

SCANSHIP HOLDING ASA
Quarterly Report – 3Q 2016



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Quarterly report – 3rd Quarter 2016

Key Financial Information 3Q16

(NOK million)	<i>Unaudited</i> 3Q16	<i>Unaudited</i> 3Q15	<i>Unaudited</i> YTD2016	<i>Unaudited</i> YTD2015	<i>Audited</i> 2015
Total Revenue	48,4	50,0	133,2	145,9	200,3
Gross Margin %	25 %	37 %	29 %	32 %	32 %
EBITDA	1,9	5,3	2,4	8,5	11,3
Operating Profit (EBIT)	1,3	4,8	0,7	7,2	8,6
Profit bf. Tax	1,9	-2,8	2,1	4,8	7,0
Project Backlog	217	204	217	204	226
Total Assets	130,6	163,6	130,6	163,6	168,4
Equity ratio	38 %	30 %	38 %	30 %	29 %

Scanship's total revenues was approx. 3% lower in 3Q16 compared to 3Q15. Revenues from the Aftersales segment has increased by 12% compared to 3Q15. Revenues from the Project segment has decreased by 13% compared to 3Q15.

The gross margin in 3Q16 was NOK 12.3m (25%) compared to NOK 18.7m (37%) in 3Q15. The relatively low gross margin in 3Q16 is mainly due to currency strengthening of NOK against USD and EUR and some negative estimate revisions on ongoing projects. In addition, the company is experiencing high project tendering activity.

The gross margin for YTD2016 is 29%, compared to 32% for the same period last year.

EBITDA in 3Q16 was NOK 1.9m compared to NOK 5.3m in 3Q15.

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 3Q16 was NOK 3.4m, compared to a loss of NOK -8.1m in 3Q15. Financial instruments realised in 3Q16 incurred a net loss of NOK -2.1m compared to a loss of NOK -1.2m in 3Q15.

Net cash flow from operations was NOK 0.9m in 3Q16 compared to NOK -6.0m in 3Q15.

In September 2016 Scanship announced that it has initiated a cost reduction program. The aim of the program is to reduce operating cost by 20%, approx. NOK 1 mill per month at current level of operation. The program will combine layoffs and reduction in other operating costs. As of end 3Q16 the program has not had any effect on the reported numbers. The program is expected to have full effect from beginning of 2017.

Order Backlog

The order backlog at the end of 3Q16 was NOK 217m compared to NOK 204m at the end of 3Q15.

Contracts signed after end of 3Q16 amounts to approx. NOK 30.0m.

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 3Q16, Scanship's quality management system was certified by LR according to ISO9001 2015. During the same period, Scanship delivered equipment to the following newbuilds; to Meyer Werft for the second Dream Cruise and the fourth Norwegian Cruise Line, to Fincantieri for the third and fourth Viking Ocean and to Meyer Turku for the seventh Mein Schiff. In total five main equipment deliveries were made in the period.

Scanship further handed over to the ship-owner the certified Scanship AWP system on Oceania Sirena, a subsidiary of NCL Holding. The company commissioned the AWP systems aboard Genting Dream for Dream Cruises and handed over both the certified AWP and the Waste Management system on Viking Sea for Viking Ocean Cruises.

Scanship was during the quarter awarded contracts for delivery of Scanship AWP designed per IMO Marpol MEPC 227(64) chapter 4.2 at Fincantieri for the two new Costa Asia newbuilds to be delivered to Carnival Corporation & PLC in 2019 and 2020. The main delivery of equipment will take place in 2017 and in 2018.

Product Development

Scanship's main development project during 3Q16 has been Microwave Assisted Pyrolysis ("MAP"). Scanship is aiming for commercialisation of the MAP in 1H2018.

Scanship has invested NOK 2.1m in 3Q16 on its product development activities compared to NOK 1.0m 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 4Q16.

The newbuilding market continues to grow, and by the fourth quarter the total industry newbuilding order book hits a record high orderbook of 67 vessels with a total order value of nearly 48 billion USD. This growth represents nearly 40% in new berths delivered to the market in the next 6-8 years. The growth is mainly driven by prospects for the Asian and particularly the Chinese market. It is further estimated that more ships will be ordered in the same period.

Scanship is well positioned to take on more orders and expects to enter more contracts during the fourth quarter.

During the 4Q16 the 70th IMO meeting in London ratified the 2020 global Sulphur requirement. The enforcement of this new legislation is expected to have a significant impact on Scanship's forward growth with its newly developed offerings within exhaust gas management.

In November 2016 Scanship announced that it had initiated a process to evaluate strategic alternatives with the purpose of enhancing shareholder values and has engaged Arkwright Corporate Finance AS as its financial and strategic advisor.

Lysaker, 28 November 2016

The Board of Directors for Scanship Holding ASA

Consolidated income statement

(NOK million)	Note	Unaudited 3Q16	Unaudited 3Q15	Unaudited YTD 2016	Unaudited YTD 2015	Audited 2015
Revenue	2	48,4	50,0	133,2	145,9	200,3
Total operating revenue		48,4	50,0	133,2	145,9	200,3
Cost of goods sold		-36,1	-31,3	-94,6	-99,4	-136,4
Gross Margin		12,3	18,7	38,6	46,5	63,9
Gross Margin		25 %	37 %	29 %	32 %	32 %
Employee expenses		-6,5	-7,4	-20,9	-20,4	-28,1
Other operating expenses		-3,9	-5,9	-15,3	-17,6	-24,5
EBITDA		1,9	5,3	2,4	8,5	11,3
Depreciation and amortisation	3	-0,6	-0,6	-1,7	-1,3	-2,7
Operating profit (EBIT)		1,3	4,8	0,7	7,2	8,6
Finance income	4	0,8	3,2	1,4	5,9	6,4
Fair value changes FX derivatives	4	3,4	-8,1	8,0	-2,1	1,1
Finance costs	4	-3,7	-2,6	-8,0	-6,2	-9,1
Result before tax		1,9	-2,8	2,1	4,8	7,0
Income tax revenue (+) /expense (-)		-0,7	0,6	-1,0	-1,3	-2,4
Result for the period		1,2	-2,2	1,2	3,5	4,6

Consolidated statement of comprehensive income

(NOK million)		Unaudited 3Q16	Unaudited 3Q15	Unaudited YTD 2016	Unaudited YTD 2015	Audited 2015
Net result for the period		1,2	-2,2	1,2	3,5	4,6
<i>Items to be reclassified to profit or loss:</i>						
Exchange differences or trans. Of foreign op.		-0,1	0,1	0,3	-0,2	-0,1
Net items to be reclassified to profit or loss		-0,1	0,1	0,3	-0,2	-0,1
<i>Items not be reclassified to profit or loss</i>						
Other comprehensive income net of tax		-	-	-	-	-
Total comprehensive income, net of tax		1,1	-2,0	1,5	3,3	4,5
Attribute to						
Owners of the parent		1,1	-2,0	1,5	3,3	4,5
Non controlling interest	5	-	-	-	-	-
		1,1	-2,0	-	3,3	4,5
Earnings per share (NOK) 1)		0,01	-0,02	0,00	0,03	0,05
Diluted earnings per share (NOK) 1)		0,01	-0,02	0,00	0,03	0,05

1) Total shares: 95,505,525

Consolidated statement of financial position

(NOK million)	Note	<i>Unaudited</i> 30.9.16	<i>Unaudited</i> 30.9.15	<i>Audited</i> 31.12.15
ASSETS:				
Non-current assets:				
Property, plant and equipment	3	4,0	3,1	3,3
Intangible assets	3, 6	29,2	22,1	24,2
Total non-current assets		33,3	25,3	27,5
Current assets:				
Inventories		6,3	5,7	5,7
Trade receivables		40,9	43,5	61,2
Contracts in progress	2	33,2	76,6	42,4
Other Receivables		14,0	7,1	12,2
Cash and cash equivalents		3,0	5,4	19,5
Total current assets		97,3	138,4	140,9
Total assets		130,6	163,7	168,4

(NOK million)	Note	<i>Unaudited</i> 30.9.16	<i>Unaudited</i> 30.9.15	<i>Audited</i> 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		-0,1	0,3	0,0
Retained earnings		-36,6	-38,3	-37,0
Non - controlling interest		-	-	-
Total equity		50,3	49,0	50,0
Liabilities				
Deferred tax liabilities	7	4,0	2,1	3,6
Long term borrowings	8	1,4	0,7	0,7
Total non-current liabilities		5,4	2,7	4,3
Current liabilities				
Current borrowings	9	0,1	0,1	-
Trade creditors		21,1	30,1	36,7
Contract accruals	2	16,8	38,7	27,7
Unrealised change fair value FX derivatives	4	1,5	12,7	9,4
Income tax payable		0,4	0,9	0,5
Bank overdraft		26,5	23,3	27,3
Other Current liabilities		8,6	6,2	12,5
Total Current Liabilities		75,0	111,9	114,1
Total liabilities		80,4	114,6	118,4
Total equity and liabilities		130,6	163,7	168,4

Consolidated statement of change in equity

Unaudited

(NOK million)	Share Capital	Share Premium	Other cap. Reserves	Trans Diff	Retained Earnings	Total	Non-Control. Interest
30.9.16							
Equity at 31.12.2015	9,6	77,5	0,4	0,0	-37,6	49,8	-
Result for the period	-	-	-	-0,1	1,2	1,1	-0,0
Stock issue	-	-	-	-	-	-	-
Other Comprehensive income	-	-	-	-	-0,6	-0,6	-
Total Comprehensive income	-	-	-	-0,1	0,6	0,5	-0,0
Equity at end of period	9,6	77,5	0,4	-0,1	-37,0	50,3	-0,0

Unaudited

(NOK million)	Share Capital	Share Premium	Other cap. Reserves	Trans Diff	Retained Earnings	Total	Non-Control. Interest
30.9.15							
Equity at 31.12.2014	9,6	77,5	-	0,1	-42,0	45,1	-
Result for the period	-	-	-	0,2	3,5	3,6	-
Other Comprehensive income	-	-	-	0,3	-	0,3	-
Total Comprehensive income	-	-	-	0,4	3,5	3,9	-
Equity at end of period	9,6	77,5	-	0,6	-38,6	49,0	-

Consolidated cash flow statement

(NOK million)	Unaudited 3Q16	Unaudited 3Q15	Audited 2015
<i>Profit before income tax</i>	1,9	-2,8	7,0
Net cash flow from operating activities	0,9	6,0	24,7
Net cash flow from investing activities	-2,3	-1,1	-9,4
Net cash flow from financing activities	2,4	-3,7	0,3
Net change in cash and cash equivalents	1,0	1,1	15,7
Cash and cash equivalents at start of period	2,0	4,3	3,8
Cash and cash equivalents at end of period	3,0	5,4	19,5

Selected explanatory notes

Note 1 General information

This interim financial information for the second quarter, ended 30 September 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 28 November 2016.

Note 2 Sales

(NOK million)	<i>Unaudited</i> 3Q16	<i>Unaudited</i> 3Q15	<i>Unaudited</i> YTD16	<i>Unaudited</i> YTD15	<i>Audited</i> 2015
Project revenue	26,4	30,4	73,1	99,8	131,7
Aftersales	21,9	19,6	60,1	46,1	68,6
Sales	48,4	50,0	133,2	145,9	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> 30.9.16	<i>Unaudited</i> 30.9.15	<i>Audited</i> 31.12.15
Acc. Project contract revenue recognised as revenue	328,9	274,7	323,4
Acc. Related cost accrued	223,7	189,4	218,3
Acc. Recognised profit / loss from contracts in progress	105,2	85,2	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> 30.9.16	<i>Unaudited</i> 30.9.15	<i>Audited</i> 31.12.15
Contract in progress	33,2	76,6	42,4
Contract accruals	-16,8	-38,7	-27,7
Net work in progress	16,5	37,9	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)					
1.1.2016 - 30.9.2016	Projects	Aftersales	Admin & other	Elimination	Total
Revenue	73,1	78,1	-	-18,0	133,2
Total revenue	73,1	78,1	-	-18,0	133,2
Cost of sales	-54,2	-53,0	-	12,7	-94,6
Employee expenses	-13,5	-9,0	-1,0	2,6	-20,9
Other Operating expenses	-7,3	-9,3	-2,2	3,5	-15,3
EBITDA	-1,9	6,7	-3,1	-	2,4
Depreciation and amortisation	-1,7	-0,0	-	-	-1,7
OPERATING PROFIT	-3,6	6,7	-3,1	-	0,7
Net Contracts in progress	16,5	-	-	-	16,5
Total assets *	122,8	36,3	118,2	-146,7	130,6
Investments in non-current assets	6,1	-	-	-0,2	5,9

Unaudited

(NOK million)					
1.1.2015 - 30.9.2015	Projects	Aftersales	Admin & other	Elimination	Total
Revenue	99,8	54,2	-	-8,1	145,9
Total revenue	99,8	54,2	-	-8,1	145,9
Cost of sales	-71,9	-35,0	-	7,5	-99,4
Employee expenses	-13,2	-6,0	-1,2	-	-20,4
Other Operating expenses	-9,6	-7,3	-1,3	0,6	-17,6
EBITDA	5,1	5,9	-2,5	-	8,5
Depreciation and amortisation	-0,9	-0,4	-	-	-1,3
OPERATING PROFIT	4,1	5,5	-2,5	-	7,2
Net Contracts in progress	37,9	-	-	-	37,9
Total assets *	143,1	16,9	246,0	-242,3	163,7
Investments in non-current assets	3,8	-	-	-	3,8

*) 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> 3Q16	<i>Unaudited</i> 3Q15	<i>Unaudited</i> YTD16	<i>Unaudited</i> YTD15	<i>Audited</i> 2015
Depreciation - fixed assets	0,3	0,3	0,8	0,8	1,2
Amortisation - Product Development	0,3	0,3	0,9	0,5	0,7
Impairment - Product Development	-	-	-	-	0,8
Total Depreciation and amortisation	0,6	0,6	1,7	1,3	2,7

Note 4 Financial items

Finance income

(NOK million)	<i>Unaudited</i> 3Q16	<i>Unaudited</i> 3Q15	<i>Unaudited</i> YTD16	<i>Unaudited</i> YTD15	<i>Audited</i> 2015
Interest Income	-	-	-	-	0,0
Foreign exchange gain	0,8	3,2	1,4	5,8	6,4
Gain on derivatives	-	-	-	0,1	-
Total Finance Income	0,8	3,2	1,4	5,9	6,4

Finance Cost

(NOK million)	<i>Unaudited</i> 3Q16	<i>Unaudited</i> 3Q15	<i>Unaudited</i> YTD16	<i>Unaudited</i> YTD15	<i>Audited</i> 2015
Interest Expense	0,3	0,2	0,9	0,7	0,7
Foreign exchange loss	1,3	1,3	2,8	4,2	4,4
Loss on FX derivatives	2,1	1,2	4,3	1,3	3,9
Other financial cost	-	-	-	0	0
Total Finance costs	3,7	2,6	8,0	6,2	9,1

Unrealised change in FX derivatives

(NOK million)	<i>Unaudited</i> 3Q16	<i>Unaudited</i> 3Q15	<i>Unaudited</i> YTD16	<i>Unaudited</i> YTD15	<i>Audited</i> 2015
Unrealised Increase of fair value of FX derivate	3,4	-	7,9	-	1,1
Unrealised decrease in fair value of FX derivati	-	-8,1	-	-2,1	-
Net unrealised change in FX derivatives	3,4	-8,1	7,9	-2,1	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)	30.9.16 Level 2	30.9.15 Level 2	31.12.15 Level 2
Forward FX contracts	0,1	-3,2	-2,4
Other FX derivatives	-1,6	-9,4	-7,1
Net	-1,5	-12,7	-9,4

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

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 3Q16 was NOK 0.0m, pre-tax result NOK -0.0m. Total assets in CHX Maritime was NOK 3.8m as of 30 September 2016 and total equity was NOK -0.1m.

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

<i>Unaudited</i> (NOK million)	<i>Unaudited</i> 30.9.16	<i>Unaudited</i> 30.9.15	<i>Audited</i> 31.12.15
Bank overdraft facility	26,5	23,3	27,3
Current portion of long-term debt	-	0,1	-
Long term debt - non-current	1,4	0,7	0,7
Balance at the end of Period	27,9	24,0	28,0

The Bank overdraft facility has a limit of NOK 29.1m.

Note 9 Subsequent events

Scanship has signed contracts after the end of 3Q16 that amounts to approx. NOK 30.0m in revenue.

In November 2016 Scanship announced that it had initiated a process to evaluate strategic alternatives with the purpose of enhancing shareholder values and has engaged Arkwright Corporate Finance AS as financial and strategic advisor.

In November 2016 Erik Magelssen was appointed new CFO and will take up his position no later than 1 march 2017.

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

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