

# SCANSHIP HOLDING ASA

Quarterly Report – 4Q 2014



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Quarterly report – 4<sup>th</sup> Quarter 2014

## Key Financial Information 4Q14

Consolidated, NOK 1 000	Unaudited 4Q14	Unaudited Q413	Unaudited FY 2014	Audited FY 2013
Total Revenue	43 188	49 572	145 631	169 974
Gross margin %	30 %	38 %	32%	31 %
EBITDA bef. Non-rec.	747	9 520	4 408	20 982
Operating Profit (EBIT)	175	9 290	857	19 890
Profit before Tax	-14 120	5 732	-12 609	7 188
Total Assets	143 176	101 401	143 176	101 401

Overall revenue for the Scanship group was 13% lower in 4Q14 and 14% lower for the 2014 full-year compared to the year-ago periods. The decline reflects lower Retrofit activity.

The gross margin in 4Q14 was NOK 12.8m (30%) compared to NOK 18.9m (38%) in 4Q13. The gross margin for 2014 was NOK 46.3m (32%) compared to NOK 53.0m (31%) in 2013. The company is not satisfied with 4Q14 margins. We expect stable gross margins in 2015 vs 2014.

The Group books revenues in EUR, NOK and USD, and reduces the currency exposure by applying financial instruments for hedging purposes. A majority of the project related revenues are in EUR. Due to the increase in the exchange rate between EUR and NOK these financial instruments incurred a 4Q14 decrease of fair value of NOK 9.9m, and a realised loss of NOK 4.9m. Approx. NOK 3.3m of the realised loss accounts from financial instruments of approx. EUR 2.5m that matured in late December 2014 and subsequently were renewed at an average exchange rate of EUR/NOK 9,055.

Scanship has according to plan increased its product development activities to NOK 2.7m in 4Q14 compared to NOK 1.4m in 4Q13.

## New Contracts

During 4Q14 Scanship was awarded contracts at STX France for a new series of newbuilds for MSC Cruises. The contracts include the delivery of total clean ship systems for project E34 and F34, with options for G34 and H34. The E34 newbuild is scheduled to enter service in 2017, while F34 will be delivered in 2019. The optional vessels are planned for 2020 and 2022. The contracts represent the largest to date for Scanship AS, and are large Scanship Total Clean Ship systems with advanced wastewater purification (AWP), vacuum foodwaste processing, garbage handling and bio residue treatment.

In addition, Scanship received the orders for AWP systems on the B34 at STX France, the second Oasis newbuild to enter service in 2018, and on the fourth Viking Ocean Cruises newbuild to enter service in 2016. Both contracts were originally options in earlier contracts.

The large order intake in 4Q14 increased the backlog to NOK 185m, which represents an increase of 83% from 3Q14.

Scanship has in 1Q15 been awarded a contract for delivery of a Total Clean Ship System on a newbuild at Fincantieri. The vessel, which will service the ultra-luxury market with worldwide itinerary, will enter the market in 2016.

## Operations

Scanship is a maritime industry leader in advanced technologies for processing and purifying waste water, 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 be properly treated. Scanship's technology processes this into recyclables, clean flue gas and treated waste water 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. The office in Gdynia was established 2H14 to follow up local production.

In 4Q14 Scanship delivered the remaining equipment for the newbuild Viking Sky, the third new vessel for Viking Ocean Cruises being built by Fincantieri in Italy.

## Product Development

Scanship's main development project during 2014 has been Microwave Assisted Pyrolysis ("MAP"). MAP design, test equipment purchases and small scale testing has been performed during 2014. A test facility is under construction in Norway and larger-scale testing are scheduled to start in 1H15.

In 4Q14 Scanship completed six projects in its product development portfolio. Of the completed projects the two largest are:

- Project to reduce operational and maintenance cost on the AWP systems
- Project to develop a new nutrient removal system for AWP system according to the most stringent regulation in the business

We see that the results of the product developments are having positive effects on operations.

## Financing

During 4Q14 Scanship increased the bank overdraft facility by NOK 20.0m. The funds have been used to repay a loan of NOK 20.0m.

In 2Q14 Scanship Holding ASA completed an IPO, raising NOK 80.0m in gross proceeds from new equity. The company's shares were listed the company on Oslo Axess. The total cost amounts to approx. NOK 8.8m, of which NOK 2.4m have been identified as listing costs on existing shares and therefore recorded as a non-recurring item in 2Q14.

## Market Outlook

There is high activity in the newbuilding market. In 4Q14 RCCL signed an agreement with STX France for a new class of vessels to be built for the Celebrity brand. The agreements includes two firm orders for ship deliveries in 2018 and 2020. Carnival Cruise Line ordered a second ship following the Carnival Vista, to enter service in 2017. Scanship is working on several tenders for future newbuilds that the company believes will fill up available newbuild slots from 2017.

The company is working with several clients for potential future retrofit projects. The upcoming IMO meeting in 2Q15 may set an implementation date for MEPC 227(64) with nutrient removal requirements. A firm date of implementation is expected to drive the market for AWP retrofits.

Continued focus on commercial activities is expected to improve revenue in the Aftersales segment.

Lysaker, 24 February 2015

The Board of Directors for Scanship Holding ASA

## Consolidated income statement

(NOK 1000)	Note	Unaudited	Unaudited	Unaudited	Audited
		4Q14	4Q13	2014	2013
		Oct - Dec	Oct - Dec	Jan - Dec	Jan - Dec
Revenue	2	43 188	49 572	145 631	169 974
<b>Total operating revenue</b>		<b>43 188</b>	<b>49 572</b>	<b>145 631</b>	<b>169 974</b>
Cost of goods sold		-30 373	-30 682	-99 308	-116 979
<b>Gross Margin</b>		<b>12 815</b>	<b>18 890</b>	<b>46 323</b>	<b>52 995</b>
Gross Margin		30 %	38 %	32 %	31 %
Employee expenses		-7 153	-5 110	-23 201	-16 278
Other operating expenses		-4 916	-4 260	-18 713	-15 735
<b>EBITDA before non-recurring items</b>		<b>747</b>	<b>9 520</b>	<b>4 408</b>	<b>20 982</b>
Non-recurring items	3	-	-	-2 361	0
<b>EBITDA</b>		<b>747</b>	<b>9 520</b>	<b>2 047</b>	<b>20 982</b>
Depreciation and amortisation		-572	-230	-1 191	-1 092
<b>Operating profit (EBIT)</b>		<b>175</b>	<b>9 290</b>	<b>857</b>	<b>19 890</b>
Finance income	4	1 745	1 073	9 318	3 042
Finance costs	4	-16 040	-4 631	-22 783	-15 744
<b>Profit before tax</b>		<b>-14 120</b>	<b>5 732</b>	<b>-12 609</b>	<b>7 188</b>
Income tax revenue (+) /expense (-)		3 789	-1 629	3 396	-2 043
<b>Profit for the period</b>		<b>-10 331</b>	<b>4 103</b>	<b>-9 212</b>	<b>5 146</b>

## Consolidated statement of comprehensive income

(NOK 1000)	Unaudited	Unaudited	Unaudited	Unaudited
	4Q14	4Q13	2014	2013
	Oct - Dec	Oct - Dec	Jan - Dec	Jan - Dec
Net profit for the period	-10 331	4 103	-9 212	5 145
<i>Items to be reclassified to profit or loss:</i>				
Exchange differences or trans. Of foreign op.	625	-	674	-
<b>Net items to be reclassified to profit or loss</b>	<b>625</b>	<b>-</b>	<b>674</b>	<b>-</b>
<i>Items not be reclassified to profit or loss</i>				
<b>Other comprehensive income net of tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income, net of tax</b>	<b>-9 706</b>	<b>4 103</b>	<b>-8 538</b>	<b>5 145</b>
<b>Attribute to</b>				
Owners of the parent	-9 706	3 282	-8 538	4 116
Non controlling interest	-	821	-	1 029
	<b>-9 706</b>	<b>4 103</b>	<b>-8 538</b>	<b>5 145</b>
Earnings per share 1)	-0,10	1709,58	-0,09	2143,75
Diluted earnings per share 1)	-0,10	1709,58	-0,09	2143,75

1) Total shares 2013: 2400. Total shares as of 31.12.2014: 95 505 525

## Consolidated statement of financial position

(NOK 1000)	Note	<i>Unaudited</i> 31.12.2014	<i>Audited</i> 31.12.2013
<b>ASSETS:</b>			
<b>Non-current assets:</b>			
Property, plant and equipment		1 957	1 574
Intangible assets	5	19 859	12 503
<b>Total non-current assets</b>		<b>21 816</b>	<b>14 077</b>
<b>Current assets:</b>			
Inventories		5 684	5 109
Trade receivables		32 621	23 809
Contracts in progress	2	75 064	52 195
Other Receivables		4 170	5 035
Cash and cash equivalents		3 821	1 177
<b>Total current assets</b>		<b>121 360</b>	<b>87 325</b>
<b>Total assets</b>		<b>143 176</b>	<b>101 401</b>

(NOK 1000)	Note	<i>Unaudited</i> 31.12.2014	<i>Audited</i> 31.12.2013
<b>EQUITY AND LIABILITIES</b>			
<b>Equity:</b>			
Share capital	3	9 551	202
Share premium	3	77 450	-
Translation difference		133	-434
Retained earnings		-41 949	-21 127
<b>Total equity</b>		<b>45 185</b>	<b>-21 360</b>
<b>Liabilities</b>			
Deferred tax liabilities		1 667	6 817
Long term borrowings	6	-	19 967
<b>Total non-current liabilities</b>		<b>1 667</b>	<b>26 783</b>
<b>Current liabilities</b>			
Current borrowings	6	-	10 000
Trade creditors		16 669	30 931
Contract accruals	2	35 379	22 058
Financial instruments	4	10 536	7 114
Income tax payable		-112	823
Bank overdraft		27 674	14 290
Other Current liabilities		6 179	10 762
<b>Total Current Liabilities</b>		<b>96 325</b>	<b>95 978</b>
<b>Total liabilities</b>		<b>97 991</b>	<b>122 761</b>
<b>Total equity and liabilities</b>		<b>143 176</b>	<b>101 401</b>

## Consolidated statement of change in equity

(NOK 1000)

<i>Unaudited</i> <b>2014</b>	<b>Share Capital</b>	<b>Translation Differences</b>	<b>Share Premium</b>	<b>Retained Earnings</b>	<b>Total*</b>
Equity at 31 december 2013	202	-434	-	-21 128	-21 360
Profit for the period	-	568	-	-9 212	-8 645
Stock issue	9 349	-	77 450	-11 609	75 190
Other Comprehensive income	-	-	-	-	-
<b>Total Comprehensive income</b>	<b>9 551</b>	<b>134</b>	<b>77 450</b>	<b>-41 949</b>	<b>45 185</b>
Dividends paid	-	-	-	-	-
<b>Equity at 31. December 2014</b>	<b>9 551</b>	<b>134</b>	<b>77 450</b>	<b>-41 949</b>	<b>45 185</b>

<i>Audited</i> <b>2013</b>	<b>Share Capital</b>	<b>Translation Differences</b>	<b>Share Premium</b>	<b>Retained Earnings</b>	<b>Total*</b>
Equity at 31 December 2012	202	-	-	-26 273	-26 072
Profit for the period	-	-434	-	5 146	4 712
Stock issue	-	-	-	-	-
Other Comprehensive income	-	-	-	-	-
<b>Total Comprehensive income</b>	<b>202</b>	<b>-434</b>	<b>-</b>	<b>-21 128</b>	<b>-21 360</b>
Dividends paid	-	-	-	-	-
<b>Equity at 31. December 2013</b>	<b>202</b>	<b>-434</b>	<b>-</b>	<b>-21 128</b>	<b>-21 360</b>

\*) There are no non-controlling interests in the Group

## Consolidated cash flow statement

(NOK 1000)	<i>Unaudited</i> <b>4Q14</b>	<i>Unaudited</i> <b>4Q13</b>	<i>Unaudited</i> <b>2014</b>	<i>Audited</i> <b>2013</b>
Profit before income tax	-14 120	5 732	-12 609	7 188
<i>Adjustments:</i>				
Net cash flow from operating activities	-5 567	5 941	-45 112	4 371
Net cash flow from investing activities	-3 301	-1 509	-9 138	-3 715
Net cash flow from financing activities	7 775	14 290	56 894	14 290
<b>Net change in cash and cash equivalents</b>	<b>-1 093</b>	<b>18 722</b>	<b>2 644</b>	<b>14 946</b>
Cash and cash equivalents ingoing balance	4 915	-17 544	1 177	-13 769
<b>Cash and cash equivalents at end of period</b>	<b>3 821</b>	<b>1 177</b>	<b>3 821</b>	<b>1 177</b>

Late payments from a customer of approx. NOK 10m has reduced Cash at end of period and reduced Net cash flow from operating activities. The overdue payments were received in 1Q 2015.

## Selected explanatory notes

### Note 1 General information

This interim financial information for the fourth quarter, ended December 31 2014, 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 2013, 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 2013. The Board of Directors approved the Interim report 24 February 2015.

### Note 2 Sales

<i>(NOK 1000)</i>	<i>Unaudited</i> <b>4Q14</b>	<i>Unaudited</i> <b>4Q13</b>	<i>Unaudited</i> <b>2014</b>	<i>Audited</i> <b>2013</b>
Project revenue	31 814	41 693	106 767	130 476
Aftersales	11 374	6 880	38 865	39 498
<b>Sales</b>	<b>43 188</b>	<b>48 573</b>	<b>145 632</b>	<b>169 974</b>

Revenue from long-term projects is recognized under the percentage-of-completion method. Several estimates are made to calculate the stage of completion such as accrued cost. Estimates on accrued cost have a direct influence over the amount of the revenue to recognize.

#### Project revenues:

All contracts: Revenue generated through projects on ongoing contracts are listed in the table above.

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

<i>(NOK 1000)</i>	<i>Unaudited</i> <b>31.12.2014</b>	<i>Audited</i> <b>31.12.2013</b>
Acc. Project contract revenue recognised as revenue	277 384	170 622
Acc. Related cost accrued	190 640	115 430
<b>Acc. Recognised profit / loss from contracts in progress</b>	<b>86 744</b>	<b>55 192</b>

Recognised and included in the financial statements:

<i>(NOK 1000)</i>	<i>Unaudited</i> <b>31.12.2014</b>	<i>Audited</i> <b>31.12.2013</b>
Due from customers	75 064	52 195
Due to suppliers for contract work	-35 379	-22 058
<b>Net work in progress</b>	<b>39 685</b>	<b>30 137</b>

#### 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 segments 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.



## Segment information - Continued

Unaudited	Admin &				
1. January - 31. December 2014	Projects	Aftersales	other	Elimination	Total
Revenue	106 767	49 040	123	-10 299	145 631
<b>Total revenue</b>	<b>106 767</b>	<b>49 040</b>	<b>123</b>	<b>-10 299</b>	<b>145 631</b>
Cost of sales	-75 705	-33 650	-1	10 047	-99 308
Employee expenses	-17 224	-5 404	-573	-	-23 201
Other Operating expenses	-13 279	-5 327	-709	603	-18 714
<b>EBITDA before non-recurring items</b>	<b>559</b>	<b>4 659</b>	<b>-1 160</b>	<b>351</b>	<b>4 409</b>
Non- recurring items	-	-	-2 361	-	-2 361
<b>EBITDA</b>	<b>559</b>	<b>4 659</b>	<b>-3 521</b>	<b>-</b>	<b>2 047</b>
Depreciation and amortisation	-1 016	-174	-	-	-1 190
<b>OPERATING PROFIT</b>	<b>-457</b>	<b>4 485</b>	<b>-3 521</b>	<b>-</b>	<b>856</b>
Net Contracts in progress	39 685	-	-	-	39 685
Total assets *	106 777	11 601	246 965	-222 166	143 176
Investments in non-current assets	7 421	-	-	-	7 421

  

Audited	Admin &				
1. January - 31. December 2013	Projects	Aftersales	other	Elimination	Total
Revenue	128 445	46 823	991	-6 286	169 973
<b>Total revenue</b>	<b>128 445</b>	<b>46 823</b>	<b>991</b>	<b>-6 286</b>	<b>169 973</b>
Cost of sales	-93 454	-26 543	-2 259	5 278	-116 978
Employee expenses	-10 554	-5 724	-	-	-16 278
Other Operating expenses	-11 723	-5 885	-68	1 940	-15 735
<b>EBITDA before non-recurring items</b>	<b>12 714</b>	<b>8 671</b>	<b>-1 336</b>	<b>931</b>	<b>20 982</b>
Non- recurring items	-	-	-	-	-
<b>EBITDA</b>	<b>12 714</b>	<b>8 671</b>	<b>-1 336</b>	<b>931</b>	<b>20 982</b>
Depreciation and amortisation	-988	-104	-	-	-1 092
<b>OPERATING PROFIT</b>	<b>11 726</b>	<b>8 567</b>	<b>-1 336</b>	<b>931</b>	<b>19 890</b>
Net Contracts in progress	30 137	-	-	-	30 137
Total assets *	128 534	11 660	222 021	-260 814	101 401
Investments in non-current assets	3 349	-	-	-	3 349

\* Elimination includes NOK -221m as value of the shares in the subsidiaries.

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

Revenue from New building activities is delivered on different yards throughout Europe. Other revenues are generated from projects and Aftersales. Geographic area cannot be determined as deliveries are made to vessels in international trade.

### Note 3 Non-recurring items, IPO and share capital

FY 2014 figures include non-recurring items in relation to the conducted IPO and listing on Oslo Stock Exchange (Oslo Axxess) in April 2014. The total cost amounts to approx. NOK 8.8m, whereas NOK 2.4m has been identified, according to IAS32, as listing cost on existing shares, and therefore recorded as a non-recurring item in 2Q14. The remaining NOK 6.5m (net of taxes) has been recorded against equity.

In 2Q14 the Board decided to raise share capital by approx. NOK 6.8m, transferred from other equity, while the stock issue raised share capital with another NOK 2.5m. Following the share capital increases the share capital is NOK 9.55m.

## Note 4 Financial items

### Finance income

(NOK 1000)	Unaudited	Unaudited	Unaudited	Audited
	4Q14	4Q13	2014	2013
Interest Income	43	65	43	67
Foreign exchange gain	1 702	1 007	2 555	2 975
Increase of fair value of derivatives	-	-	6 718	-
<b>Total Finance Income</b>	<b>1 745</b>	<b>1 072</b>	<b>9 318</b>	<b>3 042</b>

### Finance Cost

(NOK 1000)	Unaudited	Unaudited	Unaudited	Audited
	4Q14	4Q13	2014	2013
Interest Expense	430	1 048	2 604	4 405
Foreign exchange loss	795	1 176	2 204	2 036
Unrealized decrease in fair value of derivatives	9 868	2 190	10 141	8 203
Loss on derivatives	4 948	217	7 767	1 100
Fees Financial instruments	-	-	68	-
<b>Total Finance costs</b>	<b>16 040</b>	<b>4 631</b>	<b>22 783</b>	<b>15 744</b>

### 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 entered into several derivative instruments to reduce exchange rate risk in cash flows nominated in EUR, associated with the sale in EUR in connection with several construction contracts.

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

There are 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.

(NOK 1000)	31.12.2014	31.12.2013
	Level 2	Level 2
Forward contracts	-1 915	-1 594
Forward option	-3 047	-
Derivatives	-5 573	-5 520
<b>Net</b>	<b>-10 536</b>	<b>-7 114</b>

The company has derivative contracts with nominal amounts of EUR 17.6m, whereas EUR 3.8m are due in 1Q15, EUR 0.5m in 2Q15, EUR 6.5m are due during the 2H15, and EUR 2.9m and EUR 3.9m are due in 2016 and 2017 respectively. The derivatives are linked to specific project contracts.

## Note 5 Intangible assets

Intangible assets consists 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.

Six projects are finalized during 4Q14, and are depreciated over a period of 15 years, which is the expected life time of the products.

One additional project is assessed to no longer have any economic benefit and the whole value of approx. NOK 0.2m is therefore impaired.

## Note 6 Borrowings

(NOK 1000)	31.12.2014	31.12.2013
Current portion of long-term debt	-	10 000
Other interest bearing short-term debt	-	-
Long term debt - non-current	-	19 967
<b>Balance at the end of Period</b>	<b>-</b>	<b>29 967</b>

The Group refinanced its long term loan with DNB into a bank overdraft facility. The overdraft facility was increased from NOK9.1m to NOK 29.1. The increase of the facility has been used to repay the long term loan of NOK 20.0m.

## Note 7 Subsequent events

The Company has been awarded one newbuild contract with equipment delivery in 2015. The contract is for delivery of Scanship's Total Clean Ship Solution, supplying both Advanced Wastewater Purification system and Dry Waste System.

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