Scan A/S

Glasvænget 3-9, 5492 Vissenbjerg

CVR no. 84 55 07 28

Annual report 2016

Approved at the annual general meeting of shareholders on 22 May 2017

Chairman:

....
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 2016.

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 2016 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2016.

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, 22 May 2017
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 2016, which comprise an 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 2016 and of the results of the Company's operations as well as the cash flows for the financial year 1 January - 31 December 2016 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 about 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 skepticism 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 conclusion is 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 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 our procedures, 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, 22 May 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Henrik Andersen
State Authorised Public Accountant

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
E-mail	info@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	2016	2015	2014	2013	2012
Key figures					
Revenue	109,682	126,772	134,499	161,249	176,104
Operating profit/loss	-15,717	-13,768	-13,613	-6,698	14,030
Net financials	-999	-1,127	-761	-542	-255
Profit/loss for the year	**-13,182**	**-11,015**	**-11,110**	**-5,443**	**10,222**
Total assets	70,497	74,852	72,630	83,517	94,951
Equity	**-3,646**	**9,536**	**20,551**	**31,661**	**37,104**
Cash flows from operating activities	-763	-10,091	-2,754	17,106	36,882
Net cash flows from investing activities	-7,907	-9,454	-9,749	-15,319	17,195
Investment in property, plant and equipment	-4,272	-5,364	-2,101	-7,659	-2,781
Cash flows from financing activities	-451	-439	-426	-7,119	-3,033
Total cash flows	**-9,121**	**-19,984**	**-12,929**	**-5,332**	**51,044**
Financial ratios					
Operating margin	-14.3%	-10.9%	-10.1%	-4.2 %	8.0 %
Gross margin	29.0%	33.9%	38.1%	40.1%	46.5%
Return on assets	-21.6%	-18.7%	-17.4%	-7.5%	15.5%
Solvency ratio	-5.2%	12.7%	28.3%	37.9%	39.1%
Return on equity	-447.6%	-73.2%	-42.6%	-15.8%	27.6%
Average number of employees	**90**	**103**	**116**	**139**	**148**

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

Management's review

Management commentary

Business review

The Company's activities include 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, the Company 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, which among others implied that a management level in the production could be spared.

A capital increase was made of equity totalling DKK 20 million to ensure the Company's continued operations.

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 2017.

It is assessed that the above agreement ensures that Scan A/S has the liquidity required for 2017.

Reference is made to note 2 for more details.

Financial review

In 2016, the Company's revenue came in at DKK 109,682 thousand against DKK 126,772 thousand last year. The income statement for 2016 shows a loss of DKK 13,182 thousand against DKK -11,015 thousand last year, and the balance sheet at 31 December 2016 shows a negative equity of DKK 3,646 thousand.

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

Generally, sales are negatively affected by a declining German market and a weak Swedish market; however a positive trend is noted in Norway.

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.

Special risks

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.

The Company is consistenly working on increasing the combustion efficiency and on fulfilling the strict environmental requirements. Scan A/S is therefore one of the woodburning stoves that has obtained most approvals worldwide. A number of our products have also obtained the official Nordic Swan Ecolabel.

Management's review

Management commentary

Events after the balance sheet date

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 2017.

The Company expects revenue in 2017 to reach the same level as in 2016; however with significantly higher results of operation due to the turnaround.

Financial statements for the period 1 January - 31 December

Income statement

Note	DKK'000	2016	2015
	Revenue	109,682	126,772
3	Other operating income	49	611
	Raw materials and consumables	-55,875	-58,582
	Other external expenses	-22,041	-25,780
	Gross margin	31,815	43,021
4	Staff costs	-38,628	-46,510
5	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-8,904	-10,128
	Other operating expenses	0	-151
	Profit/loss before net financials	-15,717	-13,768
6	Financial income	106	70
7	Financial expenses	-1,105	-1,197
	Profit/loss before tax	-16,716	-14,895
8	Tax for the year	3,534	3,880
	Profit/loss for the year	-13,182	-11,015

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2016	2015
	ASSETS		
	Fixed assets		
9	**Intangible assets**		
	Completed development projects	7,180	10,925
	Acquired intangible assets	2,729	3,550
	Development projects in progress and prepayments for intangible assets	10,345	7,789
		20,254	22,264
10	**Property, plant and equipment**		
	Plant and machinery	10,272	6,238
	Other fixtures and fittings, tools and equipment	1,704	2,071
	Leasehold improvements	1,402	1,727
	Property, plant and equipment in progress	1,831	4,111
		15,209	14,147
	Investments		
	Other receivables	1,496	2,371
		1,496	2,371
	Total fixed assets	36,959	38,782
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	8,745	6,933
	Work in progress	2,502	4,401
	Finished goods and goods for resale	9,129	9,022
	Prepayments for goods	70	777
		20,446	21,133
	Receivables		
	Trade receivables	5,058	5,269
	Receivables from group entities	5,527	7,698
	Other receivables	649	925
11	Pre-paid expenses	166	102
		11,400	13,994
	Cash	1,692	943
	Total non-fixed assets	33,538	36,070
	TOTAL ASSETS	70,497	74,852

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2016	2015
	EQUITY AND LIABILITIES		
	Equity		
12	Share capital	9,000	9,000
	Other reserves	2,950	0
	Retained earnings	-15,596	536
	Total equity	-3,646	9,536
	Provisions		
14	Deferred tax	1,172	1,074
	Other provisions	500	1,920
15	**Total provisions**	1,672	2,994
	Liabilities		
13	**Non-current liabilities other than provisions**		
	Lease liabilities	1,449	1,913
		1,449	1,913
	Current liabilities		
13	Current portion of long-term liabilities	464	451
	Bank debt	49,270	39,400
	Trade payables	10,397	9,328
	Payables to group entities	1,552	969
	Other payables	9,339	10,261
		71,022	60,409
	Total liabilities other than provisions	72,471	62,322
	TOTAL EQUITY AND LIABILITIES	70,497	74,852

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Financial statements for the period 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Other reserves	Retained earnings	Total
	Equity at 1 January 2015	9,000	0	11,551	20,551
19	Transfer, see "Appropriation of profit/loss"	0	0	-11,015	-11,015
	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 31 December 2016	9,000	2,950	-15,596	-3,646

Financial statements for the period 1 January - 31 December

Cash flow statement

Note	DKK'000	2016	2015
	Profit/loss for the year	-13,182	-11,015
20	Adjustments	4,900	6,470
	Cash generated from operations (operating activities)	-8,282	-4,545
21	Changes in working capital	5,523	-3,615
	Cash generated from operations (operating activities)	-2,759	-8,160
	Interest received, etc.	106	70
	Interest paid, etc.	-1,105	-1,032
	Corporation tax paid	0	-969
	Corporation tax received (joint taxation)	2,995	0
	Cash flows from operating activities	-763	-10,091
	Additions of intangible assets	-3,684	-4,879
	Additions of property, plant and equipment	-4,272	-5,364
	Disposals of property, plant and equipment	49	789
	Cash flows to investing activities	-7,907	-9,454
	Repayments, finance leases	-451	-439
	Cash flows from financing activities	-451	-439
	Net cash flow	-9,121	-19,984
	Cash and cash equivalents at 1 January	-38,457	-18,473
22	**Cash and cash equivalents at 31 December**	-47,578	-38,457

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Scan A/S for 2016 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to medium-sized reporting class C entities.

Changes in accounting policies

Effective 1 January 2016, the Company has adopted act no. 738 of 1 June 2015. This implies the following changes in the recognition and measurement:

1. Yearly reassessment of residual values of property, plant and equipment
   In future, residual values of property, plant and equipment will be subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment other than those relating to the Company's land. Consequently, the change is made in accordance with section 4 of the execution order on transitional provisions with future effect only as a change in accounting estimates with no impact on equity.
2. Reserve for development costs
   An amount corresponding to development costs recognised are in future tied up in a special reserve under equity called "Reserve for development costs". The amount is tied up in a special reserve, which cannot be used to distribute dividend or cover losses. If the development costs recognised are sold or in some other way no longer form part of the Company's operations, the reserve will be dissolved or reduced This is done by a transfer directly to the distributable reserves under equity. If the recognised development costs are written down, part of the reserve for development costs must be reversed. The reversed portion corresponds to the write-down of the development costs. If a write-down of the development costs is subsequently reversed, the reserve for development costs must be re-established. The reserve for development costs is also reduced by amortisation charges. In doing so, the equity reserve will not exceed the amount recognised in the balance sheet as development costs.

None of the above changes impacts on the income statement or the balance sheet for 2016 or the comparative figures.

Apart from the above changes in accounting policy and new and changed presentation and disclosure requirements, which follow from act no. 738 of 1 June 2015, the accounting policies 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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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 non-current 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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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

The item comprises amortisation/depreciation 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
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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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 ratios

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

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	$\frac{\text{Profit/loss from operating activites x 100}}{\text{Average assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total equity and liabilities at year end}}$
Return on equity	$\frac{\text{Profit/loss for the year after tax x 100}}{\text{Average equity}}$

Financial statements for the period 1 January - 31 December

Notes to the financial statements

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, which among others implied that a management level in the production could be spared.

A capital increase was made of equity totalling DKK 20 million to ensure the Company's continued operations.

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 2017.

It is assessed that the above agreement ensures that Scan A/S has the liquidity required for 2017.

3 **Other operating income**

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

	DKK'000	2016	2015
4	**Staff costs**		
	Wages/salaries	39,344	46,844
	Pensions	2,808	3,443
	Other social security costs	1,006	1,232
	Other staff costs	633	0
	Staff costs transferred to assets	-5,163	-5,009
		38,628	46,510
	Average number of full-time employees	90	103

Total remuneration to the Executive Board amounted to DKK 1,549 thousand in 2016.
Remuneration to the Board of Directors totalled DKK 20 thousand in 2016.

Remuneration to the Company's Management in 2015 is not disclosed. Reference is made to section 98b (3,2) of the Danish Financial Statements Act.

	DKK'000	2016	2015
5	**Amortisation/depreciation of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	5,694	6,472
	Depreciation of property, plant and equipment	3,210	3,656
		8,904	10,128
6	**Financial income**		
	Interest receivable, group entities	1	6
	Other financial income	105	64
		106	70
7	**Financial expenses**		
	Interest expenses, group entities	786	686
	Other financial expenses	319	511
		1,105	1,197
8	**Tax for the year**		
	Deferred tax adjustments in the year	98	-884
	Refund in joint taxation	-3,632	-2,996
		-3,534	-3,880

Financial statements for the period 1 January - 31 December

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 2016	31,381	13,799	7,789	52,969
Additions in the year	1,128	0	3,684	4,812
Disposals in the year	0	0	-1,128	-1,128
Cost at 31 December 2016	32,509	13,799	10,345	56,653
Impairment losses and amortisation at 1 January 2016	20,456	10,249	0	30,705
Amortisation/depreciation in the year	4,873	821	0	5,694
Impairment losses and amortisation at 31 December 2016	25,329	11,070	0	36,399
Carrying amount at 31 December 2016	7,180	2,729	10,345	20,254
Amortised over	4 years	10 years		

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

Financial statements for the period 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 2016	39,338	14,424	5,118	4,111	62,991
Additions in the year	5,824	397	331	3,570	10,122
Disposals in the year	-387	-2,344	0	-5,850	-8,581
Cost at 31 December 2016	44,775	12,477	5,449	1,831	64,532
Impairment losses and depreciation at 1 January 2016	33,100	12,353	3,391	0	48,844
Amortisation/depreciation in the year	1,790	764	656	0	3,210
Reversal of amortisation/depreciation and impairment of disposals	-387	-2,344	0	0	-2,731
Impairment losses and depreciation at 31 December 2016	34,503	10,773	4,047	0	49,323
Carrying amount at 31 December 2016	10,272	1,704	1,402	1,831	15,209
Property, plant and equipment include finance leases with a carrying amount totalling	1,844	0	0	0	1,844
Amortised 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.

11 Prepayments

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

DKK'000	2016	2015
12 Share capital		
Analysis of the share capital:		
50,000 shares of DKK 100.00 nominal value each	5,000	5,000
4,000 shares of DKK 1,000.00 nominal value each	4,000	4,000
	9,000	9,000

The Company's share capital has remained DKK 9,000 thousand over the past 5 years.

13 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2016	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Lease liabilities	1,913	464	1,449	0
	1,913	464	1,449	0

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

DKK'000	2016	2015
14 Deferred tax		
Deferred tax relates to:		
Intangible assets	4,456	4,898
Property, plant and equipment	1,239	770
Provisions	-110	-422
Liabilities	-421	-578
Tax loss	-3,992	-3,594
	1,172	1,074

Financial statements for the period 1 January - 31 December

Notes to the financial statements

15 Provisions

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

Provisions comprise provisions for expected restructuring costs, etc.

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	2016	2015
Rent and lease liabilities	10,361	14,049

Rent and lease liabilities include a rent obligation totalling DKK 7,544 thousand in interminable rent agreements with remaining contract terms of 1-3 years. Furthermore, the Company has liabilities under operating leases for cars and IT equipment, totalling DKK 2,816 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 13,365 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 20,254 thousand.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

18 Related parties

Scan A/S' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
Jøtul AS	Frederikstad/Norway	Sole shareholder
Ratos AB	Stockholm/Sweden	Ultimate parent Participating interest

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Ratos AB	Stockholm, Sverige/Sweden	www.ratos.se/Investor-Relations/Finansiella-rapporter/Rapportarkiv/
Jøtul AS	Frederikstad, Norge/Norway	Oyvind.sandnes@jotul.no

Related party transactions

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

DKK'000	2016	2015
Sale of goods to group entities	2,638	2,801
Interest income from Parent Company	1	6
Interest expenses to Parent Company	787	686
Receivables from group entities	1,836	4,678
Receivables from Parent Company	58	59
Payables to group entities	0	8
Payables to Parent Company	1,552	961

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

	DKK'000	2016	2015
19	**Appropriation of profit/loss**		
	Recommended appropriation of profit/loss		
	Other statutory reserves	2,950	0
	Retained earnings/accumulated loss	-16,132	-11,015
		-13,182	-11,015
20	**Adjustments**		
	Amortisation/depreciation and impairment losses	8,904	10,125
	Gain/loss on the sale of non-current assets	-49	-460
	Provisions	-1,420	-280
	Financial income	-106	-70
	Financial expenses	1,105	1,032
	Tax for the year	-3,534	-3,880
	Other adjustments	0	3
		4,900	6,470
21	**Changes in working capital**		
	Change in inventories	687	947
	Change in receivables	4,106	-1,195
	Change in trade and other payables	730	-3,367
		5,523	-3,615
22	**Cash and cash equivalents at year-end**		
	Cash according to the balance sheet	1,692	943
	Short-term debt to banks	-49,270	-39,400
		-47,578	-38,457