

SCANSHIP HOLDING ASA
Quarterly Report – 4Q 2016



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Key Financial Information 4Q16

(NOK million)	Unaudited 4Q16	Unaudited 4Q15	Unaudited 2016	Audited 2015
Total Revenue	38.4	54.4	171.6	200.3
Gross Margin %	24 %	32 %	28 %	32 %
EBITDA (bef. Non recurring)	-5.0	2.9	-2.6	11.3
Operating Result (EBIT)	-6.5	1.5	-5.8	8.6
Result bf. Tax	-7.0	2.3	-4.9	7.0
Project Backlog	250	226	250	226
Total Assets	123.9	168.4	123.9	168.4
Equity ratio	36 %	30 %	36 %	30 %

Scanship's total revenues was approx. 30% lower in 4Q16 compared to 4Q15. Revenues from the Aftersales segment are stable compared to 4Q15. Revenues from the Project segment has decreased by 49% compared to 4Q15.

The low project revenue in 4Q16 is partly a result of revised hour estimates. An approx. 9% change of the total hours on these projects has therefore the effect of reducing revenues with approx. NOK 5m, and reducing gross margin with approx. NOK 1.8m which is pushed forward to the next quarters. In addition, revenues are lower in the period due to the effect of revenue recognition for work on sister ships. These sister ship projects result in revenues being recognised later in the project cycle compared to work on first ship in a series.

In 4Q16 Scanship has written down the value of inventories by NOK 2.6m. The inventory affected by the write down consists mainly of installation materials, PVC- and stainless steel pipes, left over from large retrofit projects finished in 2012. The items have been kept on stock in anticipation of new retrofit projects, and it is expected that when new large retrofit project contracts again will be signed, that some of the installation material can be used.

Scanship has in 4Q16 made changes in the estimates on one series of projects regarding supply of spareparts and service after completion of the projects. The changes have had a negative effect on the 4Q16 result of approx. NOK 2.0m.

Strengthening in the EUR versus NOK exchange rate accounts for an increase in 4Q16 revenues of approx. NOK 0.8m.

EBITDA before non-recurring items in 4Q16 was NOK -5.0m compared to NOK 2.9m in 4Q15.

The Scanship Group has incurred non-recurring cost of NOK 0.8m relating to the cost reduction activities, and to the strategic review process.

The Group books revenues in EUR, NOK and USD. The currency exposure is reduced by applying financial instruments for hedging purposes. A majority of the project related revenues are in EUR. The financial instruments unrealised gain in 4Q16 was NOK 0,3m, compared to a gain of NOK 1.4m in 4Q15. Financial instruments realised in 4Q16 incurred a net loss of NOK -0.4m compared to a gain of NOK 3.2m in 4Q15.

Net cash flow from operations was NOK 3.3m in 4Q16 compared to NOK 14.5m in 4Q15.

In September 2016 Scanship announced that it had initiated a cost reduction program. The aim of the program was to reduce operating cost by 20%, approx. NOK 1m per month at 3Q16 level of operation. The program has combined layoffs and reduction in other operating costs. As of end 4Q16 the program did not have any significant effect on the reported numbers. The program would have had full effect from beginning of 2017, however part of the program has been reversed due to higher activity in 1H2017.

Order Backlog

The order backlog at 31 December 2016 was NOK 250m compared to NOK 226m at the end of 2015.

In addition to the order backlog at 31 December 2016, Scanship has signed new contracts in 2017 amounting to approx. NOK 98m.

Operations

Scanship is a maritime industry leader in advanced technologies for processing and purifying wastewater, food waste, solid waste and bio sludge. Scanship is a supplier to most major cruise liners. Modern cruise ships generate substantial amount of wet and dry waste, which needs to be properly treated. Scanship's technology processes this into recyclables, clean flue gas and treated wastewater which meets the highest international effluent discharge standards. Scanship Holding has its main office at Lysaker, Norway as well as offices in Tønsberg (Norway), Miami (USA), Victoria (Canada) and Gdynia (Poland). Scanship has warehouse facilities in Tønsberg and Miami.

In 4Q16, Scanship delivered equipment to the following newbuilds; to Fincantieri for the fifth and the sixth Viking Ocean Cruises vessels, to Fincantieri for the first Costa Asia newbuild for Carnival Corporation & PLC, and to Meyer Turku for the seventh newbuild in the Mein Schiff class and to Norwegian Joy. In total five equipment deliveries to shipyards were made in the period.

Scanship has in the same period done commissioning and startup of the systems aboard MSC Meraviglia at STX France, the Viking Sky at Fincantieri and Silver Muse at the same yard.

Scanship was during the quarter awarded equipment supply contracts with Kleven for two Hurtigruten newbuilds and with Fincantieri for one P&O Australia newbuild.

Scanship appointed Erik Magelssen as new CFO, replacing Christian Thyholdt who will leave 28 February 2017.

In 2016 the Board of Scanship Holding ASA initiated a process to review strategic alternatives. The process is ongoing and it is expected that the Board will decide on strategic alternatives in 1H 2017.

Product Development

Scanship's main development project during 4Q16 has been Microwave Assisted Pyrolysis ("MAP"). Scanship is aiming for commercialisation of the MAP in 1H2018.

Scanship has invested NOK 2.1m in 4Q16 on its product development activities compared to NOK 3.9m for the same period in 2015.

A significant part of the product development cost consists of working hours performed by Scanship's own employees.

Market Outlook

From ongoing contracting activities between shipyards and ship-owners, Scanship continues its high project development and tendering activity into 1Q17.

The cruise industry market is robust, and the newbuilding market continues to grow. Currently the total industry newbuilding order book includes 72 vessels to be delivered to the market until 2025. The latest additions to this orderbook is the announcement of the deal between Fincantieri and NCL Cruise Line Holding for four newbuilds and 2 options. The continuing growth of the cruise market represents substantial growth opportunities for Scanship.

Scanship's orderbook has increased substantially during the two first months of 2017 to all-time high level with the announcement of newbuild contracts with Vard and Fincantieri including equipment supplies for 5 cruise vessels. In addition, Scanship was awarded its second supply contract in the Aquaculture industry.

Lysaker, 27 February 2017

The Board of Directors for Scanship Holding ASA

Consolidated income statement

(NOK million)	Note	<i>Unaudited</i> 4Q16	<i>Unaudited</i> 4Q15	<i>Unaudited</i> 2016	<i>Audited</i> 2015
Revenue	2	38.4	54.4	171.6	200.3
Total operating revenue		38.4	54.4	171.6	200.3
Cost of goods sold	3	-29.1	-36.9	-123.6	-136.4
Gross Margin		9.4	17.4	48.0	63.9
Gross Margin		24 %	32 %	28 %	32 %
Employee expenses		-7.2	-7.7	-28.1	-28.1
Other operating expenses		-7.2	-6.8	-22.5	-24.5
EBITDA before non-recurring items		-5.0	2.9	-2.6	11.3
Non-recurring items	4	-0.8	0.0	-0.8	0.0
EBITDA		-5.8	2.9	-3.4	11.3
Depreciation and amortisation	5	-0.7	-1.4	-2.4	-2.7
Operating profit (EBIT)		-6.5	1.5	-5.8	8.6
Finance income	6	0.3	1.4	1.7	6.4
Fair value changes FX derivatives	6	-0.4	3.2	7.6	1.1
Finance costs	6	-0.4	-3.9	-8.4	-9.1
Net Finance		-0.5	0.8	0.9	-1.6
Result before tax		-7.0	2.3	-4.9	7.0
Income tax revenue (+) /expense (-)		1.0	-0.9	0.0	-2.2
Result for the period		-6.0	1.4	-4.9	4.9

Consolidated statement of comprehensive income

(NOK million)	Note	Unaudited 4Q16	Unaudited 4Q15	Unaudited 2016	Audited 2015
Net result for the period		-6.0	1.4	-4.9	4.9
<i>Items to be reclassified to profit or loss:</i>					
Exchange differences or trans. of foreign op.		-0.1	-0.3	0.3	-0.1
Net items to be reclassified to profit or loss		-0.1	-0.3	0.3	-0.1
<i>Items not to be reclassified to profit or loss</i>					
Other comprehensive income net of tax		-	-	-	-
Total comprehensive income, net of tax		-6.1	1.2	-4.6	4.8
Attribute to					
Owners of the parent		-6.1	1.2	-4.6	4.8
Non controlling interest	7	-	-	-	-
		-6.1	1.2	-4.6	4.8
Earnings per share (NOK) ¹⁾		-0.06	0.01	-0.05	0.05
Diluted earnings per share (NOK) ¹⁾		-0.06	0.01	-0.05	0.05

1) Total shares: 95,505,525

Consolidated statement of financial position

(NOK million)	Note	Unaudited 31.12.16	Audited 31.12.15
ASSETS:			
Non-current assets:			
Property, plant and equipment	5	3.8	3.3
Intangible assets	5, 8	28.8	24.2
Total non-current assets		32.6	27.5
Current assets:			
Inventories		3.5	5.7
Trade receivables		56.6	61.2
Contracts in progress	2	14.2	42.4
Other Receivables		13.6	12.2
Cash and cash equivalents		3.6	19.5
Total current assets		91.4	140.9
Total assets		123.9	168.4

(NOK million)	Note	Unaudited 31.12.16	Audited 31.12.15
EQUITY AND LIABILITIES			
Equity:			
Share capital		9.6	9.6
Share premium		77.5	77.5
Stock option		0.5	0.4
Translation difference		-0.1	0.0
Retained earnings		-43.0	-37.6
Non - controlling interest		-	-
Total equity		44.4	49.8
Liabilities			
Deferred tax liabilities	9	3.1	3.6
Long term borrowings	10	1.3	0.7
Total non-current liabilities		4.4	4.3
Current liabilities			
Trade creditors		29.4	36.7
Contract accruals	2	9.9	27.7
Unrealised change fair value FX derivatives	6	1.8	9.4
Income tax payable		0.5	0.7
Bank overdraft		23.9	27.3
Other Current liabilities		9.7	12.5
Total Current Liabilities		75.2	114.3
Total liabilities		79.6	118.6
Total equity and liabilities		123.9	168.4

Consolidated statement of change in equity

(NOK million)	Share Capital	Share Premium	Other cap. Reserves	Trans. Diff.	Retained Earnings	Total	Non-Control. Interest
31.12.16							
Equity at 31.12.2015	9.6	77.5	0.4	0.0	-37.6	49.8	-
Result for the period	-	-	-	0.5	-6.0	-5.5	-0.0
Stock issue	-	-	0.1	-	-	0.1	-
Other Comprehensive income	-	-	-	-0.6	0.6	-	-
Total Comprehensive income	-	-	0.1	-0.1	-5.4	-5.4	-0.0
Equity at end of period	9.6	77.5	0.5	-0.1	-43.0	44.4	-0.0

Unaudited

(NOK million)	Share Capital	Share Premium	Other cap. Reserves	Trans. Diff.	Retained Earnings	Total	Non-Control. Interest
31.12.15							
Equity at 31.12.2014	9.6	77.5	-	0.1	-42.0	45.1	-
Result for the period	-	-	-	-	4.9	4.9	-
Other Comprehensive income	-	-	-	-0.1	-0.0	-0.2	-
Total Comprehensive income	-	-	-	-0.1	4.8	4.7	-
Stock Options	-	-	0.4	-	-	0.4	-
Equity at end of period	9.6	77.5	0.4	0.0	-37.6	49.8	-

Consolidated cash flow statement

(NOK million)	Unaudited 4Q16	Unaudited 4Q15	Unaudited 2016	Audited 2015
Profit before income tax	-7.0	2.3	-4.9	7.0
Net cash flow from operating activities	3.3	14.5	-5.7	24.7
Net cash flow from investing activities	0.0	-4.5	-7.9	-9.4
Net cash flow from financing activities	-2.6	4.0	-2.3	0.3
Net change in cash and cash equivalents	0.6	14.1	-15.9	15.7
Cash and cash equivalents at start of period	3.0	5.4	19.5	3.8
Cash and cash equivalents at end of period	3.6	19.5	3.6	19.5

Selected explanatory notes

Note 1 General information

This interim financial information for the fourth quarter, ended 31 December 2016, has been prepared pursuant to IAS 34 "interim financial reporting". The interim Financial Reporting should be read in conjunction with the annual Financial Statements for the year ended 31 December 2015, which have been prepared in accordance with IFRS, as adopted by European Union. The accounting policies implemented are consistent with those of the annual financial statements for the year ended December 2015. The Board of Directors approved the Interim report February 27, 2017.

Note 2 Sales

(NOK million)	<i>Unaudited</i> 4Q16	<i>Unaudited</i> 4Q15	<i>Unaudited</i> 2016	<i>Audited</i> 2015
Project revenue	16.1	31.9	89.2	131.7
Aftersales	22.3	22.5	82.5	68.6
Sales	38.4	54.4	171.6	200.3

Revenue from projects is recognised under the percentage-of-completion method. Several estimates are made to calculate the stage of completion such as accrued cost and remaining internal project related work hours. Estimates on accrued cost and remaining hours have a direct influence over the amount of the revenue to recognize.

Project revenues

Total accumulated revenue and cost from project start-up has incurred as shown in the table below.

(NOK million)	<i>Unaudited</i> 31.12.16	<i>Audited</i> 31.12.15
Acc. Project contract revenue recognised as revenue	234.2	342.3
Acc. Related cost accrued	159.0	235.7
Acc. Recognised profit / loss from contracts in progress	75.2	106.6

Recognised, not invoiced project revenues and -cost are included in the financial statement as work in progress under the below items:

(NOK million)	<i>Unaudited</i> 31.12.16	<i>Audited</i> 31.12.15
Contract in progress	14.2	42.4
Contract accruals	-9.9	-27.7
Net work in progress	4.2	14.7

Segment information

The main part of the revenues comes from Project Revenues and Aftersales that are deliveries to vessels. Retrofit and Newbuild are two separate operating segments and is aggregated to one reporting segment named Project Revenues. Transactions between units are based on market terms. The company's management uses each segment's operating profit when assessing earnings in the segments. The figures for each segment include transactions between segments. Transactions within the various segments are eliminated. All transactions between business units are based on market terms.

Unaudited

(NOK million)

1.1.16 - 31.12.16	Projects	Aftersales	Admin & other	Elimination	Total
Revenue	89.2	104.0	-	-21.6	171.6
Total revenue	89.2	104.0	-	-21.6	171.6
Cost of sales	-70.9	-67.9	-	15.2	-123.6
Employee expenses	-13.6	-12.4	-4.7	2.6	-28.1
Other Operating expenses	-10.0	-14.1	-2.2	3.8	-22.5
EBITDA before non-recurring items	-5.4	9.7	-6.9	0.0	-2.6
Non- recurring items	-0.4	-	-0.4	-	-0.8
EBITDA	-5.7	9.7	-7.3	0.0	-3.4
Depreciation and amortisation	-2.2	-0.0	-	-	-2.3
Impairment	-0.1	-	-	-	-0.1
OPERATING PROFIT	-8.1	9.7	-7.3	0.0	-5.8
Net Contracts in progress	4.2	-	-	-	4.2
Total assets *	116.4	41.4	117.9	-151.8	123.9
Investments in non-current assets	6.6	-	-	-0.2	6.4

Unaudited

(NOK million)

1.1.15 - 31.12.15	Projects	Aftersales	Admin & other	Elimination	Total
Revenue	131.7	81.3	-	-12.7	200.3
Total revenue	131.7	81.3	-	-12.7	200.3
Cost of sales	-96.3	-52.0	-	11.9	-136.4
Employee expenses	-18.3	-8.3	-0.9	-0.6	-28.1
Other Operating expenses	-12.0	-11.6	-1.7	0.8	-24.5
EBITDA before non-recurring items	5.1	9.5	-2.6	-0.6	11.3
Non- recurring items	-	-	-	0.0	0.0
EBITDA	5.1	9.5	-2.6	-0.6	11.3
Depreciation and amortisation	-1.4	-0.5	-	-	-1.9
Impairment	-0.8	-	-	-	-0.8
OPERATING PROFIT	2.9	9.0	-2.6	-0.6	8.6
Net Contracts in progress	14.7	-	-	-	14.7
Total assets *	161.3	21.2	119.4	-133.4	168.4
Investments in non-current assets	6.9	-	-	-	6.9

*) Elimination includes NOK -99m (-221m) NOK as value of the shares in the subsidiaries.

All revenues are external, except elimination entries which are revenues between group companies.

Geographic area cannot be determined as deliveries are made to vessels in international trade.

Note 3 COGS

In 4Q16 Scanship has written down the value of inventories by NOK 2.6m. The inventory affected by the write down consists mainly of installation materials, PVC- and stainless steel pipes, left over from large retrofit projects finished in 2012. The items have been kept on stock in anticipation of new retrofit projects, and it is expected that when new large retrofit project contracts again will be signed, that some of the installation material can be used.

Scanship has in 4Q16 made changes in the estimates on one series of projects regarding supply of spareparts and service after completion of the projects. The changes have had a negative effect on the 4Q16 result of approx. NOK 2.0m.

Note 4 Non-Recurring Items

Scanship has in Q416 incurred NOK 0.4m in non-recurring costs related to the reorganization of the operations in Italy, and NOK 0.4m in non-recurring costs related to the process to review strategic alternatives, in total NOK 0.8m.

Note 5 Depreciation and amortisation

(NOK million)	<i>Unaudited</i> 4Q16	<i>Unaudited</i> 4Q15	<i>Unaudited</i> YTD16	<i>Audited</i> 2015
Depreciation - fixed assets	0.3	0.4	1.3	1.2
Amortisation - Product Development	0.3	0.2	0.9	0.7
Impairment - Product Development	0.1	0.8	0.1	0.8
Total Depreciation and amortisation	0.7	1.4	2.4	2.7

Note 6 Financial items

Finance income

(NOK million)	<i>Unaudited</i> 4Q16	<i>Unaudited</i> 4Q15	<i>Unaudited</i> 2016	<i>Audited</i> 2015
Interest Income	0.0	-	0.0	0.0
Foreign exchange gain	0.3	1.4	1.7	6.4
Gain on derivatives	-	-	-	-
Total Finance Income	0.3	1.4	1.7	6.4

Finance Cost

(NOK million)	<i>Unaudited</i> 4Q16	<i>Unaudited</i> 4Q15	<i>Unaudited</i> 2016	<i>Audited</i> 2015
Interest Expense	0.4	0.2	1.3	0.7
Foreign exchange loss	0.1	0.9	2.9	4.4
Loss on FX derivatives	-0.0	2.7	4.3	3.9
Other financial cost	-	-	-	0
Total Finance costs	0.4	3.9	8.4	9.1

Unrealised change in FX derivatives

(NOK million)	<i>Unaudited</i> 4Q16	<i>Unaudited</i> 4Q15	<i>Unaudited</i> 2016	<i>Audited</i> 2015
Unrealised Increase of fair value of FX derivate	-	3.2	7.6	1.1
Unrealised decrease in fair value of FX derivati	-0.4	-	-	-
Net unrealised change in FX derivatives	-0.4	3.2	7.6	1.1

Liabilities – Financial Instruments

The company is exposed to foreign exchange rate risk related to the value of NOK relative to other currencies, mainly due to sales in different currencies. The Company has entered into several FX derivative instrument contracts to reduce exchange rate risk in cash flows nominated in EUR, associated with sales in EUR in connection with construction contracts.

The FX derivatives are not designated as hedging instruments, and are therefore recognised at fair value through profit and loss.

There is no initial transaction cost. The Group receives the fair value in cash if exercised at maturity. Contracts has a maturity until 2017.

The group uses level 2 in the IFRS 13 - hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

Level 2: Other techniques for which all inputs have a significant effect on the recorded fair value are observable, either directly or indirectly.

<i>Unaudited</i> (NOK million)	31.12.16 Level 2	31.12.15 Level 2
Forward FX contracts	0.1	-2.4
Other FX derivatives	-1.9	-7.1
Net	-1.8	-9.4

The company has FX derivative contracts with nominal amounts of EUR 4.3m, all of which matures in 2H2017.

Note 7 Non-controlling interests

Scanship AS owns 70% of the company CHX Maritime Inc. CHX Maritime was founded fall 2015 and included in the consolidated accounts from 4Q15. The company's sole activity is development of an exhaust gas management system. Turnover in 4Q16 was NOK 0.0m, pre-tax result NOK -0.0m. Total assets in CHX Maritime was NOK 4.1m as of 31 December 2016 and total equity was NOK -0.1m.

Note 8 Intangible assets

Intangible assets consist of several different development projects related to new technologies in waste handling. They are still under development and depreciation will start at completion of each project. Impairment tests for the intangible assets are performed in accordance with IAS 36. The intangible assets are valued on estimated discounted cash flow.

See also note 5.

Note 9 Deferred Tax Liability

Calculation of deferred tax liabilities for the Norwegian entities are based on 25% income tax.

Note 10 Borrowings

(NOK million)	<i>Unaudited</i> 31.12.16	<i>Audited</i> 31.12.15
Bank overdraft facility	23.9	27.3
Long term debt - non-current	1.3	0.7
Balance at the end of Period	25.2	28.0

The Bank overdraft facility has a limit of NOK 29.1m. The overdraft facility has been increased by NOK 0.9m in 1Q17, to a total of NOK 30.0m.

Note 11 Subsequent events

Scanship has signed contracts after 31 December 2016 that amounts to approx. NOK 98m in revenue.

There has been no other significant event after the end of the reporting period.

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