



**VIKING**  
SUPPLY SHIPS A/S  
GROUP ANNUAL REPORT

**2015**

ISLANDS BRYGGE 57, DK-2300 COPENHAGEN,  
REGISTRATION NO. 33 36 97 94

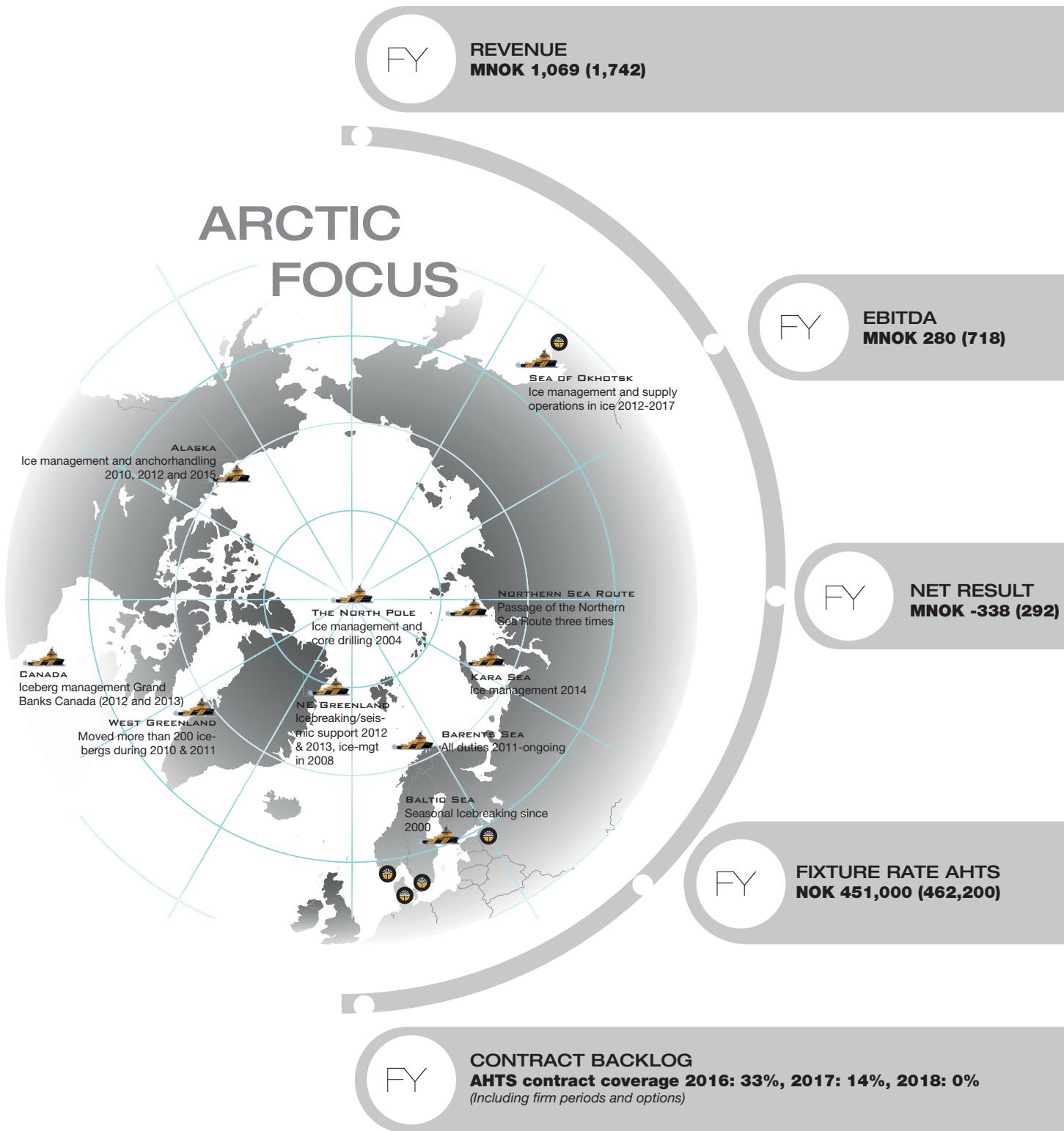


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Viking Supply Ships has chosen to publish a consolidated annual report that does not comprise the financial statements of the parent company Viking Supply Ships A/S. In accordance with Section 149 of the Danish Financial Statements Act, this consolidated annual report is therefore an extract of the Group's full annual report. The full annual report, including the parent company financial statements, can upon approval at the Annual General Meeting, be obtained from the Danish Business Authority. Appropriation of profit for the year and proposed dividends from the parent company are disclosed in note 19 to the consolidated annual report. The full annual report comprises the Statement of the Board of Directors and Management and the independent auditors' report disclosed on page 14.

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# MANAGEMENT REVIEW

Viking Supply Ships A/S (VSS) core business is offshore and icebreaking services to major oil companies primarily in the North Sea, Arctic and Subarctic waters. VSS is a leading player in the Arctic and Subarctic offshore segment, with extensive expertise in performing operations in harsh environments. Customer adaptation and creativity, combined with a leading position in safe and environmental friendly operations, are some of the key success factors. The fleet comprises a total of 13 vessels. Three are combined icebreakers/AHTS vessels, four are new ice-class AHTS vessels, one is a conventional AHTS vessel and five are modern PSV vessels. Additionally VSS, on behalf of the Swedish Maritime Administration (SMA), has commercial management of five state-owned icebreakers. The dedicated crews have extensive experience with icebreaking and offshore work in harsh weather conditions. The AHTS fleet, combined with crew and ice management competence, is tailor-made to operate in ice conditions. VSS is committed to have a substantial part of the fleet on longer term contracts, and have a focus on increasing the contract coverage and the contract backlog. VSS has delivered offshore services in Arctic waters for oil majors like Shell, ENI, Husky, Cairn Energy, Rosneft and Exxon Mobil.

VSS' head office is located in Copenhagen, Denmark with local presence in Norway, Sweden, Russia and Canada. During 2015, VSS decided to close down the Aberdeen office to further increase the competitiveness in the PSV segment.

The deteriorated market conditions within the offshore oil & gas industry has since the beginning of 2015 negatively impacted VSS' revenue and financial position. Following the cancellation of the 2015 Kara Sea drilling season late 2014, VSS initiated a series of mitigating measures with the aim to reduce the operational expenses and secure a long-term stable financing platform. VSS has been in a continuing standstill position with its lenders since February 2016.

In May 2016, VSS agreed the main principles for a restructuring agreement with the bank lenders. Execution of a final agreement in the form of a term sheet (the "Agreement") is pending certain conditions precedent, including that an amended agreement is negotiated and agreed with the bondholders in the senior unsecured bond in Viking Supply Ships A/S and that terms for the bareboat charter of Odin Viking are re-negotiated and amended. Among other things these conditions have not yet been resolved and, accordingly, the Agreement has not yet been signed and deemed effective. The Agreement is further subject to an equity issue at an agreed level in Viking Supply Ships AB and a subsequent equity injection

by the parent company into VSS, where the majority shareholder Kistefos AS has already informed VSS and the lenders that it will and has the ability to guarantee its 70% pro-rata share of the required equity issue in Viking Supply Ships AB. The debt restructuring is aimed at improving VSS' balance sheet and significantly reduce the amount needed for debt service until 1 January 2020.

Although not yet completed and therefore significant uncertainty exists at this point in time, Management is confident that the conditions precedent can and will be met and accordingly an Agreement entered into, since this will serve the economic interests of the stakeholders with which negotiations are still ongoing. It is Management's assessment that the restructuring will be finally completed during second half of 2016. Once a completed restructuring is in place, VSS expects to have sufficient liquidity to maintain its operations even in the event that the market remains weak through 2019. VSS has been in a continuing standstill position with its lenders since February 2016, under which VSS has only serviced its interest commitments. Until the restructuring is executed, VSS is unable to service its debt obligations as they fall due, and therefore is dependent on maintaining this level of debt service.

It remains the core focus of VSS to increase the contract coverage going forward. The downturn within the offshore industry has inevitably reduced the activity level both in the North Sea as well as in harsh environment regions, but VSS still sees contract opportunities within the core market. During the year, the market for PSVs has gradually become more deteriorated. As a consequence, VSS decided to lay up three PSVs during the second half of the year. It was also decided to lay up the AHTS Odin Viking as a measure to reduce operational costs and contribute to an improved market balance within the segment. Early in 2016 it was decided to lay up the remaining two PSVs as a consequence of the challenging market conditions.

As expected, the result for 2015 decreased compared to 2014. 2015 was characterized by volatile activity in the spot market giving a soft market for longer periods of the year. The AHTS vessels obtained a utilisation of 70% (77%) and average fixture rates of NOK 451,000 (462,200) in the year. The PSV vessels obtained a utilisation of 42% (71%) and average fixture rates of GBP 4,000 (10,300) in the year.

Total revenue for the year amounted to MNOK 1,069 (MNOK 1,742) and operating profit before depreciation (EBITDA) was MNOK 280 (MNOK 718). The result is not satisfactory, but in line with expectations given the poor market developments.



## SIGNIFICANT EVENTS

### Q1

- VSS entered into a contract with an Oil-major for the charter of Brage Viking. The vessel was originally firm until December 2017, with options to extend the contract until June 2019.
- In order to remain competitive and reduce costs, management decided to close down the Aberdeen office with effect from July 2015. The change in the organization was made in order to reduce the overhead costs.

### Q2

- VSS was awarded a management contract to operate the SMA ice-breaker fleet for a period of seven years. The contract was a continuation of the then current management contract which commenced in 2000.
- As communicated earlier in 2015, VSS had announced to close down the Aberdeen office with effect from July 2015. By the end of Q2 2015 all activities related to the PSV fleet had been moved to Copenhagen and Kristiansand and the Aberdeen office had been closed.
- VSS entered into a new contract with an oil and gas company for Vidar Viking. The vessel is now firm until August 2016, with options to extend the vessel until February 2017.
- At Rederi AB Transatlantic's (RABT) Annual General Meeting it was resolved, in accordance with the proposal of the Board of Directors, to amend the Articles of Association resulting in the change of name from Rederi AB Transatlantic to Viking Supply Ships AB (VSS AB). The Board of VSS AB decided to appoint Christian W. Berg as CEO of VSS AB with immediate effect, Mr. Berg would also continue as CEO of VSS.
- In June MNOK 145 was declared as dividend to VSS AB.

### Q3

- During the quarter, Brage Viking was upgraded to Ice-Class 1A-Super in Singapore and was back on-hire in Sakhalin shortly after. The upgrade was conducted below budget costs and within the estimated time frame.
- In July VSS extended the contract with Eni Norge for the charter of Njord Viking. The vessel was now firm until December 2016. The charterer had the option to extend the charter period with 2x6 months. The initial firm period lasted until July 2015. The total value of the extended firm contract period is about MNOK 150, or MNOK 255 when including the optional periods.
- Shell US announced that the company would not continue the exploration program offshore Alaska within the foreseeable future due to the current market conditions. This meant that Shell US would not declare the optional period for Tor Viking for the 2016 drilling season. VSS consequently removed the potential income from the contract backlog. The Shell US decision did not impact the 2015 results.
- The market conditions was challenging during the quarter, characterized with abundant supply and decreasing demand. Consequently, VSS decided to lay up the PSV vessels Idun, Frigg and Nanna Viking. The decision was to reduce VSS' operational costs going forward and would have a positive impact on the results from the fourth quarter of 2015, with full effect expected from the first quarter of 2016. The remaining two PSV vessels were still operating in the North Sea spot market.
- Due to the challenging market conditions, VSS recognised an impairment loss during Q3 2015 of MNOK 187 related to the PSV fleet.
- As a response to the continued weak market conditions, VSS initiated a Market Adaption Program (MAP), with the ambition to reduce yearly operational costs with up to MNOK 70. MAP came as an addition to already implemented yearly cost reductions of MNOK 45.
- Ulrik Hegelund was appointed Chief Financial Officer in Viking Supply Ships A/S as well as Viking Supply Ships AB with effect as of 1 September 2015.

### Q4

- In December, VSS received an early termination of the contract for the AHTS Brage Viking, but the vessel would remain on-hire to mid-August 2016. The termination represented a loss of income during the remaining firm period of the contract of in total MUSD 33 in 2016 and 2017.
- Towards the end of the quarter, Tor Viking completed its contract with Shell US. On its way back to the North Sea, the vessel transited the Northern Sea Route unassisted, which had never been performed this late in the season before.
- The deteriorated market conditions within the global oil and gas market continued to negatively impact the earnings and financial position of VSS. The company's liquidity position was strained and in the current market, VSS was unable to fulfill existing covenant undertakings in its loan agreements going forward. A solution with VSS' lenders would be necessary and accordingly, the company, during Q4 2015, initiated a dialogue with its lenders, with an ambition to secure a long-term stable financing solution within the end of Q1 2016.
- Due to the continued challenging market conditions, VSS recognised an additional impairment loss during Q4 2015 of MNOK 80 related to the PSV fleet.
- As a consequence of the weak market conditions for conventional AHTS vessels, VSS decided to lay-up Odin Viking. VSS would commence negotiations with the employees with the ambition to minimize lay-offs.

## LIQUIDITY AND GOING CONCERN

The deteriorated market conditions within the offshore oil & gas industry has since the beginning of 2015 negatively impacted VSS' revenue and financial position. Following the cancellation of the 2015 Kara Sea drilling season late 2014, VSS initiated a series of mitigating measures with the aim to reduce the operational expenses and secure a long-term stable financing platform.

As at 31 December 2015 VSS did not have sufficient liquidity to service its debt obligations as they fell due, including the requirements to deposit additional cash or security as required under contract coverage- and loan-to-value clauses in 2016. Further in 2016, VSS has not been able to comply with events of default provisions in loan agreements, which render all borrowings short-term and payable on demand by the lenders, including loans amounting to MNOK 922, which as at 31 December 2015 have been classified as long-term debt in the balance sheet.

VSS has during the majority of first half 2016 been in an ongoing dialogue with its lenders and has during most of the year since February 2016 been in a standstill position, during which VSS has not paid instalments to its lenders.

In May 2016, VSS agreed the main principles for a restructuring agreement with the bank lenders. Execution of a final agreement in the form of a term sheet (the "Agreement") is pending certain conditions precedent, including that an amended agreement is negotiated and agreed with the bondholders in the senior unsecured bond in Viking Supply Ships A/S and that terms for the bareboat charter of Odin Viking are re-negotiated and amended. Among other things these conditions have not yet been resolved and, accordingly, the Agreement has not yet been signed and deemed effective. The Agreement is further subject to an equity issue at an agreed level in Viking Supply Ships AB and a subsequent equity injection by the parent company into VSS, where the majority shareholder Kistefos AS has already informed VSS and the lenders that it will and has the ability to guarantee its 70% pro-rata share of the required equity issue in Viking Supply Ships AB. The debt restructuring is aimed at improving VSS' balance sheet and significantly reduce the amount needed for debt service until 1 January 2020. Although not yet completed and therefore significant uncertainty exists at this point in time, Management is confident that the conditions precedent can and will be met and accordingly an Agreement entered into since this will serve the economic interests of the stakeholders with which negotiations are still ongoing. It is Management's assessment that the restructuring will be finally completed during second half of 2016. VSS has been in a continuing standstill position with its lenders since February 2016, under which VSS has only serviced its interest commitments. Until the restructuring is executed, VSS is unable to service its debt obligations as they fall due, and therefore is dependent on maintaining this level of debt service. (See note 1 Significant estimations and assessments, note 13 Interest-bearing loans, note 18 Financial instruments and risk, liquidity risk and note 20 Events occurring after the reporting period).

Based on the above and a continued belief in securing contracts within the core market segment, Management has concluded that both the company and VSS Group despite the significant uncertainty will be able to continue as a going concern at least until 31 December 2016. This conclusion is based on Management's assessment that the conditions for completing the debt restructuring can and will be fulfilled, the current outlook for 2016 and the uncertainties and risks described above. Accordingly, Management has considered it appropriate to base the financial statements for the twelve months period ending 31 December 2015 on the going concern assumption.

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## EVENTS OCCURRING AFTER THE REPORTING PERIOD

Other events occurring after 31 December 2015 in addition to the breach of loan covenants (rendering all borrowings short-term), the standstill situation with the lenders and events related to the ongoing financial restructuring are described in note 20 Events occurring after the reporting period.

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## RISKS

VSS is characterised by a high degree of international operations and VSS is thus exposed to a number of both operational and financial risks. These risks include fluctuations in spot rates and utilisation in the offshore segment and development in exchange rates of mainly USD and GBP.

VSS works actively to identify, assess and manage these risks.

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## KNOWLEDGE RESOURCES

It is essential for VSS' continued growth to attract and retain highly skilled employees, including seafarers with expertise within offshore and icebreaking services who can perform in harsh environments.

The company provides a high and competitive service quality on its fleet of vessels. This requires a high level of competence and the company invests a substantial amount of resources in improving the competences of the company's employees.

The company offers internal and external training programs tailor made to each individual employee.

## SAFETY AND ENVIRONMENT

VSS strives to achieve the best possible solutions that exceed customer expectations and provide customers with greater value. VSS performs its operations and services in such a way that the impact on the environment is as low as reasonably practicable and so that international and national environmental laws are adhered to. VSS continuously implements improvements to its vessels and operations, which reduces environmental impact each year. All employees have the responsibility of safely performing their assignments in accordance to company guidelines and highest safety and environmental standard. Continuously the company, through exercises, increases the skills and readiness for normal shipboard operations and emergency situations for every personnel based on board as well as onshore. The objective is to create a work environment without accidents, and customer relations with highest level of quality, by adhering to the following principles:

- Zero accidents, environmental or material damage
- Compliance with all applicable Health, Safety and Environmental (HSE) legislation
- Healthy working conditions
- Clear tangible targets
- Require every employee to take personal responsibility for HSE by focusing on own behaviour
- Innovation and development alongside customers
- To reduce impact on the environment through energy efficiency

VSS has achieved a 2015 without significant accidents by focusing on these principles. The safety work is something that VSS continuously improves and during 2015 the company has focused on increasing safety observations reporting, which have even further minimized the number of accidents. There has also been safety coaching on-board the vessels which has increased the safety behaviour.

VSS is certified for the standards ISO 14001:2004, ISO 9001:2008 and OHSAS 18001:2007. This means that the company has a combined certificate for environment, quality and work environment for both the vessels and the offices. As the standards for environment and quality were revised late 2015, VSS has now started the work towards complying with the new standards which will come into force during 2018.

For several years VSS has been evaluating suppliers in the areas of safety and security, environment, quality and work environment. This makes suppliers more involved in the VSS strategy and also makes the cooperation with suppliers stronger. The company has adhered to all legislation and has no outstanding issues with authorities regarding HSE legislation.

The voyage reporting tool is fully implemented and there are a lot of statistic possibilities within the system to even further improve energy efficiency. This is ongoing and will be adapted to new and changing circumstances in the future.

All vessels in the VSS fleet are using low sulphur fuel to reduce emissions. The vessels are also a part of the Norwegian NOx-fund which is important for the reduction of NOx-emissions, when working on the Norwegian sector.

Further we refer to the Safety and Environment section of the VSS website. (<http://www.vikingsupply.com/hseq>).

## THE POLAR CODE

The Polar Code is a new mandatory regulative framework for vessels operating in arctic waters. The Polar Code enters into force on 1 January 2017. The Polar Code is intended to cover the full range of shipping-related matters relevant to navigation in waters surrounding the two poles – ship design, construction and equipment, operational and training concerns, search and rescue and equally important, the protection of the unique environment and eco-systems of the polar regions.

The Polar Code and SOLAS amendments were adopted during the 94th session of IMO's Maritime Safety Committee (MSC) in November 2014. VSS aims to be the leading provider within harsh environment and Arctic offshore operations, thus implementing the Polar Code was considered to be of significant importance for the company. As a consequence, VSS initiated a project to implement the code immediately after the adoption within IMO.

During 2015, large efforts were put into the Polar Code work. Although the fleet of VSS is close to fulfilling most technical requirements in the code, the project was still a large undertaking for the company. The result was a Polar Water Operation Manual, which is one of the requirements to obtain a Polar Code certification. The Operation Manual is also considered to give the crew and personnel further knowledge and guidance on how to operate in the harsh Polar Regions.

VSS was the first company to implement the Polar Code hence the process was new not only to the company, but also to the flag state and classification society. Thus, the work with the code was a close collaboration between VSS, the class (DNVGL) and the relevant authorities in the flag state, Danish Maritime Authority (DMA). The collaboration went well and VSS received assistance from both parties during the preparation process.

Magne Viking was successfully audited 9 February 2016, where the vessel was attended by one surveyor from DNVGL and two from DMA performing the Polar Code verification audit. Following the audit, DNVGL issued the first certificate ever stating that Magne Viking and VSS complied with the Polar Code.

One month following the successful audit VSS completed the first ever Polar Code course, which was developed in close cooperation with Viking Ice Consultancy and the Linnaeus University in Kalmar. The course had attendance from DMA, SMA and Gard. The company received very positive feed-back from all attendees and the company has reason to believe that VSS' proactive efforts will result in higher safety not only for our own vessel, but for the entire industry.

Naturally, VSS is satisfied to be the first to have a Polar Code compliance certificate and to have completed the first Polar Code course within the industry. This once more underlines that VSS is ahead of the competitors in terms of focus on safe operations. It is VSS' opinion that the efforts on compliance with the Polar Code will benefit all work being carried out in the arctic regions both in terms of safe operation and environmental protection.

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## HUMAN RIGHTS

Though VSS does not have a specific policy for human rights, VSS strives to set a positive footprint on the world, and has actively contributed during 2015 by donations to organisations working with improving children's opportunities and humanitarian assistance.

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## CODE OF CONDUCT

VSS created a new and extensive Code of Conduct in 2014 in cooperation with expert legal advisors, which were presented and approved by the Board of Directors in September 2014. The Code of Conduct is based on the VSS values Safety, Teamwork, Trust, Respect and Flexibility, and is constructed to be the cornerstone of the VSS Corporate Social Responsibility (CSR) programme. The main points in the Code of Conduct are zero tolerance for corruption, prohibition against facilitation payments and guidelines for gifts and business hospitality.

Throughout 2015 there has been a focus on how to implement the Code of Conduct in the everyday business setting. This has been followed up with presentations and Q&A sessions. The company will continue to evaluate its CSR programme, and will hold annual presentations with Q&A sessions in all its offices and for all offshore staff.

VSS is working to implement its own Corporate Social Responsibility guidelines.

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## DIVERSITY

VSS is actively striving to achieve a diverse team throughout the board of directors, the management group and the rest of the organisation. All employees in VSS should experience equal opportunities for developing their careers, regardless of gender, religion, age and nationality. Diversity will always be considered when promoting and recruiting employees. VSS currently employs 6 different nationalities onshore and 10 different nationalities at sea.



To support equal opportunities, VSS has implemented the following initiatives:

- Corporate policies to allow equal opportunities
- Standardised recruitment policies to ensure equal treatment
- Support to develop individual career plans

The management group in VSS A/S consists of 4 men and 1 woman. The aim is to increase the underrepresented gender in the management group to at least 40%. To achieve this, VSS strives to make sure that each gender is represented by at least one when promoting or hiring for management group positions. During 2015 no changes have been made to the management group.

The Board of Directors in VSS A/S consists of 5 men and 0 women. In order to increase diversity in the Board of Directors, a goal has been set that the underrepresented gender should constitute at least 20% by 2018. During 2015 no changes have been made to the Board of Directors.

## MARKET EVENTS 2015 AND MARKET EXPECTATIONS 2016

The oversupply of oil seen in 2014 carried on into 2015, with few signs of improvement. With oil prices reaching levels below USD 30 per barrel, investment for exploration and production has as a consequence been cut back. This caused the number of active rigs to be reduced through the year, gradually deteriorating the market in which VSS operates.

The current price level is not considered to be sustainable in the long run, as the break-even cost for a significant amount of the current production is above the current price of oil. The demand for oil showed a positive development through 2015, with year on year growth being 1.6 million barrels per day. US shale oil has been the most important factor for the current oversupply. Despite slowing down somewhat, the production was maintained at relatively solid levels. Further, OPEC showed little interest in balancing the market, and to the contrary increased their production in an effort to increase their market share and strain more expensive producers.

The challenging situation related to sanctions in Russia was upheld through 2015. Combined with the overall challenging market conditions within the offshore industry, this resulted in a sharp reduction in the activity in the country's offshore regions compared to 2014. The remaining activity is focused on the Sakhalin region in the Far East and the producing field Prirazlomnoye in the Pechora Sea. VSS still considers Russia to be a significant region within the Arctic offshore, which is also illustrated by the fixture of Brage Viking to an oil-major for operations in the Sakhalin region early in 2015. A solution on the sanctions imposed by the EU and US would however most likely have a significant impact on the activity level in the region. The political risk in the region seems to have stabilized through 2015, but VSS still carefully monitors the situation in the region.

2015 marked a successful season in Shell's Alaska project, with the first exploration well being completed. Despite this, Shell announced that they will not return to offshore Alaska for the foreseeable future, with the reason being commercial viability in the project given the current market outlook for oil. They did however, repeat their future belief in the region, and maintained their view that offshore Alaska will be of strategic value in the future.

The current downturn has proved to be deeper and more long-lasting than previously anticipated. Despite this, VSS has a positive long term outlook for the offshore industry. Due to the reduced activity seen recently, VSS does however anticipate that the next couple of years will be challenging for the industry. Rig activity is expected to remain modest at least through 2016, and due to planning cycles, also 2017 seem to be weak, even if the oil market should re-balance within 2016. Arctic oil and gas is still important to cover the future energy demand, and efficiency gains seen across the industry will also impact projects in this region.

### AHTS MARKET

Based on the weak development in the second half of 2014, VSS anticipated that the North Sea AHTS market would deteriorate into 2015.

Through the year, a significant amount of vessels were laid up, but this only to a certain degree compensated for the reduced activity in the North Sea market. Reduced activity in the global offshore industry also caused several owners to bring vessels back to the North Sea. Up till now, these vessels have been laid-up and as a result, they have not impacted the supply of active vessels. Rig activity is the most important factor for the AHTS market in the North Sea. The reduced number of contracted rigs caused the volatility in the North Sea market to increase, giving long periods with a soft market, with tight periods in between.

VSS expects that the rig activity will be further reduced in 2016, meaning that more vessels would have to exit the market in order to maintain the current market balance. Despite reduced outlook in 2016, it remains a core focus

within VSS to increase the contract backlog going forward. The activity in VSS' core regions has been reduced, but the company does see contract opportunities towards the end of 2016.

### **PSV MARKET**

The PSV market was already suffering from increased supply of vessels before the recent downturn. The further reduction in activity in the global offshore industry has caused a significant over-supply, with a large number of vessels being laid up in the North Sea.

With a large influx of large, modern vessels, the market conditions for medium sized PSVs have been negatively impacted. As a result, VSS during 2015 decided to lay-up three out of its five PSVs. Despite the increasing number of vessels being laid up in the North Sea region, the market did not show any signs of improvement during 2015. Consequently, early in 2016, VSS decided to lay up the two remaining PSVs. The company will continue to monitor the market for long term contract opportunities for the vessels. Due to the development in 2015, impairment charges related to the PSV vessels have been recognised during the year in the total amount of MNOK 267.

### **SERVICES AND SHIP MANAGEMENT MARKETS**

Viking Ice Consultancy was established as a subsidiary of VSS 1 January 2015, as a result of the increased activity related to ice-management and logistical operations in conjunction with Arctic offshore activity. The company is based in Kristiansand.

The termination of the 2015 drilling season in the Kara Sea impacted the activity in the segment during the year. Viking Ice Consultancy is continuously working to secure new contracts, but it should be expected that the reduced activity within the global offshore industry will reduce the number of available contracts.

During 2015, Viking Ice Consultancy has been involved in implementation and certification of the fleet of VSS according to the IMO Polar Code, as well as the development of an IMO Polar Code training course for internal and external clients.

VSS' primary activity within Ship Management is the management agreement with SMA. This agreement was renewed for seven years during 2015.

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## **RESULT EXPECTATIONS 2016**

As communicated in the 2014 Group Annual Report it was expected that the 2015 revenue and profitability would decrease compared to 2014. The market conditions in 2015 have been challenging and as a result lower revenue and profitability were realized for 2015.

The most important external factors affecting VSS results for 2016 are:

- Global development in oil companies exploration and production
- Development in oil price
- Sanctions against Russia
- Rig activity compared to number of vessels in the North Sea

VSS expects the overall business environment in 2016 to be challenging. At the entrance to 2016 VSS had total contract coverage of 20% for the year (25%). VSS still sees contract opportunities within the market of harsh environment offshore which could turn out positive.

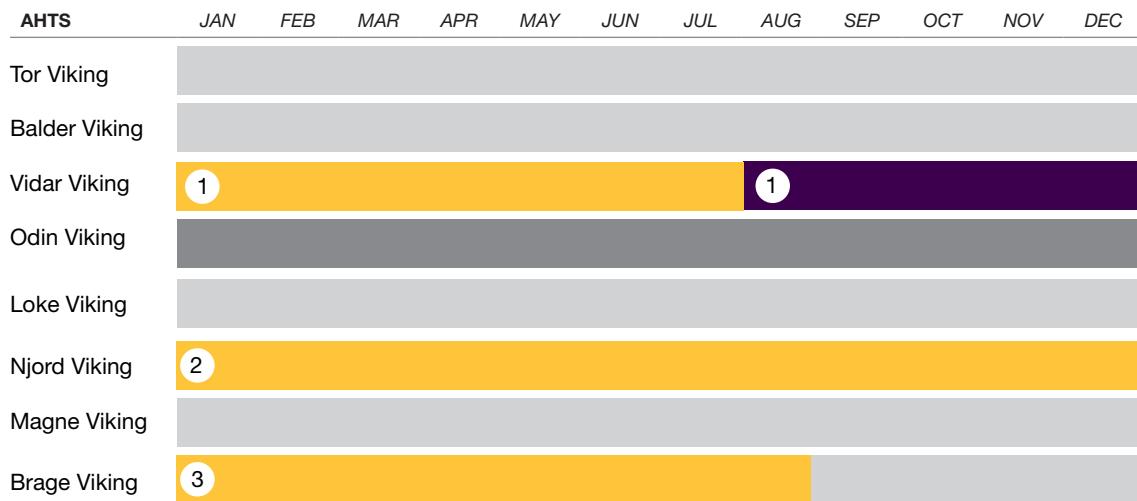
VSS expects the revenue to decrease in 2016 compared to 2015. EBITDA is expected to be positive and the result for 2016 is expected to be a loss of MNOK 200-250 before any potential further impairment charges on vessels. Due to the challenging market conditions the indicated result range is subject to uncertainty.



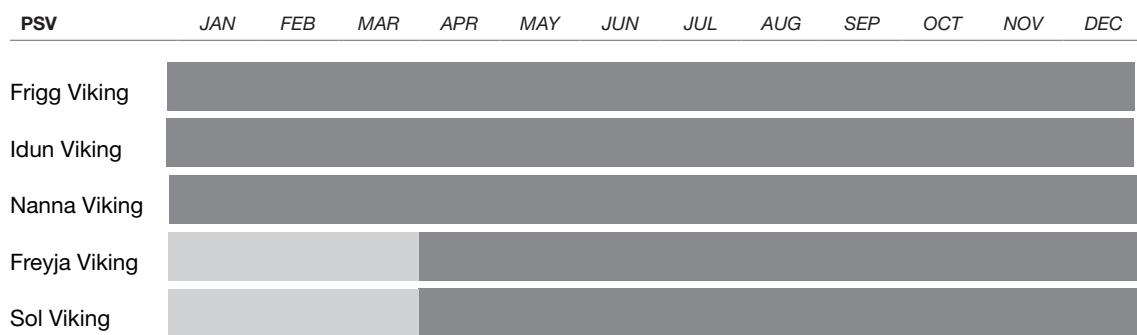


## EMPLOYMENT OVERVIEW

Firm contract  
 Option  
 Spot  
 Layup



1. Oil major, firm till 1 August 2016 + 1 x 6 months option
2. Oil major, firm till 31 December 2016 + 2 x 6 months options
3. Oil major, firm until mid August 2016.



Tables are as of 31 December 2015 adjusted for lay-up of Freyja and Sol Viking in March 2016.

## CONTRACT BACKLOG CONTRACT COVERAGE

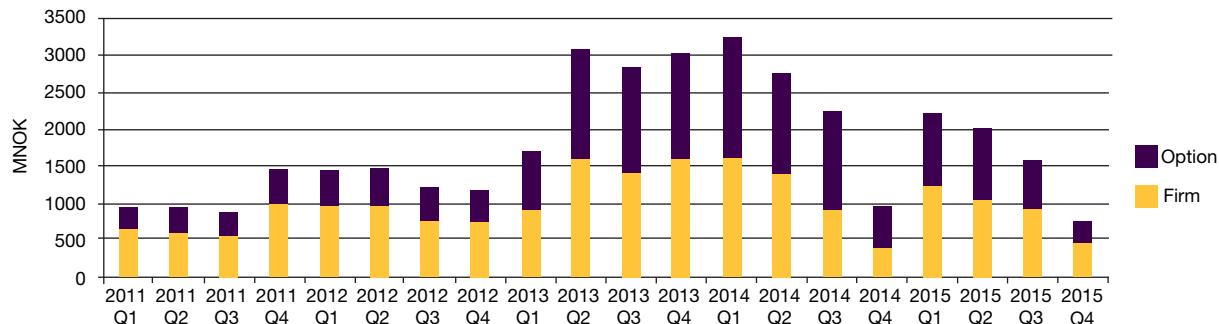
AHTS	2016	2017	2018
Firm contract backlog (MNOK)	472	0	0
Optional contract backlog (MNOK)	158	140	0
<b>Total contract backlog (MNOK)</b>	<b>630</b>	<b>140</b>	<b>0</b>
Firm contract coverage	28%	0%	0%
Optional contract coverage	5%	14%	0%
<b>Total contract coverage</b>	<b>33%</b>	<b>14%</b>	<b>0%</b>

PSV	2016	2017	2018
Firm contract backlog (MNOK)	0	0	0
Optional contract backlog (MNOK)	0	0	0
<b>Total contract backlog (MNOK)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Firm contract coverage	0%	0%	0%
Optional contract coverage	0%	0%	0%
<b>Total contract coverage</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

Figures in the tables are as of 31 December 2015.



## HISTORIC DEVELOPMENT



Figures in the table are as of 31 December 2015. The amounts show the total remaining contract backlog as of balance date.

## KEY FIGURES

(MNOK)	2015	2014	2013	2012	2011
Total revenue	1,069.0	1,741.5	1,006.9	897.6	152.9
Operating profit before depreciation (EBITDA)	279.8	718.2	299.4	196.3	12.6
Operating profit (EBIT)	-170.9	542.6	43.8	5.5	-29.5
Net financials	-165.1	-235.4	-102.8	-162.7	-21.4
Result for the period	-338.3	291.8	-51.6	-157.2	-62.4
Total assets	4,118.2	4,697.6	4,203.5	4,237.3	3,320.1
Equity	1,545.2	2,024.5	1,719.2	1,722.9	1,558.0
Net interest-bearing debt	2,281.2	2,393.3	2,295.7	2,290.0	1,537.2
Investments in tangible fixed assets	69.7	313.5	49.4	31.2	1,017.0
Profit margin	-16.0%	31.2%	4.3%	0.6%	-19.3%
Equity ratio	37.5%	43.1%	40.9%	40.7%	46.9%
Return on shareholders' equity	-19.0%	15.6%	-3.0%	-9.6%	-8.0%
Total contract backlog	770.2	956.8	3,046.4	1,170.2	1,382.4
Average number of employees	484	468	457	405	98

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

## FINANCIAL HIGHLIGHTS

### RESULT FOR THE PERIOD

Total revenue was MNOK 1,069 (MNOK 1,742). Total operating costs were MNOK 789 (MNOK 1,023) and operating profit before depreciation (EBITDA) was MNOK 280 (MNOK 718). Operating profit (EBIT) was MNOK -171 (MNOK 543).

Depreciation was MNOK 184 (MNOK 177) and impairment charges related to the PSV fleet amounted to MNOK 267 (MNOK 0). The impairment charge in 2015 corresponds to 30% of the carrying amount of the PSV fleet at 1 January 2015. Note 9 Tangible assets contains a description of the impairment tests.

Net financials were negative MNOK 165 (negative MNOK 235). Financial costs include unrealised currency loss of MNOK 68 (loss MNOK 92) and realised value adjustment loss on interest rate swaps of MNOK 1 (loss MNOK 11).

The result for the year was a loss of MNOK 338 (gain MNOK 292).

### TAX

The companies in VSS are taxed according to location and activity. Almost all activities are taxed under the tonnage tax scheme where the taxable income is calculated based on the tonnage of the fleet. An exception is the activities in the Services segment. In 2015 there was a tax expense of MNOK 2 (MNOK 15).





## BALANCE SHEET

Total assets as of 31 December 2015 were MNOK 4,118 (MNOK 4,698).

Vessels and equipment were MNOK 3,600 (MNOK 3,888) after depreciation and impairment charges for the year of MNOK 451 in total. Due to the challenging market conditions, the valuation of vessels, especially the PSV fleet, is uncertain as further described in note 1 Significant estimations and assessments and note 9 Tangible assets.

The equity of MNOK 1,545 (MNOK 2,025) was impacted by the loss for the year of MNOK 338 (gain MNOK 292), a dividend in Q2 of MNOK 145 (MNOK 0) and exchange rate adjustments with a gain of MNOK 4 (gain MNOK 13).

Total short- and long-term interest-bearing loans were MNOK 2,281 (MNOK 2,393).

## CASH FLOW

Cash flow from operating activities was MNOK 355 (MNOK 477).

Cash flow from investing activities was negative MNOK 167 (negative MNOK 296).

Cash flow from financing activities was negative MNOK 401 (negative MNOK 164).

## LEGAL CASES

VSS has no significant pending legal disputes.

## FINANCIAL STATEMENT OF THE PARENT

The result for the year was a loss of MNOK 338 (gain of MNOK 292). The result for the year decreased due to the weak North Sea spot market, the absence of a similar 2014 Kara Sea Consultancy Project and impairment of vessels in subsidiary.

Total assets as of 31 December 2015 were MNOK 3,072 (MNOK 3,590) and equity was MNOK 1,545 (MNOK 2,025).

## RELATED PARTIES

Viking Supply Ships AB has controlling influence. For information on ownership and related party transactions, see note 16 Transactions with related parties.

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# STATEMENT OF THE BOARD OF DIRECTORS AND MANAGEMENT

Today, the Board of Directors and the management have discussed and approved the annual report of Viking Supply Ships A/S for the financial year 1 January - 31 December 2015.

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act. The parent company financial statements have been prepared in accordance with Danish Financial Statements Act. In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the group's and company's financial position at 31 December 2015 and of the results of the group and company's operations and consolidated cash flows for the financial year 1 January - 31 December 2015.

In our opinion, the management's review includes a fair review of the development in the Group's and the Parent Company's operations and financial conditions, of the results for the year and of the financial position of the Group and Parent as well as a review of the more significant risks and uncertainty facing the Group and the Parent Company.

We recommend the adoption of the annual report at the annual general meeting.

Copenhagen, 3 June 2016

## BOARD OF DIRECTORS:

**CHRISTEN SVEAAS**  
Chairman

**FOLKE PATRIKSSON**  
Deputy Chairman

**BENGT A. REM**  
Board member

**HÅKAN LARSSON**  
Board member

**MAGNUS SONNORP**  
Board member

## MANAGING DIRECTOR:

**CHRISTIAN W. BERG**



# INDEPENDENT AUDITORS' REPORT

To the shareholder of Viking Supply Ships A/S

## INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS

We have audited the consolidated financial statements and the parent company financial statements of Viking Supply Ships A/S for the financial year 1 January – 31 December 2015, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as for the parent company and consolidated statement of comprehensive income and consolidated cash flow statement. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act. The parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU (the consolidated financial statements), the Danish Financial Statements Act (the parent company financial statements) and additional disclosure requirements in the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on the consolidated financial statements and the parent company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the parent company financial statements.

The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of consolidated financial statements and parent company financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and the parent company financial statements. We believe that the audit evidence we have obtained is sufficient

and appropriate to provide a basis for our opinion. Our audit has not resulted in any qualification.

### OPINION

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 December 2015 and of the results of the Group's and the parent company's operations and the consolidated cash flows for the financial year 1 January – 31 December 2015 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act in respect of the consolidated financial statements and in accordance with the Danish Financial Statements Act in respect of the parent company financial statements.

### EMPHASIS OF MATTER REGARDING THE FINANCIAL STATEMENTS

Without modifying our opinion, we draw attention to the fact that the Group's and the parent company's ability to continue as a going concern is associated with significant uncertainty as the Group and the parent company are unable to service their debt obligations as they fall due. We refer to note 1 (liquidity and going concern) and 20 (events occurring after the reporting period – ongoing financial restructuring) in the consolidated financial statements, which state that the main principles for a restructuring agreement have been agreed with the bank lenders in May 2016. Execution of a final agreement in the form of a term sheet is conditional on an equity issue at an agreed level in Viking Supply Ships AB and a subsequent equity injection by Viking Supply Ships AB into Viking Supply Ships A/S, where the ultimate parent company Kistefos AS will guarantee its 70% pro-rata share of the required equity issue in Viking Supply Ships AB. Further, such conditions include that an amended agreement is negotiated and agreed with the bondholders in the senior unsecured bond and that the terms for the bareboat charter of an AHTS vessel is re-negotiated and amended. However, as Management has assessed that the conditions for completing the debt restructuring can and will be fulfilled, the financial statements have been prepared on a going concern basis. The application of the going concern assumption as basis for preparation of the financial statements as opposed to liquidation principles has significant impact on the measurement of vessels due to required additional impairment charges to their net selling prices in a distressed sale situation and further also the recognition of liabilities that will arise on account of any inability to continue as a going concern.

### STATEMENT ON THE MANAGEMENT'S REVIEW

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent company financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the consolidated financial statements and the parent company financial statements.

Copenhagen, 3 June 2016  
 Ernst & Young  
 Godkendt Revisionspartnerselskab  
 CVR no 30 70 02 28

Jens Thordahl Nøhr  
 State Authorised Public  
 Accountant

Birgit Morville Schrøder  
 State Authorised Public  
 Accountant

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

(MNOK)	Note	2015	2014
<b>Total revenue</b>	3,4	<b>1,069.0</b>	<b>1,741.5</b>
Direct voyage costs		-52.6	-48.5
Operating costs	3,5	-608.2	-851.0
General and administrative expenses	5,6	-128.3	-123.8
<b>Total operating costs</b>		<b>-789.2</b>	<b>-1,023.4</b>
<b>Operating profit before depreciation (EBITDA)</b>		<b>279.8</b>	<b>718.2</b>
Net gain on sale of fixed assets	9	-	0.9
Depreciation	9	-184.3	-176.5
Impairment of vessels	9	-266.5	-
<b>Operating profit (EBIT)</b>		<b>-170.9</b>	<b>542.6</b>
Financial income	7	5.8	2.8
Financial costs	7	-170.8	-238.2
<b>Net financials</b>		<b>-165.1</b>	<b>-235.4</b>
<b>Pre-tax result</b>		<b>-336.0</b>	<b>307.1</b>
Taxes	8	-2.2	-15.3
<b>Result for the year</b>		<b>-338.3</b>	<b>291.8</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(MNOK)	Note	2015	2014
<b>Result for the year</b>		<b>-338.3</b>	<b>291.8</b>
Comprehensive income to be reclassified to profit and loss in later periods			
Translation effect foreign operations		3.9	13.4
Tax on other comprehensive income	8	-	-
<b>Other comprehensive income net of tax</b>		<b>3.9</b>	<b>13.4</b>
Total comprehensive income for the year		-334.3	305.3

## CONSOLIDATED BALANCE SHEET

(MNOK)	Note	2015	2014
<b>Assets</b>			
Vessels and equipment		3,600.1	3,887.5
<b>Tangible assets</b>	9	<b>3,600.1</b>	<b>3,887.5</b>
Restricted cash		107.9	-
Other non-current receivables		41.2	75.4
<b>Financial assets</b>	12	<b>149.1</b>	<b>75.4</b>
<b>Total non-current assets</b>		<b>3,749.2</b>	<b>3,962.9</b>
Inventories	10	17.3	21.7
Accounts receivables	11	97.2	305.8
Other current receivables		102.1	90.3
Cash and cash equivalents	12	152.5	316.9
<b>Total current assets</b>		<b>369.0</b>	<b>734.7</b>
<b>Total assets</b>		<b>4,118.2</b>	<b>4,697.6</b>

(MNOK)	Note	2015	2014
<b>Equity and liabilities</b>			
Share capital		0.5	0.5
Retained earnings and reserves		1,544.6	1,879.0
Proposed dividend		-	145.0
<b>Total equity</b>	19	<b>1,545.2</b>	<b>2,024.5</b>
Long-term bond loan	13	193.8	191.9
Long-term interest-bearing loans	13	728.6	1,932.7
Other non-current liabilities	14	21.4	28.6
<b>Total non-current liabilities</b>		<b>943.8</b>	<b>2,153.2</b>
Short-term interest-bearing loans	13	1,358.7	268.7
Accounts payable		49.4	154.0
Other current liabilities	15	221.0	97.2
<b>Total current liabilities</b>		<b>1,629.2</b>	<b>519.9</b>
<b>Total liabilities</b>		<b>2,573.0</b>	<b>2,673.1</b>
<b>Total equity and liabilities</b>		<b>4,118.2</b>	<b>4,697.6</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(MNOK)	Share capital	Share Premium	Translation reserve	Retained earnings	Proposed dividend	Total equity
<b>Shareholders' equity 31 December 2013</b>	<b>0.5</b>	<b>1,994.7</b>	<b>-4.8</b>	<b>-271.2</b>	<b>-</b>	<b>1,719.2</b>
Result for the period	-	-	-	146.8	145.0	291.8
Other comprehensive income	-	-	13.4	-	-	13.4
<b>Shareholders' equity 31 December 2014</b>	<b>0.5</b>	<b>1,994.7</b>	<b>8.7</b>	<b>-124.4</b>	<b>145.0</b>	<b>2,024.5</b>
Result for the period	-	-	-	338.3	-	-338.3
Transfer to retained earnings	-	-1,994.7	-	1,994.7	-	-
Dividend	-	-	-	-	-145.0	-145.0
Other comprehensive income	-	-	3.9	-	-	3.9
<b>Shareholders' equity 31 December 2015</b>	<b>0.5</b>	<b>-</b>	<b>12.6</b>	<b>1,532.1</b>	<b>-</b>	<b>1,545.2</b>

For additional information see note 19 Share capital.

# CONSOLIDATED CASH FLOW STATEMENT

(MNOK)	Note	2015	2014
<b>Operating activities</b>			
Profit / loss for the year		-338.3	291.8
Adjustments for:			
Net gain on sale of fixed assets		-	-0.9
Depreciation, amortisation and impairment	9	450.8	176.5
Financial expenses, net	7	165.1	235.4
Income taxes		2.2	15.3
Working capital adjustments:			
Change in receivables and other current assets		235.5	-193.2
Change in payables, accrued liabilities and deferred tax		-57.1	91.7
Taxes paid	8	-6.8	-6.5
Interest paid		-101.9	-135.9
Interest received		5.8	2.7
<b>Net cash flows from operating activities</b>		<b>355.3</b>	<b>477.0</b>
<b>Investing activities</b>			
Purchase of marketable securities / other financial assets		-	-41.5
Change in cash collateral		-97.2	37.2
Purchase of vessels and equipment		-0.8	-273.3
Proceeds from sale of vessels and equipment		-	21.6
Drydocking		-68.9	-40.2
<b>Net cash flows used in investing activities</b>		<b>-166.9</b>	<b>-296.2</b>
<b>Financing activities</b>			
Dividends paid	19	-72.5	-
Proceeds from loans	13	-	1,668.8
Repayment of loans	13	-315.3	-1,832.9
Change in loans from related parties	16	13.0	-
<b>Net cash flows from financing activities</b>		<b>-400.8</b>	<b>-164.1</b>
Currency translation effect on cash and cash equivalents		48.0	62.0
Cash and cash equivalents, beginning of year	12	316.9	238.2
<b>Cash and cash equivalents, end of year</b>	12	<b>152.5</b>	<b>316.9</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ESTIMATIONS AND ASSESSMENTS
2. ACCOUNTING POLICIES
3. SEGMENT INFORMATION
4. REVENUES
5. PERSONNEL EXPENSES
6. AUDIT FEES
7. NET FINANCIALS
8. TAXES
9. TANGIBLE ASSETS
10. INVENTORIES
11. ACCOUNTS RECEIVABLES
12. FINANCIAL ASSETS
13. INTEREST-BEARING LOANS
14. OTHER NON-CURRENT LIABILITIES
15. OTHER CURRENT LIABILITIES
16. TRANSACTIONS WITH RELATED PARTIES
17. COMMITMENTS AND OTHER CONTINGENT LIABILITIES
18. FINANCIAL INSTRUMENTS AND RISK
19. SHARE CAPITAL
20. EVENTS OCCURRING AFTER THE REPORTING PERIOD
21. COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 SIGNIFICANT ESTIMATIONS AND ASSESSMENTS

In preparing the financial statements Management is required to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

Management bases its estimates on historical experience and various other assumptions that are held to be reasonable under the circumstances. These estimates form the basis for making judgments about the reported financial position and result of operations and cash flow that are not readily apparent from other sources. Actual results could differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis and if necessary, changes are recognised in the period in which the estimate is revised.

The estimations and assessments with the greatest impact for VSS are liquidity and going concern, identifying impairment indicators/performing impairment tests of vessel values, useful lives of tangible fixed assets and their residual values, and determining taxation in different countries.

### LIQUIDITY AND GOING CONCERN

The deteriorated market conditions, including downward pressure on rates and utilization, decreasing vessel values and contract backlog, have negatively impacted the liquidity, earnings and financial position of VSS during 2015. As a consequence, VSS in Q4 2015 initiated a dialogue with its lenders to secure a long-term stable financing solution. As at 31 December 2015 VSS did not have sufficient liquidity to service its debt obligations as they fell due, including the requirements to deposit additional cash or security as required under contract coverage- and loan-to-value clauses in Q1 2016. Further in 2016, VSS has not been able to comply with events of default provisions in loan agreements, which render all borrowings short-term and payable on demand by the lenders, including loans amounting to MNOK 922, which as at 31 December 2015 have been classified as long-term debt in the balance sheet.

VSS has during the majority of first half 2016 been in an ongoing dialogue with its lenders and has during most of the year since February 2016 been in a standstill position, during which VSS has not paid instalments to its lenders. These events have created uncertainty as to the VSS Group's and the company's ability to continue as going concern, including the application of the going concern assumption as basis for preparation of the financial statements as opposed to liquidation principles, which typically will require significant impairments of vessels to their net selling price in a distressed sale situation and further require recognition of liabilities that arise on account of the inability to continue as a going concern.

In May 2016, VSS agreed the main principles for a restructuring agreement with the bank lenders. Execution of a final agreement in the form of a term sheet (the "Agreement") is pending certain conditions precedent, including that an amended agreement is negotiated and agreed with the bondholders in the senior unsecured bond in Viking Supply Ships A/S and that terms for the bareboat charter of Odin Viking are re-negotiated and amended.

Among other things these conditions have not yet been resolved and, accordingly, the Agreement has not yet been signed and deemed effective. The Agreement is further subject to an equity issue at an agreed level in Viking Supply Ships AB and a subsequent equity injection by the parent company into VSS, where the majority shareholder Kistefos AS has already informed VSS and the lenders that it will and has the ability to guarantee its 70% pro-rata share of

the required equity issue in Viking Supply Ships AB. On this basis, Management expects that the company will be able to successfully execute the required equity issue.

Nordic Trustee, as representative of the bondholders, has been involved in discussions with the company, and on a bondholders' meeting held 8 April 2016, 85% of the bondholders present at the meeting supported the then effective standstill agreement. On this basis, Management expects that the company will be able to reach an acceptable agreement with the bondholders.

Based on the ongoing dialogue with the owner of Odin Viking, Management understands that the owner is interested in supporting the restructuring of VSS and on this basis Management expects that the company will be able to reach an acceptable agreement with the owner of Odin Viking.

Although not yet completed and therefore significant uncertainty exists at this point in time, Management is confident that conditions precedent can and will be met and accordingly an Agreement entered into since this will serve the economic interests of the stakeholders with which negotiations are still ongoing.

Once a completed restructuring is in place, VSS expects to have sufficient liquidity to maintain its operations even in the event that the market remains weak through 2019, since the amount of debt service required until 1 January 2020 will be significantly reduced. VSS has been in a continuing standstill position with its lenders since February 2016, under which VSS has only serviced its interest commitments. Until the restructuring is executed, VSS is unable to service its debt obligations as they fall due, and therefore is dependent on maintaining this level of debt service. It is Management's assessment that the restructuring will be finally completed during second half of 2016. Further, the primary uncertainties and risks in relation to the going concern considerations include a continued weakening of the market conditions.

Based on the above and a continued belief in securing contracts within the core market segment, Management has concluded that both the company and VSS Group despite the significant uncertainty will be able to continue as going concern at least until 31 December 2016. This conclusion is based on Management's assessment that the conditions for completing the debt restructuring can and will be fulfilled, the current outlook for 2016 and the uncertainties and risks described above. Accordingly, Management has considered it appropriate to base the financial statements for the twelve months period ending 31 December 2015 on the going concern assumption.

### **IMPAIRMENT OF VESSEL VALUES**

Impairment indicators exist due to deteriorating market conditions within the oil & gas industry and volatile earnings. The fleet consists of two cash generating units (AHTS & PSV) and the units are evaluated and reviewed individually. These reviews are made whenever events or changes in circumstances indicate that the carrying amount for owned vessels may not be fully recoverable. In such instances, an impairment loss will be recognised based on the difference between the highest of value in use and the net selling price compared to the carrying amount.

In developing estimates of recoverable amounts, VSS makes an assessment of the vessels' future earnings from the continued use in its own operations as well as an assessment of the net selling price at the balance sheet date. In developing estimates of value in use, VSS makes assumptions about future freight rates, ship operating expenses, dry dock costs and the remaining useful lives of the vessels. In developing estimates of the net selling prices, VSS reviews reported sales and purchase prices and prices for new buildings for similar vessels, market demand and general market conditions. In order to support Management's own assumptions, valuations for the owned vessels are obtained from two independent internationally acknowledged shipbrokers on a quarterly basis as indications of net selling prices.

Although Management believes that the assumptions used to evaluate impairments are reasonable and appropriate, such assumptions are by nature subjective especially in the current environment.

In 2015 an impairment loss amounting to 267 MNOK was recognized related to the PSV fleet. Due to the challenging market conditions, the determination of key assumptions used in the value in use calculations are more uncertain than normal. Similarly, the valuations obtained from internationally acknowledged shipbrokers are also subject to more uncertainty than normal due to lack of sales and purchase transactions for comparable vessels. The impairment tests are described in note 9 Tangible assets in a separate impairment section including sensitivities for the key assumptions applied.

### **USEFUL LIVES OF TANGIBLE FIXED ASSETS AND THEIR RESIDUAL VALUES**

Determining the useful life of tangible fixed assets and their residual values is subject to significant judgment. The residual values and useful lives are assessed annually. In 2014 Management assessed the residual value of VSS vessels to 30% of the purchase price based on peer group analysis and vessel price history. For 2015 Management reviewed and reconfirmed this assessment.

### **TAXATION**

VSS operates in different countries with different tax systems. Significant judgement is required in determining the taxation in the different countries, especially whether the conditions for use of tonnage taxation is fulfilled.



# NOTE 2

## ACCOUNTING POLICIES

### BASIS OF PREPARATION

The consolidated Financial Statements of VSS have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, as well as additional Danish requirements applying to presentation of annual reports of large enterprises of reporting class C.

### BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the VSS and its subsidiaries as at 31 December 2015. Subsidiaries are classified as companies in which VSS has a control. Control is achieved when VSS is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

### BUSINESS COMBINATIONS

VSS uses the acquisition method for accounting of business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by VSS. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Costs related to acquisitions are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. VSS recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. The portion of the purchase price that exceeds the acquisition's net assets, valued at fair value, is recognised as goodwill and is subject to annual impairment testing. If the purchase price is lower than the net assets, the difference is recognised directly in profit and loss.

VSS-internal transactions and balance sheet items and unrealised gains on transactions between VSS companies are eliminated. Unrealised losses are also eliminated, unless the transaction represents evidence for the need to recognise impairment.

### TRANSLATION OF FOREIGN CURRENCIES

All transactions included in the financial reports for each VSS company are valued and recognised in the currency of the primary economic environment in which the respective VSS company operates, its "functional currency." Goodwill and adjustments in fair value arising from the acquisition of foreign operations are treated as assets and liabilities in these operations and are translated at closing-date rates.

The consolidated financial statements of VSS and the parent company are presented in NOK. The parent company's functional currency is NOK. The currency exchange rate between NOK/DKK was 78.35 as at 31 December 2015 (81.58). The average exchange rate for 2015 was 83.42 (89.27).

For VSS companies that have a functional currency that is different to VSS reporting currency, the balance sheets are translated at the closing date rate and income statements are translated at the average exchange rate for the year, whereby the translation difference is recognised in other comprehensive income. If the use of average exchange rate is not a reasonable approximation of using spot exchange rate, the spot exchange rate for the date of the transaction is used. In the case of divestment or liquidation of such companies, the accumulated translation difference is recognised under capital gains/losses.

Income statement items are translated at the transaction-date rate and any exchange-rate differences are entered in the profit/loss for the year.

### REVENUES

Revenues and expenses related to voyages are recognised successively in relation to the voyage degree of completion on the balance sheet date. The voyage degree of completion is calculated on the basis of the number of travel days on the balance sheet date in relation to the total number of travel days for the voyage. Other revenues, such as those for Services and external Ship Management assignments, are recognised only after agreement is reached with the customer and the service has been delivered. Direct overhead costs that are invoiced to the customer are recognised as gross amounts in profit and loss. Costs for personnel employed in VSS are recognised as gross amounts including crews on external vessels.

Interest revenues are recognised in profit and loss distributed across the period of maturity, applying the effective interest method.

#### **DIRECT VOYAGE COSTS**

Expenses directly attributable to voyages, such as bunkers and harbour expenses are recognised in profit and loss under the heading Direct voyage costs.

#### **OPERATING COST**

Other expenses attributable to the operation of vessels, such as repairs, maintenance, lubricants and crew cost are recognised in profit and loss under the heading Operating cost.

#### **GENERAL AND ADMINISTRATIVE EXPENSES**

Administrative cost such as personnel cost for shore based staff and other office related cost is recognised under the heading General and administrative expenses.

#### **OPERATIONAL LEASING AGREEMENTS**

Operational leasing agreements are recognised straight-line over the lease period in profit and loss as revenue where VSS is the lessor and as operating costs where VSS is the lessee.

#### **INCOME TAXES**

Tax comprises the amount estimated to be paid for the period including income subject to Danish and foreign tonnage tax and changes in deferred tax.

VSS recognises deferred tax on temporary differences between the carrying amount and tax value of assets and liabilities. Deferred tax assets are only recognised if it is probable that the temporary differences can be utilised against future taxable surpluses. The current nominal tax rate in each country is used in calculating deferred tax. Deferred tax liabilities for temporary differences pertaining to investments in subsidiaries and associated companies are not recognised in the consolidated accounts as long as no decision on profit taking has been made. In all cases, the parent company can steer the timing for the reversal of the temporary differences, and it is not considered probable that a reversal will occur in the foreseeable future. The tax effect of items recognised in profit and loss is recognised in profit and loss. The tax effect of items recognised directly against other comprehensive income is recognised against other comprehensive income.

#### **TANGIBLE FIXED ASSETS**

Tangible fixed assets as described below are recognised at cost or after deductions for accumulated depreciation according to plan and possible impairment.

Expenses that raise the value or return of the asset through, for example, capacity enhancements or cost rationalisation, increase the carrying amount of the asset. Expenses incurred by the re-flagging of vessels are capitalised in accordance with this principle.

Expenses for major inspection measures are capitalised as fixed assets, since they are considered to increase the vessel's fair value and are depreciated on a straight-line basis over the vessel's useful life. Other outlay for repairs and maintenance is classed as expenses. Dry-dock expenses within VSS are also capitalised in accordance with this principle and are depreciated over a period of 2.5–5 years, which is the normal time between dry-dockings. Expenses, including interest, pertaining to vessels under construction are capitalised as fixed assets.

Depreciation of vessels according to plan is based on an individual assessment of each vessel's useful life and subsequent remaining residual value. Impairment is recognised if the asset's estimated recoverable amount is lower than its carrying amount. The residual value and useful life of assets are tested on each balance-sheet date and adjusted if necessary. The type of fixed asset with the greatest residual value comprises vessels for which the residual value comprises the estimated scrap value at the end of the vessels' useful life.

Straight-line amortisation according to plan is based on the following useful lives:

– Vessels	25–30 years
– Docking and major overhaul measures	2.5–5 years
– Other equipment	3–10 years

The residual value and useful lives of the assets are assessed annually and adjusted if necessary at the balance sheet date.



## IMPAIRMENT

For assets subject to amortisation or depreciation according to plan, an assessment is made regarding whether the value of the asset should be impaired whenever there are indications that its carrying amount is higher than its recoverable value.

The recoverable amount is the higher of an assets net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction, whereas value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased, though the carrying amount of the asset may not exceed the carrying amount that would have been determined had the impairment loss not been recognised in prior years.

## FINANCIAL ASSETS

Financial assets are classified according to the following categories: Loans and receivables and Fair value through profit and loss. The classification is determined for the purpose of the investment at the time of acquisition. The classification is reviewed annually.

## LOAN AND ACCOUNTS RECEIVABLE

Loans and accounts receivable are initially recognised at fair value and subsequently at amortised cost using the effective interest method less any provision for reduction in value. A provision for value reduction of accounts receivable is made when it is clear that VSS will not receive the full amount.

## BORROWING

Borrowing is initially recognised at fair value, net after transaction costs. Borrowing is subsequently recognised at amortised cost. Any difference between the amount received and the repayment amount is recognised in profit and loss, distributed over the loan period using the effective interest method.

## INVENTORIES

Inventories have been valued at the lower of cost and net realisable value. Inventories mainly comprise bunker and lubricating oils. Valuation has been made in accordance with the FIFO principle.

## EQUITY

Equity consists of share capital, share premium, translation reserve and retained earnings. The translation reserve comprises VSS' share of currency translation adjustments arising on the translation of net investments with a functional currency other than NOK. The reserve is dissolved upon disposal of the entity.

The share premium reserve represents positive differences between the nominal share capital and the amount paid by shareholders for newly issued shares. The reserve is a distributable reserve.

Only the share capital is restricted from dividend distribution; however see note 17 regarding other restrictions.

## CASH-FLOW STATEMENTS

The cash-flow statements are prepared in accordance with the indirect method. The recognised cash-flow comprises only transactions entailing payments received or paid out.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and bank balances, maturing within three months. Restricted cash and cash equivalents are recognised as financial fixed assets.

## KEY FIGURES

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

Profit margin is calculated as operating profit before net financials divided by total revenue.

Equity ratio is calculated as equity divided by total assets.

Return on shareholders' equity is calculated as result for the period divided by average equity.

## NEW AND REVISED STANDARDS AND INTERPRETATIONS

In the financial year 2015, VSS implemented all new IFRSs, revised standards and IFRIC interpretations, as adopted by the EU, becoming effective in the financial year. Although these new standards and amendments applied for the first time in 2015, they did not have a material impact on the annual consolidated financial statements. VSS has not early

adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The following new standards and amendments became effective in 2015:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements 2010-2012 Cycle (Amendments to IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 24, IAS 38)
- Annual Improvements 2011-2013 Cycle (Amendments to IFRS 3, IFRS 13 and IAS 40)

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the consolidated financial report are disclosed below. Only standards and interpretations that are considered relevant for VSS are included in the list. VSS intends to adopt these standards, if applicable, when they become effective:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- Annual Improvements 2012-2014 Cycle
- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 7: Disclosure Initiative
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

IASB has issued a new standard, IFRS 16: "Leases" with effective date 1 January 2019. The new standard broadens the criteria for recognition of lease assets and liabilities to include all leases not covered by the exemption clauses under the Standard. The Standard has not yet been approved by the EU, but may have an impact on the financial reporting of VSS if approved in its current wording. The implication of the new standard is expected to be related mainly to the recognition of vessel leased by VSS.

No other new standards or interpretations are expected to have any significant impact on future consolidated financial statements.

## NOTE 3

### SEGMENT INFORMATION

The segment information is presented in accordance with the internal reporting structure and includes four segments – AHTS, PSV, Services and Ship Management.

Profit and loss as well as tangible fixed assets and interest-bearing debt are distributed as follows for 2015:

(MNOK)	2015				
	AHTS	PSV	Services	Ship. Mgmt	Total
<b>Total revenue</b>	<b>913.3</b>	<b>28.3</b>	<b>-1.0</b>	<b>128.4</b>	<b>1,069.0</b>
Direct voyage costs	-43.4	-9.2	-	-	-52.6
Operating costs	-483.4	-121.7	-3.1	-128.4	-736.6
<b>Total operating costs</b>	<b>-526.8</b>	<b>-130.9</b>	<b>-3.1</b>	<b>-128.4</b>	<b>-789.2</b>
<b>Operating profit before depreciation (EBITDA)</b>	<b>386.5</b>	<b>-102.6</b>	<b>-4.1</b>	<b>-</b>	<b>279.8</b>
Net gain on sale of fixed assets	-	-	-	-	-
Depreciation	-135.7	-48.6	-	-	-184.3
Impairment	-	-266.5	-	-	-266.5
<b>Operating profit (EBIT)</b>	<b>250.8</b>	<b>-417.7</b>	<b>-4.1</b>	<b>-</b>	<b>-170.9</b>
Financial income	5.6	0.2	-	-	5.8
Financial costs	-134.2	-35.9	-0.7	-	-170.8
<b>Net financials</b>	<b>-128.6</b>	<b>-35.8</b>	<b>-0.7</b>	<b>-</b>	<b>-165.1</b>
<b>Pre-tax result</b>	<b>122.2</b>	<b>-453.5</b>	<b>-4.7</b>	<b>-</b>	<b>-336.0</b>
Taxes	-2.2	-	-	-	-2.2
<b>Result for the period</b>	<b>119.9</b>	<b>-453.5</b>	<b>-4.7</b>	<b>-</b>	<b>-338.3</b>
 (MNOK)					
Total tangible fixed assets	2,937.2	662.9	-	-	3,600.1
Total interest-bearing debt	1,817.7	463.5	-	-	2,281.2

Profit and loss as well as tangible fixed assets and interest-bearing debt are distributed as follows for 2014:

(MNOK)	AHTS	PSV	Services	Ship. Mgmt	Total
<b>Total revenue</b>	<b>1,151.9</b>	<b>159.1</b>	<b>311.8</b>	<b>118.7</b>	<b>1,741.5</b>
Direct voyage costs	-39.0	-9.5	-	-	-48.5
Operating costs	-429.0	-148.0	-279.1	-118.7	-974.8
<b>Total operating costs</b>	<b>-468.0</b>	<b>-157.5</b>	<b>-279.1</b>	<b>-118.7</b>	<b>-1,023.4</b>
<b>Operating profit before depreciation (EBITDA)</b>	<b>683.9</b>	<b>1.6</b>	<b>32.7</b>	<b>-</b>	<b>718.2</b>
Net gain on sale of fixed assets	-	0.9	-	-	0.9
Depreciation	-135.7	-40.8	-	-	-176.5
<b>Operating profit (EBIT)</b>	<b>548.2</b>	<b>-38.3</b>	<b>32.7</b>	<b>-</b>	<b>542.6</b>
Financial income	2.8	-	-	-	2.8
Financial costs	-223.9	-19.1	4.8	-	-238.2
<b>Net financials</b>	<b>-221.1</b>	<b>-19.1</b>	<b>4.8</b>	<b>-</b>	<b>-235.4</b>
<b>Pre-tax result</b>	<b>327.0</b>	<b>-57.4</b>	<b>37.5</b>	<b>-</b>	<b>307.1</b>
Taxes	-5.9	-	-9.4	-	-15.3
<b>Result for the period</b>	<b>321.1</b>	<b>-57.4</b>	<b>28.1</b>	<b>-</b>	<b>291.8</b>
 (MNOK)					
Total tangible fixed assets	3,006.0	881.5	-	-	3,887.5
Total interest-bearing debt	1,933.8	459.5	-	-	2,393.3

There are no significant revenue transactions between the segments.

## GEOGRAPHIC DISTRIBUTION OF TANGIBLE FIXED ASSETS

(MNOK)	2015	2014
Denmark	2,937.2	3,006.0
Norway	662.9	-
United Kingdom	-	881.5
<b>Total tangible fixed assets</b>	<b>3,600.1</b>	<b>3,887.5</b>

The distribution is based on the country of domicile of the legal entities.

# NOTE 4

## REVENUES

### SECONDARY SEGMENTS (SPLIT BY GEOGRAPHY)

(MNOK)	2015	2014
Denmark	0.3	-
Rest of Scandinavia	294.4	312.4
Rest of Europe	100.8	375.1
Rest of the world	673.5	1,054.0
<b>Total revenue</b>	<b>1,069.0</b>	<b>1,741.5</b>

For 2015 five customers (2014: one) makes up more than 10% of the total revenue for VSS. The five customers accounts for total revenue of MNOK 890 (2014: one customer, MNOK 652) and are related to the AHTS- and Ship Management segments (2014: AHTS- and Service segments).

In the rest of the world revenue of MNOK 489 is related to Russia (MNOK 1,045) and MNOK 181 is related to the United States (MNOK 5).

### OPERATIONAL LEASING INCOME

(MNOK)	2015	2014
0-1 year	396.0	421.9
1-5 years	-	-
5 years and beyond	-	-
<b>Minimum operating lease revenue</b>	<b>396.0</b>	<b>421.9</b>

Part of the AHTS fleet is leased out on time charter contracts with crew included. The table shows the minimum future income under these agreements.

# NOTE 5

## PERSONNEL EXPENSES

### CREW AND OFFICE PERSONNEL

(MNOK)	2015	2014
Salaries	386.1	342.0
Social costs	25.8	29.0
Pension costs	46.9	42.1
Other personnel costs	47.0	55.2
<b>Total</b>	<b>505.8</b>	<b>468.2</b>

Of the MNOK 506 (MNOK 468), MNOK 80 (MNOK 76) relates to G&A and MNOK 426 (MNOK 392) relates to Operating costs. During 2015 VSS had in average 484 (468) employees.

Crew on VSS vessels are employed by VSS and external management companies. Personnel expenses for crew on VSS vessels employed by external management companies amount to MNOK 72 (MNOK 90) which is included in total salaries. The average number of employees from external management companies has not been included in the average number of employees calculated for the group.

G&A costs include remuneration paid to key management personnel as follows:

(MNOK)	2015	2014
Salaries	11.2	11.2
Social costs	-	-
Pension costs	1.2	1.1
Other personnel costs	0.7	-
Share-based payments	-	-
<b>Total</b>	<b>13.1</b>	<b>12.3</b>

Key management personnel consist of the Chief Executive Officer, the Chief Financial Officer, the Chief Commercial Officer and the Chief Operating Officer. Remuneration to the Chief Executive Officer has not been disclosed separately as there is just one director.

Through a fixed management fee VSS pays Viking Supply Ships AB for the work that the Board of Directors carries out on behalf of VSS. The Board of Directors fee amounted to MNOK 1 (MNOK 1).

### PENSIONS

Certain VSS companies have contributory employee pension plans. These plans are defined contribution plans and, accordingly, the employer's pension contributions are expensed as incurred.

# NOTE 6

## AUDIT FEES

Fees to the auditors appointed by the Annual General Meeting are specified as follows:

(MNOK)	2015	2014
<b>Ernst &amp; Young</b>		
Audit assignments	1.1	0.9
Other non-audit assignments	1.0	-
<b>Total fee</b>	<b>2.1</b>	<b>0.9</b>



# NOTE 7

## NET FINANCIALS

### FINANCIAL INCOME

(MNOK)	2015	2014
Interest income on short-term deposits	5.8	2.8
<b>Total financial income</b>	<b>5.8</b>	<b>2.8</b>

### FINANCIAL COSTS

(MNOK)	2015	2014
Interest cost, bank borrowings	-73.2	-79.0
Interest cost, bond borrowings	-19.1	-37.8
Amortization of borrowing costs	-6.8	-18.2
Net foreign exchange gains	-67.8	-92.4
Interest cost, related parties	-2.6	-
Interest rate swaps	-1.4	-10.7
<b>Total financial costs</b>	<b>-170.8</b>	<b>-238.2</b>

# NOTE 8

## TAXES

The major components of income tax expense are:

(MNOK)	2015	2014
Current income tax	-	15.3
Change in deferred tax	3.1	-
Correction on provision previous years	-0.9	-
<b>Income tax expense reported in the statement of profit or loss</b>	<b>2.2</b>	<b>15.3</b>
<b>Deferred tax recognised in OCI</b>	<b>-</b>	<b>-</b>

Reconciliation of tax expense and the accounting loss multiplied by Danish tax rate:

(MNOK)	2015	2014
Accounting profit before income tax	-336.0	307.1
At Danish statutory income tax rate of 23.5% (2014: 24.5%)	-79.0	75.2
Adjustment of non-capitalised tax losses	5.8	-
Correction on provision previous years	-0.9	-
Effect of tonnage tax schemes	76.3	-59.9
<b>At the effective income tax rate of -1% (2014: 5%)</b>	<b>2.2</b>	<b>15.3</b>

The companies in VSS are taxed according to location and activity. All of VSS vessels are taxed under tonnage tax schemes in either Denmark or Norway where the taxable income is calculated based on the tonnage of the fleet. Companies not taxed under the tonnage tax scheme are taxed according to local income tax legislation. The taxable income of a company for a given period is calculated as the sum of the taxable income under the tonnage tax scheme and the taxable income from the activities that are not covered by the tonnage tax scheme computed in accordance with the ordinary corporate tax rules.

Deferred tax relates to the following:

(MNOK)	2015	2014
Losses available for offsetting against future taxable income	-	0.3
Accelerated depreciation for tax purposes	-2.8	-
<b>Net deferred tax assets</b>	<b>-2.8</b>	<b>0.3</b>

Deferred tax liability amounts to MNOK 2.8 (Deferred tax asset MNOK 0.3). Deferred tax assets and liabilities are recognised for temporary differences between the carrying amount of assets and liabilities and the corresponding tax base used in the computation of taxable income or as applicable under the tonnage tax schemes under which VSS vessels operate. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available to utilise the temporary deductible differences, including any tax loss carry forwards.

VSS has no deferred tax assets recognised due to uncertainty related to the future utilisation. As the income in general is subject to tonnage tax, the utilisation is considered to be unlikely and thus not considered as contingency assets. Tax losses not recognised in the balance sheet amounts to MNOK 190 (MNOK 162) with a tax value of MNOK 44 (MNOK 39).

(MNOK)	2015	2014
Tax liabilities at 1 January	8.8	-
Current tax for the year	-	15.3
Adjustment previous years	-0.9	-
Paid / refunded tax	-6.8	-6.5
<b>Net tax liabilities 31 December</b>	<b>1.1</b>	<b>8.8</b>

Tax receivable amounting to MNOK 0.8 (MNOK 0) is recognised as other current receivables. Tax liability amounting to MNOK 1.9 (MNOK 8.8) is recognised in other current liabilities.

## NOTE 9

### TANGIBLE ASSETS

Cost (MNOK)	Vessels	Equipment	Total
<b>Balance 31 December 2013</b>	<b>4,106.0</b>	<b>4.4</b>	<b>4,110.4</b>
Additions	310.0	2.2	312.1
Disposals	-44.0	-0.4	-44.4
Currency translation adjustment	144.8	-0.5	144.3
<b>Balance 31 December 2014</b>	<b>4,516.8</b>	<b>5.6</b>	<b>4,522.4</b>
Additions	68.9	0.8	69.7
Disposals	-0.7	-3.3	-4.0
Currency translation adjustment	117.9	-0.3	117.7
<b>Balance 31 December 2015</b>	<b>4,702.9</b>	<b>2.9</b>	<b>4,705.9</b>
Accumulated depreciation and impairment (MNOK)	Vessels	Equipment	Total
<b>Balance 31 December 2013</b>	<b>438.2</b>	<b>2.4</b>	<b>440.6</b>
Depreciation	175.5	1.0	176.5
Disposals	-22.9	-	-22.9
Currency translation adjustment	40.7	-	40.8
<b>Balance 31 December 2014</b>	<b>631.5</b>	<b>3.5</b>	<b>634.9</b>
Impairment loss	266.5	-	266.5
Depreciation	183.8	0.5	184.3
Disposals	-0.7	-2.8	-3.5
Currency translation adjustment	23.6	-0.1	23.5
<b>Balance 31 December 2015</b>	<b>1,104.7</b>	<b>1.1</b>	<b>1,105.8</b>
Carrying amount (MNOK)	Vessels	Equipment	Total
<b>31 December 2014</b>	<b>3,885.3</b>	<b>2.2</b>	<b>3,887.5</b>
<b>31 December 2015</b>	<b>3,598.2</b>	<b>1.8</b>	<b>3,600.1</b>

Vessels with a net book value of MNOK 3,598 (MNOK 3,885) have been pledged as security for interest-bearing loans. Further assignments of insurance payments and earnings have been given as security.



## IMPAIRMENT TEST

The key assumptions used in the value in use calculation and in the assessment of owned vessels, for 2015 are as follows:

- The cash flows are based on current tonnage
- Estimates of fixture rates, utilisation and contract coverage as well as estimated residual values are based on Management's extensive experience and knowledge of the market
- Operating expenses and dry dock costs are estimated based on Management's experience and knowledge of the market as well as plans and initiatives outlined in the operating budgets
- The weighted average cost of capital (WACC) used to discount the forecasted cash flows was 9% (2014: 7%).
- The pre- and post-tax discount factor is the same due to tonnage taxation

Further, in order to support the value in use calculations, valuations for the owned vessels are obtained from internationally acknowledged shipbrokers on a quarterly basis.

### Impairment test PSV fleet in 2015

In 2015 Management evaluated the PSV fleet and concluded that the PSV vessels are impaired.

The impairment charge is based on a calculated value in use based on discounted cash flows using the principles set out above. Based on fixtures rates, utilisation, contract coverage, cost levels and currency exchange levels VSS has prepared discounted cash flow calculations covering a period of 15 years. All significant assumptions have been estimated using Management's best estimate in a challenging market and considering the fact that the last two PSV vessels have also been laid up in Q1 2016. The cash flow projection shows negative cash flows for 2016-17 due to all PSV vessels in warm lay-up in 2016 and poor market conditions expected in 2017 with step-wise improving rates and utilisation in 2018 and 2019 and no additional increases thereafter.

The impairment charge recognised in 2015 is further supported by average external vessel valuations from two independent internationally acknowledged shipbrokers showing a total PSV fleet value of MNOK 663 (ranging from MNOK 608 to MNOK 705).

The value in use calculation is very sensitive to changes in the underlying assumptions including the pace and timing of assumed market recovery and redeployment of vessels, which is uncertain due to the current challenging market conditions. An increase of the applied discount factor of 1 percentage point would result in a decrease in the net present value of the PSV fleet of 55 MNOK (increase in the impairment charge). A decrease of 10% on the rates applied would result in a decrease in the net present value of the PSV fleet of 46 MNOK (increase in the impairment charge). A decrease of 10 percentage points in the average annual utilisation would result in a decrease in the net present value of the PSV fleet of 77 MNOK (increase in the impairment charge).

Since the carrying amount of the PSV fleet exceeded the calculated value in use of MNOK 663 at year-end, VSS recognised an impairment of the PSV fleet totalling MNOK 267 for 2015 (MNOK 80 in Q4 and MNOK 187 in Q3), which approximately corresponds to 30% of the carrying amount of the PSV fleet at 1 January 2015.

### Impairment test AHTS fleet in 2015

In 2015 Management evaluated the AHTS fleet and concluded that the AHTS vessels are not impaired.

Value in use calculations prepared for the AHTS fleet showed no indications that the carrying amount may not be fully recoverable. This was further supported by the external vessel valuations from two independent internationally acknowledged shipbrokers showing a total AHTS fleet value in excess of the carrying amount of the owned AHTS fleet (MNOK 2,935) by 17% on average.

### Impairment test PSV fleet in 2014

In 2014 Management evaluated the values of the PSV fleet and concluded that the PSV vessels were not impaired. As in 2013 NOK continued its depreciation versus GBP during 2014. Further as in 2013 the broker valuations in 2014 showed stable values in NOK. Based on a book value of MNOK 882 and a calculated value in use of MNOK 890, VSS did not find a need to record an impairment write-down of the PSV fleet in 2014 or to reverse the impairment write-down made in 2013.

### Impairment test AHTS fleet in 2014

In 2014 Management evaluated the AHTS fleet and concluded that there were no indications of impairment of the AHTS fleet.

# NOTE 10

## INVENTORIES

Inventories comprise bunkers and lubricating oil. No write-downs or reversals have been recognised on inventories.

# NOTE 11

## ACCOUNTS RECEIVABLES

Trade receivables, net of allowances for doubtful receivables, are specified as follows:

(MNOK)	2015	2014
Not due	96.9	183.1
1-30 days overdue	0.3	101.1
31-90 days overdue	-	21.6
Over 90 days overdue	-	-
Allowance for doubtful receivables	-	-
<b>Accounts receivables</b>	<b>97.2</b>	<b>305.8</b>

Trade receivables are subject to an individual assessment of potential loss. Considerations of credit risk are explained in note 18 Financial instruments and risk.

# NOTE 12

## FINANCIAL ASSETS

Development in financial assets is specified as follows:

(MNOK)	Restricted Cash	Sellers Credit	Bonds	Total
<b>Balance 31 December 2013</b>	<b>37.2</b>	<b>31.6</b>	-	<b>68.8</b>
Additions	-	-	43.1	43.1
Disposals	-37.2	-1.6	-	-38.8
Market value adjustment	-	-	-4.9	-4.9
Currency translation adjustment	-	7.2	-	7.2
<b>Balance 31 December 2014</b>	<b>-</b>	<b>37.2</b>	<b>38.2</b>	<b>75.4</b>
Additions	137.0	-	-	137.0
Disposals	-39.9	-1.9	-	-41.8
Market value adjustment	-	-	-6.5	-6.5
Reclassified to Other current receivables	-	-	-31.7	-31.7
Currency translation adjustment	10.8	5.9	-	16.7
<b>Balance 31 December 2015</b>	<b>107.9</b>	<b>41.2</b>	-	<b>149.1</b>

Restricted cash primarily consist of deposits with reputable banks. Restricted cash is not assessed to be subject to a particular credit risk. Sellers credit is related to the sale of Odin Viking in 2012.

In 2014 VSS purchased external corporate bonds carrying a coupon interest rate of 8.4%. Bonds are measured as Level 1 in the fair value hierarchy. In 2015 the bonds were reclassified to other current receivables. During Q1 2016 the external corporate bonds were sold.

Total restricted and available cash is as follows:

(MNOK)	2015	2014
Restricted cash	107.9	-
Free cash and cash equivalents	152.5	316.9
<b>Cash and cash equivalents</b>	<b>260.4</b>	<b>316.9</b>

# NOTE 13

## INTEREST-BEARING LOANS

The vessels owned by VSS are financed through bank loans with pledge in the vessels. Further securities have been given in the form of pledge in revenue and insurance policies.

The interest bearing liabilities are associated with financial covenants, according to which VSS must fulfil certain key ratios. At 31 December 2015, all such financial covenants were in compliance.

In addition hereto, the interest bearing liabilities are also associated with loan clauses, such as contract coverage clauses and loan-to-value clauses, according to which VSS had to fulfil certain ratios of contract coverage and loan-to-value ratios, pursuant to the individual loan agreements. If these ratios were not met, VSS had to deposit cash or provide additional security in accordance with the terms in the relevant loan agreements. Any such amount in deposit would vary up or down and the variation was dependent upon currency exchange rates, amortizations under the loan and development in vessel valuations obtained from external shipbrokers. If the ratios of contract coverage and loan-to-value, pursuant to the terms in the individual loan agreements, yet again are met then the obligation of providing additional security will cease. At 31 December 2015, VSS had provided the lenders with a total of MNOK 108 in additional security.

Calculations of contract coverage and loan-to-value ratios as at 31 December 2015 showed a requirement for VSS to deposit cash or provide additional security during Q1 2016, partly to be remedied before the end of January 2016. VSS has in 2016 not deposited cash or provided additional security related to these loans and the respective total loan balances of MNOK 1,228 is accordingly classified as short-term debt as at 31 December 2015.

Further in 2016, VSS has not been able to comply with events of default provisions in loan agreements, which render all borrowings short-term and payable on demand by the lenders, including loans amounting to MNOK 922, which as at 31 December 2015 have been classified as long-term debt in the balance sheet as the events of default in 2016 are considered an un-adjusting event.

In March 2012 VSS issued a 5 year senior unsecured bond loan in the Norwegian capital market, with maturity in March 2017, totaling MNOK 300. The bond agreement has a limit of MNOK 750. The bond was listed on Nordic ABM in Oslo on 28 June 2012. In March 2013 an additional MNOK 85 was drawn in a tap issue. As at 31 December 2015, VSS is holding nominal MNOK 189 of this bond, implying MNOK 196 is outstanding. As a result of an agreement that will be proposed to the bondholders in conjunction with the key terms of the debt restructuring plan, the bond agreement is proposed to be changed in 2016, see note 20 Events occurring after the reporting period.

VSS has 42% (40%) of its interest-bearing debt in USD and 20% (19%) in GBP. The remaining loans are denominated in NOK. VSS has 10% (10%) of the total loan portfolio swapped into fixed interest rate.

Interest-bearing loans consist of the following, all measured at amortized cost:

(MNOK)	2015	2014
Bond loan	193.8	191.9
Current part of bond loan	-	-
Long-term debt to credit institutions	728.6	1,932.7
Short-term debt to credit institutions	1,358.7	268.7
<b>Total interest-bearing liabilities</b>	<b>2,281.2</b>	<b>2,393.3</b>

The development in loans was as follows:

(MNOK)	2015	2014
Balance at 1 January	2,393.3	2,295.7
New loans drawn	-	1,691.0
Repayment of loans	-315.3	-1,831.6
Loans acquired	-	-
Effects of exchange rate changes	196.5	244.7
Amortized loan costs	6.7	-6.4
<b>Total</b>	<b>2,281.2</b>	<b>2,393.3</b>

The instalments excluding future interest payments are as follows:

(MNOK)	2015	2014
0-1 year	1,358.7	268.7
1-2 years	295.0	624.2
2-3 years	238.7	364.7
3-4 years	388.7	766.9
4-5 years	-	368.8
5 years and beyond	-	-
<b>Total</b>	<b>2,281.2</b>	<b>2,393.3</b>

## NOTE 14

### OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

(MNOK)	2015	2014
Financial instruments	18.6	23.4
Prepayments from SMA	-	5.2
Deferred tax liability	2.8	-
<b>Other non-current liabilities</b>	<b>21.4</b>	<b>28.6</b>

Regarding financial instruments see note 18 Financial instruments and risk.

## NOTE 15

### OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

(MNOK)	2015	2014
Other liabilities	67.0	16.5
Related parties	91.8	3.3
Tax payable	1.9	8.8
Accruals	60.3	68.6
<b>Other current liabilities</b>	<b>221.0</b>	<b>97.2</b>

## NOTE 16

### TRANSACTIONS WITH RELATED PARTIES

VSS is a 100% owned subsidiary of Viking Supply Ships AB (VSS AB). VSS AB is a limited liability company registered in Sweden, with its domicile in Gothenburg, and corporate registration number 556161-0113. VSS AB is listed on the Small Cap list of the NASDAQ OMX Nordic Exchange in Stockholm. The postal address for VSS AB is Box 8809, SE-402 71 Gothenburg, Sweden and the street address is Lilla Bommen 4a.

VSS AB Group is organised in two separate business areas (ring-fenced legal entities) – Viking Supply Ships A/S and TransAtlantic AB.

VSS AB is majority-owned by the Norwegian investment company Kistefos AS. Kistefos AS has 70.4% of the share capital and 63.3% of the votes as of 31 December 2015. Kistefos AS is registered in Norway, with its domicile in Oslo. VSS is included by full consolidation in the Kistefos AS annual report.



The consolidated financial reports for VSS AB can be downloaded at [www.vikingsupplyships.com](http://www.vikingsupplyships.com). The consolidated financial report for Kistefos will be published at [www.kistefos.no](http://www.kistefos.no).

Transactions with related parties are specified as follows:

(MNOK)	2015	2014
Revenue	-	0.1
General and administrative expenses	3.9	2.5
Financial costs	2.6	-
Related party payable, net	91.8	3.3

As communicated in the 2014 Group Annual Report, VSS received a loan of MNOK 73 from VSS AB in relation to the MNOK 145 dividend. As per 31 December 2015 the outstanding amount was 60 MNOK. The loan is unsecured and interest is NIBOR + 5%. The loan is given on an arm's length basis. The loan is part of Other current liabilities in the Balance Sheet. The loan is expected to be settled in 2016 in cash or converted to equity as a part of the ongoing financial restructuring. See note 20 Events occurring after the reporting period for details on the expected financial restructuring.

Other related party payables are unsecured and the counterparts are VSS AB and VSS AB Group companies. The amounts are expected to be settled in cash.

For payments to key management personnel see note 5 Personnel expenses.

## NOTE 17

### COMMITMENTS AND OTHER CONTINGENT LIABILITIES

#### LEASING

VSS leases vessels, buildings and equipment through operational leasing agreements.

VSS has contracts regarding the leasing of one AHTS vessel. This contract has a remaining duration on the lease of five years. As a part of the ongoing financial restructuring this leasing contract is expected to be amended in 2016 going forward. The ongoing financial restructuring is described in note 20 Events occurring after the reporting period.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

(MNOK)	2015	2014
0-1 year	67.6	58.1
1-2 years	65.0	56.7
2-3 years	64.9	56.6
3-4 years	64.9	56.3
4-5 years	63.1	56.0
5 years and beyond	-	54.5
<b>Total lease payments</b>	<b>325.5</b>	<b>338.3</b>

Leasing payments in 2015 amounted to MNOK 69 (MNOK 72).

#### PLEDGES

Non-current tangible assets of MNOK 3,598 have been pledged against loans (MNOK 3,885).

Bank deposits and Escrow accounts of MNOK 108 have been pledged against loans (MNOK 1).

#### DIVIDEND RESTRICTIONS

VSS has issued corporate bonds which are listed on the Oslo ABM. According to the agreement, a maximum of 50% of consolidated profits after taxes, based on the financial statements of the previous financial year, can be distributed as dividends.

# NOTE 18

## FINANCIAL INSTRUMENTS AND RISK

VSS is characterised by a high degree of international operations and thus exposed to a number of operational and financial risks. VSS works actively to identify, assess and manage these risks.

The Board of Directors has identified these risks and developed a plan to avoid or minimise the impact on the consolidated income statement and balance sheets through various measures. Through clear policies and reporting paths, it is stated how these risks shall be managed and how presentation is to be made. The VSS policy is to work with various types of insurance or financial instruments to minimise various types of risks.

### INTEREST RATE RISKS

The VSS business is capital intensive. Long-term loans are the principal form of financing. Accordingly, interest rate fluctuations may have a major impact on VSS earnings and cash flow. To reduce this risk, interest levels are hedged using interest rate swaps. Such interest rate swaps have the economic effect of conversion from floating interest rates to fixed interest rates. VSS has chosen not to use hedge accounting and reflects the changes in fair value through the profit and loss.

At 31 December 2015, VSS had a total interest rate swap portfolio of MNOK 238 (MNOK 246) on a fixed basis with an average outstanding duration of 2.7 years (3.8 years). The average fixed rate was 3.9% (3.9%).

Market values as at 31 December:

(MNOK)	2015	2014
Long-term commitment	11.8	17.2
Short-term commitment	6.8	6.2
<b>Commitment, net</b>	<b>18.6</b>	<b>23.4</b>
(MNOK)	2015	2014
<b>Interest rate swap contracts</b>		
Market value	18.6	23.4
Recognised in profit and loss	4.8	-3.7

VSS enters into derivative financial instruments with financial institutions. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps contracts. The most frequently applied valuation techniques include forward pricing models using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot rates. All derivative contracts are fully cash collateralised, thereby eliminating both counterparty and the company's own non-performance risk.

Interest contracts changing from variable to fixed loans are recognised in the consolidated profit and loss at the same time as the hedged interest costs. The market value to be recognised in future financial years is expected to be realised within 3 years (4 years).

For VSS an increase in the interest rate of 1% will have a negative impact of MNOK 20 (MNOK 21) on the result for the year.

Interest on external loans is distributed as follows:

(MNOK)	2015	2014
<b>Borrowings by interest rate levels:</b>		
0-3%	194.1	-
3-6%	1,893.3	2,201.4
6%+	193.8	191.9
<b>Total</b>	<b>2,281.2</b>	<b>2,393.3</b>
<b>Of which inclusive interest rate swaps:</b>		
Fixed	238.0	246.0
Floating	2,043.2	2,147.3
<b>Total</b>	<b>2,281.2</b>	<b>2,393.3</b>

At 31 December 2015, after taking the effect of interest rate swaps into account, 10% (10%) of the total interest bearing debt is carrying a fixed rate of interest.



## FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

The following table provides an analysis of financial assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 Inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, VSS determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period. Interest rate swap liability (level 2) is calculated on the basis of observable market data at the end of the reporting period. The valuation has been performed by an external part.

Financial assets and liabilities are categorised by levels as follows:

		2015		
		Market value	Level 1	Level 2
(MNOK)				Level 3
Interest rate swap liability		18.6	-	18.6
Bond asset		31.7	31.7	-

		2014		
		Market value	Level 1	Level 2
(MNOK)				Level 3
Interest rate swap liability		23.4	-	23.4
Bond asset		38.2	38.2	-

For all other financial assets and liabilities the carrying amounts are reasonable approximations of fair values.

## CREDIT RISKS

Credit risks, or the risk of counterparties defaulting, are controlled by monitoring procedures and credit approval procedures. VSS has a policy that limits the amount of credit exposure to any single counterparty.

VSS only provides short credits. These credits are mainly provided to major customers, with whom VSS has a long-term relationship. New customers are subject to a credit check prior to credit being provided. When longer-term credit is provided, this is secured by collateral. VSS credit risk to clients is therefore considered as low.

Maximum credit risk amounts to carrying amount of accumulated receivables and free cash and cash equivalents, MNOK 352 (MNOK 713).

For credit days see note 11 Accounts receivables.

## MARKET RISKS

The general economic trend in the countries where VSS is active is a crucial factor for financial development, since the economic trend has a major effect on the oil prices which in turn impact the demand for offshore shipping services. The trend in markets other than those where VSS is active can also affect demand for VSS services, since the maritime transport market is highly international. VSS endeavours to maintain close contact with its customers and to sign long-term contracts with them to restrict the impact of economic fluctuations. Earnings can be impacted by the loss of a vessel. These costs can be minimised through active service and damage-prevention work, resulting in lower risk of major individual cost increases.

## CURRENCY RISKS

Offshore shipping is a highly international business, which means that only a portion of VSS cash flow is generated in NOK and this means that currency fluctuations may have a major impact on VSS earnings and cash flows. The foreign exchange risk is primarily restricted by matching the exposure to revenues in various currencies with costs in the corresponding currency. In the same manner, assets in a certain currency are matched with liabilities in the same currency. As at 31 December 2015 no hedging instruments were used.

VSS exposure to changes in currency exchange levels primarily relate to USD-denominated vessel loans, GBP- and USD-denominated earnings and DKK-, SEK-, USD- and GBP-denominated operating expenses. Other assets and liabilities are to a large degree denominated in NOK.

Everything else being equal, the result for the period will be positively impacted with MNOK 88 (positive MNOK 59) basis a 10% increase in NOK against USD, negatively impacted with MNOK 33 (negative MNOK 39) basis a 10% increase in NOK against GBP and will not be significantly impacted (not significantly impacted) basis a 10% increase in GBP against USD.

Everything else being equal, comprehensive income for the period will be positively impacted with MNOK 4 (negative MNOK 14) basis a 10% increase in NOK against GBP.

The result for the period is not expected to be materially impacted by other exchange rate fluctuations.

Assets and liabilities are categorised by currencies as follows:

(MNOK)	2015				
	Assets		Liabilities		Total
	Cash	Accounts receivables	Interest-bearing debt	Accounts payable	
NOK	41.4	34.2	841.5	9.7	775.6
USD	51.7	53.9	976.2	8.0	878.6
GBP	3.8	3.7	463.5	2.7	458.6
SEK	21.6	0.4	-	12.4	-9.6
EUR	32.4	5.0	-	13.8	-23.7
DKK	0.9	-	-	2.2	1.3
CAD	0.2	-	-	-0.1	-0.3
Other currency	0.4	-	-	0.7	0.4
<b>Total</b>	<b>152.5</b>	<b>97.2</b>	<b>2,281.2</b>	<b>49.4</b>	<b>2,080.9</b>

(MNOK)	2014				
	Assets		Liabilities		Total
	Cash	Accounts receivables	Interest-bearing debt	Accounts payable	
NOK	33.3	22.4	956.7	14.4	915.3
USD	224.3	246.4	977.1	84.2	590.7
GBP	28.7	37.0	459.5	16.2	410.0
SEK	25.6	-	-	31.8	6.1
EUR	2.2	-	-	4.8	2.6
DKK	2.3	-	-	1.9	-0.4
CAD	0.4	-	-	0.2	-0.1
Other currency	-	-	-	0.5	0.5
<b>Total</b>	<b>316.9</b>	<b>305.8</b>	<b>2,393.3</b>	<b>154.0</b>	<b>1,924.6</b>

## LIQUIDITY RISK

Regarding uncertainty related to liquidity and going concern see note 1 Liquidity and going concern.

VSS monitors the liquidity risk on an ongoing basis with the aim at all times to have adequate cash, overdraft facilities and committed bank loans to meet current and future obligations. VSS seeks to manage liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flow, and by matching the maturity profiles of financial assets and liabilities. VSS actively engages with financing providers to negotiate the necessary terms to ensure that adequate facilities will remain available during all periods.

Currently, main liquidity risk derives from volatility in the freight rates which impact cash flows from operations.

VSS expects to meet its cash flow obligations with operating cash flows, and financing facilities or disposal of vessels, if necessary.



Liquidity risk can be split in short and long term liquidity risk follows:

(MNOK)	Carrying amount 2015	Contractual cash flows beyond 2015			Total cash-flow
		0-1 year	1-5 years	5- years	
Total interest-bearing liabilities	2,281.1	1,430.8	976.4	-	2,407.2
Accounts payable	49.4	49.4	-	-	49.4
Other current liabilities	221.0	221.0	-	-	221.0
Interest contract	18.6	6.8	11.8	-	18.6
<b>Total</b>	<b>2,570.2</b>	<b>1,708.0</b>	<b>988.2</b>	-	<b>2,696.2</b>

(MNOK)	Carrying amount 2014	Contractual cash flows beyond 2014			Total cash-flow
		0-1 year	1-5 years	5- years	
Total interest-bearing liabilities	2,393.3	355.5	2,318.8	-	2,674.3
Accounts payable	154.0	154.0	-	-	154.0
Other current liabilities	97.2	97.2	-	-	97.2
Interest contract	23.4	6.2	17.2	-	23.4
<b>Total</b>	<b>2,667.9</b>	<b>612.9</b>	<b>2,336.0</b>	-	<b>2,948.9</b>

As a consequence of the restructuring agreement which was entered into after the end of the year, the contractual cash flows maturity profile has changed. See note 20 Events occurring after the reporting period.

## BUNKER RISKS

Cost changes for bunker oil can have a significant impact on earnings. Time charters often include clauses that imply that the customer carries the risk of price changes.

## CAPITAL MANAGEMENT

VSS capital structure shall secure the operation of current business and enable the desired future investments and performance. VSS manages its own capital structure and carries out all necessary amendments to the capital structure, based on continuous assessments of the economic conditions under which the operations take place. As part of this review, Management considers the cost of capital and the risks associated with each class of capital.

# NOTE 19

## SHARE CAPITAL

The share capital in the parent company, Viking Supply Ships A/S, consists of 5,000 (5,000) authorised, issued and fully paid shares at a par value of 105 NOK, each representing one class of ordinary shares which carry no right to fixed dividends.

Share premium reserve is related to group contributions at the time of formation of the VSS group in 2011 and 2012. The share premium is not restricted from being distributed as dividend. In 2015 the share premium reserve has been transferred to retained earnings.

Dividends amounting MNOK 145 were approved in 2015 (MNOK 0). In respect of 2015, Management recommends no distribution of dividends.

# NOTE 20

## EVENTS OCCURRING AFTER THE REPORTING PERIOD

### ONGOING FINANCIAL RESTRUCTURING

In Q4 2015 VSS had initiated a dialogue with its lenders to secure a long-term stable financing solution. In February 2016, after not being able to comply with events of default provisions in loan agreements, which rendered all borrowings short-term and payable on demand by the lenders, VSS entered into a standstill agreement with its lenders, during which VSS has not paid instalments to its lenders. This agreement expired on 26 April 2016, but VSS has, in an

understanding with the bank lenders, continued to not service its debt obligations as they fall due.

In May 2016, VSS agreed the main principles for a restructuring agreement with the bank lenders. Execution of a final agreement in the form of a term sheet (the "Agreement") is pending certain conditions precedent, including that an amended agreement is negotiated and agreed with the bondholders in the senior unsecured bond in Viking Supply Ships A/S and that terms for the bareboat charter of Odin Viking are re-negotiated and amended.

Among other things these conditions have not yet been resolved and, accordingly, the Agreement has not yet been signed and deemed effective.

The Agreement is further subject to an equity issue at an agreed level in Viking Supply Ships AB and a subsequent equity injection by the parent company into VSS, where the majority shareholder Kistefos AS has already informed VSS and the lenders that it will and has the ability to guarantee its 70% pro-rata share of the required equity issue in Viking Supply Ships AB.

The debt restructuring is aimed at improving VSS' balance sheet and significantly reduce the amount needed for debt service until 1 January 2020.

Although not yet completed and therefore significant uncertainty exists at this point in time, Management is confident that conditions precedent can and will be met and accordingly an Agreement entered into since this will serve the economic interests of the stakeholders with which negotiations are still ongoing. It is Management's assessment that the restructuring will be finally completed no later than during second half of 2016.

Once a completed restructuring is in place, VSS expects to have sufficient liquidity to maintain its operations even in the event that the market remains weak through 2019. VSS has been in a continuing standstill position with its lenders since February 2016, under which VSS has only serviced its interest commitments. Until the restructuring is executed, VSS is unable to service its debt obligations as they fall due, and therefore is dependent on maintaining this level of debt service.

#### **OTHER EVENTS OCCURRING AFTER THE REPORTING PERIOD**

As an effect of the deteriorated market conditions within the oil & gas industry and as a measure to further strengthen the focus on cost efficiency within VSS, the Management has decided to close the office in St. John's, Newfoundland with effect as of 28 April 2016. VSS still considers Newfoundland and Eastern-Canada to be of strategic importance going forward and in the future, commercial activities towards the region will be followed up closely by dedicated personnel from the headquarter in Copenhagen and the chartering office in Kristiansand.

In 2016 Magne Viking was certified according to the IMO Polar Code. The vessel, which is the first vessel globally to comply with the code, was approved by DNV GL.

Due to family reasons, Christian W. Berg will take temporary leave from the position as CEO of VSS. Mr. Berg will remain CEO of the parent company Viking Supply Ships AB, but to reduce his workload, Mr. Tord Ytterdahl will temporarily take over the responsibilities as CEO of VSS. The Chief Commercial Officer has resigned from his position. The CEO of VSS will be responsible for VSS' commercial activities going forward.

Due to a continued weak PSV market VSS, in March 2016, decided to lay up the PSVs Sol and Freyja Viking with immediate effect. The decision will reduce the company's operational costs from the second quarter of 2016 and improve the result compared to continued operation in the current market.

For the presented financial years the functional currency for the parent company, Viking Supply Ships A/S, is NOK. Based on the significant changes occurring during 2015 in the market in which the company operates and the increased volatility in exchange rates, management has evaluated the functional currency for the company. Having considered the aggregate effect of all relevant factors, management has concluded that the functional currency of the company is USD. The evaluation included all factors of the primary economic environment in which VSS operates including vessel values, financing, income and expenses. The change in functional currency reflects the accumulation over time of changes in those factors. It was determined that the functional currency had changed at the beginning of 2016. Similar analysis has been performed for Viking Supply Ships 5 ApS (owner of three AHTS vessels) and Viking Supply Ships PSV AS (owner of the PSV fleet). The outcome of this analysis meant that the functional currency of these companies has changed to USD at the same time as for Viking Supply Ships A/S. In accordance with IAS 21 changes of functional currencies will be accounted for prospectively from 1 January 2016.

The market for PSV vessels has continued to deteriorate after the end of the reporting period. The current challenging market conditions are supported by a decline in observable broker values of the PSV fleet. VSS will continue to closely monitor the market development and impairment exposure of the PSV fleet's carrying amount.



# NOTE 21

## COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries owned by Parent Company <sup>1</sup>	Corp. reg. no.	Registered office	Pct. of share capital
Viking Supply Ships Management AB <sup>2</sup>	556858-2463	Stenungsund	100
Viking Supply Ships Crewing AB <sup>3</sup>	556426-8646	Stockholm	0
Viking Icebreaker Management AB	556679-1454	Stenungsund	100
Arctic Ice Management AB <sup>4</sup>	556807-0972	Sundsvall	0
Viking Supply Ships AS	981240030	Kristiansand	100
Viking Supply Ships PSV AS <sup>5</sup>	814837572	Kristiansand	100
Viking Icebreaking & Offshore AS <sup>3</sup>	979437943	Kristiansand	0
Viking Ice Consultancy AS	913740998	Kristiansand	100
Viking Spesialtonnasje AS <sup>3</sup>	987069295	Oslo	0
Viking Supply Ships Crewing ApS	33775199	Copenhagen	100
Viking Supply Ships 5 ApS	34471800	Copenhagen	100
Viking Supply Ships (Holdings) Limited	SC303430	Aberdeen	100
SBS Aberdeen Ltd	SC250818	Aberdeen	100
Stoneywood Crewing Services Ltd	SC351608	Aberdeen	100
SBSL (Holdings) Ltd	SC180512	Aberdeen	100
Viking Supply Ships Ltd	SC202464	Aberdeen	100
Viking Supply Ships (Canada) Ltd	71705	St. John's	100
Viking Supply Ships Ltd	1107746094060	Moscow	100

1) The Parent Company in VSS is Viking Supply Ships A/S, corp. reg. no. 33369794, with its registered office at Islands Brygge 57, 2300 Copenhagen S.

2) This company has been renamed in 2015 from Viking Supply Ships AB.

3) Viking Supply Ships Crewing AB, Viking Icebreaking & Offshore AS and Viking Spesialtonnasje AS have been liquidated in 2015.

4) This company has been divested in 2015.

5) This company was incorporated in 2015.



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