

Financial Statement

Scan A/S
30. Sept 2018

Income Statement YTD Q3

(DKK 1000)

	01.01-30.09 2018	01.01-30.09 2017
OPERATING REVENUE AND COST		
Operating revenue		
Gross sales	109 481	109 388
Discounts	-38 366	-39 229
Net sales	71 114	70 159
Operating cost		
Direct materials	35 350	34 871
Direct personnel cost	8 142	9 580
Distribution costs	3 238	2 956
Sales commission	2 488	2 207
Contribution margin	21 896	20 545
Indirect production costs	11 629	13 045
Gross margin	10 266	7 500
Sales, general and administration costs	15 395	14 598
EBITDA	-5 129	-7 098
Non-recurring items	105	-46
EBITDA, incl. non-recurring items	-5 234	-7 052
Depreciation	6 160	6 368
Operating profit	-11 394	-13 420
 FINANCE REVENUE AND COST		
Financial income		
Other interest	28	14
TNMM adjustment	2 069	2 416
Other finance revenue	216	-101
Total financial income	2 313	2 329
Financial cost		
Interest cost shareholder loan	0	0
Other interest cost	549	617
Other financial cost	32	34
Total financial cost	581	651
NET FINANCIAL ITEMS	1 732	1 678
PROFIT BEFORE TAX	-9 662	-11 742
Income tax expenses	3 687	2 583
PROFIT FOR THE YEAR	-5 975	-9 159

Balance sheet per 30.09

(DKK 1000)

	30.09.2018	30.09.2017
ASSETS		
NON-CURRENT ASSETS		
Intangible fixed assets		
Trademark	22	156
Other intangible assets	9 565	17 843
Total intangible fixed assets	9 588	17 999
Tangible fixed assets		
Plant and equipment	12 598	15 491
Total tangible fixed assets	12 598	15 491
Financial fixed assets		
Other financial fixed assets	1 496	1 496
Total financial fixed assets	1 496	1 496
TOTAL NON-CURRENT ASSETS	23 682	34 987
CURRENT ASSETS		
Inventory	22 312	18 713
Receivables		
Accounts receivables	12 630	14 419
Other receivables	1 761	2 520
Total receivables	14 390	16 938
Bank and cash equivalents	1 843	793
TOTAL CURRENT ASSETS	38 546	36 444
TOTAL ASSETS	62 228	71 431

Balance sheet per 30.09

(DKK 1000)

	30.09.2018	30.09.2017
EQUITY AND LIABILITIES		
EQUITY		
Paid in capital		
Issued capital	11 000	10 000
Total paid in capital	11 000	10 000
Other equity		
Other equity/ retained earnings	-3 602	-2 804
Total other equity	-3 602	-2 804
TOTAL EQUITY	7 398	7 196
LIABILITIES		
NON-CURRENT LIABILITIES		
Provisions		
Deferred tax	-258	1 171
Total provisions	-258	1 171
Other non-current liabilities		
Interest bearing loans and borrowings	1 092	1 566
Total other non-current liabilities	1 092	1 566
TOTAL NON-CURRENT LIABILITIES	834	2 738
CURRENT LIABILITIES		
Short term financial liabilities	0	-312
Accounts payable	11 749	12 988
Liability for current tax	-2 114	-2 642
Other liabilities to public institutions	-773	716
Other short term liabilities	45 134	50 745
TOTAL CURRENT LIABILITIES	53 995	61 497
TOTAL LIABILITIES	54 830	64 235
TOTAL EQUITY AND LIABILITIES	62 228	71 431

Cash Flow YTD Q3

(DKK 1000)

	30.09.2018	30.09.2017
Cash flow from operating activities		
Profit before tax	-9 662	-11 742
Income tax paid	-357	-58
Depreciation and impairment of PPE	6 160	6 368
Change in inventory	-4 666	1 663
Change in accounts receivables	-3 808	-7 796
Change in accounts payable	2 108	2 055
Other changes in operating assets and liabilities	10 030	-5 920
Net foreign exchange differences	424	-238
Net cash flow from operating activities	230	-15 669
Cash flows from investing activities		
Purchase of property, plant and equipment	-3 192	-4 421
Net cash flows from investing activities	-3 192	-4 421
Cash flows from financing activities		
Bank overdraft change	3 966	516
New issue	0	1 000
Other cash flow from financing	0	18 653
Net cash flows from financing activities	3 966	20 169
Net cash flow	1 004	79
Cash and cash equivalents at beginning of period	839	714
Cash and cash equivalents at end of period	1 843	793

Accounting policies

Accounting policies

The interim Financial Statements of Scan A/S has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to medium-sized reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent for both periods presented.

Reporting currency

The financial statement is presented in Danish kroner (DKK'000).

Basis of recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when an outflow of economic benefits is probable and when the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each individual item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is made up as the original cost less instalments, if any, and plus or minus the accumulated amortisation of the difference between the cost and the nominal amount.

In recognising and measuring assets and liabilities, any gains, losses and risks occurring prior to the presentation of the annual report that evidence conditions existing at the balance sheet date are taken into account.

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities measured at fair value or amortised cost. Equally, costs incurred to generate the year's earnings are recognised, including depreciation, amortisation, impairment losses and provisions as well as reversals as a result of changes in accounting estimates of amounts that were previously recognised in the income statement.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Leases

On initial recognition, leases for assets that transfer substantially all the risks and rewards incident to the ownership to the Company (finance leases) are measured in the balance sheet at the lower of fair value and the present value of the future lease payments. In calculating the net present value, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently accounted for in the same way as the Company's other assets.

The capitalised residual lease liability is recognised in the balance sheet as a liability, and the interest

Accounting policies

element of the lease payment is recognised in the income statement over the term of the lease.

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease.

Income statement

Revenue

Income from the sale of goods for resale and finished goods is recognised in revenue when transfer of the most significant rewards and risks to the buyer has taken place and provided that the income can be reliably measured and payment is expected to be received.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Other operating income and operating expenses

Other operating income and operating expenses comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of fixed assets.

Raw materials and consumables, etc.

Raw materials and consumables include expenses relating to raw materials and consumables used in generating the year's revenue.

Costs of raw materials and consumables also comprise development costs that do not qualify for capitalisation.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Amortisation/depreciation and impairment

The item comprises amortisation/depreciation and impairment of intangible assets and property, plant and equipment.

The cost net of the expected residual value for completed development projects and acquired IP rights is amortised over the expected useful life. Acquired IP rights include patents, rights and licences.

The basis of amortisation, which is calculated as cost less any residual value, is amortised on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

- Completed development projects 4 years
- Acquired intangible assets 10 years

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further amortisation charges are recognised. In case of changes in the residual value, the effect on the amortisation charges is recognised prospectively as a change in accounting estimates.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

- Plant and machinery 5-8 years

Accounting policies

- Other fixtures and fittings, tools and equipment 3-8 years
- Leasehold improvements 8-10 years

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

The Company is covered by the Danish rules on compulsory joint taxation of the RATOS AB Group's Danish subsidiaries. Subsidiaries are included in the joint taxation arrangement from the date when they are included in the consolidated financial statements and up to the date when they are excluded from the consolidation.

On payment of joint taxation contributions, the Danish corporate income tax charge is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use the tax losses to reduce their own taxable income.

Balance sheet

Intangible assets

Development costs comprise expenses, salaries and amortisation directly or indirectly attributable to development activities.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities are evidenced, and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

Development costs that are recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

On completion of a development project, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually four years.

Patents and licences are measured at cost less accumulated amortisation and impairment losses.

Patents are amortised on a straight-line basis over the remaining term of the patent, and licences are amortised over the term of the licence, however not exceeding ten years.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

The cost of self constructed assets includes the cost of direct materials and labour, etc. directly used in the production process and a portion of the relating production overheads.

Accounting policies

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Investments

Receivables are measured at amortised costs. Write-down for bad debts is made when there is objective evidence that a receivable or a portfolio of receivables has been impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis. Write-downs are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Impairment of fixed assets

Every year, intangible assets and property, plant and equipment are reviewed for impairment. Where there is indication of impairment, an impairment test is made for each individual asset or group of assets, respectively, generating independent cash flows. The assets are written down to the higher of the value in use and the net selling price of the asset or group of assets (recoverable amount) if it is lower than the carrying amount. Where an impairment loss is recognised on a group of assets, a loss must first be allocated to goodwill and then to the other assets on a pro rata basis.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs.

The cost of finished goods and work in progress includes the cost of raw materials, consumables, direct labour and indirect production overheads.

Indirect production overheads include the indirect cost of material and labour as well as maintenance and depreciation of production machinery, buildings and equipment and expenses relating to plant administration and management. Borrowing costs are not recognised in the sales price.

Receivables

Receivables are measured at amortised cost which usually corresponds to the nominal value. An impairment loss is recognised if there is objective indication that a receivable or a group of receivables is impaired. Write-down is made to net realisable value if this is lower than the carrying amount.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Cash comprise cash and short term securities which are readily convertible into cash and subject only to minor risks of changes in value.

Provisions

Provisions comprise expected expenses relating to restructurings, etc. Provisions are recognised when the Company has a legal or constructive obligation as a result of a past event at the balance sheet date and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Accounting policies

Provisions are measured at net realisable value or at fair value if the obligation is expected to be settled far into the future.

Restructuring provisions comprise severance pay to employees, losses incurred due to the termination of contracts, etc. following Management's decision to restructure the Company. Restructuring provisions are recognised when it has been decided to restructure the Company and the restructuring process has been initiated.

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated tax charge in respect of the taxable income for the year, adjusted for tax on prior years' taxable income and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases. Other liabilities are measured at net realisable value.

Lease liabilities

Lease liabilities are measured at the net present value of the remaining lease payments including any guaranteed residual value based on the interest rate implicit in the lease.

Cash flow statement

The cash flow statement shows the Company's net cash flows broken down according to operating, investing and financing activities, the year's changes in cash and cash equivalents as well as the cash and cash equivalents at the beginning and the end of the year.

Cash flows from operating activities are calculated as the profit/loss for the year adjusted for non cash operating items, changes in working capital and paid corporate income tax.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of entities and activities and of intangible assets, property, plant and equipment and investments.

Cash flows from financing activities comprise changes in the size or composition of the Company's share capital and related expenses as well as raising of loans, repayment of interest bearing debt and payment of dividends to shareholders.

Cash and cash equivalents comprise cash, short term bank loans and short term securities which are readily convertible into cash and which are subject only to insignificant risks of changes in value.