Scan A/S

Glasvænget 3-9, 5492 Vissenbjerg

CVR no. 84 55 07 28

Annual report 2017

Approved at the Company's annual general meeting on 31 May 2018

Chairman:

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Anne G. Nicolajsen

" The English text is a translation of Financial Statements made in Danish. The original Danish text is the governing text for all purposes, and in case of any discrepancy, the Danish wording will be applicable."

Contents

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Scan A/S for the financial year 1 January - 31 December 2017.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Vissenbjerg, 31 May 2018
Executive Board:

Henrik Dalsgaard Hansen

Board of Directors:

Nils Agnar Brunborg Chairman	Øyvind Sandnes	Rene Valentin Christensen
Bent Palle Dahl Employee representative	Hans Erik Rosenkrantz Dahl Employee representative	

Independent auditor's report

To the shareholders of Scan A/S

Opinion

We have audited the financial statements of Scan A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations as well as the cash flows for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditor's report

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Aarhus, 31 May 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Henrik Andersen
State Authorised Public Accountant
MNE no.: mne32084

Management's review

Company details

Name	Scan A/S
Address, Postal code, City	Glasvænget 3-9, 5492 Vissenbjerg
CVR no.	84 55 07 28
Established	7 December 1984
Registered office	Assens
Financial year	1 January - 31 December
Website	www.scan.dk
Board of Directors	Nils Agnar Brunborg, Chairman Øyvind Sandnes Rene Valentin Christensen Bent Palle Dahl, Employee representative Hans Erik Rosenkrantz Dahl, Employee representative
Executive Board	Henrik Dalsgaard Hansen
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25, P.O. Box 330, 8100 Aarhus C, Denmark
Bankers	Nordea

Management's review

Financial highlights

DKK'000	2017	2016	2015	2014	2013
Key figures					
Revenue	109,570	109,682	126,772	134,499	161,249
Operating profit/loss	-19,742	-15,717	-13,768	-13,613	-6,698
Net financials	-1,263	-999	-1,127	-761	-542
Profit/loss for the year	**-16,415**	**-13,182**	**-11,015**	**-11,110**	**-5,443**
Total assets	61,790	70,497	74,852	72,630	83,517
Equity	**14,939**	**-3,646**	**9,536**	**20,551**	**31,661**
Cash flows from operating activities	-1,230	-763	-10,091	-2,754	17,106
Net cash flows from investing activities	-5,495	-7,907	-9,454	-9,749	-15,319
Investment in property, plant and equipment	-1,170	-4,272	0	-2,101	-7,659
Cash flows from financing activities	34,536	-451	-439	-426	-7,119
Total cash flows	**27,811**	**-9,121**	**-19,984**	**-12,929**	**-5,332**
Financial ratios					
Operating margin	-18.0%	-14.3%	-10.9%	-9.4 %	-3.3 %
Gross margin	30.5%	29.0%	33.9%	38.1%	40.1%
Return on assets	-29.8%	-21.6%	-18.7%	-17.4%	-7.5%
Equity ratio	24.2%	-5.2%	12.7%	28.3%	37.9%
Return on equity	-290.7%	-447.6%	-73.2%	-42.6%	-15.8%
Average number of employees	**87**	**90**	**103**	**116**	**139**

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios, "Recommendations and Financial Ratios 2015". For terms and definitions, please see the accounting policies.

Management's review

Business review

The Company's activities comprise development, manufacturing and marketing of woodburning stoves under the Scan brand.

Recognition and measurement uncertainties

We did not identify any particular recognition and measurement uncertainties.

Unusual matters having affected the financial statements

In recent years, Scan A/S has changed from a component producer to an assembly plant. Following the change, the Company is less sensitive to changes in sales and has been able to reduce the fixed cost level.

In 2017, a capital increase was made of equity totalling DKK 35 million to ensure the Company's continued operations.

In 2017, inventories were reduced by more than 10% by which working capital increased compared to 2016.

The Company's owners have prepared a Letter of Comfort, which states that the Parent Company will provide the liquidity required up to and including 31 December 2018.

It is assessed that the above agreement ensures that Scan A/S has the liquidity required for 2018.

Reference is made to note 2 for more details.

Financial review

In 2017, the Company's revenue amounted to DKK 109,570 thousand against DKK 109,682 thousand last year. . The income statement for 2017 shows a loss of DKK 16,415 thousand against a loss of DKK 13,182 thousand last year, and the balance sheet at 31 December 2017 shows equity of DKK 14,939 thousand.

Management considers the Company's financial performance in the year unsatisfactory.

The German and the Norwegian markets developed positively, whereas the negative trend on the French market continued. In 2017, Scan reported an index of 103.

A comprehensive development project was subject to extraordinary impairment losses as the project was discontinued.

However, it is a clear trend that the activities initiated cost-wise are starting to have a positive impact. Primarily changes in salaried staff and in production now show impact. Moreover, the project relating to the insourcing of paint has had a positive effect.

Research and development activities

The Company's development activities partly focused on a renewal of the product range and a face lift of the existing product range. We have high expectations of both new products as well as the update of established products. The response to the first presentations has been very positive.

Events after the balance sheet date

After the balance sheet date, Ratos AB sold Jøtul AS and thereby also Scan A/S to Open Gate Capital .

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Outlook

The Company is generally exposed to fluctuations in raw material prices and exchange rates, which will have a positive as well as negative impact on results for 2018.

The Company expects revenue in 2018 to reach the same level as in 2017; however with significantly higher results of operation due to the turnaround.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2017	2016
	Revenue	109,570	109,682
3	Other operating income	109	49
	Raw materials and consumables	-57,372	-55,875
	Other external expenses	-18,930	-22,041
	Gross margin	33,377	31,815
4	Staff costs	-37,314	-38,628
5	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-15,782	-8,904
	Other operating expenses	-23	0
	Profit/loss before net financials	-19,742	-15,717
6	Financial income	47	106
7	Financial expenses	-1,310	-1,105
	Profit/loss before tax	-21,005	-16,716
8	Tax for the year	4,590	3,534
	Profit/loss for the year	-16,415	-13,182

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2016
	ASSETS		
	Fixed assets		
9	**Intangible assets**		
	Completed development projects	8,056	7,180
	Acquired intangible assets	1,889	2,729
	Development projects in progress and prepayments for intangible assets	2,332	10,345
		12,277	20,254
10	**Property, plant and equipment**		
	Plant and machinery	8,345	10,272
	Other fixtures and fittings, tools and equipment	1,344	1,704
	Leasehold improvements	3,296	1,402
	Property, plant and equipment in progress	0	1,831
		12,985	15,209
	Investments		
	Other receivables	1,496	1,496
		1,496	1,496
	Total fixed assets	26,758	36,959
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	7,769	8,745
	Work in progress	1,942	2,502
	Finished goods and goods for resale	7,935	9,129
	Prepayments for goods	445	70
		18,091	20,446
	Receivables		
	Trade receivables	7,972	5,058
	Receivables from group entities	1,941	5,527
14	Deferred tax assets	258	0
	Other receivables	645	649
11	Pre-paid expenses	70	166
		10,886	11,400
	Cash	6,055	1,692
	Total non-fixed assets	35,032	33,538
	TOTAL ASSETS	61,790	70,497

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2016
	EQUITY AND LIABILITIES		
	Equity		
12	Share capital	11,000	9,000
	Other reserves	8,484	2,950
	Retained earnings	-4,545	-15,596
	Total equity	14,939	-3,646
	Provisions		
14	Deferred tax	0	1,172
	Other provisions	0	500
15	**Total provisions**	0	1,672
	Liabilities other than provisions		
13	**Non-current liabilities other than provisions**		
	Lease liabilities	972	1,449
		972	1,449
	Current liabilities other than provisions		
13	Current portion of long-term liabilities	477	464
	Bank debt	25,822	49,270
	Trade payables	9,259	10,397
	Payables to group entities	1,640	1,552
	Other payables	8,681	9,339
		45,879	71,022
	Total liabilities other than provisions	46,851	72,471
	TOTAL EQUITY AND LIABILITIES	61,790	70,497

1 Accounting policies
2 Unusual circumstances
16 Contractual obligations and contingencies, etc.
17 Collateral
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Financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Other reserves	Retained earnings	Total
	Equity at 1 January 2016	9,000	0	536	9,536
19	Transfer, see "Appropriation of profit/loss"	0	2,950	-16,132	-13,182
	Equity at 1 January 2017	9,000	2,950	-15,596	-3,646
	Capital increase	2,000	0	33,000	35,000
19	Transfer, see "Appropriation of profit/loss"	0	5,534	-21,949	-16,415
	Equity at 31 December 2017	11,000	8,484	-4,545	14,939

Financial statements 1 January - 31 December

Cash flow statement

Note	DKK'000	2017	2016
	Profit/loss for the year	-16,415	-13,182
20	Adjustments	11,869	4,900
	Cash generated from operations (operating activities)	-4,546	-8,282
21	Changes in working capital	1,419	5,523
	Cash generated from operations (operating activities)	-3,127	-2,759
	Interest received, etc.	47	106
	Interest paid, etc.	-1,310	-1,105
	Corporation tax received (joint taxation	3,160	2,995
	Cash flows from operating activities	-1,230	-763
	Additions of intangible assets	-4,535	-3,684
	Additions of property, plant and equipment	-1,170	-4,272
	Disposals of property, plant and equipment	210	49
	Cash flows to investing activities	-5,495	-7,907
	Repayments, finance leases	-464	-451
	Cash capital increase	35,000	0
	Cash flows from financing activities	34,536	-451
	Net cash flow	27,811	-9,121
	Cash and cash equivalents at 1 January	-47,578	-38,457
22	**Cash and cash equivalents at 31 December**	-19,767	-47,578

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Scan A/S for 2017 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 with those of last year.

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.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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
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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

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.

Equity

Reserve for development costs

The reserve for development costs comprises recognised development costs. The reserve cannot be used to distribute dividends or cover losses. The reserve will be reduced or dissolved if the recognised development costs are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

Proposed dividends

Dividend proposed for the year is recognised as a liability once adopted at the annual general meeting (declaration date). Dividends expected to be distributed for the financial year are presented as a separate item under "Equity".

Provisions

Provisions comprise expected expenses relating to restructurings, etc. Provisions are recognised when the Company has a legal or constructive obigation 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.

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

The cash flow statement cannot solely be derived from the published accounting records.

Financial statements 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

Financial ratios

The financial ratios stated under "Financial highlights" have been calculated as follows:

Operating margin	$\frac{\text{Operating profit x 100}}{\text{Revenue}}$
Gross margin ratio	$\frac{\text{Gross margin x 100}}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit/loss from operating activites x 100}}{\text{Average assets}}$
Equity ratio	$\frac{\text{Equity, year-end x 100}}{\text{Total equity and liabilities, year-end}}$
Return on equity	$\frac{\text{Profit/loss for the year after tax x 100}}{\text{Average equity}}$

2 **Unusual circumstances**

In recent years, Scan A/S has changed from a component producer to an assembly plant. Following the change, the Company is less sensitive to changes in sales and has been able to reduce the fixed cost level.

In 2017, a capital increase was made of equity totalling DKK 35 million to ensure the Company's continued operations.

In 2017, inventories were reduced by more than 10% by which working capital increased compared to 2016.

The Company's owners have prepared a Letter of Comfort, which states that the Parent Company will provide the liquidity required up to and including 31 December 2018.

It is assessed that the above agreement ensures that Scan A/S has the liquidity required for 2018.

3 **Other operating income**

Other operating income includes gains on the sale of property, plant and equipment.

Financial statements 1 January - 31 December

Notes to the financial statements

	DKK'000	2017	2016
4	**Staff costs**		
	Wages/salaries	36,443	39,344
	Pensions	2,804	2,808
	Other social security costs	1,000	1,006
	Other staff costs	0	633
	Staff costs transferred to assets	-2,933	-5,163
		37,314	38,628
	Average number of full-time employees	87	90

Total remuneration to Management: DKK 1,410 thousand (2016: DKK 1,569 thousand)

	DKK'000	2017	2016
5	**Amortisation/depreciation and impairment of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	5,385	5,694
	Impairment of intangible assets	7,127	0
	Depreciation of property, plant and equipment	3,270	3,210
		15,782	8,904
6	**Financial income**		
	Interest receivable, group entities	0	1
	Other financial income	47	105
		47	106
7	**Financial expenses**		
	Interest expenses, group entities	778	786
	Other financial expenses	532	319
		1,310	1,105
8	**Tax for the year**		
	Deferred tax adjustments in the year	-1,429	98
	Refund in joint taxation	-3,161	-3,632
		-4,590	-3,534

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Notes to the financial statements

9 Intangible assets

DKK'000	Completed development projects	Acquired intangible assets	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2017	32,509	13,799	10,345	56,653
Additions in the year	5,421	0	4,535	9,956
Disposals in the year	0	0	-5,421	-5,421
Cost at 31 December 2017	37,930	13,799	9,459	61,188
Impairment losses and amortisation at 1 January 2017	25,329	11,070	0	36,399
Impairment losses in the year	0	0	7,127	7,127
Amortisation/depreciation in the year	4,545	840	0	5,385
Impairment losses and amortisation at 31 December 2017	29,874	11,910	7,127	48,911
Carrying amount at 31 December 2017	8,056	1,889	2,332	12,277
Amortised over	4 years	10 years		

Note 17 provides more details on security for loans, etc. as regards intangible assets.

Financial statements 1 January - 31 December

Notes to the financial statements

10 Property, plant and equipment

DKK'000	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Property, plant and equipment in progress	Total
Cost at 1 January 2017	44,775	12,477	5,449	1,831	64,532
Additions in the year	137	401	2,463	632	3,633
Disposals in the year	-1,936	-579	-693	-2,463	-5,671
Cost at 31 December 2017	42,976	12,299	7,219	0	62,494
Impairment losses and depreciation at 1 January 2017	34,503	10,773	4,047	0	49,323
Amortisation/depreciation in the year	1,966	735	569	0	3,270
Reversal of amortisation/depreciation and impairment of disposals	-1,838	-553	-693	0	-3,084
Impairment losses and depreciation at 31 December 2017	34,631	10,955	3,923	0	49,509
Carrying amount at 31 December 2017	8,345	1,344	3,296	0	12,985
Property, plant and equipment include finance leases with a carrying amount totalling	1,401	0	0	0	1,401
Depreciated over	5-8 years	3-8 years	8-10 years		

Note 17 provides more details on security for loans, etc. as regards property, plant and equipment.

Financial statements 1 January - 31 December

Notes to the financial statements

11 Pre-paid expenses

Prepayments include accrual of expenses relating to subsequent financial years, including rent and insurance policies.

DKK'000	2017	2016
12 Share capital		
Analysis of the share capital:		
110,000 shares of DKK 100.00 nominal value each	11,000	9,000
	11,000	9,000

Analysis of changes in the share capital over the past 5 years:

DKK'000	2017	2016	2015	2014	2013
Opening balance	9,000	9,000	9,000	9,000	9,000
Capital increase	2,000	0	0	0	0
	11,000	9,000	9,000	9,000	9,000

13 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2017	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Lease liabilities	1,449	477	972	0
	1,449	477	972	0

Instalments falling due within one year are recognised as current liabilities. Other liabilities are recognised as non-current liabilities.

DKK'000	2017	2016
14 Deferred tax		
Deferred tax relates to:		
Intangible assets	2,701	4,456
Property, plant and equipment	1,182	1,239
Provisions	0	-110
Liabilities	-319	-421
Tax loss	-3,821	-3,992
	-257	1,172

15 Provisions

The provision for deferred tax at 31 December 2017 primarily relates to timing differences in respect of intangible assets and property, plant and equipment.

Provisions at 31 December 2017 comprise provisions for expected restructuring costs, etc.

Financial statements 1 January - 31 December

Notes to the financial statements

16 Contractual obligations and contingencies, etc.

Other contingent liabilities

The Company is jointly taxed with its affiliated company RF af 20.12.2005 A/S, which acts as management company, and is jointly and severally liable with other jointly taxed group entities for payment of income taxes for the income year 2013 onwards as well as withholding taxes on interest, royalties and dividends falling due for payment on or after 1 July 2012.

Other financial obligations

Other rent and lease liabilities:

DKK'000	2017	2016
Rent and lease liabilities	7,189	10,361

Rent and lease liabilities include a rent obligation totalling DKK 4,598 thousand in interminable rent agreements with remaining contract terms of 1-2 years. Furthermore, the Company has liabilities under operating leases for cars and IT equipment, totalling DKK 2,591 thousand, with remaining contract terms of 1-3 years.

17 Collateral

The following assets have been provided as security for the Group's debt to credit institutions:

An owners mortgage totalling DKK 2,500 thousand secured upon fixtures and fittings, tools and equipment at a carrying amount of DKK 11,584 thousand.

An owners mortgage totalling DKK 9,000 thousand secured upon goodwill, trademarks, operating equipment and rights to lease at a carrying amount of DKK 23,861 thousand.

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18 Related parties

Scan A/S' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
Jøtul AS	Frederiksstad/Norway	Sole shareholder
Ratos AB	Stockholm/Sweden	Shareholders' agreement Participating interest

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Ratos AB	Stockholm/Sweden	https://www.ratos.se/globalassets/global/05_investor-relations/delarsrapporter/rapportarkiv/rapportarkiv_eng/ratos-engelsk-2017.pdf
Jøtul AS	Frederiksstad/Norway	Oyvind.sandnes@jotul.no

Related party transactions

Scan A/S was engaged in the below related party transactions:

DKK'000	2017	2016
Sale of goods to group entities	32,494	36,831
Interest income from Parent Company	0	1
Interest expenses to Parent Company	778	787
Receivables from group entities	1,899	5,469
Receivables from Parent Company	42	58
Payables to group entities	1,347	0
Payables to Parent Company	293	1,552

Subsequent events

After the balance sheet date, Ratos AB sold Jøtul AS and thereby also Scan A/S tp Open Gate Capital.

Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the votes or minimum 5% of the share capital:

Name	Domicile
Jøtul AS	Frederikstad, Norge/Norway

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Notes to the financial statements

	DKK'000	2017	2016
19	**Appropriation of profit/loss**		
	Recommended appropriation of profit/loss		
	Other statutory reserves	5,534	2,950
	Retained earnings/accumulated loss	-21,949	-16,132
		-16,415	-13,182
20	**Adjustments**		
	Amortisation/depreciation and impairment losses	15,782	8,904
	Gain/loss on the sale of non-current assets	-86	-49
	Provisions	-500	-1,420
	Financial income	-47	-106
	Financial expenses	1,310	1,105
	Tax for the year	-4,590	-3,534
		11,869	4,900
21	**Changes in working capital**		
	Change in inventories	2,355	687
	Change in receivables	772	4,106
	Change in trade and other payables	-1,708	730
		1,419	5,523
22	**Cash and cash equivalents at year-end**		
	Cash according to the balance sheet	6,055	1,692
	Short-term debt to banks	-25,822	-49,270
		-19,767	-47,578