



## Q2 REPORT 2016

### Highlights;

- Earnings from shipping activities (ship management and ship ownership combined) of NOK 52 million, up from NOK 35.6 million in second quarter 2015.
- Earnings before tax of NOK 58.1 million, up from NOK 34.2 million in second quarter 2015.
- Strong contract coverage in a LPG market under considerable downwards pressure.
- Successful consolidation of multiple ship owning companies to increase efficiency and cash-pooling.
- Successful financing of Panamax VLGC new-buildings.
- Gain of NOK 21 million on sale of 37.5% of a share in one of the ship-owning companies.
- Continued strong HSE results with only 5 minor LTI in the last 9 years.

Earnings summary Figures in MNOK except for per share figures				Variance		Percentage variance	
	2Q 2016	2Q 2015	1Q 2016	2Q 2015	1Q 2016	2Q 2015	1Q 2016
Share of revenue on TCE basis	101,2	85,9	124,5	15,3	-23,3	18 %	-19 %
Earnings from shipping activity	52,0	35,6	47,7	16,4	4,3	46 %	9 %
Income from ship owning companies	48,9	29,0	45,5	19,9	3,4	69 %	7 %
Earnings before tax	58,1	34,2	47,7	23,9	10,4	70 %	22 %
Earnings per share	2,3	1,4	1,9	0,9	0,4	64 %	21 %
Book equity per share	47,6	38,5	46,8	9,1	0,8	24 %	2 %

### The Group's activities

The group's activities are divided in two main segments; Ship-management and Ship-ownership through participation in ship owning companies. The latter segment can be divided into three sub-segments;

- Ethane/Ethylene: The group has six vessels in this sub-segment, two 12.6k cbm from 1998/1999, and four 17k cbm vessels from 2007/2008. All vessels were built by the Meyer group in Germany.
- Large Gas Carriers – LGC: The group has nine vessels in this sub-segment and is the market leader with 40% market share. Three vessels were delivered from Kawasaki in 2003/2004, three vessels delivered from Hyundai in 2008, and three delivered from Hyundai in 2015. The vessels are from 59-60k cbm. Also consolidating under this segment, the group has one MGC, built in 2005 at Daewoo in South Korea, delivered to the group in November 2015.
- Very large Gas Carriers – VLGC: The group has five vessels in this sub-segment, one 82k cbm and two Panamax size 75k cbm vessels delivered in 2008, as well as two 84k cbm vessels delivered in 2013. The group has two Panamax size 78.7k cbm under construction for delivery Q2 and Q3 2017. All vessels built by Hyundai.

As of today, Solvang has high contract coverage with 97% coverage for 2016. Solvang has focus on high quality in operating ships, with no off-hire, zero LTI, and minimal of observations within the vetting regime.

## Financial results:

Earnings from the shipping activities in second quarter 2016 were NOK 52 million, up from NOK 35.6 million in same quarter in 2015. Earnings from the ship owning companies were NOK 48.9 million, up from NOK 29 million in same period last year. The significant increase in earnings comes from the gain on sale of 37.5% of a share in one of the ship owning companies, adding a NOK 21 million gain in Q2 earnings. Earnings without this exceptional gain were NOK 28 million, which is in line with the very strong results from the second quarter in 2015, although the earnings mix was different. The results in Q2 2016 were positively affected by the additional ships delivered during 2015, three LGC and one MGC, contributing NOK 9.5 million to Q2 earnings, as well as improved utilization for the ethylene carriers, further adding NOK 10.5 million to Q2 earnings. These improvements were offset by the drop in the VLGC market, where some of the ships are on floating time charter contracts, resulting in a negative effect for Q2 of about NOK 21 million.

Earnings before tax for second quarter 2016 was NOK 58.1 million, compared to NOK 34.2 million in the same period last year.

## Market

### VLGC:

The Baltic Indeks				Variance		Percentage variance	
	2Q 2016	2Q 2015	1Q 2016	2Q 2015	1Q 2016	2Q 2015	1Q 2016
USD/ton freight	28	104	44	-76	-16	-73 %	-15 %
Earnings on TCE basis USD/month	564 500	2 920 000	1 172 000	-2 355 500	-607 500	-81 %	-21 %

The VLGC market continued the steep decline from first quarter and throughout second quarter of 2016. The factors contributing to the market decline is the same as first quarter, where a total of 35 VLGCs were delivered during Q1 and Q2, the highest number of new-builds ever during a 6 months period. Another key factor is the product pricing between USA and Asia, where the LPG in Asia is correlated to the price of oil, and the US price is more independent and related to internal demand and storage volumes. With the low LPG price in Asia, the arbitrage between regions is gone, resulting in mainly term-cargoes being shipped east from USA, with a resulting buildup of available tonnage.

This resulted in a steep decline for the Baltic index, which started the year at around USD 57 / ton, giving USD 1.66 million on timecharter equivalent per month, and ending the second quarter at about USD 27 / ton, the equivalent of USD 453K on timecharter per month.

### LGC:

The LGC market is now predominantly a timecharter market, and as such not as volatile as the VLGC market. The sentiment in the market though follows the trend in the VLGC market, and as such, LGCs coming open now will face a tougher market compared to same time last year, with considerable downward pressure on rates. One advantage LGC have over VLGC is having the ammonia market to rely on. During the high LPG market in 2014 and 2015, several LGCs have moved from ammonia to LPG, and now we could see owners wanting to shift back to ammonia. The LGC market has a positive effect from the expected development in ammonia trading, trending towards longer voyages, favoring the LGC size. The LGCs furthermore have their niche where the VLGCs are too big for either geographical reasons or terminal restrictions.

### Ethane/Ethylene:

The first six months of 2016 was somewhat affected by low volumes out of the Middle East, coming from lack of feedstock for key exporters. However the Solvang fleet is for 2016 well employed on timecharter, and as such has not been affected in the same manner as last year. The contract coverage is fairly strong going forward for these vessels with 50% of the fleet covered to 2020.

**Financial risk**

Solvang Group's investments in ships, which are owned through participation in ship owning companies with joint responsibility, are USD based, and the group's revenue is mainly USD based. Furthermore, ship values and financing of ships are USD based. The Group's risk in currency exposure is as such limited.

**General**

There have been no incidents with a particular impact on the second quarter financial accounts during the period.

The Solvang Group had no scheduled classification docking in the second quarter of 2016. The group has no scheduled classification dockings in 2016.

Stavanger August 29<sup>th</sup> 2016  
Board of Directors  
Solvang ASA

<b>CONDENSED PROFIT AND LOSS ACCOUNT</b> (Figures in mill NOK)	<b>Q2</b> <b>2016</b>	<b>Q2</b> <b>2015</b>	<b>Acc Q2</b> <b>2016</b>	<b>Acc Q2</b> <b>2015</b>	<b>2015</b>
Operating income	18,8	21,7	37,8	43,7	84,0
Ship owning companies equity method	48,9	29,0	94,4	56,7	166,6
Operating expenses	-15,7	-15,1	-32,5	-32,1	-78,0
Operating earnings	52,0	35,6	99,7	68,3	172,5
Financial items	6,0	-1,4	6,0	1,3	-1,0
Earnings before tax	58,1	34,2	105,8	69,6	171,6
Taxes	-1,2	0,0	-1,9	-3,9	-2,7
Earnings of the period	56,9	34,2	103,9	65,7	168,9

#### STATEMENT OF COMPREHENSIVE INCOME

Earnings of the period	56,9	34,2	103,9	65,7	168,9
Other comprehensive income					
Changes in translation differences ship-owning companies	10,3	-15,5	-56,4	49,8	161,1
Remeasurements of pension liabilities	0,0	0,0	0,0	0,0	11,6
Tax	0,0	0,0	0,0	0,0	-3,1
Comprehensive income to the shareholders of Solvang ASA	67,2	18,6	47,4	115,5	338,5

#### Key figures per share (NOK)

Earnings per share	2,32	1,40	4,24	2,69	6,91
Diluted earnings per share	2,31	1,39	4,21	2,67	6,85
Comprehensive income per share	2,74	0,76	1,94	4,73	13,84
Cash flow per share			1,07	1,37	1,57
Book equity per share			47,55	38,52	47,64

#### CONDENSED BALANCE SHEET (mill NOK)

	<b>30.06.2016</b>	<b>31.12.2015</b>	<b>30.06.2015</b>
Exchange rate USD/NOK	8,40	8,80	7,90
<b>Assets</b>			
Deferred tax asset	3,1	3,1	6,9
Fixed assets	2,8	3,7	3,4
Share of new-build contract	0,0	37,5	0,0
Financial fixed assets	1 043,6	1 173,8	905,5
<b>Total non-current assets</b>	<b>1 049,5</b>	<b>1 218,2</b>	<b>915,7</b>
Short term receivables	22,2	28,8	53,9
Bank deposits	156,7	130,6	125,7
<b>Total current assets</b>	<b>178,9</b>	<b>159,3</b>	<b>179,6</b>
<b>Total assets</b>	<b>1 228,4</b>	<b>1 377,5</b>	<b>1 095,3</b>
<b>Equity and liabilities</b>			
Share capital	122,5	122,3	122,3
Retained earnings	1 042,1	1 042,6	819,6
<b>Total equity*</b>	<b>1 164,6</b>	<b>1 164,8</b>	<b>941,9</b>
Provisions	17,9	17,9	30,3
Current liabilities	45,9	194,8	123,2
<b>Total liabilities</b>	<b>63,8</b>	<b>212,6</b>	<b>153,4</b>
<b>Total equity and liabilities</b>	<b>1 228,4</b>	<b>1 377,5</b>	<b>1 095,3</b>

\*The company had per 30.06.2016 a balance of 159.062 own (Solvang ASA) shares entered into accounts at NOK 376.533 which have been deducted from the equity figure.

#### Comments to balance sheet:

The share of newbuild contract in balance sheet as of 31.12.2015 is Solvang ASA portion of the first installment for two Panamax newbuild for delivery in 2017. The contract was transferred to the ship owning company it was intended for in April 2016, but due to limited time in connection with the signing of the contract, the contract was temporarily placed in Solvang in 2015. Ref note 20 in annual accounts 2015 for further details.

## CHANGE IN EQUITY (mill NOK)

	Share capital	Own shares	Translation differences	Other equity	Total equity
Equity at 31.12.2015	123,3	-1,0	294,2	748,4	1 164,8
Result for the period			-56,4	103,9	47,4
Total income and expenses for the period	0,0	0,0	-56,4	103,9	47,4
Dividends paid				-49,0	-49,0
Purchase / Sale of own shares		0,2		1,1	1,3
Total changes in equity for the period	0,0	0,2	0,0	-47,9	-47,7
Equity at 30.06.2016	123,3	-0,8	237,8	804,3	1 164,6

## CONDENSED CASH FLOW STATEMENT (Mill NOK)

	Per Q2		Per Q2
	2016	31.12.2015	2015
Profit before tax	105,8	171,6	69,6
Change in working capital	-113,3	89,9	44,5
Ship-owning companies equity method	-94,4	-166,6	-56,7
Net financial items	-6,5	0,5	-1,4
Net Cash from operations	-108,4	95,5	56,0
Net purchase of fixed asset	37,6	-39,9	-1,6
Net receipts payment security investments	0,0	0,0	0,0
Net receipts/payment from selling/buying shipping companies	62,4	-26,0	0,0
Net receipts/payment shipping companies	105,6	-15,9	-6,3
Net cash from investing	205,7	-81,8	-7,9
Net change in overdraft facility	-30,1	45,8	6,2
Dividends paid	-49,0	-24,5	-24,5
Purchase/sale of own shares	1,3	1,1	1,1
Net cash from financing activities	-77,7	22,4	-17,2
Effect of exchange rate changes on cash and cash equivalents	6,6	2,3	2,7
Net changes in cash and cash equivalents	26,1	38,4	33,5
Cash and cash equivalents at beginning of period	130,6	92,1	92,1
Cash and cash equivalents at end of period	156,7	130,6	125,7

## General information

Solvang ASA is a listed company established and domiciled in Norway. The shares are traded on the Oslo Stock Exchange. The company was established in 1936 and the main office address is Solvang ASA, Næringslivets Hus, Haakon VII's gate 8, 4005 Stavanger, Norway.

## Basis for the preparation of the accounts

The summarised consolidated accounts as of the second quarter of 2016 have been prepared in accordance with IAS 34 Interim reporting. The interim accounts do not include all information required in complete annual accounts and should be read in the context of the consolidated accounts for 2015. The accounts as of the second quarter of 2016 have not been audited.

## Accounting principles

The consolidated accounts have been prepared on the basis of historic cost, with the exception of investments in securities and other financial instruments, which are recognised at fair value in accordance with IAS 39.

The consolidated accounts have been presented in NOK. The accounting principles for 2015 have been described in the consolidated accounts for 2015. The consolidated accounts for 2015 were prepared in accordance with EU-approved IFRS provision and associated interpretations, as well as the additional Norwegian information requirements that follow from the Accounting Act, stock exchange regulations and stock exchange rules, and which were applicable as of 31 December 2015. The preparation of the consolidated accounts in accordance with IFRS requires the use of estimates which influence the reported figures. A more detailed statement regarding use of and uncertainties related to estimates can be found in Note 1 to the consolidated accounts for 2015.

For complete accounting principles, see the company's annual report for 2015.

# Notes to the interim accounts

## Note 1 Segment information

Solvang's internal reporting and management is based on shares in shipping companies being consolidated using proportionate consolidation. In the company's opinion, this provides the best information as regards scope and risk in connection with the company's activities. This is due to the shipping companies mainly being joint ownerships (shared responsibility), where participants have an unlimited liability for their pro rata share of the individual shipping company's liabilities. This note presentation shows first a summarised income statement and summarised balance sheet set up using proportionate consolidation, followed by a presentation of the key figures for the ship ownership by size segment and ship management.

<b>CONDENSED PROFIT AND LOSS ACCOUNT</b> <b>PROPORTIONATE CONSOLIDATION(mill NOK)</b>	<b>Q2</b> <b>2016</b>	<b>Q2</b> <b>2015</b>	<b>Acc Q2</b> <b>2016</b>	<b>Acc Q2</b> <b>2015</b>	<b>2015</b>
Share freight income on T/C-basis	101,2	85,9	225,7	160,0	396,9
Net profit on sale of vessels/part of company	0,0	0,0	0,0	0,0	0,0
Other operating income	18,8	21,7	37,8	43,7	84,0
Share of operating expenses	-38,8	-37,1	-78,7	-62,8	-138,2
Ordinary depreciation	-20,7	-16,4	-42,6	-30,9	-70,8
Other operating expenses	-15,4	-14,8	-32,0	-31,6	-77,0
<b>Operating earnings</b>	<b>45,0</b>	<b>39,2</b>	<b>110,1</b>	<b>78,4</b>	<b>194,9</b>
Share of financial items shipowning companies	-13,9	-3,7	-31,3	-10,1	-22,4
Other financial items	27,0	-1,4	27,0	1,3	-1,0
Taxes	-1,2	0,0	-1,9	-3,9	-2,7
<b>Earnings of the period</b>	<b>56,9</b>	<b>34,2</b>	<b>103,9</b>	<b>65,7</b>	<b>168,9</b>

<b>CONDENSED BALANCE SHEET</b> <b>PROPORTIONATE CONSOLIDATION(mill NOK)</b>	<b>30.06.2016</b>	<b>31.12.2015</b>	<b>30.06.2015</b>
<b>Assets</b>			
Deferred tax asset	3,1	3,1	6,9
Share of vessels	2 008,0	2 211,9	1 789,5
Share of new -build contract	38,3	37,5	44,8
Share of periodic maintenance	45,9	59,3	54,8
Other fixed assets	3,1	4,0	3,6
<b>total fixed assets</b>	<b>2 098,5</b>	<b>2 315,9</b>	<b>1 899,5</b>
Short term receivables	22,2	28,8	53,9
Share of current assets from shipping partnerships	119,7	163,1	89,1
Bank deposits	156,7	130,6	125,7
<b>Total current assets</b>	<b>298,6</b>	<b>322,4</b>	<b>268,7</b>
<b>Total assets</b>	<b>2 397,0</b>	<b>2 638,3</b>	<b>2 168,2</b>
<b>Equity and liabilities</b>			
Share capital	122,5	122,3	122,3
Retained earnings	1 042,1	1 042,6	819,6
<b>Total equity</b>	<b>1 164,6</b>	<b>1 164,8</b>	<b>941,9</b>
Provisions	17,9	17,9	30,3
Share of long term liabilities shipping partnerships	1 121,5	1 205,0	1 030,4
Share of short term liabilities shipping partnerships	47,1	55,8	42,6
Short term liabilities	45,9	194,8	123,2
<b>Total liabilities</b>	<b>1 232,4</b>	<b>1 473,5</b>	<b>1 226,3</b>
<b>Total equity and liabilities</b>	<b>2 397,0</b>	<b>2 638,3</b>	<b>2 168,2</b>

Areas of operation	Ship ownership		Ship management		Total	
	Acc Q2 2016	Acc Q2 2015	Acc Q2 2016	Acc Q2 2015	Acc Q2 2016	Acc Q2 2015
Operating revenues	0,0	0,0	37,8	43,7	37,8	43,7
Share of profit ship-owning companies equity method						
Semi ref vessels	50,3	24,7	0,0	0,0	50,3	24,7
LGC vessels	112,4	58,5	0,0	0,0	112,4	58,5
VLGC vessels	63,0	76,8	0,0	0,0	63,0	76,8
Operating expenses	-78,7	-62,8	-32,0	-31,6	-110,7	-94,4
Depreciation / write-down	-42,2	-30,4	-0,5	-0,5	-42,6	-30,9
Operating earnings	104,8	66,8	5,3	11,6	110,1	78,4
Financial items	-10,4	-10,1	6,0	1,3	-4,3	-8,8
Earnings before tax	94,4	56,7	11,4	12,9	105,8	69,6
Deferred tax	0,0	0,0	3,1	6,9	3,1	6,9
Interest in vessels- equity method						
Semi ref vessels	447,2	439,2	0,0	0,0	447,2	439,2
LGC vessels	1 015,1	768,5	0,0	0,0	1 015,1	768,5
VLGC vessels	535,6	581,8	0,0	0,0	535,6	581,8
New vessel	48,4	44,8	0,0	0,0	48,4	44,8
Sum	2 046,3	1 834,2	0,0	0,0	2 046,3	1 834,2
Interest in periodic maintenance- equity method						
Semi ref vessels	13,2	19,5	0,0	0,0	13,2	19,5
LGC vessels	23,9	23,1	0,0	0,0	23,9	23,1
VLGC vessels	8,8	12,2	0,0	0,0	8,8	12,2
Sum	45,9	54,8	0,0	0,0	45,9	54,8
Interest current assets- equity method						
Semi ref vessels	41,9	34,6	0,0	0,0	41,9	34,6
LGC vessels	45,7	34,2	0,0	0,0	45,7	34,2
VLGC vessels	32,1	20,4	0,0	0,0	32,1	20,4
Sum	119,7	89,1	0,0	0,0	119,7	89,1
Other investments	0,0	0,0	3,1	3,6	3,1	3,6
Assets	0,0	0,0	178,9	179,6	178,9	179,6
Total Assets	2 211,9	1 978,1	185,1	190,1	2 397,0	2 168,2
Interest in long term liabilities- equity method						
Semi ref vessels	210,4	232,5	0,0	0,0	210,4	232,5
LGC vessels	636,9	470,8	0,0	0,0	636,9	470,8
VLGC vessels	274,2	327,0	0,0	0,0	274,2	327,0
Sum	1 121,5	1 030,4	0,0	0,0	1 121,5	1 030,4
Interest in short term liabilities- equity method						
Semi ref vessels	14,8	16,0	0,0	0,0	14,8	16,0
LGC vessels	18,4	12,7	0,0	0,0	18,4	12,7
VLGC vessels	13,9	13,8	0,0	0,0	13,9	13,8
Sum	47,1	42,5	0,0	0,0	47,1	42,5
Interest-bearing dept	0,0	0,0	63,8	153,4	63,8	153,4
Total debts	1 168,6	1 072,9	63,8	153,4	1 232,4	1 226,3
Net investment in fixed assets in the period						
LGC vessels	0,0	199,6	0,0	0,0	0,0	199,6
VLGC vessels	10,9	0,0	0,0	0,0	10,9	0,0
Fixed asset	0,0	0,0	0,0	1,6	0,0	1,6

## Note 2 Related parties

Related parties are the shipping companies where Solvang owns 15% or more, as well as companies controlled by the Steensland family. All transactions with related parties are conducted at market terms and conditions. In connection with Solvang's involvement as general manager for shipping companies, there are continuous transactions between Solvang and the individual shipping companies. Solvang receives an annual fee for the management services. The size of the fee is stipulated in the general manager agreement, and approved annually by the shipping companies. Parallel investments are also made with companies controlled by the Steensland family. There have been no special transactions with related parties so far this year beyond normal business transactions.

Transactions with related parties had the following extent as of second quarter of 2016. (Q2 figures in brackets)

Received management fees from affiliated shipping companies:	NOK	16.1 million	( 8.0 million)
Received technical fees from affiliated shipping companies:	NOK	15.2 million	( 7.6 million)
Received fee for commercial management from shipping companies:	NOK	6.5 million	( 3.2 million)
Net paid in new equity to affiliated shipping companies:	NOK	0.0 million	( 0.0 million)
Distribution from affiliated shipping companies:	NOK	105.7 million	(22.5 million)

## Note 3 Tax

(Amounts in NOK 1000)

<b>Current tax</b>	<b>30.06.2016</b>	<b>31.12.2015</b>
Profit before tax	105 767	171 559
25% / 27% tax	-26 442	-46 321
Permanent differences		
- shares and dividend		-10
- Tonnage tax regime	24 538	44 736
- Revised tax rate		-249
- other permanent differences		-863
<b>Tax expense</b>	<b>-1 904</b>	<b>-2 706</b>
<b>Deferred tax</b>	<b>30.06.2016</b>	<b>31.12.2015</b>
Opening balance	-3 111	-7 913
Closing balance	-3 135	-3 111
Change	-23	4 802
<i>Temporary differences:</i>		
Fixed assets	228	228
Gain/loss account	39	39
Pension	-17 874	-17 883
Associated companies	5 069	5 171
<b>Total</b>	<b>-12 539</b>	<b>-12 445</b>
Deferred tax / deferred tax asset	-3 135	-3 111
Not recognised		
<b>Total</b>	<b>-3 135</b>	<b>-3 111</b>



<b>Tax payable</b>	<b>30.06.2016</b>	<b>31.12.2015</b>
Remaining opening balance		
Tonnage tax	117	234
Recognised tax payable	1 785	1 059
Other	-39	
<b>Tax payable (long and short term)</b>	<b>1 862</b>	<b>1 292</b>
Short term	1 862	1 292
Long term		
<b>Tax expenses</b>	<b>30.06.2016</b>	<b>31.12.2015</b>
Changes deferred tax	23	-4 802
Deferred tax OCI - pensions		3 137
Currency adjustment deferred tax	-26	251
Tax payable	-1 902	-1 292
<b>Tax expense</b>	<b>-1 904</b>	<b>-2 706</b>

## **Statement from the Board and CEO**

Board and CEO have today discussed and approved semi-annual report and the condensed consolidated financial statements for Solvang ASA at 30 June 2016 and the second quarter of 2016 including condensed consolidated figures at 30 June 2015 and second quarter of 2015.

The interim report is prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Norwegian Securities Trading Act.

It is the board and the CEO's conviction that the first half of 2016 financial statements are prepared in accordance with applicable accounting standards, and that the disclosures in the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss as at 30 June 2016 and 30 June 2015. According to the board and the CEO's knowledge, the description of the principal risks and uncertainties for the remaining six months of the financial year, as well as major related parties' transactions, represents a true and fair picture.

Stavanger, 29<sup>th</sup> August 2016  
The Board and CEO of Solvang ASA