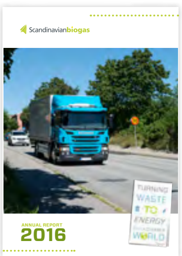
Scandinavianbiogas

TURNING WASTE TO ENERGY FOR A CLEANER WORLD

ANNUAL REPORT
2016

Every care has been taken in the translation of this annual report. In the event of discrepancies, however, the Swedish original will supersede the English translation.

Contents



The market for biogas for heavy trucks is growing, and several truck makers are involved in the development and use of biogas in their trucks. On the cover: Scania's P 280 truck, which can be run on biogas.

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About Scandinavian Biogas

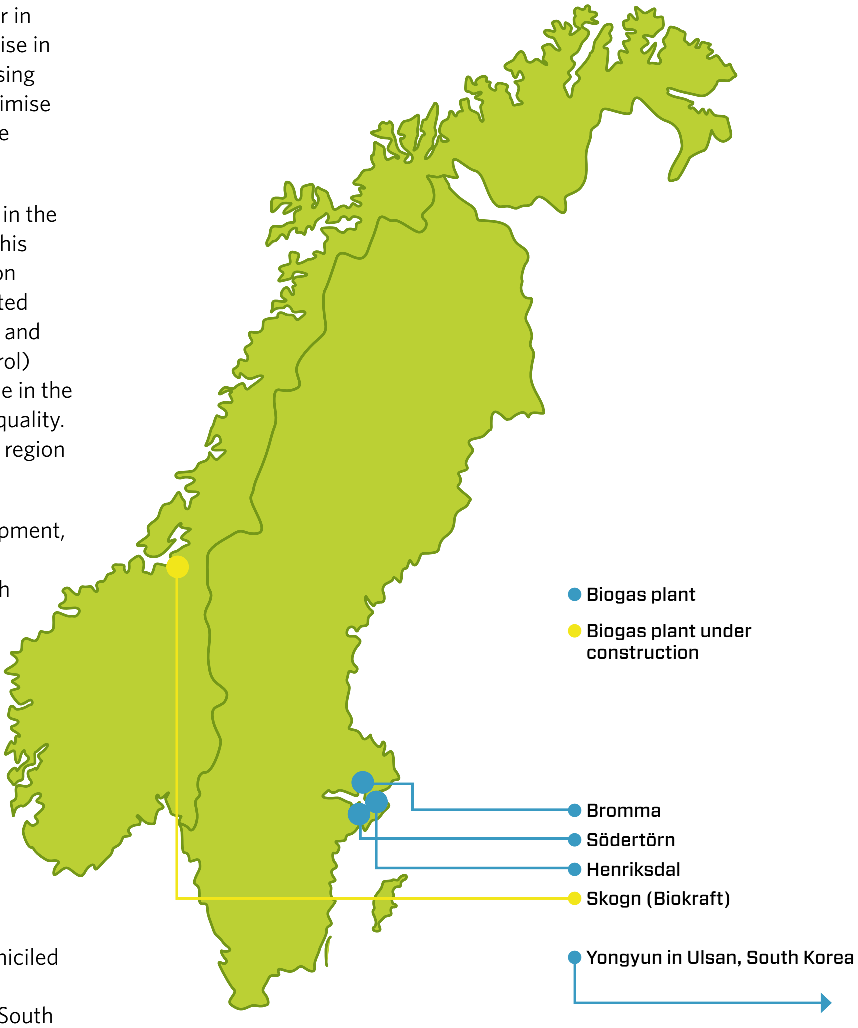
Scandinavian Biogas, founded in 2005, is a leading player in large-scale biogas production, with world-leading expertise in the design and operation of biogas facilities – encompassing everything from pre-treatment to fuel upgrading – to optimise biogas production. The Group's focus is on facilitating the transition from fossil fuels to renewable energy.

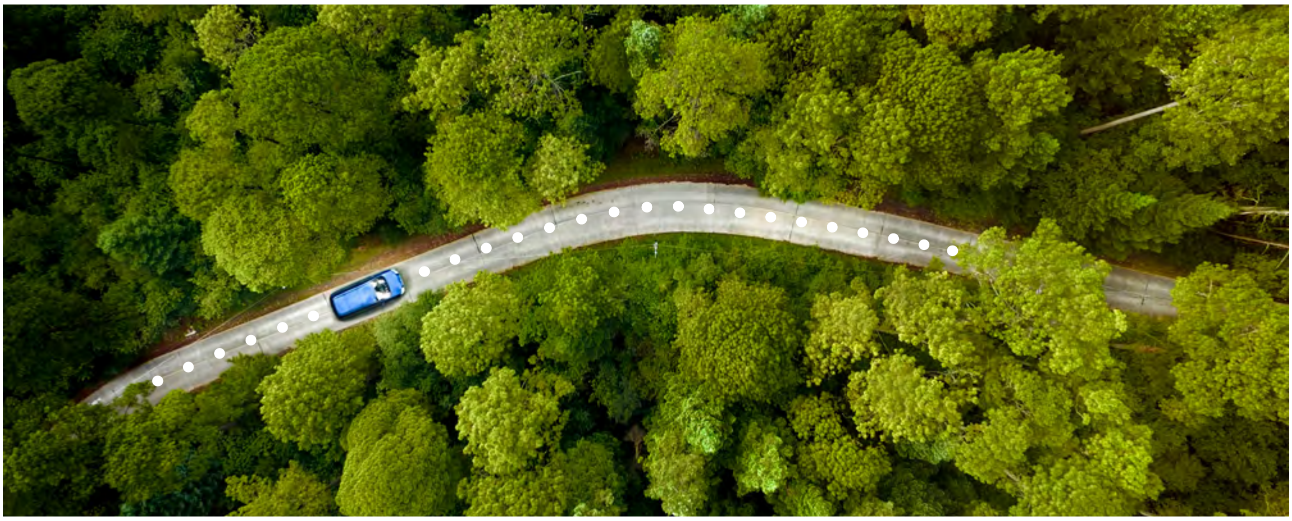
Scandinavian Biogas's business concept is to be a leader in the design, management and operation of biogas facilities. This is achieved by constantly improving the biogas production digestion process from various types of biomass, generated primarily from wastewater treatment sludge, food waste and industrial processes such as food and biofuel (e.g., glycerol) manufacturing. The Group also provides leading expertise in the purification process for upgrading biogas to vehicle fuel quality. Scandinavian Biogas is focused on markets in the Nordic region and South Korea.

With the Group's strategic focus on research and development, Scandinavian Biogas places high priority on developing methods to improve biogas production efficiency for both established and new types of waste, residue and other organic material. Cost and resource efficiency improvements to production are made possible thanks to the Company's expertise and methodology.

The Company currently has four plants in operation: three in Sweden and one in South Korea. Total biogas sales increased 67 per cent during the 2011-16 period, from 129 GWh to 215 GWh. Investments are being made in Norway in a new liquid biogas plant adjacent to a pulp and paper mill.

Scandinavian Biogas Fuels International AB (publ) is domiciled and headquartered in Stockholm. At year-end 2016, the Company had 44 (38) employees in Sweden, 20 (21) in South Korea and 7 (n/a) in Norway.





2016 in brief

Key events

- **Issue and listing of corporate bond**
  Scandinavian Biogas issued an SEK 200 million corporate bond in early 2016 that was subsequently listed on NASDAQ Stockholm. The first trading day was April 8th 2016. From the listing date through the end of the year, the bond traded at a high of SEK 101.0 and a low of SEK 99.0.

- **Business combinations**
  The Group acquired the majority of the shares in Biokraft Holding AS in early 2016. The acquisition represents the Company's establishment in the Norwegian market. Biokraft AS, a wholly owned subsidiary of Biokraft Holding AS, is in the process of constructing a biogas plant adjacent to Norske Skog's paper mill in Skogn, outside Trondheim. The plant will produce liquid biogas from substrate generated primarily from fishing industry waste. When fully operational, the plant is expected to have a production capacity of approximately 12 million normal cubic metres (Nm^3) of liquid biogas (equivalent to 120 GWh). The plant is expected to be in operation before the end of 2017.

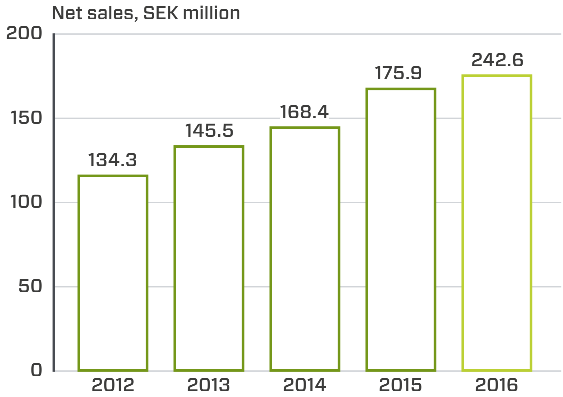
- **Expansion of Henriksdal plant**
  Sections of the ongoing expansion project in Henriksdal were completed during second quarter 2016, and rental payments to Stockholm Vatten (a water and wastewater company) have commenced. Some minor sections remain to be completed.

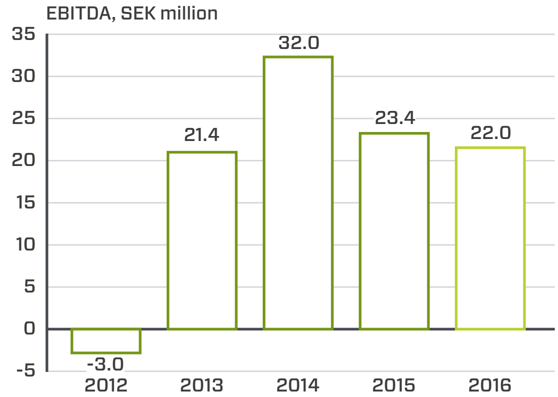
- **Expansion inauguration**
  The new production line in Henriksdal was inaugurated on April 28th 2016 by Stockholm Vice Mayor of Environment Katarina Luhr and Stockholm County Council Commissioner of Transportation Kristoffer Tamsons. At full capacity, the new line is expected to be able to produce 12.5 Nm^3 of upgraded biogas (equivalent to 125 GWh), meaning that the entire facility is expected to have an annual production capacity of approximately 200 GWh at full capacity.

- **Foundation stone laid in Skogn**
  Norwegian Oil and Energy Minister Tord Lien and Fisheries Minister Per Sandberg laid the foundation stone for the biogas production facility in Skogn at a ceremony on November 29th 2016.

Performance in 2016

Group biogas sales, 2016	Group organic waste management, 2016	Group's net sales
228 GWh	**118,000** tonnes	**243** SEK M
(171 GWh)	(99,000 tonnes)	(176 SEK M)





Scandinavian Biogas Fuels International AB

Group, SEK thousand	2016	2015	2014	2013	2012
Net sales	242,610	175,891	168,376	145,488	134,266
EBITDA	21,972	23,358	31,958	21,407	-2,955
EBITDA %	9.1%	13.3%	19.0%	14.7%	-2.2%
EBIT	-24,58	-16,817	-5,281	-9,191	-15,490
EBIT, %	-10.1%	-9.6%	-3.1%	-6.3%	-11.5%
Balance sheet total	1,026,648	760,652	628,037	428,741	419,777
Adjusted equity/assets ratio, %	25.5%	28.6%	30.8%	41.9%	37.9%

See Note 36 for definitions.

CEO commentary

Scandinavian Biogas has now closed another eventful year. We finalised our investment in Biokraft in Norway and became majority shareholder. With production of liquid biogas based on feedstock from the fishing and forestry industries, we are expanding our portfolio and gaining an exciting new revenue stream that has great potential.

Our investment in a new line at Henriksdal in Stockholm was completed during the year, increasing our capacity. We also became the first biogas producer in Sweden to list a bond on the open market. The issue brought in SEK 200 million, which was used to finance the acquisition of Biokraft – a key step in our diversification and growth strategy.

The Company performed well in 2016 and, with the acquisition of Biokraft in Norway, took a major step forward in developing the biogas market. The Group intends to build an entirely new facility for liquid biogas (LBG) in Norway during 2017. The new facility will be built adjacent to Norske Skog AS's paper mill in Skogn outside of Trondheim, and is scheduled for commissioning during the second half of 2017.

Biogas production during the year

Biogas sales for the year totalled 228 gigawatt hours, with 167 GWh generated by our Swedish plants at Henriksdal, Bromma and Södertörn and 61 GWh by the plant in South Korea. This represents a year-on-year sales increase of 57 gigawatt hours. With the exception of operational disturbances at the Södertörn start-up, the plants continued to deliver in accordance with their full technical production capacity for the fourth consecutive year.

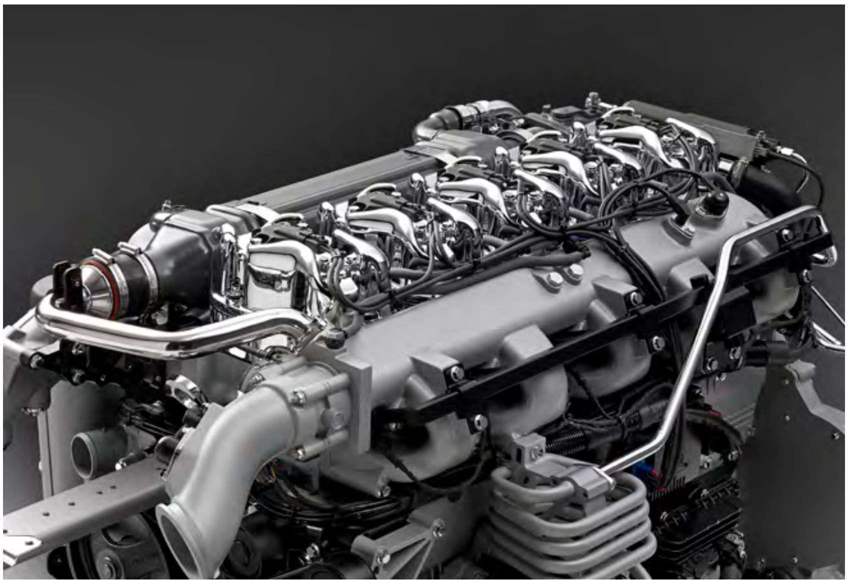
A climate policy with targets, but without funding

The Paris Agreement took effect in 2015, with the world's nations uniting in efforts to limit the global warming temperature to 1.5 degrees. In Sweden, the Environmental Objectives Council submitted its climate policy framework report in June. The report stated that the transport sector is the key to achieving zero emissions in Sweden by 2045 and that powerful policy instruments need to be adopted in the near future if this is to be achieved. The same applies to the target of achieving a fossil-independent vehicle fleet by 2030, corresponding to a 70 per cent reduction in emissions by 2030 compared with 2010.

In short, there is no lack of global and national targets. Unfortunately, politics has still not managed to create long-term and predictable support systems – on either the production or

"The Company performed well in 2016 and, with the acquisition of Biokraft in Norway, took a major step forward in developing the biogas market."

Matti Vikkula
President and CEO



Scania's 9-litre biogas engine, up to 340 hp.

"Both Volvo and Scania have developed trucks that run on biogas – a key prerequisite for increasing biogas market share in heavy commercial traffic."

consumption side – to achieve these targets. We, the biogas and biofuel actors, are currently waiting for information on the design of future support systems. The proposal for an incentive/penalty model delivered by the investigator in April 2016 was a major disappointment for the entire industry and drew heavy criticism from many consultation bodies. Carmakers, company car purchasers and private consumers are all waiting to see what the future holds.

Growing market for biogas in commercial transport

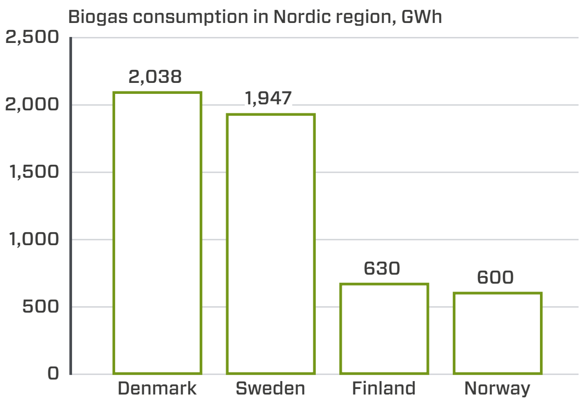
The primary driving force in the biogas market in 2016 was public and commercial transport, which continues its commitment to biogas. Both Volvo and Scania have developed trucks that run on biogas – a key prerequisite for increasing biogas market share in heavy commercial traffic. In terms of heavy vehicles, an increased supply of LBG is particularly important – this is one of the demands that the new LBG production facility in Norway is intended to meet.

The future of biogas in the Nordic region

Biogas use is around 5 TWh in the Nordic countries, with Sweden and Denmark in first place (around 2 TWh each). Conditions for biogas are better in countries that have a developed gas infrastructure, so there is great potential in Denmark, Norway and Finland.

In terms of policy instruments, the biogas situation is much more favourable in the other Nordic countries than in Sweden. If biogas is to have a serious chance of winning market share from the 75+ TWh of fossil fuel used each year in the Swedish transport sector, ground rules are needed that extend beyond one political term of office. The political target for 2030 is a 70 per cent emissions reduction for the Swedish transport sector. With current traffic volumes, this means that significantly larger volumes of renewable fuel will be needed. The main competitor for biogas is therefore fossil fuel – not other renewable fuels.

We are, naturally, promoting our own agenda. But the question that needs to be asked is: which avenues are truly open to us for achieving climate targets, without sacrificing the local environment? At the end of the day, it is a question of political priorities, on the national and EU levels. Meanwhile, 16 of the 17 hottest years known to mankind occurred during the 2000s. Rarely has being a leading biogas producer felt more right.



Stockholm, March 2017

Matti Vikkula
President and CEO

Strategy

Business concept

Our business concept is to be a leader in the design, management and operation of biogas plants.

Vision – how we generate value for shareholders

Our vision is to be world-leading in large-scale biogas production.

Mission – our contribution to society

Our mission is to help make possible the transition from fossil fuels to renewable energy.

Strategy

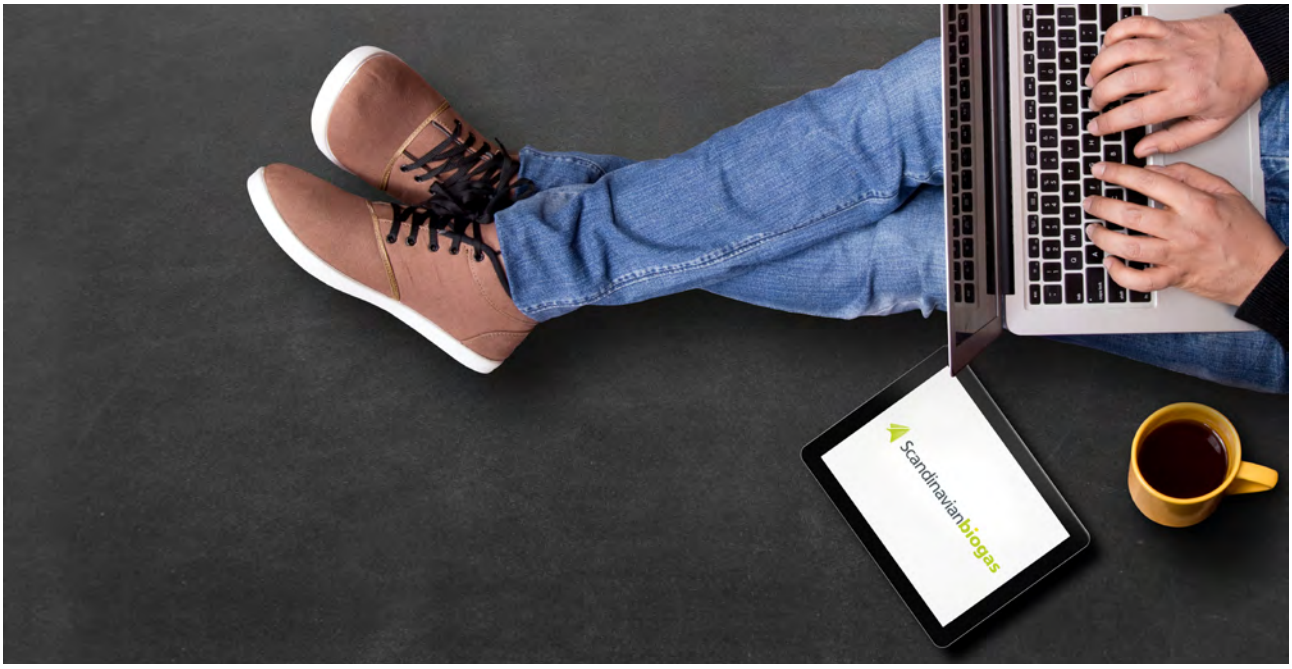
The Company's strategy is to secure long-term strategic partnerships with suppliers and customers centred on biogas production facilities. Scandinavian Biogas's market-leading expertise in designing plants, optimising digestion processes and upgrading raw gas to vehicle gas has enabled us to form trusting relationships with local and regional players. An example of this is the partnership with Stockholm Vatten, with whom Scandinavian Biogas now has a long-term agreement covering the conversion of local waste resources into biogas.

In the absence of a national gas grid in Sweden, the markets for compressed biogas (CBG) are largely local and regional. A foundation of the strategy has therefore been to create a dominant position in the Stockholm region. The facilities at Henriksdal and Bromma and the pre-treatment plant at Södertörn are leased under long-term agreements. The supply of raw gas to Henriksdal and Bromma is secured through 2038 under an agreement with Stockholm Vatten. Provisions for most of production are already secured through long-term supply agreements, including with Stockholm Public Transport (SL).

The next step involves increasing the production capacity for liquid biogas (LBG), which will provide access to national gas markets. The investment in Biokraft in Norway is a step in this strategic direction.

Strategic objectives

- Continuously improve efficiency at existing plants
- Increase competitiveness through research and development
- Create new growth projects in close collaboration with partners and customers
- Help build the biogas market by also supplying liquid biogas (LBG)
- Develop partnerships with municipalities and private operators
- Increase demand for biogas with particular focus on heavy vehicles



Market and key drivers

Biogas is a renewable energy source with a bright future. It has traditionally been viewed as a relatively small-scale energy source. But due to the extreme flexibility of biogas, it can be used in a wide range of applications – from cars to large vessels. Basically all organic waste can be used as feedstock, which further increases biogas's potential. It can be blended with natural gas, which means that existing gas infrastructure can be used to distribute biogas. And, because biogas emits far fewer particulates than other vehicle fuels do, it benefits the local environment.

Biogas consumption in Scandinavian Biogas markets

Biogas consumption in Sweden

- Biogas consumption increased 61 per cent during the 2006-15 period (driven mainly by increased use of upgraded biogas), corresponding to nearly 63 per cent of all vehicle gas sales in 2015
- In the transport sector, biogas consumption increased more than five times during the 2006-15 period
- The Swedish biogas market is distinguished by having a large number of small-scale operators
- The Energigas Sverige trade association has a target of increasing biogas production to 3 TWh by 2020, a 54 per cent increase over 2015
- New biogas facilities can be built in partnership with, e.g., the pulp and paper industry, which produces various substrates as by-products

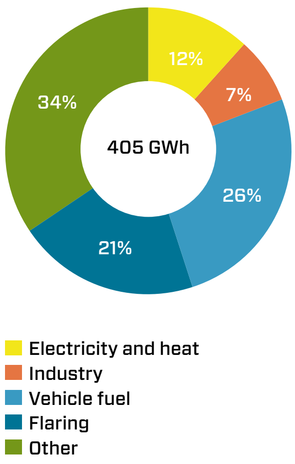
Biogas consumption in Norway

- Biogas is becoming an increasingly important energy source
- Gas-powered buses are driving demand for biogas
- Upgraded biogas still accounts for a small share of total biogas consumption, but is expected to increase along with demand for vehicle gas
- Norway's biogas production is the least developed among Nordic countries, although there is a clear strategy to increase production in coming years
- There is great potential within shipping, where liquid biogas can be used as a natural gas supplement and an oil substitute
- The Norwegian Environment Agency estimates that a production increase from 0.6 TWh in 2015 to nearly 1 TWh in 2020 is a realistic scenario

Biogas consumption in South Korea

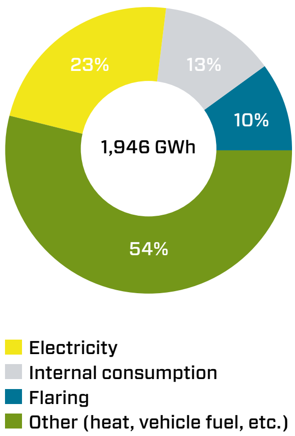
- The market is comprised of a few large-scale biogas plants
- Electricity and heat production account for most biogas consumption, with vehicle fuel accounting for only a small percentage
- The main focus of biogas production is electricity generation, which is expected to increase 27 per cent by 2020
- Several biogas plants are under construction and 454 GWh in annual biogas production is expected to be added by 2017

Biogas consumption, Norway 2015



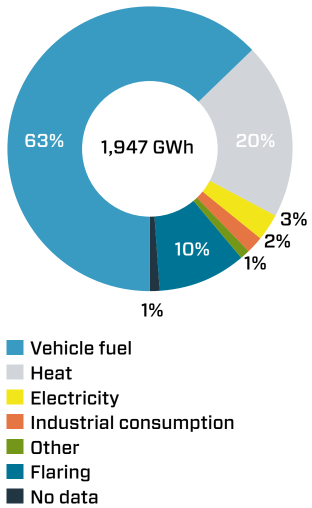
Norway's strategy is to increase biogas availability by expanding biogas production. The market is largely driven by the public bus system.

Biogas consumption, South Korea 2015



The market is comprised of a few large biogas plants, from which a large proportion of the biogas produced is used for electricity or heat. Only a small part is used for vehicle fuel.

Biogas consumption, Sweden 2015



Development is driven by state and municipal environmental targets. Sweden is currently the world leader in the use of biogas as vehicle fuel, a large proportion of which is used by municipal bus services.

The biogas market

There are five main markets for biogas, and Scandinavian Biogas intends to be active in all segments. The main focus is currently on light vehicles and buses, while the heavy transport segment is starting to grow. The key to realising the long-term potential of biogas lies in scaling up production of liquid biogas far above current volumes.

Light vehicles	Buses	Heavy transport	Industry	Shipping
• CBG • Local market • Potential ~4 TWh	• CBG • Local market • Potential ~4 TWh	• LNG/LBG • Scandinavian market • Potential ~10 TWh	• LNG/LBG • Scandinavian market • Potential ~20 TWh	• LNG/LBG • Scandinavian market • Potential ~96 TWh

Scandinavian Biogas

Light vehicles

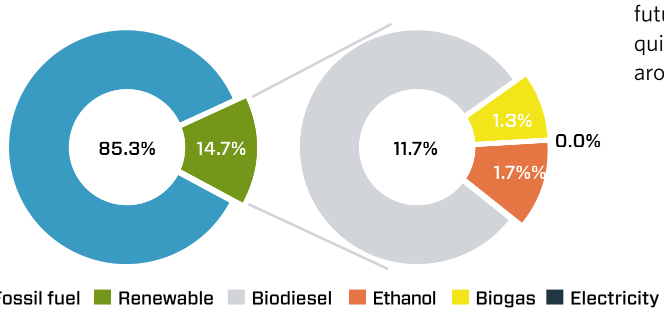
Local and regional markets for CBG for light vehicles has until now been the main segment for biogas, although growth will likely stagnate if new policy instruments are not introduced. Development is also hampered by the limited supply of natural gas vehicles.

The light vehicle market is also restrained by the lack of filling stations, which are mainly concentrated in metropolitan areas, along the natural gas pipeline on Sweden's west coast (with a detour to Gnosjö in Småland), and in Bergslagen. Currently, though, it is entirely possible to drive a natural gas vehicle throughout Göta- and Svealand and along the entire Norrland coast. The network of natural gas filling stations is less developed in Norway, though there are plans for expansion.

Buses

The public transport market for biogas is strong and will remain crucial to the sector's development. In 2015, 17 per cent of Sweden's buses ran on biogas. A leading factor has been that municipalities, often responsible for city traffic, also oversee water and wastewater treatment. This allows for creation of a cycle that is also financially advantageous for the municipality. The largest single operator in Sweden is Stockholm Public Transport (SL), which had 328 biogas buses in operation in 2015. The Norwegian equivalent in Oslo (Ruter) intends to greatly expand its use of biogas.

Fuel consumption in road transport sector, Sweden 2015



Source: Transport Industry Energy Consumption 2015, Swedish Energy Agency, 2016, p. 20.

Heavy transport

Enabling the use of biogas in heavy transports requires an increased supply of liquid biogas (LBG), greater filling station accessibility, and the development of new truck models by vehicle makers. Much has happened in the latter area – including the introduction of new models by IVECO, Scania, Volvo and MAN. Since heavy transport is largely integrated across national borders, Sweden and Norway are impacted by developments in other European countries. Interest in energy gas trucks is increasing, particularly in France, Benelux and Eastern Europe.

Industry

Most of the industries that currently use energy gas are located along existing gas grids. Several companies – including SSAB in Borlänge, Nynäs Refinery in Nynäshamn and Gyproc in Bålsta – have recently switched from oil burners to liquid natural gas for financial and environmental reasons. Gyproc uses around 150 GWh of energy gas per year. In order for biogas to achieve a real impact, stronger financial incentives to increase biogas blend and an increased production of liquid biogas are required.

Shipping

The shipping sector has increased its use of liquid natural gas (LNG) and is paving the way for increased blends of liquid biogas. Several major shipping companies have already commissioned vessels fuelled with liquid gas. The key drivers for this trend have been the sector's environmental ambitions and tough new sulphur emissions standards for the Baltic Sea. Carbon dioxide emissions can be reduced by around 30 per cent using natural gas instead of heavy oil, and by 90 per cent using biogas. This segment is therefore of great interest for the future. As an example, the Viking Grace ferry alone would require around 300 GWh of energy gas per year, corresponding to around 18 per cent of total current Swedish biogas production.

The biogas cycle

1. Recycling of organic waste and residues

2. Waste is digested into biogas

3. Biogas is processed into fuel – CBG or LBG

4. Excess energy is used for heat and electricity

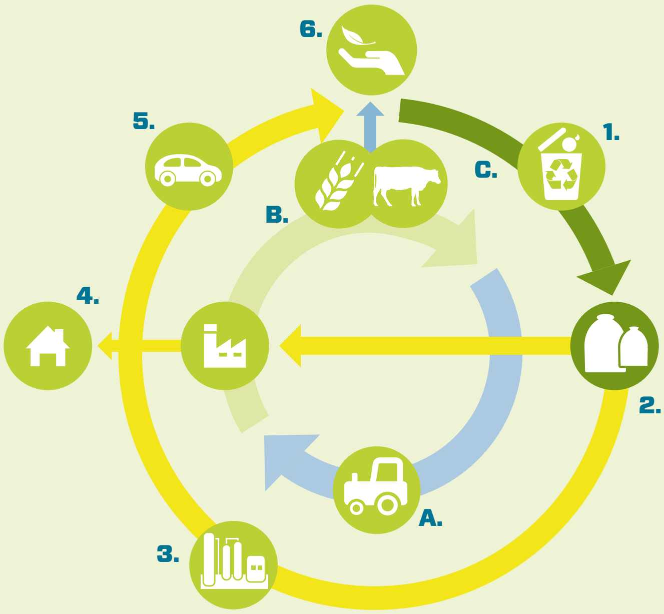
5. Biogas is used as fuel such as compressed gas (CBG) or liquid biogas (LBG)

6. The cycle is closed

A. The bio-fertiliser formed during the biogas production process contains key, finite nutrients, which are returned to the earth via agriculture

B. Agriculture yields a harvest that provides food for humans and animals

C. Organic waste (e.g., food waste and manure) is formed



Biogas feedstock is comprised of organic waste and residue which is converted to gas though a digestion process. Sludge from the digestion process is used as fertiliser to cultivate crops that can be used as animal feed or to cultivate various types of crops. When humans and animals consume these products, new waste is produced and the cycle is closed. Biogas is therefore sustainable, as no additional carbon dioxide is emitted into the atmosphere.

There are two categories of biogas, defined by concentration of methane. Raw biogas is a mix of methane and carbon dioxide. Upgraded biogas is created by removing carbon dioxide and other impurities from the methane gas. Upgraded biogas can be used either for compressed biogas (CBG) or liquid biogas (LBG).

One kilo of dry organic waste normally produces between 0.5 and 1 cubic metre of raw biogas, corresponding to 6-7 kWh of energy. Raw biogas can be used directly for heat or electricity production, but needs to be upgraded for use as vehicle fuel. The bulk of Swedish biogas is used as vehicle fuel, which is also Scandinavian Biogas's main focus.

Biogas is distributed locally and regionally by truck, or via the gas pipeline network. Under the "green gas principle", biogas suppliers can inject gas into the natural gas pipeline in one place and deliver gas from another part of the network. It does not matter that biogas is blended with natural gas, as long as suppliers do not sell more biogas than they pump in. To reach a national market that has no pipeline network, biogas needs to be converted to liquid form and transported by sea or by truck.

Operations
Group

Scandinavian Biogas's operations have historically been focused on the upgrading of biogas in Sweden and a pre-treatment and anaerobic digestion (AD) facility in South Korea. The Group's advanced HOLDTechnology™ for large-scale optimisation of biogas production, considered the world's most efficient method (3-5 times more efficient than conventional methods), was developed by the Company's R&D department in partnership with Linköping University.

The next step in the Company's development is to increase production capacity for liquid biogas. The first step was taken in 2016 with the start of construction of a plant in Skogn, Norway under direction of majority-owned subsidiary Biokraft AS. Liquid biogas provides access to larger markets and new market segments (see "Markets and key drivers" section).

Scandinavian Biogas was awarded a grant from EU/LIFE for the EffiSludge project, aimed at increasing biogas production in the pulp and paper industry. The goal of the project is to build and operate the first demonstration process in Skogn, Norway to produce biogas from wastewater from Norske Skog's paper mill while also reducing the plant's electricity consumption. The total project cost is estimated at SEK 30 million, with the EU grant equivalent to SEK 16 million.

Operations
Sweden

Scandinavian Biogas has three plants in Sweden:

Upgrading facility at Henriksdal (Stockholm) – Stockholm Vatten, in partnership with Scandinavian Biogas, digests sewage sludge and grease trap sludge from restaurants into raw gas; Scandinavian Biogas then upgrades the raw gas into biogas.

Upgrading facility at Bromma – Stockholm Vatten digests wastewater treatment sludge, which Scandinavian Biogas then upgrades to biogas in two production lines.

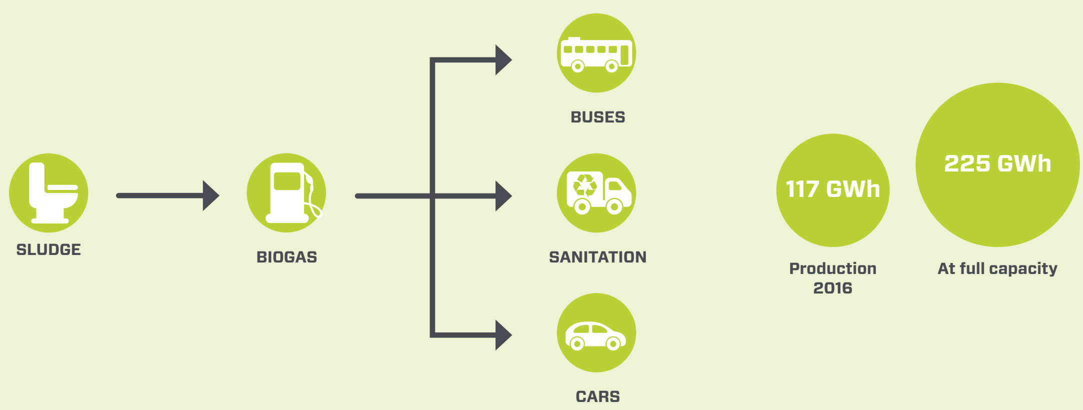
Biogas production plant at Södertörn – approximately 50,000 tonnes of food waste is pre-treated and upgraded to biogas each year.

The plants' locations are based on Scandinavian Biogas's strategy to establish a strong foothold in the regional market focused on biogas as vehicle fuel. Strong relationships with long-term partners such as Stockholm Vatten and SRV Återvinning have allowed the Company to develop the facilities. Measured in terms of revenues, Henriksdal is the Company's single largest facility.

Need increasing as Stockholm grows

Stockholm is one of Europe's fastest-growing cities. The population is expected to exceed 1 million by 2020, representing faster growth than previously anticipated. To meet the needs of a growing population, the City of Stockholm decided to modernise and expand wastewater treatment capacity and to increase biogas production. Expansion of the upgrading facility at Henriksdal is part of a larger project called SFA (Stockholms Framtida Avloppsvattenrening, Stockholm's Future Wastewater Treatment), which is a part of the City of Stockholm's "Vision 2040" environmental target.

Henriksdal and Bromma biogas plants



In close collaboration with Stockholm Vatten

Today, all biogas production at Henriksdal and Bromma is conducted in close collaboration with Stockholm Vatten, which is responsible for slurry and raw gas production, while Scandinavian Biogas operates the upgrading facilities.

Construction of the new upgrading facility atop Henriksdalsberget in Stockholm was completed during first quarter 2016, increasing the total upgrading capacity (raw gas to fuel) by 125 GWh. Total production is expected to be 200 GWh when the entire facility is fully operational – making it the Nordic region's largest biogas facility.

The expansion, which is a complement to the existing facility, was constructed with Pressure Swing Absorption (PSA) technology, which will facilitate the refinement of greater volumes of raw gas from Stockholm Vatten's digester into vehicle fuel. A parallel project to expand raw gas production by gradually increasing organic loads for existing digesters is therefore underway.

Due to the aggregate production capacity of 200 gigawatt hours, biogas production at Henriksdal is able to deliver the equivalent of 10 per cent of all biogas delivered to Sweden in 2015.

Food waste from 700,000 Stockholmers

The new Södertörn biogas plant is located at the Gladö Kvarn recycling plant and is a joint project with SRV Återvinning AB, a recycling company owned by the municipalities of Huddinge, Haninge, Salem, Botkyrka and Nynäshamn.

The biogas plant, put into operation slightly more than one year after commencement of construction, is Stockholm County's first industrial facility for the digestion of food waste. During 2016 the facility extracted energy from 50,000 tonnes of food waste, corresponding to one year's worth of waste from almost 700,000 Stockholmers.

Biogas is produced by converting food waste into renewable biogas and high-quality bio-fertiliser. Due to the plant's efficiency, nearly 80 per cent of food waste energy is converted to biogas. The plant's capacity is over 80 GWh, corresponding to 8.8 million litres of petrol and enough to meet the annual fuel needs of 5,000 private motorists. At full capacity, the plant also produces 14,000 tonnes of dewatered bio-fertiliser that returns important nutrients such as nitrogen, phosphorus and potassium to the earth.

Södertörn biogas plant

Operations

Norway

Scandinavian Biogas has been operating in Norway since 2016. An agreement covering investment in a new LBG facility was signed in early 2016 with minority shareholder TrønderEnergi. This is a strategically significant development that will expand the Group in terms of both geography and production.

Biokraft was founded in 2009 and commissioned its first plant for managing and refining waste from the fish farming industry in 2011. This facility was sold in 2013 and the company redirected its focus to developing a large-scale LBG production facility. One prerequisite for the company's success was the entrance of Scandinavian Biogas as majority shareholder in January 2016. The facility, which will be the world's largest LBG production plant, will have an annual capacity of 12.0 million Nm^3 of liquid biogas (120 GWh) and is being constructed in Skogn, Norway. When construction is completed in 2017, production of liquid biogas in Norway will more than double.

Initial groundwork in Skogn commenced in August 2015 and the construction phase passed the halfway mark on November 29th 2016. A ceremony to mark this occasion was arranged with the Norwegian oil and energy minister, fisheries minister and other dignitaries.


From L to R: Fisheries Minister Per Sandberg, Oil and Energy Minister Tord Lien, Biokraft CEO Håvard Wollan.

The Norwegian government presented its new bioeconomy strategy during the ceremony at Biokraft. The strategy singles out Biokraft as an example of the type of business the Norwegian government wants to see more of in light of the declining oil and gas sector.

Based on the need for conversion – which requires more industrial activity within the bioeconomy framework – the Norwegian parliament and government have improved conditions for biogas production. The Norwegian public sector is also at the forefront and leading the way in terms of using biogas as vehicle fuel. Public transport in Oslo (Ruter) and Trondheim (AtB) are two good examples of this.

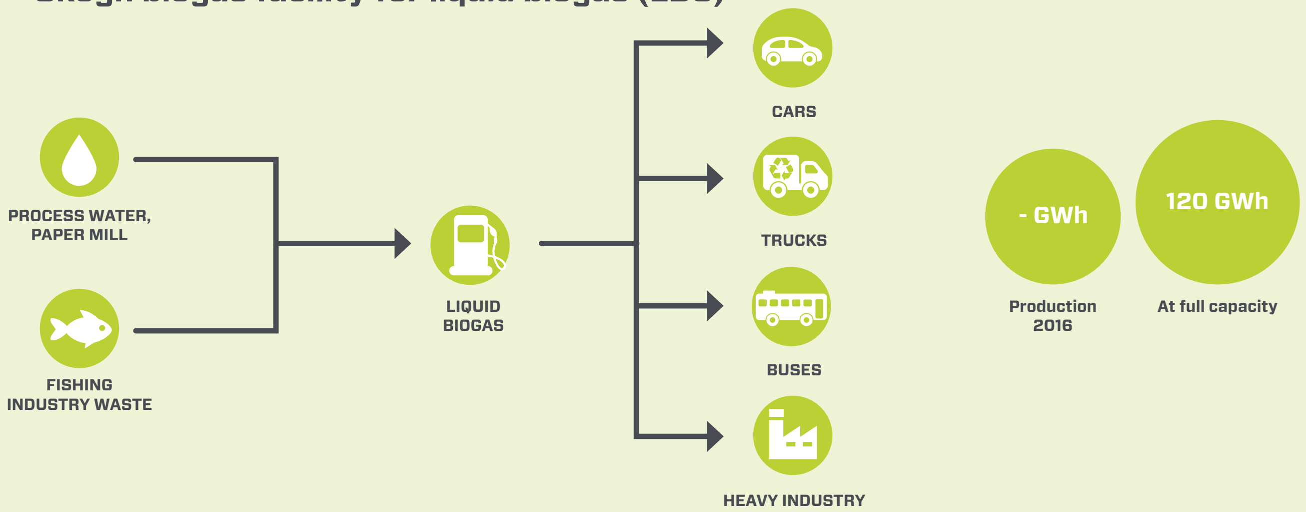
The main feedstocks used at Biokraft's new facility in Skogn are wastewater from Norske Skog in Skogn (pulp and paper) and waste from the Norwegian fish farming industry. The partnership with Norske Skog has also made possible an R&D investment in a demonstration facility for the EffiSludge project.

Biokraft is a key partner to the Norwegian fish farming industry – Norway's second largest export industry. Investments by Scandinavian Biogas and Biokraft include R&D and innovation, where methods for using sludge from biogas production to cultivate algae and other organisms (which can then be used to extract protein for fish food) are being studied. Waste from the Norwegian fish farming industry is the main feedstock for biogas production in Skogn. The Norwegian fish farming industry is expected to grow over the next ten years, which provides good prospects for increasing Biokraft's feedstock and improving the reputation of the fish farming industry.

AGA is a key partner to Biokraft on the market side. An agreement is in place under which AGA purchases and distributes the biogas produced by Biokraft. Over the past ten years AGA has been one of the most important market players in the development of the Norwegian biogas market.

Biokraft plans to expand production capacity in Skogn based on factors including an increased amount of waste from the Norwegian fish farming industry. The Norwegian market for biogas as vehicle fuel is expected to grow rapidly over the next decade, and Biokraft will position itself as the leading player in the Norwegian market.

Skogn biogas facility for liquid biogas (LBG)



Operations

South Korea

At the Yongyun plant in Ulsan, South Korea, Scandinavian Biogas manages the food waste produced by the one million inhabitants of the industrial city of Ulsan. Biogas is produced through pre-treatment of collected food waste followed by co-digestion with primary sludge form Yongyun's wastewater treatment plant.

Operations are significantly more efficient at the Yongyun biogas plant since Scandinavian Biogas assumed operational responsibility in 2007. This was achieved by applying the Group's HOLDTechnology™, which increased the amount of treated waste more than fourfold – from around 40 tonnes of food waste per day in 2007 to 188 tonnes per day in 2016.

Food waste was previously dumped into the sea. With the changes, the City of Ulsan has positioned itself as a model for other South Korean cities – a position that was strengthened in 2013 when Yongyun's biogas facility was named the most efficient in South Korea. The plant was designated a best practice facility by government authorities in 2015, and is now a symbol of and benchmark for efficient biogas production.

Consistent, stable production in 2016

Operations in South Korea performed well in terms of volume of treated food waste. Revenues are generated from fees for food waste management, which totalled an average of 188 tonnes (194) per day. Additional revenues were generated through the sale of a total of 61 GWh (66) of raw gas during 2016.

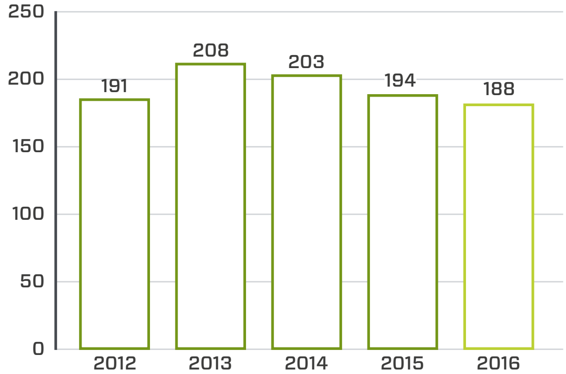
15-year agreement runs through 2026

Production includes the management, pre-treatment and digestion of large volumes of waste from City of Ulsan residents, as well as primary sludge from the adjacent Yongyun wastewater treatment plant. Operations in Ulsan are based on close collaboration with the major metropolis and are regulated by a concession agreement that runs through 2026. Initially, there were plans to build an upgrading plant; however, since gas prices in South Korea are low, Group management has decided to wait until such an investment can be made more profitably. If the price of upgraded biogas were to rise, this may be on the table again.

Environment on the political agenda

In South Korea, major efforts are underway towards becoming a leading environmental nation. The country is implementing several initiatives to develop an efficient and sustainable transport sector and reduce greenhouse gas emissions, and is taking widespread measures to boost energy efficiency. The country has formulated a national environmental target to reduce greenhouse gas emissions 30 per cent by 2020. The mayor of Seoul is also working to transform the city of 20 million into a world-leading environmental metropolis.

Management of food waste in South Korea, tonnes per day



Board of Directors

Göran Persson
Chairman of the board
Born 1949

Chairman of Scandinavian Biogas since November 2009. Prime minister of Sweden 1996-2006, finance minister 1994-96. Persson's extensive experience covers public affairs, financial markets, mergers & acquisitions, international politics and the EU.

Andreas Ahlström
Born 1976. Elected as board member 2011.

M.Sc. from the Hanken School of Economics in Helsinki. Ahlström has worked for Ahlström Capital since 2010, with overall responsibility for the company's new cleantech investments. He sits on the boards of three of the company's fund portfolio companies.

Sara Anderson
Born 1976. Elected as board member 2015.

M.Sc. in Chemical Engineering from the Royal Institute of Technology in Stockholm. Fifteen years' experience in working with implementation of and increased use of biogas as a vehicle fuel. Anderson has worked as fuel and transportation consultant and expert at 2050 Consulting since 2014. Prior to that, she was responsible for fuel and energy strategy at Stockholm Public Transport (SL).

Anders Bengtsson
Born 1963. Elected as board member 2009.

MBA from the Monterey Institute of International Studies, USA. Twenty years' experience as CEO of small and mid-sized companies and several years' experience as management consultant (including at Semcon AB). Board member and partner at Bengtssons Tidnings AB. Bengtsson invests in renewable energy and other companies and sits on the boards of several companies.

Board of Directors, continued

Hans Hansson

Born 1947. Elected as board member 2013.

Hansson has served as CEO of seven Scania Group companies, including the group's bus operations and bus factory in Denmark, and established a truck factory in Russia. Currently runs his own business, sits on the boards of Leax Group and ATG and serves as chairman of Scania Bus Production in Finland.

Raif Nisametdin

Born 1963. Board member 2009-14 and as from 2016.

MBA from Helsinki School of Economics. CFO of Mergin Oy 1988–92. Research assistant at Helsinki School of Economics, accounting department, 1990–92. Worked in family-owned company 1992–94. Managing Director of Mazot Oy. Nisametdin is currently involved in Finntyr Consulting & Trading Oy, Rhed Consulting Oy and Espan Matto Oy.

Andreas Berg

Born 1975.

M.Sc. in Biology from Linköping University. Berg currently works as research director at Scandinavian Biogas. Employee representative.

Erik Danielsson

Honorary chairman

Erik Danielsson, former President and CEO of Pharmacia, is founder of Scandinavian Biogas and was appointed honorary chairman on November 26th 2009. Danielsson's experience and drive have significantly contributed to the Company's development. He was involved in establishing operations in Sweden and South Korea during his tenure as chairman of the board, and his strong commitment and entrepreneurial spirit were crucial in efforts to move the Company into the next phase in the face of numerous challenges and financial difficulties during the 2008-09 financial crisis.

Executive management

Matti Vikkula
President and CEO

President and CEO of Scandinavian Biogas since 2011. M.Sc. in Economics from the Helsinki School of Economics. Chairman of AinaCom Oy and Adison Oy. Previously management group member at telecom operator Elisa, CEO of Saunalahti, partner at PwC Management Consulting and chairman of Efore Oyj.

Michael Wallis Olausson
Director Business Area Sweden

Employed since 2009. Responsible for Business Area Sweden, including customer and business strategies and development of new business opportunities and collaborations. Formerly Lt. Colonel, Swedish Armed Forces, and management consultant at Deloitte. MBA from the Stockholm School of Economics.

Jörgen Ejlertsson
Director of R&D

Professor Jörgen Ejlertsson is a co-founder of Scandinavian Biogas Fuels AB and has been active within R&D since then. M.Sc. in Agriculture from the Swedish University of Agricultural Sciences (SLU) in Uppsala and PhD in Environmental Microbiology from Linköping University, where he is a senior lecturer in Water in Nature and Society.

Lotta Lindstam
CFO

Employed since 2011. Group CFO, responsible for internal and external financial reporting, and personnel director. Previous employers include publishers Hachette and Metro. Certified Controller, IHM Business School.

Jean Collin
CTO

Employed since 2007. Responsible for the engineering department, which encompasses project (delivery of plant solutions) and R&D (development of new digestion concepts) activities. M.Sc. in Agroecology from ISARA, Lyon France.

Lars Hammarlo
Senior Operations Advisor and Biogas Specialist

Employed since 2010. Primary responsibilities include co-ordinating and developing the technical operations of the Group's plants to increase profitability.

Johan Larsson
Head of Sourcing & Supply Chain

Employed since 2012. Head of the Sourcing & Supply Chain unit and responsible for the Company's strategy and implementation of substrate supply, bio-fertiliser sales and associated logistics solutions. Previously worked with strategic purchasing of liquid biofuels and physical commodity trading (e.g., coal, metal concentrates and metals). MBA from Uppsala University.

"Don't forget that five million Swedes sort their food waste. They expect it to be used to produce fuel they can fill their cars with to drive to work or go on holiday."

Göran Persson,
chairman Scandinavian Biogas

Board of Directors' report

The Board of Directors and the Chief Executive Officer of Scandinavian Biogas Fuels International AB (publ), 556528-4733, hereby submit the annual report and consolidated accounts for financial year 2016.

Operations

Scandinavian Biogas is a leading player in large-scale biogas production, with world-leading expertise in the design and operation of biogas facilities – encompassing everything from pre-treatment to fuel upgrading – to optimise biogas production. The Group's focus is on facilitating the transition from fossil fuels to renewable energy.

Scandinavian Biogas's business concept is to be a leader in the design, management and operation of biogas plants. This is achieved by constantly improving the biogas production digestion process from various types of biomass, generated primarily from wastewater treatment sludge, food waste, and industrial processes such as food and biofuel (e.g., glycerol) manufacturing. The Group also provides leading expertise in the purification process for upgrading biogas to vehicle fuel quality. Scandinavian Biogas is focused on markets in the Nordic region and South Korea.

With the Group's strategic focus on research and development, Scandinavian Biogas places high priority on developing methods to improve biogas production efficiency for both established and new types of waste, residue and other organic material. Cost and resource efficiency improvements to production are made possible thanks to the Company's expertise and methodology.

The Group's operations are primarily conducted via subsidiaries, while the Parent Company serves in an administrative capacity.

Scandinavian Biogas Fuels International AB (publ) is domiciled and headquartered in Stockholm. At year-end 2016 the Company had 44 (38) employees in Sweden, 20 (21) in South Korea and 7 (n/a) in Norway.

Licensable activities

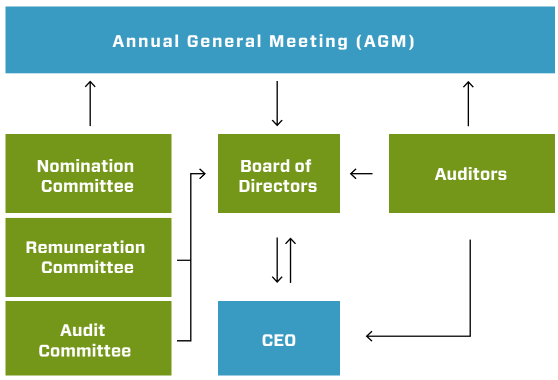
The company conducts operations subject to the environmental code in three Swedish subsidiaries. The Group's licence and registration activities affect the external environment mainly through subsidiaries Scandinavian Biogas Stockholm AB (SBSt), Scandinavian Biogas Södertörn AB (SBSö) and Scandinavian Biogas Recycling AB (SBR), which are subject to environmental permits to conduct business with explosive and flammable goods. SBSt produces upgraded biogas and may affect the external environment through the emission of methane. SBSö produces upgraded biogas and bio-fertiliser, which may affect the external environment through the emission of methane and the leakage of nitrogen-rich bio-fertiliser. SBR receives and pre-treats organic waste, which may affect the external environment primarily through the leakage of pre-treated organic waste (slurry). To enable minimisation of the risk of external influences on the environment, all companies have a business system that includes regular controls and the ongoing management of any incidents. The upgrading facilities are connected to the methane deconstruction facilities in order to combust any leakage of methane.

The Group

Scandinavian Biogas Fuels International AB (publ) is the Parent Company of the Scandinavian Biogas Group, which encompasses a number of wholly and partly owned companies registered in Sweden and South Korea. Operations are primarily conducted in subsidiaries. The Parent Company also has a branch office in Norway (Scandinavian Biogas Fuels AB, corporate identity number 917 357 420).

Corporate governance

Scandinavian Biogas Fuels International AB (publ) is governed, managed and controlled through a division of responsibilities between shareholders at the Annual General Meeting, the board of directors and the chief executive officer in accordance with the Swedish Companies Act. The Company's corporate governance is organised and monitored as illustrated below.



Corporate governance within Scandinavian Biogas follows the Swedish Annual Accounts Act but not the Swedish Corporate Governance Code. The internal corporate governance framework is comprised of the Company's Articles of Association, rules of procedure for the board of directors, instructions for the CEO, instructions for financial reporting, and other policies and guidelines.

Shareholders exercise their influence at the Annual General Meeting (AGM), the Company's highest decision-making body. The AGM elects the board of directors and auditors; adopts the income statement and balance sheet; and resolves on appropriation of profits, discharge from liability and amendments to the Articles of Association. The AGM also adopts guidelines for board fees and resolves on new share issues. The Swedish Companies Act (2005:551) and the Articles of Association stipulate the manner in which Annual General Meeting and Extraordinary General Meeting notices are to be issued and specify who is entitled to attend and vote at meetings. Shareholders may not vote or otherwise participate in meetings remotely. Each share carries one vote and all shareholders have identical rights.

The AGM is held within six months of the close of the financial year. Shareholders listed in the shareholders' register as at the record date and who have provided notification of their participation are entitled to participate at the AGM. The AGM notice is published in the *Swedish Official Gazette* and made available on the Company's website. Details on the AGM notice are published in *Dagens Industri*. Documents to be presented at the AGM are made available at the Company's head office and on the Company's website no less than three weeks prior to the AGM, and are mailed to shareholders upon request.

The AGM resolves on appointments and dismissals of board members and on amendments to the Articles of Association.

The AGM held on April 28th 2016 resolved to authorise the board to make decision(s), within the scope of the Articles of Association and during the period through the next AGM, on increasing the Company's share capital through the issue of shares in the Company. The board is authorised to approve the issue of a maximum total of 36,000,000 shares, corresponding to a maximum of 40 per cent of shares in the Company. The shares are to be issued at the market subscription price, subject to market rate subscription discounts when applicable. Payment for shares shall be in cash, in kind, set-off of Company debt or otherwise qualified.

Board of Directors

The board is comprised of Göran Persson (chairman), Anders Bengtsson, Andreas Ahlström, Hans Hansson (independent), Sara Anderson (independent), Raif Nisametdin and Andreas Berg (employee representative). Board meetings are scheduled 12 months ahead of time, with at least five meetings per year. However, around 12-15 meetings are usually held per year, of which a few are via telephone. The auditors participate in at least one board meeting per year to report the results of their audit of the Group and its legal entities.

Nomination Committee

Nomination Committee members are Göran Persson, Örjan Björnsson, Jonas Bengtsson and Andreas Ahlström. The committee meets at least once per year. Committee duties include proposing board composition, remuneration fees for board and committee work, and the election of auditors to the AGM.

Remuneration Committee

Remuneration Committee members are Göran Persson, Anders Bengtsson and Andreas Ahlström. The committee is tasked with determining salary and other benefits for the CEO and other senior executives, as well as bonuses paid to other employees.

Audit Committee

The Audit Committee (in place since 2016) is comprised of Anders Bengtsson (chairman), Hans Hansson and Sara Anderson. The committee is responsible for i) monitoring the Company's financial reporting, ii) with respect to financial reporting, monitoring the efficiency of the Company's internal control and risk management, iii) staying informed on the audit of the annual report and consolidated accounts, iv) reviewing and monitoring the auditors' impartiality and independence, paying particular attention to whether the auditors provide the Company with services other than auditing services, and v) assisting in the preparation of proposals for the Annual General Meeting's election of auditors.

Internal control and audit

Under the provisions of the Companies Act (2005:551), the board of directors has overall responsibility for ensuring that the Company's organisation is designed in such a way as to provide satisfactory control of the Company's accounting, management of assets and financial condition. The Company's internal control structure is based on division of duties between the board and the CEO. Regular reporting and examination of financial results is conducted by the operational units' management bodies and by the board of directors.

The Parent Company's Articles of Association stipulate that one or two approved or authorised public accountants and up to two deputy auditors or, alternatively, a registered public accounting firm, are to be appointed by the AGM. The auditor and deputy auditors (if any) are elected on an annual basis by the AGM for the period through conclusion of the next AGM.

The auditor examines the annual accounts, consolidated accounts and accounting records, as well as administration by the board and CEO.

Executive management

The Group's management team is comprised of President & CEO Matti Vikkula, Director of Business Area Sweden Michael Wallis Olausson, Director of R&D Jörgen Ejlertsson, CFO Lotta Lindstam, CTO Jean Collin, Senior Operations Advisor and Biogas Specialist Lars Hammarlo, and Head of Sourcing & Supply Chain Johan Larsson.

Ownership structure on balance sheet date, percentage

AC Cleantech Growth Fund 1 Holding AB	32.8%
Bengtssons Tidnings AB and related parties	31.4%
Novator Biogas Sweden SARL	6.7%
Ajanta OY and related parties	6.1%
Erik Danielsson and family, incl. company	5.8%
John Nurminen OY	4.4%
Other	12.8%

Financial overview

Group

(SEK thousand)	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
Net sales	242,610	175,891	168,376	145,488	134,266
EBITDA	21,972	23,358	31,958	21,407	-2,955
Operating results	-24,580	-16,817	-5,281	-9,191	-15,490
Balance sheet total	1,026,648	760,652	628,037	428,741	419,777
Adjusted equity/ assets ratio, %	25.5	28.6	30.8	41.9	37.9

Parent Company

(SEK thousand)	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
Net sales	1,200	1,200	1,200	1,200	1,200
Operating results	-1,965	-2,513	-1,104	-2,259	-3,949
Balance sheet total	504,351	299,093	353,168	351,357	328,631
Adjusted equity/ assets ratio, %	55.1	98.9	86.0	85.8	79.5

Consolidated net sales for the financial year totalled SEK 242.6 million (175.9), a year-on-year increase of 37.9 per cent. The increase is mainly attributable to the commencement of gas production during the year at the Södertörn biogas plant and Henriksdal extension. Total income for 2016 totalled SEK 266.2 million (231.9), an increase of 15 per cent. Other external costs increased, due mainly to the fact that the Södertörn biogas plant was not operating during the first three quarters of 2015 and therefore had no operating staff.

Consolidated EBITDA totalled SEK 22.0 (23.4) in 2016, a year-on-year decrease of 6 per cent. The plant near Trondheim is in a start-up phase and therefore generating negative EBITDA during the construction period, which partially explains the decrease in profitability.

The Group's operating results for the financial year totalled SEK -24.6 million (-16.8), primarily attributable to higher depreciations following the Södertörn plant and Henriksdal extension being put into operation. Following a regular impairment assessment, an SEK 13.5 million write-down was done last year on the Ulsan plant due to the falling market price of LNG and an outstanding upgrading issue; see Note 26, Provisions.

Consolidated results after tax totalled SEK -47.7 million (-21.4), of which SEK +7.1 million (+0.2) pertains to unrealised exchange rate differences.

The balance sheet total increased 35 per cent year-on-year, totalling SEK 1,026.6 million (760.7) at the close of the financial year. The increase was primarily attributable to the investment in Norway and the corporate bond issue. Finance lease-related borrowing totalled SEK 254.6 million (174.6). Apart from net results for the year, changes in equity for the year were due to the equity investment in Group company Biokraft Holding AS from non-controlling interests; see Note 31, Business Combinations.

The consolidated cash balance was SEK 73.9 million (64.9) at December 31st 2016.

Investments

Investments made in tangible and intangible assets during the year totalled SEK 208 million (186), of which SEK 161 million (0) in Norway. At December 31st 2016 the Group had commitments to make further investments, mainly in the new biogas plant in Skogn, near Trondheim.

The carrying amount of the Group's tangible and intangible assets was SEK 840.5 million (647.5) as at December 31st 2016, of which SEK 274.4 million (248.3) pertains to objects leased by the Group through non-current leasing agreements (> 20 years).

Parent Company

Parent Company income during the financial year totalled SEK 2.0 million, a year-on-year increase of 24 per cent. The increase is entirely attributable to an increase in non-operations-related re-invoicing, with corresponding expenses included in other external costs. Results before appropriations and tax totalled SEK -3.7 million. Net results for 2015 included an SEK 46.1 write-down on the value of shares in subsidiaries. No write-down requirement on shares in subsidiaries was identified by the regular impairment assessment conducted during the financial year.

Parent Company results after tax totalled SEK -17.7 million in 2016. Net results for the year include group contributions to subsidiaries totalling SEK 14 million. 2015 results include an SEK 46.1 million write-down on the value of shares in subsidiaries.

The Parent Company balance sheet total increased nearly 70 per cent in 2016, mainly due to the acquisition of the majority of shares in Biokraft Holding AS and to the corporate bond issue. The Parent Company's cash balance totalled SEK 0.7 million at year-end.

Significant events during the year

Issue and listing of corporate bond

Scandinavian Biogas issued an SEK 200 million corporate bond in early 2016 that was subsequently listed on NASDAQ Stockholm. The first trading day was April 8th 2016. The bond has a 4-year term and 3-month STIBOR plus 9.75 per cent interest rate, with a STIBOR floor of 0.00 per cent. From the listing date through year-end, the bond traded at a high of SEK 101.0 and a low of SEK 99.0.

Business combinations

The Group acquired the majority of the shares in Biokraft Holding AS in early 2016. The acquisition represents the Company's establishment in the Norwegian market. Biokraft AS, a wholly owned subsidiary of Biokraft Holding AS, is in the process of constructing a biogas plant adjacent to Norske Skog's paper mill in Skogn, outside Trondheim. The plant will produce liquid biogas from substrate generated primarily from fishing industry waste. When fully operational, the plant is expected to have a production capacity of approximately 12 million normal cubic metres (Nm^3) of liquid biogas (equivalent of 120 GWh). The plant is expected to be in operation before the end of 2017. See also Note 31, Business Combinations.

Expansion of Henriksdal plant

Sections of the ongoing expansion project in Henriksdal were completed during second quarter 2016, and rental payments to Stockholm Vatten have commenced. Some minor sections remain to be completed.

Expansion inauguration

The new production line in Henriksdal was inaugurated on April 28th 2016 by Stockholm Vice Mayor of Environment Katarina Luhr and Stockholm County Council Commissioner of Transportation Kristoffer Tamsons. At full capacity, the new line is expected to be able to produce 12.5 Nm^3 of upgraded biogas (equivalent to 125 GWh), meaning that the entire facility is expected to have an annual production capacity of approximately 200 GWh at full capacity.

Foundation stone laid in Skogn

Norwegian Oil and Energy Minister Tord Lien and Fisheries Minister Per Sandberg laid the foundation stone for the biogas production facility in Skogn at a ceremony on November 29th 2016.

Production

Bromma and Henriksdal

The plant at Henriksdal produced and sold 9.3 million Nm^3 (7.5) of biogas during the year, equivalent to around 93 GWh (75). The corresponding volume for the plant at Bromma is 2.4 million Nm^3 (2.5), equivalent to around 24 GWh (25). The new line at Henriksdal began producing biogas in January, which explains the increase in production. The main customers are Storstockholms Lokaltrafik AB and a number of private companies.

Ulsan, South Korea

The plant in South Korea received on average 188 tonnes (194) of food waste per day during the January-December 2016 period. Sales of raw gas during the same period totalled 9.0 million Nm^3 (9.7), which corresponds to around 61 GWh (66). The lower year-on-year volumes are attributable to maintenance shutdowns at substrate suppliers and gas customers during the year. A total of 10.4 million Nm^3 (10.4) of raw gas was produced.

Södertörn

The pre-treatment plant at Södertörn received an average of 125 tonnes (77) of food waste per day in 2016. The biogas plant sold a total of 5.0 million Nm³ of biogas during the year, corresponding to approximately 50 GWh. Production commenced during fourth quarter 2015, and 2015 sales totalled 0.5 million Nm³, corresponding to 5 GWh. Biogas production during the final four months of 2016 was somewhat better than the updated plan.

Substrate supply was further strengthened during the autumn through two new agreements for up to 60 tonnes of food waste per day; the plant therefore has contracts to meet full capacity under the environmental permit for the financial year. See also the "Significant events after the close of the financial year" section for information on new environmental permits.

Ongoing investment projects

Skogn, Norway

Construction of a production plant for liquid biogas in Skogn, outside Trondheim, Norway, commenced in August 2015. The project is ongoing and scheduled for commissioning during the second half of 2017. Production capacity is estimated at approximately 12 million Nm³ of liquid biogas, or 120 GWh, at full capacity.

Financing is by way of equity, loans from bank consortiums and Innovasjon Norge, and a contribution from Enova. The multi-year contract with a main feedstock supplier was updated during third quarter 2016 to ensure long-term access to a feedstock supply. Long-term sales contracts for all planned biogas production are already in place.

EffiSludge/LIFE

Scandinavian Biogas has been awarded a grant from EU/LIFE aimed at increasing biogas production in the pulp and paper industry. The goal of the project is to build and operate the first demonstration process to produce biogas from wastewater from Norske Skog's paper mill in Skogn while also reducing the plant's electricity consumption. The total project cost is estimated at just under SEK 30 million, with the EU grant equivalent to approximately SEK 16 million.

Information on risks and uncertainties

Described below are the main risks that may have an impact on Scandinavian Biogas's operations and future development. The account does not purport to be comprehensive and the risk factors are not listed in any order of significance. See also Note 3, Financial Risk Management.

Competition and maintaining competitive edge

Scandinavian Biogas's operations are largely dependent on the demand for biogas, particularly in Sweden. Biogas is currently one of the most environmentally attractive energy carriers, and as the market matures more companies are expected to be established. Increased competition for the organic material used in biogas is anticipated, both from other biogas producers and from producers of other renewable energy carriers. It is therefore vital that Scandinavian Biogas continue its strategic research and development activities that facilitate the digestion of new types of substrates, and eventually identify ways of producing biogas from organic waste more efficiently.

Revenue generation

Revenue streams from biogas production differ from market to market. At the same time, the price of biogas is of key significance to Scandinavian Biogas. There is a risk that revenue levels to fund the Group's future projects may not suffice if the market price of fossil energy remains at a low level.

Political risks

The political situation in areas where Scandinavian Biogas operates is of great significance to the Company's operations. Partners, customers and suppliers are largely comprised of municipalities or the equivalent, public sector entities, and companies. This means that any change in political engagement or tax laws may have a major impact on projects and the Company's ability to generate revenues despite contracts entered into previously. Many projects are also contract-based, with revenue streams spanning time horizons 15 years or longer. The uncertainty of unforeseen events that may occur in future poses a risk for the Group. Continued expansion into markets with stable conditions may mitigate this type of risk for Scandinavian Biogas. The risk of any political decisions that might have a negative impact on the production of biofuels is currently deemed to be limited.

Dependence on public authority decisions and permits

Scandinavian Biogas's operations are dependent on permits granted by public authorities under the environmental code and the approval of applications. Processing times may take up to one year or more in some cases, with some projects consequently coming to a halt and being delayed. All of the Group's facilities hold valid permits.

Long sales cycles for new contracts

The sales cycle from the first point of contact with the customer to the generation of revenues may span several years. As a rule, projects are extensive and complex to carry out. Entrance into new markets also involves major work efforts and cultural understanding. All of these factors pose a risk, which may be mitigated through well-conducted market studies, employees with local knowledge and strong networks, and experience in the successful completion of similar projects.

Accidents and environmental hazards

A major leakage of methane is one example of environmental risk associated with biogas production. Accidents may also occur, and Scandinavian Biogas works continuously to enhance its safety and security procedures. In many areas these are now integrated with day-to-day business activities, and the Company continuously strives to mitigate the risk of accidents and environmental hazards.

Financial risks

A number of technical challenges arose at the Södertörn biogas plant during the year, and production was consequently worse than planned. Various measures have been taken and biogas production during the final four months of the year somewhat outperformed the updated plan. There remains a risk, however, that ongoing process adaptations may temporarily affect future production volumes. While the technical challenges resulted in diminished liquidity and consequently increased financial risk, this risk is considerably reduced by loan agreements signed in February 2017 and a new share issue planned for this spring. See the section "Significant events after the close of the financial year".

Upgrading in Ulsan

As the financial conditions for an upgrading plant in Ulsan have been deemed disadvantageous in the current market climate, an impact assessment has been carried out. Consequently, in third quarter 2015 the Group started to reserve funds for a potential penalty, and there is a risk attached to the assessed level of the fee. See Note 26, Provisions.

Expectations regarding future development

Increasing demand

There is an enormous need for renewable energy that can replace fossil fuels such as coal and oil at reasonable prices. Interest in biogas has increased in various evaluations of renewable alternatives that can be mass-produced, as has demand for biogas, which is expected to increase further as availability increases. In many parts of the world, not least in the Nordic region, demand for biogas continues to exceed supply. Due to the current low market price of fossil energy, however, there is some uncertainty surrounding the biogas market price as well as growth and new investments in renewable energy.

Policy instruments key to market development

Biogas is the renewable fuel that best contributes to sustainable development. The greatest environmental benefits are achieved in heavy vehicles (e.g., bus services), which is why more and more cities are choosing to prioritise biogas over other renewable alternatives. In some cases, however, biogas supply is a limiting factor. Sweden is a pioneer in the biogas area, and the country's strategy can be expected to spread to other countries.

The Swedish public transport system is well advanced in this area and there are indications that biogas-powered public transport will spread to other Nordic countries. The increased use of biogas in the public transport system lays the foundation for expanded production, particularly in metropolitan regions. Scandinavian Biogas, through subgroup Scandinavian Biogas Sweden AB, has an excellent foundation for continued expansion in the Stockholm region. Due to high production costs, however, biogas will not be able to compete price-wise with natural gas in the foreseeable future – so it is essential that political interest, on the national and local levels, in supporting biogas production remains in place.

With the new biogas plant at Södertörn, the expansion of the plant at Henriksdal and the investment in Norway, it is estimated that total production in the Nordic region could be more than doubled from the current financial year's approximate 17 million Nm^3 to close to 40 million Nm^3 of upgraded biogas, equivalent to around 400 GWh.

Financing

Operations are financed through equity, loans from external creditors and finance leases. The upgrading facilities at Bromma and Henriksdal are leased from Stockholm Vatten AB and the pre-treatment plant in Södertörn is leased from SRV Återvinning AB. The lease agreements are for 25 years.

Amortisation of interest-bearing loans, conducted pursuant to a fixed repayment plan, totalled SEK 16 million (15) during the year, which amount includes amortisation of finance leases. SEK 52 million, representing half of a loan from an external creditor, was repaid. Last year, convertible loans totalling SEK 41 million were converted to shares. Finance leases increased SEK 90 million (11) during the financial year, due primarily to the expansion of the upgrading facility at Henriksdal.

The Group raised new loans during the financial year in the form of an SEK 200 million corporate bond and a loan of approximately SEK 84 million from a bank consortium for investment in the facility outside of Trondheim, Norway.

The Company is continually involved in proactive financing efforts to ensure that new investment projects can be implemented. The Group expects the financing of major future projects to require various types of financing and collaboration, depending on project structure and location.

The share

At December 31st 2016 the Company had 90,092,662 shares (90,092,662) with a quotient value of SEK 0.20 per share. Each share carries one vote. All outstanding shares are ordinary shares and therefore carry the right to equal shares in Scandinavian Biogas Fuels International's assets and profit. The number of shares was unchanged during the financial year.

Warrants

In 2014, a total of 565,000 warrants were issued free of charge to staff in Scandinavian Biogas Fuels AB; see Note 34, Share-based Benefits. No further stock options were issued during the financial year.

Significant events after the end of the period

Subsidiary Scandinavian Biogas Södertörn AB was granted a new environmental permit in January 2017. Under the new permit, the facility is entitled to process up to 260,000 tonnes of organic waste (compared with the former permit's limit of 50,000 tonnes) and to increase biogas production to 20 million normal cubic metres of upgraded biogas, or about 200 GWh. The environmental permit gives the Group numerous new opportunities to develop the facility at Södertörn.

The Group is planning a share issue in the spring of 2017 to finance investments (particularly in the facility at Södertörn) and to strengthen liquidity. The share issue is a feature of our strategic plan aimed at listing the Parent Company's share in a suitable marketplace no earlier than autumn 2017. A loan agreement was signed in early February with a number of the major shareholders. The aim is to offset the loan, which totals SEK 16 million, with the planned share issue. The Group is also considering issuing a small portion of the Subsequent Bond Issue falling within the scope of the current bond agreement (read the prospectus at www.scandinavianbiogas.com). The funds are earmarked for the investment project in Norway.

The Group has invested in an evaporation plant in Södertörn, which is expected to be commissioned during first quarter 2017. The investment was financed by a loan from the Parent Company and a contribution from the Swedish Energy Agency. The function of the evaporator is to treat water that is used in production, allowing it to be reused as dilution water. This will lower costs, as less fresh water will need to be purchased and wastewater costs will be reduced. The evaporation plant will also produce a concentrated bio-fertiliser that will generate higher value and lower logistics costs.

Proposed allocation of profit/loss

The board of directors proposes that the following amount, SEK 257,983,735, be allocated as follows:

	Amount in SEK
Accumulated profit/loss	-276,469,588
Share premium reserve	552,124,089
Loss for the year	-17,670,766
Total	257,983,735
Carried forward	257,983,735
Total	**257,983,735**

With regard to the Company's performance and financial position, please refer to the following financial statements and accompanying notes.

Consolidated statement of comprehensive income

Amounts in SEK thousand	Note	2016	2015
Operating income			
Net sales	5	242,610	175,891
Capitalised work on own account	7	16,129	52,379
Other operating income	10, 13	7,439	3,622
Total		**266,178**	**231,892**
Operating expenses			
Raw materials and consumables		-136,343	-132,843
Other external costs	8	-51,404	-27,989
Personnel costs	9	-56,459	-47,702
Depreciation, amortisation and impairment of tangible and intangible assets		-45,979	-39,329
Other operating expenses	10, 13	-573	-846
Total operating expenses		**-290,758**	**-248,709**
Operating profit/loss		**-24,580**	**-16,817**
Financial income		7,335	12,724
Financial expense		-31,490	-16,807
Net financial items	11, 13	**-24,155**	**-4,083**
Profit/loss before taxes		**-48,735**	**-20,900**
Income tax	12	1,039	-462
Profit/loss for the year		**-47,696**	**-21,362**
Other comprehensive income			
Actuarial results on post-employment benefits	2.16	-121	227
Exchange differences	13	3,325	957
Other comprehensive income for the year, net after tax		**3,204**	**1,184**
Total comprehensive income for the period		**-44,492**	**-20,178**
All items in the Group's other comprehensive income may be reclassified in the income statement.			
Profit/loss for the year attributable to:			
Parent Company shareholders		-45,552	-16,181
Non-controlling interests		-2,144	-5,181
		-47,696	**-21,362**
Total comprehensive income attributable to:			
Parent Company shareholders		-43,510	-15,203
Non-controlling interests		-982	-4,975
		-44,492	**-20,178**

The notes presented on pages 35-52 are an integrated part of these annual and consolidated accounts.

Consolidated balance sheet

Amounts in SEK thousand	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Intangible assets	14		
Capitalised development costs		13,472	7,239
Concessions and similar rights		103,714	108,819
Patents and licences		126	166
Goodwill		6,807	-
Total intangible assets		**124,119**	**116,224**
Tangible assets	15		
Buildings and land		196,824	157,009
Plant and machinery		267,152	246,121
Equipment, tools, fixtures and fittings		12,951	4,111
Construction work in progress		239,488	124,033
Total tangible assets		**716,415**	**531,274**
Financial assets			
Deferred tax assets	17	7,601	-
Other non-current receivables		22,564	7,858
Total financial assets		**30,165**	**7,858**
Other non-current assets			
Accrued income and prepaid expenses	18	2,667	3,111
Total other non-current assets		**2,667**	**3,111**
Total non-current assets		**873,366**	**658,467**
Current assets			
Inventories, etc.			
Raw materials and consumables		661	584
Total inventories		**661**	**584**
Current receivables			
Trade accounts receivable	20	36,806	25,870
Other receivables	21	28,952	5,611
Prepaid expenses and accrued income	22	12,992	5,241
Cash and cash equivalents	23	73,871	64,879
Total current receivables		**152,621**	**101,601**
Total current assets		**153,282**	**102,185**
TOTAL ASSETS		**1,026,648**	**760,652**

The notes presented on pages 35-52 are an integrated part of these annual and consolidated accounts.

Consolidated balance sheet, continued

Amounts in SEK thousand	Note	31 Dec 2016	31 Dec 2015
EQUITY			
Equity attributable to Parent Company shareholders			
Share capital	24	18,019	18,019
Other paid-in capital		693,305	693,305
Reserves		1,136	-1,008
Retained earnings including comprehensive income for the year		-540,143	-494,489
		172,317	**215,827**
Non-controlling interests		**53,962**	**1,987**
Total equity		**226,279**	**217,814**
LIABILITIES			
Non-current liabilities			
Borrowings	25, 27, 28	612,736	266,643
Deferred tax liabilities	17	1,968	1,564
Other provisions	26, 28	9,375	7,097
Total non-current liabilities		**624,079**	**275,304**
Current liabilities			
Borrowings	25	27,928	68,563
Loans from shareholders	25	19	19
Accounts payable		95,775	61,555
Other liabilities	29	13,013	20,852
Accrued expenses and deferred income	30	39,555	116,545
Total current liabilities		**176,290**	**267,534**
TOTAL EQUITY AND LIABILITIES		**1,026,648**	**760,652**

The notes presented on pages 35-52 are an integrated part of these annual and consolidated accounts.

Consolidated statement of changes in equity

		Attributable to Parent Company shareholders						
Amounts in SEK thousand	**Note**	**Share capital**	**Other paid-in capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Opening balance, 1 January 2015		**15,683**	**654,884**	**-1,801**	**-478,493**	**190,273**	**2,962**	**193,235**
Profit/loss for the year					-16,181	**-16,181**	-5,181	**-21,362**
Other comprehensive income								
Actuarial results on post-employment benefits					187	**187**	40	**227**
Exchange differences				793	-2	**791**	166	**957**
Total comprehensive income				**793**	**-15,996**	**-15,203**	**-4,975**	**-20,178**
Issue expenses[1]			-116			**-116**		**-116**
Conversion of convertible debt instruments		**2,336**	38,537			**40,873**		**40,873**
Shareholder contributions from non-controlling interests						**-**	4,000	**4,000**
Total contributions from and distributions to shareholders, recognised directly in equity		**2,336**	**38,421**	**-**	**-**	**40,757**	**4,000**	**44,757**
Closing balance, 31 December 2015		**18,019**	**693,305**	**-1,008**	**-494,489**	**215,827**	**1,987**	**217,814**
Opening balance, 1 January 2016		**18,019**	**693,305**	**-1,008**	**-494,489**	**215,827**	**1,987**	**217,814**
Profit/loss for the year					-45,552	**-45,552**	-2,144	**-47,696**
Other comprehensive income								
Actuarial results on post-employment benefits					-99	**-99**	-22	**-121**
Exchange differences				2,144	-3	**2,141**	1,184	**3,325**
Total comprehensive income				**2,144**	**-45,654**	**-43,510**	**-982**	**-44,492**
Non-controlling interest arising from acquisition of subsidiaries	31					**-**	52,957	**52,957**
Total contributions from and distributions to shareholders, recognised directly in equity						**-**	**52,957**	**52,957**
Closing balance, 31 December 2016		**18,019**	**693,305**	**1,136**	**-540,143**	**172,317**	**53,962**	**226,279**

The notes presented on pages 35-52 are an integrated part of these annual and consolidated accounts.

1) The tax effect of issue expenses recognised in equity totals SEK 0 thousand (26).

Consolidated statement of cash flows

Amounts in SEK thousand	Note	2016	2015
Cash flow from operating activities			
Operating profit/loss before financial items		-24,580	-16,817
Amortisation/depreciation		45,979	39,329
Other non-cash items	33	5,051	7,276
Interest received		194	161
Interest paid		-36,265	-25,426
Cash flow from operating activities before changes in working capital		**-9,621**	**4,523**
Cash flow from changes in working capital			
Increase/decrease in inventories		-77	81
Increase/decrease in operating receivables		-30,268	-8,049
Increase/decrease in operating liabilities		15,216	16,627
Total changes in working capital		**-15,129**	**8,659**
Cash flow from operating activities		**-24,750**	**13,182**
Cash flow from investing activities			
Acquisition of intangible assets	14	-2,173	-2,768
Acquisition of tangible assets	15	-200,909	-94,941
Investments in subsidiaries	31	42,974	-
Divestment of tangible assets		-	9,600
Restricted bank balances and other changes in financial assets		-21,094	-3,116
Divestment of financial assets		447	9
Cash flow from investing activities		**-180,755**	**-91,216**
Cash flow from financing activities			
Loans raised	25	280,696	28,428
Loan amortisation		-67,184	-14,407
Contributions to/from minority interests		-	4,000
Cash flow from financing activities		**213,512**	**18,021**
Total cash flow for the year		**8,007**	**-60,013**
Decrease/increase in cash and cash equivalents			
Opening cash and cash equivalents	23	64,879	124,889
Exchange differences in cash and cash equivalents		985	3
Closing cash and cash equivalents	23	**73,871**	**64,879**

The notes presented on pages 35-52 are an integrated part of these annual and consolidated accounts.

Parent company income statement

Amounts in SEK thousand	Note	2016	2015
Operating income			
Net sales	5, 6	1,200	1,200
Other operating income	10	846	455
Total operating income		**2,046**	**1,655**
Operating expenses			
Other external costs	8	-3,609	-3,857
Personnel costs	9	-401	-311
Other operating expenses	10	-1	-
Total operating expenses		**-4,011**	**-4,168**
Operating profit/loss		**-1,965**	**-2,513**
Profit/loss from participations in group companies		-	-46,083
Interest income		19,429	45
Interest expense		-21,135	-390
Net financial items	11	**-1,706**	**-46,428**
Profit/loss before appropriations and tax		**-3,671**	**-48,941**
Appropriations			
Group contributions received/paid		-14,000	-
Total appropriations		**-14,000**	**-**
Profit/loss before tax		**-17,671**	**-48,941**
Income tax	12	-	-
Profit/loss for the year		**-17,671**	**-48,941**

No items are recognised as other comprehensive income in the Parent Company and, accordingly, total comprehensive income corresponds with profit/loss for the period.

The notes presented on pages 35-52 are an integrated part of these annual and consolidated accounts.

Parent company balance sheet

Amounts in SEK thousand	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Financial assets			
Participations in group companies	16	187,810	129,391
Receivables from group companies		171,505	98,326
Total financial assets		**359,315**	**227,717**
Total non-current assets		**359,315**	**227,717**
Current assets			
Current receivables			
Receivables from group companies		144,227	69,645
Other receivables	21	8	115
Prepaid expenses and accrued income	22	119	72
Total current receivables		**114,354**	**69,832**
Cash and bank balances	23	**682**	**1,544**
Total current assets		**145,036**	**71,376**
TOTAL ASSETS		**504,351**	**299,093**

The notes presented on pages 35-52 are an integrated part of these annual and consolidated accounts.

Parent company balance sheet, continued

Amounts in SEK thousand	Note	31 Dec 2016	31 Dec 2015
EQUITY AND LIABILITIES			
Equity	24		
Restricted equity			
Share capital		18,019	18,019
Statutory reserve		2,043	2,043
Total restricted equity		**20,062**	**20,062**
Non-restricted equity			
Retained earnings		-276,470	-227,528
Share premium reserve		552,124	552,124
Profit/loss for the year		-17,671	-48,941
Total non-restricted equity		**257,983**	**275,655**
Total equity		**278,045**	**295,717**
Non-current liabilities			
Interest-bearing loans	25, 27	194,921	-
Intra-group loans	25	23,000	-
Total non-current liabilities		**217,921**	**-**
Current liabilities			
Borrowings	25	19	19
Accounts payable		703	971
Liabilities to group companies		3,887	1,800
Other liabilities	29	95	-
Accrued expenses and deferred income	30	3,681	586
Total current liabilities		**8,385**	**3,376**
TOTAL EQUITY AND LIABILITIES		**504,351**	**299,093**

The notes presented on pages 35-52 are an integrated part of these annual and consolidated accounts.

Parent company statement of changes in equity

		Restricted equity		Non-restricted equity		
Amounts in SEK thousand	**Note**	**Share capital**	**Statutory reserve**	**Share premium reserve**	**Retained earnings**	**Total equity**
Opening balance, 1 January 2015		**15,683**	**2,043**	**513,702**	**-227,529**	**303,899**
Comprehensive income						
Profit/loss for the year					-48,941	**-48,941**
Total comprehensive income					**-48,941**	**-48,941**
Transactions with shareholders						
Issue expenses[1]				-116		**-116**
Convertible debt instruments – converted		2,336		38,538		**40,874**
Closing balance, 31 December 2015		**18,019**	**2,043**	**552,124**	**-276,469**	**295,717**
Opening balance, 1 January 2016		**18,019**	**2,043**	**552,124**	**-276,469**	**295,717**
Comprehensive income						
Profit/loss for the year					-17,671	**-17,671**
Total comprehensive income					**-17,671**	**-17,671**
Closing balance, 31 December 2016		**18,019**	**2,043**	**552,124**	**-294,141**	**278,045**

The notes presented on pages 35-52 are an integrated part of these annual and consolidated accounts.

1) The tax effect of issue expenses recognised in equity totals SEK 0 thousand (26).

Parent company statement of cash flows

Amounts in SEK thousand	Note	2016	2015
Cash flow from operating activities			
Operating profit/loss before financial items		-1,965	-2,513
Adjustments for non-cash items	33	306	-
Interest received		4,293	45
Interest paid		-16,284	-5,880
Cash flow from operating activities before changes in working capital		**-13,650**	**-8,348**
Cash flow from changes in working capital			
Increase/decrease in operating receivables		-461	-48,609
Increase/decrease in operating liabilities		158	189
Total changes in working capital		**-303**	**-48,420**
Cash flow from operating activities		**-13,953**	**-56,768**
Investing activities			
Investments in subsidiaries	31	-58,419	-12,000
Loans to subsidiaries		-132,411	-
Divestment/amortisation of other financial assets		-	8,674
Group contributions received/paid		-14,000	-
Cash flow from investing activities		**-204,830**	**-3,326**
Financing activities			
New share issue		-	167
Loans raised	25	217,921	-
Cash flow from financing activities		**217,921**	**167**
Cash flow for the year		**-862**	**-59,927**
Opening cash and cash equivalents	23	**1,544**	**61,471**
Closing cash and cash equivalents	23	**682**	**1,544**

The notes presented on pages 35-52 are an integrated part of these annual and consolidated accounts.

Notes

Note 1 General information

Scandinavian Biogas Fuels International AB (publ) operates as a publicly listed, limited liability company and is registered in Stockholm, Sweden. The headquarters are located at Holländargatan 21A, SE-111 60, Stockholm, Sweden.

The board of directors approved the publication of the consolidated accounts and annual report on March 21st 2017.

Unless otherwise specified, all amounts are in SEK thousand. Figures in brackets pertain to the year-earlier period.

Note 2 Summary of key accounting principles

The principal accounting policies applied in these consolidated accounts are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The consolidated accounts include Scandinavian Biogas Fuels International AB and its subsidiaries.

Because internal reporting is done on the Group level, there is deemed to be only one segment for reporting purposes; segment reporting was therefore not prepared for the financial year. The Group is considering dividing operations into more than one segment as of financial year 2017. The CEO is the chief operating decision maker.

Of the Group's net sales of SEK 242.6 million, three individual customers account for SEK 71.9 million, SEK 34.2 million and SEK 27.5 million, respectively. These customers account for 55 per cent of the Group's total net sales, of which 14 per cent is attributable to South Korea and the remainder to Sweden. No other customers account for more than 10 per cent of sales.

Of total tangible and intangible assets of SEK 840.5 million (647.5), SEK 562.3 million (538.5) are located in Sweden, SEK 104.0 million (109.0) in South Korea, and SEK 174.3 million (n/a) in Norway.

2.1 Basis of presentation

The consolidated accounts for Scandinavian Biogas Fuels International AB have been prepared in accordance with the Swedish Annual Accounts Act, RFR 1 "Supplementary Accounting Rules for Groups", and International Financial Reporting Standards (IFRS) and interpretations by the IFRS Interpretations Committee (IFRS IC) as adopted by the EU. This is Scandinavian Biogas Fuels International AB's fifth annual report prepared in accordance with the International Financial Reporting Standards (IFRS).

The consolidated accounts have been prepared using the cost method, with the exception of:

i) certain categories of tangible assets – at fair value through the income statement

ii) defined benefit pension plans – plan assets at fair value through the income statement

The Parent Company's financial statements are prepared in accordance with RFR 2 "Accounting for Legal Entities" and the Swedish Annual Accounts Act. In cases where the Parent Company applies other accounting principles than those applied by the Group, these are listed separately at the end of this note.

The preparation of financial statements in conformity with IFRS requires the use of certain significant estimates for accounting purposes. It also requires management to exercise its judgement in applying the Group's accounting policies; see Note 4, Significant Estimates and Assessments.

2.1.1 Changes in accounting principles and disclosures

New standards, amendments and interpretations applied by the Group

No amended standards applicable during 2016 had a material impact on Scandinavian Biogas Fuels International AB's accounting principles or disclosures.

New standards and interpretations not yet applied by the Group

A number of new standards and interpretations come into effect for financial years beginning after January 1st 2016 and were not applied when preparing these financial statements. None of these are expected to have a material impact on the consolidated accounts, with the exception of the following:

IFRS 9 "Financial Instruments" covers the classification, valuation and reporting of financial assets and liabilities and introduces new rules for hedge accounting. The complete version of IFRS 9 was issued in July 2014, replacing the sections of IAS 39 covering classification and valuation of financial instruments and introducing a new impairment model.

There will be three valuation categories for financial assets: amortised cost, fair value through other comprehensive income, and fair value through profit or loss. Classification is determined by the company's business model and the instrument's characteristics. Investments in equity instruments are reported at fair value through profit or loss, although there is also an option to report the instrument at fair value through other comprehensive income at initial recognition. Divested instruments will not be reclassified to the income statement. IFRS 9 also introduces a new model for calculating credit loss reserves. Classification and valuation for financial liabilities remain unchanged except in cases where a liability is reported at fair value through profit or loss based on the fair value alternative. Changes in value attributable to changes in own credit risk are then reported in other comprehensive income.

IFRS 9 reduces requirements for applying hedge accounting by replacing the 80-125 criterion with requirements for a financial relationship between hedge instruments and secured objects, and use of the same hedge ratio as that used in risk management. Hedging documentation is also changed as compared with IAS 39. The standard will be applied for financial years beginning January 1st 2018. Early application is permitted. The Group does not intend to apply the standard in advance. The Group has not yet evaluated the effects introduction of the standard will have, but deems that it will not affect the Group's results or position.

IFRS 15 "Revenue from Contracts with Customers" regulates revenue recognition.

IFRS 15, the new standard for revenue recognition, replaces IAS 18 "Revenues" and IAS 11 "Construction Contracts". IFRS 15 is based on the principle that revenues are recognised when control over the goods or service sold is passed to the customer – replacing the former principle that revenues are recognised when risks and benefits have passed to the purchaser. A company may choose between "full retroactivity" and future application with additional disclosures. IFRS 15 takes effect January 1st 2018. Early application is permitted. The Group does not intend to apply the standard in advance, and has not yet decided whether to use future application or full retroactivity. According to the Group's initial analysis of IFRS 15, no significant effects on the Group's results and position are anticipated. The standard will, however, require increased disclosure in the annual report.

IFRS 16 "Leasing" was published in January 2016. When the new standard is implemented nearly all lease agreements will be reported in the balance sheet, as distinction will no longer be made between operating and finance lease agreements. Under the new standard, an asset (the right to use a leased asset) and a financial obligation to pay leasing fees is reported. Short-term leases and leases of low-value assets are excluded. The standard will mainly affect reporting of the Group's operating lease agreements. At the balance sheet date, the Group's non-cancellable operating lease agreements totalled SEK 69.1 million (71.9); see Note 32, Lease Agreements. The Group has not yet evaluated the extent to which these obligations will be reported as assets and liabilities or how this will affect the Group's results and the classification of cash flows. The standard takes effect at January 1st 2019, and the Group does not intend to apply the standard in advance.

No other IFRS or IFRIC interpretations that are not yet effective are expected to have any significant impact on the Group.

2.2 Consolidated accounts

A subsidiary is an entity over which the Group has the power to govern financial and operating policies (controlling interest) in a way normally associated with a shareholding of more than half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. A subsidiary is no longer consolidated from the date such control ceases.

The acquisition method is applied in reporting the Group's business combinations. The purchase price for acquisition of a subsidiary is the fair value of transferred assets, liabilities and equity interests issued by the Group. The purchase price also includes the fair value of all assets and liabilities that are the result of an agreement on a conditional purchase price. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are initially measured at their fair values at the date of acquisition.

The amount by which the purchase price exceeds the fair value of identifiable net assets acquired is reported as goodwill. If the amount is less than the fair value of the acquired subsidiary's assets, in the event of a "bargain purchase," the difference is recognised directly in the statement of comprehensive income. The Group applies the "partial goodwill" method in reporting goodwill arising from business combinations; accordingly, goodwill is calculated as the difference between the purchase price paid and the Group's share in identifiable acquired net assets.

Intra-group transactions, balances and unrealised profit and loss on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistent application of the Group's policies.

2.3 Translation of foreign currency

Functional currency and reporting currency

The Group's various units use local currency as functional currency, as local currency has been defined as the currency of the primary economic environment in which the entity mainly operates. The consolidated accounts are presented in Swedish Kronor (SEK), which is both the Parent Company's functional currency and the Group's presentation currency.

Transactions and balance sheet items

Foreign currency transactions are translated into functional currency using the exchange rates in effect on the transaction date. Exchange rate gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing day rate are recognised in the income statement.

Translation of foreign Group companies

The results and financial position of all Group entities with functional currency different from the reporting currency are translated into the reporting currency. Assets and liabilities from each entity's balance sheet are translated from their functional currency into the Group's reporting currency (Swedish Kronor) at the exchange rate in effect at the closing date. Revenues and expenses from each income statement are translated to Swedish Kronor at the average exchange rates in effect at each transaction date. Exchange rate differences arising on translation of foreign operations are recognised in other comprehensive income.

2.4 Intangible assets

Capitalised expenditures for development and similar work

Capitalised expenditures for development and similar work are comprised of:

Internally developed intangible assets

The Scandinavian Biogas Fuels International Group engages in research and development. Research costs are expensed as research expenditures when incurred. Development expenditures or such costs incurred in the development phase of an internal project, which are directly attributable to the development and testing of the substrates from which biogas can be produced, are recognised as intangible assets when all criteria specified in IAS 38, p. 57, are satisfied.

Internally developed intangible assets are amortised on a straight-line basis over a 5-10 year period.

Separately acquired R&D projects

The conditions for recognition as an asset under paragraph IAS 38, p. 21, are considered to be fulfilled for research and development projects acquired separately. Acquisition cost and directly attributable costs are capitalised. Additional costs for separately acquired development projects are expensed if these R&D costs do not meet the criteria for recognition as an asset under IAS 38, p. 57. Additional expenses incurred in connection with development that meet the criteria for recognition as an asset in the balance sheet are added to the acquisition cost of the research and development project.

Separately acquired intangible assets are amortised on a straight-line basis over a 5-10 year period.

Concessions and similar rights

The subsidiary in Ulsan, South Korea has signed a service agreement that does not convey the right to control the use of the Company's public service infrastructure. The Group recognises an intangible asset to the extent it is entitled to charge for the use of the public service (see also sub-section 2.18, "Service concession arrangements"). Amortisation is calculated over the contract period (i.e., 15-year period through March 2026) using the straight-line method.

2.5 Tangible assets

Tangible assets are reported at cost of acquisition less depreciation. Cost of acquisition includes expenditures directly attributable to acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will benefit the Group and the cost of the asset can be reliably measured. The carrying amount of a replaced part is removed from the balance sheet. All other repairs and maintenance are reported as expenses in the income statement during the period incurred.

Each part of a tangible asset with a cost of acquisition that is significant in relation to the asset's total cost of acquisition is depreciated separately. Land and construction work in progress are not depreciated. Other assets are depreciated on a straight-line basis as follows:

Buildings	30 years
Plant and machinery	10-30 years
Equipment, tools, fixtures and fittings	3-5 years

The assets' residual value and useful life are reviewed at each reporting date and adjusted if necessary. An asset's carrying amount is immediately written down to its recoverable value if the carrying amount exceeds the estimated recoverable value. See also Note 4, Significant Estimates and Assessments.

Gains and losses on the disposal of tangible assets are determined by comparing sale proceeds with the carrying amount and are recognised in other operating income and other operating expenses in the income statement.

2.6 Impairment of non-financial assets

Assets with an indefinite useful life (e.g., goodwill) are not written down but are tested annually for impairment. Assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable value. The recoverable value is an asset's fair value less costs related to its sale or its value in use, whichever is greater. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.7 Inventories

Inventories are comprised of organic material substrates and are reported at acquisition cost or net realisable value, whichever is lower. Obsolescence risk is taken into account. Acquisition cost is calculated based on the first-in, first-out principle, and includes fees for transporting the goods to their present location and condition

2.8 Financial instruments – general

Financial instruments are included in several balance sheet items and are specified in sub-sections 2.9-2.12. Sub-section 2.8 details the general rules applicable to financial instruments.

2.8.1 Classification

The Group classifies its financial assets and liabilities in the following categories: financial assets and liabilities at fair value through the income statement; financial assets and liabilities at fair value through other comprehensive income; loans and receivables; and other financial liabilities. Classification is based on the purpose for which the financial asset or liability was acquired. The Group has no assets or liabilities at fair value through the income statement for this or the previous financial year.

Financial assets and liabilities at fair value through other comprehensive income

Non-monetary financial assets and liabilities are classified as financial assets and liabilities at fair value through other comprehensive income. An example of non-monetary financial assets and liabilities is the mandatory Severance Liability provision in South Korea.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets with the exception of items with maturities longer than 12 months after the balance sheet date, which are classified as non-current assets. Group loans and receivables are comprised of trade accounts receivable, cash and cash equivalents (see sub-sections 2.9 and 2.10), and the financial instruments reported in other receivables.

Other financial liabilities

Group borrowings, loans from shareholders, convertible debt, trade accounts payable and the portion of other current liabilities relating to financial instruments are classified as other financial liabilities.

2.8.2 Reporting and valuation

Purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset. For all financial assets not carried at fair value through the income statement, financial instruments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the instruments have expired or have been transferred and the Group has transferred substantially all risks and benefits of ownership. Financial liabilities are derecognised when the obligation in the agreement has been fulfilled or otherwise terminated.

Financial assets and liabilities at fair value through other comprehensive income are recognised with the application of the "projected unit credit method". The mandatory Severance Liability provision in South Korea is revalued to fair value through other comprehensive income pursuant to IAS 19, and other translation differences for non-monetary financial assets and liabilities are also valued at fair value through other comprehensive income.

Loans and trade accounts receivable as well as other financial liabilities are carried at amortised cost after the acquisition date, applying the effective interest method.

2.8.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and an intention to adjust them on a net basis or to realise the asset and adjust the liability simultaneously.

2.8.4 Impairment of financial instruments

Assets carried at amortised cost (loan receivables and trade accounts receivable)

The Group assesses at the end of each reporting period whether there is objective evidence that a write-down is required for a financial asset or group of assets. A financial asset or group of assets is written down only if there is objective evidence that a write-down is required due to the occurrence of one or more events following initial recognition of the asset, which event(s) have an impact on estimated future cash flows for the financial asset or group of assets that can be reliably estimated.

Impairment is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The asset's carrying amount is written down and the impairment amount is recognised in the consolidated income statement within other external costs or net financial items, depending on which financial asset is impaired. If the write-down requirement decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated income statement within other external costs or net financial items, depending on which financial asset was impaired.

2.9 Trade accounts receivable

Trade accounts receivable are financial instruments comprised of amounts due from customers for goods and services sold in the ordinary course of business. Payments expected within a year or less are classified as current assets; other expected payments are reported as non-current assets.

Trade accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provisions for impairment.

2.10 Cash and cash equivalents

Cash and cash equivalents are financial instruments and include cash and bank balances reported in the balance sheet and statement of cash flows.

2.11 Accounts payable

Accounts payables are financial instruments and represent obligations to pay for goods and services acquired from suppliers in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less; otherwise, they are reported as non-current liabilities.

Accounts payable are recognised at nominal value. The carrying amount of accounts payable is assumed to approximate fair value, as this post is short-term in nature.

2.12 Borrowings

Borrowings and loans from shareholders are financial instruments and are initially recognised at fair value, net of transaction costs. Borrowings are subsequently stated at amortised cost, with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the term of the loan using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.13 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets that necessarily take a substantial period of time to prepare for intended use or sale) are reported as part of such assets' acquisition value. Capitalisation ceases when all activities necessary to prepare the asset for its intended use or sale are substantially completed.

Capitalisable borrowing costs are reduced by financial income arising from temporary investment of specifically borrowed capital pending use in the financing of the asset. All other borrowing costs are expensed as incurred.

2.14 Government grants

Government grants related to investments in plants, machinery and equipment are recognised as a liability until the corresponding investment cost has been incurred by the Company, after which the cost of acquisition for the relevant asset is reduced.

Government grants related to cost recovery are expensed and recognised as revenue in the income statement over the periods covered by the grants.

2.15 Current and deferred tax

Tax expense for the year comprises current and deferred tax. Current tax expense is calculated based on tax provisions enacted or substantively enacted in the countries in which the Parent Company and its subsidiaries operate and generate taxable income.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated accounts. Deferred income tax is determined using tax rates enacted or substantively enacted as of the balance sheet date and expected to be applicable when the related deferred income tax asset is realised or the deferred tax liability is paid.

Deferred tax assets on tax losses are recognised to the extent it is probable that future taxable profit will be available, against which the loss can be utilised.

Deferred tax assets and liabilities are offset when there is either a legally enforceable right to offset current tax assets against tax liabilities, or when the deferred tax assets and liabilities pertain to taxes levied by the same taxation authority on the same or different taxable entities and the intention is to settle the balances through net payments.

2.16 Employee benefits

Pension commitments

The Group has defined contribution and defined benefit pension plans.

In Sweden, the Group's primary defined contribution pension plan is the ITP1 plan, secured through fees to Alecta. The pension plan in Norway is similar to the plan in Sweden.

A defined contribution plan is a pension plan under which the Group pays fixed contributions to a separate legal entity. The Group has no legal or constructive obligations to pay further contributions if the legal entity does not hold sufficient assets to pay all employee benefits relating to employee service in current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as a personnel cost when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available to the Group.

The Group has defined benefit plans in South Korea, where the employees are entitled to post-employment benefits based on final salary and length of employment.

Group	31 Dec 2016	31 Dec 2015
Obligations on the balance sheet for:		
Defined benefit pension plans	-3,342	-2,704
Recognition in the income statement for:		
Costs for defined benefit pension plans	927	959
Amounts reported in other comprehensive income	-121	227

Group	31 Dec 2016	31 Dec 2015
Present value of funded obligations	-	-
Unrecorded actuarial gains	-	-
Fair value of plan assets	-	-
Net liability of funded obligations	**-**	**-**
Present value of unfunded obligations	-3,342	-2,704
Unrecorded actuarial losses	-	-
Net liability in the balance sheet	**-3,342**	**-2,704**

Changes in the defined benefit obligation for the year:

Group	31 Dec 2016	31 Dec 2015
At beginning of the year	2,704	1,834
Costs for employee service during the current year	742	802
Interest expense	65	55
Actuarial losses(+)/gains(-)	121	-227
Costs for employee services in previous years	-	329
Exchange differences	178	-39
Benefits paid	-467	-50
At year-end	**3,342**	**2,704**

Amounts recognised in the income statement for defined benefit plans:

Group	31 Dec 2016	31 Dec 2015
Costs for employee services during the current year	742	802
Costs for employee services in previous years	-	329
Interest expense	65	55
Actuarial gains/losses reported during the year	121	-227
Total	**927**	**959**

Principal actuarial assumptions:

Group	31 Dec 2016	31 Dec 2015
Discount rate	2.35%	2.35%
Future salary increases	3%	3%

Plan assets are comprised of:

Group	31 Dec 2016	31 Dec 2015
Other	-	-
Total	**-**	**-**
Present value of defined benefit obligations	-3,342	-2,704
Fair value of plan assets	-	-
Deficit	**-3,342**	**-2,704**

Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a provision when there is a legal obligation or a constructive obligation to do so due to past practice.

2.17 Revenue recognition

Revenues comprise the fair value of consideration received or receivable for goods sold in the Group's operating activities. Revenues from the sale of goods mainly consists of the sale of biogas. Revenues are recognised net of VAT and discounts and after eliminating intra-group sales.

Revenues from the sale of goods is recognised when risks and rewards of ownership of the goods have passed to the buyer, which usually occurs in connection with delivery, and when the revenues and associated costs can be measured reliably and it is probable that the economic benefits associated with the sale of the units benefit the Group.

Revenues from services relate primarily to the collection of organic waste. Revenues from the sale of services are recognised over the period during which services are rendered. Revenue is calculated by determining the degree of completion of the specific transaction based on the amount of services rendered relative to total services to be performed.

2.18 Service concession arrangements

The operations in South Korea have entered into service concession arrangements associated with the biogas plant there. As service concession arrangements do not transfer the right to control the use of the infrastructure for public services to the Group, infrastructure associated with these arrangements is not recognised as a tangible asset. Compensation received or receivable by the Group is recognised at fair value. Compensation has been assessed as entitlement to an intangible asset, as the arrangement gives the Group the right (licence) to charge users for the public service.

2.19 Leases

The Group holds operating leases for land, office space, cars, coffee machines, and copiers.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the lease period.

The Group leases certain non-current assets. Leases of non-current assets in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases.

Each finance lease payment comprises amortisation of the debt and financial charges. The corresponding payment obligations, net of financial charges, are included in the balance sheet items non-current borrowings and current borrowings. The interest element of the financial cost is recognised in the income statement over the lease period so that each accounting period is charged with an amount corresponding to a fixed interest rate for the balance of the liability. Non-current assets held under finance leases are depreciated over the asset's useful life or the lease term, whichever is shorter.

2.20 Cash flow statement

The cash flow statement is prepared using the indirect method. Accordingly, operating income is adjusted for transactions that do not result in cash payments during the period and for any income or expense attributable to investment or financing activity cash flows.

2.21 Share capital

Ordinary shares are classified as equity. Transaction costs directly attributable to the issue of new shares or warrants are recognised in equity, net of tax, as a deduction from the issue proceeds.

2.22 Share-based benefits

The Group has a share-based programme (warrants) in which payment is made with shares and under which the Company receives services from employees as consideration for the Group's own equity instruments (warrants). The fair value of the service that entitles employees to allocation of warrants is expensed. The total amount to be expensed is based on the fair value of the warrants granted on the allocation date. As the programme is not combined with vesting conditions, the entire cost is recognised on the allocation date. When the warrants are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and other paid-in capital. The social security contributions generated by the programme are similarly charged to results on the allocation date.

2.23 Parent Company accounting principles

The Parent Company applies accounting principles other than those applied by the Group as detailed below.

Presentation

The income statement and balance sheet follow the Swedish Annual Accounts Act. The statement of changes in equity also follows the Group's table format but must contain the columns specified in the Annual Accounts Act. There are also differences in terminology, particularly in respect of financial income and expenses and equity.

Participations in subsidiaries

Participations in subsidiaries are recognised at cost after deduction for any impairment losses. Costs include acquisition-related expenses and any additional purchase consideration paid.

An estimate of recoverable amount is made when there is an indication that participations in subsidiaries have decreased in value. If this amount is lower than the carrying amount, a write-down is recognised and reported in profit/loss from participations in Group companies.

Group contributions

Group contributions are recognised as appropriations in the income statement.

Lease agreements

All leases, regardless of whether they are finance or operating leases, are classified as operating lease agreements.

Financial instruments

IAS 39 is not applied in the Parent Company, and financial instruments are valued at cost of acquisition.

Guarantees/financial guarantees

The Parent Company has signed guarantees on behalf of subsidiaries. Such commitments are classified under IFRS as financial guarantee contracts. For these agreements, the parent applies relaxation rules pursuant to RFR 2 (IAS 39, p. 2), and accordingly reports the surety as a contingent liability. A provision is made when the Parent Company believes that a payment will likely be required to settle an obligation.

Note 3 Financial risk management

3.1 Financial risk factors

Through its business activities, the Group is exposed to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall strategy focuses on reducing the potentially adverse effects on financial performance.

a) Market risk

(i) Currency risk

Scandinavian Biogas is exposed to currency risk given that the Company conducts transactions in foreign currencies (transaction risk) and has foreign subsidiaries (translation risk).

Transaction risk

Transaction risk is the risk of impact on consolidated net income and cash flow due to changes to the value of commercial flows in foreign currencies following changes in exchange rates. The subsidiaries in South Korea and Norway use KRW and NOK, respectively, as accounting currency, but exposure is deemed negligible as revenue and expenses are in the same currency. The Group makes certain purchases in EUR but this does not present a significant currency risk, as it does not have any significant foreign currency transactions.

In 2016, exchange rate differences recognised in the consolidated income statement totalled SEK +7.1 million (-0.3). The Group has analysed its sensitivity to changes in exchange rates. If the Swedish Krona had weakened/strengthened by one per cent against the USD, KRW and EUR, with all other variables held constant, net results for the year would have been SEK 2.2 million (2.0) higher/lower.

Translation risk

There is risk associated with the Group's translation of the net assets of foreign subsidiaries to the consolidating currency, the Swedish Krona (SEK). The Group's foreign subsidiaries are in South Korea (KRW) and Norway (NOK). The Group is also affected by the translation of foreign subsidiaries' income statements into SEK. This exposure is not hedged.

The Group has analysed its sensitivity to changes in exchange rates. If the Swedish Krona had weakened/strengthened by one per cent against the KRW and NOK, with all other variables held constant, net results for the year would have been SEK 2.1 million (0) higher/lower.

(ii) Interest rate risk

Changes in interest-bearing financial assets and liabilities held by the Group linked to market interest rates affect the results and cash flow from operations. Interest rate risk is the risk that changes in market interest rates may have an adverse impact on the Group's net income. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, which is partially offset by cash assets at floating rates. In 2016 and 2015, the Group's borrowings at variable interest rates were in Swedish Kronor.

Of the Group's total interest-bearing debt of SEK 641 million (335), SEK 108.5 million (21.2) is at a fixed interest rate and the remainder at a variable rate. The Group is therefore exposed to a certain amount of interest rate risk. The Group has cash and cash equivalents totalling SEK 73,871 thousand (64,879) at variable rates. The Group's interest income is affected by the general interest rate climate.

Variable-rate liabilities as per the balance sheet date totalled SEK 532.2 million (314.1) and the Company's cash and cash equivalents totalled SEK 73.9 million (64.9). A +/- one per cent change in interest rates would result in an impact on net interest income/expense of +/- SEK 5.3 million (3.1). An interest rate reduction produces a somewhat lower affect than an interest rate increase in SEK, as the rate on the corporate bond has a STIBOR floor of 0.00 per cent.

b) Credit risk

Credit risk or counterparty risk is the risk that the counterparty to a financial transaction fails to fulfil its obligations when due. Scandinavian Biogas's credit risk includes cash and cash equivalents, trade accounts receivable and other receivables. With respect to cash and cash equivalents, credit risk is considered to be low given that counterparties are well-known banks with high credit ratings – such as Nordea (credit rating Aa3), Daegu Bank (credit rating A2) and Sparebank 1 SMN (credit rating A1) – for which loans to the Group are higher than deposits. Scandinavian Biogas deems credit risk to be low, as sales are made to large, stable customers with whom the Group has good WTP (willingness to pay) experience. The Group monitors customers' credit ratings and reviews the terms of credit if necessary.

c) Liquidity risk

Liquidity risk is the risk of the Group having insufficient funds to pay its financial liability obligations.

The objective of the Company's liquidity management is to minimise the risk that the Group will not have sufficient cash to meet its commercial obligations. Cash flow forecasts are prepared regularly. Management closely monitors rolling forecasts of the Group's liquidity reserve to ensure that the Group has sufficient cash resources to meet the needs of operating activities. Liquidity risks in the operating companies Scandinavian Biogas Stockholm AB and Scandinavian Biogas Korea Co., Ltd. are considered minor, while the risk is higher in development companies Scandinavian Biogas Fuels AB and Scandinavian Biogas Södertörn AB.

The financing of existing projects and operations in the coming year will largely be resolved with equity, including the new share issue planned for spring 2017. The Norwegian operations will also be financed with new external financing, and the Group is considering issuing a small portion of the Subsequent Bond Issue falling within the scope of the current bond agreement (read the prospectus at www.scandinavianbiogas.com). The funds are earmarked for the investment project in Norway.

In order to arrange financing for future projects and strengthen liquidity, the Group is looking at a number of different alternatives such as project financing and refinancing. There is also a plan to list the Parent Company's shares on a suitable marketplace no earlier than autumn 2017.

A number of capital adequacy requirements (covenants) are applicable to the Group's borrowings. These are mainly comprised of requirements for financial key ratios such as profitability and equity/assets ratio, as well as requirements for cash-in-hand. The Group also has restricted bank deposits in South Korea and Norway. These are reported as other non-current receivables in cases where the funds are restricted for more than one year; otherwise, they are reported as other receivables. Of the Group's total borrowings of SEK 640.7 million (335.2), SEK 380.5 million (160.6) is subject to various capital adequacy requirements. There are no covenants for the Group's finance leases.

At December 31st 2016 the Group's liquid assets totalled SEK 73,871 thousand (64,879). The Group has no undrawn credit facilities. Other future liquidity pressures are the payment of accounts payable and other current liabilities and repayment of loans. The table below shows the contractual, undiscounted cash flows that comprise financial liabilities, broken down by duration on the balance sheet date to the contractual maturity date. The table includes future finance leases totalling SEK 17.8 million (129.6) which were not included in the balance sheet at the balance sheet date, due to the fact that the lease period does not commence until 2017. The Parent Company issued a four-year, SEK 200 million corporate bond in February 2016 which matures February 10th 2020.

At 31 December 2016 (SEK thousand)	**< 1 year**	**1-2 years**	**2-5 years**	**>5 years**
Borrowings	45,941	87,341	292,679	80,549
Finance lease liabilities	19,375	22,207	65,799	255,661
Loans from shareholders	-	19	-	-
Accounts payable	95,775	-	-	-
Other current liabilities	124	-	-	-

At 31 December 2015 (SEK thousand)	**< 1 year**	**1-2 years**	**2-5 years**	**>5 years**
Borrowings	72,692	25,141	86,217	-
Finance lease liabilities	17,106	21,426	66,656	260,276
Loans from shareholders	-	19	-	-
Accounts payable	61,555	-	-	-
Other current liabilities	76	-	-	-

3.2 Capital risk management

The Group's goal with regard to its capital structure is to safeguard the Group in its ability to continue its operations, in order to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

3.3 Calculation of fair value

The carrying value, less impairment provisions, of trade accounts receivable and other receivables and of accounts payable and other liabilities is assumed to correspond to their fair values, given that these items are short-term in nature.

Note 4 Significant estimates and assessments

Estimates and assessments are evaluated regularly and are based on historical experience and other factors, including expectations of future events deemed reasonable under current conditions.

Significant estimates and assessments for accounting purposes

The Group makes estimates and assumptions about the future. The accounting estimates that result from these, by definition, seldom correspond to actual results. The estimates and assumptions that have a significant risk of material adjustments to the carrying values of assets and liabilities within the next financial year are outlined below.

Valuation of loss carry-forwards

The Group reviews on an annual basis the appropriateness of capitalising deferred tax assets for the year's tax loss carry-forwards. Deferred tax assets are only recognised for loss carry-forwards when it is probable they can be utilised against future taxable income and against temporary taxable differences. Loss carry-forwards in the Norwegian companies are valued upon determination that there is sufficient future profit to utilise them. No elements of the other loss carry-forwards have been valued, as it is not deemed that profits in the foreseeable future are likely to exceed the costs for development, commissioning of new investment projects and Group-wide functions.

Goodwill

The Group's goodwill is derived from the acquisition of the Norwegian group and is considered to have an indefinite useful life. Impairment testing is conducted on a continuous basis through the Group's review of future cash flows and determination of a number of estimates and assessments, mainly related to future biogas price and operating costs. As the facility in Norway is under construction, production and sales volumes are estimated based on previous experience, performance data from suppliers and management's expectations for future market development. Cash flow forecasts are based on the approved budget and forecasts for the next five years. A 2 per cent long-term growth rate and an 11.0 per cent cost of capital were used in this year's impairment testing, the latter produced by an external party.

Service concession arrangements

The Group has service concession arrangements and, accordingly, an intangible asset (concession right) is recognised to the extent the Group is entitled to charge users of the public service. The intangible asset is recognised based on the fair value of consideration the Group has received or will receive. Fair value was estimated at the present value of future cash flows the Group expects to receive from the concession rights. Assessment of expected future cash flows requires management to make estimates and assessments concerning the future, the most significant of which are future market price of liquid natural gas (LNG) and operating costs. A 12.4 per cent cost of capital was applied during the balance sheet date review. An external party was retained to calculate the cost of capital based on assessments of weighted return requirements for interest-bearing liabilities and equity in proportion to estimated percentage in an optimal industrial capital structure.

Valuation of tangible assets

Impairment testing of the Group's facilities is conducted on a regular basis. Impairment testing is based on estimated future cash flows, with several assumptions applied in this assessment – the most significant of which are future production volumes, biogas price and operating costs. In this year's assessment, a 10.6 per cent cost of capital was applied for Sweden, 11.0 per cent for Norway and 12.4 per cent for South Korea. An external party was retained to calculate cost of capital based on assessments of weighted return requirements for interest-bearing liabilities and equity in proportion to estimated percentage in an optimal industrial capital structure. Each facility was assessed independently, excluding the two leased from Stockholm Vatten (Bromma and Henriksdal), which were treated as a single cash-generating unit.

Penalty fee provision

The level of the penalty fee payable to Ulsan City with regard to the upgrading issue at the plant in South Korea has been determined based on counsel from a leading South Korean law firm. See Note 26, Provisions.

Capitalised development costs

The Group recognises development costs that meet all criteria specified in IAS 38, p. 57, as intangible assets. Costs are primarily comprised of lab tests of various organic substrates and substrate combinations from which biogas can be produced and optimised. Capitalisation is only done on development costs for assets that the Group i) deems are technically possible to complete; ii) intends to complete; iii) deems are possible to use or sell; iv) deems will have the capacity to generate future financial advantages; v) deems there are sufficient technical, financial and other resources to complete; and vi) deems it is possible to reliably measure development costs. Estimates and assessments must be made in assessing which development costs to capitalise, based on expectations of future cash flows that the asset is expected to generate.

Investment in Biogas Uppland

Management has analysed the degree of influence the Group has over Biogas Uppland AB and has determined that the Group has control over operations. This determination was based on representation on the board and on contract terms, even though the Group holds a 50 per cent stake. The investment has therefore been classified as a subsidiary and has been consolidated.

Claims on subsidiaries in South Korea

In the Swedish part of the Group there are claims on subsidiary Scandinavian Biogas Korea Co., Ltd., denominated in USD and KRW. Exchange rate fluctuations in 2016 resulted in an unrealised exchange difference of SEK +7.1 million (+0.2). Given that debt is amortised pursuant to a fixed plan and is expected to be fully amortised by 2025, the Group has determined that this claim should not be seen as a net investment in the South Korean company. Accordingly, exchange rate fluctuations are recognised in net financial items and not, as otherwise would have been the case, in other comprehensive income.

Note 5 Distribution of net sales

Net sales are distributed by type of revenue as follows:

Group	2016	2015
Sale of goods, Sweden	146,783	99,929
Sale of goods, South Korea	17,980	25,102
Sale of goods, Norway	14,982	-
Sale of services, Sweden	17,969	13,612
Sale of services, South Korea	34,196	35,364
Sale of services, Norway	124	-
Business-related re-invoicing, Sweden	10,576	1,884
Group total	**242,610**	**175,891**

Parent Company	2016	2015
Sale of services	1,200	1,200
Parent Company total	**1,200**	**1,200**

Business-related re-invoicing refers primarily to materials and consultant services purchased in the capacity as technical entrepreneur and re-invoiced to external parties within the scope of various types of co-operation agreements.

Note 6 Parent Company sales to and purchases from Group companies

During the year the Parent Company invoiced subsidiaries SEK 2,046 thousand (1,654) for Group-wide services and purchased services from subsidiaries in the amount of SEK 0 thousand (52).

Note 7 Capitalised work on own account

The Company capitalised staff costs related to work performed on new construction work in progress and on development projects. The costs capitalised relate to direct labour costs, social security contributions and a mark-up for other expenses.

Note 8 Remuneration to auditors

An audit assignment refers to examination of the annual report and accounting records, the board and CEO's administration of the Company, other duties resting with the Company's auditors, and advisory services and other support arising in the course of such examination or performance of such other duties. Everything else is considered other services.

Group	2016	2015
PwC		
Audit assignment	1,125	889
Audit work other than audit assignment	35	39
Tax consultancy	124	123
Other services	527	58
Total	**1,811**	**1,109**
Other auditors		
Audit assignment	10	9
Audit work other than audit assignment	-	-
Tax consultancy	9	7
Other services	17	26
Total	**36**	**42**
Group total	**1,847**	**1,151**

Parent Company	2016	2015
PwC		
Audit assignment	586	392
Audit work other than audit assignment	11	28
Tax consultancy	14	36
Other services	256	51
Total	**868**	**507**

The Parent Company uses only Öhrlings PricewaterhouseCoopers AB as auditor.

Note 9 Employee benefits, etc.

Group	2016	2015
Salaries and other benefits	41,263	34,395
Social security contributions	9,895	7,614
Pension expenses – defined contribution plans	3,920	3,256
Pension expenses – defined benefit plans	1,067	1,186
Group total	**56,145**	**46,451**

Salaries, other benefits and social security contributions

	2016	2016	2015	2015
	Salaries and other benefits (of which, bonuses)	Social insurance contributions (of which, pension costs)	Salaries and other benefits (of which, bonuses)	Social insurance contributions (of which, pension costs)
Board members, CEO and other senior executives	8,536 (623)	3,470 (1,590)	8,915 (717)	3,604 (1,741)
Other employees	32,727 (42)	11 412 (3,397)	25,480 (1,034)	8,452 (2,701)
Group total	**41,263 (666)**	**14,882 (4,987)**	**34,395 (1,751)**	**12,056 (4,442)**

No share options were distributed to board members or employees during this or the previous financial year.

Gender distribution – board members and other senior executives, Group (including subsidiaries)

	2016	2016	2015	2015
	No. on balance sheet date	Of which, women	No. on balance sheet date	Of which, women
Board members	7	1	7	1
CEO and other senior executives	6	1	6	1
Group total	**13**	**2**	**13**	**2**

Parent Company	2016	2015
Salaries and other benefits	687	650
Social security contributions	125	78
Parent Company total	**811**	**728**

Salaries, other benefits and social security contributions

	2016	2016	2015	2015
	Salaries and other benefits (of which, bonuses)	Social insurance contributions (of which, pension costs)	Salaries and other benefits (of which, bonuses)	Social insurance contributions (of which, pension costs)
Board members, CEO and other senior executives	687 (-)	125 (-)	650 (-)	78 (-)
Other employees	-	-	-	-
Parent Company total	**687 (-)**	**125 (-)**	**650 (-)**	**78 (-)**

Average number of employees, by country

	2016	2016	2015	2015
	Average number of employees	Of which, women	Average number of employees	Of which, women
Sweden	-	-	-	-
Total Parent Company	**-**	**-**	**-**	**-**
Subsidiaries				
Sweden	42	10	36	10
South Korea	21	1	22	1
Norway	5	1	n/a	n/a
Total subsidiaries	**68**	**12**	**58**	**11**
Group total	**68**	**12**	**58**	**11**

Gender distribution – board members and other senior executives, Parent Company

	2016	2016	2015	2015
	No. on balance sheet date	Of which, women	No. on balance sheet date	Of which, women
Board members	7	1	7	1
CEO and other senior executives	1	-	1	-
Parent Company total	**8**	**1**	**8**	**1**

Note 10 Other operating income and other operating expenses

	Group		Parent Company	
Other operating income	**2016**	**2015**	**2016**	**2015**
Exchange gains	560	347	-	1
Grants received	4,031	-	-	-
Non-business-related re-invoicing	2,827	431	846	454
Other	21	2,844	-	-
Total other operating income	**7,439**	**3,622**	**846**	**455**

	Group		Parent Company	
Other operating expenses	**2016**	**2015**	**2016**	**2015**
Exchange losses	573	846	1	-
Total other operating expenses	**573**	**846**	**1**	**-**

Note 11 Financial income and expense/Interest income and expense

	Group		Parent Company	
Financial income/Interest income	**2016**	**2015**	**2016**	**2015**
Interest income on bank deposits	162	150	-	38
Interest income from Group companies	-	-	19,122	7
Exchange gains	7,141	12,563	307	-
Other financial income	32	11	-	-
Total financial income/ interest income	**7,335**	**12,724**	**19,429**	**45**

	Group		Parent Company	
Financial expense/Interest expense	**2016**	**2015**	**2016**	**2015**
Impairment of participations in Group companies	-	-	-	46,083
Interest expense on borrowings	28,570	2,880	17,477	109
Intra-group interest expense	-	-	2,087	-
Exchange losses	-	12,382	-	-
Other financial expense	2,920	1,545	1,571	281
Total financial expense/ interest expense	**31,490**	**16,807**	**21,135**	**46,473**
Total net financial items	**-24,155**	**-4,083**	**-1,706**	**-46,428**

Note 12 Income tax/Tax on profit for the year

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
Current tax:				
Current tax on profit for the year	-	-	-	-
Adjustments related to previous years	-	-	-	-
Total current tax	**-**	**-**	**-**	**-**
Deferred tax (see Note 17):				
Accrual and reversal of temporary differences	1,039	-462	-	-
Total deferred tax	**1,039**	**-462**	**-**	**-**
Income tax	**1,039**	**-462**	**-**	**-**

Income tax on profit differs from the theoretical amount that would have arisen if the weighted average tax rate on profit were applied to profits for the consolidated companies, as follows:

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
Profit/loss before tax	-48,735	-20,900	-17,671	-48,941
Tax calculated pursuant to applicable national tax rates on profit/loss before tax in each country	10,442	3,772	3,888	10,767
Tax effects of:				
- Non-taxable income	1	1	-	-
- Non-deductible expenses	-654	-425	-	-10,305
- Tax losses for which no deferred tax asset is recognised	-8,750	-3,810	-3,888	-462
Tax revenue/expense	**1,039**	**-462**	**-**	**-**

The weighted average tax rate is 21.4% (18.0) for the Group and 22.0% (22.0) for the Parent Company.

Income tax recognised in equity during the year:

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
Current tax:				
- Issue expenses	-	25	-	25
Deferred tax:				
- Issue expenses	-	-	-	-
Total income tax recognised in equity	**-**	**25**	**-**	**25**

Note 13 Exchange differences

Exchange differences are recognised in the income statement as follows:

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
Exchange differences in operating profit/loss	-13	-499	-1	1
Net financial items	7,141	181	307	-
Total exchange differences in the income statement	**7,128**	**-318**	**306**	**1**

Note 14 Intangible assets

Group	Goodwill	Capitalised development costs	Concessions and similar rights	Patents and licences	Total
At 1 January 2015					
Cost of acquisition	-	6,806	187,114	4,534	**198,454**
Accumulated amortisation and impairment	-	-1,755	-53,333	-4,525	**-59,613**
Closing carrying amount	**-**	**5,051**	**133,781**	**9**	**138,841**
Financial year 2015					
Opening carrying amount	-	5,051	133,781	9	**138,841**
Purchases/ reprocessing	-	2,330	247	190	**2,767**
Translation differences	-	-	1,101	-	**1,101**
Amortisation	-	-142	-12,792	-33	**-12,967**
Impairment	-	-	-13,518	-	**-13,518**
Closing carrying amount	**-**	**7,239**	**108,819**	**166**	**116,224**
At 31 December 2015					
Cost of acquisition	-	9,136	187,406	4,724	**201,266**
Accumulated amortisation and impairment	-	-1,897	-78,587	-4,558	**-85,042**
Closing carrying amount	**-**	**7,239**	**108,819**	**166**	**116,224**
Financial year 2016					
Opening carrying amount	-	7,239	108,819	166	**116,224**
Purchases/ reprocessing	-	2,100	73	-	**2,173**
Reclassifications	-	5,221	-	-	**5,221**
Acquisition of subsidiaries	6,420	-	-	-	**6,420**
Translation differences	387	-	6,298	-	**6,685**
Amortisation	-	-1,088	-11,476	-40	**-12,604**
Closing carrying amount	**6,807**	**13,472**	**103,714**	**126**	**124,119**
At 31 December 2016					
Cost of acquisition	6,807	16,457	197,422	4,724	**225,410**
Accumulated amortisation and impairment	-	-2,985	-93,708	-4,598	**-101,291**
Closing carrying amount	**6,807**	**13,472**	**103,714**	**126**	**124,119**

The total amount for research and development expensed during the period was SEK 2,170 thousand (2,080).

Based on the results of impairment tests, it was deemed that there were no write-down requirements during the financial year; see also Note 4, Significant Estimates and Assessments. The Group conducted a sensitivity analysis against changes in the impairment test. If the cost of capital had been 0.5 percentage point higher and profitability (EBITDA margin) one percentage point lower, with all other variables held constant, there would have been no write-down requirement for the concession right – although goodwill would have been fully written down. Last year's write-down pertains to the plant in Ulsan; the main reasons for the impairment were the declining market price of LNG (on which gas sales are based) and the outstanding upgrading issue. See also Note 26, Provisions.

Note 15 Tangible assets

Group	Buildings and land	Plant and machinery	Equipment, tools, fixtures and fittings	Construction work in progress	Total
At 1 January 2015					
Cost of acquisition	91,538	102,650	15,532	204,993	**414,713**
Accumulated depreciation and impairment	-15,222	-23,718	-11,282	-37,382	**-87,604**
Carrying amount	**76,316**	**78,932**	**4,250**	**167,611**	**327,109**
Financial year 2015					
Opening carrying amount	76,316	78,932	4,250	167,611	**327,109**
Acquisitions	-	11,051	929	171,550	**183,530**
Capitalisation	84,481	164,033	-	248,514	**-**
Advances paid	-	-	-	26,720	**26,720**
Capitalised interest	-	-	-	16,266	**16,266**
Sale and disposal	-	-	-	-9,600	**-9,600**
Translation differences	-	-	5	-	**5**
Depreciation	-3,788	-7,895	-1,073	-	**-12,756**
Closing carrying amount	**157,009**	**246,121**	**4,111**	**124,033**	**531,274**
At 31 December 2015					
Cost of acquisition	176,019	277,734	16,460	161,416	**631,630**
Accumulated depreciation and impairment	-19,010	-31,613	-12,350	-37,383	**-100,356**
Carrying amount	**157,009**	**246,121**	**4,111**	**124,033**	**531,274**
Financial year 2016					
Opening carrying amount	157,009	246,121	4,111	124,033	**531,274**
Acquisitions	-	5,159	1,681	256,712	**263,552**
Capitalisation	48,480	37,899	9,820	-96,199	**-**
Advances paid	-	-	-	-57,425	**-57,425**
Capitalised interest	-	-	-	10,249	**10,249**
Acquisition of subsidiaries	-	-	12	7,339	**7,351**
Reclassifications	-	-	-	-5,221	**-5,221**
Translation differences	-	-	8	-	**8**
Depreciation	-8,665	-22,027	-2,681	-	-33,373
Closing carrying amount	**196,824**	**267,152**	**12,951**	**239,488**	**716,415**
At 31 December 2016					
Cost of acquisition	224,499	320,792	27,958	277,129	**850,378**
Accumulated depreciation and impairment	-27,675	-53,640	-15,007	-37,641	**-133,962**
Carrying amount	**196,824**	**267,152**	**12,951**	**239,488**	**716,415**

Construction work in progress as at December 31st 2016 is mainly comprised of investments in the plant in Norway.

During the year the Group capitalised borrowing fees of SEK 10,249 thousand (16,266) on qualifying assets in the form of construction work in progress.

Based on the results of impairment tests, it was deemed that there was no write-down requirement for tangible assets during the financial year; see also Note 4, Significant Estimates and Assessments. The Group conducted a sensitivity analysis against changes in the impairment test. If the cost of capital had been 0.5 percentage point higher and profitability (EBITDA margin) one percentage point lower, with all other variables held constant, the year's write-down would have been SEK 9.2 million for the ongoing project in Norway – although there would have been no write-down requirement for the plants at Henriksdal, Bromma or Södertörn.

Tangible assets include objects leased by the Group through finance lease agreements at the following amounts:

	2016	2015
Buildings and land	116,685	72,862
Plant and machinery	113,148	83,844
Equipment, tools, fixtures and fittings	10,588	3,146
Construction work in progress	6,971	88,402
Carrying amount	**247,392**	**248,254**

Note 16 Participations in Group companies

Parent Company	31 Dec 2016	31 Dec 2015
Accumulated cost		
Opening cost of acquisition	532,885	520,885
Shareholder contributions	-	12,000
Acquisitions during the year	58,419	-
	591,304	**532,885**
Accumulated impairment		
Opening balance	-403,494	-357,411
Impairment for the year	-	-46,083
	-403,494	**-403,494**
Closing carrying amount at year-end	**187,810**	**129,391**

The Parent Company holds shares in the following subsidiaries:

Name	Corp. reg. no.	Domicile	Share of equity/Share of votes	No. of shares	Carrying amount 31 Dec 2016	Carrying amount 31 Dec 2015
Direct holdings						
Scandinavian Biogas Fuels AB	556691-9196	Stockholm	100%	166,667	27,341	27,341
Scandinavian Biogas Sweden AB	556807-2986	Stockholm	100%	50,000	102,050	102,050
Biokraft Holding AS	916683405	Trondheim (Norway)	50.03%	29,258,346	58,419	-
Indirect holdings						
Biogas Uppland AB	556636-0227	Uppsala	50%			
Scandinavian Biogas Södertörn AB	556712-1735	Stockholm	100%			
Scandinavian Biogas Fuels i Varberg AB	556748-8357	Varberg	100%			
Scandinavian Biogas Korea Co., Ltd.	610-84-00961	Ulsan (South Korea)	82.17%			
Scandinavian Biogas Korea Co., Ltd.	285011-0174239	Seoul (South Korea)	90%			
Scandinavian Biogas Stockholm AB	556489-7899	Stockholm	100%			
Scandinavian Biogas Recycling AB	556934-4384	Stockholm	60%			
Biokraft AS	894625902	Trondheim (Norway)	50.03%			
Total					**187,810**	**129,391**

Significant subsidiaries and their activities

Scandinavian Biogas Fuels AB designs biogas facilities, with a primary focus on optimising production and conducting research in the biogas field.

Scandinavian Biogas Korea Co., Ltd. operates a plant in Ulsan, South Korea that produces raw gas, primarily from food waste. Revenues are generated by gate fees (i.e., payment for receiving waste) and from gas sales.

Scandinavian Biogas Stockholm AB's operations comprise the production and trade of upgraded biogas.

Scandinavian Biogas Södertörn AB (SBSö) and Scandinavian Biogas Recycling AB (SBR) work in close collaboration, with their overall business encompassing the entire biogas production process. SBR is responsible for pre-treatment and SBSö for the digestion, upgrading and management of digestate.

In early 2016, 50.03 per cent of the shares were acquired in Norwegian company Biokraft Holding AS, which owns 100 per cent of the shares in Biokraft AS. Biokraft AS has initiated an investment in an LBG production facility in Skogn outside of Trondheim, which will have an estimated production capacity of 120 GWh at full capacity.

All subsidiaries are consolidated in the Group. The share of voting power in subsidiaries directly owned by the Parent Company does not differ from the share of ordinary shares owned.

Biogas Uppland AB is consolidated, given that Scandinavian Biogas Fuels AB is entitled to appoint the chairman who in turn holds the casting vote. Accordingly, Scandinavian Biogas Fuels is deemed to have control over Biogas Uppland.

The total ownership of non-controlling interests for the period amounted to SEK 53,962 thousand (1,987), of which SEK 52,957 thousand (n/a) is attributable to the Biokraft Group in Norway. Holdings of non-controlling interests in the remaining subsidiaries with minority shareholders are insignificant.

Significant constraints

There are no significant constraints within the Group other than certain restrictions in moving capital between subsidiaries due to loan agreement regulations, etc.

Summary of financial information on subsidiaries with significant non-controlling interests

A summary of financial information for each subsidiary with significant non-controlling interests is presented below. Amounts are presented before intra-group eliminations.

Summary from the balance sheet

Biokraft Group	2016
Non-current assets	202,926
Current assets	50,580
Total assets	**253,506**
Non-current liabilities	94,681
Current liabilities	52,846
Total liabilities	**147,527**
Net assets	**105,979**

Summary of information on earnings and comprehensive income

Biokraft Group	2016
Revenue	19,475
Profit/loss for the year	-2,550
Total comprehensive income for the year	**3,605**
Total comprehensive income attributable to non-controlling interests	**1,801**

Summary of cash flow statement

Biokraft Group	2016
Cash flow from operating activities	
Cash flow from operations	-3,534
Interest paid/received	46
Total change in working capital	23,605
Cash flow from operating activities	20,117
Cash flow from investing activities	-181,940
Cash flow from financing activities	77,482
Increase/decrease in cash and cash equivalents	**-84,341**
Cash and cash equivalents at acquisition date	101,393
Exchange rate difference in cash and cash equivalents	6,120
Cash and cash equivalents at year-end	**23,172**

Note 17 Deferred tax

	Group		Parent Company	
	2016	2015	2016	2015
Deferred tax expense, temporary differences	-404	-513	-	-
Deferred tax revenue, temporary differences	1,443	51	-	-
Total deferred tax in the income statement	**1,039**	**-462**	**-**	**-**

Deferred tax assets and liabilities are distributed as follows:

Deferred tax assets	31 Dec 2016	31 Dec 2015
Deferred tax assets to be utilised after 12 months	7,601	-
Deferred tax assets to be utilised within 12 months	-	-
Total deferred tax assets	**7,601**	**-**

Deferred tax liabilities	31 Dec 2016	31 Dec 2015
Deferred tax liabilities to be utilised after 12 months	1,968	1,564
Deferred tax liabilities to be utilised within 12 months	-	-
Total deferred tax liabilities	**1,968**	**1,564**
Deferred tax liabilities/assets (net)	**5,633**	**-1,564**

Changes in deferred tax assets and liabilities during the year as reported in the income statement, without taking into account set-offs made in the same fiscal jurisdiction, are presented below.

Deferred tax liabilities	31 Dec 2016	31 Dec 2015
At 1 January	**1,564**	**1,102**
Development costs	404	513
Transaction costs, loans	-	-51
At 31 December	**1,968**	**1,564**

Deferred tax assets	31 Dec 2016	31 Dec 2015
At 1 January	**-**	**-**
Acquisition of subsidiaries	5,765	-
Deferred tax on net results for the year in Norwegian subsidiaries	1,415	-
Inter-group profit in non-current assets	28	-
Translation difference	393	-
At 31 December	**7,601**	**-**

Deferred tax assets are reported for tax loss carry-forwards to the extent it is likely they can be utilised against future taxable profit. Loss carry-forwards do not expire at any given date, with the exception of the South Korean loss carry-forward which expires after 10 years.

Deferred tax assets are mainly attributable to the Norwegian subsidiaries. An assessment has been made that operations in Norway will generate a taxable surplus in the foreseeable future, while within other operations there remain significant deficits that are not expected with any reasonable certainty to be covered by surpluses in the foreseeable future. Loss carry-forwards for which deferred tax assets have not been capitalised total SEK 352 million (312).

Note 18 Other non-current assets

Group	31 Dec 2016	31 Dec 2015
Accumulated cost:		
- At beginning of the year	3,111	-
- Additional non-current prepaid expenses	-	4,000
- Deductible portion	-444	-889
Carrying amount at year-end	**2,667**	**3,111**

Non-current prepaid expenses pertain to a renegotiation fee expensed over the term of the agreement (9 years).

Note 19 Financial instruments per category

Assets on the balance sheet

Group	Assets at fair value through profit or loss	Assets at fair value through other comprehensive income	Loans and receivables	Total
31 December 2016				
Trade accounts receivable	-	-	36,806	**36,806**
Other receivables	-	-	41,345	**41,345**
Cash and cash equivalents	-	-	73,871	**73,871**
Total	**-**	**-**	**152,022**	**152,022**
31 December 2015				
Trade accounts receivable	-	-	25,870	**25,870**
Other receivables	-	-	9,884	**9,884**
Cash and cash equivalents	-	-	64,879	**64,879**
Total	**-**	**-**	**100,633**	**100,633**

Liabilities on the balance sheet

Group	Liabilities at fair value through profit or loss	Liabilities at fair value through other comprehensive income	Other financial liabilities	Total
31 December 2016				
Borrowings	-	-	640,664	**640,664**
Loans from shareholders	-	-	19	**19**
Accounts payable	-	-	95,775	**95,775**
Accrued expenses	-	2,971	-	**2,971**
Other liabilities	-	-	124	**124**
Total	**-**	**2,971**	**736,582**	**739,553**
31 December 2015				
Borrowings	-	-	335,206	**335,206**
Loans from shareholders	-	-	19	**19**
Accounts payable	-	-	61,555	**61,555**
Accrued expenses	-	2,704	-	**2,704**
Other liabilities	-	-	76	**76**
Total	**-**	**2,704**	**396,856**	**399,560**

Note 20 Trade accounts receivable

Group	31 Dec 2016	31 Dec 2015
Trade accounts receivable	37,124	26,162
Less: provision for doubtful receivables	-318	-292
Trade accounts receivable – net	**36,806**	**25,870**

At December 31st 2016, substantiated trade accounts receivable totalled SEK 36,806 thousand (25,870).

At December 31st 2016, trade accounts receivable totalling SEK 8,971 thousand (3,892) were past due, but impairment was not deemed necessary.

An age analysis of trade accounts receivable is presented below.

	31 Dec 2016	31 Dec 2015
1-30 days	8,950	3,892
31-60 days	21	-
> 61 days	-	-
Total overdue trade accounts receivable	**8,971**	**3,892**

Changes in the provision for doubtful receivables:

	31 Dec 2016	31 Dec 2015
At 1 January	**-292**	**-273**
Exchange rate differences	-26	-19
At 31 December	**-318**	**-292**

Allocations to and reversals of provisions for doubtful receivables are included in other external expenses in the income statement. No collateral or other guarantee is provided for receivables outstanding as at the balance sheet date.

Note 21 Other receivables

Group	31 Dec 2016	31 Dec 2015
Tax account and preliminary F-tax	767	753
VAT receivable	9,404	2,832
Grants, unpaid	10,646	-
Restricted bank deposits	6,829	-
Other items	1,306	2,026
Group total	**28,952**	**5,611**

Parent Company	31 Dec 2016	31 Dec 2015
VAT receivable	8	115
Parent Company total	**8**	**115**

Note 22 Prepaid expenses and accrued income

Group	31 Dec 2016	31 Dec 2015
Accrued income	2,272	520
Prepaid insurance premiums	1,885	1,610
Prepaid rents	1,746	2,194
Prepaid lease payments	5,283	13
Other items	1,806	904
Group total	**12,992**	**5,241**

Parent Company	31 Dec 2016	31 Dec 2015
Prepaid insurance premiums	35	35
Other items	84	37
Parent Company total	**119**	**72**

Note 23 Cash and cash equivalents/ Cash and bank

The following items are included in cash and cash equivalents on the balance sheet and statement of cash flows:

Group	31 Dec 2016	31 Dec 2015
Cash and bank	73,871	64,879
Group total	**73,871**	**64,879**

Parent Company	31 Dec 2016	31 Dec 2015
Cash and bank	682	1,544
Parent Company total	**682**	**1,544**

None of the funds in cash and cash equivalents are restricted.

Note 24 Share capital, other paid-in capital and proposed appropriation of profits

	Number of shares (thousand)	Share capital	Other paid-in capital	Total
At 31 December 2015	**90,093**	**18,019**	**693,305**	**711,324**
At 31 December 2016	**90,093**	**18,019**	**693,305**	**711,324**

Share capital is comprised of 90,092,662 shares. Each share carries one vote.

All shares issued by the Parent Company are paid in full.

The board of directors proposes that unappropriated earnings, SEK 257,983,735, be distributed as follows:

Accumulated profit/loss	-276,469,588
Share premium reserve	552,124,089
Profit/loss for the year	-17,670,766
Total	**257,983,735**
Carried forward	257,983,735
Total	**257,983,735**

Convertibles

In 2013 and 2014 the Parent Company issued a total of 11,678,001 convertible bonds, all of which were converted in January 2015 at a conversion rate of SEK 3.50. At December 31st 2016 there were no outstanding convertibles.

Warrants

The Parent Company issued 2,500,000 warrants to subsidiary Scandinavian Biogas Fuels AB in 2014, as authorised by the 2013 AGM. Of these, a total of 565,000 warrants were allocated to the CEO and employees. The warrants were valued at SEK 0.95 per warrant using the Black & Scholes option pricing model. The warrants were issued free of charge and employees were taxed for the benefit. Warrant holders are entitled to subscribe for one share per warrant at a subscription price of SEK 4.67 per share during the subscription period April 1st 2017 through April 1st 2018. The warrants carry a pre-emption clause.

Note 25 Borrowings

Group	31 Dec 2016	31 Dec 2015
Non-current		
Loans from credit institutions	170,257	98,654
Bond loans	194,921	-
Liabilities related to finance leases	241,996	167,989
Other non-current borrowings	5,562	-
Total non-current borrowings	**612,736**	**266,643**
Current		
Loans from credit institutions	15,331	61,980
Loans from shareholders	19	19
Liabilities related to finance leases	12,597	6,583
Total current borrowings	**27,947**	**68,582**
Total borrowings	**640,683**	**335,225**

Parent Company	31 Dec 2016	31 Dec 2015
Non-current		
Bond loans	194,921	-
Intra-group loans	23,000	-
Total non-current borrowings	**217,921**	**-**
Current		
Loans from shareholders	19	19
Total current borrowings	**19**	**19**
Total borrowings	**217,940**	**19**

Loans from credit institutions

Loans from credit institutions mature through 2027 and finance leases run through 2039. Interest-bearing loans carry an average annual interest rate of 7.3 per cent (5.5). Group borrowings are in SEK, KRW and NOK.

Total borrowings include bank loans and other secured borrowings of SEK 448,613 thousand (225,663). Security for loans from credit institutions is comprised of liens on assets as well as pledged intra-group loans, assets and shares in subsidiaries.

The carrying amount and fair value of non-current borrowings is presented below.

	Carrying amount		Fair value	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Loans from lenders	170,257	98,654	170,257	98,654
Liabilities related to finance leases	241,996	167,989	241,996	167,989

The fair value of non-current financial liabilities is calculated based on future cash flows of principal and interest discounted at the current market rate on the balance sheet date.

The fair value of current borrowings corresponds to carrying amount, as the discount rate is not significant.

Note 26 Provisions

Group	2016	2015
At 1 January	**7,097**	**-**
Provision for the year, penalty fee risk	1,841	7,097
Translation difference	437	-
At 31 December	**9,375**	**7,097**

There is a risk that subsidiary Scandinavian Biogas Korea Co., Ltd. in Ulsan, South Korea will need to pay a penalty to Ulsan City for not upgrading gas. As per agreement, an investment in an upgrading plant in Ulsan was to be made by December 2017; failure by the Company to make the investment entitles Ulsan City to charge a penalty fee equivalent to a portion of gas sales. This penalty fee applies retroactively from November 2012 (the Company has already paid through October 2012). As there is currently no interest in South Korea for upgraded gas, the Company deems the contractual requirement to be unreasonable. The Company also deems the level of penalty to be unreasonable. The Group has engaged a leading South Korean law firm, which maintains that a substantially lower penalty is more reasonable.

Due to the uncertainty in the matter, the Company has elected to make a provision corresponding to 10 per cent of gas sales for the period November 2012 through December 2016. The difference between allocated and contractual amounts is reported as a contingent liability; see Note 28, Contingent Liabilities.

The Parent Company has no Provisions.

Note 27 Pledged assets

Group	31 Dec 2016	31 Dec 2015
Liens on assets	66,454	103,622
Pledged assets	239,416	-
Shares in Scandinavian Biogas Stockholm AB	52,909	51,391
Shares in Scandinavian Biogas Korea Co., Ltd.	1,237	2,583
Shares in Scandinavian Biogas Sweden AB	17,540	44,124
Shares in Scandinavian Biogas Södertörn AB	17,956	23,863
Shares in Scandinavian Biogas Fuels i Varberg AB	79	80
Shares in Biokraft Holding AS	53,022	-
Group total	**448,613**	**225,663**

Parent Company	31 Dec 2016	31 Dec 2015
Shares in Scandinavian Biogas Sweden AB	102,050	102,050
Shares in Scandinavian Biogas Fuels AB	27,341	-
Shares in Biokraft Holding AS	58,419	-
Pledged intra-group loan to Scandinavian Biogas Sweden AB	196,265	69,574
Parent Company total	**384,075**	**171,624**

Note 28 Contingent liabilities

Group	31 Dec 2016	31 Dec 2015
Contingent liability – subsidiary penalty fee	37,501	28,386
Contingent liability – subsidiary payment guarantees to suppliers	4,197	-
Contingent liability – subsidiary investment grants	5,363	-
Group total	**47,062**	**28,386**

Parent Company	31 Dec 2016	31 Dec 2015
Contingent liability – subsidiary loans from credit institutions	35,500	37,500
Contingent liability – subsidiary payment guarantees to suppliers	4,197	-
Contingent liability – subsidiary investment grants	5,363	-
Parent Company total	**45,060**	**37,500**

Contingent liabilities for subsidiary loans from credit institutions pertains to general guarantee commitments.

At December 31st 2016 the Group had a contingent liability of SEK 37.5 million (28.4) with regard to the difference between the allocated and contractual amounts for the penalty fee related to gas upgrading in Ulsan, South Korea.

Note 29 Other liabilities

Group	31 Dec 2016	31 Dec 2015
VAT liability	1,121	1,101
Tax deduction at source	1,183	765
Public funding	10,585	18,910
Other	124	76
Group total	**13,013**	**20,852**

Parent Company	31 Dec 2016	31 Dec 2015
VAT liability	95	-
Parent Company total	**95**	**-**

Note 30 Accrued expenses and deferred income

Group	31 Dec 2016	31 Dec 2015
Accrued interest	3,501	829
Accrued payroll-related expenses	9,356	8,803
Accrued expenses – gas and electricity	5,104	7,207
Accrued board fees	555	235
Construction work in progress	13,899	94,021
Other items	7,140	5,450
Group total	**39,555**	**116,545**

Parent Company	31 Dec 2016	31 Dec 2015
Accrued interest	2,837	73
Accrued board fees	555	235
Other items	289	278
Parent Company total	**3,681**	**586**

Note 31 Business combinations

Business combinations

On February 11th 2016 the Group acquired 50.03 per cent of the shares in Biokraft Holding AS, a company registered in Norway that owns all shares in Biokraft AS. The purchase price totalled NOK 57,999,147.66. A small portion of the acquisition was conducted directly with the owners, with the major portion conducted in conjunction with a new share issue. The surplus value of the acquisition has been estimated at SEK 6.4 million. Acquisition costs for lawyers, etc. totalled SEK 0.8 million and were reported in the income statement as other external costs.

Information on acquired net assets and goodwill:

	At acquisition date
Purchase price:	
- funds paid via direct acquisition	2,981
- funds paid via new share issue	54,670
Total purchase price	**57,651**
Fair value of acquired assets (see below)	-51,231
Surplus value/Goodwill	**6,420**

Assets and liabilities included in the acquisition, according to preliminary assessment:

	Fair value
Cash and cash equivalents	101,393
Tangible assets	6,933
Deferred tax assets	5,765
Trade accounts receivable and other receivables	4,935
Accounts payable and other liabilities	-6,688
Borrowings	-9,940
Identifiable assets acquired	**102,398**
Non-controlling interests	-51,167
Surplus value/Goodwill	6,420
Acquired net assets	**57,651**

Surplus value is classified as goodwill and is attributable to increased market shares in the Nordic region, establishment in the Norwegian market, and future liquid biogas production at the biogas facility outside of Trondheim. All of the Group's existing plants currently produce compressed biogas. No part of recognised goodwill is expected to be tax deductible.

Fair value of non-controlling interest in Biokraft Holding AS, an unlisted company, was calculated by multiplying non-controlling interest (49.97 per cent) by the value of the identified assets acquired. See also Note 16, Participations in Group Companies.

Sales for full-year 2016 (i.e., including the period prior to the acquisition) totalled SEK 15.1 million. Profit/loss for the year was SEK -2.9 million. See Note 16, Participations in Group Companies for details on the subgroup's contribution to sales and profit/loss as from the acquisition date.

Note 32 Lease agreements

Operating leases

The Group's operating leases pertain mainly to office space, land, storage tanks, cars, coffee machines and copiers. No subleasing is conducted. Cars are leased under three-year contracts after which i) the car is returned at no charge, or ii) the lease may be extended on one-year basis, or iii) the car may be purchased at contractual residual value. Copiers are leased under three-year contracts after which they are either returned or the leases are extended on a one-year basis. The land at Henriksdal and Södertörn is leased for a 25-year period and the land at Bromma until the closure of Stockholm Vatten's wastewater treatment plant, which is expected in 2023. Land leases are classified as operating leases, as no risks are transferred to the lessee and as depreciation/amortisation is not considered necessary for land. The storage tank lease agreement runs for five years with a five-year extension option for the lessee. If the agreement is not cancelled or extended by five years, it is automatically extended for consecutive two-year periods. At the end of the leasing period, the lessee's only responsibility is to clean the tank thoroughly.

Future minimum lease payments under non-cancellable operating leases effective at the reporting date are payable as follows:

Group	31 Dec 2016	31 Dec 2015
Within 1 year	6,895	5,451
1 to 5 years	19,733	22,145
6 to 10 years	14,038	14,506
More than 10 years	28,436	29,950
Group total	**69,102**	**71,852**

The Group's costs for operating leases during the financial year totalled SEK 7,037 thousand (5,542).

Finance leases

The Group's finance lease agreements comprise the lease of biogas/pre-treatment plants as well as other tangible assets located mainly at Henriksdal, Bromma and Södertörn.

A 25-year lease agreement covering land and facilities at Henriksdal and Bromma was signed in 2014. Rent for the land and facilities at Henriksdal is calculated at book value at time of sale spread over 20 years, with a rent rebate the first and last 30 months, and a variable rate corresponding to two-year government bonds plus a market-rate margin. Rent for land and facilities at Bromma is calculated in the same way, without a rent rebate. This agreement applies as long as the facility at Bromma remains. The City of Stockholm has decided to phase out the facility, with a preliminary date set for 2023. The effect of the phase-out of the treatment plant at Bromma is not expected to be significant, as redirection of biogas production to Henriksdal is planned.

Land and assets were broken down based on the carrying amount of assets sold at time of sale. The Group reports the portion related to other assets as tangible assets and the debt is recorded to Stockholm Vatten AB. Land is classified as an operating lease; see above.

Subsidiary Scandinavian Biogas Recycling AB leases land and facilities from SRV Återvinning AB under a 25-year lease agreement. Rent for the land is classified as an operating lease, while rent for the other facilities is classified as a finance lease. Rent is calculated at carrying acquisition value at commencement of the rental period divided over 20, 15 and 7 years using a variable rate corresponding to three months STIBOR plus a market-rate margin.

Finance lease liabilities

Lease liabilities are effectively secured, as rights to the leased assets revert to the lessor in the event of non-payment.

Gross finance lease liabilities – minimum lease payments:	**31 Dec 2016**	**31 Dec 2015**
Within 1 year	20,558	11,435
1 to 5 years	82,561	58,504
6 to 10 years	92,472	72,534
More than 10 years	153,039	134,097
Group total	**348,631**	**276,570**

Present value of finance lease liabilities:	**31 Dec 2016**	**31 Dec 2015**
Within 1 year	13,596	10,622
1 to 5 years	57,591	55,506
6 to 10 years	68,656	69,580
More than 10 years	129,131	131,031
Group total	**268,974**	**266,739**

The tables above also include future minimum lease payments pertaining to contracted leases, which at December 31st 2016 are not on the balance sheet.

The Group's finance lease expenses totalled SEK 15,641 thousand (11,463) for the financial year.

No lease agreements are held by the Parent Company.

Note 33 Other non-cash items

Group	**31 Dec 2016**	**31 Dec 2015**
Other provisions	2,278	7,097
Actuarial results on post-employment benefits	-121	227
Unallocated translation difference	4,929	-48
Other	-2,035	-
Group total	**5,051**	**7,276**

Parent Company	**31 Dec 2016**	**31 Dec 2015**
Unrealised exchange difference	306	-
Parent Company total	**306**	**-**

Note 34 Share-based benefits

2014 warrant programme

The Parent Company issued 2,500,000 warrants to subsidiary Scandinavian Biogas Fuels AB in 2014, as authorised by the 2013 AGM. Of these, a total of 565,000 warrants were allocated to the CEO and employees. The warrants were valued at SEK 0.95 per warrant using the Black & Scholes option pricing model. The warrants were issued free of charge and employees were taxed for the benefit. Warrant holders are entitled to subscribe for one share per warrant at a subscription price of SEK 4.67 per share during the subscription period April 1st 2017 through April 1st 2018. The warrants carry a pre-emption clause.

Group – number of warrants	**31 Dec 2016**	**31 Dec 2015**
CEO	400,000	400,000
Other senior executives	130,000	110,000
Other employees	35,000	55,000
Group total	**565,000**	**565,000**

All options were vested at date of issue and the entire expense charged to 2014 profit/loss.

Note 35 Related-party transactions

AC Cleantech Growthfund 1 Holding AB owns 32.8 per cent and Bengtssons Tidnings AB (and related parties) owns 31.4 per cent of the shares in Scandinavian Biogas Fuels International AB (publ), and are deemed to have significant influence over the Group. Of the remaining 35.8 per cent of the shares, no single owner holds more than 10 per cent. Other related parties are Group subsidiaries and senior executives (i.e., board members and management) and their families.

The following transactions were conducted with related parties:

Purchase of goods and services	**2016**	**2015**
Purchase of services:		
- Key management personnel (consultancy services)	482	112
- Other related parties (consultancy services)	-	216
Total	**482**	**328**

No sales were made to related parties outside the Group during this or the previous financial year.

Goods and services are purchased from and sold to subsidiaries on normal market terms. Services purchased from related parties are based on normal market terms and purchases are conducted on a commercial basis.

Remuneration to senior executives

Remuneration to the CEO and other senior executives is comprised of basic salary, variable remuneration, other benefits and financial instruments, etc. "Other senior executives" are the individuals who, together with the CEO, comprise Group management. For management structure, see the Corporate Governance section of the Board of Directors' Report.

The CEO is entitled to 12 months' salary in the event his employment is terminated by the Company. There are no other termination benefit agreements.

Senior executives received the following remuneration (see also Note 9, Employee Benefits, etc.):

Remuneration and other benefits, 2016	Basic salary/ board fee	Variable remuneration	Other benefits	Pension costs	Other remuneration	Total
Chairman Göran Persson	350	-	-	-	-	350
Board member Anders Bengtsson	67	-	-	-	-	67
Board member Andreas Ahlström	50	-	-	-	-	50
Board member Hans Hansson	60	-	-	-	-	60
Board member Sara Anderson	60	-	-	-	-	60
Board member Peter Lönnblad (Jan-Apr)	17	-	-	-	-	17
Board member Raif Nisametdin (May-Dec)	33	-	-	-	-	33
Board member Andreas Berg	50	-	-	-	-	50
CEO Matti Vikkula	3,089	289	111	662	-	4,150
Other senior executives (5 persons)	4,706	180	108	903	-	5,897
Total	**8,481**	**469**	**219**	**1,565**	**-**	**10,734**

Remuneration and other benefits, 2015	Basic salary/ board fee	Variable remuneration	Other benefits	Pension costs	Other remuneration	Total
Chairman Göran Persson	350	-	-	-	-	350
Board member Anders Bengtsson	50	-	-	-	-	50
Board member Andreas Ahlström	50	-	-	-	-	50
Board member Phil Metcalfe (Jan-Apr)	17	-	-	-	-	17
Board member Jan Lönnblad (Jan-Apr)	17	-	-	-	-	17
Board member Hans Hansson	50	-	-	-	-	50
Board member Sara Anderson (May-Dec)	33	-	-	-	-	33
Board member Peter Lönnblad (May-Dec)	33	-	-	-	-	33
Board member Andreas Berg	50	-	-	-	-	50
CEO Matti Vikkula	3,037	333	110	660	-	4,140
Other senior executives (5 persons)	4,433	384	91	893	-	5,801
Total	**8,121**	**717**	**201**	**1 553**	**-**	**10,592**

In the table above, salaries and other short-term benefits for the 2016 financial year include expensed bonuses to the CEO and other senior management of SEK 469 thousand (717).

The chairman, board directors and members of the Audit Committee receive remuneration as determined by the Annual General Meeting. No specific payment is made for other committee work. With regard to Parent Company salaries and compensation, board-related expenses totalled SEK 811 thousand (738), while the subsidiaries' other external expenses, totalling SEK 482 thousand (112), relate to consultancy fees to the employer of a board member.

Loans from companies with significant influence over the Company	2016	2015
At beginning of the year	-	26,235
Converted amount	-	-23,018
Interest paid	-	-3,217
At year-end	**-**	**-**

Note 36 Definition of key ratios

Debt/Equity ratio

The Group evaluates capital on the basis of the debt/equity ratio. This key ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including consolidated balance sheet items short-term borrowings and long-term borrowings) less cash and cash equivalents. Equity is calculated as equity in the consolidated balance sheet. Total capital is calculated as net debt plus equity.

	31 Dec 2016	31 Dec 2015
Total borrowings (Note 25)	640,683	335,225
Less: cash and cash equivalents (Note 23)	-73,871	-64,879
Net debt	**566,812**	**270,346**
Equity	226,279	217,814
Total capital	**793,091**	**488,160**
Debt/Equity ratio	**71.5%**	**55.4%**

Operating results (EBIT)

Operating results (EBIT – Earnings Before Interest and Tax) provide an overview of the Group's total earnings generation and are calculated as operating results before financial items and tax.

EBITDA

EBITDA is a profitability measure considered by the Group as relevant for investors interested in earnings generation before investments in assets. The Group defines EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) as operating results exclusive of other operating costs and amortisation/depreciation and impairment of tangible and intangible assets. The EBITDA margin is calculated by dividing EBITDA by total revenues.

	2016	2015
Operating results	-24,580	-16,817
- Amortisation/depreciation and impairment of tangible and intangible assets	45,979	39,329
- Other operating costs	573	846
EBITDA	**21,972**	**23,358**

Adjusted equity/assets ratio

The equity/assets ratio shows the proportion of assets financed with equity. The Group uses an adjusted equity/assets ratio, as this metric is defined in the corporate bond prospectus. The adjusted equity/assets ratio is calculated as the sum of total equity (including non-controlling interests) and subordinated loans divided by total assets adjusted for the grant from Enova. The grant from Enova for the Norwegian project in Skogn is included in the prospectus as a subordinated loan, but is a grant that does not require repayment.

	31 Dec 2016	31 Dec 2015
Total equity (incl. non-controlling interests)	226,279	217,814
Subordinated loans (incl. Enova)	47,428	-
	273,707	**217,814**
Total assets	1,026,648	760,652
Grant from Enova	47,428	-
	1,074,076	**760,652**
Adjusted equity/assets ratio	**25.5%**	**28.6%**

Note 37 Events after the balance sheet date

Subsidiary Scandinavian Biogas Södertörn AB was granted a new environmental permit in January 2017. Under the new permit, the facility is entitled to process up to 260,000 tonnes of organic waste (compared with the former permit's limit of 50,000 tonnes) and to increase biogas production to 20 million normal cubic metres of upgraded biogas, or about 200 GWh. The environmental permit gives the Group numerous new opportunities to develop the facility at Södertörn.

The Group is planning a share issue in the spring of 2017 to finance investments (in particular the facility at Södertörn) and to strengthen liquidity. The share issue is a feature of our strategic plan aimed at listing the Parent Company's share in a suitable marketplace no earlier than autumn 2017. A loan agreement was signed in early February with a number of the major shareholders. The aim is to offset the loan, which totals SEK 16 million, with the planned share issue. The Group is also considering issuing a small portion of the Subsequent Bond Issue falling within the scope of the current bond agreement (read the prospectus at www.scandinavianbiogas.com). The funds are earmarked for the investment project in Norway.

The Group has invested in an evaporation plant at Södertörn, which is expected to be commissioned during first quarter 2017. The investment was financed by a loan from the Parent Company and a contribution from the Swedish Energy Agency. The function of the evaporator is to treat water that is used in production, allowing it to be reused as dilution water. This will lower costs, as less fresh water will need to be purchased and wastewater costs will be reduced. The evaporation plant will also produce a concentrated bio-fertiliser that will generate higher value and lower logistics costs.

The consolidated income statement and balance sheet will be presented to the Annual General Meeting on May 11th 2017 for adoption.

The board of directors and chief executive officer certify that the consolidated accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and provide a true and fair view of the Group's financial position and results. The annual accounts have been prepared in accordance with generally accepted accounting principles and provide a true and fair view of the Parent Company's financial position and results.

The Board of Directors' Report for the Group and Parent Company provides a fair review of the development of the Group and the Parent Company's financial position and results and describes material risks and uncertainties facing both the Parent Company and the companies included in the Group.

Stockholm, March 21st 2017

Göran Persson
Chairman

Matti Vikkula
Chief Executive Officer

Anders Bengtsson
Board member

Andreas Ahlström
Board member

Hans Hansson
Board member

Raif Nisametdin
Board member

Sara Anderson
Board member

Andreas Berg
Board member

Our audit report was submitted on March 21st 2017

Öhrlings PricewaterhouseCoopers AB

Leonard Daun

Authorised Public Accountant
Chief Auditor

Karl Klintstedt

Authorised Public Accountant

Auditor's report

To the general meeting of the shareholders of Scandinavian Biogas Fuels International AB (publ), corporate identity number 556528-4733

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Scandinavian Biogas Fuels International AB (publ) for financial year 2016, with the exception of the corporate governance report on pages 20-21. The annual accounts and consolidated accounts of the company are included on pages 20-53 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinion does not cover the corporate governance report on pages 20-21. 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 adopt the parent company's income statement and balance sheet and the group's consolidated statement of comprehensive income and consolidated balance sheet.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (ISAs) 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 pursuant to these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach

Audit scope

The company's operations are comprised of waste management and biogas production conducted at one facility in South Korea and three facilities in Sweden. One facility is under construction in Norway. In our audit we reviewed all significant subsidiaries (i.e., all companies with production facilities or external loan financing). Given that several of these facilities are under construction and that contract conditions are in some cases complex, valuation of the facilities was a significant issue in our audit. Financing agreements were another significant area in our audit. We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered areas in which management made subjective judgements; e.g., in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance as to whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts for the current period. These matters were addressed in the context of our audit of, and in forming our opinion on, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Valuation of tangible assets

The carrying amount of the group's production facilities totals SEK 703 million. Note 4, Significant Estimates and Assessments, includes details on the estimates and assessments made by the group with respect to the value of these assets. It is specified in the same note that the group is required to assess whether there are indications of write-down requirements and, if such requirements are identified, to conduct impairment tests. Note 15 provides details on impairment tests conducted by the group with respect to specified tangible assets. In assessing write-down requirements, the group was required to evaluate a number of factors, the most significant being determination of what constitutes a cash-generating unit (i.e., whether a facility is to be valued as a single unit or collectively with other facilities); cost of capital; future price of biogas; and the facilities' operating costs.

How our audit addressed the key audit matter

We reviewed the group's assessment as to whether there were indications of write-down requirements. As detailed in Note 15, this assessment resulted in impairment tests being conducted on all facilities. We reviewed and tested the group's assumptions with respect to these values and found that the most significant assumptions are reasonable and are satisfactorily presented in the annual report.

Valuation of right to charge under service concession arrangements

Note 2:18 specifies that the group, through its South Korean subsidiary, is entitled to charge for service concession arrangements associated with the biogas plant in Ulsan, for which the carrying amount is SEK 104 million. This entitlement is reported as an intangible asset and is amortised over the asset's useful life. Note 4, Significant Estimates and Assessments, provides details on the estimates and assessments made by the group with respect to the value of this asset. It is specified in the same note that the group is required to assess whether there are indications of a write-down requirement and, if such a requirement is identified, to conduct an impairment test. Note 14 provides details on impairment tests conducted by the group with respect to specified intangible assets. In assessing write-down requirements, the group was required to evaluate a number of factors, the most significant being cost of capital, future price of biogas, and facility operating costs.

How our audit addressed the key audit matter

We reviewed the group's assessment as to whether there was indication of a write-down requirement. As detailed in Note 14, this assessment resulted in an impairment test being conducted with respect to the right to charge under the service concession arrangement in Ulsan, South Korea. We reviewed and tested the group's assumptions with respect to these values and found that the most significant assumptions are reasonable and are satisfactorily presented in the annual report.

Other information than the annual accounts and consolidated accounts

This document also contains, on pages 1-19, other information than the annual accounts and consolidated accounts. The Board of Directors and the Chief Executive Officer are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance 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, based on the work performed concerning this information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Chief Executive Officer

The Board of Directors and the Chief Executive Officer are responsible for the preparation of the annual accounts and consolidated accounts and for ensuring that these provide a fair presentation in accordance with the Annual Accounts Act and, with respect to the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Chief Executive Officer are also responsible for such internal control as they deem 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 Chief Executive Officer are responsible for assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to continuance as a going concern and application of the going concern basis of accounting. The going concern basis of accounting is not applied, however, if the Board of Directors and the Chief Executive Officer intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

The Audit Committee's duties include overseeing the company's financial reporting process, without prejudice to the Board of Director's responsibilities and tasks in general.

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 may arise from fraud or error and are considered material if, individually or in the aggregate, they can 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 the Supervisory Board of Public Accountants website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. 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 Chief Executive Officer of Scandinavian Biogas Fuels International AB (publ) for financial year 2016 and the proposed appropriation 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 Chief Executive Officer 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 Chief Executive Officer

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 organisation and the administration of the company's affairs. This includes continuous assessment of the company's and the group's financial situation and ensuring that the company's organisation is designed to ensure prudent control of accounting, management of assets and the company's financial affairs. The Chief Executive Officer manages ongoing administration in accordance with the Board of Directors' guidelines and instructions and takes measures necessary to ensure, among other things, that the company's accounting is in accordance with law and that assets are managed in a prudent manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thus our opinion on 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 Chief Executive Officer in any material respect:

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

Our objective concerning the audit of the proposed appropriation of the company's profit or loss, and thus our opinion on this, is to assess with a 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 for the company, or that the proposed appropriation of the company's profit or loss is not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on the Supervisory Board of Public Accountants website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

Stockholm, 21 March 2017

Öhrlings PricewaterhouseCoopers AB

Leonard Daun	Karl Klintstedt
Authorised Public Accountant Auditor in charge	Authorised Public Accountant

Glossary

Digestate is the part of the organic material / substrate that has not been converted to biogas but remains in solid / liquid form.

Digester: Gas-tight container for the anaerobic digestion of organic material.

Energy carrier: Substance or a physical process that is used to store or transport energy. Examples include electricity, hydrogen, ethanol, gasoline and methane.

Energy sources: Natural resources or natural phenomena that can be converted into energy forms such as light, movement and heat. A distinction is made between stored (fossil) and abundant (renewable) energy sources. Examples of stored energy include oil, natural gas and coal; examples of renewable energy sources are biomass, hydropower and wind and solar energy.

Gas cleaning: Process for purifying raw gas from water vapour, sulphur compounds and particulates. The gas may then be further processed to separate methane and carbon dioxide. Vehicle fuel-quality biogas contains 97±1% methane.

Greenhouse gases: Gases that have the ability to absorb infrared radiation reflected from the Earth into the atmosphere (greenhouse effect). The greenhouse effect is essential for life on earth (without it the Earth's average temperature would be around -18°C). However, due to human activity the concentration of greenhouse gases is increasing. Examples of greenhouse gases are carbon dioxide, methane, water vapour and nitrogen oxides.

Methane: Odourless gas with high energy content (~10 kWh per normal cubic metre). Methane (CH_4) is the simplest hydrocarbon and is composed of one carbon atom and four hydrogen atoms.

Natural gas: A stored (fossil) gas mixture compromised of approximately 90 per cent methane.

Normal cubic metre relative to one litre: A normal cubic meter of biogas upgraded to vehicle fuel (97% methane and 3% CO_2) contains as much energy as 1.1 litres of gasoline.

Organic waste: Waste from plants and animals.

Pre-treatment in biogas production: Organic material used in the production of biogas needs to be pre-treated prior to the digestion process. The purpose of pre-treatment is to increase the material's total biogas potential (i.e., the quantity of biogas that can be extracted from the material) and/or to increase the speed of digestion. Pre-treatment may be thermal, chemical or mechanical, and combinations of one or more methods may be used. The treatment opens up/breaks down complex organic molecules, making them more accessible to digestion microorganisms.

Raw gas: Gas formed in a biogas process. Raw gas mainly contains methane and carbon dioxide but also sulphur compounds, water vapour, particulates, etc.

Substrate: Organic material digested in a biogas process.

Vehicle fuel: Energy source used as fuel in vehicles. Raw gas produced in the biogas process must be cleaned and upgraded to 97±1% methane in order to be defined and sold as vehicle fuel.