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## **Scandinavian Biogas Fuels International AB (publ)**



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# Important information

## General

This Memorandum ("the Memorandum") has been prepared by the Board of Directors of Scandinavian Biogas Fuels International AB (publ), corporate identity number 556528-4733, ("Scandinavian Biogas" or "the Company") in view of the forthcoming rights issue ("the Rights Issue" or "the Offer"). The Memorandum does not constitute a prospectus and has not been reviewed or approved by the Swedish Financial Supervisory Authority in accordance with the provisions of Chapter 2, Sections 25 and 26 of the Financial Instruments Trading Act (1991:980), as the Rights Issue is exempted from the prospectus delivery requirement. The Memorandum is available on the Company's website, [www.scandinavianbiogas.com](http://www.scandinavianbiogas.com), and Mangold Fondkommission AB's website, [www.mangold.se](http://www.mangold.se).

The offer to subscribe for shares presented in this Memorandum is not directed, directly or indirectly, to persons whose participation requires that a prospectus be drawn up or registered, or that any other measures be taken apart from those required by Swedish law. The Memorandum will not be distributed and may not be posted or otherwise distributed or transmitted to or within any country where such distribution or transmission would require any such additional measures to be taken, or where such distribution or transmission would contravene any laws or regulations of that country. The subscription rights, shares or paid subscribed shares covered by the Offer pursuant to this Memorandum have not been registered and will not be registered in accordance with the United States Securities Act of 1933 in its current wording, or with any comparable law of any state of the USA. The Rights Issue also excludes persons in Australia, Hong Kong, Japan, Canada, New Zealand, Switzerland, Singapore, South Africa, South Korea and any other country where the Offer or distribution of the Memorandum contravenes applicable laws or regulations. The Memorandum is governed by Swedish law. Any disputes arising from the Memorandum and the legal rights associated therewith shall be adjudicated exclusively by Swedish courts.

An investment in securities carries certain risks, and investors are encouraged to read the "Risk factors" section. When investors make an investment decision they must rely on their own assessment of the Company and the Offer, including present facts and risks. Prior to making an investment decision, potential investors should consult their own professional advisers and should carefully evaluate and reflect on the decision. Investors may rely solely on the information presented in this Memorandum and any addendums thereto. No person is authorised to provide any information or make any statements other than those presented in this Memorandum. In the event this should occur, such information or statements shall not be deemed to have been approved by the Company or by Mangold Fondkommission AB and neither party shall be responsible for such information or statements.

## Forward-looking statements and market information

This Memorandum contains forward-looking information that reflects the Company's view of future events and financial and operational development. Forward-looking information is distinguishable by the fact that it does not refer exclusively to historical or current factual circumstances and that it may include words such as "may", "shall", "expected to", "believed to", "estimated", "planned", "intended", "calculated", "anticipated", "has the objective of", "is forecast", "attempts", "could", or negations of such words and other variations thereof or comparable terminology. Because it is contingent on future

events and circumstances, forward-looking information is by nature associated with known and unknown risks and uncertainties. Forward-looking information presented in the Memorandum is applicable only at the time of the Memorandum's publication, and the Company makes no commitment to publish updates or revisions to forward-looking information due to new information, future events or the like, other than as required by applicable laws and regulations. While the Company considers that the expectations specified in such future-looking information are reasonable, there is no guarantee that such forward-looking information will materialise or prove to be correct. The "Risk factor" section includes a description (albeit non-exhaustive) of factors that may cause actual results or actual development to differ significantly from the forward-looking information presented in this Memorandum.

The Memorandum contains certain historical market information. In the event information has been obtained from a third party, the Company is responsible for ensuring that such information has been correctly reproduced. While the Company considers such sources to be reliable, no independent verification has been made and, accordingly, the accuracy or completeness of such information cannot be guaranteed. As far as the Company is aware and can ascertain by comparison with other information published by the parties from whom the information was obtained, no information has been omitted in a manner that would render the information incorrect or misleading in relation to the original sources. As far as the Company is aware, no third party as referenced above has any significant interest in the Company.

## Presentation of financial information

Certain financial information presented in the Memorandum has been rounded off and, accordingly, certain tables do not tally correctly.

## Legal adviser

Cirio Advokatbyrå AB ("Cirio") is legal adviser to the Company for the Rights Issue and has assisted the Company in the preparation of this Memorandum. As all information presented in the Memorandum originates from the Company, Cirio disclaims all liability in relation to current or prospective shareholders in the Company and in relation to other direct or indirect financial consequences resulting from investment or other decisions based wholly or partially on the information presented in this Memorandum.

# Background and purpose

## Background

Scandinavian Biogas was founded in its current form in 2005. During its first years the Company focused on further developing expertise in biogas production and on identifying concrete business opportunities in which the Company's core competence could be utilised. The Group took an important step forward with the development of the improvement project in Ulsan, South Korea, which was named a best-practice co-digestion biogas plant by the South Korean Ministry of the Environment.

Biogas operations in Stockholm (Henriksdal and Bromma) were acquired in 2010. This acquisition can be defined as a cornerstone for the Group's biogas business and production in Sweden. The plants in Stockholm were followed by the plant at Södertörn in Huddinge, which was commissioned in autumn 2015. The plants at Södertörn and Skogn, Norway, are the Group's largest scale to date in terms of complexity of the biogas production process.

At the same time, the biogas market in Sweden has developed rapidly and the number of gas vehicles and filling stations has increased significantly. The Swedish market is the Nordic leader in terms of use of biogas as fuel, with the heavy transport segment also indicating great interest in biogas, primarily in liquid form.

The Norwegian market for biogas is now also developing rapidly. Bus operators, heavy transport and shipping are exhibiting great interest in biogas, also primarily in liquid form. The Group is majority shareholder in Biokraft AS, which has implemented a large-scale investment project in Skogn, outside Trondheim, Norway. The plant was commissioned in summer 2018.

The Group made major investments in Sweden and Norway during 2015-18. The Group's capacity to deliver biogas continues to increase significantly, reaching nearly 500 GWh annually. Based on long-term delivery contracts for the majority of capacity, the Group anticipates a significant improvement in profitability for 2019.

The Group's long-term goal is to utilise Scandinavian Biogas's expertise and experience to ensure the expansion of biogas

supply and use. Deliveries can be made not only from the Company's facilities but also by third parties, contributing to Group sales via, e.g., licensing, operating or service agreements. The Group's long-term goal is to ensure growth corresponding to a 20–30 per cent increase in average annual biogas sales and deliveries. The Company's ambition for the initial stage is to achieve a total capacity of one terawatt hour (1 TWh). Growth can be based on own production or contractual knowledge management.

In order to ensure financing for growth, Scandinavian Biogas's Group Board of Directors intends to list the Group's share in a suitable marketplace by the first half of 2020. Other objectives for a listing are to strengthen the Group's equity/assets ratio and to improve share liquidity.

As authorised by the AGM held on 25 June 2018, the Company's Board of Directors resolved to conduct a directed new share issue totalling 31,714,168 shares (of which 15,207,500 shares were paid through set-off of previously issued loans from shareholders), and a Rights Issue of a maximum of 4,283,953 shares. These issues will provide the Company with approximately SEK 86 million, of which approximately SEK 36 million will be offset against previously issued loans. An institutional investor has also undertaken to subscribe for an additional 25,160,000 shares, corresponding to issue proceeds of approximately SEK 60 million.

The proceeds of the share issues referenced above are intended to be used to finance outstanding investments, mainly at Södertörn, and above all to strengthen the Group's liquidity and equity/assets ratio.

The Company's principal shareholders, which represent approximately 68% of the shares and votes in the Company and have offset loans in the above-referenced directed share issue, have undertaken not to exercise their subscription rights in the Rights Issue. This enables other shareholders to subscribe for a greater number of shares than that allowed under preferential right. In the event the Rights Issue is not fully subscribed, however, it should be noted that these principal shareholders may also subscribe for shares in order to ensure that the Rights Issue is fully subscribed.

*The Board of Directors of Scandinavian Biogas Fuels International AB (publ) is responsible for the contents of the Memorandum. The Board of Directors hereby declares that all reasonable precautions have been taken to ensure that the information presented in the Memorandum is, to the best of its knowledge, in accordance with actual conditions and that no information has been omitted that may affect the substance of the Memorandum. Where information has been provided by a third party, such information has been rendered correctly and, as far as the Company is aware and can ascertain by comparison with other information published by the third parties concerned, no information has been omitted in a manner that would render the information incorrect or misleading.*

Stockholm, 10 June 2019  
Scandinavian Biogas Fuels International AB (publ)  
Board of Directors

# CEO commentary

**2018 was an intensive year for Scandinavian Biogas, with both ups and downs. I am extremely pleased that commissioning of the production plant in Skogn started early this summer, despite some delays. Since September 2018, we have been able to deliver liquid biogas (LBG) to the Norwegian market, where there is great demand from the heavy transport and shipping industries. All of our employees, along with our partners, have been instrumental in the establishment of this plant – the world’s largest liquid biogas production plant.**

Thanks to investments made during 2017 to increase operational capacity, we achieved high biogas production volumes and high security of supply in 2018. Total production was 278 GWh, a 3 per cent year-on-year increase. New levels of bio-fertiliser production were achieved at Södertörn, and we are seeing increasing demand for bio-fertiliser from the agricultural sector. We systematically manage society’s waste products and convert them into renewable energy – a true circular economy.

## Important initiatives in the Swedish biogas market

Sweden’s new climate policy framework came into effect in early 2018. It includes the long-term goal of achieving zero net greenhouse gas emissions for the country by 2045. Still missing are long-term ground rules for the biogas industry, although a national biogas strategy proposal was produced in April 2018. Scandinavian Biogas was involved in designing the strategy, along with the Swedish Gas Association and other biogas market operators. The common goal is to use at least 15 TWh of biogas in Sweden by 2030, as compared with just over 2 TWh in 2017.

It is now up to politicians and decision makers to demonstrate determination, fortitude and decisiveness on the biogas issue. Adopting the proposal for a national biogas strategy is a good starting point. The government’s appointment of a commission of inquiry, which will examine options for providing competitive conditions for biogas in the short and long term, is a welcomed initial decision. When commission representatives visited our plant at Henriksdal in December 2018, we told them that Swedish production requires support in order to promote a national circular economy. At the same time, in order to level the playing field for exports and imports, it is of utmost importance that the ground rules are long-term and aligned with conditions in our neighbouring countries.

In other positive news, the Swedish government decided to introduce a government biogas subsidy for raw gas producers in 2018. The subsidy, administered by the Swedish Board of Agriculture, is allocated to the portion of production that upgrades biogas to vehicle fuel quality. Scandinavian Biogas has been granted a government biogas production subsidy for the plant at Södertörn, estimated at SEK 21.8 million over a 12-month period beginning in October 2018. Industry representatives believe that the subsidy is likely to be extended, although the extension start date remains uncertain.

## Development of Södertörn

The plant at Södertörn faced a series of challenges during 2018, resulting in lower production volumes and increased costs. Deliveries of biogas to customers were nevertheless achieved according to plan, and all agreements have been fulfilled. The plant will be developed and the food waste reception capacity expanded to ensure more stable processing of an increased share of organic household waste. The intention is to invest close

to SEK 100 million in the initial stage, taking a further step in expanding the Södertörn plant for large-scale liquid biogas (LBG) production. The continuation of Klimatklivet’s investment grant programme is crucial, and it is assumed that a significant share of investments in Södertörn will be financed with the grant.

Production of biogas at the plant in Södertörn, Sweden, was considerably more stable during first quarter 2019. With new Operations Manager Thomas Forsberg in place since early February 2019, we also achieved a record-high delivery level during the quarter.

## Non-recurring costs

During 2018, the courts rendered judgment in the South Korean lawsuits we have been involved in and, unfortunately, did not rule in our favour. The penalty fee we were ordered to pay for the delayed investment in the upgrading facility was recorded as operating expense in 2018, as was the fee in the lawsuit regarding invoicing of certain service costs. Both judgments have been appealed and we are somewhat confident about the appellate decision in the upgrading case, which is expected in summer 2019. In the service cost case, the higher court has ruled that the pertinent invoices are not classified as an administrative issue suitable for adjudication by that court. The Group is considering pursuing the matter by appealing to another court.

As previously announced, the recorded provisions referenced above, legal fees and costs associated with the dispute with the main supplier for construction of the plant at Södertörn had an adverse impact on our 2018 results. These costs, however, are non-recurring and will therefore have no impact on the Group’s future profitability. Profitability, EBITDA, was a loss of SEK -6.2 million (21.6) for financial year 2018. Exclusive of non-recurring costs of SEK 21.8 million (13.3), EBITDA totalled SEK 15.6 million (34.9) for financial year 2018.

Due to the dispute at Södertörn with one of the Södertörn plant’s main suppliers, the adjusted equity/assets ratio did not meet the corporate bond requirements as specified by the bond terms and conditions during the year. A clear majority of voting bondholders confirmed their support of the Group’s proposal to waive the adjusted equity/assets ratio requirement for the remainder of 2018. This is affirmation of investors’ confidence in the Company and in biogas as a potential future fuel.

## Financing

As part of the Group’s strategic plan, the Board of Directors and Group management have been working on a prospective listing of the Company’s share in a suitable marketplace. In parallel with these efforts, various strategic and capital structure alternatives to create and realise the value of the Group’s business opportunities and maximise shareholder value are being evaluated in collaboration with external advisers.

In January 2019 we announced our intention to conduct a directed share issue of up to SEK 134 million and a rights issue of up to SEK 10 million, which is now being offered to shareholders through the Offer. Issue proceeds from the Rights Issue are planned to be used to partly finance the expansion at Södertörn and to ensure that certain working capital requirements are met.

## Clearer sustainability focus

We have now been working with resource-efficient biogas production for nearly 15 years. With climate-smart, sustainable products, the Company is part of the circular economy. We actively support several global environmental goals as well as the national



goal of achieving a fossil-free vehicle fleet, managing waste, and recycling nutrients to agriculture.

We clarified our focus on sustainability during 2018. For us, sustainability comes down to the way we design, build and manage our plants. This must be done with regard to environmental, social and economic impact on the external environment, our employees, the local community where we operate, our stakeholders, and society as a whole.

We have formulated measurable targets and activities as an initial step for our Swedish operations. For our most important environmental issue – emissions to air – our goal is to reduce annual methane emissions. We have also joined the voluntary Self-monitoring Methane Loss initiative designed by the Swedish Waste Management Association. In the area of health and safety – our most important sustainability issue for our employees – we have, among other things, worked to develop our safety inspections at all workplaces. We have also continued our work with a safety committee comprising the director of Business Area Sweden and all safety representatives. For 2018, we are producing our first GRI-referenced sustainability report.

### Promising outlook

The Paris Agreement, Agenda 2030 and the IPCC's most recent report on the consequences of rising global temperatures have opened the eyes of many decision makers in the political sphere and the business sector. The global energy market is on the verge of a tremendous conversion and the need for renewable energy is increasing year by year. We are now seeing a paradigm shift, with the advantages of liquid biogas becoming increasingly apparent for heavy transports and shipping in the Nordic region. Liquid biogas (LBG) is the key to future biogas growth.

Biokraft, Scandinavian Biogas's subsidiary in Norway, has signed a 7.5-year agreement with Hurtigruten for delivery of liquid biogas (LBG) to Hurtigruten's ships. The partnership will result in extensive emissions reductions, signalling a paradigm shift in the shipping industry. The agreement should be viewed as a next step in Scandinavian Biogas's development, and is a natural consequence of last year's commissioning of the world's largest liquid biogas plant in Skogn, Norway.

Within the Group, we have reorganised to establish a clearer structure, with separate business units for operations in Sweden, Norway and South Korea. With a line-based organisation, we have a more straightforward assignment of responsibilities and greater capacity to capture growth potential in each of our markets.

First quarter 2019 indicated a significant SEK 18.6 million (1.4) improvement in our EBITDA result, as compared with SEK 8.9 million (-10.3) in Q4 2018. It is gratifying that the improvement stems from operations in Sweden as well as Norway, and that the South Korean operations are progressing steadily.

Scandinavian Biogas's Group Board of Directors intends to list the Group's share in a suitable marketplace by the first half of 2020. In order to finance planned investments, mainly at Södertörn, and to strengthen the Group's liquidity and equity/assets ratio, we are conducting a Rights Issue corresponding to approximately SEK 10 million. A directed share issue of approximately SEK 76 million is being conducted in parallel with this, of which SEK 36 million represents subordinated shareholder loans and accrued interest eligible for conversion into shares. If authorised by the 2019 annual general meeting to issue new shares, the Board of Directors also intends

to resolve on an additional directed share issue of approximately SEK 60 million. All shares are being issued at the same share price.

All existing and new shareholders are warmly welcome to subscribe for shares in Scandinavian Biogas!

Stockholm, June 2019

Matti Vikkula  
President and CEO



# Terms and conditions

## Rights issue

As authorised by the AGM held on 25 June 2018, the Board of Directors of Scandinavian Biogas resolved on 5 June 2019 to conduct a new Rights Issue of a maximum of 4,283,953 shares for the Company's existing shareholders. Upon full subscription, the Company will receive approximately SEK 10 million before issue expenses, which are estimated at approximately SEK 0.35 million. The Rights Issue can potentially increase the Company's share capital by a maximum of approximately SEK 856,791 (from about SEK 21,419,768 to about SEK 22,276,559) and the number of shares by a maximum of 4,283,953 (from 107,098,839 to 111,382,792), all with a quota value of approximately SEK 0.20.

## Preferential right and subscription rights

Persons and legal entities registered as shareholders in Scandinavian Biogas in Euroclear's share register as at 13 June 2019 have preferential right to subscribe for shares in the Offer, in relation to previous shareholdings. Each existing share held by Company shareholders as at the record date confers one (1) subscription right. Twenty-five (25) subscription rights entitle the holder to subscribe for one (1) new share in Scandinavian Biogas.

In the event the Offer is fully subscribed, the shareholdings of those shareholders who elect not to participate in the Offer will be diluted by approximately four (4) per cent,

## Subscription price

The subscription price is SEK 2.40 per share. No commission is payable.

## Record date

Euroclear's record date for the right to participate in the Rights Issue is 13 June 2019. The final day for trading in the Company's shares including the right to receive subscription rights is 11 June 2019. The first day of trading in the Company's shares excluding the right to receive subscription rights is 12 June 2019.

## Subscription period

Subscription for shares by virtue of subscription rights shall take place during the period 17 June 2019 through 5 July 2019.

Note that unexercised subscription rights are invalid after expiry of the subscription period and therefore lose any value they may have. Unexercised subscription rights will be deregistered from each shareholder's security account without notification from Euroclear.

The Board of Directors of Scandinavian Biogas is entitled to extend the subscription period. Any decision to do so will be taken no later than the expiry of the subscription period. The Company will issue a press release in the event it decides to extend the subscription period.

## Trade in subscription rights

No trade in subscription rights will take place in connection with the Rights Issue. The subscription rights' ISIN code is SE0012729887.

## Issue statement and subscription order forms

### *Directly registered holdings*

A pre-printed issue statement with attached bank giro form is sent to directly shareholders and shareholder representatives who are registered in Euroclear's share register as at the record

date. The issue statement presents information including number of subscription rights received and total number of shares that can be subscribed for under the Offer. Notification of subscription rights registered in security accounts will not be sent.

Shareholders included in the separate list of pledgees and administrators will not receive an issue statement but will be notified separately.

### *Nominee shareholdings*

Shareholders with nominee-registered shares with a bank or other intermediary will not receive an issue statement or bank giro form. Subscription and payment for shares under the Offer shall rather be made pursuant to instructions provided from the relevant intermediary.

### *Shareholders resident in certain unauthorised jurisdictions*

Allotment of subscription rights and issuance of new shares to persons residing outside Sweden may be affected by securities legislation in such countries; see the "Important information" section in the introduction section of the Memorandum. Therefore, and with certain possible exceptions, shareholders holding existing shares directly registered in security accounts with registered address in the USA, Australia, Hong Kong, Japan, Canada, New Zealand, Switzerland, Singapore, South Africa, South Korea or any other country where participation in the Offer would require additional prospectuses, registration, or other measures than those required under Swedish law, or would contravene applicable law in that country, may not be allocated subscription rights or subscribe for new shares under the Offer. The subscription rights that would otherwise have been delivered to such shareholders will be sold and the sales proceeds, less expenses, will be paid to them. Amounts less than SEK 100, however, will not be paid.

## Subscription by virtue of subscription rights

Subscription for shares under the Offer by virtue of subscription rights shall take place during the period 17 June 2019 through 5 July 2019. Upon expiry of the subscription period, unexercised subscription rights become invalid and have no value. After 5 July 2019, unexercised subscription rights are deregistered from the holder's security account with no notification from Euroclear.

### *Subscription by directly registered shareholders*

Subscription for shares under the Offer by virtue of subscription rights is carried out by simultaneous cash payment, by using either the pre-printed bank giro form or the special subscription order form, as specified below:

- The pre-printed bank giro form shall be used in the event all subscription rights specified in the issue statement are to be exercised.
- The subscription order form labelled "Special subscription order form" shall be used in the event subscription rights have been transferred from another security account, or if for any reason the number of subscription rights to be exercised differs from the number specified in the pre-printed issue statement for the subscription of new shares. Payment for subscribed shares is made along with submission of the completed subscription order form. Payment can be made in the same manner as other bank giro payments; e.g., via online bank, via giro transfer or at a bank office.

Special subscription order forms shall be delivered to Mangold no

later than 3:00 PM on 5 July 2019. Subscription order forms sent by post should therefore be dispatched in good time before the final subscription date. Only one subscription order form per person or legal entity will be accepted. Incomplete or incorrectly filled in order forms will be disregarded. **Application is binding.**

Completed special subscription order forms shall be sent or delivered to:

MANGOLD FONDKOMMISSION AB  
Issues / Scandinavian Biogas Fuels International  
Box 55691  
102 15 Stockholm

Phone: +46 (0) 8 503 015 95

Email: [emissioner@mangold.se](mailto:emissioner@mangold.se) (scanned subscription order form)

Subscription order forms are available on Scandinavian Biogas's website ([scandinavianbiogas.com](http://scandinavianbiogas.com)) and on Mangold's website ([mangold.se](http://mangold.se)) and can also be ordered from Mangold during office hours on phone number +46 (0) 8 503 01 595. Subscription order forms must be received by Mangold, at the above address, no later than 5 July 2019.

Directly registered shareholders who are entitled to subscribe for shares under the Offer by virtue of subscription rights and are not residents of Sweden, are not subject to the restrictions specified above under "Shareholders resident in certain unauthorised jurisdictions", and are unable to use the pre-printed bank giro form, can make payment in SEK from a foreign bank as per the instructions below:

Swedbank  
SWIFT/BIC: SWEDSESS  
IBAN number: SE11 8000 0890 1194 3645 2636  
Bank account number: 8901-1,943 645 263-6

Payments must specify the subscriber's name, address, security account number and issue statement reference. Payment must be received by Mangold no later than 5 July 2019.

In the event a number of shares other than that specified in the issue statement is subscribed, the "Special subscription order form" shall be used. This form is available on Scandinavian Biogas's website ([scandinavianbiogas.com](http://scandinavianbiogas.com)) and on Mangold's website ([mangold.se](http://mangold.se)) and can also be ordered from Mangold during office hours on phone number +46 (0) 8 503 01 595. Payment shall be made pursuant to the above instructions. As a reference, state the security account number or personal identity/corporate identity number. Subscription order forms and payment must be received by Mangold no later than 5 July 2019.

#### *Subscription by nominee shareholders*

Shareholders with nominee-registered shares who wish to subscribe for shares under the Offer by virtue of subscription rights shall apply for subscription in accordance with instructions provided by the relevant intermediary.

**Please note that application for subscription of shares is binding.**

### **Subscription without preferential rights**

Subscription of shares without preferential rights shall take place during the period 17 June 2019 through 5 July 2019. Application to subscribe for shares without preferential rights shall be made

by completing, signing and sending an order form for non-preferential subscription to Mangold at the above address, or to the relevant intermediary. Payment is not made at the time of application; see below.

Order forms for non-preferential subscription must be received by Mangold no later than 3:00 PM on 5 July 2019. Only one (1) non-preferential subscription order form per person or legal entity will be accepted. In the event more than one such form is dispatched, only the one received most recently will be accepted and all other forms will be disregarded. Please note that application is binding. In the event the custody account is linked to an endowment insurance or individual savings (ISK) account, please contact your intermediary for subscription.

Subscription can also be done electronically using BankID. Go to [mangold.se/aktuella-emissioner/](http://mangold.se/aktuella-emissioner/) and follow the instructions. For subscription of shares without preferential rights, and for other corporate actions in which participation is voluntary and the subscriber can choose whether to participate, Mangold is required to collect information from subscribers regarding citizenship and identification codes, in accordance with the securities trading regulations that took effect on 3 January 2018. For natural persons, National ID (NID) must be collected if such person holds citizenship other than or in addition to Swedish citizenship. NIDs differ between countries and correspond to a national identification code for the country. For legal entities (companies), Mangold is required to include an LEI (Legal Entity Identifier). Mangold may be prevented from carrying out the transaction in the event it does not receive all mandatory information.

### **Allotment of shares subscribed for without preferential rights**

In the event all new shares are not subscribed for with preferential rights, the Board of Directors shall, within the issue's maximum amount, resolve on allotment of shares subscribed for without preferential rights. Allotment shall thereby be made firstly to persons who have subscribed for shares by virtue of subscription rights and, in the event of oversubscription, allotment shall be made in relation to the number of subscription rights such persons exercised for subscription of shares and, to the extent this is impossible, by drawing of lots. Secondly, allotment shall be made to persons who have subscribed for shares without preferential rights and, in the event of oversubscription, allotment shall be made in relation to the subscribed amount and, to the extent this is impossible, by drawing of lots.

For shares subscribed for without preferential rights or without preferential rights as specified above, allotment shall be made pro rata to underwriters of the issue in relation to the amount underwritten.

Notification of allotment of shares subscribed for without preferential rights is provided with an allotment letter sent in the form of a transaction note. Payment shall be made pursuant to information provided in the transaction note, but no later than three days after transmission of the transaction note. No notice is provided to persons to whom no allotment has been made. In the event payment is not made in due time, the subscribed shares are transferred to another. In the event the selling price in such a transfer is less than the price specified in this Rights Issue, the original allottee of such shares may be responsible for all or part of the difference.



### **Paid subscribed shares**

After payment has been made, Euroclear will send a notice to confirm that the paid subscribed shares have been posted in the security account. The newly subscribed shares will be booked as PSS in the security account until the time the new shares have been registered with the Swedish Companies Registration Office, after which the PSS will be re-booked as ordinary shares. No securities notification will be provided for such re-booking.

### **Trading in PSS**

No trade in PSS will take place in connection with the Rights Issue. The subscription rights' ISIN code is SE0012729895.

### **Delivery of new shares**

As soon as the Rights Issue has been registered with the Swedish Companies Registration Office, the PSS are converted to shares without notification from Euroclear. For shareholders with nominee-registered shares, information will be received from the relevant intermediary.

### **Trading in the share**

There is no organised trading in the share. However, the Board of Directors of Scandinavian Biogas intends that the Company's share shall be listed in a suitable marketplace no later than the first half of 2020.

### **Right to dividend from the new shares**

The new shares confer the right to dividend from the dividend record date, which falls immediately after the Rights Issue has been registered with the Swedish Companies Registration Office and the shares have been entered in Euroclear's share register.

### **Announcement of Offer results**

The subscription results of the Offer will be announced on or about 10 July 2019 through the issuance of a press release by the Company.

# About Scandinavian Biogas

**As one of the Nordic region’s largest private producers of biogas, Scandinavian Biogas helps customers and partners with what we are best at – designing and operating biogas plants with high resource and energy efficiency. In this way, we support the transition from fossil to renewable energy.**

Scandinavian Biogas, founded in 2005, sells renewable energy based on compressed biogas (CBG) and liquid biogas (LBG), as well as several related services. With world-leading expertise in the design and operation of biogas facilities to optimise biogas and bio-fertiliser production, we are market leaders in large-scale biogas production in the Nordic region and South Korea.

A fundamental part of Scandinavian Biogas’s strategic focus is the development of methods and services to improve biogas and bio-fertiliser production efficiency for established as well as new types of waste. The main feedstocks currently used are wastewater sludge, food waste, salmon farming waste, and residues from industrial processes. Based on our research and development work with new and more efficient methods, biogas can be produced far more cost- and resource-efficiently than ever before, and we work continuously to develop and improve the digestion process when producing biogas from biomass. We also have leading expertise in purification processes for upgrading biogas to vehicle fuel quality.



**Scandinavian Biogas’s mission** is to help achieve society’s goal of converting to renewable energy.

Our main products are biogas used in heat production, upgraded and liquid biogas used as vehicle fuel, and bio-fertiliser as a substitute for artificial fertiliser. Focus is on markets in the Nordic region and South Korea.

**Södertörn (SE)**



**Henriksdal (SE)**



**Bromma (SE)**



**Skogn (NO)**



**Ulsan (SK)**



In close collaboration with partners and customers, we also work to identify growth projects outside our Nordic home market. These projects may include value-creation services in the design, construction and operation of new plants and improving existing plants’ efficiency through process improvements.

## **HOLD Technology™**

One of Scandinavian Biogas's success achievements is its self-developed HOLD Technology™, an advanced process technology used to optimise large-scale biogas production. The method is one of the most effective in the world and has been utilised on a full scale in Ulsan, South Korea, where production efficiency has increased 3-5 times since the Company took over in 2007. HOLD stands for High Organic Load Digestion.

The method, developed by the Company's R&D department in close collaboration with Linköping University, is founded on three cornerstones:

The first cornerstone involves the way a biogas plant should be designed to increase efficiency and reduce energy consumption between stages - e.g. from food waste collection site to digestion tank. This is the system's hardware, involving mainly stirring and also pipes, pumps and heat exchangers.

The second cornerstone is based on in-depth expertise and well-proven methodology regarding the substrates that work best in various combinations. Since 2005, Scandinavian Biogas has tested over 400 different substrates in a laboratory environment. Substrates need to be mixed with chemicals and other additives to achieve an optimal balance between maximum energy extraction, efficient decomposition and minimal production of by-products. The right combination - the recipe - is the system's software.

The third cornerstone involves the way the substrate is introduced to the digestion tank to allow the micro-organisms to maintain efficient production with a high substrate utilisation rate. The product - biogas and bio-fertiliser - is then packaged and transported, and any by-products are taken care of in order to close the circle.

The development of HOLD Technology™ is one of the Company's greatest successes. The technology also forms the foundation of the business. Identification of a substrate mix that provides efficient microbiological decomposition and that can subsequently be refined into vehicle fuel quality via an optimised digestion process: this is the Company's key driver - The Leadership of Microbes™.

TANK 1



# 2018 in brief

JAN

## Filling station at Södertörn commissioned

A filling station at the biogas plant in Södertörn was commissioned at the beginning of the year. The filling station will sell compressed biogas (CBG) to lorries and refuse vehicles that use the facility. The station has been part-financed with support from Klimatklivet, an initiative of the Swedish Environmental Protection Agency.

FEB

## Agreement with Mönsterås Biogas

In February, Scandinavian Biogas signed a co-operation agreement with Mönsterås Biogas to jointly develop options for constructing and operating a large-scale biogas plant in Mönsterås. The goal is to begin construction in 2020. Mönsterås municipality is among Sweden's most expansive in terms of livestock farming and the area's livestock industry produces large amounts of manure. The planned facility will produce 120 GWH of biogas and 40,000 tonnes of high-quality bio-fertiliser annually. The project has received an investment grant of SEK 108 million from Klimatklivet.

JUN

## Commissioning of biogas plant in Skogn

Commissioning of the biogas plant in Skogn, Norway, outside Trondheim, began in June. The plant is the world's largest for the production of liquid biogas fuel (LBG). At full production, 12.5 million Nm<sup>3</sup> will be produced at Skogn each year. The primary feedstocks are waste and by-products from the Norwegian fishing and forestry industry.

JUL

## Government decision on biogas subsidy

In early July, the Swedish government decided to implement a government biogas subsidy. The government will now be investing SEK 270 million to increase biofuel production. A commission of inquiry has also been appointed to examine methods for strengthening the market for domestic biogas production in the long term. For Scandinavian Biogas's Södertörn facility, the government biogas subsidy is estimated at SEK 21.8 million for the October 2018–September 2019 period.

## Delivery from facility in Skogn

The first customer deliveries of LBG from the plant in Skogn were made in September. The plant subsequently delivered 1.6 million Nm<sup>3</sup> of liquid biogas to customers through year-end.

SEP

## Official inauguration of the world's largest LBG plant

The biogas plant at Skogn, Norway, was officially inaugurated by Norwegian Prime Minister Erna Solberg on 2 September 2018.

2018

## Owner financing

Scandinavian Biogas worked on improving its financial position during the year. One of the Group's loans from an external lender was refinanced in May to a lower rate of interest. The Group strengthened its balance sheet and liquidity during the second and third quarters with a capital contribution of SEK 18 million in subordinated loans. The Group also received subordinated loans of SEK 16 million from the largest shareholders during the fourth quarter.



# Outlook

There is a great need for renewable energy that can replace fossil fuels, such as coal, oil and natural gas, at reasonable prices. According to various studies of renewable alternatives that can be mass-produced, interest in biogas has increased. This in turn bolsters demand for biogas, which is expected to gain further traction as it becomes more available. In the heavy transport and other sectors, demand for liquid biogas is expected to increase significantly in coming years. However, the current market price of fossil energy causes some uncertainty as to the biogas market price as well as the growth of new investments in renewable energy.

The Group's long-term goal is to utilise Scandinavian Biogas's expertise and experience to ensure the expansion of biogas supply and use. Deliveries can be made not only from the Company's facilities but also by third parties, contributing to Group sales via licensing, operating or service agreements, etc.

The Group's long-term goal is to ensure:

- growth corresponding to a 20–30% increase in average annual biogas sales and deliveries
- total capacity of one terawatt hour (1 TWh) achieved during the first stage, with growth based on own production or on contractual knowledge management
- project profitability of at least 15% IRR
- an EBIT margin of at least 10%
- an equity/assets ratio of at least 30%

Based on planned investments and improvements at Södertörn, the Group has a long-term goal of achieving approximately SEK 500 million in annual sales and profitability of at least 30% (EBITDA %). Gross investments are estimated to correspond to around SEK 300 million, approximately half of which is expected to be financed by investment grant.

In recent years, the Group has pursued increased production in the Stockholm area – an effort that remains under way. The combined full technical capacity of all plants in Sweden is estimated at over 30 million Nm<sup>3</sup> of fuel-quality biogas, or approximately 300 GWh. The environmental permit at Södertörn, granted in 2017, also enables a sharp production increase at Södertörn over time. The plant in South Korea is expected to continue to have an annual production capacity of around 65 GWh. In addition, the annual production capacity in Norway is estimated at approximately 12.5 million Nm<sup>3</sup> of liquid biogas, or about 120 GWh. With its current plants and ongoing projects, the Group's total production capacity is expected to be close to 500 GWh at full capacity.

The Group expects 2019 operational profitability (EBITDA) to exceed SEK 100 million, as the plant at Skogn is expected to be fully operational and the government production subsidy will have a positive impact on Södertörn's profitability.

## The share

The Company has 107,098,839 outstanding shares as at the date of this Memorandum. Moreover, as authorised by the AGM held on 25 June 2018, the Company's Board of Directors has resolved to conduct a directed new share issue totalling 31,714,168 shares, which have not yet been registered with the Swedish Companies Registration Office. The quota value is approximately 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 the assets and profit of Scandinavian Biogas.

## Warrants

There are no outstanding warrants in the Company as at the date of this Memorandum.

## Ownership structure on 31 March 2019

AC Cleantech Growth Fund 1 Holding AB and related parties	29.3%
Bengtssons Tidnings AB and related parties	28.8%
Wipunen Varainhallinta Oy	10.3%
Reliquum and related parties	5.6%
Ajanta Oy and related parties	5.5%
Erik Danielsson and family, incl. companies	5.2%
John Nurminen Oy and related parties	4.0%
Other	<u>11.3%</u>
	<b>100.0%</b>



# Market review

Biogas is a global product that is relatively common in countries where a combination of political objectives and technological know-how can provide favourable conditions for production. This review will mainly cover countries where Scandinavian Biogas currently operates its production facilities or has projects under construction – i.e., Sweden, South Korea and Norway. The biogas market is also primarily local or regional due to the structure of the biogas market. Transport costs make it unsuitable to move biogas outside regions or continents, unless the biogas can be liquified or there is a region-wide gas grid.

## Biogas production in brief

Several types of production technology are used to produce biogas. The biogas is then either upgraded to vehicle gas quality for use as fuel, or used as fuel for various industrial processes.

Two different techniques are used to produce biogas in the Nordic region. One of these techniques – *digestion* – involves utilising microorganisms in an oxygen-free environment to break down organic material. A gas is formed during the decomposition process, comprised of the non-fossil hydrocarbon methane and non-fossil carbon dioxide. This gas is often referred to as *raw gas*. The substance remaining after digestion is called *digestate* and, if the organic materials that have been digested are suitable, can be used as fertiliser (*bio-fertiliser*). Bio-fertiliser is rich in nutrients and can replace various types of artificial fertiliser. The other technique used to produce biogas in the Nordic region – *thermal gasification* – involves heating organic (often cellulose) material to extremely high temperatures. The gas produced in this process can be purified and upgraded to vehicle gas quality.

### Biogas: The Only Environmentally Friendly Choice<sup>1)</sup>

Biogas = ~90% less CO<sub>2</sub> emissions than diesel and petrol

	Local emissions to air	Total CO <sub>2</sub> emissions	Locally produced fuel	Closes the cycle
Biogas	✓	✓	✓	✓
Electricity	✓	✓ / ✗	(✓) / ✗	✗
HVO <sup>2)</sup>	✗	✓	✗	✗
Etanol (E85)	✗	✓	✗	✗
Petrol/Diesel	✗	✗	✗	✗

Source: Swedish Association of Green Motorists, 2015 Fuel Data

In relation to other types of fuel, biogas not only emits less climate impacting carbon dioxide but also fewer local air pollutants such as nitric oxide, particulates and hydrocarbon, as illustrated in the table above. The Company believes that the deterioration of air quality is a growing problem in many large cities and anticipates an increased future demand for low-emission vehicles. Biogas has an advantage here over other biofuels, as combustion in the engine is extremely clean and therefore emits few local air pollutants.

The organic materials used for digestion in Sweden are primarily sewage sludge, food waste, pig and cattle manure, and waste from the meat and food industries. Energy crops are also used to some extent.

### Swedish market

The Swedish market for biofuel is generally driven by Swedish environmental targets. One powerful policy target, adopted by the government in 2009, is achievement of a fossil-independent vehicle fleet by 2030. The government-appointed Environmental Objectives Council reports that smart biofuels with high CO<sub>2</sub> reduction efficiencies and low emissions are an essential tool for achieving the transport sector’s environmental targets.

In 2016 Swedish production comprised approximately 1.8 terawatt hours, the majority of which was used as fuel for buses and light vehicles. Local bus services have been using locally produced compressed biogas (CBG) for decades, and the number of passenger cars using vehicle gas increased fivefold between 2005 and 2015. Meanwhile, the vehicle refuelling infrastructure has been expanded, with 161 filling stations in use in 2015 – a threefold increase over the 2005-15 period. As an example indicating that buses will be using biogas for the foreseeable future, Skånetrafiken announced that it will increase biogas consumption from the current 15 million cubic metres to 31 million cubic metres in 2019. In addition to buses and light vehicles, biogas is considered an important fuel for heavy vehicles. Volvo and Scania have both developed lorries for CBG as well as liquid natural gas (LNG) and liquid biogas (LBG). The industry and shipping sectors have also shown interest in making the switch to LNG. Although the design of the current tax system presents an obstacle to using LBG in these segments, a changeover to LBG can be done rapidly if the LNG structure is developed.

The Swedish Gas Association estimates that the market for biogas in 2030 may amount to 15 terawatt hours. In addition to being used as fuel for cars and buses, heavy transport and industry are expected to be major biogas consumers.

### Norwegian market

The Norwegian biogas market is driven by environmental targets set by the Norwegian Parliament. There are 26 targets divided into six areas. Targets relevant to biogas are included in area 5, Climate, which sets emissions targets for 2020 and 2030 in the form of greenhouse gas reductions, and for 2050 specifying that Norway will be a low-emissions society by that date. These targets serve as the foundation for various types of policy instruments focused primarily on tax and tax reduction.

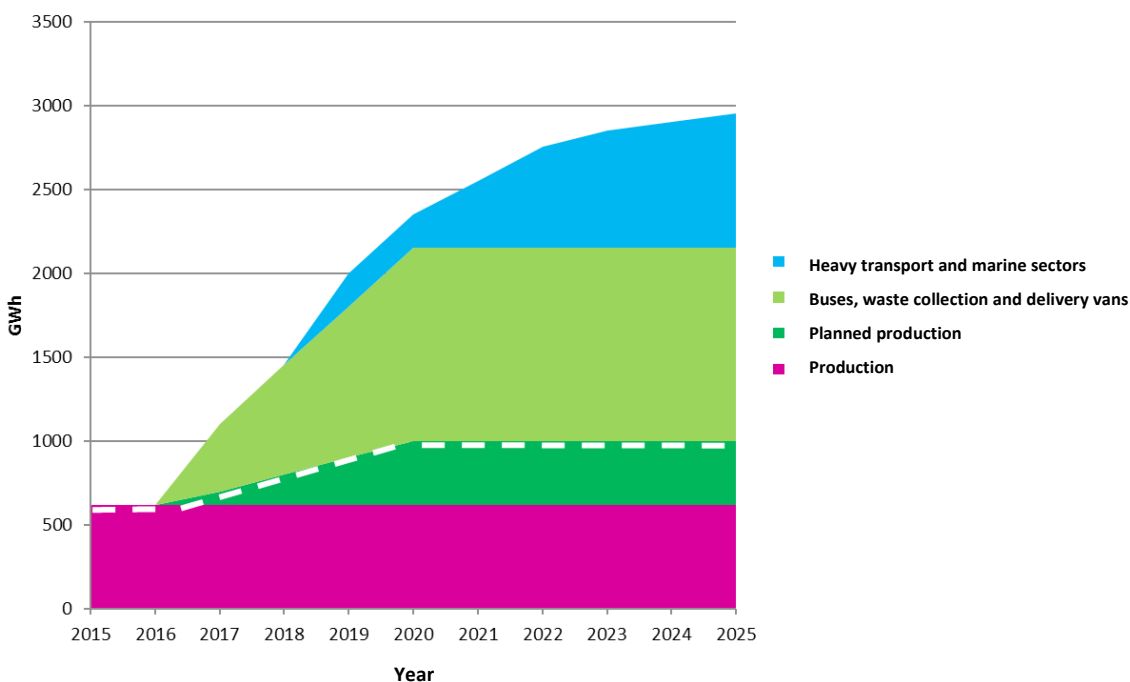
Norwegian biogas production amounted to 617 gigawatt hours at the close of 2015, as compared with Swedish production of 1.8 terawatt hours (or 1,800 gigawatt hours). Used mainly within the transport sector, Norwegian biogas is also used for heat and electricity.

In future, it will most likely be the transport sector that propels the development of biogas production. As in Sweden, the low price of electricity and district heating render biogas economically uninteresting for use in those areas.

Studies from early 2016 found that biogas production projects comprising 383 gigawatt hours have been planned. Completion of these projects before 2020 is considered likely.

The diagram below shows the results of a Ramböll report on biogas demand. On top of current and planned production, there will be a serious deficit by 2025.

**Biogas in Norway**





Norwegian Prime Minister Erna Solberg, flanked on the left by Scandinavian Biogas CEO Matti Vikkula and Biokraft CEO Håvard Wollan, and on the right by Marianne Langvik from Biokraft, Levanger Municipality Chairman Robert Svarva, and TrønderEnergi CEO Ståle Gjersvold.

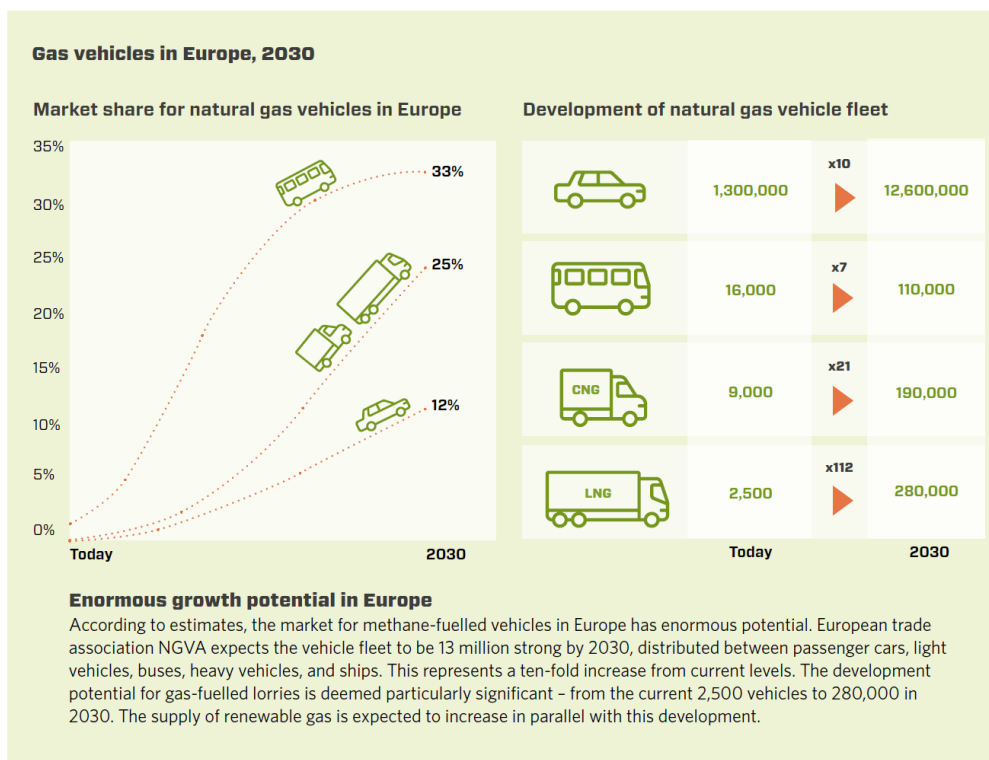
# Market and key drivers

Today’s infrastructure for gas is well developed, and biogas can easily be blended into existing natural gas flows. Biogas has many advantages as an energy source. It is normally produced from organic waste that has few other uses, which means that biogas extraction increases the circularity of the energy system and the economy. With low particle and nitric oxide emissions, biogas also benefits the local environment.

## The biogas market

Biogas has a wide range of applications. The purpose for which biogas is used is partly determined by conditions and demand in markets where it is produced. In Scandinavia, biogas is used primarily as fuel or for heating, with the greatest growth potential found in the vehicle fuel market and industrial processes. In South Korea, biogas is more commonly used to produce industrial heat.

Scandinavian Biogas works with five main market segments for biogas. In addition to these, the bio-fertiliser by-product market is also significant. A prerequisite for realising the long-term potential of biogas is scaling up liquid biogas (LBG) production, as it is easier to use gas in liquid form in industry and as vehicle fuel. Liquid biogas is also better suited for longer transports and can therefore open the way for a Scandinavian biogas market. Biogas is currently distributed locally and regionally by lorry or via a gas pipeline network.



Source: NGVA, [ngva.eu/wp-content/uploads/2018/10/2018-09-24-LNG-workshop-presentations-merged.pdf](https://ngva.eu/wp-content/uploads/2018/10/2018-09-24-LNG-workshop-presentations-merged.pdf)

## Feedstock for biogas

Substrate is needed to produce biogas, and in most cases various types of waste are used as feedstock. Today, as the circular economy mind-set gains more traction, more and more players view waste as a valuable resource. This increases competition for certain waste streams. To improve efficiency and strengthen competitiveness in this area, Scandinavian Biogas places great emphasis on identifying new substrates.

In Sweden, sewage sludge is the most common substrate used in biogas production. Most Swedish treatment plants are equipped with digestion tanks, which limits the growth potential for sewage sludge as a substrate. Food waste is one substrate with great growth potential, as only a small amount of Swedish household food waste is currently being collected. In 2016, 40 per cent of food waste was collected and only 32 per cent of food waste was used for biogas production.<sup>1</sup> Meat industry and forestry residues are other feedstocks with developing potential as biogas substrates.

<sup>1</sup> Matavfall i Sverige – uppkomst och behandling. Swedish Environmental Protection Agency, p. 12



## Main market segments for biogas

Light vehicles	Buses	Heavy transport	Industry	Shipping	Bio-fertiliser
<ul style="list-style-type: none"> <li>CBG</li> <li>Local market</li> <li>Potential: &gt;4 TWh</li> </ul>	<ul style="list-style-type: none"> <li>CBG</li> <li>Local market</li> <li>Potential: &gt;4 TWh</li> </ul>	<ul style="list-style-type: none"> <li>LNG/LBG</li> <li>Scandinavian market</li> <li>Potential: &gt;10 TWh</li> </ul>	<ul style="list-style-type: none"> <li>LNG/LBG</li> <li>Scandinavian market</li> <li>Potential: ~20 TWh</li> </ul>	<ul style="list-style-type: none"> <li>LNG/LBG</li> <li>Scandinavian market</li> <li>Potential: ~96 TWh</li> </ul>	<ul style="list-style-type: none"> <li>Three different products</li> <li>SPCR</li> <li>120-certified</li> <li>Local market</li> </ul>

## Scandinavian Biogas

Compressed biogas (CBG) for **light vehicles** is currently the main segment for biogas in Sweden, although this market is currently dependent on policy instruments.

Public transport is a strong market for biogas and will remain a key driver in the industry. In 2017, approximately 20 per cent of Sweden’s **buses** ran on biogas, a year-on-year increase of 10 per cent.

An increasing number of **heavy vehicles** on the motorways are powered by alternative fuels such as biogas. Volvo, Scania, MAN, Mercedes and Iveco are some of the companies that have invested heavily in developing efficient, sustainable fuel solutions. The Euro 6 and other gas engines are essentially as effective as diesel engines.



Approximately 9 TWh of gas is used annually by Swedish **industry**, with biogas representing only a small share of this amount.<sup>2</sup> The transition to gas enables more precise process control. The food industry is particularly interested in gas as a fuel. Estrella, for example, has been using biogas in its production of crisps and snacks since 2017.



The **shipping** sector has increased its use of gas as fuel in recent years. A 2017 review of newly ordered vessels with links to Sweden showed that half of all new vessels were built to run on gas. Although mainly liquid natural gas is being used, biogas can easily be blended with natural gas, or can replace it entirely. The Norwegian shipping company Hurtigruten decided in 2018 to invest over NOK 7 billion in technology and sustainable solutions through the year 2021. The vessels will run on a combination of natural gas and liquid biogas, making Hurtigruten the world’s first shipping company to use biogas on a large scale.<sup>3</sup> A 7.5-year agreement between Hurtigruten and Biokraft, our Group’s Norwegian subsidiary, for the delivery of liquid biogas was announced in May 2019.



<sup>2</sup> Swedish Energy Agency

<sup>3</sup> Hurtigruten, [www.hurtigruten.no/om-oss/presse/presse-mynewsdesk/#/pressreleases/hurtigruten-investerer-over-7-milliarder-i-groenn-teknolo-gi-skal-seile-paa-doed-fisk-2799539](http://www.hurtigruten.no/om-oss/presse/presse-mynewsdesk/#/pressreleases/hurtigruten-investerer-over-7-milliarder-i-groenn-teknolo-gi-skal-seile-paa-doed-fisk-2799539)





### Market for bio-fertiliser by-product

A residue is formed when organic waste is broken down into biogas. This residue is called *digested sludge* at treatment plants and *bio-fertiliser* when produced at other types of plants. Digested sludge and bio-fertiliser can both be used advantage as fertiliser. Bio-fertiliser is made of nutrients recovered from waste, and some substrates are more appropriate than others. Animal waste, for example, needs to be heat-treated to kill bacteria and infective agents, while vegetable waste does not.

Because bio-fertiliser is rich in nitrogen and phosphorous, it can be highly beneficial in organic farming, where alternatives for nitrogen and phosphorous fertilisers are limited. Today, around half of all bio-fertiliser produced by Swedish biogas plants is utilised. Fertiliser production will be a significant revenue stream for the biogas plants going forward.

### Circular economy of biogas

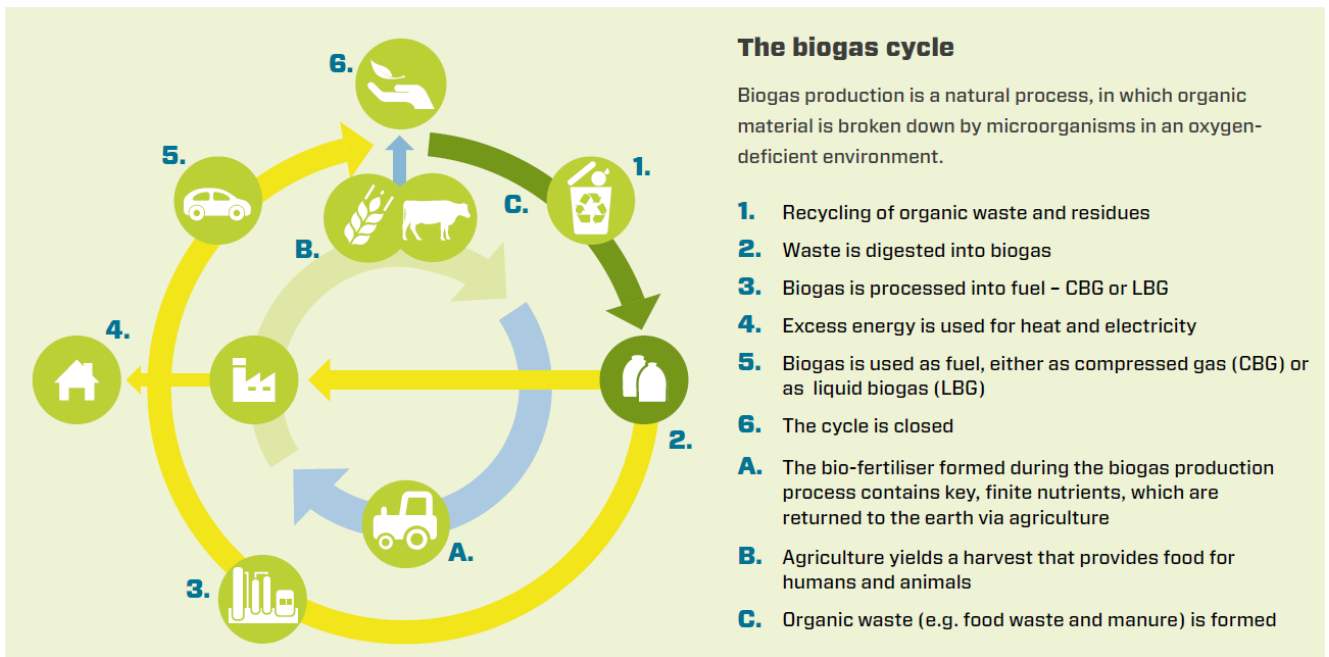
Circular economy is a term referring to economic models that view circular cycles as a business opportunity. The approach is inspired by nature's cycle, with the goal of utilising waste as raw material to the greatest possible extent through re-use or recycling.

Biogas is often highlighted as a cornerstone of the circular economy, as it forms part of a closed loop in which waste, wastewater and forestry and industrial residues are used in renewable products such as fuel, electricity and heat.<sup>4</sup> Nutrients in the waste can also be returned to the earth via agriculture as bio-fertiliser. The circle is closed when gas and bio-fertiliser are used.

Organic waste is processed in Scandinavian Biogas's production of biogas. This gives rise to renewable and locally produced fuel and bio-fertiliser. Nutrients are returned to the earth through agriculture in the form of bio-fertiliser. In this way, Scandinavian Biogas closes the circle, participates in the circular economy and promotes a sustainable society. Biogas is the most eco-friendly vehicle fuel from a comprehensive perspective and helps reduce CO<sub>2</sub> emissions.



<sup>4</sup> [www.energigas.se/om-oss/nyheter-och-press-/nyheter/biogas-nyckel-foer-cirkulaer-ekonomi/](http://www.energigas.se/om-oss/nyheter-och-press-/nyheter/biogas-nyckel-foer-cirkulaer-ekonomi/)



## Biogas consumption in Scandinavian Biogas markets

### Sweden

- The Swedish biogas market is distinguished by having a large number of small-scale operators – a total of 275 plants.<sup>1</sup>
- Companies taking steps to reduce greenhouse gas emissions were eligible to apply for financial support via Klimatklivet in 2015-17. The initiative is part of the government budget.
- The Swedish government decided in 2018 to introduce a SEK 270 million government biogas subsidy for raw gas producers. Industry representatives believe that the subsidy is likely to be extended.
- Co-digestion plants account for the largest production increase. The most important substrates are sewage sludge (35 per cent), manure (20 per cent) and food waste (11 per cent).<sup>2</sup>
- The share of newly registered biogas cars has increased by 137 per cent between 2008 and 2018.<sup>3</sup>
- The share of biogas in vehicle gas has increased rapidly since introduction in the 1990s and totalled 86 per cent in 2017.<sup>4</sup>

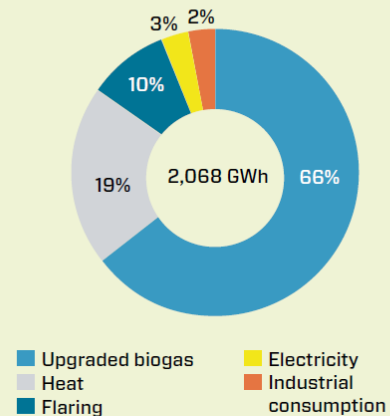
### Norway

- Norway's biogas production is the least developed among Nordic countries, although there is a clear strategy to increase biogas production in coming years.
- The Norwegian Environment Agency estimates a potential increase in biogas production of 400 per cent during the 2015-25 period.<sup>5</sup>
- Gas-powered buses are driving demand for biogas.
- Several transport companies are investing in liquid biogas and have signed intent agreements for hundreds of heavy biogas-powered vehicles. Since autumn 2017, operators can apply via Norwegian Enova for financial support for investments in heavy transport and refuelling infrastructure.
- There is great potential within shipping, where liquid biogas can be used as a natural gas supplement and a fossil fuel substitute.

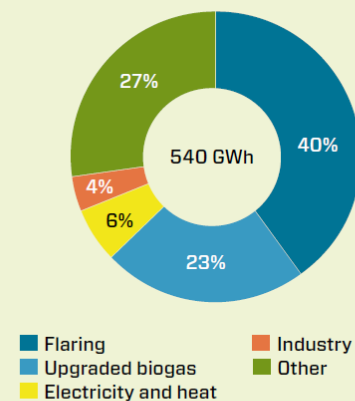
### South Korea

- 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 between 2015 and 2020.<sup>6</sup>
- The South Korean government has announced an increase in renewable electricity to 20 per cent by 2030, in line with the Paris Agreement's climate target.
- Subsidies and low-interest loans are offered as partial support for investments in the biogas industry.

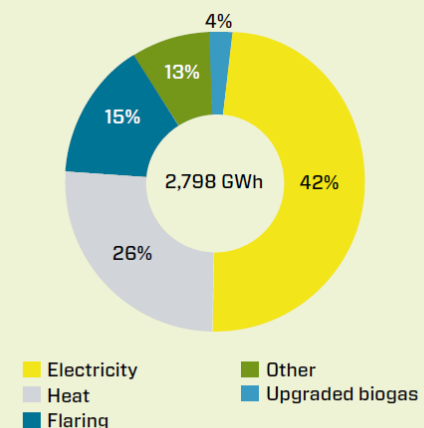
### Biogas consumption, Sweden 2017<sup>1</sup>



### Biogas consumption, Norway 2016



### Biogas consumption, South Korea 2016<sup>2</sup>



<sup>1</sup> Produktion och användning av biogas och rötrestes år 2017, Swedish Energy Agency, p. 7.

<sup>2</sup> Ibid., p. 16.

<sup>3</sup> Registered vehicles January 2006 - December 2018, Statistics Sweden

<sup>4</sup> [www.energigas.se/fakta-om-gas/saa-haer-anvaends-gas-i-sverige/vaetransporter](http://www.energigas.se/fakta-om-gas/saa-haer-anvaends-gas-i-sverige/vaetransporter)

<sup>5</sup> Norwegian Environment Agency

<sup>6</sup> Ministry of Environment

<sup>1</sup> Swedish Energy Agency

<sup>2</sup> IEA Bioenergy

# Consolidated statement of comprehensive income

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in SEK thousand

	1 January - 31 March 2019	1 January - 31 March 2018	1 January - 31 December 2018
<b>Operating income</b>			
Net sales	86,913	63,627	275,234
Capitalised work on own account	5,072	2,720	13,077
Other operating income	9,514	2,216	21,901
<b>Total</b>	<b>101,499</b>	<b>68,563</b>	<b>310,212</b>
<b>Operating expenses</b>			
Raw materials and consumables	-49,710	-35,279	-166,336
Other external costs	-16,339	-14,650	-81,664
Personnel costs	-16,866	-17,242	-68,459
Depreciation, amortisation and impairment of tangible and intangible assets	-21,384	-12,767	-64,057
Other operating expenses	-320	-1,158	-1,504
<b>Total operating expenses</b>	<b>-104,619</b>	<b>-81,096</b>	<b>-382,020</b>
<b>Operating profit/loss</b>	<b>-3,120</b>	<b>-12,533</b>	<b>-71,808</b>
Net exchange differences	2,570	841	3,794
Financial income	29	19	161
Financial expense	-12,017	-10,859	-49,238
<b>Net financial items</b>	<b>-9,418</b>	<b>-9,999</b>	<b>-45,283</b>
<b>Profit/loss before tax</b>	<b>-12,538</b>	<b>-22,532</b>	<b>-117,091</b>
Income tax	247	10	7,163
<b>Profit/loss for the period</b>	<b>-12,291</b>	<b>-22,522</b>	<b>-109,928</b>
<b>Other comprehensive income</b>			
Actuarial results on post-employment benefits	-10	-	-349
Exchange differences	5,091	7,768	2,002
<b>Other comprehensive income for the period, net after tax</b>	<b>5,081</b>	<b>7,768</b>	<b>1,653</b>
<b>Total comprehensive income for the period</b>	<b>-7,210</b>	<b>-14,754</b>	<b>-108,275</b>
<b>All items in the Group's other comprehensive income may be reversed in the income statement.</b>			
<b>Profit/loss for the period attributable to:</b>			
Parent Company shareholders	-9,313	-19,456	-90,408
Non-controlling interests	-2,978	-3,066	-19,520
	<b>-12,291</b>	<b>-22,522</b>	<b>-109,928</b>
<b>Total comprehensive income attributable to:</b>			
Parent Company shareholders	-7,459	-15,417	-90,279
Non-controlling interests	249	663	-17,996
	<b>-7,210</b>	<b>-14,754</b>	<b>-108,275</b>



# Consolidated balance sheet

## CONSOLIDATED BALANCE SHEET

Amounts in SEK thousand	<i>Note</i>	31 Mar 2019	31 Mar 2018	31 Dec 2018
<b>ASSETS</b>				
<b>Non-current assets</b>				
<b>Intangible assets</b>				
Capitalised development costs		12,684	14,128	12,975
Concessions and similar rights		76,740	83,020	78,210
Patents and licences		1,551	846	1,488
Goodwill		6,943	6,863	6,617
<b>Total intangible assets</b>		<b>97,918</b>	<b>104,857</b>	<b>99,290</b>
<b>Tangible assets</b>				
Buildings and land	4	229,016	193,375	186,350
Plant and machinery		330,119	282,903	335,017
Equipment, tools, fixtures and fittings		16,279	11,220	10,936
Construction work in progress		381,678	339,433	358,124
<b>Total tangible assets</b>		<b>957,092</b>	<b>826,931</b>	<b>890,427</b>
<b>Financial assets</b>				
Deferred tax assets		16,825	10,467	16,956
Other non-current receivables	6	14,816	37,241	14,248
<b>Total financial assets</b>		<b>31,641</b>	<b>47,708</b>	<b>31,204</b>
<b>Other non-current assets</b>				
Accrued income and prepaid expenses		1,667	2,111	1,778
<b>Total other non-current assets</b>		<b>1,667</b>	<b>2,111</b>	<b>1,778</b>
<b>Total non-current assets</b>		<b>1,088,318</b>	<b>981,607</b>	<b>1,022,699</b>
<b>Current assets</b>				
<b>Inventories, etc.</b>				
Raw materials and consumables		10,150	3,377	5,499
<b>Total inventories</b>		<b>10,150</b>	<b>3,377</b>	<b>5,499</b>
<b>Current receivables</b>				
Trade accounts receivable		60,635	44,508	44,058
Other receivables	7	45,382	62,191	52,982
Prepaid expenses and accrued income		12,918	16,129	14,816
Cash and cash equivalents		62,301	44,220	94,788
<b>Total current receivables</b>		<b>181,236</b>	<b>167,048</b>	<b>206,644</b>
<b>Total current assets</b>		<b>191,386</b>	<b>170,425</b>	<b>212,143</b>
<b>TOTAL ASSETS</b>		<b>1,279,704</b>	<b>1,152,032</b>	<b>1,234,842</b>



**CONSOLIDATED BALANCE SHEET,  
continued**

Amounts in SEK thousand	<i>Note</i>	31 Mar 2019	31 Mar 2018	31 Dec 2018
<b>EQUITY</b>				
<b>Equity attributable to Parent Company shareholders</b>				
Share capital		21,420	21,420	21,420
Other paid-in capital		754,685	754,685	754,685
Translation reserve		5,490	5,911	3,636
Retained earnings including comprehensive income for the period		-709,950	-628,053	-700,637
		<b>71,645</b>	<b>153,963</b>	<b>79,104</b>
<b>Non-controlling interests</b>		<b>53,038</b>	<b>60,207</b>	<b>52,789</b>
<b>Total equity</b>		<b>124,683</b>	<b>214,170</b>	<b>131,893</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	8	638,888	729,092	853,815
Deferred tax liabilities		2,030	2,088	2,053
Other provisions		36,496	24,699	37,315
<b>Total non-current liabilities</b>		<b>677,414</b>	<b>755,879</b>	<b>893,183</b>
<b>Current liabilities</b>				
Borrowings	8	298,522	73,818	25,749
Accounts payable		87,564	48,393	86,755
Other liabilities		38,555	19,027	39,923
Accrued expenses and deferred income		52,966	40,745	57,339
<b>Total current liabilities</b>		<b>477,607</b>	<b>181,983</b>	<b>209,766</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,279,704</b>	<b>1,152,032</b>	<b>1,234,842</b>

# Consolidated statement of cash flows

## CONSOLIDATED STATEMENT OF CASH FLOWS

Amounts in SEK thousand

	<i>Note</i>	1 January - 31 March 2019	1 January - 31 March 2018	1 January - 31 December 2018
<b>Cash flow from operating activities</b>				
Operating profit/loss before financial items		-3,120	-12,533	-71,808
Amortisation/depreciation		21,384	12,767	64,057
Other non-cash items		-1,307	305	10,923
Interest received		12	19	121
Interest paid		-7,471	-8,982	-37,236
<b>Cash flow from operating activities before changes in working capital</b>		<b>9,498</b>	<b>-8,424</b>	<b>-33,943</b>
<b>Cash flow from changes in working capital</b>				
Increase/decrease in inventories		-4,651	-1,965	-3,623
Increase/decrease in operating receivables		-7,079	-14,913	-33,841
Increase/decrease in operating liabilities		-4,932	-7,040	69,645
<b>Total changes in working capital</b>		<b>-16,662</b>	<b>-23,918</b>	<b>32,181</b>
<b>Cash flow from operating activities</b>		<b>-7,164</b>	<b>-32,342</b>	<b>-1,762</b>
<b>Cash flow from investing activities</b>				
Acquisition of intangible assets		-139	-275	-1,679
Acquisition of tangible assets		-16,210	-8,001	-48,859
Disposal of tangible assets		-	18	6,985
Divestment/amortisation of other financial assets		111	111	444
Restricted bank balances and other changes in financial assets	6	-568	-36	21,701
<b>Cash flow from investing activities</b>		<b>-16,806</b>	<b>-8,183</b>	<b>-21,408</b>
<b>Cash flow from financing activities</b>				
Loans raised	8	-	-	94,735
Loan and lease amortisation		-9,479	-3,684	-72,233
Contribution to/from minority shareholders		-	-	7,644
<b>Cash flow from financing activities</b>		<b>-9,479</b>	<b>-3,684</b>	<b>30,146</b>
<b>Total cash flow for the period</b>		<b>-33,449</b>	<b>-44,209</b>	<b>6,976</b>
<b>Decrease/increase in cash and cash equivalents</b>				
Cash and cash equivalents at beginning of period		94,788	86,885	86,885
Exchange differences in cash and cash equivalents		962	1,544	927
<b>Cash and cash equivalents at end of period</b>		<b>62,301</b>	<b>44,220</b>	<b>94,788</b>

# 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. Chairman of LKAB, Pegroco Invest AB, Cambio Healthcare Systems AB and Foresto AB.



## **Andreas Ahlström**

Board member  
Born 1976. Elected to the board 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, including publicly listed Suominen.



## **Sara Anderson**

Board member  
Born 1976. Elected to the board 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 works as a consultant and heads the Sustainable Production Processes section at IVL Swedish Environmental Research Institute. Prior to that she worked as a consultant at 2050 Consulting and was responsible for fuel and energy strategy at Stockholm Public Transport (SL).



## **Anders Bengtsson**

Board member  
Born 1963. Elected to the board 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 BTAB Invest, board member of Diös Fastigheter AB and other publicly listed companies. Bengtsson invests in renewable energy and other companies and sits on the boards of several companies.



## **Hans Hansson**

Board member  
Born 1947. Elected to the board 2013.

Hansson has served as CEO of seven Scania Group companies, including the group's bus factory in Denmark. He then served as CEO of all of Scania's bus operations and established a lorry factory in Russia. Currently runs his own business.



**David Schelin**

Board member

Born 1965. Elected to the board 2017.

M.Sc. in Electrical Engineering from Chalmers University of Technology and Columbia Business School. Serves as board member and advisor to several companies. Former CEO of Ragn-Sells AB and COO of Niscayah Group. Schelin has also held senior positions in the telecom sector, most recently as VP Services for Ericsson in Southeast Asia. CEO of Euromaint Rail since 2017 and chairman of re:newcell ab.



**Lars Bengtsson**

Board member, employee representative

Born 1963. Employed 2015.

Studied biogas technology at Halmstad University. Background in industrial and municipal wastewater and water treatment operations. Over ten years' experience in research and testing of anaerobic wastewater treatment and biological decomposition.



**Malin Gustafsson**

Board member, employee representative

Born 1979. Employed 2010.

M.Sc. in Technical Biology from Linköping University's Institute of Technology. Previously worked as process engineer and project manager, and held similar roles, at Affibody AB, Mercatus Engineering AB and Scandinavian GtS AB. Currently Sustainability and Project Manager for Business Area Sweden.



**Erik Danielsson**

Honorary chairman

Erik Danielsson, former President and CEO of Pharmacia, is founder of Scandinavian Biogas and was appointed honorary chairman on 26 November 2009.

Danielsson's experience and drive have contributed significantly to Scandinavian Biogas'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 iTaito Oy. Previously management group member at telecom operator Elisa, CEO of Saunalahhti, partner at PwC Management Consulting and chairman of Efore Oy.



**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.



**Anna Budzynski**  
CFO

Since April 2019, responsible for all financial reporting. Also serves as HR manager. Anna has 17 years' international and financial experience from a range of industries. Anna has worked as CFO and as authorised public accountant. MBA from Stockholm University.



**Håvard Wollan**  
Director Business Area Norway

Employed since 2016. Co-founder and CEO of Biokraft AS. Wollan has over 20 years' international experience as an entrepreneur, manager, consultant and investor. M.Sc. from the Norwegian University of Science and Technology and MBA from Heriot-Watt University.



**Kenny Cho**  
Director Business Area South Korea

Employed since 2011. Responsible for operations and development of business opportunities in South Korea. MBA from CA University.



# Risk factors

**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. For information on financial risks, please see the Group's 2018 Annual Report, 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 production 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 the 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. The conclusions of the Biogas Commission are not yet available, and it is therefore difficult to assess the potential consequences for the industry. A production subsidy for biogas was initiated in Sweden in 2018, although the future of the subsidy has not yet been confirmed or defined.

## *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*

One example of environmental risk associated with biogas production is major leakage of methane. Another example is emission of nitrogen-rich bio-fertiliser to soil and groundwater. 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.

## *Operational risks*

A number of technical challenges arose at the Södertörn biogas plant during 2018, and production was consequently worse than planned. Various measures have been taken and stable production has been re-established. However, there remains a risk for all of the Group's facilities that process adaptations may temporarily affect future production volumes.

## *Disputes*

Court proceedings concerning the dispute with one of the main suppliers to the Södertörn facility have ended, and the ruling announced in October 2018 was unfavourable to the Group. The arbitrator's ruling essentially followed the opposing party's arguments. The ruling, which cannot be appealed, entails a one-off cost totalling approximately SEK 12.3 million in September 2018. SEK 9.6 million of this amount affects EBITDA and the remainder affects net financial items. The cash effect is estimated to be SEK 10–12 million higher than expected. A settlement agreement was signed in January 2019 with the main supplier, under which the Group will pay the counterparty a total of SEK 15.6 million through the end of August 2019.

Due to disagreements with Ulsan City relating to operations in Ulsan, South Korea, the Korean subsidiary started legal proceedings in Ulsan's administrative court in 2017 regarding certain service costs that Ulsan City invoiced to the subsidiary. In the summer of 2018, the court ruled that the invoices from Ulsan City for service costs are not classified as an administrative issue and are thus not subject to administrative law. The Group appealed the court's ruling in August 2018, and in spring 2019 the higher court upheld the lower

court's decision. The Group is considering pursuing the matter by appealing to another court. The total nominal value of the disputed service costs is estimated at around SEK 80 million for the entire contract period (15 years), subject to annual food waste volumes, prices and exchange rates. Annual service costs amount to around SEK 5 million, and it is assumed that the result of this dispute may have a mainly positive effect on Group profit, which at best would correspond to a reduction in one-off costs of SEK 40 million and a reduction of approximately SEK 5 million per year going forward.

On 23 August 2018, the court in Ulsan announced its decision regarding the ongoing dispute with Ulsan City concerning the contractual obligation to invest in a gas upgrading facility at the Ulsan site by the end of 2017. The court ruling, which was unfavourable to the Group, entitles Ulsan City to an annual fee estimated to approximately SEK 8–9 million, rather than the approximately SEK 3 million per year expected by the Group. The Group has appealed the decision and asked three South Korean law firms to provide their legal assessment of the situation. This led to a change in the calculation of the present value of the provision for the period November 2012 through December 2017, resulting in a one-off cost of approximately SEK 6.6 million (SEK 13.6 million for full-year 2017) in September 2018.

One of the Group's suppliers to the project in Skogn, Norway, has made compensation claims, mainly for groundwork. During Q2 2018 the supplier increased its demand from NOK 52 million to around NOK 78 million, and a formal demand was filed in October 2018. The Group has, however, previously entered into a settlement agreement with the supplier and is of the opinion that the specified compensation is covered by the settlement. The Group has nevertheless, for precautionary purposes, reserved NOK 5 million of the demand amount in its Norwegian company as an increased capital cost pursuant to generally accepted practice.

#### *Waiver of bond requirements*

The Group identified a risk that the adjusted equity/assets ratio requirement may not be met for the first and second quarters of 2019 and therefore initiated a process during the interim period to propose that bondholders waive the requirement. During April 2019 a clear majority of bondholders confirmed their support of the Group's proposal to waive the adjusted equity/assets ratio requirement for the first and second quarters of 2019. The terms of the waiver specify a fee of 1.00% and receipt of at least SEK 80 million, exclusive of transaction costs, from the directed share issue or subordinated loans, with a minimum of SEK 30 million to be received by 30 June 2019 and the remainder, up to SEK 50 million, by 31 August 2019.

# Tax issues for unlisted companies

## General

The following is a general summary of the tax consequences of owning unlisted shares. The summary is not intended to be exhaustive or to cover all tax consequences that may arise. It does not address, for instance, the special rules applicable to qualified shares in close companies or shares held by partnerships or legal entities with shares classified as current assets in business operations. Specific tax consequence which are not described may also arise with respect to other categories of companies/shareholders, such as investment companies, investment funds, and persons who do not have unlimited tax liability in Sweden. Each shareholder is recommended to consult a professional tax adviser before basing an investment decision on the following information.

## Shares "unlisted" for tax purposes

Shares that are not listed on regulated markets or trading platforms are, for most shareholders, currently considered "unlisted" for tax purposes.

## Taxation on sales of shares

### *Natural persons and estates*

Capital gains or capital losses on the sale of shares are reported pursuant to the capital tax schedule. Capital gains and losses are calculated as the difference between the sales consideration after deducting sales expenses, and the cost (i.e., cost of acquisition) of the divested shares. The standard rule is not applied in calculating the cost amount for unlisted shares. As a rule, only 5/6 of capital gain on the sale of unlisted shares is taxable. Since the flat tax rate for capital gains is 30 per cent, this means that capital gains on unlisted shares are taxed at an effective tax rate of 25 per cent. For capital losses on the sale of unlisted shares, as a rule only 5/6 of the loss can be deducted from capital gains on shares during the same year. A capital loss may also, in some circumstances, be partially deducted from securities other than shares. Exceptions to the main rule above may apply if the gain/loss has arisen in unlisted companies that hold assets in listed companies.

### *Legal entities*

For limited companies and other certain legal entities, capital gains on "holdings for business purposes" are tax-free, and capital losses on such holdings are not deductible. "Holdings for business purposes" are shares held in a limited company or co-operative, provided the holdings meet certain criteria. For limited companies and certain other legal entities, unlisted shares are always considered to be held for business purposes if the holding constitutes a capital asset. Because the shares are considered to be unlisted for tax purposes, a capital gain on the sale of shares in the Company is not taxable, and a capital loss is not deductible, for limited companies and certain other legal entities for which the shareholding constitutes a capital asset. Other rules may apply if the unlisted company holds assets in listed companies.

## Taxation of dividends

### *Natural persons and estates*

For natural persons and estates, as a rule only 5/6 of dividends on unlisted shares is taxable. Since the flat tax rate for dividends is 30 per cent, this means that dividends on shares in unlisted companies are taxed at an effective tax rate of 25 per cent. Exceptions to the main rule above may apply if the unlisted company distributing the dividend has itself received dividends from listed companies.

### *Legal entities*

For limited companies and certain other legal entities, special rules apply for the taxation of dividends, as a dividend on holdings for business purposes is normally tax-free (see "Taxation on sale of shares, Legal entities" above for definition of holdings for business purposes). For these legal entities, shareholdings in unlisted companies constitute holdings for business purposes and, accordingly, dividends received on these shares are tax-free. Dividends may be subject to other tax rules, however, if the legal entity receives dividends on shares in listed companies.

# Addresses

## **ISSUER**

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## **ISSUER'S ACCOUNTANT**

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