SCANSHIP
Sustainable Solutions

SCANSHIP HOLDING ASA

Quarterly Report - Q1 2014

Purified beyond Compliance
Powered by Waste

SCANSHIP HOLDING ASA

Quarterly report - 1st Quarter 2014

"New contracts and margin improvements"

Financial Information Q1 2014

Key financial figures

Consolidated in TNOK	Q1 2014	Q1 2013
Total Revenue	34 885	38 725
Grossmargin %	36%	26%
EBITDA	2 427	1 977
Operating Profit (EBIT)	2 241	1 719
Profit before Tax	2 417	-215
Total Assets	108 084	82 101

During Q1 Scanship was awarded two contracts at Meyer Werft for delivery of advanced waste water purification systems for Star Cruises. The systems will be delivered to two cruise vessels ordered by Star Cruises with equipment delivery in 2015 and 2016 respectively. The vessels will carry 6 500 people.

The group had a lower revenue in Q1 2014 compared to the same period in 2013. The sale of spare parts and chemicals increased 16% and 25% respectively compared to Q1 2013. The revenue from service jobs were lower than in Q1 2013.

The gross margin has improved to 36% in Q1 2014, up from 26% in Q1 2013.

The Group has revenue in NOK, EUR and USD, and is reducing the currency exposure by applying financial instruments for hedging foreign currency. These financial instruments had an increase of fair value in Q1 2014 of TNOK 2 554, and a realized loss of TNOK 1 252.

Scanship has increased its research and development (R&D) activities to TNOK 1 918 in Q1 2014 compared to TNOK 469 in Q1 2013. This is scheduled to further increase in the coming quarters, as the funding for additional R&D has been secured through the successful IPO in April 2014.

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, and the products are increasingly being requested from the merchant fleet and off-shore industry. Modern cruise ships generate substantial amount of wet and dry waste which should 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 and Victoria, Canada. Scanship also has warehouse facilities in Tønsberg, Norway and Miami, USA.

During Q1 2014, Scanship has delivered AWP to STX France for the construction of Oasis III (Newbuikd) – the world's largest cruise vessel, carrying 8.460 people. The Scanship AWP system meets the upcoming requirements both in IMO Marpol and the Baltic Sea *MEPC 227(64)*, as the first in the industry for these vessels.

Scanship installed AWP at Vision of the Seas (RCCL, Retrofit), the last in the Vision class all of which are obtaining our system. The compliance period is scheduled to 2nd quarter of 2014. Together with the Voyager class, Scanship has successfully delivered the system to 9 vessels since 2010, with accumulated revenue of approximately 220 MNOK.

Financing

Scanship Holding ASA, had per 31.03.2014 a loan with DNB of TNOK 30 000, and the subsidiary, Scanship AS, had per 31.03.2013 a bank overdraft facility of TNOK 19 100.

The Loan is scheduled for a TNOK 10.000 down payment in August 2014. The overdraft facility will be reduced by TNOK 10.000 in June 2014.

On 11 April Scanship Holding ASA successfully completed an IPO, whereas the company raised TNOK 80 000 in gross proceeds from new equity and listed the company on Oslo Axess. The share issue has strengthened the working capital, and will enable Scanship to meet the increased demand as well as fund the planned research & development projects.

Market Outlook

Scanship has a positive view on the market outlook. Ship-owners are placing orders to build new ships, ship retrofits are being requested, and a larger sales team in Scanship is reaching out to new clients and new markets.

Lysaker, 15 May 2014

The Board of Directors for Scanship Holding ASA

Consolidated income statement

(NOK 1000)	Note	*Unaudited* Q1 2014 Jan-Mar	*Unaudited* Q1 2013 Jan-Mar	*Audited* 2013 Jan-Dec
Revenue	2	34 885	38 725	169 974
Total operating revenue		**34 885**	**38 725**	**169 974**
Cost of goods sold		-22 407	-28 527	-116 979
GM (%)		36 %	26 %	31 %
Employee expenses		-5 207	-4 249	-16 278
Other operating expenses		-4 844	-3 972	-15 735
EBITDA		**2 427**	**1 977**	**20 982**
EBITDA (%)		7 %	5 %	12 %
Depriciation and amortisation		-186	-258	-1 092
Operating profit (EBIT)		**2 241**	**1 719**	**19 890**
Finance income	3	2 630	240	3 042
Finance costs	3	-2 455	-2 174	-15 744
Profit before tax		**2 417**	**-215**	**7 188**
Income tax expense		-231	61	-2 043
Profit for the period		**2 186**	**-154**	**5 146**

Consolidated statement of comprehensive income

	Unaudited Q1 2014 Jan-Mar	*Unaudited* Q1 2013 Jan-Mar	*Audited* 2013 Jan-Dec
Net profit for the period	2 186	-154	5 146
Items to be reclassified to profit or loss:			
Exchange differances or trans. Of foreign op.	-58		19
Net items to be reclassifies to profit or loss			
Items not be reclassified to profit or loss			
Other comprehensive income net of tax			
Total comprehensive income, net of tax	**2 128**	**-154**	**5 165**
Attribute to			
Owners of the parent	2 128	-123	5 165
Non controlling interest		-31	
	2 128	-154	5 165
Earnings per share 1)	0,89	-0,06	2,14
Diluted earnings per share 1)	0,89	-0,06	2,14

1) Earnings per shares according to number of shares per 31.03.2014

Consolidated statement of financial position

(NOK 1000)	Note	*Unaudited* 31.03.2014	*Unaudited* 31.03.2013	*Audited* 31.12.2013
ASSETS:				
Non-current assets:				
Property, plant and equipment		1 504	2 249	1 574
Intangible assets	4	14 421	9 623	12 503
Total non-current assets		**15 925**	**11 872**	**14 077**
Current assets:				
Inventories		5 516	4 420	5 109
Trade receivables		26 661	13 452	23 809
Contracts in progress	2	53 375	44 773	52 195
Other Receivables		5 117	5 456	5 035
Cash and cash equivalents		1 708	2 128	1 177
Total current assets		92 377	70 229	87 325
Total assets		**108 302**	**82 101**	**101 401**
EQUITY AND LIABILITIES				
Equity:				
Share Capital		202	202	202
Translation difference		-492		-434
Retained earnings		-18 941	-26 427	-21 127
Total equity		**-19 232**	**-26 225**	**-21 360**
Liabilities				
Deferred tax liabilities		7 474	6 626	6 817
Long term borrowings	5	19 967	29 900	19 967
Total non-current liabilities		**27 441**	**36 525**	**26 783**
Current liabilities				
Current borrowings	5	10 000	-	10 000
Trade creditors	6	30 567	27 809	30 931
Contract accruals	2	24 686	17 490	22 058
Financial instruments	3	4 559	-402	7 114
Income tax payable		-	372	823
Bank overdraft		19 155	19 703	14 290
Other Current liabilities		11 125	6 829	10 762
Total Current Liabilities		**100 092**	**71 801**	**95 978**
Total liabilities		**127 533**	**108 326**	**122 761**
Total equity and liabilities		**108 302**	**82 101**	**101 401**

Consolidated statement of change in equity

(NOK 1000)

Unaudited **31 March 2014**	**Share Capital**	**Translation Differences**	**Retained Earnings**	**Total**	**Non-Control. Interest**	**Total Equity**
Equity as at 31 December 2013	202	-434	-21 127	-21 360	0	-21 360
Profit for the period		-58	2 186	2 128	0	2 128
Other Comprehensive income				0	0	0
Total Comprehensive income	**202**	**-492**	**2 186**	**2 128**	**0**	**2 128**
Dividends paid	0	0	0	0	0	0
Equity at end of period	**202**	**-492**	**-18 941**	**-19 233**	**0**	**-19 233**

Unaudited **31 March 2013**	**Share Capital**	**Translation Differences**	**Retained Earnings**	**Total**	**Non-Control. Interes**	**Total Equity**
Equity as at 31 December 2013	202	-453	-26 273	-26 273	0	-26 273
Profit for the period			-154	-154	0	-154
Other Comprehensive income		0		0	0	0
Total Comprehensive income	**202**	**-453**	**-154**	**-154**	**0**	**-154**
Dividends paid	0	0	0	0	0	0
Equity at end of period	**202**	**-453**	**-26 427**	**-26 225**	**0**	**-26 225**

Consolidated cash flow statement

(NOK 1000)	**Q1 2014**	**Q1 2013**	**2013**
	Unaudited	Unaudited	Audited
Profit before income tax	2 417	-215	7 188
Adjustments:			
Net cash flow from operating activities	-2 301	-3 202	4 371
Net cash flow from investing activities	-2 033	-604	-3 715
Net change in cash and cash equivalents	**-4 334**	**-3 806**	**656**
Cash and cash equivalents at 1 January	-13 113	-13 769	-13 769
Cash and cash equivalents at end of period	**-17 447**	**-17 575**	**-13 113**

Selected explanatory notes

Note 1 General information

This interim financial information for the first quarter, ended March 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 15 May 2014.

Note 2 Sales

	Unaudited	*Unaudited*	*Audited*
(NOK 1000)	**Q1 2014**	**Q1 2013**	**2013**
Project revenue	27 890	30 048	130 477
After Sales	6 995	8 677	39 498
Sales	**34 885**	**38 725**	**169 974**

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

(NOK 1000)	**31.03.2014**	**31.12.2013**
Acc. Construction contract revenue recognised as revenue	198 510	170 622
Acc. Related cost accrued	132 946	115 430
Acc. Recognised profit / loss from contracts in progress	**65 564**	**55 192**

Recognised and included in the financial statements:

(NOK 1000)	**Q1 2014**	**Q1 2013**
Due from customers	53 375	44 773
Due to suppliers for contract work	-24 686	-17 490
Net work in progress	**28 689**	**27 283**

Scanship has back-to-back guarantees toward suppliers on both material and installation for construction contracts.

Note 3 Financial items

Finance Income:

(NOK 1000)	*Unaudited* Q1 2014	*Unaudited* Q1 2013	*Audited* 2013
Interest Income	0	-	67
Foreign exchange gain	76	240	2 975
Increase of fair value of derivates	2 554	-	-
Total Finance Income	**2 630**	**240**	**3 042**

Finance Cost

(NOK 1000)	*Unaudited* Q1 2014	*Unaudited* Q1 2013	*Audited* 2013
Interest Expense	768	1 079	4 405
Foreign exchange loss	435	1 037	2 036
Unrealized decrease in fair value of derivatives	-	58	8 203
Loss on derivatives	1 252	-	1 100
Total Finance costs	**2 455**	**2 174**	**15 744**

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 therefor recognised at fair value through profit and loss.

There are no initial transaction costs. The Group receives the fair value in cash if exercised at maturity. Contracts has a maturity until 2016.

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)	**31.03.2014** **Level 2**	**31.03.2013** **Level 2**	**31.12.2013** **Level 2**
Forward contracts	-1 027	115	-1 594
Forward option		1 025	
Derivatives	-3 532	-738	-5 520
Net	**-4 559**	**402**	**-7 114**

The company has derivative contracts with nominal amounts of MEUR 10.6, whereas MEUR 8.3 are due in Q2-Q4 2014, MEUR 0.1 in 2015 MEUR 0.5 in 2016. The derivatives are secured for a specific contract at contract date.

Note 4 Intangible assets, property plant and equipment

This consists of nine 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. Based on this internal valuation no impairment needed.

Property, plant and equipment have a useful life for 3-7 years and a linear depreciation method. No impairment needed.

Note 5 Borrowings

(NOK 1000)	**31. March 2014**	**31. March 2013**	**31 Dec 2013**
Current portion of long-term debt	10 000	29 900	10 000
Other interest bearing short-term debt	-	-	
Long term debt - non-current	19 967	-	19 967
Balance at the end of Period	**29 967**	**29 900**	**29 967**

The Group has per 31.03.2014 a loan with DNB of TNOK 30 000. The interest rate is floating currently 6,6 %. p.a. The Group has to pay an installment of TNOK 10 000 in August 2014 and TNOK 20 000 in August 2015.

Note 7 Subsequent events, going concern and disputes

Equity

The consolidated Annual Accounts for Q1 2014 show a negative equity of TNOK -19 700. However, Scanship Holding AS has a positive equity of TNOK 175 000 (company only), and the 100% owned subsidiary Scanship AS has a positive equity of TNOK 26 600. The negative equity in the Group derives from a share transaction in 2011.

Liquidity

The Group successfully raised TNOK 80 000 (gross) from the listing process in April, thereby secures the funds needed to meet the financial obligations, and gives the group the financial strengths to continue our developing projects in order to consolidate and enhance our strong position in the market place.

Outlook

The market outlook for the industry is good and the company has a good position in the market. The order reserve is significant, and Scanship is expecting significant growth.

The Company has not been involved in any material disputes.

Note 8 Segment information

The main part of the revenues comes from project revenues and after sales that are deliveries to vessels. Retrofit and new building are two separate operating segments as is aggregated to one reporting segment named project revenues .Transactions between units is 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.

1. January - 31 March 2014	System Sale	After sale	Admin & other	Elimination	Total
Revenue *1)	27 890	10 504	-339	-3 170	34 885
Total revenue	**27 890**	**10 504**	**-339**	**-3 170**	**34 885**
Cost of sales	-17 575	-7 012	-848	3 028	-22 407
Employee benefit expenses	-3 901	-1 306			-5 207
Other Operating expenses	-3 646	-1 340		142	-4 844
EBITDA	2 768	846	-1 187	0	2 427
Depriciation and amortisation	-183	-3			-186
OPERATING PROFIT	**2 585**	**843**	**-1 187**	**0**	**2 241**
Net Contracts in progress	28 689				28 689
Total assets *2)	117 556	6 016	223 122	-238 610	108 084
Investments in non-current asset	1 918				1 918

*1) In the segment of "Projects" the revenue is basically from five approximately equal-sized customers. There is no significant customers in the segment of "After sale".
*2) Elimination includes -221 256 as value of the shares in the subsidaries

1. January - 31 March 2013	System Sale	After sale	Admin & other	Elimination	Total
Revenue *1)	30 048	9 394	934	-1 651	38 725
Total revenue	**30 048**	**9 394**	**934**	**-1 651**	**38 725**
Cost of sales	-22 691	-5 746	-1 484	1 394	-28 527
Employee benefit expenses	-2 489	-1 760			-4 249
Other Operating expenses	-2 023	-2 206		257	-3 972
EBITDA	2 845	-318	-550	-	1 977
Depriciation and amortisation	-232	-26	-		-258
OPERATING PROFIT	**2 613**	**-344**	**-550**	**-**	**1 719**
Net Contracts in progress	28 083	-	-	-	28 083
Total assets *1)	97 030	4 855	222 021	-239 805	84 101
Investments in non-current asset	469				469

*1) Elimination includes -221 000 as value of the shares in the subsidaries

All revenues are external, except TNOK 1 651 of the after sale as is sales to subsidiaries.

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