



# VIKING

SUPPLY SHIPS AB (PUBL)

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## ANNUAL REPORT

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# 2016

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VIKING SUPPLY SHIPS

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## 1974

The Norwegian tanker company, Excelsior (established in 1946), begins to focus on the fast-growing offshore market. Viking Supply Ships is established as a marketing company for platform supply vessels (PSVs).

## 1972–1989

Nordsjöfrakt is established in 1972 and operates from Skärhamn, Sweden. In 1989, the shipping company merges with the Bylock Group to establish Bylock & Nordsjöfrakt (B&N).

## 1989

Christen Sveaas acquires Excelsior and changes the name of the company to Viking Supply Ships AS. A major expansion of the PSV fleet is initiated.

## 1990–1993

B&N acquires the shipping company Gorthon Lines from Bilspedition and is listed on the Stockholm Stock Exchange in 1991. In 1993, Svenska Orient Linien is also acquired from Bilspedition.

## 1998

Viking Supply Ships acquires three combined AHTS vessels/icebreakers through a joint venture with Viking Supply Ships.

## 1998–2000

B&N acquires Paltrans Shipping.

## 2005

B&N is renamed Rederi AB Transatlantic.

## 2010

Rederi AB Transatlantic acquires the shares outstanding in the TransViking joint venture, thus making the Norwegian company, Kistefos, the new principal owner.

## 2011

Rederi AB Transatlantic acquires the shipping and logistics companies Österströms and SBS Marine. Operations are divided into two business areas – the offshore business in Viking Supply Ships and the shipping and logistics operations in Industrial Shipping (subsequently “TransAtlantic”). The Group-wide functions are located in Gothenburg.

## 2012

Rederi AB Transatlantic acquires the Finnish shipping company Merilinja.

## 2013

Work continues with developing the operations Work continues with developing the operations of each business area.

Industrial Shipping (subsequently TransAtlantic) implements stringent cost-cutting measures and leaves the unprofitable bulk segment to focus its resources on RoRo and the Container Feeder segment. Viking Supply Ships signs several important Arctic offshore contracts and centralizes all of its support and operational functions at the head office in Copenhagen, Denmark.

## 2014

The Industrial Shipping business area was renamed to TransAtlantic. The work to prepare the company for a split was intensified. During the year, the last remaining portions of TransAtlantic's and Viking Supply Ships' respective operations were transferred so as to be exclusively conducted by the respective subsidiary, which means the Group's present structure is now better prepared for a split.

## 2015

The company name was changed from Rederi AB Transatlantic to Viking Supply Ships AB. TransAtlantic AB divested its ship management operations and container operations.

## 2016

During 2016 it was decided to discontinue the remaining operations in the subsidiary TransAtlantic AB in order to meet financing commitments related to these operations. The ambition is to complete this process within 2017.



# 2016 SUMMARY

**THE GROUP'S NET SALES DECREASED YEAR-ON-YEAR TO MSEK 760 (1,114), NET RESULT AFTER TAX WAS MSEK -406 (-440).**

## QUARTER 1

- In February 2016 Magne Viking was certified according to the IMO Polar Code. The vessel, which was the first vessel globally to comply with the code, was approved by DNV GL.
- Due to a continued weak PSV market VSS A/S, in March 2016, decided to lay up the PSVs Sol and Freyja Viking with immediate effect. The decision was to reduce the company's operational costs going forward and to give a positive impact on the results from the second quarter of 2016.
- The subsidiary VSS A/S has from 1 January 2016 changed its functional currency from NOK to USD.
- In the fourth quarter of 2015 VSS A/S had initiated a dialogue with its lenders to secure a long-term stable financing solution. In February 2016 VSS A/S entered into a standstill agreement with its lenders, during which VSS A/S did not pay instalments to its lenders. This agreement expired on 26 April 2016, but VSS A/S continued to not fully service its debt obligations as they fell due.
- At the expiration and redelivery of two bareboat vessels in TA AB there was a residual value guarantee commitment for the Group in favor of the financing bank. The commitment amounted to a total of MSEK 63. The bank agreed that the payment could be postponed to no later than the third quarter 2016. Further, in a loan agreement within TA AB there was a loan-to-value clause that the bank had invoked and requested an instalment of MSEK 47. The bank agreed to give TA AB time to pursue opportunities to free up liquidity to reduce the loan.

## QUARTER 2

- In May 2016, VSS A/S agreed the main principles for a restructuring agreement with the bank lenders. The term sheet with these main principles was signed on 12 July 2016. In August 2016, VSS A/S reached an agreement with the bondholders' committee, representing a majority of the outstanding bonds, regarding a revised proposal for restructuring of the bond issue, and a bondholders' meeting was summoned. The senior lenders were all positive to the agreement with the bondholders.
- 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 A/S, the Management decided to close down the office in St. John's, Newfoundland with effect as of 28 April 2016. VSS A/S 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.

- On 9 June 2016, VSS A/S was informed that Norseman Offshore AS had filed an application for bankruptcy against VSS A/S with the Maritime and Commercial High Court in Copenhagen. However, on the 16 June 2016 the petition for bankruptcy against VSS A/S was withdrawn.
- Due to the challenging market conditions, VSS A/S recognized an impairment loss during the quarter of MSEK 145 related to the PSV fleet.
- TA AB sold the two small bulk vessels TransAndromeda and TransCapricorn. The transaction, which was concluded in May 2016, brought positive cash effect of MSEK 24.
- After a short temporary leave Christian W. Berg returned to his position as CEO of VSS A/S.

## QUARTER 3

- In July 2016, the term sheet which had been agreed with the banks was signed. This marked a significant step towards the completion of the financial restructuring of VSS A/S.
- On 15 September 2016 a bondholders meeting was held. The proposed resolution obtained 98.26% of the votes, and the proposal was adopted according to the voting requirements of the Bond Agreement. According to the proposal, 50% of the outstanding par value of bonds was to be converted to quoted class B shares in VSS A/S' parent company, VSS AB, at SEK 1.5 per share, the bonds being valued at 55% of par. The remaining 50% of the outstanding bonds was to be redeemed in cash at a price corresponding to 35% of par.
- On 9 November 2016, Odin Viking SPV AS and VSS A/S concluded on an agreement to amend the terms in the bareboat charter party.

- In July 2016, VSS A/S received an early termination notice of the contract for the Ice-class 1A AHTS vessel Njord Viking. The vessel has been working for Eni Norge in the Barents Sea and has also been part of the extended towing-preparedness in the area on behalf of the Norwegian Coastal Administration. The vessel was according to the contract with Eni Norge firm until the end of 2016, with optional periods of 2 x 6 months thereafter. According to the contract VSS A/S was entitled to a termination fee of approximately USD 13.300/day for the remainder of the firm period. The termination represented a loss of income during the remaining firm period of the contract of MUSD 3.3 in 2016.
- During the quarter, Vidar Viking and Brage Viking completed their term contracts and returned to the spot market in the North Sea.
- Due to the challenging market conditions, VSS A/S recognized an impairment loss during the quarter of MSEK 55 related to the PSV fleet.
- In September 2016, Christian W. Berg stepped down as CEO of VSS AB. He took on various projects within VSS AB and acts as an advisor to the Board of Directors. At the same time, Chairman of the Board Bengt A. Rem, was appointed as interim CEO of VSS AB. Further, Folke Patriksson was appointed Chairman of the Board for as long as Bengt A. Rem was interim CEO. Bengt A. Rem continued on the Board as a board member.
- During 2016 it was decided to discontinue the remaining operations in the subsidiary TA AB in order to meet financing commitments related to these operations. The decision led to the initiations of discussions and negotiations with employees, partners and other stakeholders. At the end of the third quarter of 2016 the Group assessed that discontinuation was likely to be completed within the next 12 months, subject the outcome of the ongoing discussions and negotiations. Due to this, the Group in its financial reports as from the third quarter of 2016 recognized TA AB as discontinued operations and assets held for sale, according to IFRS 5 Assets Held for Sale and Discontinued Operations. The discontinuing of the operations in TA AB will enable the Group to fully focus on its offshore operations.
- During the third quarter of 2016 an agreement was entered into for the sale of the RoRo-vessel TransReel, which was delivered to its new owners in October 2016. The sale was expected to give a positive result of MSEK 10 in the fourth quarter, but as the funds were to be used to cover amortizations of vessel loans it was not expected to have any liquidity effect.
- According to the restructuring agreement made with the owners in FRN VSS A/S Senior Unsecured Open Bond Issue 2012/2017, 50% of the outstanding par value of bonds was to be converted to quoted class B shares in VSS A/S' parent company, VSS AB, at SEK 1.5 per share, the bonds being valued at 55% of par. The remaining 50% of the outstanding bonds was to be redeemed in cash at a price corresponding to 35% of par. The settlement by way of cash redemption and the set-off equity issue in VSS AB was completed on 12 January 2017, with the bond being delisted from Nordic ABM as of the same date.
- As a part of the restructuring agreement, all loans in VSS A/S previously denominated in NOK and GBP were converted to USD during the quarter.
- VSS A/S decided to re-flag its DIS-flagged vessels to Norway under NOR-flag. This is assumed to reduce operational expenses and improve VSS A/S' commercial and operational platform going forward, by giving the company increased access to the important Norwegian market. VSS A/S has during January 2017 been in dialogue with unions and crew representatives, after which new contracts and terms have been presented to the crew. The flag-change process was expected to be completed within the first quarter of 2017.
- To explore future commercial opportunities in Russia and strengthen its footprint in the region, VSS A/S has entered into a strategic cooperation with Sevnor Ltd., a shipping and offshore company with extensive presence in the Russian offshore market. As a consequence, VSS A/S has decided to close down its own offices in Moscow and Sakhalin. Future operations will be run in cooperation between the company and Sevnor Ltd.
- The process to discontinue the remaining operations within TA AB continued during the fourth quarter. VSS AB, through its fully owned subsidiary TA AB, has during Q4 novated three long term bareboat charter agreements for the RoRo vessels TransPaper, TransPulp and TransTimber to Svenska Orient Linien (SOL) together with time charter agreements for the same vessels. The transaction had a positive effect on the profit and loss and liquidity during the quarter MSEK 17. Furthermore, TA AB concluded the agreement to sell the vessel TransFighter during the quarter. The sale had no effect on the profit and loss and no liquidity effect as the sales proceeds were fully utilized for amortization of vessel loans. The sale of TransReel, which also was concluded, gave a positive result of MSEK 10 in the fourth quarter, but as the funds were used to cover amortization of vessel loans it had no liquidity effect.
- During the quarter an impairment charge of MSEK 46 was recognized related to the PSV fleet.
- The Board of Directors of VSS AB appointed Mr. Trond Myklebust as Chief Executive Officer (CEO) of VSS AB. Mr. Myklebust will also act as CEO of VSS A/S, and has since late January been functioning as CEO in both companies. At the same time, interim CEO Bengt A. Rem stepped down as CEO and was reappointed Chairman of the Board. Former Chairman of the Board Folke Patriksson continued as Deputy Chairman.

#### QUARTER 4

- On 21 November 2016, Odin Viking SPV AS and VSS A/S entered into an agreement to amend the terms in the bareboat charter party.
- During the quarter, all of the share issues that form part of the Group's financial restructuring were completed. VSS AB has received new capital in the amount of MSEK 340 net after expenses. MSEK 43 of the capital increase was received after the end of the quarter.



# FULL FOCUS ON ARCTIC OFFSHORE

VIKING SUPPLY SHIPS OPERATIONS ARE ORGANIZED INTO TWO INDEPENDENT SUBSIDIARIES: TRANSATLANTIC AB (FORMERLY INDUSTRIAL SHIPPING) AND VIKING SUPPLY SHIPS A/S. THESE ARE BASED ON DIFFERENT BUSINESS MODELS, OPERATE WITHIN ENTIRELY SEPARATE SHIPPING SEGMENTS, AND THEIR OPERATIONS ARE MANAGED BY SEPARATE ORGANIZATIONS.

During 2016 it was decided to discontinue the remaining operations in the subsidiary TA AB in order to meet financing commitments related to these operations. This marks the complete shift away from industrial shipping. Going forward the Group will fully focus on its core business within the harsh environment offshore industry.



Subsidiary  
**VIKING SUPPLY SHIPS**

Viking Supply Ships offers offshore and icebreaking services to oil-prospecting customers in the North Sea, Arctic and Subarctic waters. As one of few operators in the market, Viking Supply Ships has unique expertise at its disposal to conduct operations in ice environments and difficult weather conditions. The head office has been located in Copenhagen since 2011.

- Offices in Copenhagen, Kristiansand and Stenungsund
- 374 employees at year end,
- of which 39 land-based and
- 335 are shipboard
- 13 vessels
- Customers primarily comprise major international oil companies



Subsidiary  
**TRANSATLANTIC**

During 2016 it was decided to discontinue the operations within TransAtlantic. During the year all remaining fully owned vessels and long term charter commitments have been sold and the office in Gothenburg has been closed. The remaining activity now comprises five partly owned small-bulk vessels. The ambition is to complete the discontinuation during 2017.

## VIKING SUPPLY SHIPS AB

- Leading Swedish shipping company with a long history.
- Two independent subsidiaries – TransAtlantic AB (TA AB) and Viking Supply Ships A/S (VSS A/S). During 2016 it was decided to discontinue the operations within TransAtlantic.
- At year-end, the fleet comprised 18 vessels, of which 5 were operating under TransAtlantic and 13 under Viking Supply Ships.
- The Group has 375 employees at year end, and its head office is located in Gothenburg, Sweden.
- Sales for 2016 amounted to MSEK 760 (excluding discontinued operations and assets held for sale).
- The number of shareholders at year-end was 3,348.
- The company is listed on Nasdaq OMX Stockholm under the Small Cap list.
- The company is majority-owned by the Norwegian investment company, Kistefos AS, which is owned by Christen Sveaas.
- After all equity issues related to the financial restructuring had been completed in early 2017, Kistefos AS had 75.3% of the share capital and 71.2% of the votes.

# COMMENTS BY THE CEO



AS A RESULT OF REDUCED INVESTMENTS WITHIN THE OIL AND GAS INDUSTRY, THE DOWNTURN WITHIN OFFSHORE SHIPPING WAS PROLONGED THROUGH 2016. AS A DIRECT CONSEQUENCE, THE FINANCIAL RESULTS OF VIKING SUPPLY SHIPS WERE NEGATIVELY IMPACTED BY REDUCED REVENUES AND IMPAIRMENT OF THE PSV FLEET. TO MITIGATE THESE EFFECTS, VIKING SUPPLY SHIPS HAS COMPLETED SEVERAL INITIATIVES TO REDUCE THE COST BASE, RESULTING IN SIGNIFICANTLY REDUCED OPERATION. THE FINANCIAL RESTRUCTURING WHICH WAS INITIATED IN LATE 2015 WAS SUCCESSFULLY COMPLETED IN THE FOURTH QUARTER OF 2016. DURING 2016 IT WAS ALSO DECIDED TO DISCONTINUE THE REMAINING OPERATIONS IN THE SUBSIDIARY TRANSATLANTIC AB IN ORDER TO MEET FINANCING COMMITMENTS RELATED TO THESE OPERATIONS.

## VIKING SUPPLY SHIPS

The contract coverage rate for the AHTS fleet was reduced in 2016, achieving a level of 30% (47). During the year, the AHTS fleet had an average rate level of USD 50,500 (55,300) and an average utilization rate of 54% (70). The activity in the North Sea spot market was fair in the first part of the year. Combined with contract backlog for certain vessels the revenue levels were upheld at reasonable levels for the first three quarters. The sharply reduced rig activity towards the end of the year did however negatively impact the revenue and cash flow in the latter part of 2016. The market for the PSV fleet further deteriorated through 2016, with a utilization rate of 10% (42) and an average rate of USD 6,200 (6,200). As a result the two remaining PSVs in operation were laid up in the beginning of 2016.

In the fourth quarter of 2015 Viking Supply Ships initiated a dialogue with its lenders and was during most of the year since February 2016 in a standstill position, during which Viking Supply Ships did not pay instalments to its lenders. During the fourth quarter of 2016 all of the share issues in Viking Supply Ships AB that form part of Viking Supply Ships A/S' financial restructuring were completed. The restructuring secures Viking Supply Ships with a stable financial platform until 2020, subject certain vessel income levels.

During 2016, the company also completed a series of initiatives to reduce the operational expenses. As part of this it was during December decided to re-flag four vessels to Norway. This process was completed shortly after the end of the first quarter of 2017. It is assumed to reduce operational expenses and improve Viking Supply Ships' commercial and operational platform going forward, by giving the Group increased access to the important Norwegian market.

Viking Supply Ships considers Russia to be a core region for its service offerings, and of significant importance for the Group in the future. To strengthen its footprint in Russia, Viking Supply Ships has entered into a strategic cooperation with Sevnor Ltd, a shipping and offshore company with extensive presence in the Russian offshore market. As a consequence, Viking Supply Ships decided to close down its own offices in Moscow and Sakhalin.

## TRANSATLANTIC

During 2016 it was decided to discontinue the remaining operations in the subsidiary TA AB in order to meet financing commitments related to these operations. The decision led to initiations of discussions and negotiations with employees, partners and other stakeholders.

During the second quarter TA AB sold the two small bulk vessels TransAndromeda and TransCapricorn. The process to discontinue the remaining operations within TA AB continued during the fourth quarter. TA AB has during the fourth quarter novated three long term bareboat charter agreements for the RoRo vessels TransPaper, TransPulp and TransTimber to Svenska Orient Linien (SOL) together with time charter agreements for the same vessels.

The remaining operations classified as discontinued operation and assets held for sales comprised at the end of the year of five bareboat chartered small bulk vessels, which matures within three years, from a company in which TA AB is a 38 % shareholder.

## THE GROUP

During 2016 Viking Supply Ships A/S concluded a financial restructuring of its balance sheet. As part of this, a series of equity issues were completed in Viking Supply Ships AB. For further details on the development of the share capital and number of shares, see note 22.

## OUTLOOK

Viking Supply Ships expects the overall business environment in 2017 to be challenging. At the entrance to 2017 Viking Supply Ships had total contract coverage of 3% for the year (33%). Viking Supply Ships still sees contract opportunities within its core areas such as the Barents Sea, Canada and Russia, primarily from 2018, but also for the coming 2017 summer season.

Viking Supply Ships maintains a positive long term outlook for the offshore industry. Due to the reduced exploration levels, the company does however anticipate that also 2017 will be challenging for the industry. With the oil market in balance there is however early signs of recovery, including increased focus on seismic exploration. Over the last two years, the oil industry has focused on reducing the escalating cost level. Arctic oil and gas is still anticipated to be vital to cover the future energy demand, and efficiency gains seen across the industry will positively impact the fundamentals also for other Arctic projects.

The financial restructuring has provided Viking Supply Ships with a stable financial platform until 2020, subject certain vessel income levels. Combined with the purpose built fleet suitable for operations in harsh environment offshore regions, Viking Supply Ships is well positioned to take advantage of future market opportunities.

Gothenburg, 26 April 2017.  
Trond Myklebust  
President and CEO





## HIGH ARCTIC PRESENCE

# FUTURE GROWTH POTENTIAL

Viking Supply Ships pursues activities in the Arctic offshore market, in areas with difficult weather conditions, and in the offshore spot market in the North Sea. The fleet comprises 13 offshore vessels, of which seven are equipped and have the capacity for operations in environments with harsh cold and extreme weather conditions, such as the Arctic region. The strategy is to sign long-term contracts for vessels to the extent this is possible. In 2016, contract coverage was 30% (47) for the AHTS fleet. Viking Supply Ships also has extensive experience in offering consultancy services for ice management and logistics support in the Arctic region. In addition, Viking Supply Ships handles ship management for the Swedish Maritime Administration's five ice-breakers, which further strengthens the position in environments with difficult weather conditions.

### A CHALLENGING MARKET ENVIRONMENT

The oil market, which is the fundamental driver for the market in

which Viking Supply Ships operates, stabilized during the second half of 2016. Since 2015, the reduced oil price has caused oil companies to reduce their investments towards exploration and production, causing the production to gradually decline. Increased global demand and a decision by OPEC to limit their production further improved the market balance in the second half of 2016.

Viking Supply Ships maintains a positive long term outlook for the offshore industry. Due to the reduced exploration levels, Viking Supply Ships does however anticipate that also 2017 will be challenging for the industry. With the oil market in balance there is however early signs of recovery, including increased focus on seismic exploration. Over the last two years, the oil industry has focused on reducing the escalating cost level. Statoil has, as an example, since the original development plan for the Johan Castberg project managed to reduce the break-even price from USD 90 per barrel to a

### VIKING SUPPLY SHIPS

- Head office in Copenhagen in Denmark and offices in Kristiansand in Norway and Stenungsund in Sweden.
- 374 employees, of which 335 are offshore.
- Extensive experience in icebreaking, ice management and offshore activities.
- Customers include major international oil companies.
- A fleet of 13 vessels:
  - Three combined icebreakers/AHTS vessels
  - Four ice-reinforced AHTS vessels
  - One AHTS vessel without ice classification
  - Five PSVs without ice classification



current forecast of USD 35. Arctic oil and gas is still anticipated to be vital to cover the future energy demand, and efficiency gains seen across the industry will positively impact the fundamentals also for other Arctic projects.

#### THE POLITICAL SITUATION IN RUSSIA

The challenging situation related to sanctions in Russia was upheld through 2016 and combined with the overall challenging market conditions within the offshore industry this has resulted in reduced exploration activity in the Russian Arctic. The remaining activity is focused on the Sakhalin region in the Far East and the producing field Prirazlomnoye in the Pechora Sea. Viking Supply Ships still considers Russia to be a significant region within the Arctic offshore. To explore future commercial opportunities in Russia and strengthen its footprint in the

region, Viking Supply Ships has entered into a strategic cooperation with Sevnor Ltd., a shipping and offshore company with extensive presence in the Russian offshore market. Viking Supply Ships anticipates that there will be a modest increase in activity in the Russian market in 2017, but a full recovery is likely to be dependent on easing of the US/EU imposed sanction regime.

#### CONTRACT OPPORTUNITIES AND MARKET OUTLOOK

Viking Supply Ships expects that the rig activity in the North Sea will remain relatively unchanged in 2017, with certain signs of increased demand during the summer period. With several vessels in the spot market committed to various summer projects outside the spot market during the summer season, Viking Supply Ships anticipates that the

market balance will improve for periods of the year. Despite the challenging market conditions, it remains a core focus within Viking Supply Ships to increase the contract backlog going forward.

The activity in Viking Supply Ships' core regions has been reduced over the last two years, but the company does see attractive contract opportunities in 2017 and has a clear ambition to secure term contracts for parts of the AHTS fleet. All PSVs in Viking Supply Ships' fleet have remained in lay-up since early 2016, and the company will continue to monitor the market for long term contract opportunities for the vessels. Viking Supply Ships has a purpose built fleet of vessels suitable for operations in harsh environment offshore regions. With the anticipated activity growth in the Barents Sea and Russian arctic, Viking Supply Ships is well positioned to take a key role in future market opportunities.

#### LIST OF VESSELS IN VIKING SUPPLY SHIPS AT DECEMBER 31, 2016

Vessels	Type	Dwt	Year of construction/year of remodeling	Holding/leasing form	Flag	Year acquired
Balder Viking	AHTS/Icebreaker	3,000	2000	Owned – 100%	Sweden	2000
Tor Viking II	AHTS/Icebreaker	3,000	2000	Owned – 100%	Sweden	2000
Vidar Viking	AHTS/Icebreaker	3,000	2001	Owned – 100%	Denmark	2001
Odin Viking	AHTS	2,869	2003	Operational lease – bareboat charter	Norway	n.a
Loke Viking	AHTS	4,500	2010	Owned – 100%	Denmark	2010
Njord Viking	AHTS	4,500	2011	Owned – 100%	Denmark	2011
Magne Viking	AHTS	4,500	2011	Owned – 100%	Denmark	2011
Brage Viking	AHTS	4,500	2012	Owned – 100%	Denmark	2012
Freyja Viking	PSV	3,662	2007	Owned – 100%	Norway	2014
Sol Viking	PSV	3,662	2006	Owned – 100%	Norway	2014
Frigg Viking	PSV	3,662	2003	Owned – 100%	Norway	2011
Idun Viking	PSV	3,662	2003	Owned – 100%	Norway	2011
Nanna Viking	PSV	3,662	2006	Owned – 100%	Norway	2011



# SAFETY AND ENVIRONMENT



Viking Supply Ships and all subsidiaries are operated under the same HSEQ umbrella and utilize the same principles and governing documents in order to maintain focus on HSEQ.

Viking Supply Ships' vision is an Incident and Injury Free workplace, with no harm to people and no damage to the environment.

Viking Supply Ships strives to achieve the best possible solutions that exceed customer expectations and provide customers with greater value. Viking Supply Ships 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. 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

Viking Supply Ships' offshore fleet has a track record of more than three years since last Lost Time Incident (LTI) meaning that the company has been operating without

significant accidents as a result of focusing on the above mentioned principles. During 2016 Viking Supply Ships had no incidents with oil spill into the sea. The safety work is continuously improved and during the last two years Viking Supply Ships has focused on increasing safety observation reporting and improving reporting quality. This has even further minimized the number of accidents.

For the HSE reporting and risk assessment Viking Supply Ships utilizes a common group reporting and assessment tool. The tool has a potential for further integrating and simplifying the workload and the goal is to implement further improvements during 2016.

Viking Supply Ships is certified according to ISMA and the ISPS code and for the standards ISO 14001:2004, ISO 9001:2008 and OHSAS18001:2007. This means that the company has a combined ISO certificate for the environment, quality and work environment for both the vessels and the offices.

Through our external vessel management Viking Supply Ships has been deeply involved in technical solutions for limiting NOx and fuel consumption on existing engines - a research project pioneering rebuilding existing engines to common rail technique.

The Viking Supply Ships AHTS fleet has NOx reduction plants - catalysts fitted on the engines on vessels build from 2000 and onwards.

Further we refer to the Safety and Environment section of the Viking Supply Ships website.  
[www.vikingsupply.com/hseq](http://www.vikingsupply.com/hseq)



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# THE POLAR CODE

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IN 2016 MAGNE VIKING BECAME THE FIRST VESSEL IN THE WORLD TO GET A STATEMENT OF COMPLIANCE WITH THE POLAR CODE. AS ARCTIC WATERS ARE THE FOCUS AREA OF VSS, THE COMPANY HAS PUT IN EXTRA EFFORTS IN ORDER TO HAVE VESSELS CERTIFIED IN ACCORDANCE WITH THE CODE. AS A RESULT, WORK WITH THE CODE HAS HAD HIGH PRIORITY SINCE IT WAS ADAPTED BY IMO'S MARITIME SAFETY COMMITTEE.

The Polar Code is a new mandatory regulative framework for vessels operating in arctic waters. The Polar Code entered 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. As Viking Supply Ships aims to be the leading provider within harsh environment and Arctic offshore operations, implementing the Polar Code was considered to be of significant importance for the company.

During 2015, large efforts were put into work with the Polar Code work. Although the fleet of Viking Supply Ships is designed to fulfil 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.

As soon as the Code entered into force on 1 January 2017 the work of certifying the rest of the fleet began.

By early April 2017 all four Loke-class vessels were fully compliant and certified in accordance with the Code. The work on certifying the Tor-class has started and the aim is to have Tor Viking and Balder Viking certified during Q2 2017.

Not only did Viking Supply Ships obtain the first compliance statement with the Polar Code but the company was also the first company to offer a Polar Code course. In the beginning of March 2016 the first test course, named Polar Code Course, Basic and advanced was completed in cooperation with the Linnæus University in Kalmar. The course covers all requirements of the IMO Polar Code. The course has been developed in close cooperation with Kalmar Maritime Academy as part of a cooperation agreement named Ice Academy. Both the Swedish and Danish Maritime Administrations were present during the course in order to review the implementation and contents of the course.

Viking Supply Ships is proud to be the first company to have a Polar Code compliance certificate and to have completed the first Polar Code course within the industry. This once more underlines that Viking Supply Ships is ahead of the competition in terms of focus on safe operations. It is Viking Supply Ships' 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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# TRANSATLANTIC IN TRANSFORMATION

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TRANSATLANTIC HAS BEEN A SIGNIFICANT PLAYER WITHIN INDUSTRIAL SHIPPING IN SWEDEN FOR MORE THAN FOUR DECADES. OVER THE RECENT YEARS, THE SEGMENT HAS GONE THROUGH SIGNIFICANT CHANGES. VIKING SUPPLY SHIPS HAS WORKED CONTINUOUSLY TO RESTRUCTURE THE SUBSIDIARY.

## DISCONTINUED OPERATIONS

During 2016 it was decided to discontinue the remaining operations in the subsidiary TA AB in order to meet financing commitments related to these operations. The decision led to the initiations of discussions and negotiations with employees, partners and other stakeholders. At the end of the year the assessment is that the discontinuation is likely to be concluded within the next 12 months. TA AB has, in the Groups financial reports as from the third quarter of 2016, been recognized as discontinued operations and assets held for sale, according to IFRS 5 Assets Held for Sale and Discontinued Operations. The discontinuing of the

operations in TA AB will enable the Group to fully focus on its offshore operations.

## SALE OF ASSETS AND CONTRACTS

During the second quarter TA AB sold the two small bulk vessels TransAndromeda and TransCapricorn. The transaction, which was concluded in May 2016, brought positive cash effect of MSEK 24.

The process to discontinue the remaining operations within TA AB continued during the fourth quarter. Viking Supply Ships, through its fully owned subsidiary TA AB, has during the fourth quarter novated three long



term bareboat charter agreements for the RoRo vessels TransPaper, TransPulp and TransTimber to Svenska Orient Linien (SOL) together with time charter agreements for the same vessels. The transaction had a positive effect on the profit and loss and liquidity during the fourth quarter of MSEK 17. Furthermore, TA AB concluded the agreement to sell the vessel TransFighter during the fourth quarter. The sale had no effect on the profit and loss and no liquidity effect as the sales proceeds were fully utilized for amortization of vessel loans. The sale of TransReel, which also was concluded during the fourth quarter, gave a positive result of MSEK 10, but as the funds were used to cover amortization of vessel loans it had no liquidity

effect. All bank loans related to TA AB, as well as the bareboat charter related residual value guarantee, were fully repaid during the fourth quarter.

#### REMAINING OPERATIONS

The remaining operations, classified as discontinued operations and assets held for sale, comprised at the end of the year of five small bulk vessels bareboat-chartered by TA AB from a company in which TA AB owns 38% of the shares. The vessels are chartered out on a long-term time-charter.

#### LIST OF VESSELS IN TRANSATLANTIC AT DECEMBER 31, 2016

Vessels	Type	Built	Dwt	Holding	Flag
TransForza <sup>1)</sup>	Bulk	2000	4,100	Bareboat charter	Gibraltar
TransLontano <sup>1)</sup>	Bulk	2000	4,100	Bareboat charter	Gibraltar
TransDistinto <sup>1)</sup>	Bulk	2000	4,100	Bareboat charter	Gibraltar
TransSonoro <sup>1)</sup>	Bulk	2000	4,100	Bareboat charter	Gibraltar
TransVolante <sup>1)</sup>	Bulk	2000	4,100	Bareboat charter	Gibraltar

1) TA AB has a 38% ownership in the vessel.



# FIVE-YEAR OVERVIEW

Please see page 80 for definitions

MSEK	The Group				
	2016	2015	2014	2013	2012
<b>Consolidated revenue and earnings</b>					
<b>Net sales</b>					
AHTS	611	951	1,255	830	746
PSV	4	30	173	189	201
Services	8	-	340	-	-
Ship Management	137	133	129	119	115
<b>The Group's net sales</b>	<b>760</b>	<b>1,114</b>	<b>1,897</b>	<b>1,138</b>	<b>1,062</b>
<b>Result before tax</b>					
AHTS	-118	133	367	72	-106
PSV	-254	-457	-63	-110	-20
Services	-4	-5	41	-	-
Ship Management	2	-	-	-	-
<b>The Group's result before tax</b>	<b>-374</b>	<b>-329</b>	<b>345</b>	<b>-38</b>	<b>-126</b>
Tax	4	-3	-17	-38	-37
<b>The Group's result from continuing operations</b>	<b>-370</b>	<b>-332</b>	<b>328</b>	<b>-76</b>	<b>-163</b>
Result from discontinued operations	-36	-108	-128	-283	-230
<b>The Group's result after tax</b>	<b>-406</b>	<b>-440</b>	<b>200</b>	<b>-359</b>	<b>-393</b>
<b>Consolidated cash flow</b>					
Cash flow from operating activities before changes in working capital	55	223	527	56	-120
Changes in working capital	13	174	-97	6	28
Cash flow from investing activities	124	-181	-132	-4	27
– of which, investments	-11	-183	-218	-75	-360
– of which, divestments	135	2	86	71	386
Cash flow from financing activities	-21	-419	-251	-30	-115
<b>Cash flow from continuing operations</b>	<b>171</b>	<b>-203</b>	<b>47</b>	<b>28</b>	<b>-180</b>
Cash flow from discontinued operations	-107	-67	-	-	-
<b>Total cash flow</b>	<b>64</b>	<b>-270</b>	<b>47</b>	<b>28</b>	<b>-180</b>
Exchange-rate difference in cash and cash equivalents	14	15	22	-8	-7
<b>Closing unappropriated cash and cash equivalents</b>	<b>273</b>	<b>195</b>	<b>450</b>	<b>381</b>	<b>361</b>
<b>Consolidated balance sheet, Dec. 31</b>					
Vessels	3,229	3,470	3,982	3,925	4,608
Financial fixed assets	16	182	118	141	206
Other fixed assets	-	4	5	20	84
Current assets excluding cash and cash equivalents	175	266	705	417	486
Cash and cash equivalents	273	195	450	381	361
<b>Total assets</b>	<b>3,693</b>	<b>4,117</b>	<b>5,260</b>	<b>4,884</b>	<b>5,745</b>
Shareholders' equity	1,440	1,386	2,042	1,749	2,103
Interest-bearing liabilities	1,927	2,334	2,695	2,650	2,983
Non-interest-bearing liabilities	326	397	523	485	659
<b>Total shareholders' equity and liabilities</b>	<b>3,693</b>	<b>4,117</b>	<b>5,260</b>	<b>4,884</b>	<b>5,745</b>

Please see page 80 for definitions

MSEK	The Group				
	2016	2015	2014	2013	2012
<b>Total shareholders' equity and liabilities</b>					
Shareholders' equity, Jan. 1	1,386	2,042	1,749	2,103	2,493
Effect of amended pension accounting policies	-	-	-	2	-
New share issue, net after transaction expenses	340	-	145	144	-
Dividend	-	-98	-	-	-
Result for the year	-406	-440	200	-359	-393
Exchange-rate differences/Other	120	-118	-52	-141	3
<b>Shareholders' equity</b>	<b>1,440</b>	<b>1,386</b>	<b>2,042</b>	<b>1,749</b>	<b>2,103</b>
<b>Data per share (SEK)</b>					
EBITDA <sup>1)</sup>	0.9	1.6	4.2	2.4	1.1
Earnings before interest expenses (EBIT) <sup>1)</sup>	-1.4	-0.9	2.9	-1.7	-1.3
Result before tax <sup>1)</sup>	-2.1	-1.9	1.3	-2.8	-3.2
Result after tax <sup>1)</sup>	-2.0	-1.9	1.2	-3.2	-3.5
Cash flow from operating activities <sup>1)</sup>	0.3	2.2	2.6	0.6	-1.1
Total cash flow <sup>1)</sup>	0.9	-1.1	0.3	0.3	-1.6
Shareholders' equity, Dec. 31	4.2	7.8	11.5	11.8	19.0
P/E ratio	n.a	n.a	3.7	n.a	n.a
Dividend paid per share	-	0.55	-	-	-
Number of shares, Dec. 31 (000)	343,545	177,444	177,444	147,870	110,903
Average number of shares (000)	181,297	177,444	164,804	112,726	110,903
<i>1) The data per share and key data for 2016 and 2015 are calculated excluding the discontinued operations, for all other years in the time series the discontinued operations are included.</i>					
<b>Key data</b>					
Earnings before capital expenses (EBITDA), MSEK <sup>1)</sup>	160	293	695	270	120
Earnings before interest expenses (EBIT), MSEK <sup>1)</sup>	-249	-152	484	-194	-143
Shareholders' equity, MSEK	1,440	1,386	2,042	1,749	2,103
Capital employed, MSEK	3,367	3,720	4,737	4,744	5,086
Net indebtedness, Dec. 31, MSEK	1,654	2,140	2,245	2,268	2,623
Operating cash flow, MSEK <sup>1)</sup>	35	115	412	144	-94
Total cash flow, MSEK	64	-270	47	28	-180
Return on shareholders' equity, %	-28.8	-25.7	10.5	-18.6	-17.1
Return on capital employed, %	-7.8	-4.9	10.6	-4.1	-2.7
Equity/assets ratio, %	39	34	39	36	37
Debt/equity ratio, Dec. 31, %	115	154	110	130	125
Profit margin, % <sup>1)</sup>	-49	-30	7	-11	-11
Interest-coverage ratio, multiple <sup>1)</sup>	1.6	2.7	4.7	1.6	0.6
Number of employees, year-end	375	482	796	866	787
<i>1) The data per share and key data for 2016 and 2015 are calculated excluding the discontinued operations, for all other years in the time series the discontinued operations are included.</i>					



## REPORT CORPORATE GOVERNANCE AT VIKING SUPPLY SHIPS AB

# CORPORATE GOVERNANCE

VIKING SUPPLY SHIPS AB IS A SWEDISH PUBLIC LIMITED COMPANY LISTED ON NASDAQ OMX STOCKHOLM, UNDER THE SMALL CAP SEGMENT. VIKING SUPPLY SHIPS AB IS GOVERNED THROUGH THE ANNUAL GENERAL MEETING (AGM), THE BOARD OF DIRECTORS AND THE CEO IN ACCORDANCE WITH THE SWEDISH COMPANIES ACT, THE ARTICLES OF ASSOCIATION AND THE SWEDISH CORPORATE GOVERNANCE CODE. THE COMPANY IS MAJORITY-OWNED BY KISTEFOS AS (VIA VIKING INVEST AS), WHICH AFTER ALL EQUITY ISSUES RELATED TO THE FINANCIAL RESTRUCTURING HAD BEEN COMPLETED IN EARLY 2017 ACCOUNTED FOR 75.3% OF THE SHARE CAPITAL AND 71.2% OF THE VOTING RIGHTS.

This Corporate Governance Report has been prepared in accordance with the provisions in the Swedish Corporate Governance Code (the "Code") and Chapter 6, § 6–9 of the Swedish Annual Accounts Act and Chapter 9, § 31 of the Swedish Companies Act, and pertains to the 2016 fiscal year. The auditor has expressed an opinion as to whether the preparation of the Corporate Governance Report and disclosures in accordance with Chapter 6, § 6, second paragraph 2–6 of the Annual Accounts Act (for example, the principal features of the company's system for internal control and risk management in conjunction with financial reporting) correspond with the other sections of the Annual Report. Viking Supply Ships AB's Articles of Association and other additional information on corporate governance at Viking Supply Ships AB are available at [www.vikingsupply.com](http://www.vikingsupply.com). The company's governance, management and control are based on external laws and regulations, as well as internal regulations, policies and instructions. Viking Supply Ships AB Board of Directors and management strive for the company to comply with the demands placed on the company by the stock market, shareholders and other stakeholders. By being transparent and accessible, Viking Supply Ships AB strives to provide shareholders' and other stakeholders with insight into decision channels, delegation of responsibility, authorities and control systems. In addition, the Articles of Association constitute a central control document. The Articles of Association

stipulate where the Board has its registered head office, its operational focus, its authorized signatories, as well as information on the number of shares and share capital. The highest governing body in Viking Supply Ships AB is the General Meeting of Shareholders, where the company's shareholders exercise their influence. The Board of Directors manages, on behalf of the shareholders, the company's interests and transactions. Viking Supply Ships AB's Board of Directors is led by the Chairman of the Board, Bengt A. Rem. The Board appoints the CEO. Distribution of responsibility between the Board of Directors and the CEO is regulated in the Board's formal work plan and the instructions for the CEO, both of which are established annually. Administration by the Board of Directors and the CEO, as well as the company's financial reporting is reviewed by an external auditor, appointed by the Annual General Meeting.

## APPLICATION OF THE CODE

The Board of Directors and management believe that the company complies with and applies all regulations included in the Code.

## SHAREHOLDERS

Viking Supply Ships AB's Series B shares have been listed on Nasdaq OMX Stockholm under the Small Cap segment since 1991. The share capital amounts to

## CORPORATE GOVERNANCE STRUCTURE AT VIKING SUPPLY SHIPS AB



SEK 409,592,960, distributed among 409,592,960 shares with a quotient value of SEK 1. There are a total of 20,684,348 Series A shares and 388,908,612 Series B shares. Series A shares carry ten votes each and Series B shares carry one vote each. However, as certain equity issues were first registered after the balance date, the share capital at the balance date was SEK 343,545,318 and the number of shares were 343,545,318. The number of shareholders at 31 December, 2016 was 3,348 (3,451). Both types of shares entitle right to dividend. For further information on the share and shareholders, see pages 76-78.

## GENERAL MEETING OF SHAREHOLDERS

Viking Supply Ships AB's highest decision-making body is the General Meeting of Shareholders. The company's Annual General Meeting (AGM) is to be held within six months of the close of the fiscal year. Notice of the AGM is to be issued not earlier than six weeks and not later than four weeks prior to the meeting. All shareholders included in the shareholders' register which have registered for participation in time are entitled to participate and vote at the meeting. Those shareholders who cannot attend in person may be represented by proxy. The AGM was held on 30 June, 2016 in Gothenburg. The meeting was attended by 21 shareholders, representing 80.6% of the votes. At the meeting, the two representatives from the Board of Directors, representatives from the Group management and the company's auditors were present. The resolutions passed by the AGM included following:

- No decision regarding dividend was made
- The fees for the Board of Directors were withdrawn due to the financial situation in the company.
- Guidelines governing remuneration of senior executives
- Procedures for the appointment and work of the Nomination Committee

At the AGM, Bengt A. Rem, Folke Patriksson, Håkan Larsson and Magnus Sonnorp were re-elected. Erik Borgen was elected as a new Board member to replace Christen Sveaas, who had declined re-election. In addition to these Board members elected by the AGM, Christer Lindgren will remain as the labor-union

representative. Bengt A. Rem was elected as Chairman of the Board and Folke Patriksson as the Deputy Chairman.

During the meeting, shareholders were provided the opportunity to submit questions to the CEO and Board of Directors. Resolutions at the meeting are usually passed with a simple majority, but certain motions require a higher proportion of the votes represented at a General Meeting. It was not possible to follow or participate in the meeting from another location using communication technology and no change has been planned in this regard for forthcoming meetings.

## NOMINATION COMMITTEE

The AGM resolved to establish a Nomination Committee comprising three members representing the three largest shareholders in terms of voting rights on 30 August, 2016. At the AGM in June 2016, the Nomination Committee, represented by Bengt A. Rem, reported on the work of the Nomination Committee. In its work, the Nomination Committee took into account the demands that can be placed on the Board of Directors resulting from the company operations and development phase, as well as competency, experience and background of the Board members. Independence issues were also highlighted, as well as issues pertaining to gender. The task of the Nomination Committee is to prepare proposals concerning Board membership and the Chairman of the Board, as well as remuneration of Board members and proposals for rules for the Nomination Committee ahead of the 2017 AGM. The composition of the Nomination Committee was announced on Viking Supply Ships' website and through a press release published on 30 November 2016. The Nomination Committee comprises Folke Patriksson, which due to Bengt A. Rem being CEO at that time was elected as temporary Chairman of the Board (representing Enneff Rederi AB/Enneff Fastigheter AB), Tom-Olav Holberg representing Kistefos AS/Viking Invest AS, Lena Patriksson Keller representing Enneff Rederi AB/Enneff Fastigheter AB as well as Anders Bladh representing Ribbskottet AB. Tom-Olav Holberg was elected as Chairman of the Nomination Committee. Notably, Ribbskottet AB is not the third largest shareholder, but certain shareholders have abstained from their right to appoint a member to the Nomination Committee.

## BOARD OF DIRECTORS

Composition of the Board of Directors and number of meetings during the mandate period	Elected	Board meetings	Independent of major shareholders
Bengt A. Rem, Chairman	2015	17/17	No
Folke Patriksson, Deputy Chairman	1972	16/17	No
Erik Borgen	2016	12/17	No
Magnus Sonnorp	2010	17/17	Yes
Håkan Larsson	1993	15/17	Yes
Christer Lindgren, Employee representative	2010	6/17	Yes



The members of the Nomination Committee represent approximately 80% of the voting rights (at 31 December 2016) of all shares in the company. The Nomination Committee's proposals, its reasoned statement about the proposed Board, as well as supplementary information on the proposed Board members, were announced in conjunction with the Notice convening the AGM and are presented jointly with a report on the Nomination Committee's work at the 2017 AGM.

## BOARD OF DIRECTORS

The Board of Directors is to consist of not less than five and not more than ten members and not more than five deputies according to the Articles of Association. The Board members are elected annually at the AGM, with a period in office from the AGM until the next AGM. The AGM decides the exact number of Board members. At the AGM on 30 June, 2016, Bengt A. Rem, Folke Patriksson, Erik Borgen, Håkan Larsson and Magnus Sonnorp were elected to the Board. Bengt A. Rem was elected Chairman of the Board. Folke Patriksson was elected as Deputy Chairman. In addition to the AGM elected Board members, Christer Lindgren remained as the labor union representative. The number of AGM elected Board members who are considered independent in relation to the company, according to requirements of the Code, is estimated to be two and those dependent in relation to major shareholders is three. No other remuneration was made apart from that resolved on by the AGM. Fees to the Board of Directors are approved by the AGM following a proposal from the Nomination Committee. For more information on fees, see note 7.

## BOARD OF DIRECTORS' WORK

The Board of Directors is elected by the shareholders at the AGM. The Board of Directors' responsibilities and tasks are determined by a formal work plan, in addition to laws and regulations. The work plan is reviewed by the Board on an annual basis, and established through a decision by the Board. The Board's tasks include determining the company's goals, strategies, business plans and budgets, as well as approving major investments and loans raised by Viking Supply Ships AB. Furthermore, it is the Board's task to evaluate the operating management, and to ensure that there are systems in place to monitor and control the established goals. It is also the Board's task to appoint the CEO, and where applicable, a Deputy CEO. The Finance Policy, Attestation Policy and the Communication Policy, which are established annually, represent important control instruments for the Board. The Board also ensures the quality of the financial reporting through detailed reviews of interim reports, annual reports and year-end reports at Board meetings. The Board addresses different issues in their entirety and, considering the Group's size and complexity, has not regarded sub-committees necessary to prepare certain issues. This means that the Board as a whole constitutes the Audit Committee and Remuneration Committee. The Board usually meets on seven occasions per year and additional meetings are held as necessary. Scheduled meetings are held in connection with quarterly reports and additional meetings are held to address

strategic issues and decide on budgets for future fiscal years. Based on this, the Board held 17 meetings during the mandate period, of which seven were scheduled meetings, nine were unscheduled meetings and one was the statutory meeting. The Legal/Tax Manager of Viking Supply Ships AB serves as secretary at the Board meetings. The Board of Directors also receives monthly reports pertaining to the company's financial position. At scheduled Board meetings, reports are also submitted pertaining to the current work in each business area with detailed analyses and action proposals.

## CHAIRMAN'S RESPONSIBILITY

The Chairman of the Board is elected by the AGM. The role of the Chairman of the Board is to organize and lead the Board's work in accordance with applicable rules for listed companies, the Code and the Articles of Association. The Chairman is also tasked with supporting the President. The Chairman and the President ensure the preparation of proposals for the agenda for Board meetings. The Chairman conducts a dialogue with the CEO and is responsible for ensuring that other Board members receive the information and documentation needed to make decisions. The Chairman of the Board is also responsible for ensuring the annual review of the Board's work. The Chairman of the Board is Bengt A. Rem and the Deputy Chairman is Folke Patriksson. Bengt A. Rem is the CEO of Kistefos AS which, indirectly via Viking Invest AS, is the majority owner of Viking Supply Ships AB, with 75.3% of the share capital and 71.2% of the voting rights at 31 January 2017.

## PRESIDENT

The President (and CEO), Trond Myklebust, succeeded temporary CEO Bengt A. Rem, who had temporarily replaced Christian W. Berg from 19 September 2016, as President and CEO of Viking Supply Ships AB, on 27 February 2017. The CEO is responsible for the continuous management of the operations based on the terms of reference issued by the Board of Directors. The CEO's responsibilities include decisions regarding current investments and divestments, HR, financial and accounting issues, continuous contact with the company's stakeholders, as well as ensuring that the Board receives the information required to make well-substantiated decisions. The CEO reports to the Board of Directors. The CEO directs the work of the Group management and reaches decisions in consultation with the other members of management. For more information, see note 7.

## GROUP MANAGEMENT

The CEO has appointed a Group Management team that had three members during 2016. In addition to CEO, Christian W. Berg/Bengt A. Rem (see above) the Group Management team included Ulrik Hegelund as CFO and Tord Ytterdahl as CEO for Viking Supply Ships A/S. The Group Management is responsible for planning, controlling and following up daily operations. The Group Management held regular meetings to monitor the business operations, follow-up on financial development and other operational, development and strategy

issues. The Group Management ensures that the right competency exists in the organization in relation to the company's strategies. Authorities and responsibilities for the CEO and the Group Management are defined in the policies, job descriptions and attestation instructions. For more detailed information about the CEO and the Group Management, see page 23.

## AUDITORS

The auditors are elected by the AGM and at the Meeting in June 2016 the auditing firm of Rödl & Partner Nordic AB was elected for a period in office until the 2017 AGM. Authorized Public Accountant Mathias Racz was elected Auditor-in-Charge. The auditors' task is to review the President's and Board's management of the company and the quality of the company's financial reports, as well as review the Annual Report. The company's auditors participate once per year at a Board meeting to submit a report on the year's accounting and their view of the company's internal control system. Information on remuneration of auditors is found in note 8.

## GUIDELINES GOVERNING REMUNERATION OF SENIOR EXECUTIVES

The 2016 AGM adopted the guidelines governing remuneration of senior executives, encompassing the CEO and Group Management, which comprised three members during its period in office, and which are based on the following general principles: The principles for remuneration of senior executives from a short- and long-term perspective are designed to attract, motivate and create favorable conditions for retaining competent employees and managers. To achieve this, it is important to maintain fair and internally balanced conditions that are also competitive in market terms with respect to structure, scope and level. The employment terms and conditions for senior executives are to contain a well-balanced combination of fixed salary, pension benefits and other benefits, as well as special terms for remuneration in the event of termination of employment. Payment of variable remuneration is also possible. The total annual cash remuneration to senior executives is to be determined on the basis of competitiveness. The total level of remuneration is to be reviewed annually to ensure that it is in line with comparable positions in the relevant market. Remuneration is to be based on performance and positions. The company's remuneration system is to contain various forms of remuneration aimed at creating well-balanced compensation that verifies and supports the achievement of short and long-term goals. The fixed salary shall be set individually and be based on the individual's responsibility and role, as well as the individual's competence and experience in the relevant position. The CEO and other senior executives may receive variable remuneration should the Board resolve to this effect. Such variable remuneration is to be based on extraordinary performance in relation to defined and measurable goals, be capped in relation to basic salary and must always be justified specifically in a joint Board discussion. As mentioned above, the outcome of variable remuneration is to be based on measurable goals. The variable remuneration is to be based on (i) outcomes in

relation to the company's financial key data, as well as earnings and cash flow and (ii) fulfillment of established individual goals. Variable remuneration may not exceed a payment equivalent to 60% of the fixed salary for the respective senior executive. Pension provisions for senior executives are to be market aligned in relation to what is generally applicable to corresponding positions in the market and must be based on defined contribution pension solutions. The retirement age for senior executives is 65. Pension provisions are to be based only on fixed salary. Defined contribution pension payments must be implementable up to the equivalent of 25% of the fixed salary. Other benefits, such as company car, compensation for preventive healthcare and sickness insurance, are to comprise a small portion of the total compensation, correspond to market levels and contribute to the executive's possibilities of fulfilling his or her work assignment. The period of notice for senior executives is six months when the executive resigns and, in the event of notice from the company, six to 12 months. The CEO is subject to period of notice of up to six months if notice is served by the company. Severance may be payable but is capped at 12 monthly salaries, see note 7.

## AUDIT COMMITTEE AND REMUNERATION COMMITTEE

The Board in its entirety has decided to deal with auditing matters and one meeting was held with the Group's auditors during the year. Planned and completed audits were discussed at this meeting. The audit encompasses such issues as risk assessment, risk management, financial control, accounting issues, Group policies and administrative issues. Considerable emphasis is placed on follow-ups and implementing measures. The auditors also keep the Board informed of current developments in relevant areas. The Board also decided to address remuneration issues within the framework of Board duties. Remuneration of the President was addressed, as were the principles for remuneration of senior executives. Remuneration related to the Board of Directors' work is approved by the AGM.

## THE BOARD'S DESCRIPTION OF INTERNAL CONTROL AND RISK MANAGEMENT IN FINANCIAL REPORTING

This description of internal control and risk management is submitted by the Board of Viking Supply Ships AB and is prepared in accordance with the Swedish Corporate Governance Code. The Board of Directors of Viking Supply Ships AB has overall responsibility for the internal control pertaining to the financial reporting. Good internal control is based on efficient Board work. The Board's formal work plan and instructions for the CEO are aimed at establishing a clear role and distribution of responsibilities to efficiently manage operational risks. Based on established procedures and also on the auditor's review of the internal control, company management reports regularly to the Board of Directors, should the observations have any impact on the financial statements. The Group Management is responsible for the system of internal controls that is required to handle significant risks in operating activities. This is aimed at



ensuring that the operation is conducted appropriately and efficiently, that the financial reporting is reliable and that rules, regulations and ordinances are complied with. The company has prepared procedures for the assessment of risks in the financial reporting, as well as to attain a high reliability in the external reporting and that the reporting is prepared in accordance with laws and other requirements on listed companies.

### **RISK ASSESSMENT AND CONTROL ACTIVITY**

Viking Supply Ships AB's assessment of financial reporting aims to identify and evaluate the significant risks that influence the internal control with respect to the financial reporting in the Group's companies, business areas and business processes. Considerable emphasis has been placed in formulating the controls to prevent and recognize errors in these areas. The key control instruments for the financial reporting primarily comprise the company's Finance Policy. See page 27, Risks and uncertainties.

### **CONTROL ENVIRONMENT**

The Board of Directors has overall responsibility for the internal control of financial reporting. The Board has established a formal work plan to clarify the Board's responsibilities and to regulate the distribution of work among Board members. Responsibility for maintaining an efficient control environment is based on an organization with distinct decision routes and clear instructions and with common values, where each employee has insight into his/her role in maintaining good internal control.

### **INFORMATION AND COMMUNICATION**

Viking Supply Ships AB's Board of Directors has established a Communication Policy, which states what is to be communicated by whom and the manner in which the information is to be issued to ensure that the external information is correct and complete. In addition, there are instructions governing how financial information is to be communicated between management and other

employees. Viking Supply Ships AB's shareholders and other stakeholders can monitor the company's operations and its development on the website ([www.vikingsupply.com](http://www.vikingsupply.com)), where current information is published on a continuous basis. Events deemed as having a potential impact on the share price are published through press releases. Financial information is provided through quarterly reports and year-end reports, as well as through the company's annual report.

### **FOLLOW-UP**

The Board continuously evaluates the information submitted by company management and the auditors. The work includes ensuring that measures are implemented which address inadequacies and preparing proposals for measures arising from the external audit.

### **INTERNAL AUDIT**

The Board has not found any reason to establish an internal audit function considering the size of the Group and the centralization of the finance administration. Significant guidelines that are important to financial reporting are continuously updated and communicated to the employees concerned.

### **FEES AND REMUNERATION**

Fees and remuneration to the CEO and the Group management are described in more detail in note 7.

### **KEY POLICIES**

In addition to those listed above, the Board's responsibilities include ensuring that the Group's policies are kept updated and are observed. The Group has policies on such issues as investments, financing and foreign currency matters, anti-corruption, approval and authorization of and attestation instructions for financial undertaking, communication/investor relations, as well as ethics and a code of conduct. As part of the Group's responsibility, there is also health, safety, environmental and quality policies (HSEQ policy) for the company's operations at sea and on land.

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# BOARD SIGNATURES

## GOTHENBURG, 26 APRIL, 2017

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**BENGT A. REM**  
Chairman

**FOLKE PATRIKSSON**  
Deputy Chairman

**ERIK BORGEN**  
Board member

**MAGNUS SONNORP**  
Board member

**HÅKAN LARSSON**  
Board member

**CHRISTER LINDGREN**  
Employee representative

### AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

To the general meeting of the shareholders in Viking Supply Ships AB, corporate identity number 556161-0113

#### Engagement and responsibility

It is the board of directors who is responsible for the corporate governance statement for the year 2016 on pages 16-21 and that it has been prepared in accordance with the Annual Accounts Act.

#### The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

#### Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Gothenburg on 26 April 2017

Mathias Racz  
Authorized Public Accountant



# BOARD OF DIRECTORS



## 1. BENGT A. REM

Born 1961 in Lørenskog, Norway. Board member since 2015, Chairman of the Board since 2016.

Prior to joining Kistefos as deputy CEO in 2015, Bengt A. Rem was CEO in Arctic Partners. His previous experience includes Executive Vice President & CFO as well as other leading positions in the industrial investment company Aker ASA, Head of the Department Responsible for Financial Instruments on the Oslo Stock Exchange and state authorized accountant in Arthur Andersen & Co.

Mr. Rem holds a Master of Science in Business Administration and Finance from the Norwegian Business School (BI) and is a state authorized public accountant from the Norwegian School of Economics and Business Administration (NHH).

Shareholding: -

Board fee: SEK 300,000/year

## 2. FOLKE PATRIKSSON

Born 1940 in Skärhamn, Sweden. Deputy Chairman. Board member since 1972.

Folke Patriksson was previously the Chairman of the Board of the Swedish Sea Rescue Society and is now Board member of Swede Ship Marine AB and Board member of Eneff Rederi AB. Mr. Patriksson holds a mate's examination (degree in Nautical Science) and has 40 years' experience in the shipping industry. He is one of the founders of Rederi AB TransAtlantic and was formerly CEO of the company for 32 years.

Shareholding: 6,178,019 Series A shares and 2,214,558 Series B shares through companies.

Board fee: SEK 200,000/year.

## 3. ERIK BORGEN

Born 1978 in Kristiansand, Norway. Board member since 2016.

Mr. Borgen works as Investment Director with Kistefos AS. Prior to joining Kistefos in 2016, Erik Borgen was a partner at the private equity firm HitecVision. His previous experience includes partner at Arctic Securities AS as well as other positions in leading global Investment Banking firms like Morgan Stanley and Perella Weinberg Partners. He has previously engaged in projects and activities within the fields of mergers and acquisitions, debt capital markets, IPO's and restructurings.

Mr. Borgen holds a Master of Science in Finance from the Norwegian School of Economics (NHH).

Shareholding: -

Board fee: SEK 200,000/year

## 4. HÅKAN LARSSON

Born 1947 in Gothenburg, Sweden. Boardmember since 1993.

Håkan Larsson was the CEO of Rederi AB Transatlantic from 2003 to 2007 and was previously CEO of Bilspedition/BTL and Schenker AG. Mr. Larsson is Chairman of the Board of Tyrens AB, Impension Asset Management AB and Valea Holding AB. He is Board member of Semcon AB, Stolt-Nielsen Ltd, Wallenius

Wilhelmsen Logistics AS and Eukor Car Carrier and of Handelsbanken Region West.

Mr. Larsson is a Graduate in Business Administration from the University of Gothenburg.

Shareholding: 6,826 Series A shares and 284,442 Series B shares.

Board fee: SEK 200,000/year.

## 5. MAGNUS SONNORP

Born 1967 in Stockholm, Sweden. Board member since 2010.

Magnus Sonnorp is Chairman of the Board of Planglasteknik Stockholm AB. Mr. Sonnorp is a Board member of Brunkeberg Systems AB, Linver AB, Sulgrave Rd AB and Secure Glass Holding AB and he was previously Chairman of the Board of ClearSense AB, EDSA Holdings and AB Skruvat Reservdelar. He holds a M.Sc. in Economics from the Stockholm School of Economics and an MBA from Insead.

Shareholding: 100,000 Series B shares.

Board fee: SEK 200,000/year.

## 6. CHRISTER LINDGREN

Born 1965 in Stockholm, Sweden. Boardmember since 2001. Employee representative.

Christer Lindgren is a chef and sailor. Board member of SEKO seafarers.

Shareholding: -

Board fee: -

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# MANAGEMENT

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**1. TROND MYKLEBUST**  
Chief Executive Officer  
Born 1959, Vartdal,  
Norway.  
Employed since 2017.

Education: Master Mariner  
from Aalesund University  
College.

Shareholding: 140,000  
Series B shares



**2. ULRIK HEGELUND**  
Chief Financial Officer  
Born 1969 in Herning,  
Denmark.  
Employed since 2012.

Education: Master  
Degree in Accounting and  
Controlling from Århus  
International School of  
Business.

Shareholding: -

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## AUDITOR

### MATHIAS RACZ

Authorized Public Accountant, Rödl  
& Partner Nordic AB. Born in 1965,  
Auditor of Viking Supply Ships AB  
since 2016.

Elected as company's auditor at  
the 2016 Annual General Meeting.  
Extensive experience in auditing  
listed and internationally active  
companies, including auditor  
assignments for Acarix AB, Kaeser  
Kompressor AB, Lenovo (Sweden)  
AB, ThyssenKrupp Elevator Sverige  
AB, Aryzta Nordic AB, Bosch Rexroth  
AB and Micros-Fidelio Sweden AB.



# BOARD OF DIRECTORS' REPORT 2016

VIKING SUPPLY SHIPS AB (PUBL) – CORPORATE REGISTRATION NUMBER 556161-0113

THE MARKET CONDITIONS IN 2016 HAVE BEEN CHALLENGING AND AS A RESULT LOWER REVENUE AND PROFITABILITY WERE REALIZED FOR 2016. DURING 2016 IT WAS DECIDED TO DISCONTINUE THE REMAINING OPERATIONS IN THE SUBSIDIARY TRANSATLANTIC AB IN ORDER TO MEET FINANCING COMMITMENTS RELATED TO THESE OPERATIONS. VIKING SUPPLY SHIPS HAS, AS A RESULT OF THE DETERIORATED MARKET CONDITIONS, COMPLETED A RESTRUCTURING OF ITS BALANCE SHEET, WHICH SECURES THE COMPANY WITH A STABLE FINANCIAL PLATFORM UNTIL 2020, SUBJECT CERTAIN VESSEL INCOME LEVELS.

## SALES, EARNINGS AND BUSINESS DEVELOPMENT

The Group's net sales for continuing operations 2016 totaled MSEK 760 (1,114). The profit before tax for continuing operations amounted to MSEK -374 (-330) and the profit for the year was MSEK -406 (-440). The result was, in addition to the weak offshore market, negatively impacted by the impairment of the PSV fleet as well as financial expenses related to the financial restructuring.

### VIKING SUPPLY SHIPS A/S

The business area encompasses arctic offshore operations, the spot market for offshore in the North Sea and the global offshore sector. Viking Supply Ships' fleet comprises a total of 13 offshore vessels, eight of which are Anchor Handling Tug Supply (AHTS) vessels and five are Platform Supply Vessels (PSVs). The vessels are equipped and have the capacity to operate in areas with icy and harsh weather conditions. Three of the AHTS vessels have ice-breaking capacity and four of the AHTS vessels are ice reinforced.

### AHTS

During the year, the AHTS vessels had an average rate level of USD 50,500 (55,300) and an average utilization rate of 54% (70). The reduced levels compared to 2015 were mainly a result from less contract coverage in the latter part of 2016. As announced earlier, Viking Supply Ships, as a direct consequence of the industry downturn, received premature cancellation of the vessels Brage Viking and Njord Viking. Brage Viking was originally firm until December 2017 with options to extend the contract to June 2019. The contract was prematurely cancelled in December 2015. In accordance with the contract, the vessel remained on-hire until August 2016. Njord Viking was originally firm until 31 December 2016, but the contract was prematurely cancelled in July 2016. In accordance with the contract, the termination entitled Viking Supply Ships to a cancellation compensation, which was recognized as revenue in 2016. Vidar Viking completed its contract with SEIC in August 2016 and returned to the North Sea for the first time since 2012. Upon the return, the vessel was laid up in Uddevalla, Sweden. Odin Viking was laid up during the fourth quarter

2015 due to the weak spot market in the North Sea and remained laid up for the entire 2016.

### PSV

During the year, the PSV segment had an average rate level of USD 6,200 (6,200) and an average utilization rate of 10% (42) when excluding vessels in lay-up. In March 2016 the two remaining PSVs in operation were laid up in Uddevalla, Sweden, as a consequence of the weak market outlook within the segment. Due to the challenging market conditions, Viking Supply Ships has recognized impairment losses during the year of MSEK 246 (262) related to the PSV fleet.

### Services and Ship Management

Viking Ice Consultancy was established as a subsidiary of Viking Supply Ships 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.

Viking Ice Consultancy has obtained several consultancy contracts during 2016 and has among others worked with clients such as Total, Karmorneftegaz and Alcatel. Towards the end of the year the company signed a contract with Statoil for project management and ice management services for a research project in the Baltic to take place during the first quarter of 2017.

Viking Ice Consultancy has also developed an IMO Polar Code training course for internal and external clients and has signed contracts for the provision of Polar Code training and certification for several clients during 2017.

Viking Supply Ships A/S' primary activity within Ship Management is the management agreement with SMA. This agreement was renewed for seven years during 2015 and has progressed as planned during 2016.

## DISCONTINUED OPERATIONS – TRANSATLANTIC AB

During the third quarter 2016 it was decided to discontinue the remaining operations in the subsidiary TA AB in order to meet financing commitments related to these operations. The decision led to initiations of

discussions and negotiations with employees, partners and other stakeholders. At the end of the year, basis concluded asset sales, fulfilled financial commitments and outcome from the negotiations and discussions, the assessment is that the discontinuation is likely to be concluded within the next 12 months. Due to this, the Group in its financial reports, according to IFRS 5 Assets held for sale and discontinued operations, recognized TA AB as discontinued operations and assets held for sale, which means that TA AB is reported as a one-line item in the consolidated profit and loss statements. Assets and liabilities related to TA AB are also presented in two rows in the consolidated balance sheet. The consolidated cash flow statement is presented including TA AB, but with information about cash-flow from current operations and investing- and financing activities of TA AB on separate rows. Comparative figures for prior periods are also presented in accordance with this classification in the consolidated profit and loss statement and cash-flow statement. For further information see note 33.

During the second quarter TA AB sold the two small bulk vessels TransAndromeda and TransCapricorn. The transaction, which was concluded in May 2016, brought positive cash effect of MSEK 24.

The process to discontinue the remaining operations within TA AB continued during the fourth quarter. Viking Supply Ships, through its fully owned subsidiary TA AB, has during the fourth quarter novated three long term bareboat charter agreements for the RoRo vessels TransPaper, TransPulp and TransTimber to Svenska Orient Linien (SOL) together with time charter agreements for the same vessels. The transaction had a positive effect on the profit and loss and liquidity during the fourth quarter of MSEK 17. Furthermore, TA AB concluded the agreement to sell the vessel TransFighter during the fourth quarter. The sale had no effect on the profit and loss and no liquidity effect as the sales proceeds were fully utilized for amortization of vessel loans. The sale of TransReel, which also was concluded during the fourth quarter, gave a positive result of MSEK 10, but as the funds were used to cover amortization of vessel loans it had no liquidity effect. All bank loans related to TA AB, as well as the bareboat charter related residual value guarantee, were fully repaid during the fourth quarter.

Net sales for the year for the discontinued operations amounted to MSEK 309 (863) and profit before tax was MSEK -36 (-68).

## COMPLETED FINANCIAL RESTRUCTURING

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 A/S during 2015. As a consequence, VSS A/S in Q4 2015 initiated a dialogue with its lenders to secure a long-term stable financing solution. As at 31 December 2015 VSS A/S 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 A/S 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 MSEK 887, which as at 31 December 2015 had been classified as long-term debt in the balance sheet.

VSS A/S has during the majority of 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 A/S has not paid installments to its lenders. These events have created uncertainty as to the VSS A/S 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 A/S agreed the main principles for a restructuring agreement with the bank lenders. The term sheet with these main principles was signed on 12 July 2016. In August VSS A/S reached an agreement with the bondholders' committee regarding a revised proposal for restructuring of the bond issue and a bondholders' meeting was summoned. On 15 September 2016 a bondholders meeting was held. The proposed resolution obtained 98.26% of the votes, and the proposal was adopted according to the voting requirements of the Bond Agreement.

On 18 October 2016, a bankruptcy petition was approved towards the owner of Odin Viking, Norseman Offshore AS. On 11 November, Odin Viking SPV AS, a company owned by Kistefos AS, entered into an agreement with the bankruptcy trustee, where after Odin Viking SPV AS purchased Odin Viking and acquired the bareboat charter party. On 21 November 2016, Odin Viking SPV AS and VSS A/S entered into an agreement to amend the terms in the bareboat charter party.

This finalized the financial restructuring of VSS A/S, 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 A/S. During Q4 2016, all of the share issues in VSS AB that form part of VSS A/S' financial restructuring have been completed and comprises of the following:

- A MSEK 207 rights issue, where the final outcome was announced through a press release on 22 December 2016.
- Two share issues with payment against set-off to Viking Invest AS and Odin Viking SPV AS of MSEK 17 and MSEK 22, respectively, where the outcome was announced through a press release on 20 December 2016.



- A MSEK 43 directed share issue to Odin Viking SPV AS, in which subscription was made on 19 December 2016.
- A MSEK 3 share issue with payment against set-off to Viking Invest AS for the guarantee fee for the guarantee undertaking in the rights issue in which subscription was made on 21 December 2016.
- A MSEK 57 share issue with payment against set-off to the holders of debt certificates in VSS A/S bond loan 2012/2017.
- Following these equity issues, the share capital of VSS AB increased with MSEK 232 and the equity increased with MSEK 340, net after expenses.

The final agreement includes the following key terms:

- VSS A/S' bank facilities are extended until 31 March 2020.
- Contribution from the banks of approximately MUSD 215, including deferral of maturities and amortization schedules.
- Deferred amortization structure under bank facilities, with fixed quarterly repayment in the amount of USD 750,000 from 2018.
- In addition to the fixed amortizations under the bank facilities payable from 31 March 2018, there will be a cash sweep mechanism, whereby cash on hand exceeding certain levels shall be distributed as repayment of the bank facilities from 2018. During 2017, the cash sweep amounts have been pre-agreed.
- Financial covenants on the bank facilities are amended to provide VSS A/S with ample room to operate under the present challenging market conditions.
- Restructuring of the arrangements in respect of the vessel Odin Viking to reflect a reduced payment of maximum USD 10,000 per day for a period until 31 May 2024.
- Removal of put options related to Odin Viking.
- VSS A/S is given an option to purchase Odin Viking from Odin Viking SPV AS at the agreed price of USD 1 at the end of the charter party.
- Odin Viking SPV AS is entitled to a payment of MUSD 2.4, which has been settled by the issuance of new shares in VSS AB (publ) at the value of SEK 1.50 per share.
- 50% of the bonds have been converted to new class B shares in the parent company, VSS AB, at a subscription price of SEK 1.50, the bonds being valued at 55% of par.
- The remaining 50% of the bonds has been redeemed in cash at a price corresponding to 35% of the current face value of the bonds. The final settlement of the bonds was completed 12 January 2017.
- Extraordinary repayments in an aggregate amount of approximately MUSD 23.7 by application of funds standing to the credit of accounts and proceeds from the equity issue in VSS AB.
- VSS A/S has received new capital in the amount of MUSD 17.6.

The restructuring secures the Group with a stable financial platform until 2020, subject certain vessel income levels.

The primary uncertainties and risks in relation to the going concern considerations include a prolonged weakening of the market conditions.

## INVESTMENTS AND DIVESTMENTS

Gross investments during the year amounted to MSEK 11 (187) mainly related to dockings. The divestments for continuing operations totaling MSEK 135 relates to released cash earlier blocked as additional security for vessel loans and sales of bonds. The divestments for discontinued operations totaling MSEK 151 relates to the sale of the vessels TransAndromeda, TransCapricorn, TransReel, TransFighter and the novation of the bareboat charter agreements of TransPaper, TransPulp and TransTimber.

## CASH FLOW AND FINANCIAL POSITION

The Group's opening cash balance was MSEK 195 (450). Cash flow from operating activities for continuing operations amounted to MSEK 56 (397). The cash flow from financing for continuing operations was negative MSEK -21 (-420) and includes amortization of vessel loans of MSEK -219 and cash proceeds from the new share issue of MSEK 198. Total cash flow during the year including discontinued operations amounted to MSEK 64 (270). The Group's cash and cash equivalents totaled MSEK 273 (195) at year-end. At the end of the year, the Group's total assets amounted to MSEK 3,693 (4,117) and shareholders' equity to MSEK 1,440 (1,386), corresponding to SEK 4.2/share (7.8). At year-end, the equity/assets ratio was 39.0 % (33.7) and the debt/equity ratio was 114.9 % (154.4).

## PARENT COMPANY

The activity in the parent company mainly consists of the shareholdings in VSS A/S and TA AB, as well as limited Group wide administration. The parent company's loss before tax for the year was MSEK 344 (-290). Loss for the year totaled MSEK 344 (-330). Impairment losses on shares in subsidiaries were MSEK 412 and dividends received from subsidiaries were MSEK 74. The parent company's shareholders' equity amounted to MSEK 1,986 (1,990) and total assets at year-end amounted to MSEK 2,055 (2,337). The equity/assets ratio was 96.6% (85.2) on the balance-sheet date. At the end of the period, cash and cash equivalents totaled MSEK 18 (34).

## SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

### FINANCIAL RESTRUCTURING

The bond settlement by way of cash redemption and the set-off equity issue in VSS AB was completed on 12 January 2017. Under the settlement, bondholders of record as of 30 December 2016 (the "Record Date") have received 36,821,058 new class B-shares in VSS AB and NOK 34,419,682.96 in cash as payment of the total outstanding principal amount – NOK 199,341,169, and holders as of the date of the Record Date of the right to receive interest coupon due on the bonds on 21 June 2016 ("Eligible Couponholders") (in total NOK 9,232,561.83) have received 870,650 new class B-shares and NOK 813,868.94 in cash. The cash redemption is partly funded by a loan of MNOK 20 provided by one of

VSS A/S' existing lenders. The bond settlement generated a gain of MSEK 110 which has been recognized in January 2017.

#### OTHER EVENTS OCCURRING AFTER THE REPORTING PERIOD

During the fourth quarter Viking Supply Ships decided to re-flag its four DIS-flagged vessels to Norway under NOR-flag. The flag-change process was completed within the first quarter of 2017.

In 2016 Magne Viking was certified according to the IMO Polar Code. As soon as the Polar Code entered into force on 1 January 2017 the work of certifying the rest of the fleet began. By early April 2017 all four Loke-class vessels were fully compliant and certified in accordance with the Polar Code.

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. Viking Supply Ships will continue to closely monitor the market development and impairment exposure of the PSV fleet's carrying amount.

#### ENVIRONMENTAL AND SUSTAINABILITY RELATED MATTERS

Viking Supply Ships strives to achieve the best possible solutions that exceed customer expectations and provide customers with greater value. Viking Supply Ships 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. Viking Supply Ships 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.

Viking Supply Ships' offshore fleet has a track record of more than three years since last Lost Time Incident (LTI) meaning that the company has been operating without significant accidents as a result of focusing on the above mentioned principles. During 2016 Viking Supply Ships had no incidents with oil spill into the sea. The safety work is continuously improved and during the last two years Viking Supply Ships has focused on increasing safety observation reporting and improving reporting quality. This has even further minimized the number of accidents. For the HSE reporting and risk assessment Viking Supply Ships utilizes a common group reporting and assessment tool. The tool has a potential for further integrating and simplifying the workload and the goal is to implement further improvements during 2016.

Viking Supply Ships is certified according to ISMA and the ISPS code and 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 within the company.

Through external vessel management Viking Supply Ships has been deeply involved in technical solutions for limiting NOx and fuel consumption on existing engines - a research project pioneering rebuilding existing engines to common rail technique.

The Viking Supply Ships' AHTS fleet has NOx reduction plants - catalysts fitted on the engines on vessels build from 2000 and onwards.

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

#### RISKS AND UNCERTAINTIES

The Group operates in highly competitive markets and the operation is exposed to various operational and financial risks. Financial risks mainly pertain to liquidity, financing and currency exposure. Financial risk management is handled by the Group's central finance department, based on the finance policy adopted by the Board. The policy includes clear instructions on how to manage various financial risks, in which various types of derivative instruments comprise key elements in minimizing the financial risks. The policy also includes instructions for managing credit and liquidity risks through financing and loan commitments. The primary operational risk factors comprise overall macro-economic market conditions, competitive situations, the flow of goods in prioritized market segments and the general balance between supply and demand on vessels, which impacts prices and profit margins. The goal of the Group's overall risk management policy is to ensure a balance between risk and profitability. The market for Viking Supply Ships is dependent on the level of investments within the oil industry, which in turn is largely driven by price trends in the global oil market.

The Groups liquidity has due to the market conditions been strained and in the current market the Group has been unable to fulfill existing covenant undertakings in loan agreements. A solution with the lenders was necessary and accordingly, a dialogue with the lenders was initiated during Q4 2015, with an ambition to secure a long-term stable financing solution. With the completion of the restructuring a long-term stable financing solution has been completed.

#### CORPORATE TAX

The general scenario for the Group is that its payable tax is highly limited. Accordingly, the recognized corporate tax primarily comprises deferred taxes. Deferred tax assets are only recognized if it is probable that the temporary differences can be utilized against future



taxable surpluses. The net recognized deferred tax asset for the Swedish operation was MSEK 0 (0) at 31 December 2016. The total recognized deferred tax liability for foreign operations was MSEK 0 (3).

## NUMBER OF EMPLOYEES

The average number of employees for the continuing operations in the Group amounted to 464 (477) during the year. Further information is found in note 7.

## OUTLOOK

The oil market, which is the fundamental driver for the market in which VSS operates, stabilized during the second half of 2016. Since 2015, the reduced oil price has caused oil companies to reduce their investments towards exploration and production, causing the production to gradually decline. Increased global demand and a decision by OPEC to limit their production further improved the market balance in the second half of 2016.

The challenging situation related to sanctions in Russia was upheld through 2016 and combined with the overall challenging market conditions within the offshore industry this has resulted in reduced exploration activity in the Russian Arctic. The remaining activity is focused on the Sakhalin region in the Far East and the producing field Pirazlomnoye in the Pechora Sea. Viking Supply Ships still considers Russia to be a significant region within the Arctic offshore. To explore future commercial opportunities in Russia and strengthen its footprint in the region, Viking Supply Ships has entered into a strategic cooperation with Sevnor Ltd., a shipping and offshore company with extensive presence in the Russian offshore market. Viking Supply Ships anticipates that there will be a modest increase in activity in the Russian market in 2017, but a full recovery is likely to be dependent on easing of the US/EU imposed sanction regime.

Viking Supply Ships maintains a positive long term outlook for the offshore industry. Due to the reduced exploration levels, VSS does however anticipate that also 2017 will be challenging for the industry. With the oil market in balance there is however early signs of recovery, including increased focus on seismic exploration. Over the last two years, the oil industry has focussed on reducing the escalating cost level. Statoil has, as an example, since the original development plan for the Johan Castberg project managed to reduce the break-even price from USD 90 per barrel to a current forecast of USD 35. Arctic oil and gas is still anticipated to be vital to cover the future energy demand, and efficiency gains seen across the industry will positively impact the fundamentals also for other Arctic projects.

Viking Supply Ships expects that the rig activity will remain relatively unchanged in 2017, with certain signs of increased demand during the summer period. With several vessels in the spot market committed to various summer projects outside the spot market during the summer season, Viking Supply Ships anticipates that the market balance will improve for periods of the year. Despite the challenging market conditions, it remains a core focus within Viking Supply Ships to increase the contract backlog going forward. The activity in Viking

Supply Ships' core regions has been reduced over the last two years, but the company does see attractive contract opportunities in 2017 and has a clear ambition to secure term contracts for parts of the AHTS fleet.

Based on the above and a continued belief in securing contracts within the core market segment, Management has concluded that both the parent company and VSS AB Group will be able to continue as going concern at least until 31 December 2017. This conclusion is based on Management's assessment of the current outlook for 2017 and the uncertainties and risks described above.

## DESCRIPTION IN SPECIFIC SECTIONS

The following are described in specific sections of the annual report:

- The share and ownership structure, see pages 76-77.
- Corporate governance with a description of the Board and management work, including the guidelines for the remuneration of senior executives, see pages 16-21.

## PROPOSED DISTRIBUTION OF PROFITS

The following funds in the parent company are available to the Annual General Meeting:

TSEK	
Share premiumreserve	799,481
Retained earnings	940,947
Loss for the year	-343,811
<b>Total</b>	<b>1,396,617</b>

The Board of Directors proposes that no dividend is to be issued for the fiscal year 2016.

TSEK	
To be carried forward	1,396,617
<b>Total</b>	<b>1,396,617</b>

## ANNUAL GENERAL MEETING

Viking Supply Ships AB's Annual General Meeting will be held on Tuesday 30 May, 2017 at 15.00 at Elite Park Avenue Hotel, located at Kungssportavenyen 36, Gothenburg. The official notification will be published on the company's website and in Post- and Inrikes Tidningar no later than four (4) weeks prior to the AGM. Further information can be found on the company's website, [www.vikingsupply.com](http://www.vikingsupply.com).

## EARNINGS, CASH FLOW AND BALANCE SHEET

The Group's and parent company's earnings, liquidity and financial position are presented in the following income statements, cash-flow statements and balance sheets, and in the notes relating to them.



## INCOME STATEMENT

TSEK	Note	Group		Parent Company	
		1, 3, 33	2016	2015	2016
Net sales	2, 3, 4		760,163	1 113,560	333,166
Other operating revenue	5		-	4,109	-
Direct voyage cost			-35,728	-55,089	-
Personnel costs	7		-385,834	-529,545	-1,297
Other external operating costs	4, 8		-176,185	-241,796	-333,753
Other operating costs	6		-2,223	-	-
Other net profit/loss	9		1,318	1,443	-
Depreciation and impairment of property, plant and equipment and intangible assets	10		-409,170	-444,565	-
<b>Operating profit/loss</b>			<b>-247,659</b>	<b>-151,883</b>	<b>-1,884</b>
Profit/loss from shares in Group companies	11		-	-	-338,453
Financial income	12		60,041	6,022	8,809
Financial expenses	13		-186,304	-183,875	-12,283
<b>Profit/loss before tax</b>			<b>-373,922</b>	<b>-329,736</b>	<b>-343,811</b>
Income tax	14		3,771	-2,340	-
<b>Profit / loss for continuing operations</b>			<b>-370,151</b>	<b>-332,076</b>	<b>-343,811</b>
Profit / loss from discontinued operations	33		-36,331	-107,733	-
<b>Profit / loss for the year</b>			<b>-406,482</b>	<b>-439,809</b>	<b>-343,811</b>
Earnings attribute to Parent Company's shareholders, per share in SEK (before and after dilution)	15				
- Continuing operations			-2.04	-1.87	
- Discontinued operations			-0.20	-0.61	
<b>Total</b>			<b>-2.24</b>	<b>-2.48</b>	

## STATEMENT OF COMPREHENSIVE INCOME

TSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Profit/loss for the year</b>	<b>-406,482</b>	<b>-439,809</b>	<b>-343,811</b>	<b>-329,757</b>
Other comprehensive income, net after tax:				
<b>Items that will not be reclassified to profit or loss</b>				
Remeasurements of post employment benefit obligations	806	1,496	-120	510
<b>Items that may be subsequently reclassified to profit or loss</b>				
Change in translation reserve	119,550	-119,932	-	-
<b>Other comprehensive income, net after tax</b>	<b>120,356</b>	<b>-118,436</b>	<b>-120</b>	<b>510</b>
<b>Comprehensive income for the year</b>	<b>-286,126</b>	<b>-558,245</b>	<b>-343,931</b>	<b>-329,247</b>

# BALANCE SHEET

Balance sheet at December 31

TSEK	Note	Group		Parent Company	
		2016	2015	2015	2015
<b>Assets</b>	<b>1</b>				
<b>Fixed assets</b>					
Vessels	10	3,228,883	3,470,268	-	-
Equipment	10	250	2,108	-	-
Goodwill	10	-	-	-	-
Brands	10	-	1,203	-	-
Other intangible fixed assets	10	-	-	-	-
Participations in Group companies	16	-	-	1,890,000	2,118,000
Participations in associated companies	16	-	17,684	-	-
Long-term receivables from Group companies		-	-	-	57,263
Other long-term receivables	17, 24	16,096	164,745	15,186	17,317
<b>Total fixed assets</b>		<b>3,245,229</b>	<b>3,656,008</b>	<b>1,905,186</b>	<b>2,192,580</b>
<b>Current assets</b>					
Inventories	18	22,425	26,454	-	-
Accounts receivable	19	15,805	107,037	138	6,924
Receivables from Group companies		-	-	86,706	101,619
Other receivables		91,238	63,403	44,788	1,025
Prepaid expenses and accrued income	20	18,705	38,519	130	431
Short-term investments	31	-	30,558	-	-
Cash and cash equivalents	21	273,150	194,560	18,271	33,959
<b>Total other current assets</b>		<b>421,323</b>	<b>460,531</b>	<b>150,033</b>	<b>143,958</b>
Assets held for sale	33	26,269	-	-	-
<b>Total current assets</b>		<b>447,592</b>	<b>460,531</b>	<b>150,033</b>	<b>143,958</b>
<b>Total assets</b>		<b>3,692,821</b>	<b>4,116,539</b>	<b>2,055,219</b>	<b>2,336,538</b>



TSEK	Note	Group		Parent Company	
		2016	2015	2016	2015
<b>Shareholders' equity and liabilities</b>					
<b>Shareholders' equity and reserves attributable to the Parent Company's shareholders</b>	<b>22, 23</b>				
Share capital		343,545	177,444	343,545	177,444
Other contributions from shareholders		966,607	784,485	799,481	617,359
Reserves		-100,966	-220,516	245,782	245,782
Retained earnings		230,378	644,577	940,947	1,279,346
Loss for the year		-	-	-343,811	-329,757
<b>Total shareholders' equity</b>		<b>1,439,564</b>	<b>1,385,990</b>	<b>1,985,944</b>	<b>1,990,174</b>
<b>Provisions</b>					
Pension provisions	24	-	-	6,233	6,608
<b>Total provisions</b>		<b>-</b>	<b>-</b>	<b>6,233</b>	<b>6,608</b>
<b>Long-term liabilities</b>	<b>25</b>				
Vessel loans		1,868,615	777,466	-	-
Other liabilities to credit institutions		-	189,112	-	-
Liabilities to Group companies		-	-	-	145,171
Pension commitments	24	974	1,879	-	-
Deferred tax liabilities	14	-	3,006	-	-
Derivative instruments	31	11,332	17,928	-	-
Other liabilities		15,186	18,150	15,186	17,317
<b>Total long-term liabilities</b>		<b>1,896,107</b>	<b>1,007,541</b>	<b>15,186</b>	<b>162,488</b>
<b>Current liabilities</b>	<b>25</b>				
Vessel loans		58,860	1,348,986	-	-
Accounts payable		22,855	55,868	1,928	3,868
Liabilities to Group companies		-	-	27,369	128,908
Other liabilities		187,733	169,296	13,963	13,321
Accrued expenses and deferred income	26	72,178	148,858	4,596	31,171
<b>Total other current liabilities</b>		<b>341,626</b>	<b>1,723,008</b>	<b>47,856</b>	<b>177,268</b>
Liabilities attributable to assets held for sale	33	15,524	-	-	-
<b>Total current liabilities</b>		<b>357,150</b>	<b>1,723,008</b>	<b>47,856</b>	<b>177,268</b>
<b>Total shareholders' equity and liabilities</b>		<b>3,692,821</b>	<b>4,116,539</b>	<b>2,055,219</b>	<b>2,336,538</b>
Pledged assets	27			21,965	24,931
Contingent liabilities	28			-	228,564

# SHAREHOLDERS' EQUITY

Consolidated changes in shareholders' equity TSEK	Share capital	Other contributions from shareholders	Reserves		Total shareholders equity
			Translation reserve	Retained earnings	
<b>Opening shareholders' equity, January 1, 2015</b>	<b>177,444</b>	<b>784,485</b>	<b>-100,584</b>	<b>1,180,562</b>	<b>2,041,907</b>
Profit/loss for the year	-	-	-	-439,809	-439,809
Remeasurements of post employment benefit obligations; see Note 24.	-	-	-	1,496	1,496
Exchangerate difference on translation of foreign operations	-	-	-119,932	-	-119,932
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-119,932</b>	<b>-438,313</b>	<b>-558,245</b>
Dividend	-	-	-	-97,594	-97,594
New share issue, see Note 22.	-	-	-	-78 <sup>1)</sup>	-78
<b>Total transactions with company's owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-97,672</b>	<b>-97,672</b>
<b>Closing shareholders' equity, Dec. 31, 2015</b>	<b>177,444</b>	<b>784,485</b>	<b>-220,516</b>	<b>644,577</b>	<b>1,385,990</b>
<b>Opening shareholders' equity, January 1, 2015</b>	<b>177,444</b>	<b>784,485</b>	<b>-220,516</b>	<b>644,577</b>	<b>1,385,990</b>
Profit/loss for the year	-	-	-	-406,482	-406,482
Remeasurements of post employment benefit obligations, see Note 25.	-	-	-	806	806
Exchange-rate difference on translation of foreign operations	-	-	119,550	-	119,550
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>119,550</b>	<b>-405,676</b>	<b>-286,126</b>
New share issue, see Note 22.	166,101	182,122	-	-8,522 <sup>1)</sup>	339,701
<b>Total transactions with company's owners</b>	<b>166,101</b>	<b>182,122</b>	<b>-</b>	<b>-8,522</b>	<b>339,701</b>
<b>Closing shareholders' equity, Dec. 31, 2016</b>	<b>343,545</b>	<b>966,607</b>	<b>-100,966</b>	<b>230,378</b>	<b>1,439,564</b>

1) Transaction expenses in connection with the new share issue.

Parent Company's changes in shareholders' equity TSEK	Restricted reserves		Unrestricted reserves		Total shareholders' equity
	Share capital	Statutory reserve	Other contributions from share- holders <sup>1)</sup>	Retained earnings	
<b>Shareholders' equity, Jan. 1, 2015</b>	<b>177,444</b>	<b>245,782</b>	<b>617,359</b>	<b>1,376,508</b>	<b>2,417,093</b>
Loss for the year	-	-	-	-329,757	-329,757
Remeasurements of post employment benefit Obligations; see also Note 24.	-	-	-	510	510
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-329,247</b>	<b>-329,247</b>
Dividend	-	-	-	-97,594	-97,594
New share issue, see Note 22.	-	-	-	-78 <sup>2)</sup>	-78
<b>Total transactions with company's owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-97,672</b>	<b>-97,672</b>
<b>Shareholders' equity, Dec. 31, 2015</b>	<b>177,444</b>	<b>245,782</b>	<b>617,359</b>	<b>949,589</b>	<b>1,990,174</b>
<b>Shareholders' equity, Jan. 1, 2016</b>	<b>177,444</b>	<b>245,782</b>	<b>617,359</b>	<b>949,589</b>	<b>1,990,174</b>
Loss for the year	-	-	-	-343,811	-343,811
Remeasurements of post employment benefit Obligations, see also Note 24.	-	-	-	-120	-120
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-343,931</b>	<b>-343,931</b>
New share issue, see also Note 22.	166,101	-	182,122	-8,522 <sup>2)</sup>	339,701
<b>Total transactions with company's owners</b>	<b>166,101</b>	<b>-</b>	<b>182,122</b>	<b>-8,522</b>	<b>339,701</b>
<b>Shareholders' equity, Dec. 31, 2016</b>	<b>343,545</b>	<b>245,782</b>	<b>799,481</b>	<b>597,136</b>	<b>1,985,944</b>

1) Pertains to share premium reserve.

2) Transaction costs in connection with the new share issue.



# CASH-FLOW STATEMENT

TSEK	Note	Group		Parent Company	
	21	2016	2015	2016	2015
<b>Cash flow from operating activities</b>					
Profit/Loss before tax		-373,922	-329,736	-343,811	-289,757
Adjustments for non-cash items					
– Depreciation and impairment	10	409,170	444,565	-	-
– Capital gain/loss		-	-2	-	-
– Results from participations in Group companies not affecting cash flow		-	-	338,453	379,028
– Interest and exchange-rate differences not affecting cash flow <sup>1)</sup>		3,130	78,443	-4,092	9,851
– Provisions		-14,898	14,532	393	-
– Profit and loss items set off in the new share issue		39,376	-	7,867	-
– Other		-8,261	13,898	-	323
Income tax paid		-	1,516	-	-
<b>Cash flow from operating activities before changes in working capital</b>		<b>54,595</b>	<b>223,216</b>	<b>-1,190</b>	<b>99,445</b>
<b>Changes in working capital</b>					
Changes in inventories		-5,789	6,427	-	-
Changes in accounts receivable and other current operating receivables		86,011	240,172	5,858	523
Changes in accounts payable and other current operating liabilities		-66,356	-101,732	-26,003	5,096
<b>Cash flow from operating activities</b>		<b>68,461</b>	<b>368,082</b>	<b>-21,335</b>	<b>105,064</b>
<b>Investing activities</b>					
Investment in subsidiaries		-	-	-120,205	-
Sale of subsidiaries	16	-	24	-	-
Acquisition of vessels	10	-10,333	-73,807	-	-
Acquisitions of other property, plant and equipment	10	-587	-1,120	-	-
Acquisition of long-term receivables		-	-107,006	-	-
Divestment of long-term receivables	17	134,548	1,822	-	-
<b>Cash flow from investing activities</b>		<b>123,628</b>	<b>-180,086</b>	<b>-120,205</b>	<b>-</b>
<b>Financing operations</b>					
Changes in loans from Group companies		-	-	-72,644	-70,723
Amortization of loans		-219,142	-321,981	-	-
New share issue less issue expenses		198,496	-	198,496	-
Dividends		-	-97,594	-	-97,594
<b>Cash flow from financing activities</b>		<b>-20,646</b>	<b>-419,575</b>	<b>125,852</b>	<b>-168,317</b>
<b>Changes in cash and cash equivalents from continuing operations</b>		<b>171,443</b>	<b>-231,578</b>	<b>-15,688</b>	<b>-63,253</b>
<b>Cash flow from discontinued operations</b>	33				
Cash flow from operating activities		-127,407	-16,039	-	-
Cash flow from investing activities		151,322	35,217	-	-
Cash flow from financing activities		-131,175	-58,027	-	-
<b>Change in cash and cash equivalents from discontinued operations</b>		<b>-107,260</b>	<b>-38,849</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents at the beginning of the year		194,559	449,733	33,959	97,212
Exchange-rate difference in cash and cash equivalents		14,408	15,254	-	-
<b>Cash and cash equivalents at the end of the year</b>		<b>273,150</b>	<b>194,559</b>	<b>18,271</b>	<b>33,959</b>
<i>1) Interest received amounts to</i>		<i>1,125</i>	<i>3,486</i>	<i>301</i>	<i>-</i>
<i>Interest paid amounts to</i>		<i>-85,243</i>	<i>-105,769</i>	<i>-</i>	<i>-65</i>
<i>Total</i>		<i>-84,118</i>	<i>-102,283</i>	<i>301</i>	<i>-65</i>



# NOTES

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## NOTE 1

### ACCOUNTING AND MEASUREMENT POLICIES, SIGNIFICANT ASSESSMENTS AND FINANCIAL RISK MANAGEMENT

#### GENERAL INFORMATION

The Viking Supply Ships AB Group core business is within Offshore and Offshore/Icebreaking. The Parent Company, corporate registration number 556161-0113, is a limited liability company registered in Sweden and domiciled in Gothenburg. The administrative address for the head office is Idrottsvägen 1, SE-444 31 Stenungsund. The Parent Company is listed on the Small Cap list of the Nasdaq OMX Stockholm. The Board of Directors approved these consolidated financial statements for publication on 26 April, 2017.

#### BASIS FOR THE PREPARATION OF THE FINANCIAL REPORTS

The most significant accounting policies applied, which are stated below, have been applied consistently for the years presented, unless otherwise stated. The consolidated financial statements have been prepared in accordance with IFRS, with the regulatory framework adopted by the EU and with RFR 1 Supplementary Accounting Rules for Groups and the Swedish Annual Accounts Act. Preparing financial statements that comply with IFRS requires that several crucial accounting estimates be applied and that management makes certain assumptions in the application of the company's accounting policies. The main estimates and assumptions made are stated at the end of this note. This annual report, including the consolidated financial statements, has been prepared with the assumption of going concern. The most significant estimates and assumptions including the assumption of going concern are referred to at the end of this note.

#### NEW AND AMENDED STANDARDS APPLIED BY THE GROUP

##### New standards that came into effect in 2016

No new standards or amendments to standards have been added that have necessitated changes in the accounting principles or disclosures.

##### New standards, amendments and interpretations of existing standards not yet in effect and not applied in advance by the Group

From 2017 and beyond both new standards as well as amendments and annual improvements of a number of standards will come into force, subject to EU endorsement. These have not been applied in preparation of this financial report. New standards are IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customer and IFRS 16 Leases.

##### IFRS 9 Financial Instruments

IFRS 9 Financial Instruments addresses classification, measurement and recognition of financial liabilities and assets and replaces IAS 39 Financial Instruments: Recognition and measurement. As with IAS 39, financial assets are classified in different categories, some of which are measured at amortized cost and others at fair value. IFRS 9 introduce new categories other than those contained in IAS 39. IFRS 9 is also introducing a new model for the impairment of financial assets. The purpose of the new model includes that credit losses should be recognized earlier than under IAS 39. IFRS 9 is for financial liabilities substantially consistent with IAS 39. The EU has approved the standard and IFRS 9 will enter into force on 1 January 2018. An investigation has been initiated to analyse how IFRS 9 affects the financial statements of the Group.

##### IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers. IFRS 15 replaces all previously issued standards and interpretations which manages revenue with a comprehensive model for revenue recognition. The standard is based on the principle that revenue should be recognized when a promised good or service has been transferred to the customer, that is, when the

customer received the control over this. This may occur over time or at a time. The standard has been adopted by the EU and enters force on January 1, 2018. Some clarifications in the standards are however not yet adopted by EU. An investigation has been initiated to analyse how IFRS 15 affects the financial statements of the Group.

#### **IFRS 16 Leases**

IFRS Leases replaces IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and related rules. The new standard requires that the lessee shall submit all contracts that meet the definition of the standard of a leasing contract, except contracts for a maximum of 12 months and the contracts of individual low value as assets and liabilities in the balance sheet, and depreciations and interest expenses in the income statements. Agreements which today represent operating leases would be capitalized in the balance sheet. IFRS 16 replaces IAS 17 from 1 January 2019. The EU has not yet approved the standard. Any evaluation of the impact of the standard has not yet begun.

#### **CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements include the Parent Company, as well as subsidiaries and associated companies.

#### **SUBSIDIARIES**

Subsidiaries are classified as companies in which the Group has a controlling influence through holding more than 50% of the voting rights, or in which the Group can exercise controlling influence through contracts or other agreements. The consolidated financial statements have been prepared in accordance with the acquisition method. Accordingly, consolidated shareholders' equity – excluding the Parent Company's shareholders' equity – only includes the changes in subsidiaries' shareholders' equity that occurred following acquisition of the subsidiaries.

Costs for acquisition of a subsidiary have been allocated to the company's various assets and liabilities taking into account the measurement executed in connection with the acquisition, regardless of the extent of any non-controlling interest. Identifiable assets and liabilities acquired are measured at their fair values at the acquisition date. For acquisitions that occur in stages, goodwill is established on the date controlling influence arises. If the company already owns a portion of the acquired company, this is re-measured at fair value and the value change is recognized in profit or loss for the year. Correspondingly, in a divestment where controlling influence is lost, the remaining holding is re-measured at fair value and the change in value is recognized in profit or loss for the year. The portion of the cost that exceeds the acquisition's net assets, measured at fair value, is recognized as goodwill and is subject to annual impairment testing. If the purchase price is lower than the net assets, the difference is recognized directly in profit or loss. Transaction expenses connected to acquisitions are not included in cost but are expensed immediately. Intra-group transactions, balance-sheet items and unrealized gains on transactions between Group companies are eliminated.

#### **NON-CONTROLLING INTERESTS**

The Group manages transactions with non-controlling interests as transactions with the Group's shareholders. In acquisitions from non-controlling interests, the difference between the purchase consideration paid and the actual acquired participation of the carrying amount of the subsidiary's net assets is recognized in shareholders' equity. Gains and losses on divestments to non-controlling interests are also recognized in shareholders' equity.

#### **ASSOCIATED COMPANIES**

Associated companies are companies in which the Group has a significant influence. Participations in associated companies are recognized in the consolidated financial statements in accordance with the equity method. The equity method entails that shares in a company are recognized at cost at the acquisition date and are subsequently adjusted by the Group's share of the change in the associated company's net assets. The Group's participation in the associated company's earnings is recognized under "Profit from shares in associated companies." The consolidated value of the holding is recognized as "Participations in associated companies". If the holding interest in an associated company is reduced, but significant influence is retained, only a proportional share of the amounts previously recognized in other comprehensive income will be reclassified to the income statement, where relevant.

#### **TRANSLATION OF FOREIGN CURRENCIES**

All transactions are measured and recognized in the functional currency. The reporting currency of the Group and the Parent Company is SEK, which is also the Parent Company's functional currency. For Group companies that have a functional currency that is different to the Group's reporting currency, assets and liabilities in the balance sheet 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 recognized in other comprehensive income. If exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate. Significant items which occur in a period when exchange rates fluctuate significantly will be translated to the exchange rate at the transaction date. In the case of divestment or liquidation of such companies, the accumulated translation difference is recognized under capital gain/loss. Profit or loss items are translated at the transaction-date rate and any exchange-rate differences are entered in profit or loss for the year. The exception is if the transaction represents hedging and meets the criteria for hedge accounting of cash flows or net investments, when any gains and losses are recognized directly against other comprehensive income. Receivables and liabilities are translated in accordance with the principles stated under "Financial instruments" below.

#### **REVENUE**

Revenues and expenses from implemented cargo assignments are recognized successively in relation to the cargo assignment's degree of completion on the balance-sheet date. The cargo assignment's degree of completion is calculated on the basis of the number of voyage days



## Note 1 continued

on the balance-sheet date in relation to the total number of voyage days for the assignment. Other revenues, such as those for external ship management assignments, are recognized only after agreement is reached with the customer and the service has been delivered. Invoiced operating expenses that are invoiced to the customer are recognized as net amounts in profit or loss. Costs for personnel employed in the Group, including crews of external vessels, are recognized in gross amounts if they are related to external vessel. Interest income is recognized distributed across the period of maturity, applying the effective interest-rate method. Dividend income is recognized when the right to receive payment has been established.

**DIRECT VOYAGE COSTS**

Expenses directly attributable to cargo assignments, such as bunker and port expenses, are recognized in profit or loss under the item Direct voyage costs.

**GOVERNMENT SUBSIDIES**

The Swedish State subsidy to ship owners is recognized as a net amount against the payroll expenses on which it is based. Settlement is made monthly.

**INCOME TAXES**

Taxes included in the consolidated financial statements pertain to current and deferred tax. The Group recognizes deferred tax on temporary differences between the carrying amount and the tax value of assets and liabilities. Deferred tax assets are only recognized if it is probable that the temporary differences can be utilized 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 recognized in the consolidated financial statements as long as no decision on profit taking has been made. In all cases, the Parent Company can determine when the temporary differences will be reversed, and it is not currently considered probable that a reversal will occur in the foreseeable future. The tax effect of items recognized in profit or loss is recognized in profit or loss. The tax effect of items recognized directly in other comprehensive income is recognized in other comprehensive income. Taxes are recognized immediately in shareholders' equity in respect of transactions that are recognized immediately in shareholders' equity.

**SEGMENT REPORTING**

Internal reporting and follow-up are organized based on segments, which provide better potential to assess risks, opportunities and future development. The Group has four segments, AHTS, PSV, Services and Ship Management. Reporting is made to the company's Group Management team, which is appointed by the President. The previous segment TransAtlantic has been reported according to IFRS 5 Discontinued operations and assets held for sale.

**DISCONTINUED OPERATIONS**

IFRS 5 Non-current assets and discontinued operations is applied by the Group. Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than from

continuing use. An asset is classified as held for sale if it is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. These assets are recognized on a separate line as current assets or current liabilities in the consolidated balance sheet. On initial classification as held for sale, non-current assets are recognized at the lower of carrying amount and fair value less costs to sell. A discontinued operation is a component of the Group's business that represents a separate business segment or major line of business within a geographical area of operations or a subsidiary acquired exclusively with a view to sell. Classification as a discontinued operation occurs upon disposal or, if earlier, when the operation meets the criteria to be classified as held for sale. When an operation is classified as discontinued, the presentation of the consolidated income statement for the comparative year is changed so that the discontinued operation is recognized as if it had been discontinued at the start of the comparative period. The presentation of the consolidated balance sheet for preceding periods is not changed in a corresponding manner.

**PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment as described below are recognized at cost after deductions for accumulated depreciation according to plan and possible impairment. Property, plant and equipment items that comprise components with different useful lives are treated as separate components. Expenses that raise the value of or return on the asset through, for example, capacity enhancements or cost rationalizations, increase the carrying amount of the asset. Expenses incurred by the re-flagging of vessels are capitalized in accordance with this principle. Expenses for major recurring inspection measures are capitalized 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 outlays for repairs and maintenance are expensed. Dry-dock expenses within the Group are also capitalized in accordance with this principle and are depreciated over a period of 30–60 months, which is the normal time between dockings. Expenses, including interest, pertaining to vessels during the construction period are capitalized 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 recognized if the asset's estimated recoverable amount is lower than its carrying amount. The residual value, the estimated amount that the company would currently obtain from disposal or scrapping of the asset less the estimated costs of the disposal or scrapping of the asset were already of the age and the condition expected at the end of its useful life, and useful lives are reviewed every balance sheet date, and adjusted if appropriate. The assets that have the greatest residual value are ships, where the residual value comprises the estimated scrap value at the end of its useful life.

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

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

### **INTANGIBLE ASSETS**

Intangible assets are recognized at cost or at impaired value after deductions for accumulated amortization according to plan. Useful life is determined for each asset and this is used for straight-line amortization according to plan.

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

- Computer software 4 years

Intangible assets considered to have the capacity to provide a financial return for an indeterminable period are not to be amortized. Instead, it shall annually, or, where there are indications that the asset has changed, be determined the recoverable amount of the asset, and whenever there are indicators of a decline in value of the intangible asset write-down should take place. The Group has goodwill and brands as intangible assets with indeterminable useful life. For impairment testing, goodwill is distributed among cash-generating units, which are the traffic areas within the segments. The trademark pertains to TransAtlantic.

### **IMPAIRMENT LOSSES**

Assets with an indeterminate useful life are impairment tested annually. For other assets, impairment testing occurs whenever there are indications that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount corresponds to the higher of fair value less selling costs and value-in-use. Impairment is recognized in an amount equivalent to the difference between the recoverable amount and carrying amount.

### **FINANCIAL ASSETS**

Financial assets are classified according to the following categories: Financial assets measured at fair value through profit or loss (FVTPL) for the period, or Loans, accounts receivable and cash holdings. The classification is determined by the purpose of the investment at the acquisition date.

### **FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL) FOR THE PERIOD**

A financial asset measured at FVTPL for the period constitutes one of the following categories. On initial recognition, the assets are either categorized under (1) financial instruments traded on an active market or (2) classification in accordance with the fair value option. For the former category to be applied, the asset must be acquired for the primary purpose of sale within a near future and it must be included in a portfolio that is jointly managed together with other financial instruments, and there must be a substantiated pattern of short-term profit realization. Derivatives, including embedded

derivatives that are separated from their main contract, are categorized as though they are held for trading. Gains and losses on these assets are recognized in profit or loss for the period. The Group utilizes interest swaps. Hedge accounting is applied to the portion of derivatives that are documented to constitute effective hedging. Changes in fair value with regard to the hedging instrument are thus recognized under other comprehensive income and in profit or loss for the period. Apart from the above assets, the Group does not hold any financial assets that are measured at FVTPL for the period.

### **FINANCIAL LIABILITIES MEASURED AT FVTPL FOR THE PERIOD**

Derivatives, including separable embedded derivatives, are categorized as being held for trading if they do not demonstrably constitute a portion of effective hedging. Gains and losses attributable to these items are recognized in profit or loss for the period to the extent that they do not constitute a portion of effective hedging.

### **MEASUREMENT OF FAIR VALUE**

The fair values of financial instruments traded on active markets are based on listed market prices and belongs to measurement level 1 according to IFRS 13. Should there be no listed market prices fair value is measured through discounted cash flows. When measurements of discounted cash flows have been conducted, all variables, such as discount rates and exchange rates for measurements, have been retrieved from market listings, wherever possible. These measurements belong to measurement level 2. Other measurements, for which a variable is based on own assessments, belong to measurement level 3. The nominal value less any credits was used as fair value of accounts receivable and accounts payable.

### **LOAN RECEIVABLES, ACCOUNTS RECEIVABLES AND CASH HOLDINGS**

Loans and accounts receivable are initially recognized at fair value and subsequently at amortized cost using the effective interest method less any provision for value depletion. A provision for value depletion of accounts receivable is made when there are strong indications that the Group will not receive the full amount. The Group's loan receivables and accounts receivable comprise accounts receivable, other receivables. Cash holdings comprise cash and cash equivalents and short-term investments falling due within three months. Blocked cash holdings are recognized among Other long-term receivables.

### **AVAILABLE-FOR-SALE FINANCIAL ASSETS**

Salable financial assets are classified under this category.

### **OTHER FINANCIAL LIABILITIES**

Borrowing and other financial liabilities are initially recognized at fair value, net after transaction expenses and subsequently at amortized cost.

### **LEASING AGREEMENTS**

The Group acts as both a lessor and a lessee and has entered into both financial and operational leasing agreements. The Group is currently not financial lessor.



*Note 1 continued*

In financial leasing agreements, in which the Group enjoys the financial benefits and assumes responsibility for the risks, the item leased is recognized in the balance sheet as a fixed asset. At the beginning of the lease period, the asset is recognized at the lower of the fair value of the leased item or the present value of the minimum lease fees. Each leased item is assigned a useful life in accordance with the principles stated under property, plant and equipment. The remaining amortization obligation to the lessee is recognized as a liability. Each lease payment is divided between amortization of the liability and financial expense. Operational leasing agreements are recognized as net sales in profit or loss straight-line over the lease period in cases where the Group is the lessor and as other external operating costs where the Group is the lessee.

**INVENTORIES**

Inventories have been measured at the lower of cost and net realizable value. Inventories mainly comprise bunker and lubricating oils, and were measured in accordance with the FIFO principle (First-In-First-Out).

**PENSIONS AND SIMILAR COMMITMENTS**

The Group has defined-benefit and defined-contribution pension plans. Defined-benefit pension plans provide employees with pension benefits corresponding to a predetermined amount and the Group is responsible for financing these plans so that these amounts can be paid in the future. For defined-contribution pension plans, the Group pays in an established fee to an independent legal entity. Fees are recognized as personnel costs when they mature for payment. Subsequently, the Group has no further pension commitments towards the employees. Provisions are made for all defined-benefit plans on the basis of actuarial calculations in accordance with the project unit credit method, with the purpose of establishing the present value of future commitments to current and previous employees. Actuarial calculations are conducted annually and are based on actuarial assumptions applicable on the closing date. The size of the provision is determined by the present value of future pension commitments less deductions for the fair value of plan assets. Discounting of pension commitments occurs based on the yield on government bonds. Actuarial gains and losses plus the difference between the actual and the estimated return on pension assets are recognized in other comprehensive income. Items attributable to the vesting of defined-benefit pensions and gains and losses arising from the settlement of pension liability, as well as interest on net assets and liabilities in the defined-benefit plan, are recognized in profit or loss.

**CASH-FLOW STATEMENTS**

The cash-flow statements are prepared in accordance with the indirect method. The recognized cash flow comprises only transactions entailing receipts and disbursements.

**BUYBACK OF COMPANY SHARES**

When the company's own shares are bought back, unrestricted shareholders' equity is reduced by the expense for the acquisition. When such treasury shares

are transferred, unrestricted shareholders' equity is increased by the income derived from the transfer.

**PARENT COMPANY'S ACCOUNTING POLICIES**

The financial statements of the Parent Company are prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Accounting Standards Council's recommendation RFR 2, Accounting for legal entities. The Parent Company, in its financial statements, applies all of the EU-approved IFRS and statements insofar as these do not conflict with the Annual Accounts Act and the relationship between accounting and taxation.

The recommendation states the exceptions that are to be and may be made based on IFRS. This means that the Parent Company applies the same accounting policies as the Group with the exception of the instances stated below:

**CLASSIFICATION AND PRESENTATION**

The Parent Company's income statement and balance sheets are presented in accordance with the outline in the Annual Accounts Act, while the statement of comprehensive income, the statement on changes in shareholders' equity and cash-flow statements are based on IAS 1 Presentation of financial statements and IAS 7 Statement of cash flows. The differences in relation to the consolidated financial statements that apply in the Parent Company's income statements and balance sheets pertain primarily to shareholders' equity, as well as the presence of provisions as a separate category.

**ASSOCIATED COMPANIES AND SUBSIDIARIES**

Participations in associated companies and subsidiaries are recognized in the Parent Company using the cost method. Carrying amounts are impairment tested on each balance-sheet date. Only dividends received are recognized as revenue, on condition that these are derived from profits earned after the acquisition. Dividends that exceed these profits are considered a repayment of the investment and reduce the participation's carrying amount. Transaction expenses for holdings in subsidiaries and associated companies are included at the carrying amount. In the Group, however, transaction expenses for subsidiaries are recognized directly in profit or loss. Shareholders' contributions are recognized directly against shareholders' equity for the recipient and are capitalized in shares and participations by the contributor to the extent that impairment is not required.

**GROUP CONTRIBUTIONS AND SHAREHOLDERS' CONTRIBUTIONS**

Shareholders' contributions are recognized in accordance with RFR 2. Group contributions from/to Swedish Group companies are recognized as appropriations in profit or loss.

## UNTAXED RESERVES

The amounts included in untaxed reserves comprise taxable temporary differences. In a legal entity, as a result of the link between accounting and taxation, the deferred tax liability attributable to untaxed reserves is not recognized separately, but in its gross amount in the balance sheet.

## FINANCIAL INCOME

Net financial income in the Parent Company includes dividends on shares in subsidiaries only when the right to receive payment has been established.

## FINANCIAL INSTRUMENTS

The Parent Company applies the same policies pertaining to financial instruments as the Group. In the Parent Company, financial fixed assets are measured at cost less any impairment losses, and financial current assets are measured at the lower of cost or market value.

## RISK MANAGEMENT

The Group's operations entail a number of operational and financial risks that may affect earnings. The most significant risks are: operational risks, capital risks and market risks, including liquidity risks and credit risks. The Group's overriding goal is to minimize the impact of financial and operational risks on the consolidated income statements and balance sheets. The Board of Directors has identified these risks and continuously assesses how to avoid or minimize their impact on the consolidated income statement and balance sheets through various measures. It is stated through policies and reporting paths how these risks are to be managed and how debriefing is to occur, see note 31.

## OPERATIONAL RISKS

The general economic trend in the countries where the Group is active is a crucial factor for financial development, since the economic trend has a major effect on the flows of goods, volumes, and the resultant demand for maritime transports. The trend in markets other than those where the Group is active can also affect demand for the Group's services, since the shipping markets are international. The Group endeavors to maintain close contact with its customers and signs long-term agreements with them to restrict the impact of economic fluctuations. Earnings can be impacted by the breakdown of a vessel. These costs can be minimized through active service and damage-prevention work, resulting in lower risk of considerable individual cost increases. An off-hire insurance that provides financial compensation in the event of prolonged operational disruption has been taken out for part of the fleet of vessels, primarily those vessels involved in scheduled services. Supply and demand for oil and gas has a material impact on the development of offshore operations.

## CAPITAL RISK

The Group is to have a capital structure that secures the operation of current business and enables the desired future investments and performance. Capital is assessed on the basis of the debt/equity ratio, meaning interest-bearing net loan liabilities in relation to shareholders'

equity. The net loan liability comprises long and short-term interest-bearing borrowings less cash and cash equivalents. Total borrowing amounted to MSEK 1,927 (2,334) less cash and cash equivalents of MSEK 273 (less: 195), whereby net debt amounted to MSEK 1,654 (2,140). Shareholders' equity amounted to MSEK 1,440 (1,386). The debt/equity ratio was 115% (154).

## MARKET RISKS

### Currency risks

Because shipping is an international business, only a portion of the consolidated cash flow is generated in SEK, which means that currency fluctuations have a major impact on the Group's 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. In accordance with the Group's policy, the remaining exposure is hedged using various hedging instruments, see note 31.

### Interest-rate risks

Shipping is a capital-intensive business, in which long-term loans are the principal form of financing. Accordingly, interest-rate fluctuations have a major impact on the Group's earnings and cash flow. To reduce this risk, interest rates are largely hedged for varying periods of time and using various types of hedging instruments, see note 31.

### Liquidity risk

To avoid disruptions in payments flows, the Group ensures the availability of sufficiently large liquidity reserves in the form of bank deposits to cope with unforeseen fluctuations in cash flow, see notes 21 and 25.

### Credit risk

The Group formulates a policy for determining how credits are to be provided to customers and other business partners. The credits provided are primarily short-term credits in the form of receivables from customers. These credits are mainly provided to major customers, with whom the Group has a long-term relationship. Credit risk in cash and cash equivalents is managed by investing the liquidity with major Swedish banks.

### Bunker risks

The Group's vessels are chartered out on time charter basis, which means that the charterers (lessees) carries the risk of changes in bunkers consumption and thus also the risk of changes in bunker prices during the charter period. Other times, when ships are off-hire, the Group carries the expenses for bunker consumption and the risk of changes in bunker prices. Please also see note 31.

## DERIVATIVE INSTRUMENTS/HEDGE ACCOUNTING

If necessary, the Group signs, in accordance with the Group's Finance Policy, contracts for derivative instruments that partly hedge probable forecast transactions (cash-flow hedging). The Group utilizes



derivative instruments to cover the risk of exchange rate fluctuations and exposure to interest-rate risks. The Group applies hedge accounting for currency futures. Hedge accounting requires that the explicit purpose of the hedging measure is classed as hedging, that it has an unequivocal connection with the hedge item and that the hedging measure effectively protects the hedged position. When a hedge is established, the relationship between the hedging instrument and the hedged item is documented, as are the objectives of the hedging and the strategy for implementing hedging measures. The Group also documents its assessment, both at the onset of the hedge and on an ongoing basis during its period of application, regarding the effectiveness of the hedge in evening out changes in cash flow for the hedged items. Derivative instruments are recognized at fair value at the acquisition date and are then continuously re-measured at fair value. Unrealized value changes for effective cash-flow hedging are recognized in other comprehensive income. Changes in the fair value of a derivative formally identified to hedge fair value, and that fulfills the conditions for hedge accounting, are recognized in profit or loss together with changes in the fair value attributable to the hedged risk of the hedged asset or liability. For other derivatives that are not held by the Group and do not qualify for hedge accounting, primarily interest-rate hedging instruments, the value changes are to be recognized directly in profit or loss among the financial items.

## SIGNIFICANT ESTIMATES AND ASSESSMENTS

Estimates and assessments are conducted continuously and are based on historical experience and reasonable assumptions of future developments. The final outcome may differ from these estimates.

Important estimates and assumptions for accounting purposes:

The estimates with the greatest impact are:

- Assumption of going concern
- The useful life of property, plant and equipment and their residual value.
- Valuation and impairment testing of the vessel fleet please see note 10, Property, plant and equipment and intangible assets.
- Income taxes in cases where the Group conducts operations in different countries with different tax systems (such as tonnage taxation), please see note 14, Taxes.

## 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 A/S during 2015. As a consequence, VSS A/S in Q4 2015 initiated a dialogue with its lenders to secure a long-term stable financing solution. As at 31 December 2015 VSS A/S 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 A/S 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 MSEK 887, which as at 31 December 2015 had been classified as long-term debt in the balance sheet.

VSS A/S has during the majority of 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 A/S has not paid installments to its lenders. These events have created uncertainty as to the VSS A/S 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 A/S agreed the main principles for a restructuring agreement with the bank lenders. The term sheet with these main principles was signed on 12 July 2016. In August VSS A/S reached an agreement with the bondholders' committee regarding a revised proposal for restructuring of the bond issue and a bondholders' meeting was summoned. On 15 September 2016 a bondholders meeting was held. The proposed resolution obtained 98.26% of the votes, and the proposal was adopted according to the voting requirements of the Bond Agreement.

On 18 October 2016, a bankruptcy petition was approved towards the owner of Odin Viking, Norseman Offshore AS. On 11 November, Odin Viking SPV AS, a company owned by Kistefos AS, entered into an agreement with the bankruptcy trustee, where after Odin Viking SPV AS purchased Odin Viking and acquired the bareboat charter party. On 21 November 2016, Odin Viking SPV AS and VSS A/S entered into an agreement to amend the terms in the bareboat charter party.

This finalized the financial restructuring of VSS A/S, 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 A/S. During Q4 2016, all of the share issues in VSS AB that form part of VSS A/S' financial restructuring have been completed and comprises of the following:

- A MSEK 207 rights issue, where the final outcome was announced through a press release on 22 December 2016.
- Two share issues with payment against set-off to Viking Invest AS and Odin Viking SPV AS, respectively, where the outcome was announced through a press release on 20 December 2016.
- A MSEK 43 directed share issue to Odin Viking SPV AS, in which subscription was made on 19 December 2016.
- A share issue with payment against set-off to Viking Invest AS for the guarantee fee for the guarantee undertaking in the rights issue in which subscription was made on 21 December 2016.

- A share issue with payment against set-off to the holders of debt certificates in VSS A/S bond loan 2012/2017.
- Following these equity issues, the share capital of VSS AB increased with MSEK 232 and the equity increased with MSEK 340, net after expenses.

The final agreement includes the following key terms:

- VSS A/S' bank facilities are extended until 31 March 2020.
- Contribution from the banks of approximately MUSD 215, including deferral of maturities and amortization schedules.
- Deferred amortization structure under bank facilities, with fixed quarterly repayment in the amount of USD 750,000 from 2018.
- In addition to the fixed amortizations under the bank facilities payable from 31 March 2018, there will be a cash sweep mechanism, whereby cash on hand exceeding certain levels shall be distributed as repayment of the bank facilities from 2018. During 2017, the cash sweep amounts have been pre-agreed.
- Financial covenants on the bank facilities are amended to provide VSS A/S with ample room to operate under the present challenging market conditions.
- Restructuring of the arrangements in respect of the vessel Odin Viking to reflect a reduced payment of maximum USD 10,000 per day for a period until 31 May 2024.
- Removal of put options related to Odin Viking.
- VSS A/S is given an option to purchase Odin Viking from Odin Viking SPV AS at the agreed price of USD 1 at the end of the charter party.
- Odin Viking SPV AS is entitled to a payment of MUSD 2.4, which has been settled by the issuance of new shares in VSS AB (publ) at the value of SEK 1.50 per share.
- 50% of the bonds have been converted to new class B shares in the parent company, VSS AB, at a subscription price of SEK 1.50, the bonds being valued at 55% of par.
- The remaining 50% of the bonds has been redeemed in cash at a price corresponding to 35% of the current face value of the bonds. The final settlement of the bonds was completed 12 January 2017.
- Extraordinary repayments in an aggregate amount of approximately MUSD 23.7 by application of funds standing to the credit of accounts and proceeds from the equity issue in VSS AB.
- VSS A/S has received new capital in the amount of MUSD 17.6.

The restructuring secures the Group with a stable financial platform until 2020, subject certain vessel income levels. The primary uncertainties and risks in relation to the going concern considerations include a prolonged 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 parent company and VSS AB Group will be able to continue as going concern at

least until 31 December 2017. This conclusion is based on Management's assessment of the current outlook for 2017 and the uncertainties and risks described above.

#### **The useful life of property, plant and equipment**

Useful life and residual value are assessed in connection with annual impairment testing.

#### **Valuation and impairment testing of the vessel fleet**

At each reporting date the accounts are assessed whether there is an indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, estimates of the asset's recoverable amount are done. The recoverable amount is the highest of the fair market value of the asset, less cost to sell, and the net present value ("NPV") of future estimated cash flow from the employment of the asset ("value in use").

The Group is operating two groups of similar vessel types which in reality can all be used for the same kind of tasks, and are thus inter-changeable. Each vessel generates its own cash streams, but the company's customers could, just as easily, have used another vessel from the relevant fleet type. Based on this the Group has deemed it appropriate to consider each group of vessels as a separate cash generating unit. As a result, the Group is performing impairment tests on a portfolio level rather than per vessel.

The key assumptions used in the value in use calculation and in the assessment of owned vessels, for 2016 are as follows:

- The cash flows are based on current tonnage.
- Estimates of fixture rates, utilization 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% (2015: 9%). The pre- and post-tax discount factor is the same due to tonnage taxation.

As indication of fair market value valuations of owned vessels are obtained from internationally acknowledged shipbrokers on a quarterly basis.

#### **Impairment test PSV fleet in 2016**

Based on fixture rates, utilization, contract coverage, cost levels and currency exchange levels the Group has prepared discounted cash flow calculations covering the remaining useful lifetime of the vessels. 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 2017-19 due to all PSV vessels in warm lay-up in 2017 and poor market conditions expected in 2018 with step-wise improving rates and utilization in 2019



and going forward. The value in use calculation based on discounted cash flows is very sensitive to changes in the underlying assumptions including the place and timing of assumed market recovery and redeployment of vessels, which is uncertain due to the current challenging market conditions. The calculated value in use was MSEK 463.

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 MSEK 50 (increase in the impairment charge). A decrease of 10% on the daily income rates applied would result in a decrease in the net present value of the PSV fleet of MSEK 78 (increase in the impairment charge).

The impairment test also consists of an assessment of average external vessel valuations, less cost to sell, from two internationally acknowledged shipbrokers showing a total PSV fleet value of MSEK 379 (ranging from MSEK 302 to MSEK 456). The valuations obtained from these shipbrokers are subject to more uncertainty than normal due to lack of sales- and purchase transactions for comparable vessels.

Since the recoverable amount of MSEK 463 is higher than the original carrying amount of the owned PSV fleet (MSEK 455) at the end of 2016, no impairment charge should be recognized. Due to the sensitivity in the underlying assumptions in the value in use calculation an additional impairment charge of MSEK 46 was recognized at year-end.

In total VSS A/S recognized an impairment of the PSV fleet of MSEK 246 for 2016 (MSEK 145 in Q2, MSEK 55 in Q3 and MSEK 46 in Q4), which approximately corresponded to 37% of the carrying amount of the PSV fleet at 1 January 2016.

VSS will continue to closely monitor the market development and impairment exposure of the PSV fleet's carrying amount.

#### Impairment test AHTS fleet in 2016

In 2016 the management has 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 (MSEK 2,819) by 17% on average.

#### Discontinued operations and non-current assets held for sale

During 2016 it was decided to discontinue the remaining operations in the subsidiary TA AB in order to meet financing commitments related to these operations. The decision led to initiations of discussions and negotiations with employees, partners and other stakeholders. At the end of the year, basis concluded asset sales, fulfilled financial commitments and outcome from the negotiations and discussions, the assessment is that the discontinuation is likely to be concluded within the next 12 months. Due to this, the Group in its financial reports, according to IFRS 5 Assets held for sale and discontinued operations, recognized TA AB as discontinued operations and assets held for sale. For further information see note 33.

#### Change of functional currency

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 Viking Supply Ships A/S 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 the subsidiaries 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.

## NOTE 2

### DISTRIBUTION OF NET SALES

TSEK	Group		Parent Company	
	2016	2015	2016	2015
Freight revenues	-	10,730	-	-
Time charter revenues	603,168	955,303	200,635	199,461
Expenses recharged to external customers	140,888	129,473	4,947	-
Expenses recharged to internal customers	-	-	127,584	122,369
Other	16,107	18,054	-	21,952
<b>Total</b>	<b>760,163</b>	<b>1,113,560</b>	<b>333,166</b>	<b>343,782</b>

# NOTE 3

## SEGMENT REPORTING

The segment reporting within the Group is presented in four segments; AHTS, PSV, Services and Ship Management. For information of the previous segment TransAtlantic, which is reported in accordance to IFRS 5 Assets held for sale and discontinued operations, see note 33. The largest segment comprises ice-classed and icebreaking Anchor Handling Tug Supply (AHTS) vessels, which are used for icebreaking and for assignments within the offshore industry repositioning of rigs and anchors for these. The AHTS segment has during the year been contracted by three customers, each representing more than 10% of the Groups' annual turnover. The revenues from these customers represent 62% of the Groups' total annual turnover. The other vessel related segment, Platform Supply Vessels (PSVs), mainly transport supplies to rigs for customers in the offshore industry. In addition, Viking Supply Ships comprises a ship management and a services segment. The ship management segment mainly delivers ship management for the Swedish Maritime Administration's five ice-breakers. This assignment represents 18% of the Groups' annual turnover. The services segment offers consultancy services for ice management and logistics support in Arctic regions.

The transactions between the business areas were conducted at market prices.

Group	AHTS		PSV		Services		Ship Management		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Sales	611,155	950,561	3,658	29,622	7,970	-	137,380	133,377	760,163	1,113,560
Operating expenses	-411,098	-546,270	-36,457	-136,988	-12,361	-4,241	-138,736	-133,377	-598,652	-820,876
<b>EBITDA</b>	<b>200,057</b>	<b>404,291</b>	<b>-32,799</b>	<b>-107,366</b>	<b>-4,391</b>	<b>-4,241</b>	<b>-1,356</b>	<b>-</b>	<b>161,511</b>	<b>292,684</b>
Depreciation/impairment	-135,698	-132,191	-273,472	-312,374	-	-	-	-	-409,170	-444,565
<b>Operating profit/loss</b>	<b>64,359</b>	<b>272,100</b>	<b>-306,271</b>	<b>-419,740</b>	<b>-4,391</b>	<b>-4,241</b>	<b>-1,356</b>	<b>-</b>	<b>-247,659</b>	<b>-151,881</b>
Financial income	4,709	5,854	51,822	168	137	-	3,373	-	60,041	6,022
Financial expenses	-186,304	-145,540	-	-37,614	-	-723	-	-	-186,304	-183,877
<b>Profit/loss before tax <sup>1)</sup></b>	<b>-117,236</b>	<b>132,414</b>	<b>-254,449</b>	<b>-457,186</b>	<b>-4,254</b>	<b>-4,964</b>	<b>2,017</b>	<b>-</b>	<b>-373,923</b>	<b>-329,736</b>
Income tax	3,771	-2,340	-	-	-	-	-	-	3,771	-2,340
<b>Profit/loss for the year</b>	<b>-113,465</b>	<b>130,074</b>	<b>-254,449</b>	<b>-457,186</b>	<b>-4,254</b>	<b>-4,964</b>	<b>2,017</b>	<b>-</b>	<b>-370,152</b>	<b>-332,076</b>
Assets	3,230,624	3,112,325	435,928	725,006	-	-	-	-	3,666,552	3,837,331
Assets held for sale <sup>2)</sup>	-	-	-	-	-	-	-	-	26,269	279,208
<b>Total assets</b>	<b>3,230,624</b>	<b>3,112,325</b>	<b>435,928</b>	<b>725,006</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,692,821</b>	<b>4,116,539</b>
Liabilities	1,816,670	2,019,154	421,063	458,173	-	-	-	-	2,237,733	2,477,327
Liabilities attributable to assets held for sale <sup>2)</sup>	-	-	-	-	-	-	-	-	15,524	253,222
<b>Total liabilities</b>	<b>1,816,670</b>	<b>2,019,154</b>	<b>421,063</b>	<b>458,173</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,253,257</b>	<b>2,730,549</b>
Gross investments <sup>3)</sup>	10,920	166,756	-	15,011	-	-	-	-	10,920	181,767

1) The result within the AHTS segment was negatively impacted by financial expenses related to the renegotiated Odin Viking bareboat agreement by -62 MSEK as well as financial expenses related to the financial restructuring by -20 MSEK. The result within the PSV segment was negatively impacted during the year by impairment losses of total -246 MSEK. The preceding years result before tax was impacted by impairment losses on the PSV fleet of MSEK 262 and unrealized currency losses of MSEK 73.

2) The amounts relates to the previous reported segment TransAtlantic, also see note 33 Discontinued operations and assets held for sale.

3) The Gross investments during the year mainly related to dockings. The gross investments in the preceding year mainly consisted of dockings and the increase in financial assets related to cash which was deposited as additional security for ship loans.



## SALES BY GEOGRAPHIC AREA

Net sales TSEK	Group	
	2016	2015
Denmark	6,067	293
Norway	148,237	157,436
Russia	371,932	510,039
UK	91,180	94,030
Sweden	136,984	149,218
USA	-	188,410
Rest of the world	5,763	14,134
<b>Total</b>	<b>760,163</b>	<b>1 113,560</b>

## ASSETS BY GEOGRAPHIC AREA

Assets TSEK	Group	
	2016	2015
Denmark	3,092,352	2,920,937
Norway	421,780	696,255
Russia	12,523	112,657
Sweden	118,470	76,376
Rest of the world	21,427	31,106
Discontinued operations <sup>1)</sup>	26,269	279,208
<b>Total</b>	<b>3,692,821</b>	<b>4,116,539</b>

1) Assets related to the previous reported segment TransAtlantic, see note 33 Discontinued operations and assets held for sale.

## INVESTMENTS BY GEOGRAPHIC AREA

Investments TSEK	Group	
	2016	2015
Denmark	10,920	166,756
Norway	-	15,011
<b>Total</b>	<b>10,920</b>	<b>181,767</b>

## NOTE 4

## PURCHASES AND SALES AMONG GROUP COMPANIES

## Parent Company

The Parent Company's net sales include sales to other Group companies in the amount of TSEK 127,584 (127,784).

The Parent Company's other external operating costs include purchases from other Group companies of TSEK 211,601 (200,122).

## NOTE 5

## OTHER OPERATING INCOME

TSEK	Group		Parent Company	
	2016	2015	2016	2015
Exchange-rate differences	-	-	-	714
Other	-	4,109	-	7
<b>Total</b>	<b>-</b>	<b>4,109</b>	<b>-</b>	<b>721</b>

# NOTE 6

## OTHER OPERATING COSTS

TSEK	Group		Parent Company	
	2016	2015	2016	2015
Exchange-rate differences	-2,223	-	-	-
<b>Total</b>	<b>-2,223</b>	<b>-</b>	<b>-</b>	<b>-</b>

# NOTE 7

## AVERAGE NUMBER OF EMPLOYEES, SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY COSTS, ETC.

Average number of employees	2016		2015	
	No. of employees	Of whom, women, %	No. of employees	Of whom, women, %
<b>Parent Company</b>				
Sweden				
– land based	-	-	-	-
– shipboard	-	-	-	-
<b>Total, Parent Company</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Subsidiaries</b>				
Sweden				
– land based	5	40%	7	43%
– shipboard	236	10%	216	10%
Denmark				
– land based	21	48%	29	41%
– shipboard	122	6%	151	7%
Russia				
– land based	10	50%	12	58%
– shipboard	66	0%	53	0%
Norway				
– land based	4	0%	5	0%
UK				
– land based	-	-	3	33%
Canada				
– land based	-	-	1	0%
<b>Total in subsidiaries</b>	<b>464</b>	<b>10%</b>	<b>477</b>	<b>12%</b>
<b>Group total</b>	<b>464</b>	<b>10%</b>	<b>477</b>	<b>12%</b>



## SALARIES, OTHER REMUNERATION AND SOCIAL-SECURITY COSTS

TSEK	2016		2015	
	Salaries and remuneration	Social-security costs (of which, pension costs)	Salaries and remuneration	Social-security costs (of which, pension costs)
Parent Company	683	586	1,267	446
Subsidiaries in Sweden	134,813	39,793 (20,698)	141,354	39,522 (22 372)
Foreign subsidiaries	165,444	25,688 (22,402)	263,996	36,596 (26,748)
<b>Group total</b>	<b>300,940</b>	<b>66,067</b> <b>(43,493)</b>	<b>406,617</b>	<b>76,564</b> <b>(49,199)</b>

## SALARIES AND OTHER REMUNERATION BY COUNTRY

TSEK	2016		2015	
	Board and President <sup>1)</sup>	Other employees	Board and President	Other employees
<b>Parent Company</b>				
Sweden	683	-	1,267	-
<b>Total, Parent Company</b>	<b>683</b>	<b>-</b>	<b>1,267</b>	<b>-</b>
Subsidiaries in Sweden	-	134,813	-	141,354
Subsidiaries outside Sweden				
Norway		20,566	-	45,377
Denmark	4,403	103,601	3,154	150,735
UK		-	-	35,309
Russia		34,773	-	27,506
Canada		2,101	-	1,915
<b>Total, foreign subsidiaries</b>	<b>4,403</b>	<b>161,041</b>	<b>3,154</b>	<b>260,842</b>
<b>Group total</b>	<b>5,086</b>	<b>295,854</b>	<b>4,421</b>	<b>402,196</b>

1) The amount for the Parent Company includes consulting fees to the President totaling TSEK 0 (267).

The Parent Company received a government shipping subsidy of SEK 0 (0) and the total shipping subsidy received by the Group amounted to TSEK 28,683 (61,030). The figures in the Note above pertain to amounts before reductions for the government shipping subsidy received.

## SALARIES AND OTHER REMUNERATION PAID TO THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES

Remuneration paid to the Board of Directors <sup>1)</sup> TSEK	Board fee	
	2016	2015
Christen Sveaas, Chairman <sup>2)</sup>	100	267
Bengt A. Rem, Chairman <sup>2)</sup>	267	133
Folke Patriksson, Deputy Chairman	200	200
Håkan Larsson	200	200
Magnus Sonnorp	200	200
Erik Borgen <sup>3)</sup>	133	-
Christer Lindgren, employee representative	-	-
<b>Total</b>	<b>1,100</b>	<b>1,000</b>

1) The Directors' fees were for the period until June 30, 2016, paid from the parent company Viking Supply Ships AB, whereafter the fees have been paid by the subsidiary Viking Supply Ships A/S. For 2016 the total fees to the Board of Directors amounted to TSEK 1,100 (1,000).

2) Christen Sveaas resigned as Director of the board at the Annual General Meeting in 2016. At the same time Bengt A. Rem was appointed Chairman of the Board.

3) Erik Borgen was appointed to the Board of Directors at the Annual General Meeting in 2016.

A lifelong defined-benefit pension is paid to the Deputy Chairman, based on the ITP plan. To cover the company's pension commitment, which amounted to TSEK 6,837 at December 31, 2016, pension insurance plans have been signed with a market value of TSEK 6,779 as at December 31, 2016. During 2016, the company had no expenses for this commitment. There are no other pension commitments for the Parent Company's Board members

## REMUNERATION PAID TO SENIOR EXECUTIVES

TSEK	Salary		Variable remuneration		Other benefits		Pension premium		Consulting fees		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
VD Tom Ruud <sup>1)</sup>	-	-	-	-	-	-	-	-	-	267	-	267
VD Christian W. Berg <sup>1) 2)</sup>	3,986	2,451	-	703	316	301	576	370	-	-	4,878	3,825
VD Bengt A. Rem <sup>3)</sup>	-	-	-	-	-	-	-	-	1,224	-	1,224	-
Other senior executives, four individuals	2,148	7,106	-	2,292	4	391	311	1,549	-	-	2,463	11,338
<b>Total</b>	<b>6,134</b>	<b>9,557</b>	<b>-</b>	<b>2,995</b>	<b>320</b>	<b>692</b>	<b>887</b>	<b>1,919</b>	<b>1,224</b>	<b>267</b>	<b>8,565</b>	<b>15,430</b>

1) Tom Ruud resigned as CEO on April 9, 2015 and was succeeded by Christian W. Berg.

2) Christian W. Berg resigned as CEO September 15, 2016 and was succeeded by Bengt A. Rem. Christian W. Berg continued to work in the company with various projects and as advisor to the Board of Directors. From the period of his resignation as CEO until March 31, 2016 Christian W. Berg received a fee of total TSEK 1,407 for these services.

3) Bengt A. Rem took over as interim CEO September 15, 2016. Remuneration for Bengt A. Rem was paid for time spent in accordance with a consultancy agreement signed with Kistefos AS.

Termination notice on the part of the company for other senior executives (except the CEO) is six to 12 months. For this group, defined-contribution pension payments of up to 25% of the fixed salary should be payable. Other benefits, such as company car, compensation for preventive healthcare and sickness insurance, shall comprise a small portion of the total compensation, correspond to market levels. In 2016, the group included no women (previous year two). To the Board of Directors in TransAtlantic AB Directors fees of TSEK 100 was paid during the year. The separate Corporate Governance section in the Annual Report addresses matters regarding decisions on remuneration.



# NOTE 8

## AUDIT ASSIGNMENTS

Expensed fees and reimbursements during the year amounted to:

TSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Fees pertaining to audit assignments</b>				
- Rödl & Partner	740	-	690	-
- RSM	1,084	-	-	-
- EY	413	1,769	-	676
<b>Fees pertaining to auditing operations in addition to the audit assignment</b>				
- Rödl & Partner	27	-	27	-
- EY	3,203	47	1,333	7
<b>Fees pertaining to tax advice</b>				
- EY	60	28	60	13
- PwC	1,353	1,124	583	-
<b>Other services</b>				
- Rödl & Partner	57	-	57	-
- EY	468	1,026	468	120
<b>Totalt</b>	<b>7,405</b>	<b>3,994</b>	<b>3,218</b>	<b>816</b>

# NOTE 9

## OTHER NET PROFIT/LOSS

TSEK	Group		Parent Company	
	2016	2015	2016	2015
Interest rate derivatives:				
- Fair value gains/losses	1,318	1,443	-	-
<b>Total</b>	<b>1,318</b>	<b>1,443</b>	<b>-</b>	<b>-</b>

Please also see Note 31 Financial risk management and derivative instruments, section "Fair value of derivative instruments."

# NOTE 10

## PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE FIXED ASSETS

Vessels, TSEK <sup>1)</sup>	Group		Parent Company	
	2016	2015	2016	2015
<b>Cost</b>				
Cost, Jan. 1	5,434,210	5,329,384	-	-
Acquisitions for the year (incl. improvement costs)	10,333	78,801	-	-
Reclassification <sup>2)</sup>	-586,396	332,433	-	-
Sales/scrapping	-719	-15,873	-	-
Translation difference for the year	474,126	-290,535	-	-
<b>Accumulated cost, Dec. 31</b>	<b>5,331,554</b>	<b>5,434,210</b>	<b>-</b>	<b>-</b>
<b>Accumulated depreciation according to plan</b>				
Depreciation, Jan. 1	-1,417,984	-1,207,497	-	-
Reclassification <sup>2)</sup>	262,830	-111,384	-	-
Sales/scrapping	-	12,973	-	-
Translation difference for the year	-125,621	88,698	-	-
Depreciation according to plan for the year <sup>3)</sup>	-161,472	-200,774	-	-
<b>Accumulated depreciation according to plan, Dec. 31</b>	<b>-1,442,247</b>	<b>-1,417,984</b>	<b>-</b>	<b>-</b>
<b>Impairment</b>				
Impairment, Jan. 1	-545,958	-139,815	-	-
Reclassification <sup>2)</sup>	181,259	-147,447	-	-
Sales/scrapping	-	2,168	-	-
Translation difference for the year	-49,195	3,751	-	-
Impairment/reversal of previously recognized impairment <sup>1)</sup>	-246,530	-264,615	-	-
<b>Accumulated impairment, Dec. 31</b>	<b>-660,424</b>	<b>-545,958</b>	<b>-</b>	<b>-</b>
<b>Residual value according to plan, Dec. 31</b>	<b>3,228,883</b>	<b>3,470,268</b>	<b>-</b>	<b>-</b>

The remaining useful life of the vessels are 16 years (15).

Tangible fixed assets are recognized at cost or after deductions for accumulated depreciation according to plan and possible impairment. Straight-line amortization according to plan is applied.

### 1) Impairment test

At each reporting date the accounts are assessed whether there is an indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, estimates of the asset's recoverable amount are done. The recoverable amount is the highest of the fair market value of the asset, less cost to sell, and the net present value ("NPV") of future estimated cash flow from the employment of the asset ("value in use").

The Group is operating two groups of similar vessel types which in reality can all be used for the same kind of tasks, and are thus interchangeable. Each vessel generates its own cash streams, but the company's customers could, just as easily, have used another vessel from the relevant fleet type. Based on this the Group has deemed it appropriate to consider each group of vessels as a separate cash generating unit. As a result, the Group is performing impairment tests on a portfolio level rather than per vessel.

The key assumptions used in the value in use calculation and in the assessment of owned vessels, for 2016 are as follows:

- The cash flows are based on current tonnage.
- Estimates of fixture rates, utilization 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% (2015: 9%). 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 2016

Based on fixture rates, utilization, contract coverage, cost levels and currency exchange levels the Group has prepared discounted cash flow calculations covering the remaining useful lifetime of the vessels. All significant assumptions have been estimated using Managements 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 2017-19 due to all PSV vessels in warm lay-up in 2017 and poor market conditions expected in 2018 with step-wise improving rates and utilization in 2019 and going forward. The value in use calculation based on discounted cash flows is very sensitive to changes in the underlying assumptions including the place and timing of assumed market recovery and redeployment of vessels, which is uncertain due to the current challenging market conditions. The calculated value in use is MSEK 463.

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 MSEK 50 (increase in the impairment charge). A decrease of 10% on the daily income rates applied would result in a decrease in the net present value of the PSV fleet of MSEK 78 (increase in the impairment charge).

The impairment test also consists of an assessment of average external vessel valuations, less cost to sell, from two internationally acknowledged shipbrokers showing a total PSV fleet value of MSEK 379 (ranging from MSEK 302 to MSEK 456). The valuations obtained from these shipbrokers are subject to more uncertainty than normal due to lack of sales- and purchase transactions for comparable vessels.

Since the recoverable amount of MSEK 463 is higher than the original carrying amount of the owned PSV fleet (MSEK 455) at the end of 2016, no impairment charge should be recognized. Due to the sensitivity in the underlying assumptions in the value in use calculation an additional impairment charge of MSEK 46 has been recognized. In total VSS A/S recognized an impairment of the PSV fleet of MSEK 246 for 2016 (MSEK 145 in Q2, MSEK 55 in Q3 and MSEK 46 in Q4), which approximately corresponded to 37% of the carrying amount of the PSV fleet at 1 January 2016. VSS will continue to closely monitor the market development and impairment exposure of the PSV fleet's carrying amount.

#### Impairment test AHTS fleet in 2016

In 2016 the management has 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 (MSEK 2,819) by 17% on average.

2) Reclassification of assets related to TransAtlantic, see note 33 Discontinued operations and assets held for sale.

3) The useful life and residual value are determined in conjunction with annual impairment testing.

Equipment, TSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Cost</b>				
Cost, Jan. 1	47,297	59,719	-	-
Reclassification <sup>1)</sup>	-46,785	-	-	-
Acquisitions for the year (incl. improvement costs)	587	942	-	-
Sales/scraping	-	-10,060	-	-
Translation difference for the year	1,479	-3,304	-	-
<b>Accumulated cost, Dec 31</b>	<b>2,578</b>	<b>47,297</b>	-	-
<b>Accumulated depreciation according to plan</b>				
Depreciation, Jan. 1	-45,189	-54,646	-	-
Reclassification <sup>1)</sup>	44,722	-	-	-
Sales/scraping	-	9,375	-	-
Translation difference for the year	-693	2,909	-	-
Depreciation according to plan for the year	-1,168	-2,827	-	-
<b>Accumulated depreciation according to plan, Dec 31</b>	<b>-2,328</b>	<b>-45,189</b>	-	-
<b>Residual value according to plan</b>	<b>250</b>	<b>2,108</b>	-	-

1) Reclassification of assets related to TransAtlantic, see note 33 Discontinued operations and assets held for sale.

Goodwill, TSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Cost</b>				
Cost, Jan. 1	59,422	59,422	8,278	8,278
Reclassification <sup>1)</sup>	-59,422	-	-	-
Scrapping	-	-	-8,278	-
<b>Accumulated cost, Dec. 31</b>	-	59,422	-	8,278
<b>Accumulated impairments</b>				
Impairments, Jan. 1	-59,422	-59,422	-8,278	-8,278
Reclassification <sup>1)</sup>	59,422	-	-	-
Scrapping	-	-	8,278	-
<b>Accumulated impairments, Dec. 31</b>	-	-59,422	-	-8,278
<b>Residual value according to plan, Dec. 31</b>	-	-	-	-

1) Reclassification of assets related to TransAtlantic, see note 33 Discontinued operations and assets held for sale.

Brands, TSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Cost</b>				
Cost, Jan. 1	1,203	7,015	-	-
Reclassification <sup>1)</sup>	-1,203	-	-	-
Translations difference for the year	-	120	-	-
Impairment for the year	-	-5,932	-	-
<b>Residual value according to plan, Dec. 31</b>	-	1,203	-	-

1) Reclassification of assets related to TransAtlantic, see note 33 Discontinued operations and assets held for sale.

Other intangible assets, TSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Cost</b>				
Cost, Jan. 1	-	46,553	-	27,510
Scrapping for the year	-	-46,553	-	-27,510
<b>Accumulated cost, Dec. 31</b>	-	-	-	-
<b>Accumulated amortization according to plan</b>				
Amortization, Jan. 1	-	-21,960	-	-9,113
Scrapping for the year	-	21,960	-	9,113
<b>Accumulated amortization according to plan, Dec. 31</b>	-	-	-	-
<b>Impairment</b>				
Impairment, Jan. 1	-	-24,593	-	-18,397
Scrapping for the year	-	24,593	-	18,397
<b>Accumulated impairment, Dec. 31</b>	-	-	-	-
<b>Residual value according to plan, Dec. 31</b>	-	-	-	-



# NOTE 11

## PROFIT/LOSS FROM SHARES IN GROUP COMPANIES

TSEK	Group		Parent Company	
	2016	2015	2016	2015
Dividends	-	-	73,714	284,897
Group contributions	-	-	-	-128,350
Impairments of shares in Group companies	-	-	-412,167	-435,803
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-338,453</b>	<b>-279,256</b>

# NOTE 12

## FINANCIAL INCOME

TSEK	Group		Parent Company	
	2016	2015	2016	2015
Interest income	1,125	6,022	301	-
Interest income from Group companies	-	-	3,554	2,498
Exchange-rate differences	58,916	-	4,954	-
<b>Total</b>	<b>60,041</b>	<b>6,022</b>	<b>8,809</b>	<b>2,498</b>

# NOTE 13

## FINANCIAL EXPENSES

TSEK	Group		Parent Company	
	2016	2015	2016	2015
Interest expenses	84,872	102,997	-	65
Interest expenses paid to Group companies	-	-	4,416	6,223
Exchange-rate differences	-	65,289	-	7,290
Change in fair value on debt certificates	4,583	6,804	-	-
Loss financial receivable <sup>1)</sup>	40,683	-	-	-
Compensation guarantee agreement <sup>2)</sup>	11,192	-	7,867	-
Restructuring expenses <sup>3)</sup>	8,561	-	-	-
Compensation renegotiated leasing agreement Odin Viking <sup>4)</sup>	20,547	-	-	-
Other financial expenses	15,865	8,785	-	-
<b>Total</b>	<b>186,304</b>	<b>183,875</b>	<b>12,283</b>	<b>13,578</b>

1) When the former owner of the AHTS vessel Odin Viking, Norseman Offshore AS, in October 2016 went into bankruptcy, a loss of TSEK 40,683 was recognized on the financial receivable, the sellers credit, which in 2012 was given by the company to Norseman Offshore AS in conjunction with the sale and lease-back transaction of Odin Viking.

2) As a part of the restructuring process of the Group, a subsidiary to the majority shareholder Kistefos AS, Viking Invest AS, entered into agreements with some of the Groups' financial counterparts. As a consequence, the Group has entered into agreement on market terms with Viking Invest AS. The compensation in these agreements has been agreed on to an annualized fee of 12% covering the associated risk and exposure. The compensation for the year amounted to TSEK 11,192 and has been set off as part of the share issues.

3) Kistefos AS has, through consultancy agreements, made financial services available during the restructuring process for which a compensation of TSEK 8,561 has been set off as part of the new share issues.

4) Odin Viking SPV AS has been compensated by the Group for renegotiated terms in the bareboat charter agreement. The compensation amounts to TSEK 20,547 and has been set off as part of the share issues.

# NOTE 14

## TAXES

TSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Tax in income statement</b>				
– Current tax	-	1,516	-	-
– Deferred tax	3,771	-3,856	-	-40,000
<b>Total</b>	<b>3,771</b>	<b>-2,340</b>	<b>-</b>	<b>-40,000</b>

The discontinuation of TransAtlantic led to a tax write down of MSEK 40 in 2015. The operating activities within TransAtlantic has during 2016 not affected the Groups' tax expenses.

	Group				Parent Company			
	2016		2015		2016		2015	
<b>Difference between recognized tax expense and tax expense based on the current tax rate</b>	TSEK	%	TSEK	%	TSEK	%	TSEK	%
Recognized profit/loss before tax	-373,922	-	-329,736	-	-343,811	-	-289,757	-
Tax at current Swedish tax rate, 22% (22)	82,263	22%	72,542	22%	75,638	22%	63,747	22%
– Difference in tax rate in countries in which operations are conducted	-1,813	-1%	-1,864	-1%	-	-	-	-
– Tonnage-tax based operations <sup>1)</sup>	-79,088	-21%	-77,317	-23%	-	-	-	-
– Effect of non-taxable revenue	2,842	1%	808	0%	19,059	5%	63,527	22%
– Effect of non-deductible expenses	-52	0%	-20	0%	-90,729	-26%	-95,878	-33%
– Change in value of pension commitments	-	0%	-271	0%	-	-	-	-
– Impaired capitalized tax assets	-	0%	-	-	-	0%	-40,000	-14%
– Deficit for tax receivable not recognized	-2,987	-1%	-3,699	-1%	-3,968	-1%	-35,395	-12%
– Adjustment of preceding year's tax	17	0%	4,045	1%	-	0%	4,039	1%
– Other	2,589	1%	3,436	1%	-	0%	-39	0%
<b>Tax expense</b>	<b>3,771</b>	<b>1%</b>	<b>-2,340</b>	<b>-1%</b>	<b>-</b>	<b>0%</b>	<b>-40,000</b>	<b>-14%</b>

1) There is no ordinary income tax from tonnage tax regimes. Tax from tonnage tax regimes is calculated based on the current tonnage and is accounted for in the operating expenses.

TSEK	Group					
	2016			2015		
	Before tax	Tax	After tax	Before tax	Tax	After tax
<b>Tax attributable to other comprehensive income</b>						
Remeasurements of post employment benefit obligations	806	-177	629	1,496	-329	1,167
Change in translation provision	119,550	-	119,550	-119,932	-	-119,932
	<b>120,356</b>	<b>-177</b>	<b>120,179</b>	<b>-118,436</b>	<b>-329</b>	<b>-118,765</b>

TSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Deferred tax liabilities</b>				
– Property, plant and equipment and intangible fixed assets, temporary differences <sup>1)</sup>	-	-3,006	-	-
<b>Deferred long-term tax liability in the balance sheet</b>	<b>-</b>	<b>-3,006</b>	<b>-</b>	<b>-</b>

1) Temporary differences – due to the tax-related recognition of depreciation/amortization and impairment.

2) The deferred tax asset/tax liability is recognized net in each country of operation since offsetting rights are deemed to exist. The loss carryforwards in the Group for Swedish units amount to MSEK 1,048 (1,061) net after deduction for untaxed reserves, of which MSEK 0 (0) was capitalized. Loss carryforwards in the Parent Company amounted to MSEK 775 (757), of which MSEK 0 (0) was capitalized to meet estimated future results. Under Swedish tax law there is no time limit on the use of loss carryforwards.

Temporary differences regarding investments in subsidiaries have not been recognized, since capital gains/losses are not taxable in accordance with the applicable tax legislation.

Deferred tax assets are recognized only insofar as it is probable that the amounts could be utilized against future taxable surpluses.



# NOTE 15

## EARNINGS PER SHARE

	Group	
	2016	2015
Weighted average number of shares excluding treasury shares	181,296,560	177,444,318
Earnings attributable to the Parent Company's shareholders, SEK	-406,482,436	-439,809,179
Earnings per share attributable to the Parent Company's shareholders, SEK	-2.24	-2.48

In the Group, there are no share-option programs that could result in dilution effects.

# NOTE 16

## PARTICIPATIONS IN GROUP COMPANIES, ASSOCIATED COMPANIES

	Corp. Reg. No.	Registered office	Holding		Holding value	
			No. of shares/participations	% of share capital	Carrying amount Dec. 31, 2016, TSEK	Carrying amount Dec. 31, 2015, TSEK
Subsidiaries owned by Parent Company <sup>1)</sup>						
TransAtlantic AB	556208-0373	Gothenburg	1,000,000	100	45,000	135,000
Viking Supply Ships A/S	33369794	Copenhagen	5,000	100	1,845,000	1,983,000
Total					1.890.000	2.118.000

### Other Group companies

Transatlantic Administration AB <sup>2)</sup>	556662-6866	Gothenburg	1,000	100		
Transatlantic Short Sea Bulk AB <sup>2)</sup>	556777-2180	Gothenburg	166,667	100		
Transatlantic Ship Management AB <sup>2)</sup>	556901-2858	Gothenburg	1,000	100		
Transatlantic Fleet Services AB <sup>2)</sup>	556074-5431	Gothenburg	20,000	100		
TRVI Offshore & Icebreaking AB <sup>2)</sup>	556710-9003	Gothenburg	500	100		
TRVI Offshore & Icebreaking 3 AB <sup>2)</sup>	556733-1102	Skärhamn	1,000	100		
TRVI Offshore & Icebreaking 4 AB <sup>2)</sup>	556733-1094	Skärhamn	1,000	100		
Viking Supply Ships Management AB	556858-2463	Gothenburg	1,000	100		
Viking Icebreaker Management AB	556679-1454	Gothenburg	1,000	100		
Short Sea Bulk AS <sup>2)</sup>	913 350 790	Oslo	30,000	100		
Viking Ice Consultancy AS	913 740 998	Kristiansand	300	100		
Viking Supply Ships AS	981240030	Sarpsborg	50	100		
Viking Supply Ships PSV AS	814 837 572	Kristiansand	300	100		
Viking Supply Ships Crewing ApS	33775199	Copenhagen	800	100		
Viking Supply Ships 5 ApS	34471800	Copenhagen	800	100		
Viking Supply Ships Limited	1107746094060	Moscow		100		
Viking Supply Ships Limited	SC303430	Aberdeen, UK	7,900,001	100		
Viking Supply Ships (Holdings) LTD	SC180512	Aberdeen, UK	76,924	100		
OY Transatlantic Services AB <sup>2)</sup>	1735038-1	Helsinki	100	100		
Transatlantic Shipping (2) LTD <sup>2)</sup>		Gibraltar		100		
Transatlantic Shipping (3) LTD <sup>2)</sup>		Gibraltar		100		
Transatlantic Shipping (4) LTD <sup>2)</sup>		Gibraltar		100		
Transatlantic Shipping (5) LTD <sup>2)</sup>		Gibraltar		100		
Transhawk LTD <sup>2)</sup>		Gibraltar		100		

### Consolidated value of associated companies

Industrial Shipping DIS <sup>3)</sup>	Oslo	38	-	17,684
<b>Total</b>			-	<b>17,684</b>

1) The Parent Company in the Group is Viking Supply Ships AB, corp. reg. no. 556161-0113, with its registered office in Gothenburg, Sweden.

2) The companies are subsidiaries of TransAtlantic AB, see note 33 Discontinued operations and assets held for sale.

3) The company which holds 5 small bulk vessels chartered by the Group, is a subsidiary of TransAtlantic AB, see note 33 Discontinued operations and assets held for sale.

# NOTE 17

## OTHER LONG-TERM RECEIVABLES

TSEK	Group		Parent Company	
	2016	2015	2016	2015
Opening balance	164,745	59,256	17,317	17,878
Acquisitions during the year	-	110,389	-	-
Divestments during the year <sup>1)</sup>	-148,649	-4,900	-2,131	-561
<b>Closing balance</b>	<b>16,096</b>	<b>164,745</b>	<b>15,186</b>	<b>17,317</b>

Largest individual items consist of:				
TSEK	Group		Parent Company	
	2016	2015	2016	2015
Endowment insurances <sup>2)</sup>	15,186	18,144	15,186	17,317
Pledged bank funds	-	103,521	-	-
Promissory note – sale of Odin Viking, see note 30	-	39,660	-	-
Other	910	3,420	-	-
<b>Total</b>	<b>16,096</b>	<b>164,745</b>	<b>15,186</b>	<b>17,317</b>

Please also see note 31 Financial risk management and derivative instruments.

1) The divestment for the year mainly relates to the release of pledged bank funds which have been used for extra amortizations of ship loans in conjunction with the financial restructuring, and the confirmed loss of the financial receivable when Odin Vikings' owner, Norseman Offshore AS, went into bankruptcy.

2) Relates to and correspond with pension obligations, reported at fair value.

# NOTE 18

## INVENTORIES

Inventories comprise bunker oil, lubricating oil and cargo handling equipment.

# NOTE 19

## ACCOUNTS RECEIVABLE

The carrying amount for accounts receivable is classified as follows:

TSEK	Group		Parent Company	
	2016	2015	2016	2015
Invoiced receivables	16,250	109,647	583	7,377
Provision for doubtful receivables	-445	-2 610	-445	-453
<b>Total</b>	<b>15,805</b>	<b>107,037</b>	<b>138</b>	<b>6,924</b>

The carrying amount for accounts receivable correspond to the fair value since the discount effect is negligible.



The provision for doubtful receivables changed as follows:

TSEK	Group		Parent Company	
	2016	2015	2016	2015
Opening balance	2,610	2,876	453	1,588
Reclassified to assets held for sale, see note 33.	-2,157	-	-	-
Provisions for doubtful receivables	-	1,412	-	-
Confirmed losses	-	-1,591	-	-1,105
Reversed provisions	-8	-87	-8	-30
<b>Closing balance</b>	<b>445</b>	<b>2,610</b>	<b>445</b>	<b>453</b>

Confirmed losses on accounts receivable amounted to TSEK 0 (1,591). In addition to the recognized provisions, the remaining accounts are deemed to be subject to only minor credit risk. The maximum exposure for credit risks on the closing date is the carrying amount of each category of receivables mentioned above.

Age analysis regarding unimpaired accounts receivable:

TSEK	Group		Parent Company	
	2016	2015	2016	2015
Not due	12,554	99,346	138	875
Due date exceeded by up to 30 days	1,968	1,426	-	-
Due date exceeded by 31–60 days	1,182	6,526	-	6,049
Due date exceeded by 61 days or more	101	2,349	-	453
<b>Total</b>	<b>15,805</b>	<b>109,647</b>	<b>138</b>	<b>7,377</b>

## NOTE 20

### PREPAID EXPENSES AND ACCRUED INCOME

TSEK	Group		Parent Company	
	2016	2015	2016	2015
Prepaid personnel expenses	38	148	-	-
Prepaid insurance	6,474	11,038	130	110
Accrued voyage income	2,171	11,002	-	-
Accrued interest income	-	28	-	-
Other prepaid expenses and accrued income	10,022	16,303	-	321
<b>Total</b>	<b>18,705</b>	<b>38,519</b>	<b>130</b>	<b>431</b>

## NOTE 21

### CASH-FLOW STATEMENT

The acquisition/divestment of shares in subsidiaries is recognized in the consolidated financial statements as paid/received purchase consideration less the acquired/divested subsidiary's cash and cash equivalents on the date of acquisition/divestment.

TSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Cash and cash equivalents</b>				
Opening cash and bank balances	194,560	449,733	33,959	97,212
Changes in cash and bank balances for the year	78,590	-255,173	-15,688	-63,253
<b>Cash and cash equivalents at year-end <sup>1)</sup></b>	<b>273,150</b>	<b>194,560</b>	<b>18,271</b>	<b>33,959</b>

1) The Group's cash and cash equivalents includes prepayments from external clients totaling MSEK 32 to be utilized in external ship management operations. In loan agreements, VSS A/S has committed, at any time, to ensure that cash and cash equivalents do not fall below MUSD 7.0, which at the balance day corresponded to MSEK 64.1. At the balance day, the cash holdings of VSS A/S amounted to MUSD 27.3, which at the balance day corresponded to MSEK 250.2.

# NOTE 22

## SHARE CAPITAL

SEK	Share capital					
	2016			2015		
	Series A shares	Series B shares	Total	Series A shares	Series B shares	Total
Share capital, Jan. 1	11,634,946	165,809,372	177,444,318	11,634,946	165,809,372	177,444,318
New share issue <sup>1)</sup>	9,049,402	157,051,598	166,101,000	-	-	-
<b>Share capital, Dec. 31</b>	<b>20,684,348</b>	<b>322,860,970</b>	<b>343,545,318</b>	<b>11,634,946</b>	<b>165,809,372</b>	<b>177,444,318</b>

	Number of shares					
	2016			2015		
	Series A shares	Series B shares	Total	Series A shares	Series B shares	Total
Number of shares, Jan. 1	11,634,946	165,809,372	177,444,318	11,634,946	165,809,372	177,444,318
New share issue <sup>1)</sup>	9,049,402	157,051,598	166,101,000	-	-	-
<b>Number of shares, Dec. 31</b>	<b>20,684,348</b>	<b>322,860,970</b>	<b>343,545,318</b>	<b>11,634,946</b>	<b>165,809,372</b>	<b>177,444,318</b>

	Number of votes					
	2016			2015		
	Series A shares	Series B shares	Total	Series A shares	Series B shares	Total
Number of votes	206,843,480	322,860,970	529,704,450	116,349,460	165,809,372	282,158,832
<b>Total number of votes</b>	<b>206,843,480</b>	<b>322,860,970</b>	<b>529,704,450</b>	<b>116,349,460</b>	<b>165,809,372</b>	<b>282,158,832</b>

The quotient value is SEK 1 per share. The Group has no option programs.

*1) In December 2016 the following new share issues were registered with the Swedish Companies Register:*

- A new share issue with preferential rights for existing shareholders whereby the number of shares was increased by 9,049,402 series A shares and by 128,962,844 series B shares, total 138,012,246 new shares. The issue price was SEK 1.50 per share.
- A share issue with payment against set-off to Viking Invest AS whereby the number of shares was increased by 11,455,864 series B shares. The issue price was SEK 1.50 per share.
- A share issue with payment against set-off to Viking Invest AS whereby the number of shares was increased by 1,838,490 series B shares. The issue price was SEK 1.50 per share.
- A share issue with payment against set-off to the owners of Odin Viking, Odin Viking SPV AS, whereby the number of shares was increased by 14,794,400 series B shares. The issue price was SEK 1.50 per share.

*1) In January 2017 the following new share issues were registered with the Swedish Companies Register:*

- A share issue, at balance-day subscribed for, with cash payment to the owners of Odin Viking, Odin Viking SPV AS, whereby the number of shares after the end of the year was increased by 28,355,933 series B shares. The issue price was SEK 1.50 per share.
- A share issue, at balance-day agreed on, with payment against set-off to the owners of Odin Viking, Odin Viking SPV AS, whereby the number of shares after the end of the year was increased by 37,691,709 series B shares. The issue price was SEK 1.50 per share. Also see note 32 Events after the closing date.

# NOTE 23

## DIVIDEND PER SHARE

At the Annual General Meeting on 30 May 2017, it will be proposed that no dividend be paid for the 2016 fiscal year.



# NOTE 24

## PENSION PROVISIONS

Post-employment employee benefits mainly take the form of ongoing payments to independent authorities or insurance companies, which subsequently assume responsibility for the commitments to employees. These types of arrangements are called defined-contribution plans.

The commitment for old-age pensions and survivor pensions for employees in Sweden is covered through insurance with Alecta. According to a statement from the Swedish Financial Reporting Board, URF 10, this is a defined-benefit multi-employer plan. For the 2016 fiscal year, the Group did not have access to such information that makes it possible to report this plan as a defined-benefit plan. The pension plan in accordance with ITP2, which is safeguarded through insurance with Alecta, is therefore reported as a defined -contribution plan. Alecta's surplus can be distributed to the insurers and/or the insured. At the end of 2016, Alecta's surplus in the form of the collective consolidation level was 149% (153). The collective consolidation level comprises the market value of Alecta's assets as a percentage of the insurance commitment calculated in accordance with Alecta's actuarial calculation assumption, which does not correspond with IAS 19. The pension plan ITP1 is reported as a defined-contribution plan.

Defined benefit plans are characterized by the fact that the Group retains its commitment until the pension has been paid. The costs and provisions for defined-benefit plans are assessed through actuarial calculations with the purpose of determining the present value of the commitment. Defined benefit plans exist only in Sweden.

Commitments are secured through pension insurances with investments primarily in interest funds and equity funds. The Group is exposed to risk of decline in value of the plan assets.

As the Group does not enter into any new defined-benefit plans no material change is expected in the net expenses for the deferred-benefit plans the coming year in comparison to 2016.

The tables below provide data on the Group's defined benefit plans, the assumptions used in the calculations, the expenses recognized and the values of the commitments and plan assets.

TSEK	Group				
	2016	2015	2014	2013	2012
<b>Yearly overview</b>					
At closing date					
Present value of defined-benefit obligations	11,205	11,550	13,417	13,341	17,356
Fair value of plan assets	-16,107	-16,494	-16,643	-17,662	-21,416
Payroll tax liability	5,876	6,823	7,063	7,447	8,311
<b>Net liability</b>	<b>974</b>	<b>1,879</b>	<b>3,837</b>	<b>3,126</b>	<b>4,251</b>

TSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Assumptions applied in actuarial calculations</b>				
Sweden				
Average discount interest rate, %	2.80%	3.30%	2.80%	3.30%
Projected return on plan assets, %	2.80%	3.30%	2.80%	3.30%
Estimated long-term salary increase, %	3.00%	3.00%	3.00%	3.00%
Estimated long-term inflation, %	2.00%	2.00%	2.00%	2.00%
Assumptions regarding mortality are the same as those specified by the Swedish Financial Supervisory Authority (FFFS 2007:31).				
<b>Pension expenses for the year</b>				
Cost of benefits vested during the year	375	420	-	-
Interest expense	361	317	228	215
Projected return on plan assets (-)	-523	-396	-228	-203
<b>Expenses for the year pertaining to defined-benefit pension plans</b>	<b>213</b>	<b>341</b>	<b>-</b>	<b>12</b>
Expenses for the year pertaining to defined-contribution pension plans	41,018	46,767	-	-
Payroll tax expense for the year	4,303	5,029	155	389
<b>Pension expense for the year included in personnel costs</b>	<b>45,534</b>	<b>52,137</b>	<b>155</b>	<b>401</b>
Actual return on plan assets, %	12.0%	6.4%	10.5%	2.0%

1) All items are recognized as personnel costs. Of the costs for defined-contributions plans, TSEK 8,065 (11,855) comprises premiums to Alecta. The premiums for the coming fiscal year is expected to equal 2016.

Changes in fair value of plan assets TSEK	Group		Parent Company	
	2016	2015	2016	2015
Plan assets, Jan. 1	16,494	16,643	7,614	8,941
Expected return	523	396	228	203
Withdrawal	-2,607	-1,493	-1,579	-1,492
Premiums/deposits	288	289	-	-
Actuarial gains/(losses)	1,409	659	516	-38
<b>Plan assets, Dec. 31</b>	<b>16,107</b>	<b>16,494</b>	<b>6,779</b>	<b>7,614</b>

These assets consist primarily of funds investing in shares, bonds and money-market instruments.

TSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Changes in defined-benefit pension obligation</b>				
Obligation, Jan. 1	11,550	13,417	7,613	9,438
Cost of benefits earned during the year	375	420	-	-
Interest expense	361	317	228	215
Pension payments	-1,564	-1,767	-1,341	-1,492
Actuarial (gains)/losses	483	-837	636	-548
<b>Obligation, Dec. 31</b>	<b>11,205</b>	<b>11,550</b>	<b>7,136</b>	<b>7,613</b>
<b>Actuarial gains and losses</b>				
Actuarial gains/(losses) on assets	1,409	659	516	-38
Actuarial gains/(losses) on liabilities	-483	837	-636	548
<b>Actuarial gains/(losses)</b>	<b>926</b>	<b>1,496</b>	<b>-120</b>	<b>510</b>
<b>Change in payroll tax liability</b>				
Liability in balance sheet, Jan. 1	6,823	7,063	6,609	7,016
Change in payroll-tax liability for the year	-947	-240	-733	-407
<b>Payroll tax liability, Dec. 31</b>	<b>5,876</b>	<b>6,823</b>	<b>5,876</b>	<b>6,609</b>
<b>Liability in balance sheet</b>				
Pension obligation	11,205	11,550	7,136	7,613
Payroll tax liability	5,876	6,823	5,876	6,609
<b>Liability in balance sheet, Dec. 31</b>	<b>17,081</b>	<b>18,373</b>	<b>13,012</b>	<b>14,222</b>
<b>Net liability in balance sheet</b>				
Plan assets (-)	-16,107	-16,494	-6,779	-7,614
Pension obligation	11,205	11,550	7,136	7,613
Payroll tax liability	5,876	6,823	5,876	6,609
<b>Net liability, Dec. 31</b>	<b>974</b>	<b>1,879</b>	<b>6,233</b>	<b>6,608</b>
<b>Reconciliation of changes in net liability</b>				
Liability in balance sheet, Jan. 1	1,879	3,837	6,608	7,513
Pension expenses for the year (+)	213	341	-	12
Payment to plan assets (-)	-288	-289	-	-
Withdrawal from plan assets (+)	2,607	1,493	1,579	1,492
Pension payments (-)	-1,564	-1,767	-1,341	-1,492
Actuarial (gains)/losses	-926	-1,496	120	-510
Change in payroll-tax liability for the year	-947	-240	-733	-407
<b>Net liability, Dec. 31</b>	<b>974</b>	<b>1,879</b>	<b>6,233</b>	<b>6,608</b>

Analysis of the sensitivity in the defined-benefit commitments to changes in the assumptions applied in the actuarial calculations TSEK	The expected pension obligation	Change compared to the applied actuarial assumptions
Pension commitment according to current assessment (+) debt	11,205	-
Discount interest rate +1 %	10,168	-1,037
Inflation +1 %	12,338	1,133
Salary increase +1 %	11,482	277

The above sensitivity analysis is based on a change in one assumption while all other assumptions are held constant.



# NOTE 25

## LIABILITIES

### GROUP

The Group's total interest-bearing liabilities amounted to MSEK 1,927 (2,334) at the closing-date rate. In addition, there were non-interest-bearing liabilities totaling MSEK 326 (393).

The interest bearing liabilities are associated with financial covenants, according to which the Group must fulfil certain key ratios. At the balance date all covenants were in compliance.

In addition hereto, the interest bearing liabilities were also associated with loan clauses, such as contract coverage clauses and loan-to-value clauses, according to which VSS A/S had to fulfill certain ratios of contract coverage and loan-to-value ratios, pursuant to the individual loan agreements. If these ratios were not met, VSS A/S 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 were met then the obligation of providing additional security would cease. Until 23 December 2016, VSS A/S had provided the lenders with a total of MSEK 82 in additional security.

Calculations of contract coverage and loan-to-value ratios as at 31 December 2015 showed a requirement for the Group to deposit cash or provide additional security during Q1 2016, partly to be remedied before the end of January 2016. Further in 2016, the Group was not able to comply with events of default provisions in loan agreements, which rendered all VSS A/S borrowings short-term and payable on demand by the lenders.

As part of the financial restructuring the following has taken place in terms of the interest bearing liabilities:

- VSS A/S' bank facilities are extended until 31 March 2020.
- Financial covenants on the bank facilities are amended to provide VSS A/S with ample room to operate under the present challenging market conditions.
- Contribution from the banks of approximately MUSD 215, including deferral of maturities and amortization schedules.
- Deferred amortization structure under bank facilities, with fixed quarterly repayment in the amount of USD 750,000 from 2018.
- In addition to the fixed amortizations under the bank facilities payable from 31 March 2018, there will be a cash sweep mechanism, whereby cash on hand exceeding certain levels shall be distributed as repayment of the bank facilities from 2018. During 2017, the cash sweep amounts have been pre-agreed.
- Extraordinary repayments in an aggregate amount of approximately MUSD 23.7. The extraordinary repayments were done partly from the provided additional security.
- All loans previously denominated in NOK and GBP have been converted to USD during Q4 2016.
- The bond loan has been delisted on 12 January 2017 (see below).
- The cash redemption of the bond is partly funded by a loan of MNOK 20 provided by one of VSS A/S' existing lenders.

In March 2012 VSS A/S 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 A/S was holding nominal MNOK 189 of this bond, implying MNOK 196 was outstanding. As a result of an agreement that has been resolved by the bondholders in conjunction with the key terms of the debt restructuring plan, the bond agreement has been changed in 2016 and the bond has been delisted from Nordic ABM on 12 January 2017 (see note 1, Significant estimates and assessments).

At the expiration and redelivery of two bareboat vessels in TA AB there was a residual value guarantee commitment for the Group in favor of the financing bank. The commitment amounted to a total of MSEK 70 and was repaid in December 2016. Further, in a loan agreement within TA AB there was a loan-to-value clause that the bank had invoked and requested an instalment of MSEK 52. This loan facility was fully repaid in December 2016. All remaining bank loans related to TA AB were fully repaid during Q4.

### PARENT COMPANY

The Parent Company's total interest-bearing liabilities amounted to MSEK 0 (145). In addition, there were non-interest-bearing liabilities and provisions totaling MSEK 69 (199).

## TOTAL INTEREST-BEARING LIABILITIES, DISTRIBUTED BY CURRENCY

TSEK	Group	
	Dec. 31, 2016	Dec. 31, 2015
USD	1,927,475	1,033,387
EUR	-	26,282
NOK	-	822,745
GBP	-	451,723
<b>Total</b>	<b>1,927,475</b>	<b>2,334,137</b>

## TOTAL FUTURE CONTRACTUAL COMMITMENTS

TSEK	Group		
	2017	2018-2021	After 2021
Interest-bearing liabilities including calculated future interests	130,150	2,024,065	-
Derivative instruments	-	11,332	-
Accounts payable	22,855	-	-
Other liabilities	187,733	-	-
<b>Total</b>	<b>340,738</b>	<b>2,035,397</b>	-

TSEK	Parent Company		
	2017	2018-2021	After 2021
Liabilities to credit institutions	-	-	-
Liabilities to Group companies	27,369	-	-
Accounts payable	1,928	-	-
Other liabilities	13,963	-	-
<b>Total</b>	<b>43,260</b>	-	-

### GROUP

At December 31, the Group had no credit facilities or unutilized overdraft facilities.

### PARENT COMPANY

At December 31 the Parent Company had no credit facilities or unutilized overdraft facilities.

# NOTE 26

## ACCRUED EXPENSES AND DEFERRED INCOME

TSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Group</b>				
Accrued personnel costs	35,226	47,144	1,089	796
Accrued interest expenses	2,034	1,680	-	-
Accrued voyage costs	5,666	14,477	-	-
Prepaid time charter revenues	-	26,580	-	15,983
Accrued other expenses	29,252	58,977	3,507	14,392
<b>Total</b>	<b>72,178</b>	<b>148,858</b>	<b>4,596</b>	<b>31,171</b>



# NOTE 27

## PLEDGED ASSETS

TSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>For current and long-term ship loans:</b>				
- Ship mortgages	4,507,259	3,739,564	-	-
- Shares in subsidiaries	743,762	591,703	-	-
- Bank funds	-	103,521	-	-
<b>For pension obligations:</b>				
- Endowment insurances and plan assets	31,293	34,638	21,965	24,931
<b>Total</b>	<b>5,282,314</b>	<b>4,469,426</b>	<b>21,965</b>	<b>24,931</b>

# NOTE 28

## CONTINGENT LIABILITIES

TSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Sureties</b>	-	-	-	<b>228,564</b>
- of which, for subsidiaries	-	-	-	203,633

The Parent Company has provided a guarantee regarding a subsidiary's completion of time-charter agreements, which also comprise parts of the undertaking of the divested subsidiary of a divested subsidiary (valid through 2018). For the latter, there is also a reciprocal guarantee from an external party for an equivalent amount. The company was divested in 2005.

# NOTE 29

## COMMITMENTS

### Leasing commitments

The Group leases vessels, buildings and equipment through leasing agreements.

### Operational leasing

#### AHTS

In December 2012 a sale-and-leaseback agreement was entered into regarding the AHTS vessel Odin Viking. During 2016 the owner of Oding Viking, Norseman Offshore AS, was declared bankrupt whereby a new leasing agreement was entered into with the new owners of Oding Viking, Odin Viking SPV AS. The new agreement has, in relation to the previous agreement, resulted in a reduced charter hire, a maximum TUSD 10 per day, and runs until 2 August 2024.

### Operational leasing revenue

Operational leasing revenue derives from vessels leased on time- and bareboat charter contracts.

At 31 December, 2016 the number of vessels leased as part of the continuing operations was 1 (1 at 31 December, 2015), and the number of vessels leased to others was 2 (3 at 31 December, 2015).

The above future leasing fees are the Group's nominal minimum fees. None of the 2016 leasing fees were variable. None of the total future contractual obligations are variable fees.

<b>TSEK</b>	<b>2016</b>	<b>2017</b>	<b>20178-2021</b>	<b>After 2021</b>
<b>Leasing expenses</b>				
<b>Operational leases</b>	<b>22,356</b>	<b>33,835</b>	<b>133,867</b>	<b>86,481</b>
Of which: - Bareboat charter	10,530	32,064	133,844	86,481
- Other	11,826	1,771	23	-
<b>Leasing revenues</b>				
<b>Operational leases</b>	<b>603,168</b>	<b>14,537</b>	<b>-</b>	<b>-</b>

The above future leasing fees are the Group's nominal minimum fees. None of the 2016 leasing fees were variable. None of the total future contractual obligations are variable fees.

## NOTE 30

### RELATED-PARTY TRANSACTIONS

As part of the restructuring process of the Group, a subsidiary to the majority shareholder Kistefos AS, Viking Invest AS, has entered into agreements with some of the Group's financing counterparts. As a consequence, the Group has entered into agreements on market terms with Viking Invest AS. The compensation in these agreements has been agreed to an annualized fee of 12 % covering the associated risk and exposure. The compensation for the year amounted to MSEK 10 and has been set-off as part of the new share issues.

Kistefos AS has, through consultancy agreements, made transaction related services available during the restructuring process for which a compensation of MSEK 10 has been set-off as part of the new share issues.

The Group has entered into a long-term bareboat charter agreement with a subsidiary to Kistefos AS, Odin Viking SPV AS, in relation to hire of the AHTS vessel Odin Viking. The nominal minimum lease hire payments amount to MSEK 253 until expiry on August 2, 2024. Odin Viking SPV AS has also been compensated for renegotiated terms of the bareboat charter agreement. The compensation amounts to MSEK 22 and has been set off as part of the new share issues.

Further, Viking Invest AS has, as a part of the restructuring process, entered into a share subscription guarantee agreement. The compensation for this guarantee amounts to MSEK 3 and has been set-off as part of the new share issues.

## NOTE 31

### FINANCIAL RISK MANAGEMENT AND DERIVATIVE INSTRUMENTS

In its operations, the Group is exposed to various types of financial risks, such as changes in exchange rates and interest rates, as well as liquidity and credit risks.

The Group's goal is to minimize such negative effects in the consolidated income statement and balance sheet.

Risk management is handled by the Group's central finance department on the basis of the Finance Policy established by the Board of Directors. The policy contains instructions on how various financial risks are to be managed, where hedging instruments can be used to reduce the financial risks. The policy also includes instructions for managing credit and liquidity risks through financing and committed lines of credit.

#### Credit risks

The Group formulates a policy for how credits are to be provided to customers and other business partners. The credits provided are primarily short-term credits in the form of receivables from customers. Credit risk in cash and cash equivalents is managed by investing the liquidity with major Swedish banks.

#### Liquidity risks

An inadequate liquidity reserve constitutes a liquidity risk for the Group. This can lead to difficulties in discharging current payment liabilities in operating activities, planned investments and amortizations.

The Financial Department continuously prepares liquidity forecasts for the Group that are aimed at foreseeing the Group's liquidity requirement for operating activities, taking into account future investment requirements and amortization. Based on this work, a liquidity reserve is ensured by maintaining bank balances/investments and



committed lines of credit. The most significant liquidity risk relates to the volatility in the charter rates, which in a high degree affect the Groups cash flow. The Group intends to meet its payment obligations by cash flow generated from operations, external financing and, if necessary, the sale of assets. For information regarding the maturity structure of liabilities, see also Note 25.

Surplus liquidity is invested in accordance with the established finance policy.

### Currency risks

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 Viking Supply Ships A/S 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 the subsidiaries 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 Groups assets and liabilities distributed per currency

The currency exposure of assets is to be primarily managed through financing being raised in the same currency as the asset, which in a high degree is applied within the Group to minimize currency risk. The Parent Company has a number of foreign subsidiaries, whose net assets are exposed to currency-translation risk, mainly changes in USD versus SEK. These currency positions have not been hedged. A change in USD versus SEK of 1% would have, based on the currency distribution at 31 December 2016, impacted the net assets of the Group by approximately MSEK 15, which would have been accounted for in the other comprehensive income.

TSEK	Fixed assets	Accounts receivable	Cash assets	Interest-bearing loans	Accounts payable	Net position
NOK	871	526	5,216	-	205	6,409
USD	3,228,262	14,923	224,168	1,927,475	11,171	1,528,707
GBP	-	-	2,388	-	-	2,388
SEK	-	322	22,612	-	10,843	12,090
EUR	-	34	15,169	-	-	15,203
DKK	-	-	2,409	-	636	1,773
Other	-	-	1,188	-	-	1,188
	3,229,133	15,805	273,150	1,927,475	22,855	1,567,757

The exposure to changes in other currencies is limited and such changes are not expected to have any material impact on the Groups balance sheet. The Group's cash flow was during 2016 mainly denominated in USD, GBP, SEK, NOK and RUB. Since most of the vessels currently are operating in the spot market, and currency distribution thus thereby will vary, there are uncertainties of future distribution by currency, mainly on the revenues of the Group. In accordance with the Finance Policy, currency risks affecting cash flow must primarily be managed by balancing currency flows so that inward and outward flows offset one another. Invoiced net flows can be hedged to a maximum of 100% per currency pair and up to 50% of 12-months' forecast net flows per currency pair. On the balance-sheet date, the Group had no open currency hedging contracts.

If the average of below mentioned currencies during 2016 would have been 10% stronger versus SEK, the result of the Group would be affected by:

Currency	MSEK
USD	-25
GBP	14
NOK	6
RUB	-8

### Interest-rate risks

The Finance Policy states that interest-rate risk must be hedged through financial instruments that limit exposure to interest-rate increases.

The Group's policy is that the average fixed interest period for the Group's consolidated borrowing must, at any given time, be at least 180 days and a maximum of three years.

A maximum of 25% of the loan should have a fixed-interest period of less than 90 days or longer than three years.  
Interest-rate terms

#### Interest-rate terms

The Group uses various kinds of interest-hedging instruments. At the closing date, the Group held the following interest-rate maturities:

MSEK	Less than 90 days 90 days–3 years 3 years or longer			Total
Total interest-bearing loan values	-	1,927	-	1,927
% of total interest-bearing loan values	0%	100%	0%	100%

The weighted average interest rate for interest-bearing loans amounted to:	Group		Parent Company	
	2016	2015	2016	2015
%	3.22	4.15%	3.00%	3.65%

With a change in market interest rates of 1 percentage point, the Group's interest expense would change by MSEK 19.

#### Bunker risks

The Groups vessels are chartered out on time-charter basis where the charterer is responsible for the bunker consumption as well as carries the risk of changes in bunker prices during the charter period.

The Group is for other periods, when the vessels are off-hire, responsible for bunker consumption and carries the risk for changes in bunker prices. At the end of the year, the Group had no derivative instruments related to bunker oil.

### FINANCIAL INSTRUMENTS BY CATEGORY

	Accounts receivable and cash and cash equivalents		Derivative instruments used for hedging purposes		Financial assets held for sale		Total	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
<b>TSEK</b>								
<b>Assets in the balance sheet</b>								
Short-term investments (debt certificates) <sup>1)</sup>	-	-	-	-	-	30,558	-	30,558
Accounts receivable and other receivables, excl. interim receivables <sup>4)</sup>	107,043	170,440	-	-	-	-	107,043	170,440
<b>Total</b>	<b>107,043</b>	<b>170,440</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,558</b>	<b>107,043</b>	<b>200,998</b>

	Liabilities measured at FVTPL		Derivative instruments used for hedging purposes <sup>5)</sup>		Other financial liabilities		Total	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
<b>TSEK</b>								
<b>Liabilities in the balance sheet</b>								
Loans, excluding liabilities pertaining to financial leasing <sup>4)</sup>	-	-	-	-	1,927,475	2,315,564	1,927,475	2,315,564
Derivative instruments <sup>2)</sup>	-	-	11,332	17,928	-	-	11,332	17,928
Accounts payable and other liabilities, excl. interim liabilities <sup>4)</sup>	-	-	-	-	226,748	245,193	226,748	245,193
<b>Total</b>	<b>-</b>	<b>-</b>	<b>11,332</b>	<b>17,928</b>	<b>2,154,223</b>	<b>2,560,757</b>	<b>2,165,555</b>	<b>2,578,685</b>

1) Fair value based on listed market prices, where financial instruments are traded on an active market (Level 1).

2) Fair values for which there are no listed market values, but instead are based on measurements of discounted cash flows. Variables in the measurement model, such as exchange rates and interest rates, are derived from market listings when possible (Level 2).

3) Other measurements in which one variable is based on own assessments (Level 3).

4) Recognized at amortized cost.

5) Fair value measurement is based on average prices and does not reflect the customary difference between buy and sell prices for these transactions.



**Fair value**

Fair values for the Group's financial instruments on the closing date were as follows:

TSEK	Group			
	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets in the balance sheet</b>				
Short-term investments (debt certificates)	-	-	30,558	30 558
Accounts receivable and other receivables, excl. interim receivables	107,043	107,043	170,440	170 440
<b>Total</b>	<b>107,043</b>	<b>107,043</b>	<b>200,998</b>	<b>200 998</b>
<b>Liabilities in the balance sheet</b>				
Loans (excluding liabilities pertaining to financial leasing)	1,927,475	1,927,475	2,315,564	2 334 137
Interest-hedging instruments <sup>1)</sup>	11,332	11,332	17,928	17 928
Accounts payable and other liabilities, excl. interim liabilities	226,748	226,748	245,193	245,193
<b>Total</b>	<b>2,165,555</b>	<b>2,165,555</b>	<b>2,578,685</b>	<b>2,597,258</b>

1) Hedge accounting is not applied for the Group's interest-hedging instruments. Value changes in these instruments are recognized in consolidated profit and loss, see note 9.

The Parent Company does not hold any financial instruments.

## NOTE 32

### EVENTS AFTER THE CLOSING DATE

#### FINANCIAL RESTRUTURING

The bond settlement by way of cash redemption and the set-off equity issue in VSS AB was completed on January 12, 2017. Under the settlement, bondholders of record as of December 30, 2016 (the "Record Date") have received 36,821,058 new class B-shares in VSS AB and NOK 34,419,682.96 in cash as payment of the total outstanding principal amount - NOK 199,341,169, and holders as of the date of the Record Date of the right to receive interest coupon due on the bonds on June 21, 2017 ("Eligible Couponholders") (in total NOK 9,232,561.83) have received 870,650 new class B-shares and NOK 813,868.94 in cash. The cash redemption is partly funded by a loan of MNOK 20 provided by one of Viking Supply Ships A/S' existing lenders. The bond settlement generated a gain of MSEK 110 which has been recognized in January 2017.

#### OTHER SUBSEQUENT EVENTS

During the fourth quarter Viking Supply Ships decided to re-flag its four DIS-flagged vessels to Norway under NOR-flag. The flag-change process was completed shortly after the end of the first quarter of 2017.

In 2016 Magne Viking was certified according to the IMO Polar Code. As soon as the Polar Code entered into force on 1 January 2017 the work of certifying the rest of the fleet began. By early April 2017 all four Loke-class vessels were fully compliant and certified in accordance with the Polar Code.

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. Viking Supply Ships will continue to closely monitor the market development and impairment exposure of the PSV fleet's carrying amount.

# NOTE 33

## DISCONTINUED OPERATION AND ASSETS HELD FOR SALE

During 2016 it was decided to discontinue the remaining operations in the subsidiary TransAtlantic AB in order to meet financing commitments related to these operations. The decision led to initiations of discussions and negotiations with employees, partners and other stakeholders. At the end of the year, basis concluded asset sales, fulfilled financial commitments and outcome from the negotiations and discussions, the assessment is that the discontinuation is likely to be concluded within the next 12 months. Due to this, the Group in its financial reports, according to IFRS 5 Assets held for sale and discontinued operations, recognized TransAtlantic AB as discontinued operations and assets held for sale, which means that TransAtlantic AB is reported as a one-line item in the consolidated profit and loss statements. Assets and liabilities related to TransAtlantic AB are also presented in two rows in the consolidated balance sheet. The consolidated cash flow statement is presented including TransAtlantic AB, but with information about cash-flow from current operations and investing- and financing activities of TransAtlantic AB on separate rows. Comparative figures for prior periods are also presented in accordance with this classification in the consolidated profit and loss statement and cash-flow statement.

During the second quarter TransAtlantic AB sold the two small bulk vessels TransAndromeda and TransCapricorn.

The process to discontinue the remaining operations within TransAtlantic AB continued during the fourth quarter. Viking Supply Ships, through its fully owned subsidiary TransAtlantic AB, has during the fourth quarter novated three long term bareboat charter agreements for the RoRo vessels TransPaper, TransPulp and TransTimber to Svenska Orient Linien (SOL) together with time charter agreements for the same vessels. The transaction had a positive effect on the profit and loss and liquidity during the fourth quarter of MSEK 17. Furthermore, TransAtlantic AB concluded the agreement to sell the vessel TransFighter during the fourth quarter. The sale had no effect on the profit and loss and no liquidity effect as the sales proceeds were fully utilized for amortization of vessel loans. The sale of TransReel, which also was concluded during the fourth quarter, gave a positive result of MSEK 10, but as the funds were used to cover amortization of vessel loans it had no liquidity effect. All bank loans related to TransAtlantic AB, as well as the bareboat charter related residual value guarantee, were fully repaid during the fourth quarter.

The remaining operations classified as discontinued operation and assets held for sales comprised at the end of the year of five bareboat chartered small bulk vessels, which matures within three years, from a company in which TransAtlantic AB is a 38 % shareholder.

The assets held for sale are, according to IFRS 5, measured at the lower of carrying amount and fair value less costs to sell. The valuation of the 38 % shareholding in Industrial Shipping DIS, which owns the five small bulk vessels, is supported by independent broker valuations.

## PROFIT/LOSS FROM DISCONTINUED OPERATIONS

TSEK	2016	2015
Net sales	308,875	863,317
Other operating revenue	34,054	37,425
Direct voyage costs	-4,252	-344,876
Personnel costs	-8,738	-139,732
Other external operating costs	-319,817	-436,971
Other operating costs	-	-3,765
Depreciation and impairment of property, plant, equipment and intangible assets	-27,460	-29,583
Profit from shares in associated companies	-9,920	346
<b>Operating profit/loss</b>	<b>-27,258</b>	<b>-53,839</b>
Financial income	27	1,413
Financial expenses	-9,100	-15,307
<b>Profit before tax</b>	<b>-36,331</b>	<b>-67,733</b>
Income tax	-	-40,000
<b>Profit/loss for the year</b>	<b>-36,331</b>	<b>-107,733</b>



## ASSETS AND LIABILITIES HELD FOR SALE

TSEK	2016
<b>Fixed assets</b>	
Equipment	259
Brands	944
Participations in associated companies	9,180
<b>Total fixed assets</b>	<b>10,383</b>
<b>Current assets</b>	
Inventories	497
Accounts receivable	2,001
Other receivables	6,856
Prepaid expenses and accrued income	6,532
<b>Total current assets</b>	<b>15,886</b>
<b>Total assets held for sale</b>	<b>26,269</b>
<b>Short-term liabilities</b>	
Accounts payable	115
Other liabilities	565
Accrued expenses and deferred income	14,844
<b>Total liabilities attributable to assets held for sale</b>	<b>15,524</b>

## CASH FLOW FROM DISCONTINUED OPERATIONS

TSEK	2016	2015
Cash flow from operating activities	-127,407	-45,380
Cash flow from investing activities	151,322	36,068
Cash flow from financing activities	-131,175	-58,027
<b>Total cash flow from discontinued operations</b>	<b>-107,260</b>	<b>-67,339</b>

The Board of Directors and the President give their assurance that the consolidated financial statements have been prepared in accordance with the international accounting standards (IFRS) as adopted by the EU and that they provide a fair view of the Group's financial position and results. The financial statements of the Parent Company have been prepared in accordance with generally accepted accounting principles and provide a true and fair view of the Parent Company's financial position and results of operations. The Directors' Report for the Group and Parent Company provides a fair overview of the development of the Group's and the Parent Company's operations, financial position and earnings, and also describes material risks and uncertainties facing the Parent Company and companies included in the Group.

Gothenburg, 26 April, 2017

The income statement and balance sheets will be presented to the Annual General Meeting on 30 May, 2017 for approval.

Bengt A. Rem  
Chairman

Folke Patriksson  
Deputy Chairman

Erik Borgen  
Board member

Magnus Sonnorp  
Board member

Håkan Larsson  
Board member

Christer Lindgren  
Employee representative

Our Auditor's Report was submitted on 26 April, 2017.

Rödl & Partner Nordic AB

Mathias Racz  
Authorized Public Accountant





Translation from the Swedish original

# AUDITOR'S REPORT

To the general meeting of the shareholders of Viking Supply Ships AB (publ), corporate identity number 556161-0113

## Report on the annual accounts and consolidated accounts

### OPINIONS

We have audited the annual accounts and consolidated accounts of Viking Supply Ships AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 24-71 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts. We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

### BASIS FOR OPINIONS

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### KEY AUDIT MATTERS

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were

addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

### Valuation/Impairment Ships

Book value for vessels is the single largest asset item in the annual report and the valuation of the vessels is therefore a particularly important audit area for the audit. Information regarding the valuation of the fleet and the impairment test of the same is given in Note 1 and Note 10.

The audit included, but was not limited to, a critical review of the management's impairment test, as well as the assessments and assumptions on which the impairment test is based.

In addition, the audit included acquisition costs, component accounting, maintenance costs and applied depreciation periods.

### Financial restructuring / Going concern

During the fiscal year, a substantial financial restructuring has been carried out to ensure going concern for the Group. Management's assumption of going concern can be found in the section Important estimates and assessments in Note 1.

The audit included, but was not limited to, the review of agreements with lenders, critical review of the management's risk assessment and assumptions, including forecasts for future capital requirements and cash flows, which underline the assumption of going concern in preparing the annual accounts and consolidated accounts.

### Revenue recognition

The audit of the revenues included, but was not limited to, the examination of significant revenue streams, agreements with customers, and tests of the internal controls to ensure proper revenue recognition.

### OTHER INFORMATION THAN THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-23 and pages 72-82. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise



obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR**

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error. In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

#### **AUDITOR'S RESPONSIBILITY**

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery,

intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important

assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on other legal and regulatory requirements**

#### **OPINIONS**

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Viking Supply Ships AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

#### **BASIS FOR OPINIONS**

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

#### **RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR**

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and

among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

#### **AUDITOR'S RESPONSIBILITY**

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Gothenburg on 26 April 2017

Rödl & Partner Nordic AB

Mathias Racz  
Authorized Public Accountant



# THE SHARE

THE YEAR WAS CHARACTERIZED BY VOLATILITY IN THE SHARE PRICE. A HIGH PRICE OF SEK 2.83 AND A LOW PRICE OF SEK 1.34 WAS NOTED. THE REDUCED SHARE PRICE MUST BE SEEN IN CONJUNCTION WITH THE EQUITY ISSUE, WHICH WAS COMPLETED IN Q4 AT A PRICE OF 1.50 SEK/SHARE. AS A RESULT OF THE RIGHTS ISSUE AND SET-OFF ISSUE TOWARDS THE BONDHOLDERS IN VIKING SUPPLY SHIPS A/S THERE WERE CERTAIN CHANGES TO THE LARGEST SHAREHOLDERS OWNERSHIP.

Viking Supply Ships AB Series B shares are listed on Nasdaq OMX Stockholm, in the Small Cap segment, and are included in the Transport index. At year-end, the share price was SEK 1.46, corresponding to market capitalization of MSEK 471 (523). On the same date, shareholders' equity totaled MSEK 1,439, (1,386), corresponding to 4.19 SEK/share (7.81). The highest price paid during the year was SEK 2.83 on April 20 and the lowest price paid was SEK 1.34 on November 3. The turnover rate for the share decreased during the year to 7 percent (26).

## SHARE CAPITAL

Through a series of equity issues the company's share capital has been increased from SEK 177,444,318 to SEK 409,592,960, while the number of shares increased from 177,444,318 to 409,592,960. However, as certain

equity issues were first registered after the balance date, the share capital at the balance date was SEK 343,545,318 and the number of shares was 343,545,318.

## SHAREHOLDERS AND CHANGES

Due to the rights issue and set-off issue towards the bondholders in Viking Supply Ships A/S there were certain changes to the largest shareholders ownership. The total number of shareholders at year-end declined to 3,348 (3,451).

## DIVIDEND PROPOSAL AND DIVIDEND POLICY

At the Annual General Meeting, it was resolved that no dividend was to be paid for the fiscal year of 2015. Viking Supply Ships AB target is that average dividend payments will correspond to 33% of annual net profit. However, as part of the

financial restructuring made during 2016, no dividends are to be paid until 2020.

## CONTACTS WITH SHAREHOLDERS

Viking Supply Ships AB's ambition is to maintain a positive dialog with the stock market and to provide detailed information on developments and events concerning its operations. This is done via presentations in conjunction with the quarterly reports and participation at conferences and seminars. The Annual Report, year-end reports and interim reports are available on the company's website [www.vikingsupply.com](http://www.vikingsupply.com). The website also includes other information concerning the company and its share.

- Viking Supply Ships A/S lays up two PSVs, posted: 14.3.2016
- Viking Supply Ships A/S received termination of contract for the AHTS "Njord Viking", posted 25.7.2016
- Viking Supply Ships AB announces restructuring agreement, posted: 29.8.2016
- Viking Supply Ships A/S Summons to bondholders' meeting, posted 31.8.2016
- Christian W. Berg will step down as CEO of Viking Supply Ships, posted 15.9.2017
- Viking Supply Ships AB announces equity issues, posted 25.11.2017
- Mr. Trond Myklebust appointed as new CEO of Viking Supply Ships AB, posted 6.12.2016
- Viking Supply Ships announces changes to its Russian operations, posted 12.12.2016
- Viking Supply Ships AB's rights issue and three directed share issues have been completed and resolution on new set-off issue has been passed, posted 20.12.2016
- Change in number of shares and votes in Viking Supply Ships AB, posted 30.12.2016
- Viking Supply Ships AB completes financial restructuring with share issue with payment against set-off, posted 6.1.2017

IR Contact  
Morten G. Aggvin  
IR & Treasury Director  
Direct Tel: +47 41 04 71 25  
E-mail: ir@vikingsupply.com

## KEY PERFORMANCE INDICATORS

	2016	2015	2014	2013	2012
Number of shares, Dec. 31, 000s	343,545	177,444	177,444	147,870	110,903
Market capitalization, Dec. 31, MSEK	471	523	786	713	543
Number of shareholders Dec. 31	3,461	3,451	3,501	5,349	5,346
Change in share price during the year, %	-45.7	-40.1	-7.4	-7.4	-46.0
Dividend, SEK/share	-	0.55	-	-	-
Dividend as a percentage of earnings per share	-	45%	-	-	-
P/E ratio, Dec. 31	n.a.	n.a.	3.7	n.a.	n.a.
Shareholders' equity/share, Dec. 31, SEK/share	4.2	7.8	11.5	11.8	19.0

## SHAREHOLDERS IN VIKING SUPPLY SHIPS AB AT JAN. 31, 2017

	Series A shares	Series B shares	Shares of capital (%)	Shares of votes (%)	Market value (TSEK)
Kistefos AS	12,892,783	295,526,353	75.30 %	71.25 %	292,571
NORDEA BANK AB(PUBL)	-	13,435,921	3.28 %	2.26 %	13,302
LINDÉN URNES, JENNY ULRIKA U	1,460,824	8,500,800	2.43 %	3.88 %	8,416
Enneff Rederi / Enneff Fastigheter	6,178,019	2,214,558	2.05 %	10.74 %	2,192
HERO, LENNART	-	6,172,042	1.51 %	1.04 %	6,110
MANDATUM LIFE INSURANCE COMPANY	-	6,147,602	1.50 %	1.03 %	6,086
ERNSTRÖM FINANS AB	-	4,975,999	1.21 %	0.84 %	4,926
BNYMSANV RE TCIL RE ARCTIC FUNDS	-	3,719,805	0.91 %	0.62 %	3,683
NORDNET PENSIONS FÖRSÄKRING AB	-	3,330,531	0.81 %	0.56 %	3,297
SPARINVEST	-	3,185,115	0.78 %	0.53 %	3,153

## NUMBER OF SHAREHOLDERS IN SIZE CATEGORIES AT JAN. 31, 2017

Holdings	Shareholders
1-500	1,311
501-1,000	506
1,001-5,000	949
5,001-10,000	287
10,001-15,000	104
15,001-20,000	73
20,001-	231
<b>Total</b>	<b>3,348</b>



## SHARE CAPITAL TREND

	Change			Number of shares			Share capital (SEK)			Quotient value (SEK)
	Series A shares	Series B shares	Total	Series A shares	Series B shares	Total	Change	Total		
2004 New share issue	-	474,275	474,275	1,208,980	17,910,153	19,119,133	4,742,750	191,191,330	10	
2005 New share issue	608,980	11,129,541	11,738,521	1,817,960	29,039,694	30,857,654	117,385,210	308,576,540	10	
2007 Share withdrawal during the year	-	-2,427,180	-2,427,180	1,817,960	26,612,514	28,430,474	-24,271,800	284,304,740	10	
2010 New share issue	1,817,961	25,907,715	27,725,676	3,635,921	52,520,229	56,156,150	277,256,760	561,561,500	10	
2010 Withdrawal of treasury shares	-	-704,800	-704,800	3,635,921	51,815,429	55,451,350	-7,048,000	554,513,500	10	
2011 New share issue	3,635,921	51,815,429	55,451,350	7,271,842	103,630,858	110,902,700	554,513,500	1,109,027,000	10	
2012 Reduction to unrestricted reserve	-	-	-	7,721,842	103,630,858	110,902,700	-998,124,300	110,902,700	1	
2013 New share issue	2,423,947	34,543,619	36,967,566	9,695,789	138,174,477	147,870,266	36,967,566	147,870,266	1	
2014 New share issue	1,939,157	27,634,895	29,574,052	11,634,946	165,809,372	177,444,318	29,574,052	177,444,318	1	
2016 New share issue <sup>1)</sup>	9,049,402	223,099,240	232,148,642	20,684,348	388,908,612	409,592,960	232,148,642	409,592,960	1	

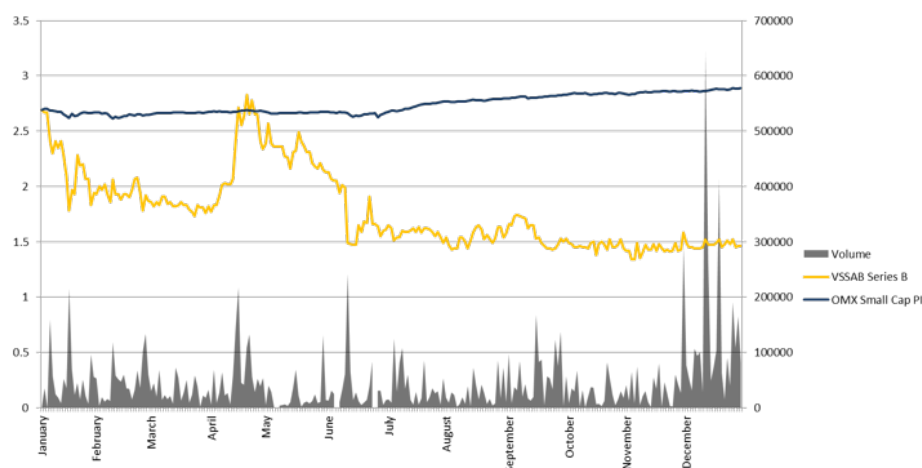
1) In December 2016 the following new share issues were registered with the Swedish Companies Register:

- A new share issue with preferential rights for existing shareholders whereby the number of shares was increased by 9,049,402 series A shares and by 128,962,844 series B shares, total 138,012,246 new shares. The issue price was SEK 1.50 per share.
- A share issue with payment against set-off to Viking Invest AS whereby the number of shares was increased by 11,455,864 series B shares. The issue price was SEK 1.50 per share.
- A share issue with payment against set-off to Viking Invest AS whereby the number of shares was increased by 1,838,490 series B shares. The issue price was SEK 1.50 per share.
- A share issue with payment against set-off to the owners of Odin Viking, Odin Viking SPV AS, whereby the number of shares was increased by 14,794,400 series B shares. The issue price was SEK 1.50 per share.

1) In January 2017 the following new share issues were registered with the Swedish Companies Register:

- A share issue, at balance day subscribed for, with cash payment to the owners of Odin Viking, Odin Viking SPV AS, whereby the number of shares after the end of the year was increased by 28,355,933 series B shares. The issue price was SEK 1.50 per share.
- A share issue, at balance day agreed on, with payment against set-off to the owners of Odin Viking, Odin Viking SPV AS, whereby the number of shares after the end of the year was increased by 37,691,709 series B shares. The issue price was SEK 1.50 per share. Also see note 32 Events after the closing date.

## SHARE HISTORY



# FINANCIAL CALENDAR

## CALENDAR 2017

4 May	Interim report, January–March
30 May	Annual General Meeting
4 August	Interim Report January–June
10 November	Interim report, January–September



# DEFINITIONS

**Capital employed:**

Interest-bearing liabilities and shareholders' equity.

**Debt/equity ratio:**

Interest-bearing liabilities minus cash and cash equivalents divided by shareholders' equity.

**Earnings per share:**

Earnings after financial items less tax on profit for the year (current and deferred tax) according to the consolidated income statement.

**EBIT:**

Earnings Before Interest and Taxes, corresponding to operating profit/loss.

**EBITDA:**

Earnings Before Interest, Taxes, Depreciation, and Amortization, corresponding to profit/loss before capital expenses and tax.

**Equity/assets ratio:**

Shareholders' equity divided by total assets.

**Equity per share:**

Equity divided by the number of shares outstanding.

**IFRS:**

International Financial Reporting Standards, an international accounting standard that all listed companies must adopt. Certain older standards included in the IFRS collective name are referred to as IAS (International Accounting Standards).

**Interest-coverage ratio:**

Operating profit/loss before depreciation plus interest income divided by interest expense.

**Net indebtedness:**

Interest-bearing liabilities less cash and cash equivalents.

**Operating cash flow:**

Profit/loss after net financial income/expense adjusted for capital gains/losses, depreciation/ amortization and impairment.

**Operating profit/loss:**

Profit/loss before financial items and tax, and before restructuring costs.

**Operating profit/loss (before tax):**

Profit/loss before tax and before restructuring costs.

**Operating result per business area:**

Profit/loss after financial items and before Group-wide expenses and central/Group-wide net financial income/expenses.

**Operating profit/loss per business area:**

Operating profit/loss for each business area, recognized before Group-wide expenses.

**P/E ratio:**

Closing share price at the end of the period divided by earnings after financial items less full tax per share. Percentage of risk-bearing capital: Shareholders' equity and deferred tax liabilities (including non-controlling interests) divided by total assets.

**Profit margin:**

Profit after financial items divided by net sales.

**Return on capital employed:**

EBITDA divided by average capital employed.

**Restructuring costs:**

Includes revenues and expenses of a nonrecurring nature, such as capital gains/losses from the sale of vessels, impairment of vessels and costs related to personnel cutbacks.

**Return on shareholders' equity:**

Profit after financial items less tax on profit for the year, divided by average shareholders' equity.

**Total cash flow:**

Cash flow from operating activities, investing activities and financing activities.

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# GLOSSARY

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**AHTS – Anchor Handling Tug Supply vessels:**

Combination vessels operating in the offshore market, intended for use in anchor-handling, tug operations and transportation of supplies.

**Bareboat charter:**

The leasing of a vessel without a crew to a charter party for a fixed period. In principle, the charterer pays all operating costs.

**Bulk carrier:**

Vessel for the transportation of loose goods in large quantities, such as coal, ore and grain.

**Bunker:**

Name of the vessel's fuel, i.e. the oil used for powering the vessel's engines.

**Charterer:**

A cargo owner or party that charters a vessel.

**Deadweight tons (DWT):**

The total weight of cargo, bunkers and unattached equipment that a vessel can carry.

**Feeder traffic:**

Feeder services with smaller vessels to ports where reloading to larger vessels is undertaken.

**HSEQ policy:**

Health, safety, environmental and quality policy.

**ISM code (International Safety Management):**

Quality and safety regulations stipulated by IMO for international merchant shipping. Certification in accordance with the ISM Code is administered by the national maritime authority, which in Sweden is the Swedish Maritime Administration.

**ISO:**

International Standards Organization.

**Joint Venture:**

Business operations performed by two or more companies jointly, with shared risk-taking.

**LoLo vessel (Lift on Lift off):**

Vessel that is loaded/unloaded using its on-board or fixed dockside cranes.

**MRM:**

Maritime Resource Management.

**NGO:**

Non-governmental organization.

**Offshore:**

General term for industrial activities in connection with the exploitation of oil resources at sea.

**PSV:**

Platform Supply Vessel. A vessel that transports supplies to oil rigs and platforms in the North Sea.

**Rates:**

Freight or transport charges/prices.

**RoRo vessel (Roll on Roll off):**

Vessel on which cargo is driven on board via one or more ramps located on the vessel.

**SECA:**

SOx Emission Control Areas.

**Side-port vessel/side loader:**

Vessel that is loaded using trucks and/or rolling platforms through side ports, often in combination with lifts between various decks.

**Ship Management:**

All the services required to operate a vessel, including the crew.

**Spot market:**

The sector of the chartering market in which a vessel is chartered for individual voyages as opposed to longterm charters.

**Time charter (T/C):**

Leasing a vessel to a charter party for a fixed period of time. The ship-owner pays all the operating costs except bunkers and port dues.





Viking Supply Ships AB is the parent company of a Swedish shipping group with its main office in Gothenburg, Sweden. The Group conducts its business in four segments: Anchor Handling Tug Supply ships (AHTS), Platform Supply Vessels (PSV), Services and Ship Management. The business is focused within offshore and ice-breaking primarily in Arctic and subarctic areas. The Group has approximately 400 employees and its revenue for 2016 amounted to MSEK 760. The Company's series B share is listed at Nasdaq Stockholm, Small Cap segment. For further information, please visit: [www.vikingsupply.com](http://www.vikingsupply.com).



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