilities denominated in foreign currency are valued at the closing date. Transactions in foreign currency are translated at the transaction date exchange rate.

### Income

#### Goods

Sales of goods are reported when significant risks and benefits are transferred from sellers to buyers in accordance with the terms of sale. Sales are reported after deduction of VAT and discounts.

#### Assignments

For future fixed-term service assignments, income and expenses are reported that are attributable to a performed service assignment as revenue and cost in relation to the completion date of the assignment on the balance sheet data (successive profit statement). The completion rate of an assignment is determined by comparing costs incurred on the balance sheet date with the estimated total expenses. In cases where the outcome of an assignment cannot be calculated reliably, revenue is reported only to the extent that corresponds to the resulting commission costs likely to be replaced by the client. A missed loss on an assignment is recognized as an expense immediately.

For current account assignments, the income attributable to a service assignment is recognized as revenue as work is performed and materials are delivered or consumed.

#### Other types of revenue

Future royalties are normally based on the turnover generated by the company based on the company's patent. Revenue is reported in accordance with the agreement's financial implications.

Interest income is reported in accordance with the effective interest rate method.

### Income taxes

Current taxes are valued based on the tax rates and tax rules applicable on the balance sheet date. Deferred taxes are valued based on the tax rates and tax rules which were decided before the balance sheet date.

Deferred tax liabilities relating to temporary differences relating to investments in subsidiaries are not reported in the consolidated accounts as the parent company can in any case control the timing of reversal of the temporary differences and it is not considered likely that a reversal will take place in the foreseeable future.

Deferred tax assets relating to loss carryforwards or future tax deductions are reported to the extent that the deduction can be offset against surplus in future taxation.

Receivables and liabilities are net reported only when there is legal right to set off.

### Intangible assets

Intangible fixed assets are reported at cost less accumulated amortization and impairment losses. Depreciation is made linearly over the estimated useful life.

The activation model is applied to internally and externally generated intangible assets. The amortization period for internally generated and externally intangible fixed assets amounts to ten years. The asset has begun to be written off as of the 4th Quarter 2016.

In accordance with the rules in K3, a development cost fund has been formed corresponding to the book value of the capitalized development costs invested from 2016.

Goodwill is amortized on a straight-line basis over the estimated useful life. At the parent company's acquisition of BSIP Innovation AB in 2013, the total right to future royalty income from plant sales to Scandinavian Enviro Systems AB exceeded. The goodwill arising from the acquisition is amortized over ten years.

### Tangible fixed assets

Property, plant and equipment are reported at cost less depreciation. The acquisition value includes expenses directly attributable to the acquisition of the asset. When a component in a fixed asset is replaced, any remaining part of the old component is eliminated, and the acquisition value of the new component is activated. Additional expenses relating to non-component assets are added to the acquisition value if they are expected to give the company future financial benefits, as the asset's performance increases in relation to the asset's value at the acquisition date.

Expenses for ongoing repairs and maintenance are reported as expenses.

Realized gains and losses on disposal of fixed assets are reported as Other operating income and Other operating expenses.

Property, plant and equipment are depreciated systemat-

ically over the asset's estimated useful life. When the depreciable amount of the assets is determined, the residual value of the asset will be considered. Linear depreciation method is used for other types of tangible assets.

The following depreciation periods are applied:

Machinery and other technical facilities	7–15 years
Equipment, tools and installations	5–15 years

Depreciation takes place after the so-called component method in accordance with the rules in K3.

No borrowing costs are activated.

### Impairment of non-financial assets

When there is an indication that the value of an asset has decreased, an impairment test is made. If the asset has a recoverable amount lower than the carrying amount, it is written down to the recoverable amount. When assessing impairment requirements, assets are grouped at the lowest levels where there are separate identifiable cash flows (cash-generating units). For assets other than goodwill, previously written down, each reversal date is subject to a review of whether reversals should be made.

In the income statement, write-downs and reversals of write-downs are reported in the function in which the asset is used.

### Leases

All Group leases where the company is leaseholder are classified as operating leases (lease). The leasing fee is reported as a cost linearly over the lease period.

### Financial instruments

Financial instruments recognized in the balance sheet include accounts receivable and other receivables, trade payables and loan liabilities. The instruments are reported in the balance sheet when the company becomes a party to the instrument's contractual terms. Financial assets are derecognized when the right to receive cash flows from the instrument has expired or is transferred and the Group has transferred virtually all risks and benefits associated with ownership. Financial liabilities are derecognized when liabilities have been canceled or otherwise terminated.

#### *Trade receivables and other receivables*

Receivables are reported as current assets with the exception of expiration dates more than 12 months after the balance sheet date, which are classified as non-current assets. Receivables are taken up to the amount that is expected to be paid after deduction of individually assessed doubtful claims.

#### *Borrowing liabilities and trade payables*

Borrowings and trade payables are initially recognized at cost less transaction costs. If the reported amount differs from the amount to be repaid at maturity date, the difference is recognized as interest expense over the term of the loan using the instrument's effective interest rate. As a result, at the maturity date, the reported amount and the amount to be repaid correspond.

### *Impairment testing of financial fixed assets*

At each balance sheet date, Scandinavian Enviro Systems AB (publ) assesses whether there is any indication of impairment in any of the financial assets. Write-down occurs if the decline in value is deemed to be permanent. Write-downs are recognized in the income statement Profit from other securities and receivables that are fixed assets. The impairment need is tested individually for shares and participations and other individual financial assets that are material. Examples of indications of impairment need are negative economic circumstances or adverse changes in industry conditions in companies whose shares Scandinavian Enviro Systems AB (publ) invested in. Impairment of assets valued at accrued acquisition value is calculated as the difference between the asset's carrying amount and the present value of the management's best estimate of future cash flows discounted with the asset's original effective interest rate. If write-downs are made, the write-down amount is determined as the difference between the carrying amount and the higher of the fair value less costs for sale and the present value of future cash flows (based on the best estimate of management).

### *Shares and participations in subsidiaries*

Shares and participations in subsidiaries are reported at cost less any impairment losses. The acquisition value includes the purchase price paid for the shares as well as acquisition costs.

### Inventories

Inventories are valued at the lowest of 97 percent of the acquisition value and net realizable value according to the income tax provisions. Tyres and gas layers for use in production and produced oil are considered a homogeneous product group, so collective valuation is applied to them.

The acquisition value is determined using the first-in, first-out method (FIFO). For commodities, all expenses are directly attributable to the acquisition of the goods in the acquisition value. For goods under manufacture and finished goods, the cost includes raw materials, direct pay and other direct manufacturing costs.

### Reporting for business sectors and geographic markets

The Group's business operations relate to plant sales, service sales and product sales. Plant sales can be done against basically the whole world and will generate revenue pertaining to both construction costs and royalties based on a percentage of the plant's turnover. Service, training, etc. will also be offered as a service sale to installed facilities. Production and product sales of the products recovered carbon black, oil and steel will occur in installations operated by the company, which at present is the plant in Åsensbruk, Sweden. No division is still made on geographic markets.

### Cash Flow Analysis

The cash flow statement is prepared according to indirect method. The reported cash flow includes only transactions that have resulted in payments. Blocked bank funds are reported as cash. Changes in them therefore do not affect the cash flow statement but are reported separately in Note 25.

**Reclassifications**

No reclassifications have been made.

**Company's ability to continue the business**

The company's operations require funding as the short-term operational movement will not be able to generate sufficiently. The financing of operations is therefore dependent and is expected to be ensured through a directed or preferential issue which will be carried out through the mandate of the Board or by proposing an extraordinary general meeting in 2018.

**Parent Company's accounting principles**

The same accounting and valuation principles are applied in the Parent Company as in the Group, except in the cases listed below.

**Allocations**

Group contributions are reported as financial statements. A group contribution to a subsidiary is reported as an expense and reduces the parent company's profit for the period.

**Shares in subsidiaries**

Shares in subsidiaries are reported at cost less any impairment losses. Conditional shareholders' contributions are added to the acquisition value when they are submitted.

**Key Definitions****EBITDA**

Profit before depreciation.

**Solidity**

Shareholders' equity and untaxed reserves (less deferred tax) in relation to the balance sheet total.

**Operating margin**

Operating profit through net sales.

**Return on capital employed**

Profit after financial items plus interest expenses in relation to average capital employed, where capital employed is equity and interest-bearing liabilities.

## NOTE 2

### ESTIMATES AND ASSESSMENTS

Scandinavian Enviro Systems AB makes estimates and assessments of the future which, from an accounting perspective, are important for the valuation of the Group's assets. Impairment testing of assets is based on the cash flows that are expected to incur in the future.

The valuation of the Group's intangible assets is based on the Group conducting sales of facilities, with an associated return. The assumptions underlying the valuation are that the sale of the plant will start in 2018 and that thereafter there will be a continuous sale of facilities in the following years. The assumptions are based largely on the market conditions that exist in terms of volumes and shortcomings in alternative recycling solutions for end-of-life tyres combined with the profitability of the company's process.

Impairment testing of assets is based on the cash flows that they are expected to incur in the future. The subsidiary Tyre Recycling in Sweden AB receives 2016 an annual market and sales contribution from the parent company of 25.0 MSEK. This contribution is intended to cover the additional expenses incurred by the parent company's activities for the sale of facilities. An impairment test, including this contribution, has been implemented and results in positive future cash flows.

The valuation of the company's plant in Åsensbruk takes place as it was taken into operation in 2016 and which the products produced can be disposed of. The valuation includes a large number of estimates, the most important being the capacity of the plant, capacity utilization and its rate of return. Since the plant has only been used for limited use, this can be considered to be an uncertainty factor.

A prerequisite for the company's sales plans to be realized is also that all the products produced in the process reach a continued market acceptance in the customer base.

A prerequisite for the Group's total sales plans to be realized is also that all the products intended to be produced in the process reach a market acceptance at the customer level. Before the customer tests that were implemented have resulted in such acceptance, there is an uncertainty in the assessment.

To ensure continuous operation, needs for future investment and participation in any joint ventures in connection with the sale of plants, the company predicts that there will be a need for an increase in capital in the second quarter of 2018. The form and size of the capital injection is partially dependent on the results of commercial negotiations and future decisions during the year. Unless such capital investment is secured, there will be uncertainty factors regarding the company's financial situation, which may lead to doubts about the company's ability to continue its planned activities. The report is prepared based on the premise of continued operation as the management believes that there are realistic alternatives in securing the necessary funds. In connection with the annual general meeting in 2018, the Board of Directors will ask the shareholders for authorization to implement one or more directed and/or preferential rights issues, which could be used as part of this process.

### NOTE 3 NET SALES DISTRIBUTED BY BUSINESS CATEGORY

	The Group		Parent Company	
	2017	2016	2017	2016
<i>Net sales are distributed by business categories according to the following:</i>				
Sale of facilities	-	-	-	-
Product sales	686	205	-	-
Service revenues	50	-	3 242	4 031
<b>Total</b>	<b>736</b>	<b>205</b>	<b>3 242</b>	<b>4 031</b>

### NOTE 4 OTHER OPERATING REVENUES

	The Group		Parent Company	
	2017	2016	2017	2016
Contribution from CORFO, Chile	1 102	-	1 102	-

### NOTE 5 REMUNERATION TO THE AUDITORS

	The Group		Parent Company	
	2017	2016	2017	2016
<b>PwC</b>				
Audit assignment	-109	-104	-109	-73
Tax advice	-23	-33	-23	-33
Other services	-66	-303	-66	-303
<b>Total</b>	<b>-198</b>	<b>-440</b>	<b>-198</b>	<b>-409</b>

### NOTE 6 OPERATIONAL LEASE AGREEMENTS

	The Group		Parent Company	
	2017	2016	2017	2016
<i>Future minimum lease fees, to be paid for non-cancelable lease agreements:</i>				
To become due for payment within one year	-1 471	-1 444	-136	-134
To become due for payment later than one year, but within five years	-1 525	-2 942	-79	-212
	<b>-2 996</b>	<b>-4 386</b>	<b>-215</b>	<b>-346</b>
During the period of expensed leasing	-1 520	-1 518	-149	-143

The operating lease for rented facilities/premises is contained in the corporate group's accounting the lease agreement for the Swedish factory property runs through 01-31-2020. The lease agreement for the office on Regnbågsgatan, Gothenburg, runs through 07-31-2019.

## NOTE 7 SALARIES, OTHER COMPENSATION, AND SOCIAL COSTS

	The Group		Parent Company	
	2017	2016	2017	2016
<b>Average number of employees</b>				
Women	2	1	2	1
Men	15	17	5	5
Total	17	18	7	6
<b>Salaries, compensation, social costs, and pension costs.</b>				
Salaries and other compensation	10 141	10 051	6 381	5 563
Social payments	3 155	3 010	1 956	1 595
Pension costs	1 073	1 052	975	808
<b>Total</b>	<b>14 369</b>	<b>14 113</b>	<b>9 312</b>	<b>7 966</b>
<b>Board of Directors, CEO, and management group</b>				
Salaries and other compensation	4 286	5 582	4 286	5 078
Pension costs	690	792	690	749
<b>Other employees</b>				
Salaries and other compensation	5 855	4 469	2 095	484
Pension costs	383	260	285	59

From parent company's pension costs, KSEK 690 (KSEK 749) applies to company's management, concerning 4 (6) individuals. From corporate group's retirement costs, KSEK 690 (KSEK 792) applies to company's management, concerning 4 (7) individuals.

From corporate group's salary costs, which include board remuneration reported as other costs, KSEK 815 (KSEK 788) applies to company's Board of Directors, concerning 8 (7) individuals.

### Compensation has been provided to the following individuals

Thomas Sörensson, CEO (began 02-15-2016) 1 145 KSEK (853 KSEK) and retirement 249 KSEK (177 KSEK)  
 Martin Hagbyhn, former CEO (ended 03-31-2016) – KSEK (645 KSEK) and retirement – KSEK (73 KSEK)  
 Stig-Arne Blom, Chairman of the Board 176 KSEK (176 KSEK)  
 Bengt Andersson, Director 105 KSEK (105 KSEK)  
 Mikael Fryklund, Director (resigned 05-04-2017) 44 KSEK (105 KSEK)

Anders Ilstam, Director 93 KSEK (88 KSEK)  
 Lennart Persson, Director 93 KSEK (88 KSEK)  
 Johanna Stenman, Director (resigned 02-27-2017) 18 KSEK (105 KSEK)  
 Stefan Tilk, Director 105 KSEK (105 KSEK)  
 Alf Blomqvist, Director (began 02-27-2017) 88 KSEK  
 Peter Möller, Director (began 02-27-2017) 88 KSEK  
 Remaining management group 2 270 KSEK (3 311 KSEK) and pension 441 KSEK (542 KSEK), concerning 3 (5) individuals

### Severance pay agreement

An agreement has been reached with the Chief Executive Officer for six months of severance pay, in the event that termination is initiated by the company.

### Board directors and senior executives

	The Group		Parent Company	
	2017	2016	2017	2016
<b>Number of board directors on balance sheet date</b>				
Women	-	1	-	1
Men	6	6	6	6
<b>Total</b>	<b>6</b>	<b>7</b>	<b>6</b>	<b>7</b>
<b>Number of chief executives and other senior executives</b>				
Women	-	1	-	1
Men	3	3	3	3
<b>Total</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>4</b>

## NOTE 8 GOODWILL

	The Group		Parent Company	
	2017	2016	2017	2016
Opening acquisition value	12 191	12 191	-	-
This year's changes				
<b>Closing balance acquisition value</b>	<b>12 191</b>	<b>12 191</b>	<b>0</b>	<b>0</b>
Opening depreciation	-3 658	-2 438	-	-
This year's changes				
Depreciation	-1 219	-1 219	-	-
<b>Closing accumulated depreciation</b>	<b>-4 876</b>	<b>-3 657</b>	<b>0</b>	<b>0</b>
<b>Outgoing residual value according to plan</b>	<b>7 314</b>	<b>8 533</b>	<b>0</b>	<b>0</b>



## NOTE 9 EQUIPMENT, TOOLS AND INSTALLATIONS

	The Group		Parent Company	
	2017	2016	2017	2016
Opening acquisition value	367	367	367	367
This year's changes				
Purchases	-	-	-	-
<b>Closing balance acquisition value</b>	<b>367</b>	<b>367</b>	<b>367</b>	<b>367</b>
Opening depreciation	-244	-210	-244	-210
This year's changes				
Depreciation	-34	-34	-34	-34
<b>Closing accumulated depreciation</b>	<b>-278</b>	<b>-244</b>	<b>-278</b>	<b>-244</b>
<b>Outgoing residual value according to plan</b>	<b>89</b>	<b>123</b>	<b>89</b>	<b>123</b>

## NOTE 10 CONCESSIONS, PATENTS, LICENSES, AND SIMILAR RIGHTS

	The Group		Parent Company	
	2017	2016	2017	2016
Opening acquisition value	6 313	5 742	6 313	5 742
This year's capitalized expenses, purchases	380	572	380	572
Sales and disposals	-	-	-	-
<b>Closing balance acquisition value</b>	<b>6 693</b>	<b>6 313</b>	<b>6 693</b>	<b>6 313</b>
Opening depreciation	-1 735	-1 362	-1 735	-1 362
Sales and disposals	-	-	-	-
This year's depreciation	-544	-373	-544	-373
<b>Closing accumulated depreciation</b>	<b>-2 279</b>	<b>-1 735</b>	<b>-2 279</b>	<b>-1 735</b>
<b>Outgoing residual value according to plan</b>	<b>4 414</b>	<b>4 578</b>	<b>4 414</b>	<b>4 578</b>

## NOTE 11 MACHINERY AND OTHER TECHNICAL FACILITIES

	The Group		Parent Company	
	2017	2016	2017	2016
Opening acquisition value	77 601	78 854	-	-
This year's changes				
Purchases	19	1 607	-	-
Sales and disposals	-	-2 860	-	-
<b>Closing balance acquisition value</b>	<b>77 620</b>	<b>77 601</b>	<b>-</b>	<b>-</b>
Opening depreciation	-1 364	-	-	-
Sales and disposals	-	-	-	-
This year's depreciation	-5 628	-1 364	-	-
<b>Closing accumulated depreciation</b>	<b>-6 992</b>	<b>-1 364</b>	<b>-</b>	<b>-</b>
<b>Outgoing residual value according to plan</b>	<b>70 628</b>	<b>76 237</b>	<b>-</b>	<b>-</b>

## NOTE 12 OTHER INTEREST INCOME AND SIMILAR PROFIT/LOSS ITEMS

	The Group		Parent Company	
	2017	2016	2017	2016
Lease revenues	106	112	90	107
<b>Total</b>	<b>106</b>	<b>112</b>	<b>90</b>	<b>107</b>

### NOTE 13 INTEREST EXPENDITURES AND SIMILAR PROFIT/LOSS ITEMS

	The Group		Parent Company	
	2017	2016	2017	2016
Other interest income and similar profit/loss items	-854	-1 265	-68	-81
<b>Total</b>	<b>-854</b>	<b>-1 265</b>	<b>-68</b>	<b>-81</b>

### NOTE 14 TAX ON THIS YEAR'S PROFIT

	The Group		Parent Company	
	2017	2016	2017	2016
Tax on this year's profit	0	0	0	0
Pre-tax gain or loss recognized	-36 918	-34 452	-35 493	-33 092
Taxes calculated according to current tax rate (22%)	8 122	7 579	7 808	7 280
Tax effect from non-deductible expenses	-36	-16	-31	-10
Tax effect from deductible expenses that are reported against equity	-	1 669	-	1 669
Non-reported part of unused tax losses	-8 086	-9 232	-7 777	-8 939
<b>Reported tax costs</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Parent company and companies within the Group have accumulated unused tax losses. For the tax year 2017 unused tax losses in the Group amount to 172 674 KSEK (137 165 KSEK), and in the parent company they amount to 168 238 KSEK (132 913 KSEK). As a result of historical results, deferred tax recoverable with reference to unused tax losses have not been reported. The underlying value of the deferred tax with reference to these deficits in the corporate group amount to 37 988 KSEK (30 176 KSEK) and in the parent company they amount to 37 012 KSEK (29 241 KSEK).

### NOTE 15 CAPITALIZED EXPENDITURES FOR DEVELOPMENT

	The Group		Parent Company	
	2017	2016	2017	2016
Opening acquisition value	49 401	47 505	49 351	47 455
This year's capitalized expenses, purchases	1 823	1 896	1 823	1 896
<b>Closing balance acquisition value</b>	<b>51 224</b>	<b>49 401</b>	<b>51 174</b>	<b>49 351</b>
Opening depreciation	-1 186	-	-1 186	-
Sales and disposals	-	-	-	-
This year's depreciation	-4 901	-1 186	-4 901	-1 186
<b>Closing accumulated depreciation</b>	<b>-6 087</b>	<b>-1 186</b>	<b>-6 087</b>	<b>-1 186</b>
<b>Outgoing residual value according to plan</b>	<b>45 137</b>	<b>48 214</b>	<b>45 087</b>	<b>48 164</b>

The amortization period for balanced expenditures is ten years. This result is because the company anticipates that those capitalized expenses will generate an added value that at least reaches this length of time. The amortization period is also justified by the company's intellectual property protection which, from a broader perspective, reflected by the company's patents, through which these expenses are partially tied, essentially extend over a longer period than this.

### NOTE 16 PREPAID COSTS AND ACCRUED INCOME

	The Group		Parent Company	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Prepaid rents	368	367	34	33
Other items	468	450	378	409
	<b>836</b>	<b>817</b>	<b>412</b>	<b>442</b>

## NOTE 17

### NON-CURRENT LIABILITIES

	The Group		Parent Company	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
<b>Long-term liabilities apply to payments according to the following:</b>				
<i>Liabilities to credit institutions</i>				
Between 1 and 5 years	7 056	13 266	-	-
<b>Total</b>	<b>7 056</b>	<b>13 266</b>	<b>-</b>	<b>-</b>

## NOTE 18

### LIABILITIES THAT APPLY TO SEVERAL ITEMS

	The Group		Parent Company	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
<b>Non-current liabilities</b>				
Other liabilities to credit institutions	7 056	13 266	-	-
<b>Current liabilities</b>				
Other liabilities to credit institutions	11 100	8 152	4 500	552
<b>Total</b>	<b>18 156</b>	<b>21 418</b>	<b>4 500</b>	<b>552</b>

## NOTE 19

### ACCRUED EXPENSES AND PREPAID REVENUES

	The Group		Parent Company	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Accrued interest expenses	83	35	55	2
Accrued vacation salaries	1 041	920	559	399
Accrued social costs	546	508	316	238
Other items	1 310	2 689	1 085	2165
<b>Total</b>	<b>2 980</b>	<b>4 152</b>	<b>2 015</b>	<b>2 803</b>

## NOTE 20

### SHARE CAPITAL

Share capital consists of 116,370,291 shares with a ratio value of 0.04 sek/share.

## NOTE 21

### PLEGDED COLLATERAL

	The Group		Parent Company	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
<b>Personal deductions and liabilities</b>				
<i>Concerning liabilities to credit institution</i>				
Floating charges	39 350	39 350	-	-
Blocked funds	1 386	2 768	1 252	93
<b>Amount of pledged collateral</b>	<b>40 736</b>	<b>42 118</b>	<b>1 252</b>	<b>93</b>

Out of a total of 2 868 KSEK of reported patents, a certain amount are pledged on behalf of the subsidiary

## NOTE 22 CONTINGENT LIABILITIES

	The Group		Parent Company	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
<b>Contingent liabilities</b>				
Guarantees for subsidiary	-	-	13 656	19 450
<b>Total contingent liabilities</b>	<b>0</b>	<b>0</b>	<b>13 656</b>	<b>19 450</b>

## NOTE 23 ADJUSTMENT FOR ITEMS NOT INCLUDED IN CASH FLOW, ETC.

	The Group		Parent Company	
	2017	2016	2017	2016
Depreciation	-12 326	-4 178	-5 478	-1 594
Retyrements	-	-2 860	-	-
<b>Total adjustments</b>	<b>-12 326</b>	<b>-7 038</b>	<b>-5 478</b>	<b>-1 594</b>

## NOTE 24 NON-MATERIAL CASH TRANSACTIONS IN INVESTMENT AND FINANCING OPERATIONS

During this year, no non-material cash transactions were executed.

## NOTE 25 LIQUID ASSETS

	The Group		Parent Company	
	2017	2016	2017	2016
Bank deposits	9 466	40 315	8 342	36 784
<b>Liquid assets in cash flow analysis</b>	<b>9 466</b>	<b>40 315</b>	<b>8 342</b>	<b>36 784</b>

Out of corporate group's bank deposits, 1 386 KSEK (2 768 KSEK) is made up of av blocked bank funds. Out of parent company's bank deposits, 1 252 KSEK (93 KSEK) consists of blocked bank funds.

## NOTE 26 ADJUSTMENTS

	2017	2016
Group contributions received	5 000	5 000
<b>Total</b>	<b>5 000</b>	<b>5 000</b>

## NOTE 27 SHARES IN GROUP COMPANIES

	2017	2016
Opening balance acquisition value	36 891	36 891
<b>Closing balance acquisition value</b>	<b>36 891</b>	<b>36 891</b>
<b>Outgoing residual value according to plan</b>	<b>36 891</b>	<b>36 891</b>

The Group	Org nr	Domicile	Equity share (%)
Tyre Recycling in Sweden AB	556784-1787	Gothenburg	100,0
SES IP AB	556894-0695	Gothenburg	100,0
BSIP Innovation AB	556950-7469	Gothenburg	100,0

Parent company	Capital share %	Voting rights share %	Number of shares	Equity	Book value 12-31-17	Book value 12-31-16
Tyre Recycling in Sweden AB	100	100	1 000 000	24 081	24 600	24 600
SES IP AB	100	100	500	37	50	50
BSIP Innovation AB	100	100	100	47	12 241	12 241
<b>Total</b>				<b>24 165</b>	<b>36 891</b>	<b>36 891</b>

## NOTE 28

### TRANSACTIONS WITH RELATED PERSONS

#### Executed transactions with related persons

One venture capital financing by 4 of the board's members of a total of KSEK 1,500 was contracted in December 2017 on market rate terms. The contract's interest rate was 12% p/a. KSEK 1,200 of this amount runs to 05-31-2018 and KSEK 300 of this amount ran until 02-28-2018. No further transactions were executed with related persons during current or previous years.

	2017	2016
<b>Sales to Group companies</b>		
Share of annual purchases and sales related to Group companies is provided below.		
Purchases, (%)	81	75
Sales, (%)	98	100
	-	-
<b>Loans to Group companies</b>		
Loans to Tyre Recycling in Sweden AB:		
Opening balance 01-01-2016	31 646	30 996
Additional loans	-	650
Amortization	-275	-
<b>Closing balance 2017-12-31</b>	<b>31 370</b>	<b>31 646</b>

Loan to Tyre Recycling in Sweden AB is interest-free and without a fixed repayment date.

#### Loans and contingent liabilities for benefit of senior executives

The company has provided a loan for KSEK 0 (2 KSEK) to Olov Ershag, member of the management group for Scandinavian Enviro Systems AB (publ). The loan was provided in 2012 as part of the arrival of Däcktrusten AB and is amortized for 5 years and runs with STIBOR for 3 months plus 3%. In the current year the loan was repaid with KSEK 2 (KSEK 18).

#### Other

Separate notes contain information on

- salaries etc. to the Board and CEO
- pledged assets for Group companies
- contingent liabilities for Group companies
- KL Ventures AB and Hans Andersson Recycling AB have issued a surety of 50% for a loan which the parent company has in SEB. The loan's final amortization was in 2017.
- Pegroco Invest AB has issued a surety for a venture capital financing for KSEK 4,500, which the parent company has in Swedbank. The loan is redeemable in 05-31-2018.

## NOTE 29

### EVENTS FOLLOWING BALANCE DATE

In December 2017, a venture capital financing of a total of KSEK 6,000 was included, which matures in 02-28-2018. This venture capital financing was issued by the owners and parts of the Management Board. Of this bridge financing, a subsequent KSEK 5,700 was extended to 05-31-2018. In connection to this extension, a new bridge financing for KSEK 7,500 was included, which matures in 05-31-2018. This bridge financing was issued by Pegroco Holding AB, the company's largest owner.

The cooperation with Vanlead Group regarding a recycling plant in Guangzhou, China, has been discontinued.

## NOTE 30

### PROPOSED DISPOSITION OF PROFIT

The following profits are at the disposal of the annual general meeting:

Premium fund	261 240
Retained earnings	-115 885
<b>Results for the year</b>	<b>-35 493</b>
	<b>109 862</b>

The Board of Directors propose that the profits be disposed so that:

In a new accounting, to be transferred	109 862
	<b>109 862</b>

RESULT AND BALANCE ACCOUNTING WILL BE SUBMITTED TO THE ANNUAL GENERAL MEETING  
IN 05-03-2018, FOR CONFIRMATION.

GOTHENBURG APRIL 11, 2018

THOMAS SÖRENSON  
CEO

ALF BLOMQVIST  
ACTING CHAIRMAN

PETER MÖLLER

STEFAN TILK

LENNART PERSSON

ANDERS ILSTAM

OUR AUDIT REPORT WAS SUBMITTED \_\_\_\_\_

PRICEWATERHOUSECOOPERS AB

JOHAN PALMGREN  
CERTIFIED PUBLIC ACCOUNTANT

## Report on the annual accounts and consolidated accounts

### *Opinions*

We have audited the annual accounts and consolidated accounts of Scandinavian Enviro Systems AB (publ), for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 24-46 in this document.

In our opinion, the annual accounts and consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company and the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

### *Basis for Opinions*

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

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

### *Other Information than the annual accounts and consolidated accounts*

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises of page 1-23 but does not include the annual accounts, consolidated accounts and our auditor's report thereon.

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

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

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

### *Emphasis of matter*

Without having any effect on our statement above we want to draw attention to the information in the administration report within the annual accounts and the consolidated accounts, where it is stated that the company is planning for a capital contribution in 2018 in order to manage the liquidity, which could be in the form of a new shares issue. As stated in the administration report, this is not yet guaranteed. These conditions indicate the existence of an uncertainty that may cast significant doubt about going concern.

### *Responsibilities of the Board of Directors and the Managing Director*

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

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

### *Auditor's responsibility*

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect

a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

## Report on other legal and regulatory requirements

### *Opinions*

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Scandinavian Enviro Systems AB (publ), for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### *Basis for Opinions*

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### *Responsibilities of the Board of Directors and the Managing Director*

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

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

### *Auditor's responsibility*

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

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

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

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

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

Göteborg 11 April 2018  
PricewaterhouseCoopers AB

Johan Palmgren  
Authorized Public Accountant



**enviro**  
SCANDINAVIAN ENVIRO SYSTEMS  
TYRE RECYCLING

SCANDINAVIAN ENVIRO SYSTEMS AB (PUBL) | REG. NO. 556605-6726  
REGNBÅGSGATAN 8C, 417 55 GOTHENBURG, SWEDEN | [WWW.ENVIROSYSTEMS.SE](http://WWW.ENVIROSYSTEMS.SE)