

SCANSHIP HOLDING ASA  
Quarterly Report – 2Q 2016



# SCANSHIP HOLDING ASA

## Quarterly report – 2<sup>nd</sup> Quarter 2016

### Key Financial Information 2Q16

(NOK million)	<i>Unaudited</i> <b>2Q16</b>	<i>Unaudited</i> <b>2Q15</b>	<i>Unaudited</i> <b>YTD2016</b>	<i>Unaudited</i> <b>YTD2015</b>	<i>Audited</i> <b>2015</b>
Total Revenue	45.0	50.3	84.8	95.9	200.3
Gross Margin %	30 %	31 %	31 %	29 %	32 %
EBITDA	0.3	3.4	0.5	3.3	11.3
Operating Profit (EBIT)	-0.2	2.9	-0.6	2.5	8.6
Profit bf. Tax	0.2	1.5	0.3	7.6	7.0
Project Backlog	198	221	198	221	226
Total Assets	138.3	160.9	138.3	160.9	168.4
Equity ratio	36 %	31 %	36 %	31 %	30 %

Scanship's total revenues was approx. 10% lower in 2Q16 compared to 2Q15. Revenues from the Aftersales segment has increased by 38% compared to 2Q15. Revenues from the Project segment has decreased by 31% compared to 2Q15, mainly due to delays in contract awards and high activity with project tendering and R&D.

The gross margin in 2Q16 was NOK 13.5m (30%) compared to NOK 15.7m (31%) in 2Q15.

EBITDA in 2Q16 was NOK 0.3m compared to NOK 3.4m in 2Q15.

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 2Q16 was NOK 1.6m, compared to a loss of NOK -0.7m in 2Q15. Financial instruments realised in 2Q16 incurred a net loss of NOK -0.7m compared to a loss of NOK -0.1m in 2Q15.

Net cash flow from operations was NOK 2.8m in 2Q16 compared to NOK -5.5m in 2Q15.

### Order Backlog

The order backlog at the end of 2Q16 was NOK 198m compared to NOK 221m at the end of 2Q15.

### 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 2Q16 Scanship delivered equipment to Meyer Werft for the second newbuild construction for Dream Cruises, a subsidiary of Genting Group. During the same period, Scanship completed

the retrofit installation aboard Oceania Sirena, a subsidiary of NCL Holding. Scanship further did commission the systems aboard Harmony of the Sea, Ovation of the Seas, Carnival Vista, Viking Sea and Mein Schiff 5, resulting in an all-time high activity at the shipyard.

Scanship was during the quarter awarded contracts for delivery of total clean ship systems for two cruise vessels at an Italian shipyard. The main delivery of equipment will take place in 2017 and in 2018.

## Product Development

Scanship's two main development project during 2Q16 has been Microwave Assisted Pyrolysis ("MAP") and exhaust gas management system through the 70% owned company CHX Maritime Inc.

Scanship has invested NOK 2.1m in 2Q16 on its product development activities compared to NOK 1.7m 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 previous high contracting activity's between shipyards and ship-owners, Scanship has experienced high project development and tendering activity throughout second and third quarter including activities towards more than 10 newbuild series with a potential of more than 20 newbuild projects. In addition, several retrofit projects have been offered. The company continues its high tendering activity.

The newbuilding market continues to grow, and by the second quarter the total industry newbuilding order book hit a record high volume of \$42 billion.

The new shipyard MV Werften, acquired by Genting Group, reports an order book containing 10 cruise vessels for delivery the next 5 years. Ponant Cruises and Hurtigruten have signed newbuild contracts at the Norwegian yards Vard and Kleven respectively. We see that the capacity for cruise ship newbuilding is increasing.

Scanship is well positions to take on more orders and expects to enter into more contracts during the third quarter.

Lysaker, 30 August 2016

The Board of Directors for Scanship Holding ASA

## Consolidated income statement

(NOK million)	Note	Unaudited 2Q16	Unaudited 2Q15	Unaudited YTD 2016	Unaudited YTD 2015	Audited 2015
Revenue	2	45,0	50,3	84,8	95,9	200,3
<b>Total operating revenue</b>		<b>45,0</b>	<b>50,3</b>	<b>84,8</b>	<b>95,9</b>	<b>200,3</b>
Cost of goods sold		-31,5	-34,6	-58,5	-68,1	-136,4
<b>Gross Margin</b>		<b>13,5</b>	<b>15,7</b>	<b>26,3</b>	<b>27,8</b>	<b>63,9</b>
Gross Margin		30 %	31 %	31 %	29 %	32 %
Employee expenses		-6,9	-6,1	-14,4	-12,9	-28,1
Other operating expenses		-6,3	-6,2	-11,4	-11,6	-24,5
<b>EBITDA</b>		<b>0,3</b>	<b>3,4</b>	<b>0,5</b>	<b>3,3</b>	<b>11,3</b>
Depreciation and amortisation	3	-0,5	-0,5	-1,1	-0,8	-2,7
<b>Operating profit (EBIT)</b>		<b>-0,2</b>	<b>2,9</b>	<b>-0,6</b>	<b>2,5</b>	<b>8,6</b>
Finance income	4	0,5	0,7	0,6	2,7	6,4
Fair value changes FX derivatives	4	1,6	-0,7	4,5	6,0	1,1
Finance costs	4	-1,6	-1,4	-4,3	-3,6	-9,1
<b>Result before tax</b>		<b>0,2</b>	<b>1,5</b>	<b>0,3</b>	<b>7,6</b>	<b>7,0</b>
Income tax revenue (+) /expense (-)		-0,2	-0,1	-0,3	-1,9	-2,4
<b>Result for the period</b>		<b>0,0</b>	<b>1,4</b>	<b>0,0</b>	<b>5,7</b>	<b>4,6</b>

## Consolidated statement of comprehensive income

(NOK million)		Unaudited 2Q16	Unaudited 2Q15	Unaudited YTD 2016	Unaudited YTD 2015	Audited 2015
Net result for the period		-0,0	1,4	-0,0	5,7	4,6
<i>Items to be reclassified to profit or loss:</i>						
Exchange differences or trans. Of foreign op.		0,3	0,1	0,0	-0,2	-0,1
<b>Net items to be reclassified to profit or loss</b>		<b>0,3</b>	<b>0,1</b>	<b>0,0</b>	<b>-0,2</b>	<b>-0,1</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>-</b>
<b>Total comprehensive income, net of tax</b>		<b>0,3</b>	<b>1,5</b>	<b>-0,0</b>	<b>5,5</b>	<b>4,5</b>
<b>Attribute to</b>						
Owners of the parent		0,3	1,5	-0,0	5,5	4,5
Non controlling interest	5	-	-	-	-	-
		<b>0,3</b>	<b>1,5</b>	<b>-</b>	<b>5,5</b>	<b>4,5</b>
Earnings per share (NOK) 1)		0,00	0,02	0,00	0,06	0,05
Diluted earnings per share (NOK) 1)		0,00	0,02	0,00	0,06	0,05

1) Total shares: 95,505,525

## Consolidated statement of financial position

(NOK million)	Note	<i>Unaudited</i> 30.6.16	<i>Unaudited</i> 30.6.15	<i>Audited</i> 31.12.15
<b>ASSETS:</b>				
<b>Non-current assets:</b>				
Property, plant and equipment	3	4.1	3.1	3.3
Intangible assets	3, 6	27.5	21.4	24.2
<b>Total non-current assets</b>		<b>31.5</b>	<b>24.5</b>	<b>27.5</b>
<b>Current assets:</b>				
Inventories		7.1	5.9	5.7
Trade receivables		53.1	35.3	61.2
Contracts in progress	2	29.0	84.9	42.4
Other Receivables		15.5	6.0	12.2
Cash and cash equivalents		2.0	4.3	19.5
<b>Total current assets</b>		<b>106.8</b>	<b>136.4</b>	<b>140.9</b>
<b>Total assets</b>		<b>138.3</b>	<b>160.9</b>	<b>168.4</b>

(NOK million)	Note	<i>Unaudited</i> 30.6.16	<i>Unaudited</i> 30.6.15	<i>Audited</i> 31.12.15
<b>EQUITY AND LIABILITIES</b>				
<b>Equity:</b>				
Share capital		9.6	9.6	9.6
Share premium		77.5	77.5	77.5
Translation difference		0.3	-	0.0
Retained earnings		-37.2	-36.1	-37.0
Non - controlling interest		-	-	-
<b>Total equity</b>		<b>50.1</b>	<b>50.9</b>	<b>50.0</b>
<b>Liabilities</b>				
Deferred tax liabilities	7	3.7	3.4	3.6
Long term borrowings	8	1.4	0.7	0.7
<b>Total non-current liabilities</b>		<b>5.1</b>	<b>4.1</b>	<b>4.3</b>
<b>Current liabilities</b>				
Trade creditors		28.9	13.2	36.7
Contract accruals	2	13.5	54.1	27.7
Unrealised change fair value FX derivatives	4	4.9	4.5	9.4
Income tax payable		0.3	-	0.5
Bank overdraft		24.1	27.0	27.3
Other Current liabilities		11.3	7.1	12.5
<b>Total Current Liabilities</b>		<b>83.1</b>	<b>105.9</b>	<b>114.1</b>
<b>Total liabilities</b>		<b>88.2</b>	<b>110.0</b>	<b>118.4</b>
<b>Total equity and liabilities</b>		<b>138.3</b>	<b>160.9</b>	<b>168.4</b>

## Consolidated statement of change in equity

### Unaudited

(NOK million)	Share Capital	Share Premium	Other cap. Reserves	Trans Diff	Retained Earnings	Total	Non-Control. Interest
<b>30.6.16</b>							
Equity at 31.12.2015	9,6	77,5	0,4	0,0	-37,6	49,8	-
Result for the period	-	-	-	0,3	-0,0	0,3	-0,0
<b>Total Comprehensive income</b>	-	-	-	<b>0,3</b>	<b>-0,0</b>	<b>0,3</b>	<b>-0,0</b>
<b>Equity at end of period</b>	<b>9,6</b>	<b>77,5</b>	<b>0,4</b>	<b>0,3</b>	<b>-37,6</b>	<b>50,1</b>	<b>-0,0</b>

### Unaudited

(NOK million)	Share Capital	Share Premium	Other cap. Reserves	Trans Diff	Retained Earnings	Total	Non-Control. Interest
<b>30.6.15</b>							
Equity at 31.12.2014	9,6	77,5	-	0,1	-42,0	45,1	-
Result for the period	-	-	-	-0,2	5,7	5,5	-
Other Comprehensive income	-	-	-	0,3	-	0,3	-
<b>Total Comprehensive income</b>	-	-	-	<b>0,1</b>	<b>5,7</b>	<b>5,7</b>	-
<b>Equity at end of period</b>	<b>9,6</b>	<b>77,5</b>	-	<b>0,2</b>	<b>-36,3</b>	<b>50,9</b>	-

## Consolidated cash flow statement

(NOK million)	Unaudited 2Q16	Unaudited 2Q15	Audited 2015
<i>Profit before income tax</i>	0.2	1.5	7.0
Net cash flow from operating activities	2.8	-5.5	24.7
Net cash flow from investing activities	-2.2	-2.7	-9.4
Net cash flow from financing activities	-3.0	8.8	0.3
<b>Net change in cash and cash equivalents</b>	<b>-2.4</b>	<b>0.6</b>	<b>15.7</b>
Cash and cash equivalents at start of period	4.4	3.7	3.8
<b>Cash and cash equivalents at end of period</b>	<b>2.0</b>	<b>4.3</b>	<b>19.5</b>

## Selected explanatory notes

### Note 1 General information

This interim financial information for the second quarter, ended 30 June 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 30 August 2016.

### Note 2 Sales

(NOK million)	<i>Unaudited</i> <b>2Q16</b>	<i>Unaudited</i> <b>2Q15</b>	<i>Unaudited</i> <b>YTD16</b>	<i>Unaudited</i> <b>YTD15</b>	<i>Audited</i> <b>2015</b>
Project revenue	24.3	35.3	46.7	69.5	131.7
Aftersales	20.7	15.0	38.1	26.4	68.6
<b>Sales</b>	<b>45.0</b>	<b>50.3</b>	<b>84.8</b>	<b>95.9</b>	<b>200.3</b>

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> <b>30.6.16</b>	<i>Unaudited</i> <b>30.6.15</b>	<i>Audited</i> <b>31.12.15</b>
Acc. Project contract revenue recognised as revenue	302.4	244.3	323.4
Acc. Related cost accrued	205.3	169.5	218.3
<b>Acc. Recognised profit / loss from contracts in progress</b>	<b>97.1</b>	<b>74.8</b>	<b>105.1</b>

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> <b>30.6.16</b>	<i>Unaudited</i> <b>30.6.15</b>	<i>Audited</i> <b>31.12.15</b>
Contract in progress	29.0	84.9	42.4
Contract accruals	-13.5	-54.1	-27.7
<b>Net work in progress</b>	<b>15.5</b>	<b>30.8</b>	<b>14.7</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.

### Unaudited

(NOK million)					
1.1.2016 - 30.6.2016	Projects	Aftersales	Admin & other	Elimination	Total
Revenue	46.7	49.4	-	-11.3	84.8
<b>Total revenue</b>	<b>46.7</b>	<b>49.4</b>	<b>-</b>	<b>-11.3</b>	<b>84.8</b>
Cost of sales	-33.8	-33.4	-	8.6	-58.6
Employee expenses	-8.6	-5.9	-2.4	2.6	-14.4
Other Operating expenses	-4.3	-6.4	-2.1	1.4	-11.4
<b>EBITDA</b>	<b>-0.0</b>	<b>3.7</b>	<b>-4.5</b>	<b>-</b>	<b>0.5</b>
Depreciation and amortisation	-1.1	-0.0	-	-	-1.1
<b>OPERATING PROFIT</b>	<b>-1.1</b>	<b>3.7</b>	<b>-4.5</b>	<b>-</b>	<b>-0.6</b>
Net Contracts in progress	15.5	-	-	-	15.5
Total assets *	129.7	32.1	118.8	-138.3	142.4
Investments in non-current assets	2.3	-	-	-0.2	2.1

### Unaudited

(NOK million)					
1.1.2015 - 30.6.2015	Projects	Aftersales	Admin & other	Elimination	Total
Revenue	69.5	31.9	-	-5.5	95.9
<b>Total revenue</b>	<b>69.5</b>	<b>31.9</b>	<b>-</b>	<b>-5.5</b>	<b>95.9</b>
Cost of sales	-52.7	-20.5	-	5.1	-68.1
Employee expenses	-8.7	-3.3	-1.0	-	-13.0
Other Operating expenses	-6.3	-4.6	-1.1	0.5	-11.5
<b>EBITDA</b>	<b>1.8</b>	<b>3.5</b>	<b>-2.1</b>	<b>0.1</b>	<b>3.3</b>
Depreciation and amortisation	-0.6	-0.2	-	-	-0.8
<b>OPERATING PROFIT</b>	<b>1.2</b>	<b>3.3</b>	<b>-2.1</b>	<b>0.1</b>	<b>2.5</b>
Net Contracts in progress	30.8	-	-	-	30.8
Total assets *	155.2	13.6	247.0	-254.9	160.9
Investments in non-current assets	1.7	-	-	-	1.7

\*) 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> <b>2Q16</b>	<i>Unaudited</i> <b>2Q15</b>	<i>Unaudited</i> <b>YTD16</b>	<i>Unaudited</i> <b>YTD15</b>	<i>Audited</i> <b>2015</b>
Depreciation - fixed assets	0,2	0,3	0,5	0,4	1,2
Amortisation - Product Development	0,3	0,2	0,6	0,3	0,7
Impairment - Product Development	-	-	-	-	0,8
<b>Total Depreciation and amortisation</b>	<b>0,5</b>	<b>0,5</b>	<b>1,1</b>	<b>0,8</b>	<b>2,7</b>

## Note 4 Financial items

### Finance income

(NOK million)	<i>Unaudited</i> <b>2Q16</b>	<i>Unaudited</i> <b>2Q15</b>	<i>Unaudited</i> <b>YTD16</b>	<i>Unaudited</i> <b>YTD15</b>	<i>Audited</i> <b>2015</b>
Interest Income	-	-	-	-	0.0
Foreign exchange gain	0.5	0.7	0.6	2.6	6.4
Gain on derivatives	-	-	-	0.1	-
<b>Total Finance Income</b>	<b>0.5</b>	<b>0.7</b>	<b>0.6</b>	<b>2.7</b>	<b>6.4</b>

### Finance Cost

(NOK million)	<i>Unaudited</i> <b>2Q16</b>	<i>Unaudited</i> <b>2Q15</b>	<i>Unaudited</i> <b>YTD16</b>	<i>Unaudited</i> <b>YTD15</b>	<i>Audited</i> <b>2015</b>
Interest Expense	0.3	0.4	0.6	0.5	0.7
Foreign exchange loss	0.6	0.9	1.5	3.0	4.4
Loss on FX derivatives	0.7	0.1	2.2	0.1	3.9
Other financial cost	-	-	-	0.0	0.0
<b>Total Finance costs</b>	<b>1.6</b>	<b>1.4</b>	<b>4.3</b>	<b>3.6</b>	<b>9.1</b>

### Unrealised change in FX derivatives

(NOK million)	<i>Unaudited</i> <b>2Q16</b>	<i>Unaudited</i> <b>2Q15</b>	<i>Unaudited</i> <b>YTD16</b>	<i>Unaudited</i> <b>YTD15</b>	<i>Audited</i> <b>2015</b>
Unrealised Increase of fair value of FX derivate:	1.6	-	4.5	6.0	1.1
Unrealised decrease in fair value of FX derivativ	-	-0.7	-	-	-
<b>Net unrealised change in FX derivatives</b>	<b>1.6</b>	<b>-0.7</b>	<b>4.5</b>	<b>6.0</b>	<b>1.1</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 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)	<b>30.6.16</b> <b>Level 2</b>	<b>30.6.15</b> <b>Level 2</b>	<b>31.12.15</b> <b>Level 2</b>
Forward FX contracts	-0.2	-2.1	-2.4
Other FX derivatives	-4.7	-2.4	-7.1
<b>Net</b>	<b>-4.9</b>	<b>-4.5</b>	<b>-9.4</b>

The company has FX derivative contracts with nominal amounts of EUR 4.9m, whereas EUR 0.7m are due in 2H16 and EUR 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 2Q16 was NOK 0.0m, pre-tax result NOK -0.0m. Total assets in CHX Maritime was NOK 4.0m as of 30 June 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>(NOK million)</i>	<i>Unaudited</i> <b>30.6.16</b>	<i>Unaudited</i> <b>30.6.15</b>	<i>Audited</i> <b>31.12.15</b>
Bank overdraft facility	24,1	27,0	27,3
Long term debt - non-current	1,4	0,7	0,7
<b>Balance at the end of Period</b>	<b>25,5</b>	<b>27,7</b>	<b>28,0</b>

## Note 9 Subsequent events

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

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