

**VIKING SUPPLY SHIPS AB  
(PUBL)  
INTERIM REPORT**

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**Q2**

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2016



**VIKING SUPPLY SHIPS**

**MORE**  
THAN A SHIPOWNER

THE  
**COOLEST**  
PLACE TO WORK

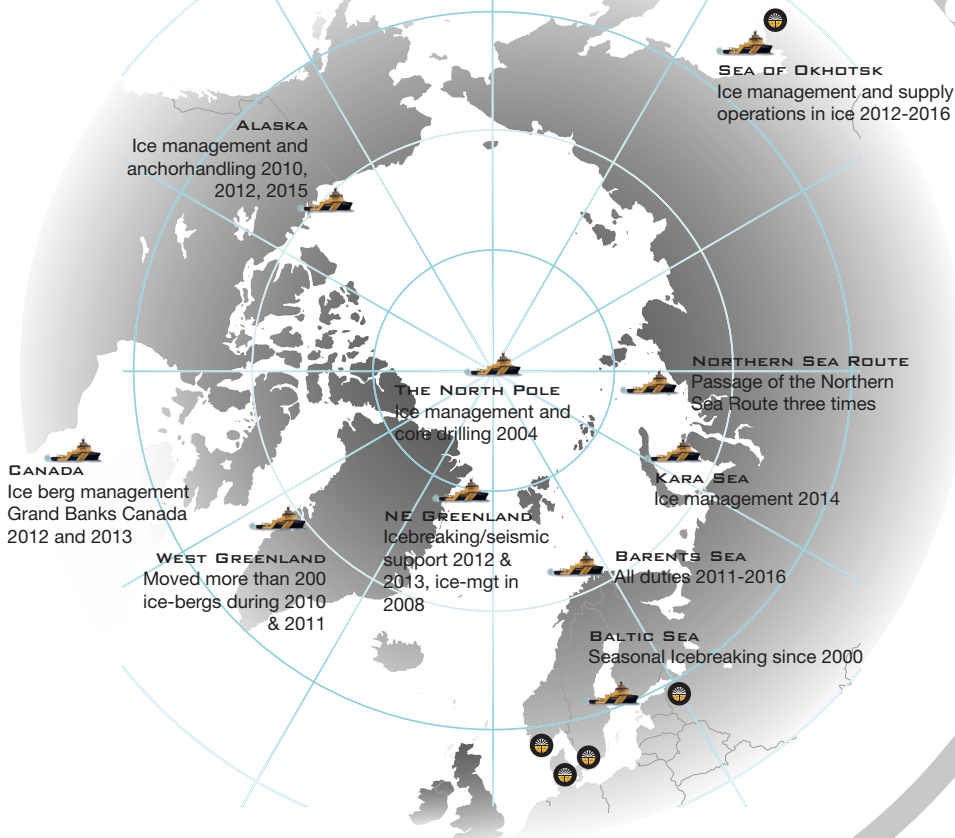
ALWAYS AHEAD OF  
**COMPETITION**

Q2

Q2

**NET SALES**  
**MSEK 298 (553)**  
 H1 MSEK 617 (1,062)

## ARCTIC FOCUS



Q2

**EBITDA**  
**MSEK 57 (86)**  
 H1 MSEK 124 (144)

Q2

**RESULT AFTER TAX**  
**MSEK -128 (36)**  
 H1 MSEK -168 (-35)

Q2

**EARNINGS PER SHARE AFTER TAX,**  
**SEK -0.7 (0.2)**  
 H1 SEK -0.9 (-0.2)

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](http://www.vikingsupply.com).

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For further information, please contact CEO, Christian W. Berg, ph. +45 41 77 83 80 or IR & Treasury Director, Morten G. Aggvin, ph. +47 41 04 71 25.







## CEO STATEMENT

**The second quarter resulted in a negative result for the Group, mainly due to impairment of the PSV fleet. The offshore market is still impacted by the downturn in the global E&P industry. The North Sea spot market in which Viking Supply Ships A/S (VSS A/S) is operating was volatile through the quarter, but despite of certain stronger periods resulting in increased spot revenue, the overall market conditions were challenging. Effects from cost reductions combined with currency gains and impairment of the PSV fleet impacted the results. In July, the Group signed the term sheet which had previously been agreed with the banks. 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 will be summoned within short. Subject to approval of the proposal at a bondholders meeting, this finalizes the total financial restructuring of VSS A/S.**

For the second quarter, the Group's operating result was MSEK -131 and profit after tax was MSEK -128.

VSS A/S recorded a loss before tax of MSEK -116 (53) in the second quarter. The profit before tax was positively impacted by an unrealized currency gain of MSEK 37 and negatively impacted by an impairment loss of the PSV fleet of MSEK -145.

With the PSV fleet laid up, the operational expenses were reduced in the second quarter, and combined with positive impact from unrealized currency gains and the impairment loss, the segment contributed with a profit before tax of MSEK -141 (-64).

During the second quarter, VSS A/S closed down the office in St. John's, Newfoundland in Canada.

Within TransAtlantic AB (TA AB), the restructuring process continued during the quarter, with the delivery of TransAndromeda and TransCapricorn to their new owner during May. The restructuring of TA AB will continue going

forward. In light of the weak market conditions within the offshore oil and gas industry, the Group will continue its efforts to make the organization as cost efficient as possible. However, it remains our core focus to deliver high quality services to our clients and maintain our focus on safety and environmental issues.

After the end of the second quarter, the Group signed the term sheet previously agreed with the banks. The long term agreement with the creditors is subject a successful equity issue in Viking Supply Ships AB (VSS AB), which is estimated to be completed within the end of October. The restructuring will improve the Group's balance sheet and significantly reduce the amount of debt service until the beginning of 2020.

### OUTLOOK

The spot market has strengthened within the last couple of months and there are signs of the oil market re-balancing during 2016, but the Group anticipates that the activity level within offshore oil and gas will be challenging through 2017. The Group assesses that even if the activity level will gradually increase it will take time for the market to absorb available tonnage and significantly improve the market conditions for OSVs.

Despite this, Viking Supply Ships is confident that the Group is well positioned to take advantage of a future increase in activity. The core segment of Arctic and harsh-environment offshore operations has a limited amount of available tonnage globally and VSS A/S has a leading position within the segment. With a restructured balance sheet, the Group is well positioned to take advantage of the next cycle within the industry.

Gothenburg, 30 August 2016.

Christian W. Berg,  
CEO and President

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## SECOND QUARTER

- Total revenue was MSEK 298 (553)
- EBITDA was MSEK 57 (86)
- Result after tax was MSEK -128 (36)
- Result after tax per share was SEK -0.7 (0.2)

## YEAR TO DATE

- Total revenue was MSEK 617 (1,062)
- EBITDA was MSEK 124 (144)
- Result after tax was MSEK -168 (-35)
- Result after tax per share was SEK -0.9 (-0.2)

## SUMMARY OF EVENTS IN Q2

- With reference to the ongoing financial restructuring VSS A/S has on 12 July signed the term sheet which had previously been agreed with the banks. 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 will be summoned within short. Subject to approval of the proposal at a bondholders meeting, this finalizes the total financial restructuring of VSS A/S (see note 1, Liquidity and going concern).
- EBITDA for Q2 was MSEK 57 (86).
- The average fixture rate in Q2 was USD 51,400 (58,500) for the AHTS fleet and USD 0 (4,100) for the PSV fleet. The average utilization in Q2 was 68% (75) for the AHTS fleet and 0% (22) for the PSV fleet.
- 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.
- In May 2016, VSS A/S 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 (see note 1, Liquidity and going concern).
- Due to the challenging market conditions, VSS A/S has recognized an impairment loss during Q2 2016 of MSEK 145 related to the PSV fleet.
- TA AB has 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 is back in his position as CEO of Viking Supply Ships A/S.

## SUBSEQUENT EVENTS

- VSS A/S has 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 will be entitled to a termination fee of approximately USD 13.300/day for the remainder of the firm period. The termination represents a loss of income during the remaining firm period of the contract of MUSD 3.3 in 2016. VSS A/S will off-set this loss by marketing the vessel in the North Sea spot market, while also searching for alternative contracts for the vessel.

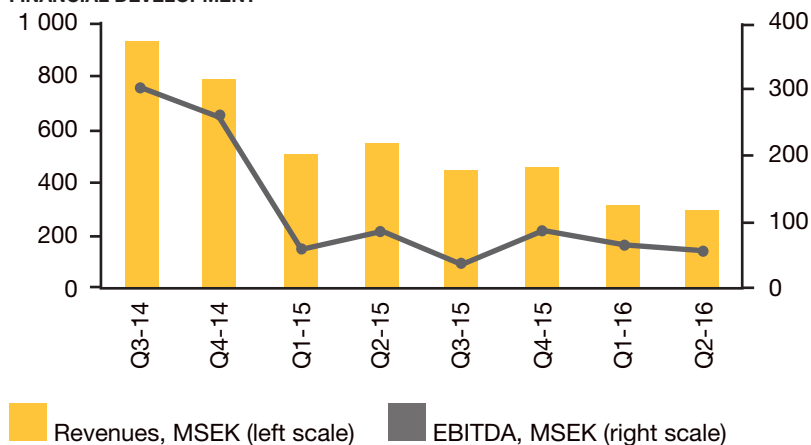
## LIQUIDITY AND GOING CONCERN

The condensed interim financial statements for the six months ending 30 June 2016 have been prepared using the going concern assumption.

Based on a continued belief in securing contracts within the core market segment, Management has concluded that both the company and the Group will be able to continue as going concern at least until 30 June 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	Q2 2016	Q2 2015
Net sales, MSEK	298	553
EBITDA, MSEK	57	86
Result after tax, MSEK	-128	36
Earnings per share after tax, SEK	-0.7	0.2
Shareholders' equity per share, SEK	7.0	11.0
Return on equity, %	-39.9	8.1
Equity ratio, %	32.1	39.1
Market adjusted equity ratio, %	41.7	45.3

### FINANCIAL DEVELOPMENT



## RESULTS AND FINANCE

### RESULTS YEAR TO DATE 2016

Total revenue for the Group for the first half year 2016 was MSEK 617 (1,062), of which VSS A/S contributed with MSEK 450 (604) and TA AB contributed with MSEK 167 (458).

The Group's EBITDA for the first half year was MSEK 124 (144), of which VSS A/S contributed with MSEK 127 (177) and TA AB contributed with MSEK -3 (-33).

Net financial items were MSEK -48 (-73). Financial items include unrealized currency gains of MSEK 15 (-20) and realized value-adjustments on interest rate swaps of MSEK -2 (2).

The Group's result after tax for year-to-date was MSEK -168 (-35), of which VSS A/S contributed with MSEK -149 (16) and TA AB contributed with MSEK -19 (-51). The result for year-to-date was negatively impacted by write-downs of the two bulk vessels TransAndromeda and TransCapricorn with a total of MSEK 7 and by an impairment loss in Q2 on the PSV fleet of MSEK 145.

## OPERATIONAL HIGHLIGHTS FOR THE SECOND QUARTER

### ANCHOR HANDLING TUG SUPPLY VESSELS (AHTS)

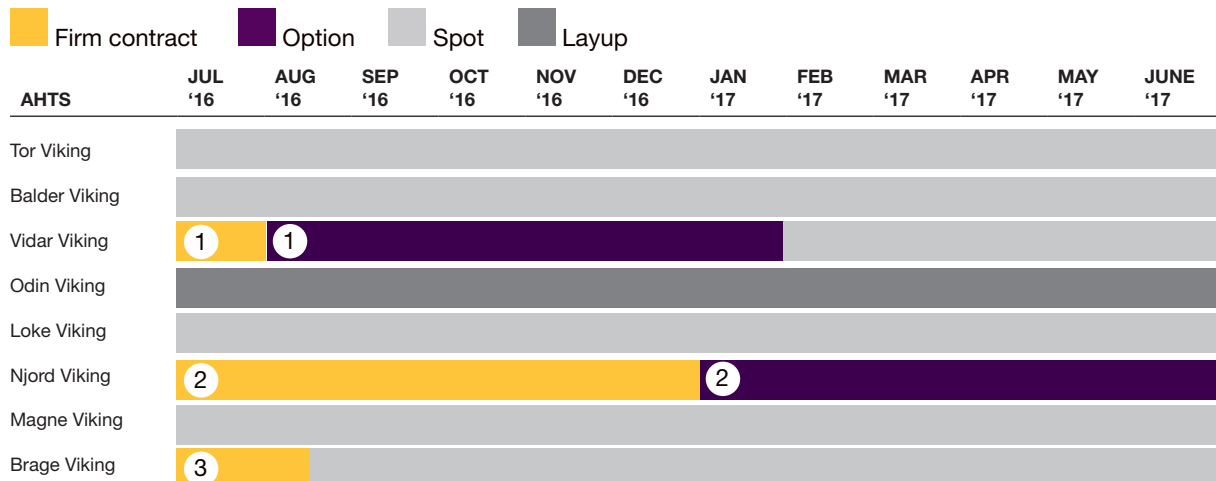
Total AHTS revenue was MSEK 184 (279) in Q2. Total EBITDA was MSEK 75 (144).

During Q2, four vessels have been operating in the North Sea spot market, while three vessels have been operating on term contracts. One AHTS vessel has remained in lay-up during the quarter.

The North Sea spot market has been volatile during the quarter, with certain periods of increased activity resulting in higher fixture levels for the spot vessels. The overall rate level is however still weak, with spot revenue also being impacted by low utilization.

AHTS Q2	Fixture rates (USD)	Utilization (%)
AHTS vessels on term charters	68,400 (70,000)	100 (100)
AHTS vessels on the spot market	21,900 (25,200)	43 (51)
<b>Total AHTS fleet</b>	<b>51,400 (58,500)</b>	<b>68 (75)</b>

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

Figures in the tables are as of 30 June 2016.

### PLATFORM SUPPLY VESSELS (PSV)

Total PSV revenue was MSEK 0 (5) in Q2. Total EBITDA was MSEK -11 (-43). Due to the challenging market conditions, an impairment loss related to the PSV fleet has been recognized during Q2 2016 of MSEK 145.

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.

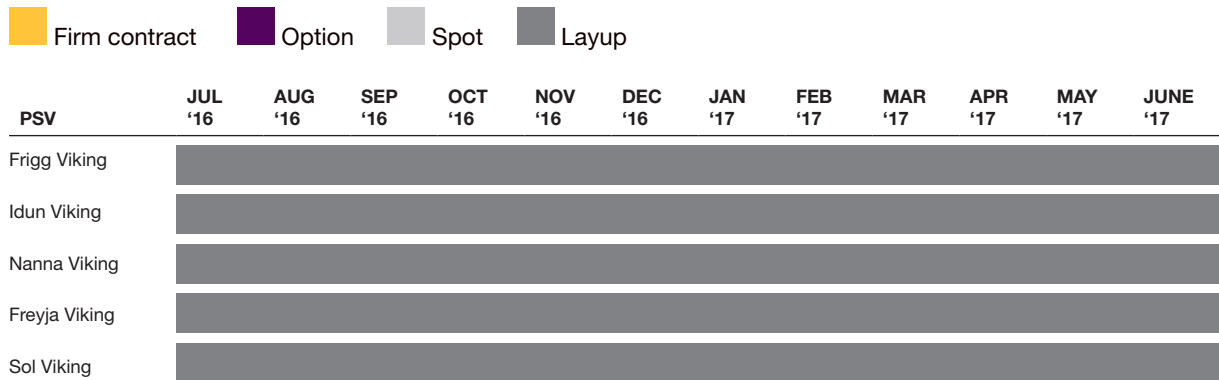
The total PSV contract backlog at the end of the quarter was MSEK 0.

PSV Q2	Fixture rates (USD)	Utilization (%)
PSV vessels on term charters	- (-)	- (-)
PSV vessels in the spot market	- (4,100)	- (22)
<b>Total PSV fleet</b>	<b>- (4,100)</b>	<b>- (22)</b>

Table above excludes three laid-up vessels.



Q2



Figures in the tables are as of 30 June 2016.

### SERVICES AND SHIP MANAGEMENT

Total Services and Ship Management revenue was MSEK 33 (30) in Q2. Total EBITDA was MSEK -2 (-2).

Viking Ice Consultancy (VIC) is continuously pursuing contract opportunities and has during the quarter signed three consultancy contracts with clients within the oil and gas industry. Although not having a material financial impact, the contracts are considered to be positive for the company during a challenging market.

The operations within the ship management segment proceeded as planned throughout the quarter.

### TRANSATLANTIC AB

The subsidiary TransAtlantic AB recorded revenues of MSEK 81 (239) in Q2. EBITDA was MSEK -5 (-13).

The restructuring process within TA AB has continued during the second quarter. TransAndromeda and TransCapricorn were sold during the first quarter and were delivered to their new owners during May. The transaction, after repayment of loans, generated a positive cash effect of MSEK 24. The restructuring activities in TA AB will continue in the second half of 2016.

## FINANCIAL POSITION AND CAPITAL STRUCTURE

At the end of the second quarter, the Group's equity amounted to MSEK 1,249 (equivalent to 7.04 SEK/share). The Equity decreased during the first half year by net MSEK -137 due to the loss for the period of MSEK -168 and a positive change in the translation reserve of MSEK 31 attributable to currency differences on net investments in subsidiaries, mainly related to the strengthened USD against SEK.

Gross investments during the first half year amounted to MSEK 3 (132) mainly related to dockings. The divestments during the first half year have brought liquidity of MSEK 97 to the Group. The divestments relates to released cash earlier blocked as additional security for vessel loans, sales of bonds and the sale of the short sea bulk vessels TransAndromeda and TransCapricorn.

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 8:30 am (CET) on 30 August, 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, 30 August 2016  
Viking Supply Ships AB

Bengt A. Rem  
Chairman

Folke Patriksson  
Deputy chairman

Erik Borgen  
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 30 August 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](http://www.vikingsupply.com). Please see Investor Relations/Reporting Center.

### FINANCIAL CALENDAR 2016

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](http://www.vikingsupply.com).



## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(MSEK)	Note	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Q1-Q4 2015
Net sales		298	553	617	1,062	1,977
Other operating revenue		-	-	-	-	41
Direct voyage cost		-9	-117	-23	-224	-400
Personnel costs		-89	-169	-200	-348	-669
Other costs		-143	-181	-270	-346	-681
Depreciation/impairment	2	-188	-53	-241	-105	-474
<b>Operating result</b>		<b>-131</b>	<b>33</b>	<b>-117</b>	<b>39</b>	<b>-206</b>
Net financial items		5	3	-48	-73	-191
<b>Result before tax</b>		<b>-126</b>	<b>36</b>	<b>-165</b>	<b>-34</b>	<b>-397</b>
Tax	7	-2	0	-3	-1	-43
<b>Result for the period</b>	<b>3</b>	<b>-128</b>	<b>36</b>	<b>-168</b>	<b>-35</b>	<b>-440</b>
Earnings attributable to Parent Company's shareholders, per share in SEK (before and after dilution)		-0.7	0.2	-0.9	-0.2	-2.5

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MSEK	Note	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Q1-Q4 2015
<b>Result for the period</b>		<b>-128</b>	<b>36</b>	<b>-168</b>	<b>-35</b>	<b>-440</b>
Other comprehensive income for the period:						
<b>Items that will not be restored to the income statement</b>						
Revaluation of net pension obligations		-	-	-	-	2
<b>Items that later can be restored to the income statement</b>						
Change in translation reserve, net		56	-29	31	36	-120
<b>Other comprehensive income</b>		<b>56</b>	<b>-29</b>	<b>31</b>	<b>36</b>	<b>-118</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>-72</b>	<b>7</b>	<b>-137</b>	<b>1</b>	<b>-558</b>

## CONDENSED CONSOLIDATED BALANCE SHEET

MSEK	Note	Q2 2016	Q2 2015	Q4 2015
Vessels	2	3,248	4,019	3,470
Other tangible fixed assets		2	4	2
Intangible fixed assets		1	7	1
Financial assets		154	270	183
<b>Total fixed assets</b>		<b>3,405</b>	<b>4,300</b>	<b>3,656</b>
Current assets	5	484	676	461
<b>TOTAL ASSETS</b>	<b>3</b>	<b>3,889</b>	<b>4,976</b>	<b>4,117</b>
Shareholders' equity		1,249	1,945	1,386
Long-term liabilities	4	77	2,308	1,008
Current liabilities	4	2,563	723	1,723
<b>TOTAL EQUITY, PROVISIONS AND LIABILITIES</b>		<b>3,889</b>	<b>4,976</b>	<b>4,117</b>

## 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 16 (19). 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	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Q1-Q4 2015
Cash flow from operations before changes in working capital		33	57	64	102	205
Changes in working capital		-104	0	-102	62	147
<b>Cash flow from current operations</b>		<b>-71</b>	<b>57</b>	<b>-38</b>	<b>164</b>	<b>352</b>
Cash flow from investing activities		40	-18	93	-91	-145
Cash flow from financing activities		-25	-174	-27	-310	-477
<b>Changes in cash and cash equivalents</b>		<b>-56</b>	<b>-135</b>	<b>28</b>	<b>-237</b>	<b>-270</b>
Cash and cash equivalents at beginning of period		278	374	195	450	450
Exchange-rate difference in cash and cash equivalents		5	-6	4	20	15
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>227</b>	<b>233</b>	<b>227</b>	<b>233</b>	<b>195</b>

## CHANGES IN THE GROUP'S SHAREHOLDERS' EQUITY

Shareholders' equity (MSEK)	Note	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Q1-Q4 2015
Equity at beginning of period		1,321	2,036	1,386	2,042	2,042
Dividend		-	-98	-	-98	-98
Total comprehensive income for the period		-72	7	-137	1	-558
<b>SHAREHOLDERS' EQUITY AT END OF PERIOD</b>		<b>1,249</b>	<b>1,945</b>	<b>1,249</b>	<b>1,945</b>	<b>1,386</b>

Share capital (MSEK)	Note	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Q1-Q4 2015
Share capital at beginning of period		177	177	177	177	177
<b>Share capital at end of period</b>		<b>177</b>	<b>177</b>	<b>177</b>	<b>177</b>	<b>177</b>

Number of shares ('000)	Note	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Q1-Q4 2015
Number of outstanding shares at beginning of period		177,444	177,444	177,444	177,444	177,444
<b>Total number of shares at end of period</b>		<b>177,444</b>	<b>177,444</b>	<b>177,444</b>	<b>177,444</b>	<b>177,444</b>
Average number of shares outstanding		177,444	177,444	177,444	177,444	177,444

## DATA PER SHARE

(SEK)	Note	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Q1-Q4 2015
EBITDA		0.3	0.5	0.7	0.8	1.5
Result after tax (EPS)		-0.7	0.2	-0.9	-0.2	-2.5
Equity		7.0	11.0	7.0	11.0	7.8
Operating cash flow		0.3	0.5	0.4	0.4	0.3
Total cash flow		-0.3	-0.8	0.1	-1.3	-1.5

## PARENT COMPANY

The Parent Company's result after tax for the first half year was MSEK -173 (157). The result was negatively impacted by an impairment of shares in subsidiaries of -170 MSEK.

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 Q2 the Parent Company's equity was MSEK 1,817 (1,990 on Dec 31, 2015), and total assets were MSEK 2,236 (2,337 on Dec 31, 2015). The equity ratio on the balance day was 81 % (85 on Dec 31, 2015). Cash and cash equivalents at the end of the period was MSEK 40 (34 on Dec 31, 2015) of which 39 MSEK comprised of client funds.

## PARENT COMPANY INCOME STATEMENT

(MSEK)	Note	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Q1-Q4 2015
Net sales		86	91	170	175	344
Other operating revenue		-	-	-	-	1
Personnel costs		0	-1	-1	-1	-2
Other costs		-86	-90	-170	-173	-342
<b>Operating result</b>		<b>0</b>	<b>0</b>	<b>-1</b>	<b>1</b>	<b>1</b>
Net financial items		-173	156	-172	156	-291
<b>Result before tax</b>		<b>-173</b>	<b>156</b>	<b>-173</b>	<b>157</b>	<b>-290</b>
Tax on result for the year		-	-	-	-	-40
<b>RESULT FOR THE PERIOD</b>		<b>-173</b>	<b>156</b>	<b>-173</b>	<b>157</b>	<b>-330</b>
<i>Other comprehensive income for the period:</i>						
<b>Items that will not be restored to the income statement</b>						
Revaluation of net pension obligations		-	-	-	-	1
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>-173</b>	<b>156</b>	<b>-173</b>	<b>157</b>	<b>-329</b>

## PARENT COMPANY BALANCE SHEET

(MSEK)	Note	Q2 2016	Q2 2015	Q4 2015
Financial fixed assets		2,025	2,688	2,193
Current assets		211	92	144
<b>TOTAL ASSETS</b>		<b>2,236</b>	<b>2,780</b>	<b>2,337</b>
Shareholders' equity		1,817	2,476	1,990
Provisions		7	8	7
Long-term liabilities		164	185	163
Current liabilities		248	111	177
<b>TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>		<b>2,236</b>	<b>2,780</b>	<b>2,337</b>



Q2

## CHANGES IN PARENT COMPANY SHAREHOLDERS' EQUITY

(MSEK)	Note	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Q1-Q4 2015
Equity at beginning of period		1,990	2,418	1,990	2,417	2,417
Dividend		-	-98	-	-98	-98
Total comprehensive income for the period		-173	156	-173	157	-329
<b>SHAREHOLDERS' EQUITY AT END OF PERIOD</b>		<b>1,817</b>	<b>2,476</b>	<b>1,817</b>	<b>2,476</b>	<b>1,990</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. 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 the Group during 2015. As a consequence, a dialogue was initiated in Q4 2015 with the lenders to secure a long-term stable financing solution. As at 31 December 2015 VSS did not have sufficient liquidity to service its debt obligations as they fell due, including the requirements to deposit additional cash or security as required under contract coverage- and loan-to-value clauses in Q1 2016. Further in 2016, VSS has not been able to comply with events of default provisions in loan agreements, which has rendered all to VSS A/S related borrowings short-term and payable on demand by the lenders.

VSS has during the majority of first half 2016 been in an ongoing dialogue with its lenders and has during most of the year since February 2016 been in a standstill position, during which VSS A/S has not paid instalments to its lenders. These events have created uncertainty as to VSS A/S and the Group'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 2016 VSS A/S reached an agreement with the bondholders' committee regarding a revised proposal for restructuring of the bond issue and a bondholders' meeting will be summoned within short. Execution of a final agreement in the form of a term sheet (the "Agreement") is pending certain conditions precedent, including that the revised proposal is 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.

Some of these these conditions have not yet been resolved and despite the Agreement being signed, it is not deemed effective. The Agreement is further subject to an equity issue at an agreed level in Viking Supply Ships AB and a subsequent equity injection by the parent company into VSS A/S, where the majority shareholder Kistefos AS has already informed the Group and the lenders that it will and has the ability to guarantee its 70% pro-rata share of the required equity issue in Viking Supply Ships AB. On this basis, Management expects that the company will be able to successfully execute the required equity issue.

The Agreement includes the following key terms:

- VSS A/S' bank facilities of MUS\$ 215 are extended until 31 March 2020.
- 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 certain charter party arrangements.
- 50% of the outstanding par value of bonds will be converted to quoted class B shares in VSS A/S' parent company, Viking Supply Ships AB (VSS AB), at SEK 1.5 per share, the bonds being valued at 55% of par.
- The remaining 50% of the outstanding bonds will be redeemed in cash at a price corresponding to 35% of par.
- Extraordinary repayments in an aggregate amount of approximately MUS\$ 23.7 by application of funds standing to the credit of accounts and proceeds from the equity issue in Viking Supply Ships AB.
- The interest-bearing debt in VSS AB is reduced by approximately MUS\$ 50, of which reduction in VSS A/S accounts for approximately MUS\$ 43.
- VSS AB will complete an equity issue of minimum MUS\$ 25.2, of which the majority shareholder Kistefos AS will subscribe its pro-rata share. In addition, equity of MUS\$ 6.6 will be issued in exchange for said bonds.

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



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

Based on the above and a continued belief in securing contracts within the core market segment, Management has concluded that both Viking Supply Ships AB and the Group despite the significant uncertainty will be able to continue as going concern at least until 30 June 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.

## 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.

### Impairment test

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

In Q2 2016 Management evaluated the PSV fleet and concluded that the PSV vessels are impaired resulting in an impairment loss of MSEK 145.

The conclusion is based on a calculated value in use based on discounted cash flows using the principles set out above. 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 cash flow projection shows negative cash flows for 2016-17 due to all PSV vessels in warm lay-up in 2016 and poor market conditions expected in 2017 with step-wise improving rates and utilization in 2018 and 2019 and no additional increases thereafter.

The value in use calculation based on discounted cash flows 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 57 (ranging from MUSD 62 to MUSD 52). 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 62 is lower than the original carrying amount of the owned PSV fleet (MUSD 74) at the end of Q2 2016, an impairment charge has been recognized. Due to the sensitivity in the underlying assumptions in the value in use calculation an additional impairment charge of MUSD 5 has been recognized.

VSS A/S 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 Q2 2016 Management evaluated the AHTS fleet and concluded that the AHTS vessels are not impaired. Value in use calculations prepared for the AHTS fleet showed no indications that the carrying amount may not be fully recoverable. This was further supported by the external vessel valuations from two independent internationally acknowledged shipbrokers showing a total AHTS fleet value in excess of the carrying amount of the owned AHTS fleet (MUSD 316) by 23% 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.

Q2 MSEK	AHTS	PSV	Services	Ship Management	TransAtlantic AB	Total
Net sales	184	0	1	32	81	298
EBITDA	75	-11	-3	1	-5	57
Result before tax	27	-141	-3	1	-10	-128
Total assets	3,159	525	0	0	205	3,889

Year to date MSEK	AHTS	PSV	Services	Ship Management	TransAtlantic AB	Total
Net sales	376	3	1	70	167	617
EBITDA	155	-24	-4	0	-3	124
Result before tax	1	-144	-4	1	-19	-165
Total assets	3,159	525	0	0	205	3,889

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 2,332 (2,334 on Dec 31, 2015).

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).

In addition hereto, the interest bearing liabilities are also associated with loan clauses, such as contract coverage clauses and loan-to-value clauses, according to which the Group had to fulfil certain ratios of contract coverage and loan-to-value ratios, pursuant to the individual loan agreements. If these ratios were not met, the Group had to deposit cash or provide additional security in accordance with the terms in the relevant loan agreements. Any such amount in deposit would vary up or down and the variation was dependent upon currency exchange rates, amortizations under the loan and development in vessel valuations obtained from external shipbrokers. If the ratios of contract coverage and loan-to-value, pursuant to the terms in the individual loan agreements, yet again are met then the obligation of providing additional security will cease. At the balance date, the Group had provided the lenders with a total of MSEK 77 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 Viking Supply Ships 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, Viking Supply Ships 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).

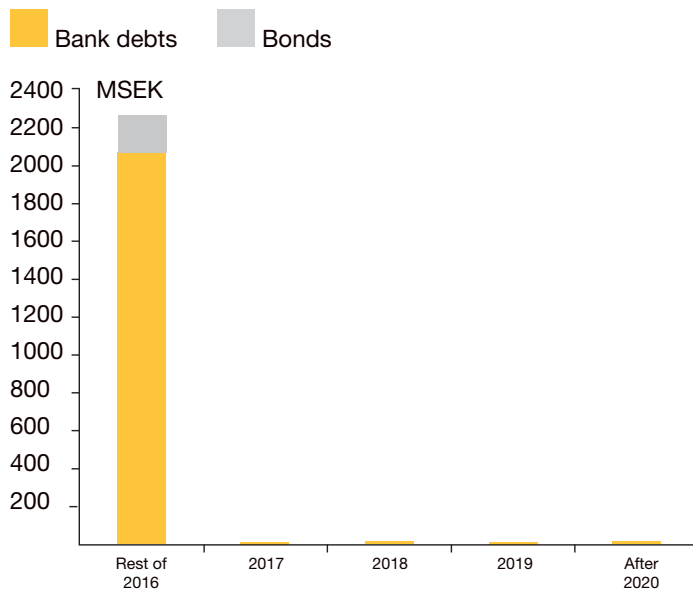
At the expiration and redelivery of two bareboat vessels in TA AB there was a residual value guarantee commitment for the Group in favor of the financing bank. The commitment amounts to a total of MSEK 63. The bank has agreed that the payment is postponed to no later than in Q3 2016. Further, in a loan 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 45% (43) of its interest bearing debt in USD, 18% (19) in GBP, 0% (1) in EUR and 37% (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	Q2 2016	Q2 2015	FY 2015
Long-term bond loan	-	211	189
Short-term bond loan	205	-	-
Long-term debt to credit institutions	38	2,100	796
Short-term debt to credit institutions	2,089	418	1,349
<b>TOTAL INTEREST BEARING LIABILITIES</b>	<b>2,332</b>	<b>2,730</b>	<b>2,334</b>

#### 4.2. Debt maturity



## 5. CASH AND CASH EQUIVALENTS

Consolidated cash and cash equivalents available at the end of the quarter amounted to MSEK 277 (195). Cash assets include client funds of MSEK 62.

MSEK	Q2 2016	Q2 2015	FY 2015
Restricted cash <sup>1)</sup>	77	109	104
Free cash and cash equivalents	227	233	195
<b>TOTAL</b>	<b>304</b>	<b>342</b>	<b>299</b>

1) The amount is included in the item "Financial 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 1,053 (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

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. The compensation for the first half year 2016 amounted to 6 MSEK.

### 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 RFR 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 those 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 half year was 486 (Jan-Dec 2015: 740).

### Number of shares

Share distribution on June 30, 2016:

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



## 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

### 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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