

SCANSHIP HOLDING ASA
Quarterly Report – 1Q 2016



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Key Financial Information 1Q16

(NOK million)	<i>Unaudited</i> 1Q16	<i>Unaudited</i> 1Q15	<i>Audited</i> 2015
Total Revenue	39.8	45.6	200.3
Gross Margin %	32%	27%	32%
EBITDA	0.3	-0.1	11.3
Operating Profit (EBIT)	-0.3	-0.4	8.6
Profit bf. Tax	0.0	6.1	7.0
Project Backlog	201	158	226
Total Assets	153.4	138.2	168.4
Equity ratio	33%	36%	30%

Scanship reduced revenues with approx. 13% in 1Q16 compared to 1Q15. Revenues from the Aftersales segment has increased by 63% compared to 1Q15. Revenues from the Project segment has decreased by 35% compared to 1Q15, mainly due to negative changes in progress estimates and currency effects.

The gross margin in 1Q16 was NOK 12.8m (32%) compared to NOK 12.2m (27%) in 1Q15.

EBITDA in 1Q16 was NOK 0,3m compared to NOK -0.1m in 1Q15.

The Group receives 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 1Q16 was NOK 2.9m, compared to gain of NOK 6.7m in 1Q15. Financial instruments realised in 1Q16 incurred a net loss of NOK 1.5m compared to a gain of NOK 0.1m in 1Q15.

Order Backlog

The order backlog at the end of 1Q16 was NOK 201m compared to NOK 158m at the end of 1Q15.

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.

During 1Q16 Scanship delivered equipment to Meyer Werft for the newbuild constructions Norwegian Bliss and Genting Dream. In the same period, equipment was delivered to the Mein Schiff 6 at Meyer Turku, and to the Viking Sea and the second newbuild construction in the Carnival Vista class at Fincantieri. Scanship completed the installation of the sludge dryer system

for Marin Harvest at Steinsvik, and commenced the retrofit installation aboard Oceania Sirena. Scanship further did commission the AWP system aboard Harmony of the Sea at STX France and aboard Ovation of the Seas. At Fincantieri, the company completed the commissioning of the total Scanship system aboard Viking Sea in Ancona and commenced commissioning on the Carnival Vista in Monfalcone.

Product Development

Scanship's two main development project during 1Q16 has been Microwave Assisted Pyrolysis ("MAP") and exhaust gas management system through the 70% owned company CHX Maritime Inc.

Scanship has invested NOK 1.7m in 1Q16 on its product development activities compared to NOK 1.4m for the same period in 2015.

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

Financing

Net cash flow from operations was NOK -13.1m in 1Q16 compared to NOK 9.4m in 1Q15.

The change in cash and cash equivalents in 1Q16 is partly related to a project pre-payment in 4Q15 of approx. NOK 7.0m.

Market Outlook

Throughout 1Q16 there has been a high contracting activity in the cruise newbuilding market and more than thirty cruise vessels are currently in tendering processes between ship owners and shipyards.

In February, MSC Cruises orders two additional Meraviglia-plus vessels at STX France for delivery in 2019 and 2020.

During March, the Walt Disney Company said it plans to build two cruise ships at Meyer Werft in Germany for delivery in 2021 and 2023. In order to enable fleet expansion, Genting Hong Kong, the parent company of Star Cruises, Dream Cruises and Crystal Cruises acquires three shipyards, one in Wismar, one in Warnemünde and one in Stralsund from Nordic Yards. The acquisition follows the acquisition of Lloyd Werft in 2015. Shortly after the acquisition, Genting announces plans to build 10 cruises ships for Star Cruises and Crystal Cruises with delivery between 2017 and 2020. Fincantieri announces that its subsidiary Vard Holdings Limited signs a Letter of Intent with the French ship owner Ponant for the construction of four small-sized luxury cruise vessels for delivery during 2018 and 2019.

Scanship is well positioned to take advantage of the growth in the newbuild market and is experiencing a high tendering activity.

Scanship continues to tender AWP retrofits to several ship owners, and the market is expected to be driven by the newly announced enforcement dates for the HELCOM-standard for the Baltic sea.

Lysaker, 23 May 2016

The Board of Directors for Scanship Holding ASA

Consolidated income statement

(NOK million)	Note	Unaudited 1Q16	Unaudited 1Q15	Audited 2015
Revenue	2	39.8	45.6	200.3
Total operating revenue		39.8	45.6	200.3
Cost of goods sold		-27.0	-33.4	-136.4
Gross Margin		12.8	12.2	63.9
Gross Margin		32%	27%	32%
Employee expenses		-7.5	-6.8	-28.1
Other operating expenses		-5.1	-5.4	-24.5
EBITDA		0.3	-0.1	11.3
Depreciation and amortisation	3	-0.6	-0.3	-2.7
Operating profit (EBIT)		-0.3	-0.4	8.6
Finance income	4	0.1	1.9	6.4
Fair value changes FX derivatives	4	2.9	6.7	1.1
Finance costs	4	-2.7	-2.2	-9.1
Result before tax		0.0	6.1	7.0
Income tax revenue (+) /expense (-)		0.0	-1.8	-2.6
Result for the period		0.0	4.3	4.4

Consolidated statement of comprehensive income

(NOK million)		Unaudited 1Q16	Unaudited 1Q15	Audited 2015
Net result for the period		-0.0	4.3	4.4
<i>Items to be reclassified to profit or loss:</i>		-	-	-
Exchange differences or trans. Of foreign op.		0.1	0.1	-0.1
Net items to be reclassified to profit or loss		0.1	0.1	-0.1
<i>Items not be reclassified to profit or loss</i>		-	-	-
Other comprehensive income net of tax		-	-	-
Total comprehensive income, net of tax		0.1	4.5	4.3
Attribute to				
Owners of the parent		0.1	4.5	4.3
Non controlling interest	5	-	-	-
		<u>0.1</u>	<u>4.5</u>	<u>4.3</u>
Earnings per share (NOK) 1)		0.00	0.05	0.05
Diluted earnings per share (NOK) 1)		0.00	0.05	0.05

1) Total shares: 95 505 525

Consolidated statement of financial position

(NOK million)	Note	Unaudited 31.3.16	Unaudited 31.3.15	Audited 31.12.15
ASSETS:				
Non-current assets:				
Property, plant and equipment	3	4.2	2.2	3.3
Intangible assets	3/6	25.6	20.1	24.2
Total non-current assets		29.8	22.3	27.5
Current assets:				
Inventories		6.3	6.3	5.7
Trade receivables		59.6	31.8	61.2
Contracts in progress	2	36.2	68.3	42.4
Other Receivables		17.1	6.0	12.2
Cash and cash equivalents		4.4	3.7	19.5
Total current assets		123.6	116.0	140.9
Total assets		153.4	138.2	168.4

(NOK million)	Note	Unaudited 31.3.16	Unaudited 31.3.15	Audited 31.12.15
EQUITY AND LIABILITIES				
Equity:				
Share capital		9.6	9.6	9.6
Share premium		77.5	77.5	77.5
Translation difference		0.4	0.3	0.0
Retained earnings		-37.2	-37.4	-37.2
Non - controlling interest		-	-	-
Total equity		50.2	49.8	49.8
Liabilities				
Deferred tax liabilities	7	3.6	3.3	3.6
Long term borrowings	8	1.5	-	0.7
Total non-current liabilities		5.0	3.3	4.3
Current liabilities				
Trade creditors		37.0	17.1	36.7
Contract accruals	2	14.2	40.0	27.7
Unrealised change fair value FX derivatives	4	6.5	3.8	9.4
Income tax payable		0.4	-	0.7
Bank overdraft		27.0	18.9	27.3
Other Current liabilities		13.1	5.3	12.5
Total Current Liabilities		98.2	85.1	114.3
Total liabilities		103.2	88.4	118.6
Total equity and liabilities		153.4	138.2	168.4

Consolidated statement of change in equity

Unaudited

(NOK million)	Share Capital	Share Premium	Other cap. Reserves	Trans Diff	Retained Earnings	Non-Contro Total	Interest	Total Equity
31.3.16								
Equity at 31.12.2015	9.6	77.5	0.4	0.0	-37.6	49.8	-	49.8
Result for the period	-	-	-	0.3	-0.0	0.3	-0.0	0.3
Total Comprehensive income	-	-	-	0.3	-0.0	0.3	-0.0	50.2
Equity at end of period	9.6	77.5	0.4	0.4	-37.6	50.2	-0.0	50.2

Unaudited

(NOK million)	Share Capital	Share Premium	Other cap. Reserves	Trans Diff	Retained Earnings	Non-Contro Total	Interest	Total Equity
31.3.15								
Equity at 31.12.2014	9.6	77.5	-	0.1	-42.0	45.1	-	45.1
Result for the period	-	-	-	0.4	4.3	4.7	-	4.7
Total Comprehensive income	-	-	-	-	4.3	4.7	-	49.8
Equity at end of period	9.6	77.5	-	-	-37.7	49.8	-	49.8

Consolidated cash flow statement

(NOK million)	Unaudited 1Q16	Unaudited 1Q15	Audited 2015
<i>Profit before income tax</i>	0.0	6.1	7.0
Net cash flow from operating activities	-13.1	9.4	24.7
Net cash flow from investing activities	-2.9	-0.8	-9.4
Net cash flow from financing activities	0.9	-8.8	0.3
Net change in cash and cash equivalents	-15.0	-0.2	15.7
Cash and cash equivalents ingoing balance	19.5	3.8	3.8
Cash and cash equivalents at end of period	4.4	3.7	19.5

Selected explanatory notes

Note 1 General information

This interim financial information for the first quarter, ended 31 March 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 23 May 2016.

Note 2 Sales

(NOK million)	<i>Unaudited</i> 1Q16	<i>Unaudited</i> 1Q15	<i>Audited</i> 2015
Project revenue	22.4	34.2	131.7
Aftersales	17.4	11.4	68.6
Sales	39.8	45.6	200.3

Revenue from projects is recognized 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> 31.3.16	<i>Unaudited</i> 31.3.15	<i>Audited</i> 31.12.15
Acc. Project contract revenue recognised as revenue	346.0	311.6	323.4
Acc. Related cost accrued	234.2	217.0	218.3
Acc. Recognised profit / loss from contracts in progress	111.9	94.6	105.1

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> 31.3.16	<i>Unaudited</i> 31.3.15	<i>Audited</i> 31.12.15
Contract in progress	36.2	68.3	42.4
Contract accruals	-14.2	-40.0	-27.7
Net work in progress	22.0	28.3	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 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.

Unaudited

(NOK million)					
1.1.2016 - 31.3.2016	Projects	Aftersales	Admin & other	Elimination	Total
Revenue	22.4	23.1	-	-5.7	39.8
Total revenue	22.4	23.1	-	-5.7	39.8
Cost of sales	-16.2	-15.4	-	4.6	-27.0
Employee expenses	-3.3	-2.8	-1.4	-	-7.5
Other Operating expenses	-1.9	-3.4	-0.8	1.1	-5.1
EBITDA	0.9	1.6	-2.2	-	0.3
Depreciation and amortisation	-0.6	-0.0	-	-	-0.6
OPERATING PROFIT	0.3	1.6	-2.2	-	-0.3
Net Contracts in progress	22.0	-	-	-	22.0
Total assets *	129.9	28.0	119.4	-123.8	153.4
Investments in non-current assets	1.7	-	-	-	1.7

Unaudited

(NOK million)					
1.1.2015 - 31.3.2015	Projects	Aftersales	Admin & other	Elimination	Total
Revenue	34.2	14.2	-	-2.8	45.6
Total revenue	34.2	14.2	-	-2.8	45.6
Cost of sales	-26.9	-9.1	-	2.6	-33.4
Employee expenses	-5.3	-1.4	-0.2	-	-6.8
Other Operating expenses	-3.3	-2.0	-0.4	0.2	-5.4
EBITDA	-1.2	1.7	-0.6	-	-0.1
Depreciation and amortisation	-0.3	-0.0	-	-	-0.3
OPERATING PROFIT	-1.5	1.7	-0.6	-	-0.4
Net Contracts in progress	28.3	-	-	-	28.3
Total assets *	133.7	11.0	247.4	-253.8	138.2
Investments in non-current assets	1.4	-	-	-	1.4

*) 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 Depreciation and amortisation

(NOK million)	<i>Unaudited</i> 1Q16	<i>Unaudited</i> 1Q15	<i>Audited</i> 2015
Depreciation - fixed assets	0.3	0.3	1.2
Amortisation - Product Development	0.3	0.2	0.7
Impairment - Product Development	0.0	0.0	0.8
Total Depreciation and amortisation	0.6	0.5	2.7

Note 4 Financial items

Finance income

(NOK million)	<i>Unaudited</i> 1Q16	<i>Unaudited</i> 1Q15	<i>Audited</i> 2015
Interest Income	-	0.1	0.0
Foreign exchange gain	0.1	1.8	6.4
Gain on derivatives	-	-	-
Total Finance Income	0.1	1.9	6.4

Finance Cost

(NOK million)	<i>Unaudited</i> 1Q16	<i>Unaudited</i> 1Q15	<i>Audited</i> 2015
Interest Expense	0.3	0.1	0.7
Foreign exchange loss	0.9	2.0	4.4
Loss on FX derivatives	1.5	-	3.9
Other financial cost	-	0.0	0.0
Total Finance costs	2.7	2.2	9.1

Unrealised change in FX derivatives

(NOK million)	<i>Unaudited</i> 1Q16	<i>Unaudited</i> 1Q15	<i>Audited</i> 2015
Unrealised Increase of fair value of FX derivatives	2.9	6.7	1.1
Unrealised decrease in fair value of FX derivatives	-	-	-
Net unrealised change in FX derivatives	2.9	6.7	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 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.

<i>Unaudited</i> (NOK million)	31.3.16 Level 2	31.3.15 Level 2	31.12.15 Level 2
Forward FX contracts	-1.1	-0.3	-2.4
Other FX derivatives	-5.4	-1.7	-7.1
Net	-6.5	-3.8	-9.4

The company has FX derivative contracts with nominal amounts of EUR 6.3m, whereas EUR 0.9m are due in 2Q16, EUR 1.1m are due in 2H16 and 4.3m matures in 2017.

Note 5 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 1Q16 was NOK 0.0m, pre-tax result NOK -0.0m. Total assets in CHX Maritime was NOK 3.4m as of 31 March 2016 and total equity was NOK -0.0m.

Note 6 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 3.

Note 7 Deferred Tax Liability

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

Note 8 Borrowings

(NOK million)	<i>Unaudited</i> 31.3.16	<i>Unaudited</i> 31.3.15	<i>Audited</i> 31.12.15
Bank overdraft facility	27.0	18.9	27.3
Long term debt - non-current	1.5	-	0.7
Balance at the end of Period	28.5	18.9	28.0

Note 9 Subsequent events

There has been no significant event subsequent to the reporting period.

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