Annual report and consolidated financial statements for financial year 2016

Content

The Board of Directors and Managing Director present the following annual accounts and the consolidated financial statements.

Unless otherwise stated, all amounts are reported in KSEK. Information in brackets refers to the previous year.

Administration Report

The Misen Energy Group

The Board of Directors and the Managing Director hereby present the following annual accounts and consolidated financial statements for Misen Energy AB (publ.), Corporate Identity Number 556526-3968, for the financial year 2016.

About the Company

Misen Energy AB (publ) (hereinafter referred to as "**the Company**" or "**the Parent Company**") or is a Swedish public limited liability company with its registered offices in Stockholm. The address of the Head Office is Engelbrektsgatan 32, 411 37 Gothenburg, Sweden. The Company is listed on the First North List at NASDAQ Stockholm.

The Misen group (hereinafter referred to as "**the Misen Group**" or "**the Group**") comprises Misen Energy AB (publ) and its two jointly-owned subsidiaries, Misen Enterprises AB and LLC Karpatygaz (Ukraine). Through these two subsidiaries, the Misen Group holds a 50.01 per cent stake in the Joint Activity (herein after called "JA") in Ukraine, as described below.

The Misen Group is an oil and gas company specializing the production of hydrocarbons (mainly natural gas, oil and gas condensates) in Ukraine. The business concept of the Misen Group is to develop and significantly increase production of gas and oil fields by implementation of large-scale investment programmes and introduction of modern western know-how and technology.

Misen Energy AB (publ) is the Parent Company of the Misen Group and a Swedish holding company for the subsidiaries operating in Ukraine. The Parent Company's business focus is to carry out Group-wide tasks and, together with its subsidiary Misen Enterprises AB, to ensure the financing of operations in Ukraine when required.

The jointly-owned Swedish subsidiary of the Parent Company, Misen Enterprises AB, has a 50 per cent interest in the Joint Activity (JA) in Ukraine.

The jointly-owned Ukrainian subsidiary of Misen Enterprises AB, LLC Karpatygaz, has a 0.01 per cent interest in the JA and is the company operating the project.

Altogether, the Misen Group has a 50.01 per cent participating interest in the JA. The remaining 49.99 per cent of participating interest in the JA is held by PJSC Ukrgasvydobuvannya (hereinafter referred to as "**PJSC Ukrgasvydobuvannya**") (Ukraine), a wholly-owned subsidiary of the state-owned NJSC Naftogaz (Ukraine).

JA is governed by the Joint Activity Agreement No. 3, dated 10 June 2002 (hereinafter referred to as "**JAA**") signed by PJSC Ukrgasvydobuvannya, LLC Karpatygaz and Misen Enterprises AB.

The Misen Group also includes the wholly-owned subsidiary Capital Oil Resources Sweden AB (Sweden), which is dormant. As of 1 July 2011, consolidated accounts are prepared for the Misen Group. The structure of the Misen Group remains unchanged since 1 July 2011.

History

The Parent Company, formerly Svenska Capital Oil AB (publ), was founded in 2004 and its shares have been traded on the First North List at OMX Stockholm since 12 June 2007. During the period from 2005 to 2010, the Company was engaged in the development of geo resources in Ukraine. As the former jointly-owned subsidiary LLC Capital Oil Ukraine was sold on 30 December 2010, the Company's oil prospecting in Ukraine came to an end. Starting in 2011, the business has focused on gas extraction within the new joint activity, the JA, in Ukraine. Under this revised business focus, all shares in the Swedish company Misen Enterprises AB and its jointly-owned Ukrainian subsidiary, LLC Karpatygaz, were acquired in 2011.

The Annual General Meeting on 30 June 2011 approved the Board's proposal to acquire all shares in Misen Enterprises AB. This acquisition was completed on 1 July 2011. Payment was made through the issue of new shares in Svenska Capital Oil AB for the entire purchase sum, which amounted to KSEK 999,999. Through this transaction, the five previous owners of Misen Enterprises AB became the dominant shareholders in Svenska Capital Oil AB, with a total shareholding of 98.8 per cent of all shares. Through this, IFRS rules for reverse acquisitions in preparing the consolidated financial statements were applied.

On 16 June 2016, the Board of Misen Energy AB (publ) approved the sale of 37.5 per cent of the shares in Misen Enterprises AB to the Hong Kong-based company Powerful United Limited ("**PUL**"), PUL is controlled by TCT Holding AB, which is a shareholder in Misen Energy AB (publ). The deal was finalised on 5 July 2016. As Misen Energy AB (publ) continues to hold 62.5 per cent of the shares in Misen Enterprises AB, Misen Energy AB (publ) keeps full control over Misen Enterprises AB and is entitled to 62.5 per cent of future dividends from the business in Ukraine.

Joint Activity (JA)

The Company's jointly-owned subsidiaries Misen Enterprises AB and LLC Karpatygaz have, between them, rights to 50.01 per cent of the net profit after taxes of a large gas and oil production project in Ukraine, the duration of which is expected to extend for twenty years starting from 2011. The remaining rights to 49.99 per cent of net profits after taxes belong to PJSC Ukrgasvydobuvannya. The net profit from the gas and oil production project attributable to the parties is calculated based on the production volumes formally assigned to the JA. These volumes are calculated as the difference between a production level should investments be undertaken and a predetermined base line of production that would have been produced had the project not existed (i.e. no further investment had taken place).

These rights have been established, without establishing a legal entity, in a formal legally binding agreement, JAA No.3, dated 10 June 2002, among the three participants PJSC Ukrgasvydobuvannya, LLC Karpatygaz and Misen Enterprises AB. The main purpose of the JAA No.3 is to increase hydrocarbon production by means of modernising infrastructure and production facilities and the introduction of the modern production technologies.

These measures will significantly contribute to the energy security and independence of the Ukraine through sustainable growth in production, which is the primary objective of PJSC Ukrgasvydobuvannya. The project is managed and supervised by a Management Committee consisting of authorized representatives of the parties of the JAA No.3. It is the ultimate governing body of the JA, approving and monitoring implementation of the investment programme of the JA. The Misen Group is represented at the Management Committee of the JA by Board members of the subsidiaries Misen Enterprises AB and LLC Karpatygaz.

Significant events in 2016

The Group's financial position
In July 2015, the JA violated its obligation to pay KUSD 2,240 (KSEK 20,316) of a total of KUSD 12,250 (KSEK 111,104) to Sberbank Russia. In August 2015, the JA violated its obligation to pay the remaining debt of KUSD 10,010 (KSEK 90,787) of a total of KUSD 12,250 (KSEK 111,104). In conjunction with this, the JA reached an agreement with Sberbank Russia to restructure the debt with new repayment terms. However, the restructuring agreement had not been signed as of the end of December 2016 due to agreement not having been reached between the JA participants. Sberbank Russia therefore has legal grounds to impose punitive interest on the JA amounting to KUAH 66,529 (KSEK 21,960). This punitive interest is recognized in the Misen Group's financial statements and, as of 31 December, Misen's share of the provision in the Group's balance sheet for this purpose amounts to KSEK 10,982. During the period January - December 2016, the Group's financial expenses have been charged KSEK 2,382 attributable to this punitive interest.

JA is subject to certain terms and conditions associated with its loans. As of 31 December 2016, the JA had not fully satisfied these conditions in its agreement with PJSC Sberbank. These loans are classified as current liabilities as of 31 December 2016.

During the period January - December 2016, the JA repaid KUSD 5,600 (KSEK 47,909) of the debt to PJSC Sberbank, after which the JA's outstanding debt to PJSC Sberbank amounts to KUSD 6,650 (KSEK 60,313), as of 31 December.

In August 2015, Sberbank Leasing sued the JA for violation of a leaseback agreement. According to the suit, the JA has not delivered equipment in time, according to the agreement, and Sberbank Leasing therefore has legal grounds to sue the JA for breach of contract. However, the JA considers that the unrealised delivery of equipment has legal grounds as Sberbank Leasing did not fulfil its obligations under the contract (full payment of the value of the equipment) at the time the agreement came into effect.

In April and July, higher courts dismissed Sberbank Leasing's claims on the JA regarding the alleged violations of the lease agreement. Subsequently, Sberbank Leasing requested for the Supreme Economic Court of Ukraine to invalidate the previous verdicts. On 13 October, the Supreme Economic Court of Ukraine voided the verdicts of the lower courts and ordered them to retry the case.

On the 6th and 13th of December new court proceedings were held. The court instructed the parties to submit additional information and postponed the proceedings to 28 February 2017.

On 29 December, Sberbank Leasing filed another lawsuit against the JA, according to which the JA is to have committed further violations of the lease agreement. According to this lawsuit, Sberbank Leasing's claim now amounts to KUAH 1,397,704 (KSEK 461,358). Court hearings will be held on 22 June 2017. The JA maintains that the non-delivery has a legal basis as Sberbank Leasing has not fulfilled its obligations in accordance with the agreement (full payment of the value of the equipment) at the time the agreement came into effect. Furthermore, the JA claims to already have repaid the amount of the advance, within the framework of the lease agreement. The JA also refutes all claims based on the depreciation of the Ukrainian currency, as no such provisions exist in the lease agreement for the amounts of the advance that are to be repaid.

Financing of the Group's Swedish operations
During the first six months of 2016, the Company continued to borrow from the shareholders. In January, the Company borrowed KSEK 270 from TCT Holding AB. In February and April 2016, the Company borrowed KEUR 700 (KSEK 6,607) and KEUR 500 (KSEK 4,591) from Pollux Resources AG, a company registered in Panama that is controlled by the shareholder Blankbank. This ensured the Company's operations up until and including August 2016.

On 26 June, the Board of the Company approved the sale of 37.5 per cent of the shares in the subsidiary Misen Enterprises AB to PUL.

On 5 July, the Company and PUL finalised the agreement for the sale of the shares in Misen Enterprises AB. The purchase sum amounted to MSEK 166.2 and was paid by PUL assuming existing debt in Misen Energy AB (publ) as well as paying MSEK 25.7 in cash. As a consequence of the sale, 37.5 per cent of future dividends from Misen Enterprises AB will accrue to PUL. The Company continues to wield full control over Misen Enterprises AB. After the sale, the Board of Directors of Misen Enterprises AB consists of three representatives from Misen Energy AB and one representative from PUL.

The operation of Khrestyshchenska Booster Compressor Station

In September 2015, the Khrestyshchenska Booster Compressor Station (BCS) was commissioned. This BCS is one of the largest in Ukraine and provides the extraction of up to 25 per cent of the total domestic natural gas production.

However, after the commissioning of the Khrestyshchenska BCS, a dispute arose between the JA and PJSC Ukrgasvydobuvannya regarding how the increased production of gas at Khrestyshchenska BCS should be allocated between the parties. According to the method used, the production at Khrestyshchenska BCS has not exceeded the "base line" which has led to no increase in production has been able to be attributed to the JA. Due to this, the JA has been forced to use part of the produced gas for the operation of Khrestyshchenska BCS. The gas that has been used for operations amounts to 9 million cubic metres ("mmcm") per month.

In the beginning of February 2016, Misen Enterprises AB and PJSC Ukrgasvydobuvannya held a meeting concerning operation of Khrestyshchenska BCS. At this meeting, it was agreed how to deal with the issue of the gas used for the operation of Khrestyshchenska BCS. According to this agreement, Misen Enterprise's subsidiary LLC Karpatygaz, which is managing the operation of the JA, lease Khrestyshchenska BCS to PJSC Ukrgasvydobuvannya on a monthly basis, with the later party being obligated to cover the gas needed for the operations.

Based on this agreement, the JA entered into 8 agreements with PJSC Ukrgasvydobuvannya during the period January - August 2016. However, PJSC Ukrgasvydobuvannya refused to enter into new agreements in September - October. As no agreements were signed for these months, the JA was forced to use part of the produced gas to operate Khrestyshchenska BCS, despite the fact that PJSC Ukrgasvydobuvannya received all the gas produced. In September - October 2016, the volumes of natural gas used for the operations amounted to 15.0 mcm. As a consequence, costs amounting to KSEK 12,800 arose for the Misen Group. These can be found in the Misen Group's other operating expenses.

To avoid further accumulated costs for the operations, Misen Enterprises AB and LLC Karpatygaz have chosen to extend the lease agreement with PJSC Ukrgasvydobuvannya concerning Khrestyshchenska BCS on a temporary basis. On 14 November, the JA and PJSC Ukrgasvydobuvannya signed a lease agreement regarding Khrestyshchenska BCS for the period November 2016 - April 2017.

This issue is part of the dispute that has been referred to the Tribunal constituted under the JAA No 3.

For further information, see "Significant events after the end of the financial year 2016".

Subsoil use charge

The Ukrainian Government continued applying 70% subsoil use charge to the joint activities in accordance with laws adopted in 2014.

The situation has deteriorated when the Parliament of Ukraine amended tax legislation. The changes determine the subsoil use charge for private producers at 29 per cent for natural gas extracted from depths not exceeding 5,000m, and 14 per cent for natural gas extracted from depths exceeding 5,000m. The subsoil use charge applicable to the JA is much higher than the charges applicable to private producers.

At the start of October 2015, the Company submitted a notification to the Government of Ukraine of a dispute between the Company and Ukraine regarding treatment of the Company's investments in accordance to the Agreement between the Government of the Kingdom of Sweden and the Government of the Ukraine on the Promotion and Reciprocal Protection of Investments (the "Treaty").

During 2016, the Government of Ukraine continued to impose the exorbitant subsoil charge for the joint activities conducted in accordance with the JAA No. 3. The exorbitant subsoil use charge has hindered the Company in implementing the JA's investment programme. If the Government of Ukraine continues to impose the subsoil use charge, the Company may be forced to cease its operations in Ukraine.

As of the end of 2016, the Company has reached no amicable resolution of the dispute with the Government of Ukraine.

Payment of tax in Ukraine

Despite the difficult situation with raised subsoil use charges, the Misen-managed JA has continued to pay all taxes and charges to Ukrainian tax authorities during the fourth quarter. Since 2011, the JA has paid KUAH 11,120,261 (KSEK 5,248,646, adjusted) of subsoil use charge, VAT and corporate income tax, to Ukraine. In January - December 2016, the JA paid KUAH 3,149,911 (KSEK 1,044,364, adjusted) in corresponding taxes.

Since December 2016 the JA has not paid the subsoil use charge to Ukraine because PJSC Ukrgasvydobuvannya refuses to deliver natural gas to the JA in accordance to the JAA No.3.

PJSC Ukrgasvydobuvannya commenced arbitration

In August 2016, PJSC Ukrgasvydobuvannya commenced arbitration in accordance with the Arbitration Rules of the Arbitration Institute of the Stockholm Chamber of Commerce. PJSC Ukrgasvydobuvannya requests termination of the JAA No.3 and allocation of the JA's property.

Misen Enterprises AB and LLC Karpatygaz requested the Tribunal to reject all UGV's claims and compensate them for the damages suffered due to various UGV's violations of the JAA No. 3. The Tribunal determined procedure that the disputing parties shall follow during the entire arbitration proceedings. Hearing of the arbitration proceeding is held in November 2017.

The arbitration has no direct impact on Misen Enterprises AB and LLC Karpatygaz's operations in Ukraine.

For further information, see "Significant events after the end of the financial year 2016".

Criminal investigation

In 2014, the Prosecutor General of Ukraine began a criminal investigation regarding embezzlement allegedly committed by the Ministry of Ecology and Natural Resources.

On 5 September 2016, UGV submitted a criminal complaint. As a result, the District Court of Pechersk in Kiev seized the assets of the JA with two court rulings in October and November 2016. LLC Karpatygaz was prohibited from disposing the JA's assets. The court rulings did not impose any restriction on the use of the JA's assets and, therefore, LLC Karpatygaz continued performing its obligations under the JAA No.3 in 2016. LLC Karpatygaz confirmed enforcement of the court rulings by signing the respective documents in November 2016.

The Misen Group believes that all the claims of the criminal investigation are unsubstantiated and denies them in their entirety.

For further information, see "Significant events after the end of the financial year 2016".

Request for interim measures submitted by Misen Enterprises AB and LLC Karpatygaz

In November 2016, Misen Enterprises AB and LLC Karpatygaz submitted a request for interim measures to the Tribunal constituted under the JAA No. 3.

Misen Enterprises AB and LLC Karpatygaz requested that the Tribunal to declare that it has exclusive jurisdiction to decide disputes arising out or in connection with the JAA No. 3. Misen Enterprises AB and LLC Karpatygaz also requested that the Tribunal to instruct PJSC Ukrgazvydobuvannya to refrain from any further or future actions before the Ukrainian authorities in relation to the dispute regarding JAA No. 3 pending the rendering of a final award by the Tribunal.

For further information, see "Significant events after the end of the financial year 2016".

Sale of hydrocarbons

Since October 2016, the JA's sale of hydrocarbons has encountered problems. During October – November 2016, the end consumers have accepted purchases of natural gas produced by the JA as the ownership of natural gas were confirmed by the national natural gas pipe line operator, which in turn received confirmation regarding ownership of natural gas from PJSC Ukrgasvydobuvannya.

During October - November 2016, several regional units of PJSC Ukrgasvydobuvannya refused to ship gas condensate, oil and LPG to the JA's customers, without providing any explanation. However, the JA managed to sell these volumes to its customers and PJSC Ukrgasvydobuvannya signed the delivery-acceptance certificates.

In December 2016, the JA continued the operations. However, in December 2016 PJSC Ukrgasvydobuvannya continued, as the Company believes, manifestly unlawful actions and refused to provide services in respect of production, collection, treatment and transportation of natural gas, gas condensates, oil and LPG to the JA. Being prevented from selling the hydrocarbons, Misen Group could not properly implement JAA No.3 and pay the 70% subsoil use charge to Ukraine.

LLC Karpatygaz as Operator of the JA, commenced a court proceeding and requested the court to order PJSC Ukrgasvydobuvannya to implement the respective agreements concluded between the JA and PJSC Ukrgazvydobuvannya under the JAA No.3. The respective agreements oblige PJSC Ukrgasvydobuvannya to provide services regarding the production, collection, treatment and transportation of hydrocarbons to the JA.

For further information, see "Significant events after the end of the financial year 2016".

Contribution to the JA

During January – December 2016, Misen Enterprises AB did not contribute any additional funds towards its commitment to the JA in the amount of MUSD 8.6 (MSEK 73.8). The total amount contributed remains at KUSD 3,930 (KSEK 35,644).

It was indicated that for any additional contributions to be made, PJSC Ukrgasvydobuvannya first should remedy its violations of the JAA No. 3, and that the direct and indirect shareholders of PJSC Ukrgasvydobuvannya cease targeting the JA with the 70 % subsoil use charge.

At the time of publication of the annual report, no date has been set for when the final contribution to the JA will be made.

Investment programme report

Despite financial limitations as a result of the increased subsoil use charges, the Misen Group has continued the construction of booster compressor stations ("BCS") in 2016. During this period, the JA invested KSEK 22,932 (KSEK 191,772) in the JA development programmes (compared with the same period in 2015).

In 2016, the Group has achieved the following milestones:

- 2 wells underwent renovations and/or stimulation
- 2 wells were commissioned
- 6 measurement units were installed and commissioned
- The construction of 4 BCS has entered the final stage

Significant events after the end of the financial year 2016

Gas balance situation

On 28 February 2017 the court proceeding was held. The court partially sustained the application made by Sberbank Leasing and ordered Misen Enterprises AB, LLC Karpatygaz and PJSC Ukrgasvydobuvannya to compensate approximately 37 mUSD to Sberbank Leasing. Misen Enterprises AB and LLC Karpatygaz will appeal against the court ruling.

Request for Arbitration from PJSC Ukrgasvydobuvannya

Misen Enterprises and LLC Karpatygaz participate in an arbitration proceeding commenced by PJSC Ukrgasvydobuvannya in August 2016 under the JAA No. 3 and vigorously defend the legitimate interests of their investors.

In accordance to the procedural timetable determined by the Tribunal, the disputing parties shall submit their positions on the merits. Misen Enterprises and LLC Karpatygaz received Statement of Claim from PJSC Ukrgasvydobuvannya in February 2017 and will submit their Statement of Defence and Counterclaim in May 2017. The hearing on the merits is held in November 2017.

The operation of Khrestyschenska BCS

In January–February 2017 the JA and PJSC Ukrgasvydobuvannya continued to implement the terms of the Khrestyschenska BCS lease agreement. As a result, during this period the JA had no losses in connection with the additional costs of power supply used to pump-over volumes of base production.

The Board of Directors and management are monitoring the situation on an ongoing basis and will report on future developments.

Criminal investigation

The criminal investigation commenced by the General Prosecutor's Office of Ukraine in 2014 and supplemented with the UGV's complaint dated 5 September 2016 is ongoing.

On 21 and 22 February 2017 PJSC Ukrgasvydobuvannya filed respectively a motion and a notice of commitment of criminal offence before the General Prosecutor's Office. As a result, on 23 February 2017 a District Court in Kyiv arrested the booster compressor stations that form part of the JA's assets. The court ruling prevented LLC Karpatygaz, a partially owned subsidiary of Misen Energy AB (publ), from operating the BCSs and obliged to transfer the BCSs to PJSC Ukrgasvydobuvannya, wholly owned by the Ukrainian State. The court ruling was effective from the date on which it was made. As a result, LLC Karpatygaz could not perform its daily operations and properly implement JAA No. 3. LLC Karpatygaz was ready to comply with the court ruling in accordance with Ukrainian law. However, on 27 March 2017 the court partially sustained appeal submitted by LLC Karpatygaz and annulled the ruling dated 23 February 2017 to the extent it obliges LLC Karpatygaz to transfer the BCS to PJSC Ukrgasvydobuvannya for safe keeping.

LLC Karpatygaz and Misen Enterprises AB consider the criminal allegations to be ungrounded, deny them in their entirely, consider that all court rulings issued in this context are illegal and amount to expropriation of their assets. Misen Group has been always cooperative with the investigation authorities and are ready to evidence the legitimate nature of the JAA No.3 in Ukraine.

Request for interim measures submitted by Misen Enterprises AB and LLC Karpatygaz

Misen Enterprises AB and LLC Karpatygaz continue to defend the legitimate interests of their investors seeking interim measures from the Tribunal constituted under the JAA No.3. In the light of the procedural timetable determined by the tribunal, the disputing parties shall submit their respective positions regarding the Respondents' Request for Interim Measures.

Sale of hydrocarbons

As of publishing of this annual report PJSC Ukrgazvydobuvannya continued, as the Company believes, manifestly unlawful actions and refused to provide services with respect to production, collection, treatment and transportation of natural gas, gas condensate, oil and LPG to JA to JA. Being prevented from selling the hydrocarbons Misen Group could not properly implement JAA No.3 and pay the exorbitant subsoil use charge to Ukraine. If this situation continues, JA could be inoperative and have not enough liquidity to cover its commitments, including payment to its employees.

Misen Enterprises AB and LLC Karpatygaz will continue to defend the legitimate interests of their investors. The companies reserve all their rights in this respect, including the right to address this question in the ongoing arbitration under JAA No.3.

Exchange rate fluctuations
Over the period 1 January to mid-February 2017 the UAH was relatively stable against the SEK, decreasing by 0.2 per cent from 0.3301 to 0.3293.

Changes in the Board of Directors
In January 2017 Mr. Hans Lundgren decided to leave the Board of Directors of Misen Energy AB (publ).

Results - Misen Group and the Company

Consolidated net sales in 2016 were KSEK 675,340 (KSEK 884,373) while the Parent Company's reported net sales for the same period of KSEK 5,577 (KSEK 120). The increase in net sales in the Parent Company is due to the fact that during the second half of 2016 the Company began invoicing group-wide expenses to the subsidiary company Misen Enterprises AB.

For 2016 the Group reports an operating profit of KSEK 18,832 (KSEK 14,609) and a consolidated net loss after financial items of KSEK -5,509, compared with KSEK -48,687 for the same period in 2015.

In 2016 the JA's gas production totalled 596.6 mmcm (compared with 687.5 mmcm during the same period in 2015), generating revenue for the JA of KSEK 1,135,685 (KSEK 1,706,289). Of this, 50.01 per cent is attributable to the Misen Group's interest in the JA, equivalent to KUAH 3,425,236 (KUAH 4,412,435). The decrease in the production volumes is primarily due to the slowdown in the investment program a consequence of the increased subsoil use charge as well as PJSC Ukrgasvydobuvannya's' violation of the JAA No.3. These along with declining gas prices resulted in decrease of revenues in 2016.

For 2016, the Parent Company's net loss after financial items amounted to KSEK -33,080 (KSEK -583,804). During the year, the Parent Company reported a loss on the sale of shares in Misen Enterprises AB totalling KSEK 9,309. Last year's results in the Parent Company were negatively impacted by an impairment loss of KSEK -560,000 on shares in Misen Enterprises AB.

Changes in tax legislation

As described in previous reports, on 1 January 2015 Ukraine adopted amendments to its tax code. As a result of the amendments, joint arrangements such as the JA will no longer constitute taxable entities with regard to income tax in 2015. Instead, it is the operators of the joint arrangements that will be liable to pay tax, on a monthly basis, on behalf of the joint owners.

The tax is calculated on the basis of information collected from the most recently submitted tax return. In December 2015 the Ukrainian Parliament adopted an additional amendment to the tax legislation. The new amendment introduces a requirement to submit tax returns on quarterly basis, within 40 days of the end of each quarter. The tax due is based on the tax return for the previous quarter and must be paid within 10 days of submission of the tax return.

In this report it has been assumed that the Misen Group, as regards taxes related to JA, will constitute a taxpayer under Ukrainian legislation based on the assumption that the Misen Group has operations in the country. Joint arrangements such as the JA in Ukraine have not been clearly defined in Swedish law. In Misen Enterprises AB's income tax return for 2015 the JA has been treated as a foreign joint owner-taxed legal entity. Furthermore, in this report it has been assumed that the profits arising in JA prior to 1 January 2015 will not be taxed in Sweden, that the holding in the JA will be seen to comprise shares held for commercial purposes up and until 31 December 2014 and that Ukrainian income tax can be netted against Swedish income tax.

After the sale of 37.5 per cent of the shares in Misen Enterprises AB, the Parent Company's loss carry-forwards can no longer be used through Group contributions provided by Misen Enterprises AB.

During the year the JA paid a total of KUAH 28,167 (KSEK 9,339) to the Ukrainian authorities on behalf of Misen Enterprises AB.

Liquidity

At 31 December 2016 the Misen Group had liquid assets of KSEK 12,498 (KSEK 7,413). Operating cash flow after changes in working capital for 2016 was KSEK 15,211 (KSEK 85,848).

Investments

The Misen Group's investments in the JA operations regarding equipment for gas production in Ukraine totalled KSEK 14,508 (KSEK 103,108) for the year.

During the year the combined value of orders not yet delivered was KSEK 18,302. The investments refer to equipment, plant and construction in progress for the extraction of natural gas. The operations are capital-intensive and the investment volume will remain high.

Company's expected future development and going concern

The continued sale of natural gas had a positive impact on consolidated profit/loss and cash flow in 2016, which meant that the investment programme continued. However, the 70% subsoil use charge had an opposite effect on both profit/loss and cash flow.

On condition that the subsoil use charges remain at 70%, the profit/loss and cash flow for the project's remaining lifetime will be reduced considerably, which is reflected in the 2015 decision to write-down the value of Misen Enterprises in the Parent Company.

The Board of Directors continuously assesses the Group's liquidity and financial resources in both the short- and long-term perspective. In connection with the preparation of the annual report, the Board must specially assess this issue from a 12-month perspective.

Depending on how the arbitration proceedings that the Misen Group is involved in develop, further financing needs may arise with regard to continuous operations of the Swedish companies in the second half of 2017.

The Company's Swedish operations are also dependent on further financing if a decision is made in the Joint Activity Management Committee to pay the remainder of the contribution to JA in an amount of approximately USD 8.6 million (approx. SEK 72 million).

At the end of 2016, JA has not fulfilled the loan terms for the financial liabilities and at present, negotiations are under way with the banks for an extension of the credits.

As described in the sections above, since December 2016, JA has had problems with sales of natural gas, gas condensate, oil and LPG. In addition, as a result of the on-going investigation regarding criminal acts that includes the Ukrainian state seizing JA's fixed assets, JA has not had any revenue in 2017. The cash and cash equivalents that flowed in during 2017 relate to payments of previously outstanding accounts receivable, and other receivables.

Based on the above and the on-going arbitration proceedings with PJSC Ukrgasvydobuvannya regarding dissolution of JA, there is material uncertainties related to events and conditions that can lead to significant doubt regarding the Misen Group's ability to continue as a going concern. This means that the Misen Group may be prevented in the future from realising its assets and settling its debts in it's normal course of business.

This report is prepared on the assumption of going concern as the management's assessment is that an agreement will be reached with the banks in Ukraine and there are realistic alternatives to obtain financing for the JA and the Swedish operations, including financing through external financiers or current shareholders. As described in the sections above, the Board and Company management believe the criminal investigation is ungrounded and deny all possible accusations of crime in their entirety and consider that all court rulings in this investigation are illegal and entail expropriation of its assets. The Misen Group fully collaborates with the investigative authorities and is prepared to prove that the joint activities in Ukraine are legitimate and that the assets shall be returned to JA.

Management and the Board are concerned with the situation and will report on further developments in upcoming reports.

Environmental impact

The operations of the JA have an impact on the environment in Ukraine. This impact is regulated by laws and agreements, which in turn govern the operations of the JA as regards environmental considerations. Oil and natural gas operations are subject to an extensive regulatory framework as regards the environment, both internationally and nationally.

Environmental legislation includes the control of water and air pollution levels, waste, licensing requirements, restrictions on operations in environmentally sensitive areas and coastal areas. The environmental regulations are expected to become more stringent with time and it is very likely that this will result in increased costs. The Misen Group fulfils the current environmental requirements to be able to retain its current licenses or obtain new licenses.

Financial assets and liabilities

During the year the JA made a provision of KUAH 143,593 (KSEK 47,610) for doubtful debts. This amount consisted partially of reversed provisions reported due to non-payment by customers. Of the total amount, 50.01 per cent affects the Misen Group's results. Additionally, the subsidiary company Karpatygaz has, for the same purposes, made a provision of KUAH 27,984 (KSEK 9,278), of which 100 percent affects the Misen Group's results. Karpatygaz, which is operationally responsible for the JA, has been involved in constructive negotiations with these clients. The company is also seeking to collect these receivables through legal processes in Ukraine.

Financial and other risks

The Misen Group is working to increase local production of hydrocarbons in Ukraine by implementing an extensive investment programme focused on the development and modernisation of infrastructure for gas production. In the course of these operations the Group manages a complex array of industry-specific risks, such as price trends for oil and gas, currency risks and interest rate risks, licensing issues regarding exploration, processing and the environment, as well as the uncertainty in the value of the exploration work done and of the subsequent field development work. As the operations focus on production rather than exploration, the risk is deemed to be moderate.

Ownership structure

Major shareholders as at 31 December 2016:

Shareholder	Shares and votes, no.	Shares and votes, %
Nellston Holdings Ltd. (CY)	43,001,100	29.64
Norchamo Ltd. (CY)	43,001,100	29.64
Blankbank Investment Ltd. (CY)	28,667,400	19.76
TCT Holding AB (SE)	14,369,843	9.91
Forest Walkway AB (SE)	14,000,000	9.65
Total, major shareholders	**143,039,443**	**98.60**
Other	2,028,779	1.40
Total	**145,068,222**	**100.00**

Comparative performance indicators

Alternative performance measures (APM) – Group

As of 3 July 2016, new guidelines for alternative performance indicators (APMs), published by the European Securities and Markets Authority (ESMA) are being applied. Alternative performance indicators refer to financial measurements that are not defined within the framework of IFRS. Misen Energy AB (publ) regularly uses alternative performance indicators in its communications in order to improve comparisons between different periods and provide a more in-depth overview of the Company's performance for analysts, investors and other stakeholders. It is important to note that not all companies calculate their alternative performance indicators using the same methods. The usefulness of these performance indicators is therefore limited, and they should not be used as a substitute for financial measurements within the framework of IFRS. Below the alternative performance indicators for the Company are presented.

Summary of the financial development of the Misen Group and the Parent Company, covering the last five years. Unless otherwise stated, all amounts are in KSEK.

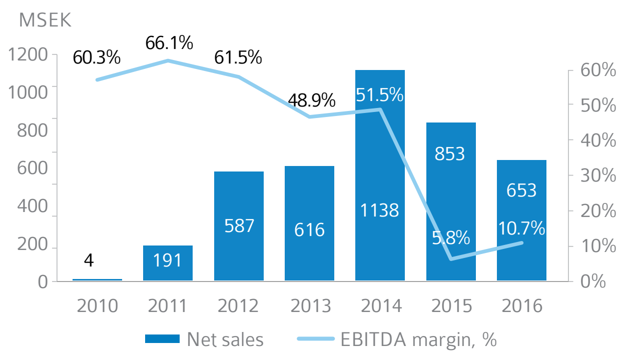
	2016	2015	2014	2013	2012
The Group					
Net sales, KSEK	653,122	853,359	1,138,001	618,332	586,549
EBITDA, KSEK	60,566	49,454	586,089	302,373	360,450
Financial expenses	31,096	74,182	138,987	9,902	8,972
Profit/loss after financial items, KSEK	-5,509	-48,687	414,085	267,561	342,892
Earnings per share before dilution*, SEK	-0.05	-0.23	2.25	1.43	1.83
Earnings per share after dilution*, SEK	-0.05	-0.23	2.25	1.43	1.83
Return on equity, %	Neg	Neg	57.1%	38.7%	74.9%
Return on capital employed, %	5.1%	Neg	69.4%	41.0%	111.6%
Balance sheet total, KSEK	592,433	670,407	975,997	1,090,731	628,145
Equity/assets ratio, %	78.4%	50.6%	58.6%	49.5%	56.4%
Proportion of risk-bearing capital, %	78.4%	50.6%	59.1%	51.0%	56.6%
Debt/equity ratio, %	6.4%	52.6%	37.0%	54.4%	25.1%
Number of employees	133	118	122	86	87

* Adjusted for reverse split 100:1 in January 2012. Number of shares before and after dilution 145,068,222.

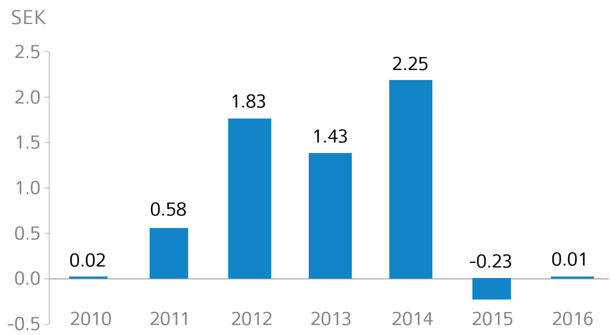
	2016	2015	2014	2013	2012
Parent Company					
Net sales, KSEK	-	-	-	-	9,542
EBITDA, KSEK	Neg	Neg	Neg	Neg	Neg.
Profit/loss after financial items, KSEK	-33,080	-583,804	-26,392	-24,565	-11,062
Return on equity, %	Neg	Neg	Neg	Neg	Neg.
Return on capital employed, %	Neg	Neg	Neg	Neg	Neg.
Balance sheet total, KSEK	325,855	473,881	1,022,482	1,008,053	1,011,091
Equity/assets ratio, %	98.2%	74.5%	91.6%	95.6%	97.7%
Proportion of risk-bearing capital, %	98.2%	74.5%	91.6%	91.7%	97.7%
Debt/equity ratio, %	0.0%	28.9%	7.7%	3.9%	2.0%
Number of employees	4	4	4	2	2

Definitions of key ratios are provided in the section "Supplementary information".

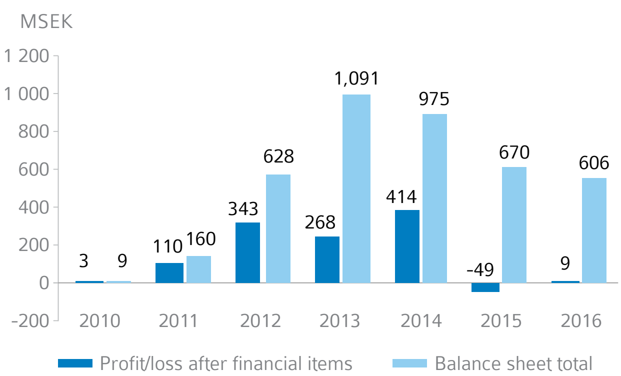
Misen Group net sales and EBITDA margin



Earnings per share



Misen Group profit/loss after financial item and balance sheet value



Proposed appropriation of profits

The following profits are at the disposal of the Annual General Meeting:

Retained earnings and additional paid-in capital	62,704,058
Net loss for the year	-33,079,781
	-33,079,781
The Board of Directors proposes that profits brought forward be appropriated as follows:	
To be carried forward	29,624,277
	29,624,277

For information regarding the result of the Company's operations and its financial position, please refer to the income statement and balance sheet below, with accompanying additional disclosures, which together with the administration report, constitute an integral part of this annual report.

Financials – the Misen Group

Consolidated Income Statement

	Note	2016	2015
Net sales	1, 2	653,122	853,359
Net sales	3	21,868	27,528
Other operating income	4	350	3,486
		675,340	**884,373**
Operating expenses			
Other external expenses	5, 6, 28	-549,519	-738,953
Personnel costs	7, 8	-16,174	-16,078
Depreciation, amortisation and write-downs of tangible and intangible assets	9	-41,734	-34,845
Other operating expenses	10	-49,081	-79,888
Total operating expenses		**-656,508**	**-869,764**
Operating profit/loss		**18,832**	**14,609**
Profit/loss from financial items			
Other interest income and similar profit/loss items	11	6,755	10,886
Interest expenses and similar profit/loss items	12	-31,096	-74,182
Total profit/loss from financial items		**-24,341**	**-63,296**
Profit/loss after financial items		**-5,509**	**-48,687**
Tax on profit for the year	13	-11,139	14,963
Net profit/loss for the year		**-16,648**	**-33,724**
Profit/loss attributable to:			
Misen Energy AB's (publ) shareholders		-7,230	-33,724
Non-controlling interests		-9,418	-
		-16,648	**-33,724**
Statement of comprehensive income - Group			
Items that may be subsequently reclassified to profit or loss:			
Translation differences		-24,391	-199,037
Other comprehensive income for the year, net after tax		-41,039	-232,761
Total comprehensive income for the year		**-41,039**	**-232,761**
Attributable to:			
Misen Energy AB's (publ) shareholders		-26,901	-232,761
Non-controlling interests		-14,138	-
Total comprehensive income for the year		**-41,039**	**-232,761**

Earnings per share before and after dilution calculated on profit attributable to the shareholders of the Parent Company during the year amounted to negative SEK 0.05/share (2015: -0.23/share).
The average number of shares on the balance sheet date amounted to 145,068,222 (2015: 145,068,222).

Consolidated Balance Sheet

Assets

	Note	31 Dec 2016	31 Dec 2015
Fixed assets	**2**		
Intangible fixed assets			
Rights and licenses	14	28,951	31,859
		28,951	**31,859**
Tangible fixed assets			
Equipment, tools, fixtures and fittings	15	349,303	396,741
Construction in progress and advance payments regarding tangible fixed assets	16	152,756	158,059
		502,059	**554,800**
Financial fixed assets			
Participations in associated companies	4	-	2,282
Deferred tax assets		10,202	14,736
		10,202	**17,018**
Total fixed assets		**541,212**	**603,677**
Current assets			
Inventories, etc.	**17**		
Spare parts		512	432
Oil products and natural gas		67	2,725
		579	**3,157**
Current receivables			
Accounts receivable - trade	18, 19	20,260	44,763
Other receivables	20	11,766	10,265
Advance payments to suppliers		2,103	607
Prepaid expenses	21	4,015	525
		38,144	**56,160**
Cash and cash equivalents	**18**	**12,498**	**7,413**
Total current assets		**51,221**	**66,730**
TOTAL ASSETS		**592,433**	**670,407**

Equity and liabilities

	Note	31 Dec 2016	31 Dec 2015
Equity			
Share capital	22	290,136	290,136
Other contributed capital		-274,435	-274,435
Other reserves		-549,324	-529,653
Profit/loss brought forward		830,544	853,370
Non-controlling interests		167,637	-
Total equity		**464,558**	**339,418**
Long-term liabilities			
Long-term borrowings	23, 24, 25	-	99,161
Liabilities attributable to finance leases	24, 26	-	-
Other liabilities		36,197	30,737
Total long-term liabilities		**36,197**	**129,898**
Current liabilities			
Short-term borrowings	23, 24, 25	29,848	72,151
Liabilities attributable to finance leases	24, 26	-	7,260
Advances from customers		8	-
Accounts payable - trade		6,581	21,811
Current tax liability		1,711	4,414
Other current liabilities to JA	23	44,426	33,829
Other liabilities		3,513	55,896
Accrued expenses and deferred income	27	5,591	5,730
Total current liabilities		**91,678**	**201,091**
TOTAL EQUITY AND LIABILITIES		**592,433**	**670,407**

Changes in equity for the Group

	Share capital	Other contribut-ed equity	Other reserves	Profit/loss brought forward	Total	Non-con-trolling interests	Total equity
Opening equity 1 Jan. 2015	290,136	-274,435	-330,616	887,094	572,179	-	572,179
Comprehensive income							
Net profit/loss for the year	-	-	-	-33,724	-33,724	-	-33,724
Other comprehensive income							
Translation difference	-	-	-199,037	-	-199,037	-	-199,037
Total comprehensive income	**0**	**0**	**-199,037**	**-33,724**	**-232,761**	**0**	**-232,761**
Closing equity 31 Dec. 2015	290,136	-274,435	-529,653	853,370	339,418	0	339,418
Comprehensive income							
Net profit/loss for the year	-	-	-	-7,230	-7,230	-9,418	-16,648
Other comprehensive income							
Translation difference	-	-	-19,671	-	-19,671	-4,720	-24,391
Total comprehensive income	**0**	**0**	**-19,671**	**-7,230**	**-26,901**	**-14,138**	**-41,039**
Transactions with holders of non-controlling interests							
Sales of participations in subsidiaries	-	-	-	-12,331	-12,331	178,510	166,179
Other transactions with holders of non-controlling interests	-	-	-	-3,265	-3,265	3,265	-
Total transactions with holders of non-controlling interests	**0**	**0**	**-**	**-15,596**	**-35,305**	**181,775**	**138,684**
Closing equity 31 Dec. 2016	290,136	-274,435	-549,324	830,544	296,921	167,637	464,558

Cash flow statement for the Group

	Note	2016	2015
Operating activities			
Operating profit/loss before financial items		18,832	14,609
Adjustment for non-cash items	29	70,066	70,264
Interest received		2,714	13,731
Interest paid		-7,390	-8,148
Income tax paid		-9,807	-50,950
		74,415	**39,506**
Cash flow from changes in working capital			
Increase/decrease Inventories		2,437	21,247
Increase/decrease Other current receivables		1,105	13,664
Increase/decrease Other current operating liabilities		-62,746	11,431
Cash flow from operating activities		**15,211**	**85,848**
Investing activities			
Investments in intangible fixed assets		-86	-161
Investments in tangible fixed assets		-14,422	-102,947
Tangible fixed assets sold		1,464	1,737
Proceeds from sales of shares in subsidiaries		25,517	-
Investments in Joint Activity		-	-4,124
Cash flow from investing activities		**12,473**	**-105,495**
Financing activities			
Loans raised		12,874	26,940
Repayment of loan		-35,204	-65,586
Cash flow from financing activities		**-22,330**	**-38,646**
Cash flow for the year		**5,354**	**-58,293**
Cash and cash equivalents at the beginning of the year		**7,413**	**80,976**
Exchange rate differences in cash and cash equivalents		**-269**	**-15,270**
Cash and cash equivalents at year-end		**12,498**	**7,413**

Financials – the Parent Company

Income statement for the Parent Company

	Note	2016	2015
Other operating income	1,28	5,577	120
Operating expenses			
Other external expenses	5, 6	-12,795	-8,255
Personnel costs	7, 8	-8,583	-7,083
Total operating expenses		**-21,378**	**-15,338**
Operating profit/loss		**-15,801**	**-15,218**
Profit/loss from financial items			
Result from participations in Group companies		-9,309	-560,000
Other interest income and similar profit/loss items	11	1	1,459
Interest expenses and similar profit/loss items	12	-7,791	-10,045
Total profit/loss from financial items		**-17,323**	**-568,586**
Profit/loss after financial items		**-33,080**	**-583,804**
Net loss for the year		**-33,080**	**-583,804**
Statement of comprehensive income - Parent Company			
Net profit/loss for the year		-33,080	-583,804
Other comprehensive income for year		-	-
Total comprehensive income for year		**-33,080**	**-583,804**

Balance sheet for the Parent Company

Assets

	Note	31 Dec. 2016	31 Dec. 2015
Fixed assets			
Financial fixed assets			
Participations in Group companies	30	301,287	468,069
Total fixed assets		**301,287**	**468,069**
Current assets			
Current receivables			
Receivables from Group companies	18, 28	17,265	3,536
Other current receivables	20	-	402
Prepaid expenses	21	269	171
		17,534	**4,109**
Cash and bank	18	**7,034**	**1,703**
Total current assets		**24,568**	**5,812**
TOTAL ASSETS		**325,855**	**473,881**

Equity and liabilities

	Note	31 Dec. 2016	31 Dec. 2015
Equity			
Restricted equity			
Share capital	22	290,136	290,136
Statutory reserve		345	345
		290,481	**290,481**
Non-restricted equity			
Share premium reserve		714,285	714,285
Profit/loss brought forward		-651,580	-67,777
Net loss for the year		-33,080	-583,804
		29,625	**62,704**
Total equity		**320,106**	**353,185**
Long-term liabilities			
Other liabilities to credit institutions	18, 24	-	99,161
Liabilities to Group companies	18, 24	92	92
Total long-term liabilities		**92**	**99,253**
Current liabilities			
Accounts payable - trade		730	4,935
Liabilities to Group companies		-	11,617
Other current liabilities		406	462
Accrued expenses and deferred income	27	4,521	4,429
Total current liabilities		**5,657**	**21,443**
TOTAL EQUITY AND LIABILITIES		**325,855**	**473,881**

Changes in equity for the Parent Company

	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Total equity
Opening equity 1 Jan. 2015	290,136	345	714,285	-67,776	936,990
Comprehensive income					
Net profit/loss for the year	-	-	-	-583,805	-583,805
Total comprehensive income	0	0	0	**-583,805**	**-583,805**
Closing equity 31 Dec. 2015	290,136	345	714,285	-651,581	353,185
Opening equity 1 Jan. 2016	290,136	345	714,285	-651,581	353,185
Comprehensive income					
Net profit/loss for the year	-	-	-	-33,080	-33,080
Total comprehensive income	0	0	0	**-33,080**	**-33,080**
Closing equity 31 Dec. 2016	290,136	345	714,285	-684,661	320,105

Cash flow statement for the Parent Company

	2016	2015
Operating activities		
Operating profit/loss before financial items	-15,801	-15,218
	-15,801	**-15,218**
Increase/decrease Other current receivables	-2,158	-308
Increase/decrease Accounts payable - trade	-4,205	3,264
Increase/decrease Other current operating liabilities	-9,796	381
Cash flow from operating activities	**-31,960**	**-11,881**
Investing activities		
Shareholders' contribution - paid	-	-9,746
Sale of shares in subsidiaries	25,517	-
Cash flow from investing activities	**25,517**	**-9,746**
Financing activities		
Increase in non-current liabilities	11,774	22,971
Cash flow from financing activities	**11,774**	**22,971**
Cash flow for the year	**5,331**	**1,344**
Cash and cash equivalents at the beginning of the year	**1,703**	**359**
Cash and cash equivalents at year-end	**7,034**	**1,703**

Supplementary information

General disclosures

General information
The Group's operations involve extraction of hydrocarbons, with the focus on continued oil and gas production in Ukraine.

The Parent Company is a limited liability company with its registered offices in Stockholm. The address of the Head Office is Engelbrektsgatan 32, 411 37 Gothenburg, Sweden. The Parent Company's shares are listed on First North.

The Parent Company Misen Energy AB's business focus is to undertake Group-wide tasks and, together with its subsidiary Misen Enterprises AB, provide financing for operations in Ukraine.

The Board of Directors and the Managing Director have, on 5 April 2017, approved this annual report and consolidated financial statements for publication. The Board of Directors propose that the retained earnings of the Parent Company will be retained and no dividend is paid.

Unless otherwise stated, all amounts are reported in KSEK. Information in brackets refers to the previous year.

Summary of important accounting principles

The most important accounting principles applied in the preparation of the consolidated financial statements are set out below. Unless otherwise stated, these principles have been consistently applied for all years disclosed.

Basis of preparation of the financial statements
The consolidated financial statements for the Misen Energy AB Group have been prepared in accordance with the Annual Accounts Act, RFR 1 Supplementary Accounting for Groups, and International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated financial statements have been prepared using the cost method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in applying the Group's accounting principles. Areas involving a high level of judgement, which are complex, or areas where assumptions and estimates are of substantial significance to the consolidated financial statements are commented on, where applicable, in the notes.

Group concepts
Misen Energy AB (publ) (herein after referred to as "**Parent Company**" or "**Company**") is a Swedish public limited liability company with its registered offices in Stockholm. The Company is listed on Nasdaq First North Stockholm. On 16 June 2016, the Board of Misen Energy AB (publ) approved the sale of 37.5% of the shares in Misen Enterprises AB to the Hong Kong-based company Powerful United Limited ("**PUL**"); PUL is controlled by TCT Holdings AB, which is a shareholder in Misen Energy AB (publ). The transaction was concluded on 5 July 2016. As Misen Energy AB (publ) continued to own 62.5% of the shares of Misen Enterprises AB, Misen Energy AB (publ) retains full control over Misen Enterprises AB and has a right to 62.5% of the future dividends from the operation in Ukraine. The Misen Group ("**the Group**") consists of Misen Energy AB (publ) and the part-owned subsidiaries LLC Karpatygaz (Ukraine) and Misen Enterprises AB (Sweden). Misen Enterprises AB is 100% consolidated in the Group and the external 37.5% of the Misen Enterprises group is recognised as non-controlling interests in equity.

Standards, amendments and interpretations to existing standards that entered into effect in 2016
During the year, no standards, amendments or interpretations to existing standards entered into effect that had any material impact on the Group's financial statements.

New standards and interpretations not yet applied by the Group
A number of new standards and interpretations effective for financial years beginning after 1 January 2016 have not been applied in preparing these consolidated financial statements.

IFRS 9 Financial instruments
IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The complete version of

IFRS 9 was issued in July 2014. It replaces the parts of IAS 39 that addressed the classification and measurement of financial instruments and introduces a new impairment model.

The standard is adopted by the EU and is to be applied to financial years beginning on or after 1 January 2018. The Group does not expect any material impact on the classification, measurement or recognition of the Group's financial assets and liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is the new standard for revenue recognition. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts.

IFRS 15 is based on the principle that revenue is recognised when the customer takes control of the sold good or service – a principle that replaces the earlier principle that revenue is recognised when risks and benefits are transferred to the buyer. The principles on which IFRS is based should give users of financial statements more useful information about the company's revenues. The expanded disclosure obligation means that information shall be provided on the type of revenue, the time of recognition, uncertainties linked to revenue recognition and cash flow attributable to the company's customer contracts. Under IFRS 15, revenue shall be recognised when the customer takes control over the sold good or service and has the possibility of using or obtaining use from the good or service.

The standard is adopted by the EU and enters into effect on 1 January 2018. Early application is permitted. The group has not yet assessed the effects of the introduction of the standard.

IFRS 16 Leases

In January 2016, IASB published a new standard for leases that will replace IAS 17 Leases and associated interpretations IFRIC 4, SIC-15 and SIC-27. This standard requires assets and liabilities attributable to all leases to be recognised in the balance sheet with a few exceptions. This recognition is based on the view that the lessee has a right to use an asset during a specific time period and at the same time an obligation to pay for this right. The recognition for the lessor will essentially be unchanged.

The standard is to be applied to financial years beginning on or after 1 January 2019. Early application is permitted provided that IFRS 15 Revenue from Contracts with Customers is also applied. The EU has not yet adopted the standard.

The Group is the lessee in operating leases which are expected to be affected by IFRS 16 in that these agreements are to be recognised with an asset and liability on the balance sheet and in the income statement with depreciation of the asset and an interest expense on the leasing liability. According to current IAS 17, the leasing fee is expensed over the term of the lease. With all other variables kept constant, the Group operating result will increase and the equity ratio decrease by implementing the standard. The Group has not yet fully evaluated how the effect impacts the Group's financial position.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Consolidated financial statements

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method is used to report the Group's business combinations. The purchase price for the acquisition of a subsidiary comprises the fair value of assets and liabilities that the Group transfers to former owners of the acquired company and the shares issued by the Group. The purchase price also includes the fair value of all assets and liabilities resulting from an agreement on contingent consideration. Identifiable assets acquired and liabilities assumed at a business combination are measured initially at their fair values at the acquisition date. For each acquisition – i.e. on a case-by-case basis – the Group determines whether non-controlling interest in the acquired company is reported at fair value or at the proportionate share of the reported value of the acquired company's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Any intra-Group transactions, balance sheet items, income and expenses on transactions between Group companies are eliminated. Gains and losses resulting from intra-Group transactions and reported as assets are also eliminated. Accounting standards of subsidiaries have been changed, where necessary, to ensure a consistent application of the Group's standards.

Joint arrangements
Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has only one holding in a joint arrangement (JA). The Group's interests in jointly controlled entities are recognised by proportionate consolidation. The Group combines its share of income and expenses, assets and liabilities and cash flows of the joint arrangement, with the corresponding items in its own consolidated financial statements. The Group recognises the portion of gains or losses from its sale of assets to a joint arrangement which corresponds to the other participants' ownership share. The Group does not recognise any share of profits or losses in a joint arrangement which result from the Group's purchase of assets from the joint arrangement until the assets are sold on to an independent party. Nevertheless, if a transaction involves a loss, it is recognised immediately, provided that the loss is incurred due to overvaluation of an asset.

Associates
Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the associate after the date of acquisition. The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. Dividends from associates are recognised as a decrease in the investment's carrying amount.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "Share of profit/loss of associates" in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision- maker. The chief operating decision-maker is the function responsible for allocating resources and assessing the performance of operating segments. In the Group, this function has been identified as the Board of Directors and Group Management.

The Board and Group management does not follow the operations in any dimension other than the operations as a whole, which is why no separate segment reporting is prepared.

Translation of foreign currencies
Functional currency and presentation currency
Items included in the financial statements of each of the

Group's entities are estimated using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Swedish Crowns (SEK), which is the Parent Company's functional and presentation currency.

Transactions and balance sheet items

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within financial income or expenses. All other foreign exchange gains and losses are presented in the income statement within Other operating income/expenses.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.

The following exchange rates have been applied in the financial statements:

Currency	Income statement	Balance sheet
EUR	9.46	9.54
UAH	0.33	0.33
USD	8.55	9.07

Revenue recognition

Revenue comprises the fair value of goods and services sold, net of VAT and discounts, and after elimination of internal Group sales. Revenues in the Parent Company relate to invoicing of services and expenses. The revenue from the Company's sale of goods is recognised as income when the significant risks and rewards of ownership of the goods pass to the buyer.

The Group recognises revenue when the amount can be measured in a reliable manner, it is probable that future economic benefits will flow to the Company and specific criteria have been met for each of the Group's operations.

Within the JA, there are, on occasion, exchanges of gas products with other companies, partly in order to reduce transportation costs. Such an exchange may mean that the company replaces gas in pipes with gas in storage and vice versa. This exchange can lead to gross invoicing taking place from both parties, but it is not recognised as income or expense in the financial statements.

Current and deferred income tax

The tax expense for the period comprises current tax calculated on the period's tax profit according to current tax rates. The current tax expense is adjusted with changes in deferred tax assets and liabilities related to temporary differences and unutilised tax loss carry forwards.

The current tax expense is calculated on the basis of the tax regulations that at the balance sheet date have been enacted or substantively enacted in countries where the Parent Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. When deemed appropriate, Management makes provisions for amounts expected to be paid to the tax authorities.

Deferred tax is recognised on all temporary differences arising between the fiscal value of assets and liabilities and their reported values in the consolidated financial statements. Deferred tax is not recognised if it arise from the initial recognition of goodwill. Nor is deferred tax recognised if it arises as a result of a transaction that constitutes the initial recognition of an asset or liability in a business combination that, at the time of the transaction, affects neither the accounting or fiscal results. Deferred income tax is calculated using tax rates (and legislation) that have been determined or advised by the balance sheet date and which are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority and relate to either the same taxable entity or different taxable entities where there is an intention to settle balances by net payments.

Current and deferred tax are recognised in the income statement, except when the tax relates to items recognised in other comprehensive income or directly in equity. In such cases, tax is also recognised in other comprehensive income or equity.

Leasing

Leases in which a significant portion of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made during the lease term (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease period.

The Group leases certain tangible fixed assets. Lease agreements of fixed assets where the Group essentially takes all the risks and benefits associated with ownership are classified as financial leases. When the lease period commences, financial leases are capitalised in the balance sheet at whichever is the lower of the leased asset's fair value and the present value of the minimum lease payments.

Each lease payment is allocated among the repayment of debt and financial charges. The corresponding payment obligations, net of finance charges, are included in the balance sheet items Long-term liabilities and Current liabilities. The interest portion of the financial expenses is reported in the income statement over the lease period so that each accounting period is charged with an amount corresponding to a fixed interest rate for the respective period's reported liability.

Fixed assets held under finance leases are impaired over the shorter period of the asset's useful life and the lease term.

Intangible assets

Intangible assets are recognised at acquisition cost less accumulated amortisation. Intangible assets relate entirely to extraction licences and technical documentation. The development licences are amortised on a straight-line basis over the JAA ("Joint Activity Agreement") contract's duration, which expires in 2031, as it is anticipated that it will be possible to extend licences with expiration dates prior to 2031 while technical documentation is amortised straight-line over four years.

- Amortisation of development licences 8% per year
- Amortisation of technical documentation 25% per year

Tangible fixed assets

Tangible fixed assets for the extraction of natural gas are recognised at cost less depreciation according to plan based on the asset's estimated useful life. Cost includes expenditure that is directly attributable to the acquisition of the asset, as well as capitalized interest and borrowing costs when applicable.

Subsequent costs are added to the asset's reported value or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the asset will flow to the Group and that the cost of the asset can be measured reliably. All other forms of repairs and maintenance are expensed in the income statement in the period in which they arise. The assets' residual values and useful lives are reviewed at each reporting date and adjusted if necessary. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds of the sale with the reported value and are recognised in the income statement.

Depreciation according to plan is made as per the following:	%
Equipment, tools, fixtures and fittings	10-50

Constructions in progress also include advance payments. No depreciation is made for construction in progress. Depreciation is recognised when the facility is completed and taken into use.

Write-downs of non-financial assets

Assets which are depreciated or amortised are impairment tested at such time as events or changes in circumstances indicate that the reported value may not be recoverable. Write-downs are undertaken in the amount with which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling expenses and the value in use. When assessing impairment requirements, assets are grouped at the lowest level at which there are separate identifiable cash flows (cash-generating units). Assets, which have previously been written down, are tested at each balance date to see if a reversal should be made.

Financial assets

The Group classifies its financial assets in the following categories: financial assets measured at fair value through profit or loss, loans and receivables, and financial assets available for sale. Classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. Currently, the Group only has financial assets in the category Loans and receivables.

Loans and receivables

Loans and receivables are financial assets that are not derivatives, that have fixed or determinable payments and that are not quoted in an active market. They are included in current assets, with the exception of assets with maturities greater than 12 months after the reporting date, which are instead classified as fixed assets. The Group's loans and receivables comprise accounts receivable and cash and cash equivalents in the balance sheet.

Accounts receivable - trade

Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any reserves for write-downs. The fair value of current receivables corresponds to their carrying amounts since the discount effect is not material. A reserve for write-downs of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Significant financial difficulties on the part of the debtor, probability that the debtor will enter bankruptcy or financial restructuring, and default or delinquency in payments are considered indicators that an impairment requirement of accounts receivable may be present. Reserves are measured as the difference between the asset's reported value and the present value of estimated future cash flows, discounted at the effective interest rate. The asset's reported value is reduced through the use of a depreciation account and the loss is recognised in the income statement. When receivables cannot be collected, they are written off against the depreciation account for accounts receivable. Subsequent recoveries of amounts previously written off are credited to the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and other short-term investments with maturities of three months or less.

Financial liabilities

Accounts payable - trade

Accounts payable are commitments to pay for goods or services which have been purchased from the supplier in the course of the day-to-day operations. Accounts payable are classified as current liabilities if they are due for payment within one year or less. If this is not the case, they are reported as long-term liabilities. Accounts payable are initially recognised at fair value and subsequently measured at amortised cost by applying the effective interest method. The fair value of current accounts payable and other current liabilities corresponds to their carrying amounts as the discount effect is immaterial.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings are subsequently recognised at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the borrowing period using the effective interest method.

Fees paid for loan facilities are recognised as transaction costs for the borrowing to the extent that it is probable that some or all of the facility will be utilised. In such cases, the fee is incurred when the facility is utilised. When there is no evidence that it is probable that some or all of the facility will be utilised, the fee is recognised as a pre-payment for financial services and amortised over the maturity of the loan facility.

Bank overdrafts are reported as borrowings under Current liabilities in the balance sheet.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowing costs are charged to profit or loss for the period to which they relate.

Borrowing expenses

General and specific borrowing expenses which are directly attributable to the purchase, establishment or production of qualified assets, that is, assets which necessarily require a considerable amount of time to prepare for their intended purpose or sale, are recognised as a portion of their acquisition cost. Capitalisation ceases when all activities required to prepare the asset for its intended use or sale have largely been completed. The Group has capitalised interest expenses for new constructions in progress regarding tangible fixed assets.

Financial income which has accrued when special borrowed capital has been temporarily invested while waiting to be utilised to finance assets, reduces the borrowing expenses which can be capitalised. All other borrowing expenses are expensed as they arise.

Write-downs

The Group determines at each reporting date whether there is any objective evidence that an impairment requirement exists for a financial asset or a group of financial assets. A financial asset or group of financial assets has an impairment requirement and is written down only if there is objective evidence of an impairment requirement as a result of one or more events occurring after initial recognition of the asset (a “loss event”) and this event (or events) has an impact on the estimated future cash flows for the financial asset or group of financial assets that can be reliably estimated.

Inventories

Inventories are valued at the lower of acquisition cost and net realisable value, whereby the FIFO principle is applied. The net realisable value has been calculated as the selling price after deductions for estimated selling expenses. The inventory value comprises produced gas, other hydrocarbons and spare parts for future use. The inventory value comprises direct personnel costs, subsoil use charges, other direct expenses and a reasonable share of overhead costs excluding borrowing expenses. The net realisable value is estimated at the normal selling price less selling and completion expenses.

Provisions

Provisions for environmental restoration measures, restructuring costs and legal claims are recognised when the Group has a legal or informal obligation as a result of prior events and it is probable that an outflow of resources will be required in order to settle the obligation so that this does not take place and the amount has been calculated in a reliable manner. Provisions for restructuring include costs for lease terminations and severance pay. Provisions are not recognised for future operating losses.

If there are a number of similar obligations, the likelihood that an outflow of resources will be required in the regulation of the entire group of commitments is assessed. A provision is recognised even if the likelihood of an outflow with respect to any one item in this group of obligations is minimal. No such provisions have been recognised within the Group.

Remuneration of employees

Short-term remuneration of employees
Liabilities for salaries and benefits, including non-monetary benefits and paid leave, which are expected to be settled within 12 months of the end of the financial year, are recognised as current liabilities in the undiscounted amount expected to be paid when the liabilities are settled. The expense is recognised as the services are rendered by the employees.

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

Share capital
Ordinary shares are classified as equity. Transaction costs that can be directly attributed to the issue of new shares or options are recognised net after tax in equity as a deduction from the issue proceeds.

Earnings per share

Earnings per share before dilution
Earnings per share before dilution are calculated by dividing the profit or loss attributable to Parent Company shareholders with a weighted average number of outstanding ordinary shares during the period.

Earnings per share after dilution
For the calculation of earnings per share after dilution, the amounts used for the calculation of earnings per share before dilution are adjusted by taking into account the effect after tax of dividends and interest expenses on potential ordinary shares and the weighted average of the additional ordinary shares that would have been outstanding in a conversion of all potential ordinary shares.

At present, the Group has no effect from dilution, which means that the earnings per share before dilution correspond to earnings per share after dilution.

Parent Company accounting principles
The Parent Company has prepared its annual report in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. RFR 2 states that the parent company, in the annual report for the legal entity, shall apply all EU-approved IFRS as far as possible within the framework of the Swedish Annual Accounts Act, taking into account the relationship between accounting and taxation. The recommendation states which exceptions and additions are to be made to the IFRS.

The Parent Company accordingly applies the principles presented above except for the exemptions presented below. Unless otherwise stated, these principles have been consistently applied for all years presented.

Formats
The income statement and balance sheet follow the format of the Annual Accounts Act.

Borrowing expenses
The Parent Company immediately expenses all borrowing expenses.

Participations in subsidiaries
Shares and participations in subsidiaries and associates are recognised at cost less potential write-downs. Cost includes acquisition-related costs and any additional purchase price. Received dividends are recognised as financial income. Dividends, which exceed the subsidiary's comprehensive income for the period or mean that the book value of the holding's net assets in the consolidated financial statements is below the book value of the participations, are an indication that there is an impairment requirement.

When there is an indication that shares or participations in a subsidiary or associate have decreased in value, an estimate of the recoverable amount is made. If this is lower than the carrying amount, a write-down is made. Write-downs are recognised in Result from participations in Group companies or Result from participations in associated companies.

Taxes
The Parent Company reports untaxed reserves including deferred tax where applicable. In the consolidated financial statements, however, untaxed reserves are divided between deferred tax liabilities and equity.

Group contributions
Group contributions paid or received by the Parent Company with the aim of minimising the Group's total tax are recognised in the income statement as appropriations.

Significant estimates and assumptions for accounting purposes
Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Assessment of ongoing disputes and claims
Management has evaluated the ongoing disputes and claims as described in the Administration report. Based on the information currently available as well as supporting documentation from legal councels, these ongoing disputes and claims do no require any additional provision or adjustment to the carrying values of assets and liabilities. However, it cannot be excluded that the outcome of these disputes and claims will have a material effect on the Group's financial results and carrying value of assets and liabilities in the future.

Useful lives of property, plant and equipment
The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected production volumes and remaining gas reserves, expected technical development, physical wear and tear and the physical environment in which the asset is operated. Changes in these conditions can affect future depreciation periods. All of the Company's depreciable assets follow a straight-line depreciation plan.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for 2016 would be to increase it by KSEK 4,637 or decrease it by KSEK 3,794 (for 2015 increase by KSEK 3,872 or decrease by KSEK 3,168).

Accounting for joint arrangements and associated companies
The Group holds a 50.01% share in the joint activity (JA) according to the Joint Activity Agreement (JAA). The Group has joint control of the JAA as it, according to the agreement, requires consent from all parties for all relevant activities.

The Group's JAA is structured without incorporation and has been assessed by the Group as a joint operation, which means that the Group's share of the joint operation's assets and liabilities are accounted for by 50.01% in the consolidated financial statements by using proportional consolidation.

During 2015 and 2016, the Group also had a 10% share in the joint operation according to Joint Activity Agreement #493 (JAA #493). The Group's joint operation, JAA #493, was structured without incorporation. The Group assessed that it had significant influence in the joint operation even if the share was below 20%. This joint operation was therefore accounted for as an associated company in the Group's consolidated financial statements by the end of 2015. By the end of 2016, JA #493 has been cancelled and

Recognition of current tax and deferred tax
Amendments to the tax code in Ukraine were adopted as of 1 January 2015. According to the newly adopted amendments, JAs are not corporate profit tax ("CPT") payers starting from 2015. Instead, it is the operators in the JAs that are obliged to pay tax monthly on behalf of the participants.

The tax is based on the calculation from the most recently filed tax return. In December 2015, the Ukrainian Parliament passed further amendments to the tax legislation. According to these amendments, returns shall be filed quarterly within 40 days after the end of each quarter. The tax payment is based on the return for the previous quarter and shall be paid within 10 days from the return being sent in.

In this annual report, it has been presumed that the Misen Group will be a taxpayer under Ukrainian law with regard to taxes related to the JA, based on the assumption that the Misen Group has operations in Ukraine. JAs such as the JA in Ukraine have not been clearly defined in Swedish tax legislation. In Misen Enterprises AB's return for 2015, the JA was handed as a legal entity taxed as a partnership abroad. In addition, in this report, it is presumed that the profits that arose in the JA before 1 January 2015 will not be taxed in Sweden, that the holding in the JA is considered to be commercially contingent shares until 31 December 2014 and that the income tax in Ukraine can be offset against Swedish income tax.

After the sale of 37.5% of the shares in Misen Enterprises AB, the Company's tax loss carryforwards can no longer be utilised through Group contributions from Misen Enterprises AB.

In January-December, the JA paid KUAH 28,167 (KSEK 9,339) on behalf of Misen Enterprises AB to Ukrainian authorities.

Recognition of deferred tax assets and tax loss carry forwards

The Group continuously evaluates the possibility of utilising tax loss carry forwards in each legal entity. At present, there are tax loss carry forwards in the Group's Swedish units. Because it is uncertain when and to what extent the tax loss carry forwards can be utilised against future taxable profits, no deferred tax assets regarding tax loss carry forwards have been recognised. Tax loss carry forwards in Sweden can be rolled over and have no expiration date.

Impairment requirements on Group net assets and shares in subsidiaries

If there is an indication of an impairment requirement on the Group's net assets or Parent Company's shares in subsidiaries, impairment testing is done. The Group has assessed that there is only one cash-generating unit (CGU) which is the participation in the JA. The recoverable amount for the cash-generating unit has been determined by calculating the value in use, which requires that certain assumptions must be made.

As of end of 20 16 the Company's management conducted impairment test of the assets held by the Company according to the IAS 36 Impairment of Assets. The calculations are based on cash flow forecasts based on budgets established by Management during the lifespan of the JA. There is consequently no indefinite growth factor in the forecasts. The test indicated that there is no impairment as of 31 December 2016. Management has also asked external consultants to perform a valuation of the fixed assets of the JA. This valuation was completed by the end of 2016 and indicates that the book value is supported.

For more information on estimates and assumptions regarding impairment testing, please see Note 30.

Business risks

Oil and natural gas prices

The Misen Group's revenues and profitability is dependent on the prevailing price of oil and natural gas, which are macro factors beyond the control of the Misen Group. There are numerous such factors, including market fluctuations, proximity to and capacity in oil and natural gas pipelines, as well as decisions made by public authorities. In the case of Ukraine, prices for oil and natural gas are also affected by the geopolitics. In addition, the demand from commercial consumers has been decreasing throughout 2015-2016 due to decrease in industrial production as well as implementation of energy efficiency programs.

The price of oil and natural gas historically has been volatile and is expected to continue to be so in the future. The prices for oil in Ukraine fluctuate in line with the prices at the recognized international exchanges while the prices for natural gas are highly dependent on the price of imported natural gas under contract with Russian OJSC Gazprom as well as the prices at the European gas hubs. If the currently observed fall in oil and natural gas prices continues and proves to be substantial and long-term, this will have a significant negative effect on the earnings and financial position of the Misen Group. In the event of a significant fall in the price of natural gas, the conditions for production operations would worsen. A fall in price might lead to a decrease in the volumes of reserves that the Misen Group can harvest, as a result of the Group being potentially unable to establish profitable production in certain bore holes. In addition, the Misen Group will face difficulties in implementation of the JA investment program.

Production risk
Until an oil or natural gas development project reaches certain maturity, it is extremely difficult to assess whether or not production will be successful. Oil and natural gas reservoirs have an inherent uncertainty regarding the possibility of commercially extracting the oil and natural gas that only can be solved through actual production during a certain period of time. A production well generally needs three to six months before it is possible to draw conclusions about its stability. For a completely new field this time is even longer. In the case of Misen Group, most of the wells are representing depleted stock requiring heavy workovers. For this reason it can be almost impossible to assess the level of extraction from a source before production tests have been carried out.

Local risk
Ukraine still suffers from heavy bureaucracy. Furthermore, all business activities are strongly dependant upon personal networks. It takes both time and resources to acquire information and obtain the necessary permits. On the other hand, it is a closed market in which access to specialised services and equipment is relatively good: drilling services, drilling equipment, etc. can be procured relatively quickly and efficiently.

Tax risk
The Misen Group currently conducts activities in Sweden and, through its participation in the JA, in Ukraine. The tax legislation in each country can change over time. Consequently, it cannot be ruled out that changes regarding the tax legislation and its enforcement might, in the future, affect the Misen Group's profit.

Ukrainian tax, currency and customs legislation is under continued development. In cases of conflict between different legal systems, Management applies different interpretations. The Group Management considers that its interpretations are accurate and durable, but cannot guarantee that its judgement will not be questioned by the Ukrainian authorities.

Supply of equipment
Working with the extraction of oil and natural gas requires advanced drilling and production equipment. It can therefore not be ruled out that there might be a shortage of drilling equipment and/or other necessary equipment, or that such equipment would require further investment, which could result in increased costs and delays, despite a focus on production operations rather than exploration.

Key personnel risk
The Misen Group is dependent on a small number of professionals. An important condition for the Group to be successful is that we succeed in retaining, recruiting and developing qualified personnel.

The need for additional capital
The Misen Group's operations may require additional financial resources in the future if the Group is to continue expanding its operations. This will lead to the requirement for additional capital from the owners or for other types of financing. The Misen Group's future growth will, to a large extent, be dependent on prevailing oil and natural gas prices. A positive trend in this market may also result in the Group requiring financing, for example through a new share or bond issue. A longer period of falling oil and natural gas prices will have a negative impact on the Group's financial position and performance.

Environmental risks
Stricter laws regarding environmental control are continuously being drawn up in Ukraine, with stricter environmental directives being introduced and stricter regulations governing the environment constantly being considered.
The Misen Group continuously evaluates its obligations according to the prevailing environmental legislation. As soon as environmental obligations arise, they are taken into account by the Misen Group. Potential obligations that can be

introduced as a consequence of changes in environmental legislation or regulations or civil law legislation cannot be assessed, but can be significant. For the time being, the Group does not deem that there are any significant risks regarding environmental impact. With Ukraine moving towards a closer integration with the EU, it is likely that Ukrainian environmental standards will be harmonised with the EU standards, making the operational environment more foreseeable from the environmental risk perspective.

Licence risk

During 2014, the Misen Group concluded the previously announced investigation regarding measures required to secure extension of the licences expiring in 2018.

At present all licences concerning JAA No.3 are valid. All of these licences have been issued to the JA participant PJSC Ukrgasvydobuvannya, who made them available to the JA. According to the JAA No.3, it is the direct responsibility of PJSC Ukrgasvydobuvannya to observe timely extension of expiring licences.

The Misen Group trusts that PJSC Ukrgasvydobuvannya will make maximum effort to secure this process. Under the current legislation and accepted practice in Ukraine, licences that have been handled correctly are routinely extended without the Company having to take any special steps. In addition, in accordance with JAA No.3, the Parent Company has the right to claim compensation for all damages related to non-performance of the JA partner PJSC Ukrgasvydobuvannya, including failure to secure timely extension of applicable licences.

Before any amendments to JAA No.3, as well as before the commencement of the well workovers, the Misen Group carries out thorough investigations regarding risks related to each licence. Despite these investigations, the Misen Group cannot guarantee that it has obtained a correct picture of the ownership situation, which can result in the Company's rights being questioned. This can have a negative impact on the Group's earnings and financial position.

Geological risks

All estimations of extractable petroleum resources are based, to a large extent, on probabilities. The estimations of the oil and natural gas reserves are thus based on the investigations that are, in each case, made by reservoir engineers and based upon factors gathered from different types of geological and geophysical, and reservoir engineering methods of investigation. The Misen Group's activities continuously utilise the best available technology in each case in order to investigate probable outcomes with the highest precision and to improve the forecasts through well-balanced work programmes. The estimations that the Misen Group has reported in the form of the Competent Persons Report represents the latest information available for each development project. There are, therefore, no guarantees that the size of these estimations will remain constant over time.

Political risks

In recent years, Ukraine has undergone a profound political and social change. The value of the Misen Group assets may be affected by uncertainties such as political or diplomatic developments, social or religious instability, changes in government policies, taxation and interest rates, restrictions on currency repatriation and other political and economic development of laws and rules in Ukraine. These risks relate in particular to expropriation, nationalisation, confiscation of assets and legislative changes concerning the level of foreign ownership.

During the summer of 2014, the subsoil use charge to be paid in connection with production was increased from 25% to 55% and in 2016, this tax was 70% for JAs with private partners. This has a negative effect on the Group and complicates implementation of the investment program.

These latest events clearly illustrate how the political risks affect the conditions for business activities in Ukraine.

Economic risks

Ukraine's transformation from a rigid, centrally planned economy to a market economy has been hampered by strong economic and political special interests. A small number of people with substantial wealth have had a dominant position in the country and have influenced policies in a negative way. This has resulted in a deceleration of the reform towards a market economy. Ukraine's economy is characterised by a strong dependence on heavy industry - chemicals, steel,

shipbuilding, machine building and weaponry.
Ukraine also acts as a transit country for the Russian gas, which provides the state with much-needed revenue and offers a degree of security in the country's energy supply. Meanwhile, the energy policy remains a foreign policy scene where the special interests between Ukraine, the transit country, and Russia, the supplier country, periodically are on display. After the Orange Revolution, there was an upswing in the business climate in the country thanks to the country's new goodwill and a generally prevailing optimism. This development has taken a turn for the worse, largely due to the previous disagreement among the country's political leadership. There is, however, still a desire within the country to increase trade and attract foreign investors. The presidential election of 2010 led to some stabilisation of the country's political climate, but emerging closer ties with the Russian Federation started slowing down Ukraine's transition to the market economy. The events of 2013-2014 introduced a new platform for economic development in Ukraine. The country is negotiating closer integration with the EU and substantial financial support from the IMF, EU and US is being offered, provided country accelerates the major reforms of its economy.

Economic risks remain, but should decrease provided Ukraine's integration with Western Europe does not stall.

Foreign exchange risk and Ukraine's economy

Ukraine's economy
Exchange rate. During the year, the exchange rate between UAH and SEK decreased from 0.3468 on 31 December 2015 to 0.3301 on 31 December 2016, a decrease of -4.8 per cent. The primary reason for this was deficits in the balance of payments, essentially covered by the National Bank of Ukraine's currency reserve. Since the Misen Group's entire operations and all of its assets are located in Ukraine, this has had a negative impact on the equity of the Misen Group, which decreased by KSEK 24,452.

Cooperation with the International Monetay Fund (IMF). IMF resumed the financing of Ukraine in December 2016. Cooperation had been suspended for almost a year, resulting in doubts over the government's willingness to comply with the guidelines of the IMF. Despite the continued delay, the government has taken important steps to allow continued payments from the IMF; in April 2016 the established levies on services and products subsidized by the government were increased. On 16 September, the IMF paid 1 billion USD (SEK 8.6 billions) which increased the foreign currency reserves of the National Bank of Ukraine.

GDP growth. During the first quarter of 2016, real GDP increased by 0.1 per cent compared with the same period in 2015. Starting with the second quarter of 2016, GDP growth accelerated by 1.4 per cent and reached 2.0 per cent during the third quarter of 2016, compared with the same periods the previous year. Consequently, the economy of Ukraine has displayed an increasing momentum and has been in recovery since the third quarter 2015. This rebound in economic activity is mainly explained by the growth of investments in fixed assets. Investments in fixed assets increased by 9 per cent and 4.7 per cent, quarter-by-quarter, during the second and third quarter of 2016, resulting in a growth of 17.6 per cent and 24.8 per cent in the second and third quarter, respectively, compared with the same periods in the previous year. Increased household consumption, which gradually recovered in 2016, showing a growth of 4.3 per cent and 4.9 per cent for the second and third quarters, respectively, compared with the corresponding periods the previous year.

Manufacturing. Ukraine's manufacturing has gradually recovered after the more active Russian aggression 2014-2015. Manufacturing was negatively affected by the halting of activity in the eastern parts of the country, affected by the conflict. These parts of the country are a vital part of the "supply chain" in Eastern Ukraine. During January - December 2016, manufacturing growth stabilized at 2.4 per cent, compared with the same period the previous year. During the year, the production of natural gas and gas condensates decreased by -1.8 per cent and -10.9 per cent, respectively, compared to the previous year, while the production of natural gas increased by 0.6 per cent compared with the corresponding period the previous year.

Inflation. In 2016, consumer price inflation continued to decrease and amounted to 13.9 per cent, compared to 48.7 per cent in 2015. The decreased inflationary pressure was fundamental; stable exchange rates, weak domestic demand (in spite of an increasing trend) and a reduction in the increase of tariffs on basic commodities. Grocery prices increased by 9.0 per cent during the period January -- December 2016, compared with an increase of 45.9 per cent for the same period 2015. Tariffs on basic commodities increase by 35.1 per cent during the period January - December 2016. During the same period 2015, the increase was 115.8 per cent. The increase in basic commodities prices on the world market, in combination with a stable exchange rate, resulted in inflation, as measured by the producer price index, increasing by 20.5 per cent during the period January – December 2016 compared to 15.0 per cent during the period January – December 2015.

Currency restrictions. In 2016, the National Bank of Ukraine (NBU) implemented some easing of the currency restrictions introduced 2014-2016. Significant changes; the share of revenue in foreign currencis that has to be sold to the NBU decreased from 75 per cent to 65 per cent, beginning on 9 June 2016, the payment period for import-export transactions increased from 90 days to 120 days, starting on 28 July 2016, and as of 13 June 2016, the NBU allows the payment of dividends of profits for the years 2014-2016 to foreigners, with an upper limit of MUSD 5 per month.

Definitions of key ratios

1. EBITDA (earnings before interest, tax, depreciation and amortisation) is defined as the Group's and Parent Company's respective operating profit plus depreciation.
2. Earnings per share before dilution are calculated by dividing the profit or loss attributable to Parent Company shareholders with a weighted average number of outstanding ordinary shares during the period.
3. Earnings per share after dilution are calculated by the amounts used for the calculation of earnings per share before dilution being adjusted by taking into account the effect after tax of dividends and interest expenses on potential ordinary shares and the weighted average of the additional ordinary shares that would have been outstanding in a conversion of all potential ordinary shares. At present, the Group has no effect from dilution, which means that the earnings per share before dilution correspond to earnings per share after dilution.
4. Return on equity is defined as the Group's and Parent Company's respective profit divided by equity at the end of the period.
5. Return on working capital is defined as the Group's and Parent Company's respective profit after financial items plus interest expenses plus/minus exchange rate differences for financial loans divided by total working capital (the average of the two most recent balance sheet totals less non-interest-bearing liabilities).
6. Debt/equity ratio is defined as the Group's and Parent Company's respective interest-bearing liabilities in relation to the reported equity.
7. Equity/assets ratio is defined as the Group's and Parent Company's respective equity (including minority interest) as a percentage of the balance sheet total.
8. The portion of risk-bearing capital is defined as the sum of the Group's and Parent Company's respective equity and deferred tax (including minority interest) divided by the balance sheet total.
9. Number of outstanding shares at full dilution is defined as the number of outstanding shares including maximum utilisation of warrants as well as outstanding paid subscribed shares.
10. The number of employees reflects the average number of employees converted into full-time equivalents and calculated as a total hours of work during the year divided by the theoretical working hours. For JA, 50.01% of this number has been consolidated.

Notes, common for Parent Company and Group

Note 1. Revenue distribution

	Group		Parent Company	
	2016	2015	2016	2015
Income included in net sales:				
Natural gas	588,893	766,469	-	-
Oil products	64,201	86,778	-	-
Other	28	112	5,577	120
Total	**653,122**	**853,359**	**5,577**	**120**

Note 2. Segment information - Group

The Group's operating activities are located in Ukraine. Only administration is done in Sweden.

Geographical area	31 Dec 2016	31 Dec 2015
Net sales, external		
Ukraine	653,122	853,359
Fixed assets		
Ukraine	531,010	588,941

Note 3. Other operating income

	Group		Parent Company	
	2016	2015	2016	2015
Translation differences	3,638	14,938	-	-
In 2014 expensed penalties that have not been realised	9,190	10,285	-	-
Received fines and penalties	4,631	-	-	-
Other	4,409	2,305	-	-
Total	**21,868**	**27,528**	**0**	**0**

Note 4. Participations in associated companies

During the year, the operations in JA 493 were discontinued. The remaining receivable regarding JA 493 is recognised as Other receivables.

		Group
	2016	2015
Opening book value	2,383	2,383
This year's share in profits	350	3,486
Booked dividend from JA 493	-	-2,845
Liquidation of JA 493	-2,520	-
Translation differences	-213	-742
Closing book value	**0**	**2,282**

Note 5. Remuneration of auditors

		Group		Parent Company
	2016	2015	2016	2015
PwC				
Audit assignment	1,416	890	1,416	557
Audit services in addition to the audit engagement	456		456	
Tax advisory services	258	1,377	258	1,377
Other services	46	98	46	96
Total	**2,175**	**2,365**	**2,175**	**2,030**

Note 6. Other external expenses

		Group		Parent Company
	2016	2015	2016	2015
Extraction expenses	436,356	643,397	-	-
Production and transport expenses	69,063	50,757	-	-
Refinery expenses	2,491	9,955	-	-
Change in inventories	2,437	21,246	-	-
Total	39,172	13,598	12,795	7,968
Total	**549,519**	**738,953**	**12,795**	**7,968**

Note 7. Salaries and remuneration to the Board and Company management

Parent Company and Group	Basic salary/ Directors' fee	Other remuneration	Benefits	Pension	Total
2016					
Göran Wolff, Managing Director	1,829	679	41	296	2,845
Andrius Smaliukas, Chairman of	294	-	-	-	294
Dimitrios Dimitriadis, Board of Directors	98	-	-	-	98
Hans Lundgren, Board of Directors	245	-	-	-	245
Oleg Batyuk, Board of Directors	98	-	-	-	98
Pavel Prysiazhniuk	10		-	-	10
Other senior executives, 2	2,061	476	-	159	2,696
Total	**4,635**	**1,155**	**41**	**455**	**6,286**
2015					
Göran Wolff, Managing Director	1,600	112	26	218	1,956
Andrius Smaliukas, Chairman of the Board	214		-	-	214
Oleg Batyuk, Board of Directors	92	239		-	331
Dimitrios Dimitriadis, Board of Directors	92	-	-	-	92
Hans Lundgren, Board of Directors	230		-	-	230
Sergiy Petukhov, Board of Directors	3				3
Pavel Prysiazihniuk, Board of Directors	9	1,141			1,150
Other senior executives, 4 in total	2,725	2,256	-	269	5,250
Total	**4,965**	**3,748**	**26**	**487**	**9,226**

Bonus is payable to senior executives according to rules established by the Board from year to year.

Note 8. Wages, salaries, other remuneration and social security contributions

	Group		Parent Company	
	2016	2015	2016	2015
Average number of employees				
Women	31	29	2	2
Men	102	89	2	2
Total	**133**	**118**	**4**	**4**
Employees per country				
Sweden	4	5	4	5
of which men	2	3	2	3
Ukraine	129	113	-	-
of which men	100	86	-	-
Total	**133**	**118**	**4**	**5**
of which men	**102**	**89**	**2**	**3**
Total wages, salaries, other remuneration, social security contributions and pension costs				
Salaries and remuneration of the Board of Directors, Managing Director and other senior executives	5,922	5,374	5,613	5,249
Salaries and remuneration of other employees	8,158	8,939	1,162	339
	14,080	**14,313**	**6,775**	**5,588**
Statutory and contractual social security contributions	1,380	1,253	1,316	1,253
Pension costs for Board of Directors, Managing Director or other senior executives	490	487	455	487
Pension costs for other employees	25	25	25	25
Total	**15,975**	**16,078**	**8,571**	**7,353**

No agreements regarding severance pay are in place.
The MD has a period of notice of 24 months with retained fixed remuneration.

Note 8 (cont.)

	Group		Parent Company	
	2016	2015	2016	2015
Wages, salaries and other remuneration by country and between management staff and other employees				
Management staff, Sweden	5,222	4,325	5,045	4,325
of which variable remuneration	1,155	-	1,155	-
Management staff, Ukraine	132	125	-	-
Other employees, Sweden	1,162	339	1,162	339
of which variable remuneration	226	-	226	-
Other employees, Ukraine	6,996	8,600	-	-
Members of the Board and senior executives				
No. of members of the Board at balance sheet date				
Men	5	5	5	5
Total	5	5	5	5
No. of Managing Directors and other senior executives				
Women	1	1	1	1
Men	2	3	2	2
Total	**3**	**4**	**3**	**3**

Note 9. Amortisation/depreciation and write-downs

		Group
	2016	2015
Depreciation, amortisation and write-downs of tangible and intangible assets		
Amortisation of intangible assets	2,934	2,928
Depreciation of equipment and buildings	38,800	31,917
Total	**41,734**	**34,845**

Note 10. Other operating expenses

	Group		Parent Company	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Maintenance costs Booster Compressor Station[1]	12,800	37,729	-	-
Expenses for legal cases	-	3,269	-	-
Bad debt losses[2]	33,088	20,571	-	-
Fines and penalties	1,547	-	-	-
Non-deductible VAT	-	8,430	-	-
Cost due to delayed customer payments has been discounted	-	5,468	-	-
Capital losses	-	1,293	-	-
Other operating expenses	1,646	3,128	-	-
Total	**49,081**	**79,888**	**0**	**0**

[1] Pertains to operating costs for Khrestyschenska Booster Compressor Station

[2] A detailed description is available earlier in the Annual Report, also refer to Note 19

Note 11. Other interest income and similar profit/loss items

	Group		Parent Company	
	2016	2015	2016	2015
Interest income	6,755	10,886	1	1,459
Total	**6,755**	**10,886**	**1**	**1,459**

Note 12. Other interest expenses and similar profit/loss items

	Group		Parent Company	
	2016	2015	2016	2015
Other interest expenses	17,605	28,515	7,971	10,045
Translation differences	13,491	45,667	-	-
Total	**31,096**	**74,182**	**7,971**	**10,045**

Note 13. Tax on profit for the year

	Group		Parent Company	
	2016	2015	2016	2015
Distribution of income tax				
Current tax	-7,298	-4,922	-	-
Deferred taxes	-3,841	19,885	-	-
Total	**-11,139**	**14,963**	**0**	**0**

	Group		Parent Company	
	2016	2015	2016	2015
Reported profit before taxes	-5,509	-48,687	-33,080	-583,804
Tax according to national tax rates	2,770	10,098	7,278	128,437
Participations in Associated companies	-63	627	-	-
Tax related to non-taxable income	6,860	3,357	-	-
Tax regarding non-deductible costs	-9,025	-2,177	-2,062	-123,217
Fiscal losses for which no deferred tax asset is recognised	-9,156	-6,711	-5,516	-5,220
Adjustment regarding earlier years' tax	3,521	6,007	-	-
Change in tax legislation	-7,359	4,375	-	-
Other	1,313	-613	-	-
Tax expenses for the year	**-11,139**	**14,963**	**0**	**0**

Weighted average tax rate was 20% (2015: 21%).

The change in weighted average tax rate is due to changes in profitability between the entities within the group.

As per 31 December 2016, the Group had a fiscal deficit amounting to KSEK 309,371, of which the Parent Company's deficit amounted to KSEK 249,847. Deferred tax assets totalling TSEK 68,062 for the Group and TSEK 54,966 for the Parent Company have not been recognised as an asset, as the possibility of utilizing these amounts against tax loss carry forwards in the foreseeable future is uncertain. As mentioned previously in this annual report, the subsidiary Misen Enterprises AB will need to pay income tax in Ukraine. To finance any tax payments in Ukraine, Misen Enterprises will need to receive a loan or dividend from the JA.

Note 14. Rights and licenses

		Group
	31 Dec 2016	31 Dec 2015
Opening acquisition value	43,554	44,081
Purchases	86	161
Translation differences	-87	-678
Sales and scrapping	-	-10
Closing accumulated acquisition value	**43,553**	**43,554**
Opening amortisation/depreciation	-11,695	-8,966
Sales and scrapping	-	10
Depreciation/amortisation for the year	-2,934	-2,928
Translation differences	27	189
Closing accumulated depreciation/amortisation	**-14,602**	**-11,695**
Closing residual value according to plan	**28,951**	**31,859**

Note 15. Equipment, tools, fixtures and fittings

		Group		Parent Company
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Opening acquisition value	454,665	209,607	403	403
Purchases	1,685	14	-	-
Translation differences	-22,026	-95,516	-	-
Sales and scrapping	-31	-187	-	-
Reclassifications	8,739	340,747	-	-
Closing accumulated acquisition value	**443,032**	**454,665**	**403**	**403**
Opening amortisation/depreciation	-57,924	-41,056	-403	-403
Sales and scrapping	30	106	-	-
Depreciation/amortisation for the year	-38,799	-31,917	-	-
Translation differences	2,964	14,943	-	-
Closing accumulated depreciation/amortisation	**-93,729**	**-57,924**	**-403**	**-403**
Closing residual value according to plan	**349,303**	**396,741**	**0**	**0**

Note 16. Construction in progress and advance payments regarding tangible fixed assets

		Group
	31 Dec 2016	31 Dec 2015
Opening acquisition value	158,059	520,183
Expenses accrued during the year	12,734	98,449
Sales	-1,669	-1,984
Reclassifications	-8,739	-340,747
Capitalised interest expenses incl. exchange rate differences	-11	-
Translation differences	-7,618	-118,114
Write-downs for the year	-	272
Closing expenses accrued	**152,756**	**158,059**

Note 17. Inventories

		Group
	31 Dec 2016	31 Dec 2015
Valued at acquisition cost		
Spare parts	512	432
Oil products and natural gas	67	2,725
Total	**579**	**3,157**

Note 18. Financial instruments by category

		Group		Parent Company
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Assets				
Loans and receivables				
Accounts receivable, external	20,260	44,763	-	-
Receivables from Group companies	-	-	17,265	3,536
Cash and cash equivalents	12,498	7,413	7,034	1,704
Total	**32,758**	**52,176**	**24,299**	**5,240**

Note 18 (cont.)

	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Liabilities				
Other financial liabilities				
Borrowing (excluding liabilities attributable to financial leasing)	29,848	171,312	-	99,161
Liabilities attributable to finance leases	-	7,260	-	-
Accounts payable and other liabilities excluding non-financial liabilities	54,528	111,536	822	17,107
Total	**84,376**	**290,108**	**822**	**116,268**

Book value of financial assets and liabilities deemed to match their fair value.

Note 19. Accounts receivable - trade

	Group	
	31 Dec 2016	31 Dec 2015
Accounts receivable, external	20,260	44,763
Total	**20,260**	**44,763**

As per 31 December 2016, Accounts receivable (excluding doubtful debts) amounted to KSEK 20,260 (2015: KSEK 44,763) less write-downs, totalling KSEK 33,088 (KSEK 20,571).

At 31 December 2016, accounts receivable amounting to KSEK 20,260 (2015: KSEK 35,981) were overdue, but no reservation was necessary for this amount. The overdue Accounts receivable are attributable to customers that have not previously encountered financial difficulties.

	Group	
	31 Dec 2013	31 Dec 2012
Maturity analysis of accounts receivable		
Not overdue	-	8,782
< 30 days overdue	2,837	2,523
> 30 days overdue	17,423	33,458
Total	**20,260**	**44,763**

Note 20. Other receivables

	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
VAT recoverable	9,479	10,240	-	376
Receivable JA 493	2,172	-	-	-
Other receivables	115	25	-	26
Total	**11,766**	**10,265**	**0**	**402**

Note 21. Prepaid expenses

	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Advance to Stockholm Chamber of Commerce	3,355	-	-	-
Other prepaid expenses	660	525	269	171
Total	**4,015**	**525**	**269**	**171**

Note 22. Share capital

Share information	2016	2015
Parent Company		
Weighted average number of shares for the year	145,068,222	145,068,222
No. of outstanding shares at balance date before dilution	145,068,222	145,068,222
No. of outstanding shares at balance date after full dilution	145,068,222	145,068,222

Note 23. Contingent liabilities

	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Rental guarantee	-	39	-	39
Attributable to liabilities in JA	29,837	62,044	-	-
Financing commitment	990,249	1,040,400	-	-
Total contingent liabilities	**1,020,086**	**1,102,483**	**0**	**39**

The Group is jointly liable for liabilities arising in JA. The difference between the Group's share and total external liabilities in JA has been reported as a contingent liability.

According to Addendum No. 6 to JAA No. 3, the Group has a commitment to when necessary arrange supplemental financing of JA in an amount of KUAH 3,000,000 (KSEK 990,249), which is recognised as a contingent liability.

Note 24. Financial risk management and borrowing

Financial risk management

Financial risk factors
Through its operations, the Group is subject to various financial risks: Market risk (comprehensive foreign exchange risk, interest rate risk and price risk), credit risks and liquidity risks. The Group strives for awareness of potentially negative effects on the Group's financial performance. Interest rates on bank accounts are variable. No foreign exchange hedging has been undertaken during 2016.

Foreign exchange risk
Through its operations in different countries, the Group is exposed to fluctuations in a number of currencies. Therefore, effects on the Company's earnings and financial position from foreign exchange volatility cannot be disregarded.

Out of the Group's total sales and expenses in 2016, SEK 653 million and SEK 619 million, respectively, were denominated in UAH, implying that a +/- 10% change in the UAH exchange rate would affect the Group's profit by SEK +/- 30 million.

The Group's net assets with UAH as reporting currency amounted to SEK 508 million. Thereby, a +/- 10% change in the UAH exchange rate would affect the Group's equity by SEK +/- 51 million.

Interest rate risk
As per 31 December 2016, the Group had interest-bearing liabilities amounting to SEK 30 million and an interest rate change of +/- 1% would affect the Group's financial expenses by SEK +/- 0 million.

All loans in the Group are subject to fixed interest during the remaining duration.

Price risk
The Group's profit for the year is primarily affected by hydrocarbon prices. A +/- 10% change in hydrocarbon prices in Ukraine would affect Group income by SEK +/- 65 million. A +/- 10% change of cost level in Ukraine would affect Group expenses by SEK +/- 61 million.

Credit risk
The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to fulfil an obligation. Exposure to credit risk arises as a result of the Joint Activity's sales of products in accordance with applicable payment terms and transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk amounts to the figures reported in the balance sheet. The Group's risks are structured by setting credit limits on counterparties. Limits on the level of credit risk are monitored on an on-going basis and approved regularly by Management. The Joint Activity's management undertakes regular age analyses and follows up on overdue accounts receivable.

Liquidity risk

Liquidity risk refers to the risk that financing of the Group's capital requirements and the refinancing of outstanding loans is made more complicated and expensive. Financing requirements are dependent on the Joint Activity's needs for investments in fixed assets and financing for working capital. The amount of external financing depends on production volume and future price levels for oil and gas. The financing need that may arise in 2017 will be handled through extended credits, and if needed, adjustments in the investment programme. The major part of current assets is attributable to receivables, which are reported at fair value.

The table below shows liabilities at 31 December 2016 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the amounts in the balance sheet are based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the loan terms applicable at the end of the reporting period. Payment obligations in currencies other than the report currency (SEK) are reported after translation at the closing rate of exchange.

Payment dates for financial liabilities	< 1 month	1 month - 1 year	1 year - 2 years	> 2 years	Total
as per 31 December 2016					
Liabilities to credit institutions	40,830	-	-	-	40,830
Liabilities attributable to financial leases					
Accounts payable and other financial liabilities	6,581	47,947	-	-	54,528
Total	**47,411**	**47,947**	**0**	**0**	**95,358**
as per 31 December 2015					
Liabilities to credit institutions	78,304	3,305	116,509	-	198,118
Liabilities attributable to financial leases	1,372	6,467	-	-	7,839
Accounts payable and other financial liabilities	37,071	74,465	-	-	111,536
Total	**116,747**	**84,237**	**116,509**	**0**	**317,493**

Covenants

Borrowing in the Group is based on compliance with a certain set of covenants. If these covenants are not met, it can lead to negative consequences for the Group in the form of higher loan costs and early repayment obligation. As a consequence of the outstanding disagreement between the participants in JA, not all loan covenants in JA have been met in 2016. In 2015, the JA violated its commitment to repay KUSD 12,250 to external financiers even though new repayment terms had been agreed with the financier. Due to this, the financier had legal grounds to charge penalties to the JA. These penalties are included in the Misen Group's financial statements in an amount of KSEK 2,382 under financial expenses and under accrued expenses in an amount of KSEK 10,922.

At 31 December 2016, the Group did not fulfil all covenants. Also refer to the text under "Significant events in 2016", the section "Group's financial position".

	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Interest-bearing liabilities				
Long-term liabilities				
Liabilities to credit institutions	-	99,161	-	99,161
Liabilities attributable to financial leases	-	-	-	-
Liabilities to Group companies	-	-	92	92
Total	**0**	**99,161**	**92**	**99,253**
Current liabilities				
Liabilities to credit institutions	29,848	72,151	-	2,917
Liabilities attributable to finance leases	-	7,260	-	-
Total	**29,848**	**79,411**	**0**	**2,917**
Total interest-bearing liabilities	**29,848**	**178,572**	**0**	**102,170**

	Group		Parent Company	
	2016	2015	2016	2015
Interest				
Weighted average effective interest rates on borrowing amounted to:				
Long-term liabilities to credit institutions	-	10.3%	-	10.3%
Current liabilities to credit institutions	12,0%	9,8%	-	2,6%
Liabilities to Group companies	ET	ET	-	2.0%

	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Currencies				
Interest-bearing liabilities per currency				
EUR	-	78,587	-	73,766
USD	29,848	86,908	-	25,394
UAH	-	11,078	-	-
SEK	-	2,000	-	3,010
Total	**29,848**	**178,573**	**-**	**102,170**

Financial liabilities carried at amortised cost

The fair values of interest-bearing liabilities with a fixed maturity have been calculated on the basis of estimated future cash flows expected to be received discounted at current interest rates for instruments with similar credit risk and remaining maturity. The book value for interest-bearing loans, liabilities attributable to finance leases, accounts payable and other financial liabilities are deemed to correspond to the fair values. The amounts in the tables are presented in KSEK at the closing-date rate.

Note 25. Pledged assets

	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
For the Group's and the Company's own liabilities				
Pledged fixed assets	186,469	210,690	-	-
Pledged shares in subsidiaries	-	227,797	-	233,985
Total pledged assets	**186,469**	**438,487**	**0**	**233,985**

Note 26. Finance leases

Group KSEK	Maturity within 1 year	Maturity between 1 and 5 years	Total
2015			
Minimum payments as per 31 December 2015	7,839	-	7,839
Minus future financing expenses	-579	-	-579
Total	**7,260**	**0**	**7,260**

In 2016, all finance leases in the Group were completely paid.

Note 27. Accrued expenses and deferred income

	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Accrued interest expenses	-	2,341	-	2,127
Accrued salaries and other staff expenses	1,023	6	789	640
Accrued holiday pay	521	1,156	-	580
Accrued social security contributions	403	-	403	115
Accrued bonuses	1,617	-	1,617	-
Other items	2,027	2,227	1,712	967
Total	**5,591**	**5,730**	**4,521**	**4,429**

Note 28. Transactions with related parties

	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Sales to related parties				
Misen Enterprises AB	-	-	5,577	120
Ukrgasvydobuvannya [2]	43,503	-	-	-
Total	**43,503**	**0**	**5,577**	**120**
Purchases and interest from related parties				
Ukrgazvydobuvannya [2]	128,208	129,131	-	-
Balit LLC [4]	2,130	1,959	-	1,959
Dentons [1]	4,890	650	-	-
Lexford Investment [1]	150	1,141	-	1,141
AIM Partners [1]	352	347	-	-
TCT Holding [5]	490	350	-	350
Powerful United Ltd [5]	946	-	-	-
Prolux [5]	196	-	-	-
Sergiy Probylov, salary [3]	183	181	-	-
Total	**137,545**	**133,759**	**0**	**3,450**

Operating receivables/liabilities attributable to related parties

Receivables/liabilities from the sale/purchase of goods/services are stated below.

	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Receivables from related parties				
JA	-	-	3,809	3,536
Misen Enterprises AB	-	-	13,456	-
Total	**0**	**0**	**17,265**	**3,536**
Liabilities to related parties				
Misen Enterprises AB	-	-	-	11,617
Capital Oil Resources AB	-	-	92	92
Ukrgazvydobuvannya [2]	72	14,708	-	-
Balit LLC [4]	549	910	-	910
Dentons [1]	420	239	-	-
TCT Holding [5]	-	10,613	-	10,613
Lexford Investment [1]	-	1,041	-	1,041
Total	**1,041**	**27,511**	**92**	**24,273**

Separate notes contain information about
- Salaries and remuneration to the Board of Directors and Managing Director
- Participation in Group companies and the JA

1 Refers to purchases of management services from Board member/company owned by Board member.

2 Refers to sales and purchases from JA partner with substantial influence on JA operations. According to JAA, Ukrgazvydobuvannya - the owner of licences for JA's oil and gas extraction - is compensated for rental payments and drilling in direct relation to extra gas extraction within JA in addition to the base level for gas and oil extracted by Ukrgazvydobuvannya. JA also compensates Ukrgazvydobuvannya for oil and gas production, processing and transportation performed by Ukrgasvydobuvannya's staff and JA's utilizing of Ukrgasvydobuvannya's production and infrastructure buildings.

3 Refers to salaries to employees who are a significant shareholder with substantial influence in the Group.

4 Refers to purchases of management services from the Managing Director in the subsidiaries

5 Refers to interest and liabilities to major shareholders

Note 29. Adjustment for non-cash items

	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Depreciation/amortisation	41,734	34,845	-	-
Profit/loss from sales of fixed assets	207	327	-	-
Participations in Associated companies	-350	-3,486	-	-
Bad debt loss	33,088	20,571	-	-
Change in provisions	6,973	18,442	-	-
Unrealised exchange-rate differences	-3,790	-	-	-
Other non-cash items	-7,796	-435	-	-
Total	**70,066**	**70,264**	**0**	**0**

Note 30. Participations in Group companies

Group	Corp. ID no	Domicile	Share of equity (%)
Misen Enterprises AB	556526-3968	Sweden	62.5%
LLC Karpatygaz	30162340	Ukraine	100%
JA*	ET	Ukraine	0.01%
JA*	ET	Ukraine	50%
Capital Oil Resources Sweden AB	556754-4878	Sweden	100

* Joint Activity between Ukrgazvydobuvannia (a subsidiary of NJSC Naftogaz of Ukraine), LLC Karpatygaz and Misen Enterprises AB in accordance with regulations in the Joint Activity Agreement, without establishment of a legal entity, on 10 June 2002.

Note 30 (cont.)

Parent Company	Share of equity %	Share of voting power %	Number of shares	Book value, 2016 31 Dec 13	Book value, 2015 31 Dec 12
Misen Enterprises AB	62.5	62.5	31,250	301,187	467,969
Capital Oil Resources Sweden AB	100.0	100.0	1,000	100	100
Total				**301,287**	**468,069**

	2016	2015
Participations in Group companies		
Opening acquisition value	468,069	1,018,323
Capital contribution	8,706	9,746
Sales of participations	-175,488	-
Closing accumulated acquisition value	**301,287**	**1,028,069**
-Write-downs	**-**	**-560,000**
Closing book value	**301,287**	**468,06**

	2016	2015
The Group's participation in the JA		
Income Statement		
Income	596,096	880,833
Expenses	559,480	887,628
Balance Sheet		
Fixed assets	514,740	602,748
Current assets	85,739	60,745
Long-term liabilities	36,197	30,737
Current liabilities	54,562	141,058

Considering that internal as well as external indications of impairment existed as end of 2016, management has performed an impairment test of the JA in Ukraine as well as the Parent Company's value of shares in the subsidiary Misen Enterprises AB. The Company's value of the participation in Misen Enterprises AB as well as the value of the assets of the JA was confirmed by the discounted cash-flow method, which has been based on the following conditions:

- JA is considered to be a cash-generating unit.
- The assets currently transferred to UGV as a consequence of the criminal investigation will immediately be returned to the JA.
- Subsoil use charge will remain at 70%.
- The average natural gas price has been set at USD 217 per thousand cubic metres to then develop during the JA's lifetime according to forecasts based on the dynamics of Dutch Natural Gas Calendar Month Futures including delivery to Ukrainian border as well as custom duties.
- JA will complete its investment programme according to the JAA depending on access to financing.
- The production volumes have been based on the forecasts found in the Competent Persons Report prepared by AGR-TRACS International Consultancy Ltd. (Norway-Russia) adjusted for the disruptions in the operations' surroundings presented earlier in this report.
- The Weighted Average Cost of Capital (WACC) after tax used for the calculations amounts to 22.3% in UAH, whereof a cost of equity of 25.2% in UAH has been applied.
- PJSC Ukrgasvydobuvannya will provide services of delivery, collection, handling and transportation of natural gas, gas condensates, oil and propane to the JA in accordance with JAA.

To illustrate the uncertainty that the forecast contains, a sensitivity analysis of the forecast has been done. The results of this sensitivity analysis are presented below:

- A change in the natural gas price of +/- 10% yields a change in the value of the JA of +/- 10%.
- A change in the UAH/SEK exchange rate by +/- 10% affects the JA's value by +/- 11%.
- A change in the WACC by +/- 10% (from 22.3% to 24.6% and from 22.3% to 20.1%) yields a change in the value of the JA by -11 % and 13%, respectively.
- A reduction in the subsoil use charge for natural gas to 29% results in an increase in the value of the JA by 125%.

Note 31. Events after the balance sheet date

For information about events after the balance sheet date, see the Administration report.

Affirmation

The Board of Directors and the Managing Director hereby affirm that the annual report has been prepared in accordance with Generally Accepted Accounting Principles, gives a true and fair view of the Parent Company's financial position and performance, and that the administration report gives a fair overview of the development of the Parent Company's operations, financial position and performance and, additionally, describes the significant risks and uncertainty factors faced by the Parent Company. The Board of Directors and the Managing Director also confirm that the consolidated financial statements have been prepared in accordance with international financial reporting standards, IFRS, as adopted by the EU, that they give a true and fair view of the Group's financial position and performance, and that the administration report for the Group gives a fair overview of the Group's operations, financial position and performance, and, additionally, describes significant risks and uncertainty factors faced by the Group.

The income statements and balance sheets will be submitted for adoption at the Annual General Meeting on 26 April 2017.

Stockholm, 12 April 2017.

Dimitrios Dimitriadis
Board member

Göran Wolff
MD

Pavel Prysiazhniuk
Board member

Andrius Smaliukas
Board member

Oleg Batyuk
Board member

Our audit report was submitted 12 April 2017.

PricewaterhouseCoopers AB

Johan Palmgren
Authorised Public Accountant
Auditor-in-Charge

Auditor's report

To the general meeting of the shareholders of Misen Energy AB (publ.), corporate identity number 556526-3968

Report on the annual accounts and consolidated accounts

Disclaimer of Opinions
We were engaged to audit the annual accounts and consolidated accounts of Misen Energy AB for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 2-65 in this document.

We do not express an opinion on the accompanying annual accounts and consolidated accounts. Because of the significance of the matters described in the Basis for Opinions section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the annual accounts and consolidated accounts.

Basis for Opinions
The group's operations are in all material respects conducted by the Joint Activity ("JA") between PJSC Ukrgasvydobuvannya, LLC Karpatygaz and Misen Enterprises AB which is governed by the Joint Activity Agreement No. 3, dated 10 June 2002.

As described in the administration report, the group is currently part in several significant legal processes as a consequence of disputes between the participants of the JA which are vital for the group's future operations. These are described in the administration report under the headings "Subsoil use charge", "PJSC Ukrgasvydobuvannya commenced arbitration", "Criminal investigation", "Request for interim measures submitted by Misen Enterprises AB and LLC Karpatygaz", "Sale of hydrocarbons" and "Company's expected future development and going concern".

All material income and all fixed assets of the group are directly or indirectly attributable to the JA. Based on the multiple material uncertainties related to the legal processes described under the headings above as well as the material uncertainties related to going concern we have not been able to obtain sufficient appropriate audit evidence on which to base an opinion on the value of the group's fixed assets which amounts to KSEK 541,212, representing approximately 91% of the group's total assets.

The assessment of the value of the parent company's shares in the subsidiary Misen Enterprises AB, which amounts to KSEK 301,187, corresponding to approximately 92% of the parent company's total assets and thereby representing a significant share of the parent company's total assets, is also dependent on the outcome of the ongoing legal processes between the participants of the JA. Based on the multiple material uncertainties related to the development of the JA, we have not been able to obtain sufficient appropriate audit evidence on which to base an opinion on the value of the parent company's shares in Misen Enterprises AB.

We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

Material Uncertainty Related to Going Concern
As described under the heading "Company's expected future development and going concern" the JA has not by the end of 2016 fulfilled the loan terms for the financial liabilities and at present, negotiations are under way with the banks for an extension of the credits. The restructuring was not approved by the participants of the Joint Activity as of the date of this report. In addition, since December 2016, the JA has had problems with sales of natural gas, gas condensate, oil and LPG.

Further, as a result of the on-going investigation regarding criminal acts that includes the Ukrainian state seizing JA's fixed assets, JA has not had any revenue since December 2016.

It is also described that depending on how the arbitration proceedings that the Misen Group is involved in develop, further financing needs may arise with regard to continuous operations of the Swedish companies in the second half of 2017. At the date of this report, such financing is not secured.

As funding for the next twelve months is not secured there is a material uncertainty that may lead to significant doubts about the group's ability to continue its operations. In a situation where going concern no longer can be assumed, there is a risk of significant write-downs of the group's assets as well as the parent company's book value of shares in subsidiaries.

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. However, because of the matters described in the Basis for Opinions section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the annual accounts and consolidated accounts.

Report on other legal and regulatory requirements

Disclaimer of Opinion and Opinion

In addition to our engagement to audit the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Misen Energy AB (publ.) for the year 2016 and been engaged to audit the proposed appropriations of the company's profit or loss.

Because of the matters described in the Basis for Opinion section of our report, we can neither recommend nor oppose to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report.

We recommend that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

Because of the matters described in our Report on the annual accounts and consolidated accounts, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion if the annual accounts give a fair presentation of the financial performance and financial position of the company.

We conducted the audit of the administration of the Board of Directors and the Managing Director in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Misen Energy AB (publ.) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

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

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

Remark

Without further qualifying our opinions we observe that personnel taxes and social security contributions have not always been paid on time.

Göteborg 12 April 2017
PricewaterhouseCoopers AB

Johan Palmgren
Authorized Public Accountant

Report on operations

Joint Activity (JA)
The partially owned Swedish subsidiary of the Parent Company, Misen Enterprises AB, has a 50% interest in the Joint Activity ("JA") in Ukraine.

The partially owned Ukrainian subsidiary of Misen Enterprises AB, LLC Karpatygaz, has a 0.01% interest in the JA and is the company that runs the project.

Altogether the Misen Group has a 50.01% participating interest in the JA. The remaining 49.99 % of participating interest in the JA is held by the Public Joint Stock Company Ukrgasvydobuvannya ("**PJSC Ukrgasvydobuvannya**" or "**UGV**") (Ukraine), a wholly owned subsidiary of the National Joint Stock Company Naftogaz of Ukraine (Ukraine).

JA is governed by the Joint Activity Agreement No. 3, dated 10 June 2002 (hereafter called "**JAA**" or "**JAA No.3**"), signed by PJSC Ukrgasvydobuvannya, LLC Karpatygaz and Misen Enterprises AB.

Since 2011, Misen Enterprises AB has signed five amendments and restatement agreements to the JAA No.3. In this context, the Misen Group has implemented large-scale investment programs and introduced modern know-how technology. This allowed developing infrastructure necessary to significantly increase production of hydrocarbons and contribute to making the Ukraine consumption of hydrocarbons less dependent on foreign imports, which is the primary objective of PJSC Ukrgasvydobuvannya.

The Company's partially owned subsidiaries Misen Enterprises AB and LLC Karpatygaz have a right to 50.01% of the net profits of the hydrocarbons production under the JAA No.3 that is valid until 2031. The remaining right to 49.99% of the net profits belong to PJSC Ukrgasvydobuvannya. These profits are calculated based on the production volumes assigned to JA. The production volumes are calculated as a difference between a production levels should investments be undertaken and a predetermined base line of a production that would have been produced had the project not existed (i.e. no further investment had taken place).

To provide management and supervision of the JA, a Management Committee consisting of the authorized representatives of the participants of the JAA No.3 has been established. It is the ultimate governing body of the JA, approving and monitoring implementation of the investment program of the JA. The Misen Group is represented at the Management Committee of the JA by directors of subsidiaries Misen Enterprises AB and LLC Karpatygaz.

JA key parameters
The following could be identified as the key advantages and parameters of the JA business model:

- **Ability to sell gas at the market prices**
  Since the Ukrainian State control on the JA is limited to its participation of 49.99%, the JA is free to sell its produce on the commercial terms.

  (For more detailed description, please refer to chapter "Ukrainian gas market").

- **Access to solid reserve base**
  The Misen Group led JA has confirmed reserve base of 28.1-34.3 billion cubic meters ("bcm") of natural gas, 5.8-6.8 million barrels ("**MMbbls**") of gas condensate and 3.1-4.5 MMbbls of Liquefied Petroleum Gas ("**LPG**"). Numbers correspond to proven ("**1P**") and proven and probable reserves ("**2P**") assessed via the Competent Persons Report ("**CPR**"). The Misen Group share of net reserves is 50.01%.

  The CPR is based on data as of 1 January 2013 and follows the specifications of the Amendment No.5 to the JAA No.3.

- **Technology driven investment program of MUSD 571**
  Investment program has been planned for 2011-2018 and as of the end of 2016 the total performed investment constituted MUSD 372,7.

  During 2016 the JA invested MUSD 2.7.
  The primary focus of the investment program is

development of the complex engineering infrastructure that will sustain continuation of gas production in Ukraine at the current levels.

(Please note, these numbers represent historic investment values calculated at the exchange rates valid at the moment of performing specific investments. The current book values of investment presented in SEK in chapter "Financials" differ due to a significant devaluation of Ukrainian currency during 2014-2016 against SEK and USD.)

- **Sustainable cash flow allows to support implementation of planned investment program**
  As per the JAA No.3, participants of the JA agreed to reinvest all proceeds during 2011-2014.

- **Access to the western capital markets and modern technology**
  The Misen Group led JA engages a number of western and domestic contractors and suppliers to perform works as agreed in the JAA No.3. The largest share of investment during 2011-2016 went to the suppliers of equipment from the US, Canada and Western Europe. At the same time, challenges with the gas balance in 2013-2014, significant increase in subsoil use charge rate in 2015 as well as the political developments in Ukraine that were coupled with the declining local economy have negatively affected the JA's investment program during 2016. This prevented the Parent Company from the broader engagement with the western capital markets during the year.

JA development stages

Joint Activity Agreement (10 June 2002)
- Signing of Joint Activity Agreement Amendment No.3

Amendment #4 (25 February 2011)
- 12 projects with the total investments of USD 451 million
- 110 wells to be overhauled and repaired
- Construction of Yuliivske and Khrestyshenske booster compression stations
- Complex development of Yablunivske field

Amendment #5 (2 April 2012)
- Additional 10 projects with additional investments of USD 198 million
- 35 additional wells to be overhauled and repaired
- Construction of Chervonodonetske booster compression station
- Detailed exploration of Dnieper-Donets basin fields
- Complex development of Bytkiv-Babchenske and Novotroitske fields

Amendment #6 (21 February 2014)
- Exclusion of inoperative well stock
- Expansion of authority of the JA Management Committee allowing extension of obligation of Misen Enterprises AB to contribute funding to the JA

Amendment #7 (26 March 2015)
- Seven projects have been excluded from the investment program, making the total number of the investment projects under the JAA 15
- Due to decreased scope of the JAA, the total amount of the investment program has been reduced to MUSD 571

Production report

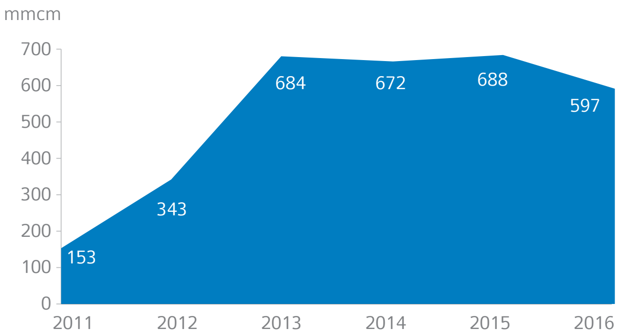
The renewed investment program in 2015 has allowed to achieve stable levels of production in 2016 (when compared to the previous reporting periods).

The table below sets forth the **accumulated production** indicators for the specified period:

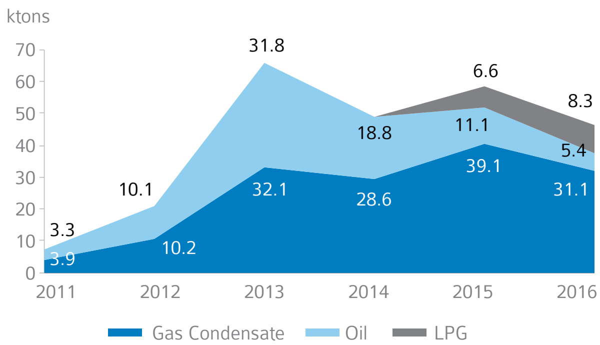
	Year 2016	Year 2015	Year 2014
Natural Gas (mmcm)	596.6	687.5	672.0
Gas Condensate (ktons*)	31.1	31.9	28.6
Oil (ktons)	5.4	11.1	18.8
LPG (ktons)	8.3	6.06	-

* thousand tons

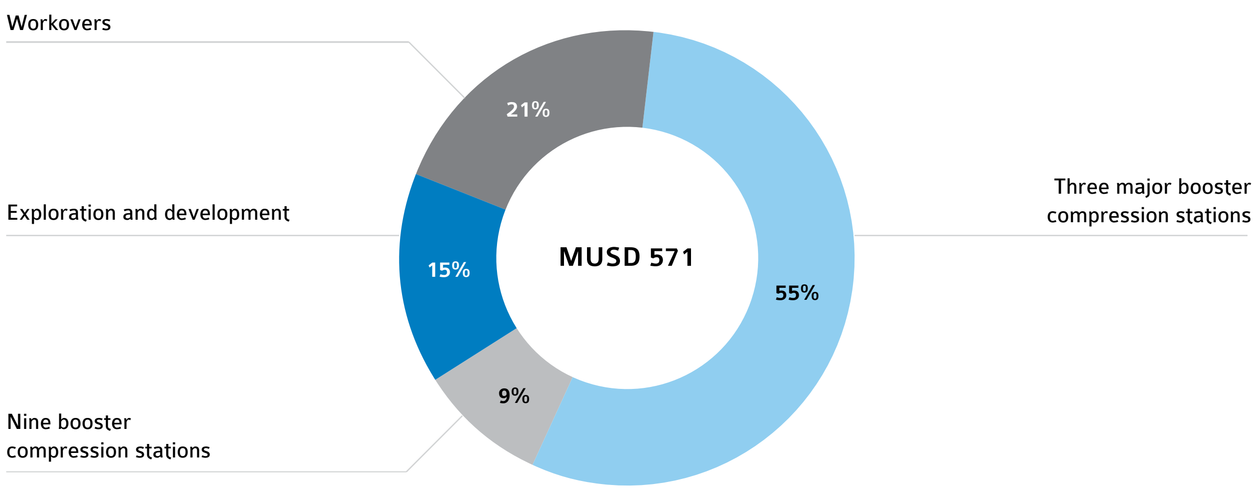
JA natural gas production



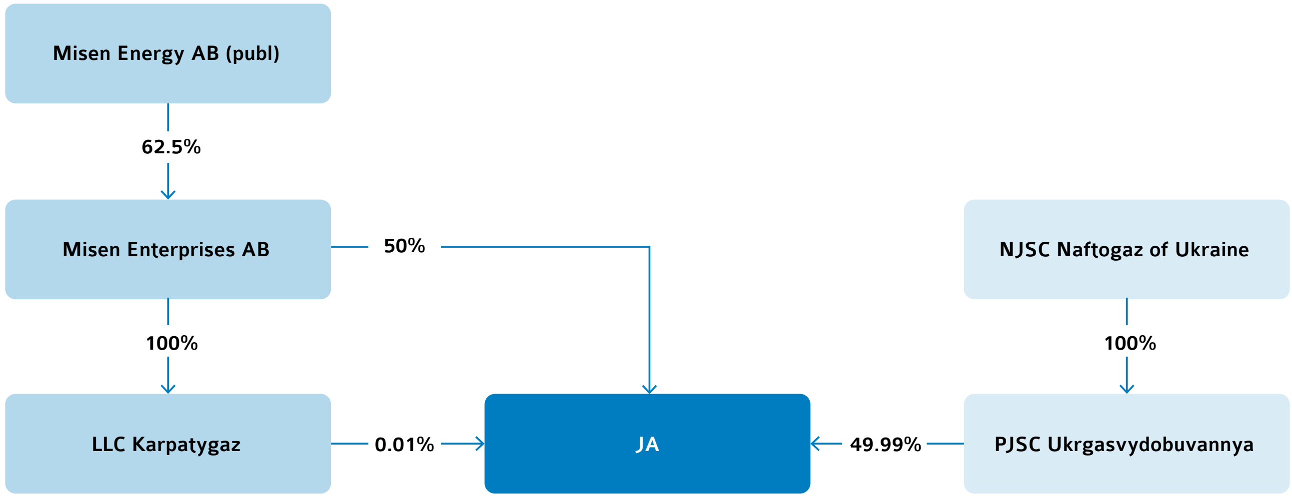
JA oil and gas condensate production



JA investment scope and areas



Structure of the JA



JA participants and their roles

PJSC Ukrgasvydobuvannya is a vertically integrated company with the full production cycle: from the oil and gas fields search and exploration, development and production to processing of raw hydrocarbon deposits and sales of oil product. As the owner of licenses, PJSC Ukrgasvydobuvannya has contributed fifteen projects to the JA and has undertaken to make available on commercial terms its existing infrastructure and manpower resources to extract, treat and transport produced hydrocarbons.

Basic facts about PJSC Ukrgasvydobuvannya:

- produces around 15 bcm of gas annually
- a dominant gas producer in Ukraine with 72-75% market share
- 134 fields under development
- more than 2,300 operating wells
- 10 compressor stations
- around 22,000 people employed

For more detailed information, please refer to the official website of PJSC Ukrgasvydobuvannya: http://ugv.com.ua

LLC Karpatygaz is the Ukrainian member of the Misen Group and is the operator of the JA. It has four offices in Ukraine – headquarters located in Kiev (Kyiv) and regional branches in Kharkov (Kharkiv), Poltava and Lvov (L'viv). A strong team of professionals caters for a profound competence in oil and gas and deep understanding of local business environment. The main task of LLC Karpatygaz is to ensure efficient planning, development and operation of the JA projects as well as timely and professional implementation of modern know-how and technologies in Ukraine.

Misen Enterprises AB is responsible for procuring from either its own resources or from third parties commercial funding for the financing of the fifteen projects if the funding is not sufficient from the cash flow from the projects. This responsibility ultimately rests with the owners of Misen Enterprises AB, Misen Energy AB (publ) and PUL.

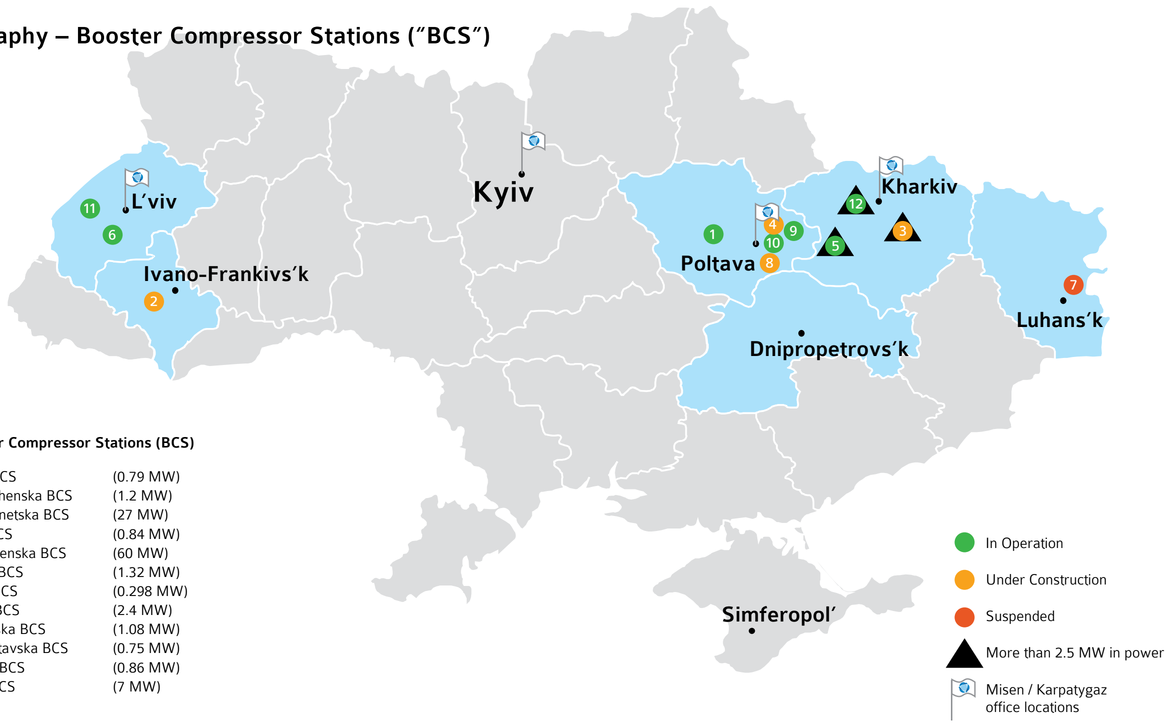
According to Amendment # 4 the participants agreed that profit for the years 2011-2014 will be reinvested into JA in full and all future profit shall be distributed to the parties pro rata to their respective interests. Further decision on distribution of profits for the year ended 31 December 2016 should be taken by Management Committee of JA.

JA Geography – fields at which the well workover is being performed

The list of fields at which the wells workover is being performed

1. Berezivske
2. Bytkiv-Babchinske
3. Valyukhivske
4. Efremivske
5. West-Solokhivske
6. West-Starovirivske
7. West-Khrestishchenske
8. Kegichivske
9. Kobzivske
10. Korobochkinske
11. Kotelevske
12. Kulychikhinske
13. Letnyanske
14. Markivske
15. Matviyivske
16. Medvedivske
17. Narizhnyanske
18. Novotroitske
19. Oparske
20. Rodnikove
21. Rozpashnivske
22. Svydnitske
23. Sementsivske
24. Skvortkivske
25. Solokhivske
26. East-Dovgivske
27. East-Poltavske
28. Tymofiyivske
29. Chutivske
30. Shebelinske
31. Yuliyivske
32. Yablunivske

JA Geography – Booster Compressor Stations ("BCS")



List of Booster Compressor Stations (BCS)

1. Abazivska BCS	(0.79 MW)
2. Bytkiv-Babchenska BCS	(1.2 MW)
3. Chervonodonetska BCS	(27 MW)
4. Chutivska BCS	(0.84 MW)
5. Khrestyshchenska BCS	(60 MW)
6. Letnyanska BCS	(1.32 MW)
7. Markivska BCS	(0.298 MW)
8. Mashivska BCS	(2.4 MW)
9. Rozpashnivska BCS	(1.08 MW)
10. Skhidno-Poltavska BCS	(0.75 MW)
11. Svydnytska BCS	(0.86 MW)
12. Yuliyivska BCS	(7 MW)

Ukrainian gas market

Reserves

Ukraine's natural gas reserves constitute 1.1 trillion cubic meters, 71% of which is licensed to PJSC Ukrgasvydobuvannya. Other state-owned companies are licensed with 17% of the country's proven gas reserves. The remaining 12% is shared among the private corporations and other JAs between private and State companies.

Consumption

In 2016 Ukraine's natural gas consumption made up 33.2 billion cubic meters ("bcm"), which represents a 1.8% decrease compared to the previous year.

The decrease in natural gas consumption is mainly caused by reduced consumption by industrial consumers, which dropped by 11.6% from 11.2 bcm to 9.9 bcm due to implementation of energy efficiency programs. Heating utilities and population increased consumption from 7.1 bcm to 7.3 bcm and 11.3 bcm to 11.9 bcm respectively.

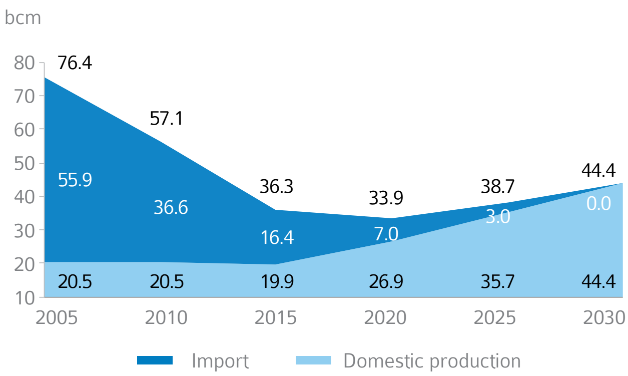
Production and imports

Ukraine's domestic natural gas production in 2016 made up 20.1 bcm, which is 1.0% higher compared to 2015. PJSC Ukrgasvydobuvannya produced 14.6 bcm (73% market share), from which 1.0 bcm were produced by enterprises established under joint activities agreements. The total gas production by private producers (excluding JAAs) in 2016 amounted to 4.2 bcm, which is 7.7% higher compared to 2015. In 2016 the Misen Group led JA remained one of the leading market players by producing 596.6 million cubic meters ("mmcm").

Investments made by the Misen Group allows domestic production to be sustained, thus contributing to Ukraine's energy independence.

Due to decreased consumption in 2016 Ukraine imported 32.3% less natural gas (by 5.3 bcm) compared to the previous year. From these volumes around 9.1 bcm were imported from Slovakia, 1.0 bcm from Hungary and 1.0 bcm from Poland. There were no purchases from the Russian Federation in 2016. Ukraine once again proved its commitment to strategic initiatives to diversify its imports of natural gas on a major scale and strengthen energy independence.

Natural gas balance



Pricing

Natural gas consumers in Ukraine could be divided into three distinct categories: households, utilities and industrial. Until October 1, 2015 prices and tariffs policy were determined and implemented by the National Commission for State Energy and Public Utilities Regulation ("NCSEPUR"). According to the Law of Ukraine "On natural gas market" starting from October 1, 2015 the natural gas prices are established based on free market principles. As an exception, this law also stipulates that the Cabinet of Ministers of Ukraine establishes special pricing regime for households and utilities supplying heat and hot water for household needs during transition period.

The market price is highly dependent on the price of imported natural gas under contract with Russian OJSC Gazprom as well as the prices at the European gas hubs. Currently natural gas is imported only from the European Union. The average import price per Km3 in 2016 made up SEK 1,702, which is in line with the prices at the biggest natural gas trading hubs in Europe including transportation costs.

According to the recommendations of International Monetary Fund, the Cabinet of Ministers of Ukraine several times raised the natural gas prices for households and utilities supplying heat and hot water for household needs during 2015-2016. As of end of 2016 the natural gas price for household consumers were set at the level of SEK 2,281 per Km3.

A private enterprise, defined at a minimum of 50.01% private ownership, operating in the local gas market, as is the case of the JA, is allowed to sell natural gas at market price. This has created a historic precedent for State companies like PJSC Ukrgasvydobuvannya to enter into the JAAs with the private producers in order to facilitate part of production to be sold at the market prices, thus creating platform for income and investments into aging infrastructure.

Board of Directors and Group Management

Board of Directors

Dr. Andrius Smaliukas, Chairman of the board of directors, (Board member since 2013)

Dr. Smaliukas is Partner at Valiunas Ellex, the leading Pan - Baltic law firm. He works in energy and infrastructure sectors and serves as an arbitrator and counsel at numerous international arbitration proceedings. Dr. Smaliukas also has extensive corporate governance experience including experience serving as a board member and advising the board on corporate governance and legal compliance issues.

Other assignments include:

- Board Member at Lords LB Asset Management – the leading real estate, energy and infrastructure funds manager in the Baltics;
- Member of Permanent Court of Arbitration at the Hague, appointed by the Government of the Republic of Lithuania.

Dr. Smaliukas holds Ph.D. and Master of Laws degrees of Vilnius University. He did postgraduate research at Oxford University and completed executive education programs at University of Cambridge Judge Business School and Harvard Law School.

Independence: independent in relation to the company and the company´s management, and in relation to major shareholders.

Dimitrios Dimitriadis, Board Member (since 2011)

Mr. Dimitriadis is a founding member and managing partner of DD Partners AG. DD Partners AG is a Zürich (Switzerland) based globally acting office offering broad wealth structuring and managing consulting services for international companies and individuals. He acts as a senior fund manager of several special opportunities funds. Prior to DD Partners AG, Mr. Dimitriadis worked for more than 15 years at various Swiss financial institutions. He shared responsibility for asset allocations and investment activities as a member of the management in mutual funds and major single portfolios. Furthermore he acted as a leading negotiation and contracting partner for financial services partners. His experience includes international relationship management of HNWI customers.

Other assignments:

- CEO HF SWISS, a global Wealth Management and Family Office Company in Switzerland;
- Adviser and representative for eastern European and Greek clients, in the energy and construction industry;
- Chairman of Sensap Swiss, a Technology Company in Switzerland;
- Chairman of Innomedis, a global medical device company.

Dimitrios Dimitriadis holds a degree in economics of the University of Zürich and AZEK, Swiss Training Centre for Investment Professionals. His earlier studies contain a Swiss federal degree in dental laboratory technique.

Independence: independent in relation to the company and the company´s management, non-independent in relation to major shareholders (Nellston Holdings Ltd.).

Oleg Batyuk, Board member (since 2014)

Oleg Batyuk is the Managing Partner of the Dentons Kyiv office and the Head of Corporate Practice in Ukraine. In 2011 Oleg was elected and in 2013 re-elected for a two year term to serve as a member of the Board of Dentons Europe, the part of Dentons comprising France, Germany, Spain, Turkey, CEE and CIS countries. Since August 2016 Oleg Batyuk has been a member of the Supervisory Council of PJSC State Export-Import Bank of Ukraine (Ukreximbank).

Mr. Batyuk has substantial experience in advising international and domestic clients on foreign investments in Ukraine, joint ventures, loan arrangements, banking regulations and transactions on international capital markets. Mr.

Batyuk has advised major international companies and financial institutions on key infrastructure projects in Ukraine. He has been engaged as an expert witness on Ukrainian legal matters in several high-profile litigation and arbitration proceedings in England, USA, Canada and Sweden.

Other assignments:
- Lecturer on Ukrainian civil law at the Law faculty of Taras Shevchenko National University of Kyiv;
- Author of numerous articles and books on Ukrainian law and practice, published in the US, UK, Netherlands, Ukraine and in other countries. He has been involved in drafting Ukrainian civil and criminal legislation.

Oleg Batyuk graduated from the Centre for Commercial Law Studies, Queen Mary and Westfield College, University of London (1992). His earlier studies contain Candidate of Science degree in Law (1988) and degree in Law from Taras Shevchenko National University of Kyiv (1985).

Independence: independent in relation to the company and the company´s management, and in relation to major shareholders.

Pavel Prysiazhniuk,
Board member (since 2014)

Mr. Prysiazhniuk is a founder and managing partner of AIM Group a financial and operational advisory consulting firm based in Ukraine. The company provides full range of financial advisory and capital markets services, advisory on alternative and individual investments for companies based in Ukraine and CEE. Prior to this appointment he served as Strategy and Business development director in leading Ukrainian Investment firm Concorde Capital.

Mr. Prysiazhniuk previous experience include more than 12 years with international corporations such as Siemens AG, NSN and Microsoft where he held executive positions in strategy, corporate finance and sales.

Other assignments:
- Advisor for strategy and investments to several committees of Ukraine Parliament

Pavel Prysiazhniuk holds a Master of Science in Electronics at the National Technical University of Ukraine and diplomas from special corporate programs in finance and business administration.

Independence: independent in relation to the company, independent to the company´s management, and independent in relation to major shareholders.

Board committees

Audit Committee:
- Dimitrios Dimitriadis as chair
- Pavel Prysiazhniuk as member

Remuneration Committee:
- Andrius Smaliukas as member
- Oleg Batyuk as member

The AGM 2016 appointed the Nomination Committee, comprising:
- Sergey Probylov as chair (representing Blankbank Investments Limited)
- Andrius Smaliukas as member, in his capacity as chairman of the board of directors of Misen Energy AB (publ)
- Dimitrios Dimitriadis as member (representing Nellston Holdings Limited)
- Aurimas Augustinavicius as member (representing TCT Holding AB)

Auditor

PricewaterhouseCoopersAB, auditor-in-charge Johan Palmgren.

Group management

At the balance sheet date, Management of the Parent Company comprises:

Göran Wolff, Managing Director and the Company's CFO

Mr. Wolff has been CFO of the Parent Company since February 2012 and became Managing Director later the same year. He has more than 30 years of experience from business administration in industrial operations. He has had a range of assignments as CFO and controller in Swedish listed as well as private owned companies, most recently with Geveko, a listed company on a small cap list at NASDAQ OMX. Mr. Wolff holds a BA in business administration from the University of Gothenburg.

Pavel Stolayev, Group Controller, ACCA, CFA

Mr. Stolayev joined Misen Energy AB (publ) in September 2013. He is experienced in investment banking and professional consulting. Mr. Stolayev worked at Ernst & Young LLC Ukraine in Transactions Advisory Services Department as Executive.

Mr. Stolayev holds a diploma with a distinction from Donetsk University of Economics and Law. He has attended training programs at Deloitte Academy, International Business Institute, Kyiv.

Mr. Stolayev is member of ACCA since 2011 and CFA charter holder since 2016.

Raimonda Kundrotaite, Lawyer

Ms. Kundrotaite joined Misen Energy AB (publ) in November 2015. Previously she worked as a lawyers' assistant and junior associate with the law firm Valiunas Ellex (previously law firm LAWIN) in Vilnius, Lithuania.

Ms. Kundrotaite holds LL.M in International Commercial Arbitration Law from Stockholm University and specializes in international investment and commercial arbitration law. Ms. Kundrotaite successfully participated in Willem C. Vis International Commercial Arbitration Moot (Hong Kong, 2016), Philip C. Jessup International Law Moot Court Competition (Washington, 2015) and FDI Moot (Los Angeles, 2014) and was awarded a Clyde & Co Scholarship for participation in the Paris Arbitration Academy (Paris, 2014).

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