

VIKING SUPPLY SHIPS AB (PUBL)

INTERIM REPORT

Q1

2016



VIKING SUPPLY SHIPS

MORE
THAN A SHIPOWNER

THE
COOLEST
PLACE TO WORK

ALWAYS AHEAD OF
COMPETITION

Q1

Q1

NET SALES MSEK 319 (509)

ARCTIC FOCUS



Q1

EBITDA
MSEK 67 (58)

Q1

RESULT AFTER TAX
MSEK -40 (-71)

Q1

EARNINGS PER SHARE AFTER TAX, SEK -0.2 (-0.4)

Viking Supply Ships AB (publ) is a Swedish company with headquarter in Gothenburg, Sweden. Viking Supply Ships AB (publ) is organized into five segments: Anchor Handling Tug Supply vessels (AHTS), Platform Supply Vessels (PSV), Services, Ship Management as well as the subsidiary TransAtlantic AB. The operations are focused on offshore and icebreaking primarily in Arctic and subarctic areas as shipping operations in the Baltic Sea. The company has in total about 500 employees and the turnover in 2015 was MSEK 1,977. The company's B-share is listed on NASDAQ OMX Stockholm, segment Small Cap, www.vikingsupply.com.

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CEO STATEMENT

CEO STATEMENT	3
FIRST QUARTER 2016	4
SUMMARY OF EVENTS IN Q1	4
SUBSEQUENT EVENTS	4
LIQUIDITY AND GOING CONCERN	5
RESULTS AND FINANCE	5
OPERATIONAL HIGHLIGHTS FOR Q1	6
FINANCIAL POSITION AND CAPITAL STRUCTURE	8
CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT	9
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	9
CONDENSED CONSOLIDATED BALANCE SHEET	9
CONDENSED CONSOLIDATED CASH FLOW STATEMENT	10
CHANGES IN THE GROUP'S SHAREHOLDERS' EQUITY	10
DATA PER SHARE	10
PARENT COMPANY	11
PARENT COMPANY INCOME STATEMENT	11
PARENT COMPANY BALANCE SHEET	11
CHANGES IN PARENT COMPANY SHAREHOLDERS' EQUITY	11
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	12
DEFINITIONS	17

The first quarter gave a negative result for the Group, mainly caused by reduced earnings and negative currency effects. The offshore industry is significantly impacted by the downturn in the global E&P industry, and the market Viking Supply Ships A/S (VSS A/S) is operating in has remained challenging through the quarter. The negative result caused by the market conditions is partially compensated by the cost initiatives implemented during 2015, which have impacted the first quarter results positively. During the quarter, TransAtlantic AB (TA AB) entered into a sales agreement on the small bulk vessels TransAndromeda and TransCapricorn.

For the first quarter the Group's operating result was MSEK 14 and profit after tax was negative MSEK 40.

VSS A/S recorded a negative profit before tax of MSEK 30 in the first quarter. The profit before tax was negatively impacted by an unrealized currency loss of MSEK 22.

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 will reduce the company's operational costs going forward and will give a positive impact on the results from the second quarter of 2016.

Within the Services segment, Viking Ice Consultancy (VIC) has secured additional consultancy work for the 2016 season. Although with a limited financial impact, the consultancy work is considered to be positive for the Group during a challenging period.

As an effect of the deteriorated market conditions within the oil & gas industry and as a measure to further strengthen the focus on cost efficiency it was decided to close 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.

Although not yet completed, Management is confident that a restructuring of the Group will be completed within the second half of 2016, which will secure a long-term stable financing platform for the Group.

The restructuring process within TA AB continued during the quarter. With the sales agreement for the small bulk vessels TransAndromeda and TransCapricorn the scope of TA AB has been further reduced.

OUTLOOK

Due to the reduced activity within the offshore oil and gas since 2014, Viking Supply Ships anticipates that the next couple of years will be challenging for the industry. Rig activity is expected to be modest, leading to reduced demand for OSVs.

Though the current market is considered to be challenging, Viking Supply Ships remains confident that the long-term prospects for the core activities within the group is positive. Once a restructured balance sheet is in place, it is expected that the Group has sufficient liquidity to maintain its operations even in the event that the market remains weak through 2019.

Gothenburg 10 June, 2016.

Christian W. Berg,
CEO and President

FIRST QUARTER

- Total revenue was MSEK 319 (509)
- EBITDA was MSEK 67 (58)
- Result after tax was MSEK -40 (-71)
- Result after tax per share was SEK -0.2 (-0.4)

SUMMARY OF EVENTS IN Q1

- EBITDA for Q1 was MSEK 67 (58).
- The average fixture rate in Q1 was USD 63,600 (54,100) for the AHTS fleet and USD 6,200 (7,500) for the PSV fleet. The average utilization in Q1 was 56% (71) for the AHTS fleet and 39% (33) for the PSV fleet.
- In February 2016 Magne Viking was certified according to the IMO Polar Code. The vessel, which is the first vessel globally to comply with the code, was approved by DNV GL.
- Due to 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 will reduce the company's operational costs going forward and will give a positive impact on the results from the second quarter of 2016.
- The market for PSV vessels has continued to deteriorate after the end of the reporting period. The current challenging market conditions are supported by a decline in observable broker values of the PSV fleet. VSS A/S will continue to closely monitor the market development and need for further impairment of the PSV fleet's carrying amount.
- The subsidiary VSS A/S has from 1 January 2016 changed its functional currency from NOK to USD (see note 7, Other information).
- In Q4 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 has not paid instalments to its lenders. This agreement expired on 26 April 2016, but VSS A/S has continued to not fully service its debt obligations as they fall due (see note 1, Liquidity and going concern).
- 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 amounts to a total of MSEK 63. The bank has agreed that the payment is postponed to no later than in Q3 2016. Further, in a loan agreement within TA AB there is a loan-to-value clause that the bank has invoked and requested an instalment of MSEK 47. The bank has now agreed to give TA AB time to pursue opportunities to free up liquidity to reduce the loan.

SUBSEQUENT EVENTS

- In May 2016, the Group agreed the main principles for a restructuring agreement with the bank lenders. Execution of a final agreement in the form of a term sheet (the "Agreement") is pending certain conditions precedent, including that an amended agreement is negotiated and agreed with the bondholders in the senior unsecured bond in VSS A/S and that terms for the bareboat charter of Odin Viking are re-negotiated and amended. Among other things these conditions have not yet been resolved and, accordingly, the Agreement has not yet been signed and deemed effective (see note 1, Liquidity and going concern).
- On 9 June 2016, VSS AB's subsidiary VSS A/S was informed that Norseman Offshore AS has filed an application for bankruptcy against VSS A/S with the Maritime and Commercial High Court in Copenhagen. The company has not yet been officially notified of the petition by the Court. Norseman Offshore AS is the owner of the vessel Odin Viking which is on a bareboat charter with VSS A/S. The petition for bankruptcy is made on the basis of unpaid hire in an aggregate amount of approximately MUSD 2.5. The parties have been in discussions for several months as part of the overall financial restructuring of the Group. VSS A/S is of the view that there is no basis for the petition and will vigorously defend itself against it. VSS A/S will continue to pursue the process to achieve a restructuring of its debts as further described in the annual report for 2015.

- 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 has decided to close 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.
- As part of the restructuring process in the Group, the majority shareholder, Kistefos 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 Kistefos AS. The compensation in these agreements has been agreed to an annualized fee of 12% covering the associated risk and exposure.
- TA AB has sold the two small bulk vessels TransAndromeda and TransCapricorn. The transaction, which was concluded in May 2016, generated a positive cash effect of MSEK 24.
- After a short temporary leave Christian W. Berg is back in his position as CEO of Viking Supply Ships A/S.

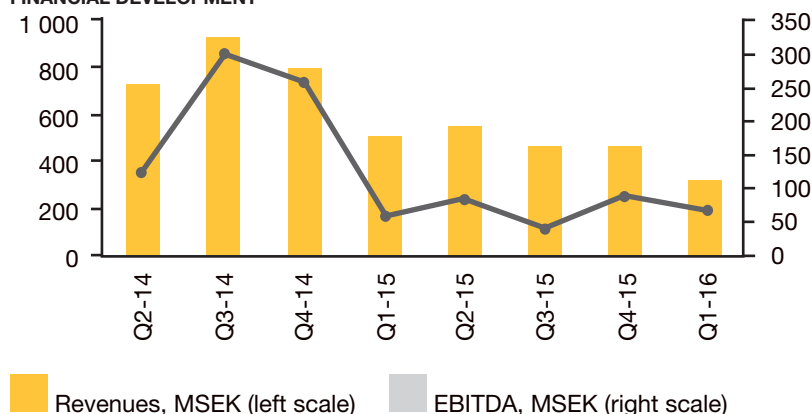
LIQUIDITY AND GOING CONCERN

The condensed interim financial statements for the three months ending 31 March 2016 have been prepared using the going concern assumption. However, this assumption is subject to uncertainty.

Based on a continued belief in securing contracts within the core market segment, Management has concluded that both the company and the Group, despite the uncertainty, will be able to continue as going concern at least until 31 March 2017. This conclusion is based on Management's assessment that the conditions for completing the debt restructuring can and will be fulfilled, the current outlook for 2016/2017 and the current uncertainties and risks (see note 1, Liquidity and going concern).

KEY FINANCIALS	Q1 2016	Q1 2015
Net sales, MSEK	319	509
EBITDA, MSEK	67	58
Result after tax, MSEK	-40	-71
Earnings per share after tax, SEK	-0.2	-0,4
Shareholders' equity per share, SEK	7.4	11.5
Return on equity, %	-11.9	-13.9
Equity ratio, %	33.0	39.1
Market adjusted equity ratio, %	42.0	45.3

FINANCIAL DEVELOPMENT



Q1

RESULTS AND FINANCE

RESULTS FOR Q1 2016

Total revenue for the Group in Q1 2016 was MSEK 319 (509), of which VSS A/S contributed with MSEK 233 (290) and TA AB contributed with MSEK 86 (219).

The Group's EBITDA for the first quarter was MSEK 67 (58), of which VSS A/S contributed with MSEK 65 (78) and TA AB contributed with MSEK 2 (-20).

Net financial items were MSEK -53 (-76). Financial items include unrealized currency losses of MSEK -24 (-48) and realized value-adjustments on interest rate swaps of MSEK 0 (-1).

The Group's result after tax for the first quarter was MSEK -40 (-71), of which VSS A/S contributed with MSEK -31 (-36) and TA AB contributed with MSEK -9 (-35). The result for the quarter was negatively impacted by write-downs of the two bulk vessels TransAndromeda and TransCapricorn of total MSEK 7.

OPERATIONAL HIGHLIGHTS FOR THE FIRST QUARTER

ANCHOR HANDLING TUG SUPPLY VESSELS (AHTS)

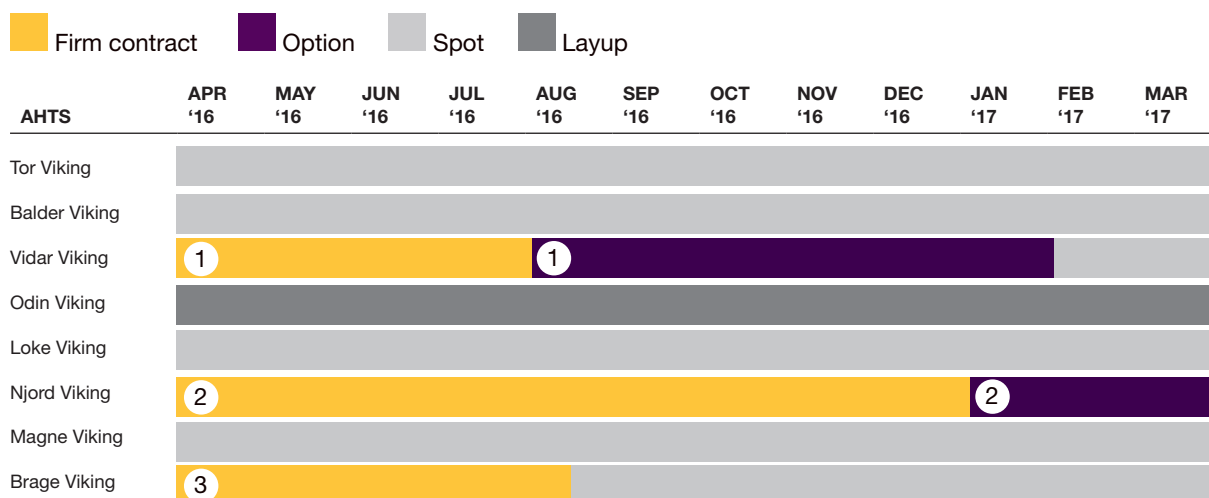
Total AHTS revenue was MSEK 192 (232) in Q1. Total EBITDA was MSEK 80 (103).

During Q1, four vessels have been operating in the North Sea spot market, while three vessels have been operating on term contracts. In addition, Odin Viking was in October 2015 laid up as a result of the weak market conditions in the offshore industry.

The increased activity seen in the North Sea spot market towards the end of 2015 subsequently lifted the rate levels in the beginning of Q1 2016. However, as utilization fell back to weaker levels through the quarter, rate levels declined accordingly.

AHTS Q1	Fixture rates (USD)		Utilization (%)	
AHTS vessels on term charters	68,300	(75,400)	100	(100)
AHTS vessels on the spot market	48,800	(31,400)	24	(53)
Total AHTS fleet	63,600	(54,100)	56	(71)

Table above excludes one laid-up vessel.



1. Oil major, firm till 1st August 2016 + 1 x 6 months option

2. Oil major, firm till 31st December 2016 + 2 x 6 months options

3. Oil major, firm until mid August 2016

Figures in the tables are as of 31 March 2016.



PLATFORM SUPPLY VESSELS (PSV)

Total PSV revenue was MSEK 3 (9) in Q1. Total EBITDA was MSEK -13 (-26).

Due to a continued weak PSV market VSS A/S decided to lay up the PSVs Sol and Freyja Viking with immediate effect in March 2016. The decision will reduce the company's operational costs going forward and will in the current market give a positive impact on the results from the second quarter of 2016. Following this decision, VSS A/S does not have any PSVs in operation, but will continue to monitor the market for long-term contract opportunities for these vessels.

The total PSV contract backlog at the end of the quarter was MSEK 0.

PSV Q1	Fixture rates (USD)		Utilization (%)	
PSV vessels on term charters	-	(-)	-	(-)
PSV vessels in the spot market	6,200	(7,500)	39	(33)
Total PSV fleet	6,200	(7,500)	39	(33)

Table above excludes three laid-up vessels.

	<div> ■ Firm contract ■ Option ■ Spot ■ Layup </div>											
PSV	APR '16	MAY '16	JUN '16	JUL '16	AUG '16	SEP '16	OCT '16	NOV '16	DEC '16	JAN '17	FEB '17	MAR '17
Frigg Viking												
Idun Viking												
Nanna Viking												
Freyja Viking												
Sol Viking												

Figures in the tables are as of 31 March 2016.

SERVICES AND SHIP MANAGEMENT

Total Services and Ship Management revenue was MSEK 38 (49) in Q1. Total EBITDA was MSEK -2 (1).

Viking Ice Consultancy (VIC) has secured additional consultancy work for the 2016 season. Although with a limited financial impact, the consultancy work is considered to be positive for the Group during a challenging period.

VIC is also working together with VSS A/S to prepare for the IMO Polar Code, a project that will continue during 2016.

TRANSATLANTIC AB

The subsidiary TransAtlantic AB recorded revenues of MSEK 86 (219) in Q1. EBITDA was MSEK 2 (-20). Total revenue has been reduced compared to the corresponding period last year due to the sale and redelivery of vessels and TransAtlantic Container AB. The fleet at the end of Q1 consists of 13 vessels where of 12 are operating on long time charter contracts and one vessel is unemployed due to weak market conditions for that vessel type. A sales agreement on the small bulk vessels TransAndromeda and TransCapricorn was entered into in Q1, which consequently led to write-downs of MSEK 7 during the quarter. The vessels were delivered to their new owner in May. The transaction generated a positive cash effect of 24 MSEK.

FINANCIAL POSITION AND CAPITAL STRUCTURE

At the end of the first quarter, the Group's equity amounted to MSEK 1,321 (equivalent to 7.45 SEK/share). The Equity declined during the year by net MSEK 65 due to the loss for the quarter of MSEK 40 and a negative change in the translation reserve of MSEK 25 attributable to currency differences on net investments in subsidiaries, mainly related to the weakened USD against SEK.

Gross investments during the quarter amounted to MSEK 3 (113) mainly related to dockings. The divestments during the quarter have brought liquidity of MSEK 56 to the Group. The divestments relate to released cash earlier blocked as additional security for vessel loans and sales of bonds.

For further information of the Group's financial position see note 4, Interest bearing liabilities and note 5, Cash and cash equivalents.

Viking Supply Ships AB is obliged to publish this report in accordance with the Swedish Securities Act and/or the Swedish Financial Instruments Trading Act. This report has been prepared in both Swedish and English versions. In case of variations in the contents between the two versions, the Swedish version shall govern. This report was submitted for publication at 17:30 am (CET) on 10 June, 2016.

The undersigned certify that the interim report gives a true and fair picture of the Group's financial position and results, and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

This interim report is unaudited.

Gothenburg, 10 June, 2016
Viking Supply Ships AB

Christen Sveaas
Chairman

Folke Patriksson
Deputy chairman

Bengt A. Rem
Board member

Håkan Larsson
Board member

Magnus Sonnorp
Board member

Christian W. Berg
CEO

Christer Lindgren
Employee representative

PRESS AND ANALYST CONFERENCE

In conjunction with the publication of this interim report, an earnings call will take place on 13 June 2016 at 10.00 am (CET) with Viking Supply Ships AB's CEO Christian W. Berg, CFO Ulrik Hegelund and IR Director Morten G. Aggvin. In connection with the conference, a presentation will be available on the company's website, www.vikingsupply.com. Please see Investor Relations/Reporting Center.

FINANCIAL CALENDAR 2016

30 June 2016	Annual General Meeting
5 August 2016	Q2 Interim report
10 November 2016	Q3 Interim report

INVESTOR RELATIONS

Please contact CFO, Ulrik Hegelund, ph. +45 41 77 83 97 or
IR & Treasury Director, Morten G. Aggvin, ph. +47 41 04 71 25

The interim report is available on the company's website: www.vikingsupply.com.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(MSEK)	Note	Q1 2016	Q1 2015	Q1-Q4 2015
Net sales		319	509	1 977
Other operating revenue		0	0	41
Direct voyage cost		-14	-107	-400
Personnel costs		-111	-179	-669
Other costs		-127	-165	-681
Depreciation/impairment	2	-53	-52	-474
Operating result		14	6	-206
Net financial items		-53	-76	-191
Result before tax		-39	-70	-397
Tax	7	-1	-1	-43
Result for the period	3	-40	-71	-440
Earnings attributable to Parent Company's shareholders, per share in SEK (before and after dilution)		-0.2	-0.4	-2.5

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MSEK	Note	Q1 2016	Q1 2015	Q1-Q4 2015
Result for the period		-40	-71	-440
Other comprehensive income for the period:				
Items that will not be restored to the income statement				
Revaluation of net pension obligations		-	-	2
Items that later can be restored to the income statement				
Change in translation reserve, net		-25	65	-120
Other comprehensive income		-25	65	-118
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		-65	-6	-558

CONDENSED CONSOLIDATED BALANCE SHEET

MSEK	Note	Q1 2016	Q1 2015	FY 2015
Vessels	2	3,305	4,083	3,470
Other tangible fixed assets		2	4	2
Intangible fixed assets		1	7	1
Financial assets		150	275	183
Total fixed assets		3,458	4,369	3,656
Current assets	5	549	832	461
TOTAL ASSETS	3	4,007	5,201	4,117
Shareholders' equity		1,321	2,036	1,386
Long-term liabilities	4	76	2,415	1,008
Current liabilities	4	2,610	750	1,723
TOTAL EQUITY, PROVISIONS AND LIABILITIES		4,007	5,201	4,117

VALUATION OF FINANCIAL ASSETS AND LIABILITIES

The valuation of financial assets and liabilities in the balance sheet is based on acquisition value or fair value.

The valuation of FX derivatives and interest rate derivatives is based on fair value. The balance items "Long-term liabilities" include derivatives of MSEK 18 (23). Valuation of other financial assets and liability items in the balance sheets are based on acquisition value.

ASSESSMENT OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The valuation of financial instruments is based on classification in three levels: Level 1, fair values based on market values, where the instruments are traded on an active market are available. Level 2, no market values based on an active market are available, valuations are instead based on measurements of discounted cash flows. Level 3, at least one variable is based on own assessments. The fair value valuation of the Group's FX- and interest rate instruments are based on input according to level 2.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

MSEK	Note	Q1 2016	Q1 2015	Q1-Q4 2015
Cash flow from operations before changes in working capital		31	45	205
Changes in working capital		2	62	147
Cash flow from current operations		33	107	352
Cash flow from investing activities		53	-73	-145
Cash flow from financing activities		-2	-136	-477
Changes in cash and cash equivalents		84	-102	-270
Cash and cash equivalents at beginning of period		195	450	450
Exchange-rate difference in cash and cash equivalents		-1	26	15
CASH AND CASH EQUIVALENTS AT END OF PERIOD		278	374	195

CHANGES IN THE GROUP'S SHAREHOLDERS' EQUITY

Shareholders' equity (MSEK)	Note	Q1 2016	Q1 2015	Q1-Q4 2015
Equity at beginning of period		1,386	2,042	2,042
Dividend		-	-	-98
Total comprehensive income for the period		-65	-6	-558
SHAREHOLDERS' EQUITY AT END OF PERIOD		1,321	2,036	1,386

Share capital (MSEK)	Note	Q1 2016	Q1 2015	Q1-Q4 2015
Share capital at beginning of period		177	177	177
Share capital at end of period		177	177	177

Number of shares ('000)	Note	Q1 2016	Q1 2015	Q1-Q4 2015
Number of outstanding shares at beginning of period		177,444	177,444	177,444
Total number of shares at end of period		177,444	177,444	177,444
Average number of shares outstanding		177,444	177,444	177,444

DATA PER SHARE

SEK	Note	Q1 2016	Q1 2015	Q1-Q4 2015
EBITDA		0.4	0.3	1.5
Result after tax (EPS)		-0.2	-0.4	-2.5
Equity		7.4	11.5	7.8
Operating cash flow		0.1	-0.1	0.3
Total cash flow		0.5	-0.6	-1.5

PARENT COMPANY

The Parent Company's result after tax for the first quarter was MSEK 0 (1).

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.

At the end of Q1 the Parent Company's equity was MSEK 1,990 (1,990 on Dec 31, 2015), and total assets were MSEK 2,334 (2,337 on Dec 31, 2015). The equity ratio on the balance day was 85 % (85 on Dec 31, 2015). Cash and cash equivalents at the end of the period was MSEK 37 (34 on Dec 31, 2015) of which 32 MSEK comprised of client funds.

PARENT COMPANY INCOME STATEMENT

MSEK	Note	Q1 2016	Q1 2015	Q1-Q4 2015
Net sales		84	84	344
Other operating revenue		-	-	1
Personnel costs		-1	0	-2
Other costs		-84	-83	-342
Operating result		-1	1	1
Net financial items		1	-	-291
Result before tax		0	1	-290
Tax on result for the year		-	-	-40
RESULT FOR THE PERIOD		0	1	-330
<i>Other comprehensive income for the period:</i>				
Items that will not be restored to the income statement				
Revaluation of net pension obligations		-	-	1
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		0	1	-329

PARENT COMPANY BALANCE SHEET

MSEK	Note	Q1 2016	Q1 2015	FY 2015
Financial fixed assets		2,194	2,627	2,193
Current assets		140	103	144
TOTAL ASSETS		2,334	2,730	2,337
Shareholders' equity		1,990	2,418	1,990
Provisions		7	8	7
Long-term liabilities		163	219	163
Current liabilities		174	85	177
TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES		2,334	2,730	2,337

CHANGES IN PARENT COMPANY SHAREHOLDERS' EQUITY

MSEK	Note	Q1 2016	Q1 2015	Q1-Q4 2015
Equity at beginning of period		1,990	2,417	2,417
New share issue less cost for issuance		-	-	-
Dividend		-	-	-98
Total comprehensive income for the period		0	1	-329
SHAREHOLDERS' EQUITY AT END OF PERIOD		1,990	2,418	1,990

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. LIQUIDITY AND GOING CONCERN

The consolidated financial statements for Q1 2016 have been prepared using the going concern assumption. 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 Viking Supply Ships. The Group's liquidity position was strained and Viking Supply Ships did not have sufficient liquidity to fully service its debt obligations as they fell due going forward, including the requirements to deposit requested cash or additional security as required under contract coverage- and loan-to-value clauses during Q1 2016. As a consequence, Viking Supply Ships in Q4 2015 initiated a dialogue with its lenders to secure a long-term stable financing solution. Viking Supply Ships has during the majority of first half 2016 been in an ongoing dialogue with its lenders and has during most of the year since February 2016 been in a standstill position, during which Viking Supply Ships has not paid instalments to its lenders.

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

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

The debt restructuring is aimed at improving the Group's balance sheet and significantly reduce the amount needed for debt service until 1 January 2020. Although not yet completed and therefore significant uncertainty exists at this point in time, Management is confident that the conditions precedent can and will be met and accordingly an Agreement entered into, since this will serve the economic interests of the stakeholders with which negotiations are still ongoing. It is Management's assessment that the restructuring will be finally completed during second half of 2016. Viking Supply Ships has been in a continuing standstill position with its lenders since February 2016, under which Viking Supply Ships has only serviced its interest commitments. Until the restructuring is executed, Viking Supply Ships is unable to service its debt obligations as they fall due, and therefore is dependent on maintaining this level of debt service.

The primary uncertainties and risks in relation to these considerations include a continued weakening of the market conditions. The Group's financial forecasts are based on certain assumptions, including those related to contract backlog, fixture rates and utilization going forward. The Group is dependent upon securing sufficient contract backlog in coming years. Once a completed restructuring is in place, the Group expects to have sufficient liquidity to maintain its operations even in the event that the market remains weak through 2019.

Based on the above and a continued belief in securing contracts within the core market segment, Management has concluded that the Group will be able to continue as going concern at least until 31 March 2017. This conclusion is based on Management's assessment that the conditions for completing the debt restructuring can and will be fulfilled, the current outlook for 2016/2017 and the uncertainties and risks described above. Accordingly, Management has considered it appropriate to base the consolidated financial statement for the three months period ending 31 March 2016 on the going concern assumption.

2. TANGIBLE FIXED ASSETS

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.

In Q1 2016 Management evaluated the PSV fleet and concluded that the PSV vessels are not further impaired. The conclusion is based on a calculated value in use based on discounted cash flows. Based on fixtures rates, utilization, contract coverage, cost levels and currency exchange levels VSS A/S has prepared discounted cash flow calculations covering a period of 15 years. All significant assumptions have been estimated using

Management's best estimate in a challenging market and considering the fact that the last two PSV vessels have also been laid up in Q1 2016.

The value in use calculation is very sensitive to changes in the underlying assumptions including the pace and timing of assumed market recovery and redeployment of vessels, which is uncertain due to the current challenging market conditions.

The impairment test also consists of an assessment of average external vessel valuations from internationally acknowledged shipbrokers showing a total PSV fleet value of MUSD 67 (ranging from MUSD 73 to MUSD 61). 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 calculated value in use of MUSD 76 exceeds the carrying amount at the end of Q1 2016, no impairment charge has been recognized.

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 need for further impairment of the PSV fleet's carrying amount.

The external vessel valuations from internationally acknowledged shipbrokers for the AHTS segment shows market values in excess of the carrying amount of the owned AHTS fleet by 25 % on average.

3. SEGMENT INFORMATION

The segment information is presented in five segments:

-The segments AHTS and PSV comprise 13 offshore vessels that are equipped for and have the capacity to operate in areas with harsh environment, further 7 of the Anchor Handling Tug Supply (AHTS) vessels are equipped to operate in Arctic areas.

-The segment Services provides ice management services and logistical support in the Arctic regions.

-The segment Ship Management is involved in commercial management of five icebreakers owned by the Swedish Maritime Administration.

-The segment TA AB is a focused ship owner and tonnage provider in the RoRo and short sea bulk markets.

Q1 MSEK	AHTS	PSV	Services	Ship Management	TransAtlantic AB	Total
Net sales	192	3	0	38	86	319
EBITDA	80	-13	-1	-1	2	67
Result before tax	-26	-3	-1	0	-9	-39
Total assets	3,125	659	0	0	223	4,007

There have been no significant transactions between the segments.

4. INTEREST BEARING LIABILITIES

The vessels owned by the Group are financed through bank loans with pledge in the vessels. Further securities have been given in the form of pledge in revenue and insurance policies. The total interest-bearing debt at the end of the quarter was MSEK 2,304 (2,334).

The interest bearing liabilities are associated with financial covenants, according to which the Group must fulfil certain key ratios. At 31 December 2015, all such financial covenants were in compliance (see note 1, liquidity and going concern).

Further, the interest bearing liabilities are also associated with loan clauses, such as contract coverage clauses and loan-to-value clauses, according to which the Group had to fulfill certain levels of contract coverage and loan-to-value, pursuant to the individual loan agreements. If these levels were not met, the Group had to deposit cash or additional security, according to the terms in the relevant loan agreements. Any such amount in deposit would vary up and down and the variation was dependent upon currency exchange rates, amortizations under

the loan and vessel valuations. If the levels of contract coverage and loan-to-value, pursuant to the terms in the individual loan agreements, yet again are met then the obligation of providing additional security will cease. At the balance date, the Group had provided the lenders with a total of MSEK 75 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 has not been able to comply with events of default provisions in loan agreements, which render all VSS A/S borrowings short-term and payable on demand by the 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 balance date, VSS A/S is holding nominal MNOK 189 of this bond, implying MNOK 196 is outstanding. As a result of an agreement that will be proposed to the bondholders in conjunction with the key terms of the debt restructuring plan, the bond agreement is proposed to be changed in 2016 (see note 1, Liquidity and going concern).

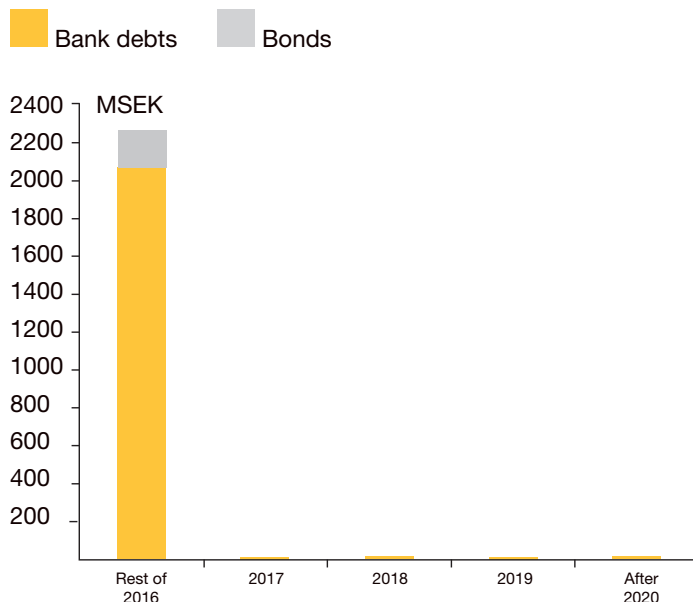
At the expiration and redelivery of two bareboat vessels in TA AB there was a residual value guarantee commitment for the Group in favor of the financing bank. The commitment amounts to a total of MSEK 63. The bank has agreed that the payment is postponed to no later than in Q3 2016. Further, in a loan agreement within TA AB there is a loan-to-value clause that the bank has invoked and requested an instalment of MSEK 47. The bank has now agreed to give TA AB time to pursue opportunities to free up liquidity to reduce the loan.

The Group has 44% (43) of its interest bearing debt in USD, 19% (19) in GBP, 1% (1) in EUR and 36% (37) in NOK. The Group has 100% (86) of the total loan portfolio swapped into fixed interest rates within the interval of 90 days up to three years and 0% (10) of the total loan portfolio swapped into fixed interest rates for more than 3 years.

4.1. Classification by type of debt

MSEK	Q1 2016	Q1 2015	FY 2015
Long-term bond loan	-	211	189
Short-term bond loan	195	-	-
Long-term debt to credit institutions	37	2,100	796
Short-term debt to credit institutions	2,072	418	1,349
TOTAL INTEREST BEARING LIABILITIES	2,304	2,730	2,334

4.2. Debt maturity



5. CASH AND CASH EQUIVALENTS

Consolidated cash and cash equivalents available at the end of the quarter amounted to MSEK 278 (195). Cash assets include client funds of MSEK 53.

MSEK	Q1 2016	Q1 2015	FY 2015
Restricted cash ¹⁾	75	113	104
Free cash and cash equivalents	278	374	195
TOTAL	353	487	299

1) The amount is included in the item 'Finansiak Assets' in the balance sheet.

6. OPERATIONAL AND FINANCIAL RISK

The Group operates in highly competitive markets and is exposed to various operational and financial risk factors. The financial risk is mainly related to liquidity risk, funding risk and currency risk. The Group works actively to identify, assess and manage these risks.

The Groups liquidity is due to the market conditions strained and is in the current market unable to fulfill existing covenant undertakings in loan agreements. A solution with the lenders is necessary and accordingly, a dialogue with the lenders was initiated during Q4 2015, with an ambition to secure a long-term stable financing solution (see note 1, Liquidity and going concern).

The main operational risk factors relate to the overall macroeconomic market conditions, degree of competition, flow of goods in prioritized market segments and finally the overall balance of supply and demand of vessels, affecting rates and profit margins. The objective of the overall risk management policy of the Group is to ensure a balanced risk and return relationship.

The offshore market is to a high degree dependent on the investment level in the oil industry which in turn is driven by the oil price development on the global market. The recent decline in the offshore market has impacted the Group's profitability and liquidity. The Group has a clear focus on increasing the number of vessels on term contracts within the offshore operations to mitigate fluctuations in rates and utilization.

The business activities in the TA AB segment operate in a competitive market with profit margins under pressure.

Long-term loans are the principal form of financing. Accordingly, interest rate fluctuations have an impact on the Groups earnings and cash flow. To reduce this risk the Group aims to actively manage the interest exposure through various types of hedging instruments.

The foreign exchange risk is primarily reduced 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 primarily matched with liabilities in the same currency.

7. OTHER INFORMATION

Company information

Viking Supply Ships AB is a limited liability company registered in Sweden, with its domicile in Gothenburg, and corporate registration number 556161-0113. Viking Supply Ships AB is listed on the Small Cap list of the NASDAQ OMX Nordic Exchange in Stockholm under the ticker VSSAB.

Corporate tax

The general situation for the Group is that taxes payable are limited to foreign entities. The tax losses carry forward for Swedish entities amounted at end of the period to MSEK 1,059 (1,061 on Dec 31, 2015). There are no tax assets capitalized in the balance sheet related to these tax losses carry forward. The recognized deferred tax liability for the operations outside Sweden amounted to MSEK 3 (3 on Dec 31, 2015).

Transactions with closely related parties

There were no significant transactions with related parties during Q1 2016 (see Subsequent events).

Accounting policies

This interim report for the Group was prepared in accordance with the application of IAS 34 Interim Financial Reporting and applicable rules in the Swedish Annual Accounts Act and for the Parent Company, in accordance

with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation FRF 2 Accounting for Legal Entities.

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. In accordance with IAS 21 changes of functional currencies will be accounted for prospectively from 1 January 2016.

Except from the above noted, the same accounting policies for both the Group and the Parent Company have been applied as used in the most recent Annual Report.

VSS A/S publishes a separate report as a result of the issued debt certificates. Some values in that report are not comparable to the values in this report, as a result of different acquisition values and depreciation schedules between VSS A/S and the Group. VSS A/S has as of Q3 2011 been built through Group-internal transfers of vessels and operations at then current market prices, which is why differences in acquisition values have arisen.

Number of employees

The average number of full time employees in the Group for the first quarter was 495 (Jan-Dec 2015: 740).

Number of shares

Share distribution on March 31, 2016:

Number of Series A shares	11,634,946
<u>Number of Series B shares, listed</u>	<u>165,809,372</u>
Total number of shares	177,444,318

DEFINITIONS

AHTS

Anchor Handling Tug Supply vessel

CAPITAL EMPLOYED

Is the sum of shareholder's' equity and interest-bearing loans.

EARNINGS PER SHARE

Profit after financial items less 1) current tax, 2) tax on profit for the year (current and deferred tax) in accordance with the consolidated income statement

EBIT

Earnings before interest and taxes

EBITDA

Earnings before interest, taxes, depreciation and amortization, corresponding to profit/loss before capital expenses and tax

EQUITY RATIO

Shareholders' equity divided by total assets

THE GROUP

Viking Supply Ships AB, a Limited Liability Company registered in Sweden, with all subsidiaries

IFRS

International Financial Reporting Standards – an international accounting standard used by all listed companies. Some older standards included in IFRS include IAS (International Accounting Standards)

MARKET ADJUSTED EQUITY RATIO

Shareholders' equity divided by total assets, adjusted for asset market valuations

OPERATING CASH FLOW

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

OPERATING COST

Operating cost consists of crew, technical and administration costs

OPERATING PROFIT/LOSS

Profit/loss before financial items and tax

OSV

Offshore Support Vessels

PROFIT MARGIN

Profit after financial items divided by net sales

PSV

Platform Supply Vessel

RETURN ON EQUITY

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

RETURN ON CAPITAL EMPLOYED

Profit before interest and tax (EBIT) divided by average capital employed

RESTRUCTURING COSTS

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

RORO

Roll-on/roll-off ships are vessels designed to carry wheeled cargo, such as automobiles, trucks etc.

TOTAL CASH FLOW

Cash flow from operating activities, investing activities and financing activities



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