THE ANNUAL REPORT 2017 HAS BEEN PRESENTED AND APPROVED BY THE ANNUAL GENERAL MEETING ON 3 MAY 2018

CHAIRMAN

# VIKING

## SUPPLY SHIPS A/S

## GROUP ANNUAL REPORT

# 2017

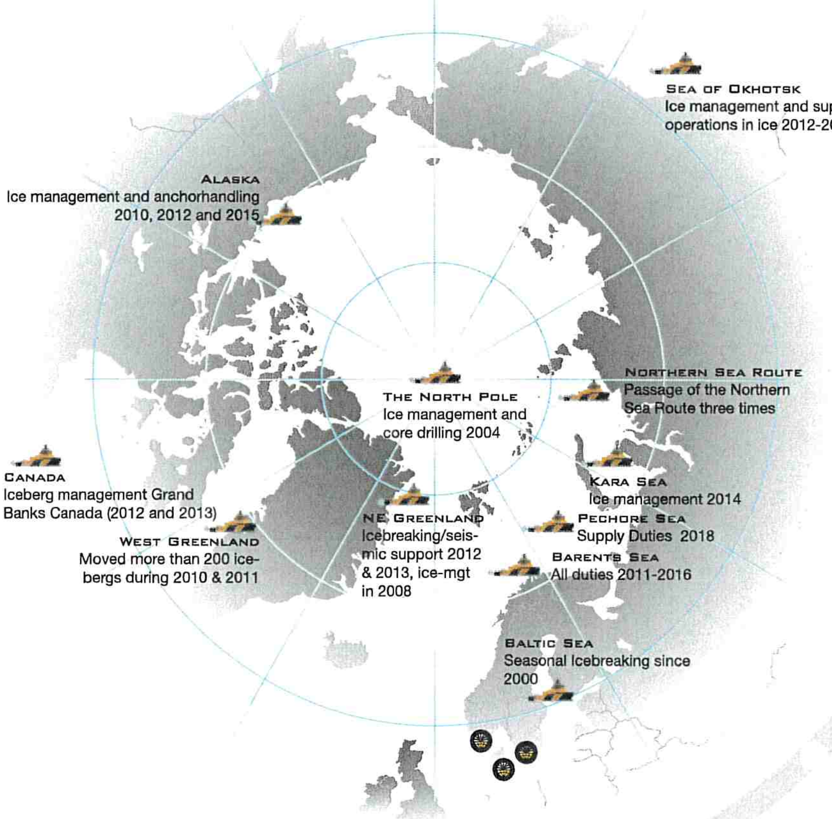
ISLANDS BRYGGE 57, DK-2300 COPENHAGEN,
REGISTRATION NO. 33 36 97 94

VIKING SUPPLY SHIPS
SHIPOWNERS

FY 2017

FY **REVENUE**
**MUSD 39.6 (89.0)**

# ARCTIC FOCUS




FY **EBITDA**
**MUSD -21.3 (18.8)**

FY **NET RESULT**
**MUSD -40.2 (-44.0)**

FY **FIXTURE RATE AHTS**
**USD 29,000 (50,500)**

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Front page
Vidar Viking on
ice-breaking duties

# MANAGEMENT REVIEW

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

VSS' head office is located in Copenhagen, Denmark with local presence in Norway and Sweden. To explore future commercial opportunities in Russia and strengthen its footprint in the region, VSS has entered into a strategic cooperation with Sevnor Ltd., a shipping and offshore company with extensive presence in the Russian offshore market. During 2018 it was decided to re-locate the head office to Kristiansand, Norway. The office in Copenhagen will as a consequence be closed down during the first half of 2018.

The previous financial restructuring was completed on 12 January 2017 when the bond settlement by way of cash redemption and conversion to equity was completed. The restructuring was intended to secure the Group with a stable financial platform until 2020, subject certain vessel income levels. The primary uncertainties and risks in relation to the going concern considerations included a prolonged weakening of the market conditions. The continued challenging market conditions, including downward pressure on rates and utilization, have impacted the Group's liquidity during 2017.

As a consequence, VSS shortly after the end of Q2 2017 initiated a dialogue with its lenders to secure a long-term stable financing solution. In December 2017, VSS received confirmation that it had obtained support for a restructuring proposal from all senior lenders. A final restructuring agreement was subject to final approval from the senior lenders' credit committees. VSS has during January 2018 obtained credit committee approval from all senior lenders, signed a restructuring term sheet and signed amended loan agreements. The signed restructuring term sheet, together with the completed equity issue in VSS AB and subsequent equity injection by the parent company into VSS, finalized the financial restructuring. The restructuring agreement will provide VSS with a platform to navigate through the potential challenging market until 2020.

It remains the core focus of VSS to increase the contract coverage going forward. VSS sees increased tendering activity within its core regions of harsh environment offshore. The recent fixture of Brage Viking clearly shows the market position the Group has obtained within the harsh environment offshore market and VSS is currently pursuing several contract opportunities and has a clear ambition to secure term contracts for further vessels in the fleet for 2018 and 2019. At the end of the year VSS had 5 PSVs and 3 AHTS vessels in lay-up.

As expected, the revenue for 2017 decreased compared to 2016. Reduced operational costs and a positive impact from financial items did however positively impact the net result compared to 2016. 2017 was characterized by low activity in the spot market giving a weak market for most of the year. The AHTS vessels obtained an utilisation of 32% (54%) and average fixture rates of USD 29,000 (50,500) in the year. The PSV vessels obtained an utilisation of 0% (10%) and average fixture rates of USD 0 (6,200) in the year. All figures are excluding laid-up vessels.

Total revenue for the year amounted to MUSD 39.6 (MUSD 89.0) and operating profit before depreciation (EBITDA) was MUSD -21.3 (MUSD 18.8). The result is not satisfactory, but in line with expectations given the poor market developments.

FY 2017

# SIGNIFICANT EVENTS

### Q1

- The bond settlement by way of cash redemption and the set-off equity issue in VSS AB was completed on 12 January 2017. Under the settlement, bondholders of record as of 30 December 2016 (the "Record Date") received 36,821,058 new class B-shares in VSS AB and NOK 34,419,682.96 in cash as payment of the total outstanding principal amount – NOK 199,341,169, and holders as of the date of the Record Date of the right to receive interest coupon due on the bonds on 21 June 2016 ("Eligible Couponholders") (in total NOK 9,232,561.83) received 870,650 new class B-shares and NOK 813,868.94 in cash. The cash redemption was partly funded by a loan of MNOK 20 provided by one of VSS' existing lenders. The bond settlement generated a gain of MUSD 12.7 which was recognized in January 2017.
- Mr. Trond Myklebust took over the responsibilities as CEO of VSS on 24 January 2017. As intended, Mr. Bengt A. Rem was reinstated as Chairman of the Board of VSS. Mr. Folke Patriksson continued as board member.
- During the fourth quarter of 2016 VSS decided to re-flag its four DIS-flagged vessels to Norway under NOR-flag. The flag-change process was completed shortly after the end of the first quarter of 2017.

### Q2

- Shortly after the end of the second quarter, the process to re-flag seven AHTS vessels to NOR-flag was completed. All of VSS' AHTS vessels are now flying NOR-flag. VSS has managed to keep close to all crew members employed on the vessels. The re-flagging was a further step in streamlining the organization and reduce the operational expenses, while at the same time also emphasizing VSS' focus on the harsh environment offshore market in general and the Norwegian Continental Shelf in particular.
- As Arctic waters continue to be an important focus area for VSS, the company has put in extra efforts in order to have vessels certified in accordance with the Polar Code. The Polar Code is a new mandatory regulative framework for vessels operating in arctic waters. In 2016 Magne Viking was certified according to the IMO Polar Code. As soon as the Polar Code entered into force on 1 January 2017 the work of certifying the rest of the fleet began. By early April 2017 all four Loke-class vessels were fully compliant and certified in accordance with the Code. The work on certifying the Tor-class was continuing and the aim was to have these vessels fully certified as category A-vessels during the third quarter of 2017. It is VSS' opinion that the efforts on compliance with the Polar Code will benefit all work being carried out in the arctic regions both in terms of safe operation and environmental protection.

### Q3

- The continued challenging market conditions, including downward pressure on rates and utilization impacted the Group's liquidity during the first nine months of 2017.
- As a consequence, VSS shortly after the end of the second quarter initiated a dialogue with its lenders to secure a long-term stable financing solution.
- In December 2017, VSS obtained support for a restructuring proposal from all senior lenders. Subject to final approval from the senior lenders' credit committees, the Group expected the financial restructuring to be finalized within a short period of time, subject to an equity issue at an agreed level in VSS AB and a subsequent equity injection by the parent company into VSS.
- Due to the challenging market conditions VSS recognized an impairment loss during the third quarter of MUSD 3.9 related to the PSV fleet.

### Q4

- In December 2017, VSS received confirmation that it had obtained support for a restructuring proposal from all senior lenders. A final restructuring agreement was subject to final approval from the senior lenders' credit committees. VSS has during January 2018 obtained credit committee approval from all senior lenders, signed a restructuring term sheet and signed amended loan agreements. This finalized the financial restructuring. The restructuring agreement is to provide VSS with a platform to navigate through the potential challenging market until 2020.
- During the fourth quarter VSS decided to reduce the capacity of its spot fleet by placing Loke Viking in stand-by mode in Uddevalla, Sweden. Part of the crew was reassigned to other vessels in the fleet, while some crew was terminated. VSS considered this to be an unfortunate, but necessary, step to preserve cash and influence the market balance in the region.
- Due to the challenging market conditions VSS recognized an impairment loss during the fourth quarter of MUSD 2.3 related to the PSV fleet.

## LIQUIDITY AND GOING CONCERN

The previous financial restructuring was completed on 12 January 2017 when the bond settlement by way of cash redemption and conversion to equity was completed.

The restructuring was intended to secure the Group with a stable financial platform until 2020, subject certain vessel income levels. The primary uncertainties and risks in relation to the going concern considerations included a prolonged weakening of the market conditions.

The continued challenging market conditions, including downward pressure on rates and utilization, have impacted the Group's liquidity during 2017. As a consequence, VSS shortly after the end of Q2 2017 initiated a dialogue with its lenders to secure a long-term stable financing solution.

At the end of Q3 2017, VSS was not able to comply with events of default provisions in loan agreements, which rendered all borrowings short-term and payable on demand by the lenders.

VSS has during the majority of the second half of 2017 been in an ongoing dialogue with its lenders, during which VSS has not paid installments and interest to its lenders.

In December 2017, VSS received confirmation that it had obtained support for a restructuring proposal from all senior lenders. A final restructuring agreement was subject to final approval from the senior lenders' credit committees. VSS has during January 2018 obtained credit committee approval from all senior lenders, signed a restructuring term sheet and signed amended loan agreements. The signed restructuring term sheet, together with the completed equity issue in VSS AB and subsequent equity injection by the parent company into VSS, finalized the financial restructuring.

Based on a continued belief in securing contracts within the core market segment, Management has concluded that VSS will be able to continue as going concern at least until 31 December 2018. This conclusion is based on Management's assessment of the current outlook for 2018 and the uncertainties and risks described above.

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## EVENTS OCCURRING AFTER THE REPORTING PERIOD

Other events occurring after 31 December 2017 in addition to the financial restructuring are described in note 20 Events occurring after the reporting period.

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## RISKS

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

VSS works actively to identify, assess and manage these risks (see note 18 Financial instruments and risk).

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## KNOWLEDGE RESOURCES

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

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

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

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# SAFETY AND ENVIRONMENT

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

VSS' vision is an incident and injury free workplace, with no harm to people and no damage to the environment.

VSS strives to achieve the best possible solutions that exceed customer expectations and provide customers with greater value. VSS performs its operations and services in such a way that the impact on the environment is as low as reasonably practicable and so that international and national environmental laws are adhered to. The objective is to create a work environment without accidents, and customer relations with highest level of quality, by adhering to the following principles:

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

VSS' offshore fleet has a track record of more than five years since last Lost Time Incident (LTI) meaning that the company has been operating without significant accidents as a result of focusing on the above mentioned principles. During 2017 VSS had no incidents with oil spill into the sea. The safety work is continuously improved and during the last three years VSS has focused on increasing safety observation reporting and improving reporting quality.

VSS is certified according to ISM and the ISPS code and for the standards ISO 14001:2004, ISO 9001:2008 and OHSAS18001:2007. This means that the company has a combined ISO certificate for the environment, quality and work environment for both the vessels and the offices. VSS will early 2018 be re-certified according to the 2015 revised ISO standards for environment and quality, ISO 14001:2015 and ISO 9001:2015.

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

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

Further we refer to the Safety and Environment section of the VSS website. www.vikingsupply.com/hseq

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# HUMAN RIGHTS

In VSS' Supplier's Code of Conduct there are strict regulations for suppliers and sub suppliers with regards to human rights and social and environmental standards and it is clearly stated in the Code of Conduct that all employees shall comply with applicable laws in an ethical and socially responsible manner. VSS strives to set a positive footprint on the world and has actively contributed during 2017 by donations to organisations working with improving children's opportunities and humanitarian assistance.

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# CODE OF CONDUCT

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

Throughout 2017 there has been a focus on good governance and the company is constantly looking for improvements and updates to its current policies. In the wake of the social media campaign #metoo, the company has initiated the process of ensuring that its policies and Code of Conduct are clear and precise. The company will continue to evaluate its CSR programme, and seek to find improvements together with its employees.

VSS will perform a full policy review during 2018 and the company is working to implement its own Corporate Social Responsibility guidelines.

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# DIVERSITY

VSS is actively striving to achieve a diverse team throughout the board of directors, the management group and the rest of the organisation. All employees in VSS should experience equal opportunities for developing their careers, regardless of gender, religion, age and nationality. Diversity will always be considered when promoting and recruiting employees. VSS currently employs 4 different nationalities onshore and 7 different nationalities at sea.

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

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

The management group in VSS consists of 4 men and 1 woman. The aim is to increase the underrepresented gender in the management group to at least 40%. To achieve this, VSS strives to make sure that each gender is represented by at least one when promoting or hiring for management group positions. During 2017 there were changes to the management group due to the restructuring of the company including the decision to move the Headquarter from Denmark to Norway. The Board of Directors in VSS consists of 5 men and 0 women. The company has an intention to increase the representation of women on the Board to 20% by 2019. During 2017 no changes have been made to the Board of Directors.

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# MARKET EVENTS 2017 AND MARKET EXPECTATIONS 2018

The oil market, which is the fundamental driver for the market in which VSS operates, stabilized during the second half of 2016 and has through 2017 shown clear signs of improvement. Due to planning cycles there is however a significant lag before this improvement is transferred to offshore activity, which is the demand driver for OSV vessels.

The challenging situation related to sanctions in Russia was upheld through 2017, which has caused the exploration activity to be held back over the last couple of years. The current producing fields are mainly located in the Sakhalin region in the Far East and in the Pechora Sea. There has however been an increased exploration activity in the region during the summer season of 2017. Combined with a significant increase in tendering activity in the region, this strengthens VSS' view of the Russian market and VSS still considers Russia to be a significant region within the Arctic offshore. Activity is expected to remain modest during 2018, with a potential uplift in 2019. To explore future commercial opportunities in Russia and strengthen its footprint in the region, VSS during 2016 entered into a strategic cooperation with Sevnor Ltd., a shipping and offshore company with extensive presence in the Russian offshore market.

VSS maintains a positive long term outlook for the offshore industry. Due to planning cycles VSS does however anticipate that also 2018 will be challenging for the industry. There is currently a global oversupply of vessels which will require a significant increase in activity to be absorbed in the market. Until this materializes the spot market is likely to be vulnerable to vessels being reactivated from lay-up or coming in from other offshore regions. However, backed by the increased oil price VSS does see clear signs in the global offshore industry that the market will improve in the long run. With the significant cost reductions seen among several arctic oil and gas projects, VSS maintains its view that there will be increasing activity in the arctic and subarctic regions during the next few years.

### AHTS MARKET

As a consequence of the reduced activity level in the North Sea as well as the global offshore market, VSS anticipated that 2017 would be challenging for the AHTS segment. With the exemption of a few short periods where rate levels increased to profitable levels, fixture rates were subdued as a result of a continuous oversupply in the market.

More than 40 AHTS vessels are currently laid up in the North Sea. Although many of these vessels have not traded in the region historically, VSS anticipates that the laid up vessels will have a negative effect on the market recovery even after the rig activity starts to increase. During 2017 the number of operating rigs has gradually declined in the

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North Sea, which has significantly reduced the demand for AHTS vessels throughout the year. Combined with reduced project activity during the summer months, there has been ample supply of vessels for a majority of the year.

VSS expects that the rig activity will increase towards the spring and summer of 2018. Combined with increased tendering activity and more vessels being committed for summer projects, VSS anticipates a gradual improvement of the rates and vessel utilization. It is however expected that the high number of vessels in lay-up will subdue the market upturn in the short run. VSS also sees increased tendering activity within its core regions of harsh environment offshore. The recent fixture of Brage Viking clearly shows the market position the Group has obtained within the harsh environment offshore market and VSS is currently pursuing several contract opportunities and has a clear ambition to secure term contracts for further vessels in the fleet for 2018 and 2019.

## PSV MARKET

Due to significant new-building programs worldwide over the last few years, the PSV segment is the vessel segment which has seen the largest value reductions during the industry downturn. Although the number of laid-up vessels in the North Sea has decreased during 2017, there is still a vast oversupply of vessels in the global market.

As a consequence of the poor market conditions and limited contract opportunities, all PSVs in VSS' fleet have remained in lay-up during 2017. The company will continue to monitor the market for long term contract opportunities for the vessels. Due to the market development in 2017, impairment charges related to the PSV vessels have been recognised during the year in the total amount of MUSD 6.2.

## SERVICES AND SHIP MANAGEMENT MARKETS

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

During 2017 Viking Ice Consultancy has been involved in several projects and course activities.

In early 2017 Viking Ice Consultancy performed project work for the Russian branch of Karmorneftegaz and Alcatel-Lucent Submarine Networks supplying personnel, ice and metocean data. The most comprehensive project was for Statoil Greenland within the SKTINICE project. The SKTINICE project has lifted the capabilities of Viking Ice Consultancy to handle big data including building robust database structures and visualization of data in modern Geographic Information Systems. Later during 2017 Viking Ice Consultancy supplied Ice and metocean data for a logistic haul project for Thule Air Base.

Through-out the year Viking Ice Consultancy has arranged Polar Code courses at various locations and developed Polar Code manuals made for the certification of expedition vessels and yachts. The Virtual Reality Ice navigation simulator which was developed during 2016-2017 was used to complete all external courses. Viking Ice Consultancy has also participated in numerous conferences and workshops focusing on safer and more efficient operations in harsh and cold climate environments.

VSS' primary activity within Ship Management is the management agreement with SMA. This agreement was renewed for seven years during 2015 and has progressed as planned during 2017.

# RESULT EXPECTATIONS 2018

As communicated in the 2016 Group Annual Report it was expected that the 2017 revenue and profitability would decrease compared to 2016. The market conditions in 2017 have been challenging and as a result lower revenue and operating profitability were realized for 2017.

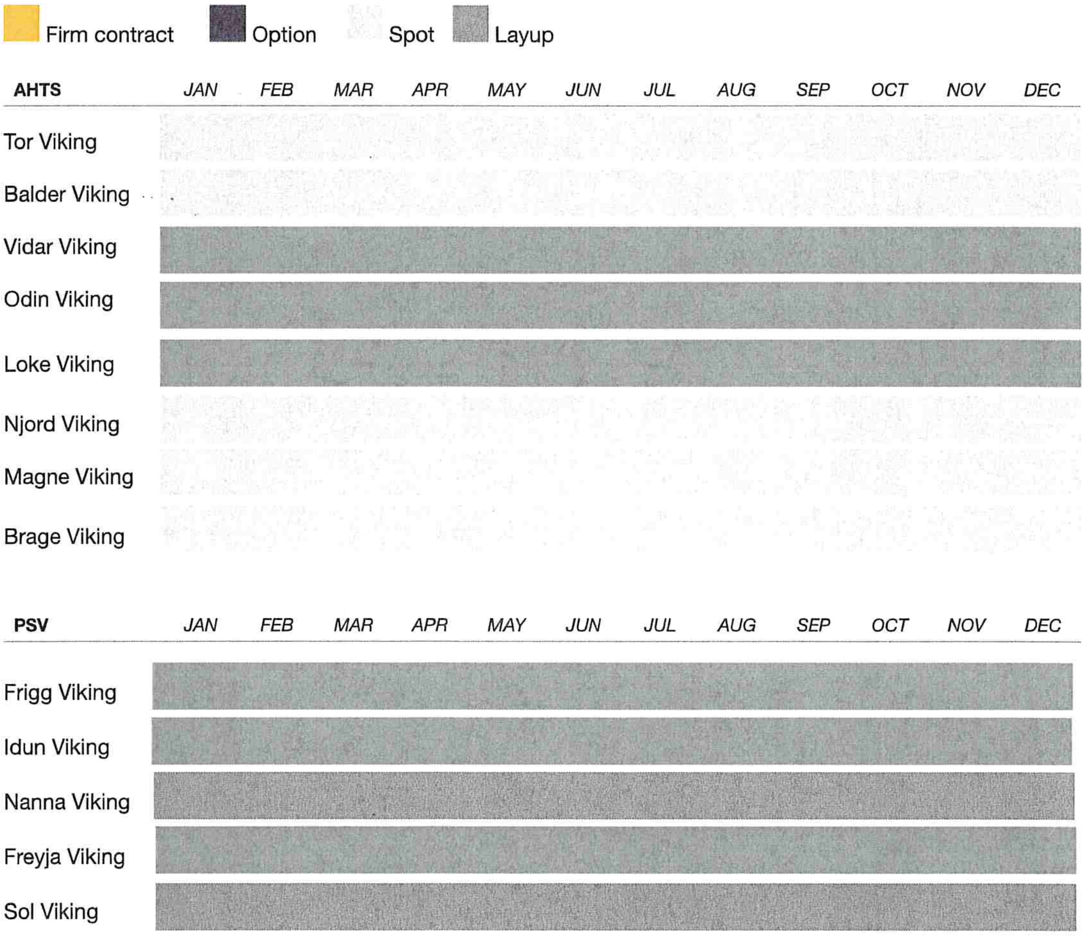
The most important external factors affecting VSS results for 2018 are:

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

VSS expects the overall business environment in 2018 to be challenging. At the entrance to 2018 VSS had total contract coverage of 0% for the year (3%). VSS still sees contract opportunities within its core areas such as the Barents Sea, Canada and Russia, primarily from 2019, but also for the coming 2018 summer season.

VSS expects the revenue in 2018 to be on the same level as in 2017. EBITDA is expected to be slightly negative and the result for 2018 is expected to be a loss of MUSD 30-35 before any potential further impairment charges on vessels. Due to the challenging market conditions the indicated result range is subject to uncertainty.

## EMPLOYMENT OVERVIEW




Tables are as of 31 December 2017

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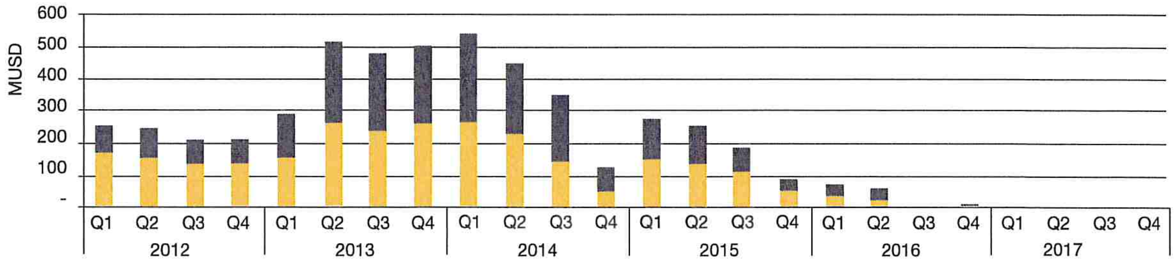
# HISTORIC CONTRACT BACKLOG




Figures in the table are as of 31 December 2017. The amounts show the total remaining contract backlog as of balance date.

# KEY FIGURES

| **(MUSD)** | *2017* | *2016* | *2015* | *2014* | *2013* |
|---|---|---|---|---|---|
| Total revenue | 39.6 | 89.0 | 132.6 | 276.7 | 171.5 |
| Operating profit before depreciation (EBITDA) | -21.3 | 18.8 | 34.7 | 114.1 | 51.0 |
| Operating profit (EBIT) | -45.4 | -29.9 | -19.2 | 86.2 | 7.5 |
| Net financials | 5.0 | -14.6 | -20.5 | -37.4 | -17.5 |
| Result for the period | -40.2 | -44.0 | -40.0 | 46.4 | -8.8 |
| Total assets | 358.8 | 405.2 | 474.9 | 627.6 | 688.7 |
| Equity | 129.1 | 155.5 | 178.2 | 270.5 | 281.7 |
| Net interest-bearing debt | 208.1 | 210.4 | 263.0 | 319.7 | 376.1 |
| Investments in tangible fixed assets | -0.2 | -0.8 | -8.6 | 41.9 | 8.1 |
| | | | | | |
| Profit margin | -114.8% | -33.6% | -14.5% | 31.2% | 4.3% |
| Equity ratio | 36.0% | 38.4% | 37.5% | 43.1% | 40.9% |
| Return on shareholders' equity | -28.3% | -26.4% | -17.8% | 15.6% | -3.0% |
| | | | | | |
| Total contract backlog | 0.0 | 3.8 | 88.8 | 127.8 | 499.1 |
| Total contract coverage | 0% | 3% | 25% | 25% | 42% |
| Average number of employees | 364 | 463 | 484 | 468 | 457 |

Financial ratios are calculated in accordance with the Danish Finance Society' guidelines on the calculation of financial ratios, "Recommendations and Financial Ratios 2018 online version".

# FINANCIAL HIGHLIGHTS

## RESULT FOR THE PERIOD

Total revenue was MUSD 39.6 (MUSD 89.0). Total operating costs were MUSD 60.8 (MUSD 70.2) and operating profit before depreciation (EBITDA) was MUSD -21.3 (MUSD 18.8). Operating profit (EBIT) was MUSD -45.4 (MUSD -29.9).

Depreciation was MUSD 17.9 (MUSD 20.1) and impairment charges related to the PSV fleet amounted to MUSD 6.2 (MUSD 28.6). The impairment charge in 2017 corresponds to 14% of the carrying amount of the PSV fleet at 1 January 2017 (37%, 1 January 2016). Note 9 Tangible assets contains a description of the impairment tests.

Net financials were MUSD 5.0 (negative MUSD 14.6). Financial costs include unrealised currency gain of MUSD 0.8 (realised gain of MUSD 6.3), realised value adjustment loss on interest rate swaps of MUSD 0.2 (gain MUSD 0.1) and bond settlement gain of MUSD 12.7 (MUSD 0.0).

The result for the year was a loss of MUSD 40.2 (loss MUSD 44.0).

## TAX

The companies in VSS are taxed according to location and activity. Almost all activities are taxed under the tonnage tax scheme where the taxable income is calculated based on the tonnage of the fleet. An exception is the activities in the Services segment. In 2017 there was a tax gain of MUSD 0.2 (gain MUSD 0.4).

## BALANCE SHEET

Total assets as of 31 December 2017 were MUSD 358.8 (MUSD 405.2).

Vessels and equipment were MUSD 342.6 (MUSD 366.6) after depreciation and impairment charges for the year of MUSD 24.2 (MUSD 48.7) in total. Due to the challenging market conditions, the valuation of vessels, especially the PSV fleet, is uncertain as further described in note 1 Significant estimations and assessments and note 9 Tangible assets.

The equity of MUSD 129.1 (MUSD 155.2) was impacted by the loss for the year of MUSD 40.2 (loss MUSD 44.0), equity issue of MUSD 4.6 (MUSD 13.0), conversion of intercompany debt to VSS AB of MUSD 9.6 and exchange rate adjustments with a loss of MUSD 0.3 (gain MUSD 1.5).

Total short- and long-term interest-bearing loans were MUSD 208.1 (MUSD 210.4).

## CASH FLOW

Cash flow from operating activities was negative MUSD 25.4 (positive MUSD 7.2).

Cash flow from investing activities was negative MUSD 0.2 (positive MUSD 2.5).

Cash flow from financing activities was positive MUSD 2.2 (negative MUSD 0.1).

## LEGAL CASES

VSS has no significant pending legal disputes.

## FINANCIAL STATEMENT OF THE PARENT

The result for the year was a loss of MUSD 40.2 (loss of MUSD 44.0). The result for the year decreased due to the weak North Sea spot market but was partly off-set by continued cost cutting initiatives and vessel lay-ups.

Total assets as of 31 December 2017 were MUSD 267.7 (MUSD 312.3) and equity was MUSD 129.1 (MUSD 155.5).

## RELATED PARTIES

VSS AB has controlling influence. For information on ownership and related party transactions see note 16 Transactions with related parties.

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# STATEMENT OF THE BOARD OF DIRECTORS AND MANAGEMENT

Today, the Board of Directors and the management have discussed and approved the annual report of Viking Supply Ships A/S for the financial year 1 January - 31 December 2017.

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act. The parent company financial statements have been prepared in accordance with Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the group's and company's financial position at 31 December 2017 and of the results of the group and company's operations and consolidated cash flows for the financial year 1 January - 31 December 2017.

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

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

Copenhagen, 3 May 2018

**BOARD OF DIRECTORS:**

**BENGT A. REM**
Chairman

**FOLKE PATRIKSSON**
Board member

**ERIK BORGEN**
Board member

**HÅKAN LARSSON**
Board member

**MAGNUS SONNORP**
Board member

**MANAGING DIRECTOR:**

Trond Myklebust

# INDEPENDENT AUDITORS' REPORT

To the shareholder of Viking Supply Ships A/S

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

*OPINION*

We have audited the consolidated financial statements and the parent company financial statements of Viking Supply Ships A/S for the financial year 1 January 2017 – 31 December 2017, which comprise the income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the group as well as for the parent company and consolidated statement of comprehensive income and consolidated cash flow statement. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards as approved by the EU and additional requirements in the Danish Financial Statements Act. The parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the group's and the parent company's assets, liabilities and financial position at 31 December 2017 and of the results of the group's and the parent company's operations and the consolidated cash flows for the financial year 1 January 2017 – 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act in respect of the consolidated financial statements and in accordance with the Danish Financial Statements Act in respect of the parent company financial statements.

*BASIS FOR OPINION*

We conducted our audit in accordance with International Standards on Auditing and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements' section of our report. We are independent of the group and the parent company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*STATEMENT REGARDING THE MANAGEMENT REVIEW*

The management is responsible for the management's review.

Our opinion on the consolidated financial statements and the parent company financial statements does not cover the management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent company financial statements, our responsibility is to read the management's review and, in doing so, consider whether the management's review is materially inconsistent with the consolidated financial statements and the parent company financial statements or the knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether management's review includes the disclosures required by Danish Financial Statements Act.

Based on the work, we have performed, we conclude that management's review is in accordance with the consolidated financial statements and the parent company and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in the management's review.

*MANAGEMENT'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS*

The Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act in respect of the consolidated financial statements and the Danish Financial Statements Act in respect of the parent company financial statements. Furthermore the

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management is responsible for the internal control as the management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and parent company financial statements, management is responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the consolidated financial statements and parent company financial statements unless management either intends to liquidate the group and the parent company or to cease operations, or has no realistic alternative but to do so.

*AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PARENT COMPANY FINANCIAL STATEMENTS*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and parent company statements.

As part of an audit conducted in accordance with International Standards on Auditing and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk for not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and parent company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the consolidated financial statements and parent company financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and parent company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the consolidated financial statements and parent company financial statements, including the disclosures, and whether the consolidated financial statements and parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Soeborg, Copenhagen 3 May, 2018

Beierholm
Statsautoriseret Revisionspartnerselskab
CVR no. 32 89 54 68

Jan Stender
State Authorized Public Accountant

MNE-no. mne34090

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

| (MUSD) | Note | 2017 | 2016 |
|---|---|---|---|
| **Total revenue** | 3,4 | **39.6** | **89.0** |
| Direct voyage costs | | -4.0 | -4.2 |
| Operating costs | 3,5 | -44.5 | -51.3 |
| General and administrative expenses | 5,6 | -12.4 | -14.7 |
| **Total operating costs** | | **-60.8** | **-70.2** |
| **Operating profit before depreciation (EBITDA)** | | **-21.3** | **18.8** |
| Net gain on sale of fixed assets | 9 | - | - |
| Depreciation | 9 | -17.9 | -20.1 |
| Impairment of vessels | 9 | -6.2 | -28.6 |
| **Operating profit (EBIT)** | | **-45.4** | **-29.9** |
| Financial income | 7 | 0.0 | 0.1 |
| Financial costs | 7 | 5.0 | -14.6 |
| **Net financials** | | **5.0** | **-14.6** |
| **Pre-tax result** | | **-40.4** | **-44.5** |
| Taxes | 8 | 0.2 | 0.4 |
| **Result for the year** | | **-40.2** | **-44.0** |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| (MUSD) | Note | 2017 | 2016 |
|---|---|---|---|
| **Result for the year** | | **-40.2** | **-44.0** |
| Comprehensive income to be reclassified to profit and loss in later periods | | | |
| Translation effect foreign operations | | -0.3 | 1.5 |
| Tax on other comprehensive income | 8 | - | - |
| **Other comprehensive income net of tax** | | **-0.3** | **1.5** |
| **Total comprehensive income for the year** | | **-40.6** | **-42.5** |

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# CONSOLIDATED BALANCE SHEET

| (MUSD) | Note | 2017 | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Vessels and equipment | | 342.6 | 366.6 |
| **Tangible assets** | **9** | **342.6** | **366.6** |
| Restricted cash | | - | - |
| Other non-current receivables | | - | - |
| **Financial assets** | **12** | **-** | **-** |
| **Total non-current assets** | | **342.6** | **366.6** |
| Inventories | 10 | 2.4 | 2.4 |
| Accounts receivables | 11 | 3.9 | 1.7 |
| Other current receivables | 12 | 6.0 | 7.1 |
| Cash and cash equivalents | 12 | 3.9 | 27.3 |
| **Total current assets** | | **16.2** | **38.6** |
| **Total assets** | | **358.8** | **405.2** |

| (MUSD) | Note | 2017 | 2016 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| Share capital | | 0.1 | 0.1 |
| Retained earnings and reserves | | 129.1 | 155.5 |
| Proposed dividend | | - | - |
| **Total equity** | **19** | **129.1** | **155.5** |
| Long-term bond loan | 13 | - | - |
| Long-term interest-bearing loans | 13 | - | 204.0 |
| Other non-current liabilities | 14 | 0.6 | 1.2 |
| **Total non-current liabilities** | | **0.6** | **205.2** |
| Short-term bond loan | | - | - |
| Short-term interest-bearing loans | 13 | 208.1 | 6.4 |
| Accounts payable | | 4.6 | 2.3 |
| Other current liabilities | 15 | 16.3 | 35.7 |
| **Total current liabilities** | | **229.0** | **44.4** |
| **Total liabilities** | | **229.6** | **249.7** |
| **Total equity and liabilities** | | **358.8** | **405.2** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| (MUSD) | *Share capital* | *Share Premium* | *Translation reserve* | *FX from change in accounting policies* | *Retained earnings* | *Total equity* |
|---|---|---|---|---|---|---|
| **Shareholders' equity 31 December 2016** | **0.1** | **0.0** | **2.0** | **-34.4** | **187.9** | **155.5** |
| Result for the period | - | - | - | - | -40.2 | -40.2 |
| Equity issue | - | - | - | - | 14.2 | 14.2 |
| Other comprehensive income | - | - | -0.3 | - | - | -0.3 |
| **Shareholders' equity 31 December 2017** | **0.1** | **0.0** | **1.6** | **-34.4** | **161.9** | **129.1** |

For additional information see note 19 Share capital.

# CONSOLIDATED CASH FLOW STATEMENT

| (MUSD) | Note | 2017 | 2016 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit / loss for the year | | -40.2 | -44.0 |
| Adjustments for: | | | |
| Net gain on sale of fixed assets | | 0.0 | 0.0 |
| Depreciation, amortisation and impairment | 9 | 17.9 | 20.1 |
| Impairment loss | | 6.2 | 28.6 |
| Financial expenses, net | 7 | -5.0 | 14.6 |
| Income taxes | | -0.2 | -0.4 |
| Working capital adjustments: | | | |
| Change in receivables and other current assets | | -2.1 | 30.2 |
| Change in payables, accrued liabilities and deferred tax" | | 2,6 | -32.4 |
| Taxes paid | 8 | - | -0.4 |
| Interest paid | | -4.7 | -9.1 |
| Interest received | | - | 0.1 |
| **Net cash flows from operating activities** | | **-25.4** | **7.2** |
| | | | |
| **Investing activities** | | | |
| Purchase/Sale of marketable securities / other financial assets | | - | 3.3 |
| Drydocking | | -0.2 | -0.8 |
| **Net cash flows used in investing activities** | | **-0.2** | **2.5** |
| | | | |
| **Financing activities** | | | |
| Dividends paid | 19 | - | - |
| Equity Issue | | 4.6 | 13.0 |
| Change in cash collateral | | - | 14.2 |
| Proceeds from loans | 13 | 2.4 | - |
| Bond settlement | | -4.1 | - |
| Repayment of loans | 13 | -4.7 | -23.7 |
| Change in loans from related parties | 16 | 4.0 | -3.6 |
| **Net cash flows from financing activities** | | **2.2** | **-0.1** |
| | | | |
| Currency translation effect on cash and cash equivalents | | 0.0 | 0.1 |
| Cash and cash equivalents, beginning of year | 12 | 27.3 | 17.6 |
| **Cash and cash equivalents, end of year** | **12** | **3.9** | **27.3** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## NOTE 1
## SIGNIFICANT ESTIMATIONS AND ASSESSMENTS

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

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

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

### LIQUIDITY AND GOING CONCERN

The previous financial restructuring was completed on 12 January 2017 when the bond settlement by way of cash redemption and conversion to equity was completed.

The restructuring was intended to secure the Group with a stable financial platform until 2020, subject certain vessel income levels. The primary uncertainties and risks in relation to the going concern considerations included a prolonged weakening of the market conditions.

The continued challenging market conditions, including downward pressure on rates and utilization impacted the Group's liquidity during 2017. As a consequence, VSS shortly after the end of Q2 2017 initiated a dialogue with its lenders to secure a long-term stable financing solution.

At the end of Q3 2017, VSS was not able to comply with events of default provisions in loan agreements, which rendered all borrowings short-term and payable on demand by the lenders.

VSS was during the majority of the second half of 2017 in an ongoing dialogue with its lenders, during which VSS did not pay installments and interest to its lenders.

In December 2017, VSS received confirmation that it had obtained support for a restructuring proposal from all senior lenders. A final restructuring agreement was subject to final approval from the senior lenders' credit committees. VSS has during January 2018 obtained credit committee approval from all senior lenders, signed a restructuring term sheet and signed amended loan agreements. The signed restructuring term sheet, together with the completed equity issue in VSS AB and subsequent equity injection by the parent company into VSS, finalized the financial restructuring.

The share issues in VSS AB that formed part of the VSS' financial restructuring comprised the following:

- A MUSD 15 rights issue.
- A share issues with payment against set-off to Viking Invest AS for financial services.

- A share issue with payment against set-off to Viking Invest AS for guarantee fee for the guarantee undertaking in the rights issue.
- Following these equity issues, the equity in VSS AB increased with MUSD 16 net after expenses.

The final agreement includes the following key terms:

- VSS loan facilities are as currently due 31 March 2020.
- VSS loan facilities will carry significant less cash interest and instalments until maturity on 31 March 2020. Limited cash interest and instalments will be paid until Q4 2018.
- Financial covenants on the loan facilities are amended to provide VSS with ample room to operate under the present challenging market conditions.
- Cash at hand exceeding a certain level will through a cash sweep mechanism be distributed as repayment of the bank facilities.
- The bareboat charter in respect of the vessel Odin Viking will be amended to reflect that the charter hire of USD 10,000 per day will not be payable in cash, but added to the principal amount outstanding under the charter party as payment in kind. Further, VSS will have the right to exercise the previously agreed purchase option in respect of Odin Viking before the end of the charter party. If the option is exercised, the bareboat charter will be terminated against a termination compensation equal to the accumulated and remaining charter hire and VSS will replace Odin Viking SPV AS as borrower under the Odin Viking SPV AS facility with DVB Bank SE. The outstanding loan amount under the Odin Viking facility will be off-set against the termination compensation payable by VSS.
- VSS has received new capital in the amount of MUSD 15.0.

The restructuring agreement will provide VSS with a platform to navigate through the potential challenging market until 2020.

Based on a continued belief in securing contracts within the core market segment, Management has concluded that VSS will be able to continue as going concern at least until 31 December 2018. This conclusion is based on Management's assessment of the current outlook for 2018 and the uncertainties and risks described above.

## IMPAIRMENT OF VESSEL VALUES

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

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

In 2017 an impairment loss amounting to MUSD 6.2 was recognised related to the PSV fleet. Due to the challenging market conditions, the determination of key assumptions used in the value in use calculations are more uncertain than normal. Similarly, the valuations obtained from internationally acknowledged shipbrokers are also subject to more uncertainty than normal due to lack of sales and purchase transactions for comparable vessels. The impairment tests are described in note 9 Tangible assets in a separate impairment section including sensitivities for the key assumptions applied.

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

Determining the useful life of tangible fixed assets and their residual values is subject to significant judgment. The residual values and useful lives are assessed annually. In 2014 Management assessed the residual value of VSS vessels to 30% of the purchase price based on peer group analysis and vessel price history. For 2017 Management reviewed and reconfirmed this assessment.

## TAXATION

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

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# NOTE 2
## ACCOUNTING POLICIES

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

### BASIS OF CONSOLIDATION
The consolidated financial statements comprise the financial statements of VSS and its subsidiaries as at 31 December 2017. Subsidiaries are classified as companies in which VSS has a control. Control is achieved when VSS is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

**Change of functional currency**
From 1 January 2016, in accordance with IAS 21, VSS, Viking Supply Ships 5 ApS (owner of three AHTS vessels) and Viking Supply Ships PSV AS (owner of the PSV fleet) changed their functional currency to USD.

**Change of presentation currency**
From 1 January 2016 VSS changed its presentation currency to USD. Comparative information has been restated in USD in accordance with the guidance defined in IAS 21.

The changes in functional and presentation currencies did not have any significant impact on VSS' previous financial positions, the results and cash flows.

The currency exchange rate between USD/DKK was 6.2332 as at 31 December 2017 (7.1127). The average exchange rate for 2017 was 6.5936 (6.7306).

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

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

## REVENUES

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

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

## DIRECT VOYAGE COSTS

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

## OPERATING COST

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

## GENERAL AND ADMINISTRATIVE EXPENSES

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

## OPERATIONAL LEASING AGREEMENTS

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

## INCOME TAXES

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

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

## TANGIBLE FIXED ASSETS

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

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

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

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

Straight-line amortisation according to plan is based on the following useful lives:
- Vessels 25–30 years
- Docking and major overhaul measures 2.5–5 years
- Other equipment 3–10 years

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

## IMPAIRMENT

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

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

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

## FINANCIAL ASSETS

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

## LOAN AND ACCOUNTS RECEIVABLE

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

## BORROWING

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

## INVENTORIES

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

## EQUITY

Equity consists of share capital, share premium, translation reserve and retained earnings.

The translation reserve comprises VSS' share of currency translation adjustments arising on the translation of net investments with a functional currency other than USD. The reserve is dissolved upon disposal of the entity.

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

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

## CASH-FLOW STATEMENTS

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

## CASH AND CASH EQUIVALENTS

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

## KEY FIGURES

Financial ratios are calculated in accordance with the Danish Finance Society' guidelines on the calculation of financial ratios, "Recommendations and Financial Ratios 2018 online version".

Profit margin is calculated as operating profit before net financials divided by total revenue.
Equity ratio is calculated as equity divided by total assets.

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

## NEW AND REVISED STANDARDS AND INTERPRETATIONS

In the financial year 2017, VSS implemented all new IFRSs, revised standards and IFRIC interpretations, as adopted by the EU, becoming effective in the financial year. Although these new standards and amendments were applied for the first time in 2017, they did not have a material impact on the annual consolidated financial statements. VSS has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The following new standards and amendments became effective in 2017:

- Amendments to IAS 7: Disclosure Initiative
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements Cycle - 2014-2016 (Amendments to IFRS 12)

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

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases

IFRS 9 Financial Instruments Replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard contains new principles for the classification and valuation of financial assets and liabilities. The determining factor for the valuation is based on the company's purpose of holding the asset and the contractual cash flow of the financial instrument. The largest proportion of the Group's financial assets is accounts receivable and the amount of other financial assets is small. The standard also introduces new rules for hedge accounting, which means increased flexibility for which type of transactions hedge accounting can be applied. As the Group does not apply hedge accounting, this does not affect the Group's accounts. The Group has evaluated the effects of the introduction of IFRS 9 and estimates that there are no significant differences between the new standard and the Group's current principles for the classification and valuation of financial instruments and impairment of doubtful accounts receivable, which historically has been very low. The Group will apply the standard as of January 1, 2018.

IFRS 15 Income from Contracts with Customers determines a single comprehensive model that companies will use for revenue recognition as a result of contracts with customers. IFRS 15 will replace all previously issued standards and interpretations including IAS 18 Revenue. The principles on which IFRS 15 is based will provide users of financial statements with more useful information about the company's revenue. The increased disclosure obligation means that information about revenue types, timing of recognition, uncertainties linked to revenue recognition and cash flow attributable to the company's customer contracts shall be provided. According to IFRS 15, a company recognizes revenue when (or in the meantime) a performance commitment has been fulfilled, ie. when "control" of the underlying product or service of the performance commitment is transferred to the customer. IFRS 15 enters into force on January 1, 2018. The Group has evaluated the effects of the introduction of IFRS 15 and estimates that there are no significant differences between the new standard and the Group's current principles for revenue recognition. IFRS 15 will be applied from January 1, 2018.

IASB has in January 2016 issued a new standard, IFRS 16: "Leases" with effective date 1 January 2019. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The implication of the new standard is expected to be related mainly to the recognition of vessels leased by VSS. Following the completed financial restructuring it is unlikely that IFRS 16 will have an effect on VSS' consolidated financial statements.

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

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# NOTE 3
## SEGMENT INFORMATION

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

Profit and loss as well as tangible fixed assets and interest-bearing debt are distributed as follows for 2017:

| | | | *2017* | | |
|---|---|---|---|---|---|
| **(MUSD)** | *AHTS* | *PSV* | *Services* | *Ship. Mgmt* | *Total* |
| **Total Revenue** | **21.7** | **0.0** | **1.8** | **16.0** | **39.6** |
| Direct voyage costs | -4.0 | -0.0 | 0.0 | 0.0 | -4.0 |
| Operating costs | -37.4 | -1.3 | -2.0 | -16.1 | -56.9 |
| **Total operating costs** | **-41,3** | **-1.3** | **-2.0** | **-16.1** | **-60.8** |
| **Operating profit before depreciation (EBITDA)** | **-19,6** | **-1.3** | **-0.2** | **-0.1** | **-21.3** |
| Net gain on sale of fixed assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Depreciation | -17.0 | -0.9 | -0.0 | 0.0 | -17.9 |
| Impairment | 0.0 | -6.2 | 0.0 | 0.0 | -6.2 |
| **Operating profit (EBIT)** | **-36.5** | **-8.5** | **-0.3** | **-0.1** | **-45.4** |
| Financial income | -0.2 | 0.2 | 0.0 | 0.0 | 0.0 |
| Financial costs | 7.4 | -2.3 | -0.1 | -0.0 | 5.0 |
| **Net financials** | **7.2** | **-2.1** | **-0.1** | **-0.0** | **5.0** |
| **Pre-tax result** | **-29.3** | **-10.6** | **-0.3** | **-0.1** | **-40.4** |
| Taxes | 0.1 | 0.0 | 0.0 | 0.0 | 0.2 |
| **Result for the period** | **-29.2** | **-10.6** | **-0.3** | **-0.1** | **-40.2** |
| | | | | | |
| **(MUSD)** | | | | | |
| Total tangible fixed assets | 305.0 | 37.5 | 0.1 | 0.0 | 342.6 |
| Total interest-bearing debt | 160.4 | 47.7 | 0.0 | 0.0 | 208.1 |

Profit and loss as well as tangible fixed assets and interest-bearing debt are distributed as follows for 2016:

| | | | *2016* | | |
|---|---|---|---|---|---|
| **(MUSD)** | *AHTS* | *PSV* | *Services* | *Ship. Mgmt* | *Total* |
| **Total Revenue** | **71.6** | **0.4** | **0.9** | **16.0** | **89.0** |
| Direct voyage costs | -4.0 | -0.2 | 0.0 | 0.0 | -4.2 |
| Operating costs | -44.3 | -4.1 | -1.4 | -16.2 | -66.0 |
| **Total operating costs** | **-48.3** | **-4.3** | **-1.4** | **-16.2** | **-70.2** |
| **Operating profit before depreciation (EBITDA)** | **23.3** | **-3.8** | **-0.5** | **-0.2** | **18.8** |
| Net gain on sale of fixed assets | | | | | 0.0 |
| Depreciation | -17.0 | -3.1 | 0.0 | 0.0 | -20.1 |
| Impairment | 0.0 | -28.6 | 0.0 | 0.0 | -28.6 |
| **Operating profit (EBIT)** | **6.3** | **-35.6** | **-0.5** | **-0.2** | **-29.9** |
| Financial income | -0.1 | 0.0 | 0.0 | 0.1 | 0.1 |
| Financial costs | -21.0 | 6.0 | 0.0 | 0.3 | -14.6 |
| **Net financials** | **-21.0** | **6.1** | **0.0** | **0.4** | **-14.6** |
| **Pre-tax result** | **-14.7** | **-29.5** | **-0.5** | **0.2** | **-44.5** |
| Taxes | 0.4 | -0.0 | -0.0 | 0.0 | 0.4 |
| **Result for the period** | **-14.2** | **-29.5** | **-0.5** | **0.2** | **-44.0** |
| | | | | | |
| **(MUSD)** | | | | | |
| Total tangible fixed assets | 321.8 | 44.7 | 0.1 | 0.0 | 366.6 |
| Total interest-bearing debt | 164.6 | 45.8 | 0.0 | 0.0 | 210.4 |

There are no significant revenue transactions between the segments.

### GEOGRAPHIC DISTRIBUTION OF TANGIBLE FIXED ASSETS

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Denmark | 305.0 | 321.8 |
| Norway | 37.6 | 44.8 |
| **Total tangible fixed assets** | **342.6** | **366.6** |

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

# NOTE 4
## REVENUES

### SECONDARY SEGMENTS (SPLIT BY GEOGRAPHY)

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Denmark | 0.2 | 0.7 |
| Rest of Scandinavia | 20.4 | 33.4 |
| Rest of Europe | 17.9 | 11.4 |
| Rest of the world | 1.1 | 43.6 |
| **Total revenue** | **39.6** | **89.0** |

For 2017 two customers (2016: four) make up more than 10% of the total revenue for VSS. The two customers account for total revenue of MUSD 19.9 (2016: four customers, MUSD 70.6) and are related to the AHTS- and Ship Management segments (2016: AHTS- and Ship Management segments).

In the rest of the world revenue of MUSD 0.9 is related to Russia (2016: MUSD 43.6) and MUSD 0.2 is related to Canada (2016: MUSD 0.0).

### OPERATIONAL LEASING INCOME

| (MUSD) | 2017 | 2016 |
|---|---|---|
| 0-1 year | - | 1,6 |
| 1-5 years | - | - |
| 5 years and beyond | - | - |
| **Minimum operating lease revenue** | **0.0** | **1.6** |

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

# NOTE 5
## PERSONNEL EXPENSES

### CREW AND OFFICE PERSONNEL

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Salaries | 31.4 | 35.0 |
| Social costs | 2.0 | 2.6 |
| Pension costs | 3.2 | 5.0 |
| Other personel costs | 2.0 | 2.3 |
| **Total** | **38.6** | **44.9** |

Of the MUSD 38.6 (2016: MUSD 44.9), MUSD 6.6 (2016: MUSD 6.9) relates to G&A and MUSD 32.0 (2016: MUSD 38.0) relates to Operating costs. During 2017 VSS had in average 364 (463) employees.

Crew on VSS vessels are employed by VSS and external management companies. Personnel expenses for crew on VSS vessels employed by external management companies amount to MUSD 0.2 (MUSD 1.5) which is included in total salaries. The average number of employees from external management companies has not been included in the average number of employees calculated for the group.

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

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Salaries | 1.0 | 1.3 |
| Social costs | 0.0 | 0.0 |
| Pension costs | 0.1 | 0.1 |
| Other personel costs | 0.0 | 0.0 |
| Severance costs | 0.3 | - |
| Share-based payments | - | - |
| **Total** | **1.5** | **1.5** |

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

The Board of Directors fee amounted to MUSD 0.1 (MUSD 0.1).

### PENSIONS

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

# NOTE 6
## AUDIT FEES

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

| (MUSD) | 2017 | 2016 |
|---|---|---|
| **Auditor** | RSM | RSM |
| Audit assignments | 0.1 | 0.1 |
| Other non-audit assignments | 0.1 | 0.1 |
| **Total fee** | **0.2** | **0.2** |

# NOTE 7
## NET FINANCIALS

### FINANCIAL INCOME

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Interest income on short-term deposits | 0.0 | 0.1 |
| **Total financial income** | **0.0** | **0.1** |

### FINANCIAL COSTS

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Interest cost, bank borrowings | -8.3 | -8.6 |
| Interest cost, bond borrowings | - | -0.5 |
| Amortization of borrowing costs | - | -2.2 |
| Net foreign exchange gains | 0.8 | 6.3 |
| Other financial costs | 12.7 | -9.7 |
| Interest rate swaps | -0.2 | 0.1 |
| **Total financial costs** | **5.0** | **-14,.6** |

# NOTE 8
## TAXES

The major components of income tax expense are:

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Current income tax | -0.2 | - |
| Change in deferred tax | - | -0.3 |
| Correction provision previous years | - | -0.1 |
| **Income tax expense reported in the statement of profit and loss** | **-0.2** | **-0.4** |
| | | |
| **Deferred tax recognised in OCI** | **-** | **-** |

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

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Accounting profit before income tax | -40.4 | -44.5 |
| At Danish statutory income tax rate of 22.0% (2016: 22.0%) | -8.8 | -9.8 |
| Adjustment of non-capitalised tax losses | 1.1 | -0.6 |
| Correction provision previous years | - | -0.1 |
| Effect of tonnage tax schemes | 7.6 | 10.0 |
| **At the effective income tax rate of 0.4% (2016: 1%)** | **-0.2** | **-0.4** |

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

Deferred tax relates to the following:

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Losses available for offsetting against future taxable income | - | - |
| Accelerated depreciation for tax purposes | - | - |
| **Net deferred tax assets** | **-** | **-** |

Deferred tax asset amounts to MUSD 0 (Deferred tax liability MUSD 0). Deferred tax assets and liabilities are recognised for temporary differences between the carrying amount of assets and liabilities and the corresponding tax base used in the computation of taxable income or as applicable under the tonnage tax schemes under which VSS vessels operate. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available to utilise the temporary deductible differences, including any tax loss carry forwards.

VSS has no deferred tax assets recognised due to uncertainty related to the future utilisation. As the income in general is subject to tonnage tax, the utilisation is considered to be unlikely and thus not considered as contingency assets. Tax losses not recognised in the balance sheet amounts to MUSD 26.8 (MUSD 20.3) with a tax value of MUSD 5.8 (MUSD 4.5).

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Tax liability at 1 January | -0.2 | 0.1 |
| Current tax for the year | -0.2 | - |
| Adjustment previous years | 0.1 | 0.1 |
| Paid/refunded tax | - | -0.4 |
| **Net tax liability 31 December** | **-0.3** | **-0.2** |

Tax receivable amounting to MUSD 0.3 (MUSD 0.2) is recognized as other current receivables. Tax liability amounting to MUSD 0 (MUSD 0) is recognized in other current liabilities.

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# NOTE 9
## TANGIBLE ASSETS

| COST (MUSD) | *Vessels* | *Equipment* | *Total* |
|---|---|---|---|
| **Balance 31 December 2016** | **542.4** | **0.4** | **542.8** |
| Additions | 0.1 | 0.0 | 0.2 |
| Disposals | -0.1 | - | -0.1 |
| Currency translation adjustment | 0.1 | 0.0 | 0.1 |
| **Balance 31 December 2017** | **542.6** | **0.4** | **543.0** |

| Accumulated depreciation and impairment (MUSD) | *Vessels* | *Equipment* | *Total* |
|---|---|---|---|
| **Balance 31 December 2016** | **176.0** | **0.3** | **176.2** |
| Impairment loss | 6.2 | - | 6.2 |
| Depreciation | 17.9 | 0.0 | 17.9 |
| Disposals | - | - | - |
| Currency translation adjustment | - | - | - |
| **Balance 31 December 2017** | **200.1** | **0.3** | **200.4** |

| Carrying amount (MUSD) | *Vessels* | *Equipment* | *Total* |
|---|---|---|---|
| **31 December 2016** | **366.4** | **0.1** | **366.6** |
| **31 December 2017** | **342.4** | **0.1** | **342.6** |

Vessels with a net book value of MUSD 342.4 (MUSD 366.4) have been pledged as security for interest-bearing loans. Further assignments of insurance payments and earnings have been given as security.

### IMPAIRMENT TEST

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

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

The key assumptions used in the value in use calculation and in the assessment of owned vessels, for 2017 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% (2016: 9%). The pre- and post-tax discount factor is the same due to tonnage taxation.

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

**Impairment test PSV fleet in 2017**

The impairment charge is based on a calculated value in use based on discounted cash flows using the principles set out above.

Based on fixtures rates, utilization, contract coverage, cost levels and currency exchange levels VSS has prepared discounted cash flow calculations covering the remaining useful lives of the vessels. All significant assumptions have been estimated using Management's best estimate in a challenging market. The cash flow projection shows negative cash flows for 2017-19 due to all PSV vessels in warm lay-up in 2018/first half of 2019 and poor market conditions expected in the second half of 2019 with step-wise improving rates and utilization in 2020 and going forward. 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 calculated value in use is MUSD 40.0.

An increase in the applied discount factor of 1 percentage point would result in a decrease in the net present value of the PSV fleet of MUSD 4.2 (increase in the impairment charge). A decrease of 10% on the daily income rates applied would result in a decrease in the net present value of the PSV fleet of MUSD 7.4 (increase in the impairment charge). The impairment test also consists of an assessment of average external vessel valuations, less cost to sell, from two internationally acknowledged shipbrokers showing a total PSV fleet value of MUSD 37.3 (ranging from MUSD 36.3 to MUSD 38.3). The valuations obtained from these shipbrokers are subject to more uncertainty than normal due to lack of sales and purchase transactions for comparable vessels. Considering this uncertainty further vessel valuations have been obtained to support the market value assessment.

The book value has been written down by MUSD 6.2 in 2017 to adjust the book value to the recoverable amount. The write down corresponded to 14% of the carrying amount of the PSV fleet at 1 January 2017.

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

**Impairment test AHTS fleet in 2017**

In 2017 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 line with the carrying amount of the owned AHTS fleet (MUSD 305.0).

**Impairment test PSV fleet in 2016**

In 2016 Management evaluated the PSV fleet and concluded that the PSV vessels were impaired.

The impairment charge was 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 prepared discounted cash flow calculations covering the remaining useful lives of the vessels. All significant assumptions were estimated using Management's best estimate in a challenging market and considering the fact that the last two PSV vessels had been laid up in Q1 2016. The cash flow projection showed negative cash flows for 2017-19 due to all PSV vessels in warm lay-up in 2017 and poor market conditions expected in 2018 with step-wise improving rates and utilization in 2019 and going forward. The value in use calculation based on discounted cash flows is very sensitive to changes in the underlying assumptions including the pace and timing of assumed market recovery and redeployment of vessels, which is uncertain due to the current challenging market conditions. The calculated value in use was MUSD 50.5.

An increase in the applied discount factor of 1 percentage point would result in a decrease in the net present value of the PSV fleet of MUSD 5.5 (increase in the impairment charge). A decrease of 10% on the daily income rates applied would result in a decrease in the net present value of the PSV fleet of MUSD 8.5 (increase in the impairment charge). The impairment test also consists of an assessment of average external vessel valuations, less cost to sell, from two internationally acknowledged shipbrokers showing a total PSV fleet value of MUSD 41.4 (ranging from MUSD 49.8 to MUSD 33.0). The valuations obtained from these shipbrokers are subject to more uncertainty than normal due to lack of sales and purchase transactions for comparable vessels.

Since the recoverable amount of MUSD 50.5 was higher than the original carrying amount of the owned PSV fleet (MUSD 49.7) at year-end, no impairment charge should have been recognized. Due to the sensitivity in the underlying assumptions in the value in use calculation an additional impairment charge of MUSD 5 was recognized at year-end.

In total VSS recognised an impairment of the PSV fleet of MUSD 28.6 for 2016 (MUSD 17.1 in Q2, MUSD 6.5 in Q3 and MUSD 5 in Q4), which corresponded to 37% of the carrying amount of the PSV fleet at 1 January 2016.

**Impairment test AHTS fleet in 2016**

In 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 321.8) by 10% on average.

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# NOTE 10

## INVENTORIES

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

# NOTE 11

## ACCOUNTS RECEIVABLES

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

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Not due | 3.6 | 1.4 |
| 1-30 days overdue | 0.2 | 0.2 |
| 31-90 days overdue | - | 0.1 |
| Over 90 days overdue | 0.0 | 0.0 |
| Allowance for doubtful receivables | - | - |
| **Accounts receivables** | **3.9** | **1.7** |

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

# NOTE 12

## FINANCIAL ASSETS

Total restricted and available cash is as follows:

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Restricted cash | - | - |
| Free cash and cash equivalents | 3.9 | 27.3 |
| **Cash and cash equivalents** | **3.9** | **27.3** |

# NOTE 13

## INTEREST-BEARING LOANS

The vessels owned by VSS are financed through bank loans with pledge in the vessels. Further securities have been given in the form of pledge in revenue and insurance policies. The interest bearing debt in VSS as at 31 December 2017 is MUSD 208.1 (MUSD 210.4).

The interest bearing liabilities are associated with financial covenants, according to which VSS must fulfill certain key ratios. Due to the current weak market conditions, VSS at the end of Q2 2017 registered a breach on its twelve month rolling EBITDA ratio which is to be positive.

At the end of Q3 2017, VSS was not able to comply with events of default provisions in loan agreements, which rendered all borrowings short-term and payable on demand by the lenders (see note 1, liquidity and going concern).

VSS was during the majority of the second half of 2017 in an ongoing dialogue with its lenders, during which VSS did not pay installments and interest to its lenders.

In December 2017, VSS received confirmation that it had obtained support for a restructuring proposal from all senior lenders. A final restructuring agreement was subject to final approval from the senior lenders' credit committees. VSS has during January 2018 obtained credit committee approval from all senior lenders, signed a restructuring term sheet and signed amended loan agreements. The signed restructuring term sheet, together with the completed equity issue in VSS AB and subsequent equity injection by the parent company into VSS, finalized the financial restructuring.

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

- VSS loan facilities are as currently due 31 March 2020.
- VSS loan facilities will carry significant less cash interest and instalments until maturity on 31 March 2020. Limited cash interest and instalments will be paid until Q4 2018.
- Financial covenants on the loan facilities are amended to provide VSS with ample room to operate under the present challenging market conditions.
- Cash at hand exceeding a certain level will through a cash sweep mechanism be distributed as repayment of the bank facilities.

Following the financial restructuring, loans previously classified as short-term will be reclassified as long-term debt in the balance sheet.

As part of the 2016 financial restructuring the cash redemption of the bond was partly funded by a loan of MNOK 20 provided by one of VSS' existing lenders. The loan was received in January 2017.

As a result of an agreement that was resolved by the bondholders in conjunction with the key terms of the 2016 debt restructuring plan, the bond agreement was changed in 2016 and the bond was delisted from Nordic ABM on 12 January 2017.

VSS has 99% (100%) of its interest-bearing debt in USD and 1% in NOK (0%). VSS A/S has 13% (13%) of the total loan portfolio swapped into fixed interest rate.

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

| **(MUSD)** | *2017* | *2016* |
|---|---|---|
| Bond loan | - | - |
| Current part of bond loan | - | - |
| Long-term debt to credit institutions | - | 204.0 |
| Short-term debt to credit institutions | 208.1 | 6.4 |
| **Total interest-bearing liabilities** | **208.1** | **210.4** |

The development in loans was as follows:

| **(MUSD)** | *2017* | *2016* |
|---|---|---|
| Balance at 1 January | 210.4 | 263.0 |
| New loans drawn | 2.4 | 0.3 |
| Repayment of loans | -4.7 | -23.7 |
| Loans acquired | - | - |
| Repaid loans | - | -22.9 |
| Effects of exchange rate changes | 0.0 | -8.6 |
| Amortized loan costs | - | 2.2 |
| **Total** | **208.1** | **210.4** |

The instalments excluding future interest payments are as follows:

| **(MUSD)** | *2017* | *2016* |
|---|---|---|
| 0-1 year | 208.1 | 6.4 |
| 1-2 years | - | 3.0 |
| 2-3 years | - | 3.0 |
| 3-4 years | - | 198.0 |
| 4-5 years | - | - |
| 5 years and beyond | - | - |
| **Total** | **208.1** | **210.4** |

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# NOTE 14
## OTHER NON-CURRENT LIABILITIES

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Financial instruments | 0.6 | 1.2 |
| Deferred tax liability | - | - |
| **Other non-current liabilities** | **0.6** | **1.2** |

Regarding financial instruments see note 18 Financial instruments and risk.

# NOTE 15
## OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Other liabilities | 2.5 | 6.2 |
| Related parties | 4.0 | 9.5 |
| Tax payable | - | - |
| Accruals | 9.8 | 20.1 |
| **Other current liabilities** | **16.3** | **35.7** |

# NOTE 16
## TRANSACTIONS WITH RELATED PARTIES

VSS is a 100% owned subsidiary of VSS AB. VSS AB is a limited liability company registered in Sweden, with its domicile in Gothenburg, and corporate registration number 556161-0113. VSS AB is listed on the Small Cap list of the NASDAQ OMX Nordic Exchange in Stockholm. The address for VSS AB is Idrottsvägen 1, SE-444 31 Stenungsund, Sweden.

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

VSS AB is majority-owned by the Norwegian investment company Kistefos AS. Kistefos AS has 78.6% of the share capital and 74.9% of the votes as of 31 December 2017. Kistefos AS is registered in Norway, with its domicile in Oslo. VSS is included by full consolidation in the Kistefos AS annual report.

The consolidated financial reports for VSS AB can be downloaded at www.vikingsupplyships.com, The consolidated financial report for Kistefos will be published at www.kistefos.no.

Transactions with related parties are specified as follows:

| (MUSD) | 2017 | 2016 |
|---|---|---|
| Revenue | - | - |
| General and administrative expenses 1) | 1.4 | 0.6 |
| Financial costs 2) | -0.0 | 4.2 |
| Operating expenses 3) | 3.5 | - |
| Capital increases 4) | 4.6 | 13.0 |
| Related party payable, net 5) | 4.0 | 9.5 |

1) Allocated costs from VSS AB amounted to MUSD 0.5. Viking Invest AS (Kistefos) has, through consultancy

agreements, made financial services available during the restructuring process for which a compensation of MUSD 0.8 has been set off as a part of the share issues in VSS AB. Total allocated costs from Viking Invest AS amounted to MUSD 0.9.

2) Interest on the VSS AB related party payable, net amounted to MUSD 0.1.

3) The Group has entered into a long-term bareboat charter agreement with a subsidiary to Kistefos AS, Odin Viking SPV AS, in relation to hire of the AHTS vessel Odin Viking. The nominal minimum lease hire payments amount to MUSD 25.8 until expiry on 2 August 2024. The Group has until December 31, 2017 had charter hire expenses of total MUSD 3.5. As part of the financial restructuring agreement, this bareboat charter contract has been amended (see note 1, liquidity and going concern). At the end of 2017 MUSD 1.7 has not been paid in cash but added to the principal amount outstanding under the charter party as payment in kind. The MUSD 1.7 is part of Accounts payable in the balance sheet.

4) VSS received new capital in the amount of MUSD 4.6 as part of the 2017 finalized restructuring.

5) As part of the 2017 finalized restructuring an obligation towards VSS AB of MUSD 9.5 in relation to the bond settlement and share issues with payment against set-off was established. This obligation was converted to equity during Q1 2017. As part of the 2018 finalized restructuring, VSS during Q4 2017 received a temporary shareholder loan from Viking Invest AS of MUSD 4.0. This loan was repaid in January 2018 as part of the completed financial restructuring in which VSS received new capital in the amount of MUSD 15.

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

# NOTE 17

## COMMITMENTS AND OTHER CONTINGENT LIABILITIES

### LEASING

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

VSS has contracts regarding the leasing of one AHTS vessel. This contract has a remaining duration on the lease of seven years. As a part of the financial restructuring this leasing contract has been amended.

The financial restructuring is described in note 1 Liquidity and going concern.
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| **(MUSD)** | *2017* | *2016* |
|---|---|---|
| 0-1 year | 4.0 | 3.7 |
| 1-2 years | 3.7 | 3.7 |
| 2-3 years | 3.7 | 3.7 |
| 3-4 years | 3.7 | 3.7 |
| 4-5 years | 3.7 | 3.7 |
| 5 years and beyond | 5.8 | 9.5 |
| **Total lease payments** | **24.5** | **27.8** |

MUSD 24.1 out of the MUSD 24.5 is related to the AHTS vessel leasing contract payments which will not be settled in cash, but added to the principal amount outstanding under the charter party as payment in kind.

Leasing payments in 2017 amounted to MUSD 2.7 (2016: 2.4 MUSD).

### PLEDGES

Non-current tangible assets of MUSD 342.4 (MUSD 366.4) have been pledged against loans.

### DIVIDEND RESTRICTIONS

No distribution of dividends is allowed until all bank facilities have been repaid in full.

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# NOTE 18
## FINANCIAL INSTRUMENTS AND RISK

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

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

### INTEREST RATE RISKS

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

At 31 December 2017, VSS had a total interest rate swap portfolio of MUSD 27.0 (MUSD 26.4) on a fixed basis with an average outstanding duration of 0.7 years (1.7 years). The average fixed rate was 3.9% (3.9%).

Market values as at 31 December:

| **(MUSD)** | *2017* | *2016* |
|---|---|---|
| Long-term commitment | - | 0.5 |
| Short-term commitment | 0.6 | 0.7 |
| **Commitment, net** | **0.6** | **1.2** |

| **(MUSD)** | *2017* | *2016* |
|---|---|---|
| Market value | 0.6 | 1.2 |
| Recognized in profit and loss | 0.6 | 0.9 |

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

Interest contracts changing from variable to fixed loans are recognised in the consolidated profit and loss at the same time as the hedged interest costs. The market value to be recognised in future financial years is expected to be realised within 2 years (3 years).

For VSS an increase in the interest rate of 1% will have a negative impact of MUSD 1.8 (MUSD 1.8) on the result for the year.

Interest on external loans is distributed as follows:

| **(MUSD)** | *2017* | *2016* |
|---|---|---|
| Borrowings by interest rate levels: | | |
| 0-3% | - | 42.4 |
| 3-6% | 208.1 | 168.0 |
| 6%- | - | - |
| **Total** | **208.1** | **210.4** |
| Of which inclusive interest rate swaps: | | |
| Fixed | 27.0 | 26.4 |
| Floating | 181.1 | 184.0 |
| **Total** | **208.1** | **210.4** |

At 31 December 2017, after taking the effect of interest rate swaps into account, 13% (13%) of the total interest-

bearing debt is carrying a fixed rate of interest.

## FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

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

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

| | *2017* | | | |
|---|---|---|---|---|
| **(MUSD)** | *Market value* | *Level 1* | *Level 2* | *Level 3* |
| Interest rate swap liability | 0.6 | - | 0.6 | - |
| Bond asset | - | - | - | - |

| | *2016* | | | |
|---|---|---|---|---|
| **(MUSD)** | *Market value* | *Level 1* | *Level 2* | *Level 3* |
| Interest rate swap liability | 1.2 | - | 1.2 | - |
| Bond asset | - | - | - | - |

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

## CREDIT RISKS

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

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

Maximum credit risk amounts to carrying amount of accumulated receivables and free cash and cash equivalents, MUSD 13.8 (MUSD 36.1).

For credit days see note 11 Accounts receivables.

## MARKET RISKS

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

## CURRENCY RISKS

Offshore shipping is a highly international business, which means that only a portion of VSS cash flow is generated in USD and this means that currency fluctuations may have a major impact on VSS earnings and cash flows. The foreign exchange risk is primarily restricted by matching the exposure to revenues in various currencies with costs in the corresponding currency. In the same manner, assets in a certain currency are matched with liabilities in the same currency. As at 31 December 2017 no hedging instruments were used.

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

Everything else being equal, the result for the period will be negatively impacted with MUSD 0.1 (positive MUSD 0.1)

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basis a 10% increase in USD against NOK, positively impacted with MUSD 0.2 (positive MUSD 0.1) basis a 10% increase in USD against SEK and will not be significantly impacted basis a 10% increase in USD against GBP.

Everything else being equal, comprehensive income for the period will be negatively impacted with MUSD 0.4 (negatively MUSD 0.3) basis a 10% increase in USD against the respective subsidiaries' local currency.

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

Assets and liabilities are categorised by currencies as follows:

| | *2017* | | | | | |
|---|---|---|---|---|---|---|
| **VSS GROUP** | *Assets* | | | *Liabilities* | | *Total* |
| **(MUSD)** | *Tangible assets* | *Cash* | *Accounts receivables* | *Interest-bearing debt* | *Accounts payable* | *Net liability position* |
| NOK | 0.1 | 0.7 | 0.1 | 2.0 | 0.1 | 1.1 |
| USD | 342.4 | 0.1 | 3.8 | 206.1 | 3.4 | -136.7 |
| GBP | - | 0.0 | - | - | -0.0 | -0.0 |
| SEK | - | 2.8 | 0.0 | - | 1.1 | -1.7 |
| EUR | - | 0.0 | - | - | - | -0.0 |
| DKK | - | 0.1 | - | - | 0.0 | -0.1 |
| CAD | - | 0.0 | - | - | - | -0.0 |
| Other currency | - | 0.2 | - | - | - | -0.2 |
| **Total** | **342.6** | **3.9** | **3.9** | **208.1** | **4.6** | **-137.7** |

| | *2016* | | | | | |
|---|---|---|---|---|---|---|
| **VSS GROUP** | *Assets* | | | *Liabilities* | | *Total* |
| **(MUSD)** | *Tangible assets* | *Cash* | *Accounts receivables* | *Interest-bearing debt* | *Accounts payable* | *Net liability position* |
| NOK | 0.1 | 0.6 | 0.1 | - | 0.0 | -0.7 |
| USD | 366.4 | 24.3 | 1.6 | 210.4 | 1.2 | -180.8 |
| GBP | - | 0.3 | - | - | - | -0.3 |
| SEK | - | 1.8 | 0.0 | - | 1.0 | -0.8 |
| EUR | - | 0.0 | - | - | - | -0.0 |
| DKK | - | 0.3 | - | - | 0.1 | -0.2 |
| CAD | - | - | - | - | - | - |
| Other currency | - | 0.1 | - | - | - | -0.1 |
| **Total** | **366.6** | **27.3** | **1.7** | **210.4** | **2.3** | **-182.9** |

## LIQUIDITY RISK

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

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

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

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

Maturing loans are expected to be refinanced. Liquidity risk can be split in short and long term liquidity risk follows:

| | | *Contractual cash flows beyond 2017* | | | |
|---|---|---|---|---|---|
| **(MUSD)** | *Carrying amount* | *0-1 year* | *1-5 years* | *5- years* | *Total* |
| Total interest-bearing liabilities | 208.1 | 236.5 | - | - | 236.5 |
| Related parties | 24.1 | 3.7 | 18.3 | 2.2 | 24.1 |
| Accounts payable | 4.6 | 4.6 | - | - | 4.6 |
| Other current liabilities | 16.3 | 16.3 | - | - | 16.3 |
| Interest contract | 0.6 | 0.6 | - | - | 0.6 |
| **Total** | **253.7** | **28.7** | **251.2** | **2.2** | **282.1** |

| (MUSD) | Carrying amount | Contractual cash flows beyond 2016 | | | |
|---|---|---|---|---|---|
| | | 0-1 year | 1-5 years | 5- years | Total |
| Total interest-bearing liabilities | 210.4 | 15.3 | 212.7 | - | 227.9 |
| Related parties | 27.6 | 3.5 | 18.3 | 5.8 | 27.6 |
| Accounts payable | 2.3 | 2.3 | - | - | 2.3 |
| Other current liabilities | 35.7 | 35.7 | - | - | 35.7 |
| Interest contract | 1.2 | 0.7 | 0.5 | - | 1.2 |
| **Total** | **277.2** | **57.5** | **231.4** | **5.8** | **294.7** |

As a consequence of the restructuring agreement which was entered into after the end of the year, the contractual cash flows maturity profile has changed to reflect less contractual cash payments until loan facility maturity in 2020. See note 20 Events occurring after the reporting period.

The market value of all of the above liabilities equals book value.

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

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

# NOTE 19
## SHARE CAPITAL
The share capital in the parent company, Viking Supply Ships A/S, consists of 5,004 (5,000) authorised, issued and fully paid shares at a par value of 100 DKK, each representing one class of ordinary shares which carry no right to fixed dividends.

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

Dividends amounting to MUSD 0 were approved in 2017 (MUSD 0). In respect of 2017, Management recommends no distribution of dividends.

# NOTE 20
## EVENTS OCCURRING AFTER THE REPORTING PERIOD

### FINANCIAL RESTRUCTURING
In December 2017, VSS received confirmation that it had obtained support for a restructuring proposal from all senior lenders. A final restructuring agreement was subject to final approval from the senior lenders' credit committees. VSS has during January 2018 obtained credit committee approval from all senior lenders, signed a restructuring term sheet and signed amended loan agreements. This finalized the financial restructuring. The restructuring agreement is to provide VSS with a stable platform to navigate through the potential challenging market until 2020. See note 1 Liquidity and going concern.

### OTHER EVENTS OCCURRING AFTER THE REPORTING PERIOD
In order to streamline the organization and further increase the commercial focus of the company it was in January 2018 decided to relocate VSS' headquarter to Kristiansand (Norway). In combination with the above mentioned financial restructuring, this will ensure that VSS will be able to take advantage of future market opportunities. The relocation also adds to the Group's focus on the Northern areas and harsh environment offshore regions. Safety and

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quality will remain a core focus going forward and the reorganization is assumed to enable VSS to deliver even higher quality to our clients.

### NEW CONTRACTS

In late January 2018 VSS entered into a contract with an international oil company for the charter of the Ice-class 1A-Super AHTS Brage Viking with prompt commencement. The duration is up to 140 days including optional periods. Securing this contract clearly emphasizes the competence and market position VSS has built up within the harsh environment offshore market.

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

# NOTE 21

## COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

| **Subsidiaries owned by Parent Company** [1] | *Corp. reg. no.* | *Registered office* | *Pct. of share capital* |
|---|---|---|---|
| Viking Supply Ships Management AB | 556858-2463 | Stenungsund | 100 |
| Viking Icebreaker Management AB | 556679-1454 | Stenungsund | 100 |
| Viking Supply Ships AS | 981240030 | Kristiansand | 100 |
| Viking Supply Ships PSV AS | 814837572 | Kristiansand | 100 |
| Viking Ice Consultancy AS | 913740998 | Kristiansand | 100 |
| Viking Supply Ships Crewing ApS | 33775199 | Copenhagen | 100 |
| VSS Seafarers AS [2] | 818283792 | Kristiansand | 100 |
| Viking Supply Ships 5 ApS | 34471800 | Copenhagen | 100 |
| Viking Supply Ships (Holdings) Limited | SC303430 | Aberdeen | 100 |
| Viking Supply Ships Limited | SC202464 | Aberdeen | 100 |
| Viking Supply Ships Ltd | 1107746094060 | Moscow | 100 |

*1) The Parent Company in VSS is Viking Supply Ships A/S, corp. reg. no. 33369794, with its registered office at Islands Brygge 57, 2300 Copenhagen S.*
*2) This company was incorporated in 2017.*

# PARENT COMPANY FINANCIAL STATEMENTS

**CONTENTS**

# Company details

| | | |
|---|---|---|
| **The company** | Viking Supply Ships A/S<br>Islands Brygge 57<br>DK-2300 Copenhagen S | |
| | CVR No.: | 33 36 97 94 |
| | Incorporated: | 13 December 2010 |
| | Domicile: | Copenhagen |
| | Financial year: | 1 January - 31 December |
| **Supervisory board** | Bengt A. Rem | (chairman) |
| | Håkan Larsson | |
| | Folke Patriksson | |
| | Magnus Sonnorp | |
| | Erik Borgen | |
| **Executive board** | Trond Myklebust | |
| **Auditors** | Beierholm<br>Statsautoriseret Revisionspartnerselskab<br>CVR no. 32 89 54 68 | |

# Income statement for the financial year 1 January - 31 December

| | Note | 2017<br>USDt | 2016<br>USDt |
|---|---|---|---|
| **Revenue** | 4 | 17.991 | 34.635 |
| Operating costs | | -24.568 | -23.675 |
| General and administrative expenses | | -4.948 | -7.147 |
| **Gross margin** | | **-11.525** | **3.814** |
| Staff costs | 5 | -4.072 | -3.347 |
| Depreciation and impairment of tangible assets | 9 | -8.328 | -8.930 |
| **Operating profit (EBIT)** | | **-23.924** | **-8.464** |
| Share of profit from subsidiaries net of tax | 10 | -25.164 | -19.075 |
| Financial income | 6 | 13.694 | 1.901 |
| Financial costs | 7 | -4.826 | -18.356 |
| **Pre-tax result** | | **-40.220** | **-43.994** |
| Taxes | 8 | 0 | 0 |
| **Result for the year** | | **-40.220** | **-43.994** |

| | | | |
|---|---|---|---|
| **Appropriation of profit** | 12 | | |
| Proposed dividend | | 0 | 0 |
| Transfered to retained earnings | | -40.220 | -43.994 |
| | | **-40.220** | **-43.994** |

# Balance sheet at 31 December

| Assets | Note | 2017 USDt | 2016 USDt |
|---|---|---|---|
| Vessels | | 200.457 | 207.513 |
| Dockings | | 2.364 | 3.642 |
| **Tangible assets** | 9 | **202.821** | **211.155** |
| Investments in subsidiaries | 10 | 49.400 | 71.257 |
| Receivables from group entities | 11 | 9.774 | 8.633 |
| **Financial assets** | | **59.174** | **79.890** |
| **Total non-current assets** | | **261.995** | **291.045** |
| Inventories | | **1.255** | **1.175** |
| Trade receivables | | 2.633 | 1.501 |
| Receivables from group entities | | 989 | 647 |
| Other current receivables | | 105 | 120 |
| Prepayments | 18 | 497 | 468 |
| Deferred income | | 164 | 107 |
| **Current assets** | | **4.388** | **2.844** |
| **Cash** | | 58 | 17.226 |
| **Total current assets** | | **5.701** | **21.245** |
| **Total assets** | | **267.696** | **312.291** |

## Balance sheet at 31 December

| Equity and liabilities | Note | 2017 USDt | 2016 USDt |
|---|---|---|---|
| Share capital | 12 | 61 | 61 |
| Retained earnings and reserves | | 115.253 | 134.127 |
| Other contributions | | 13.831 | 21.345 |
| **Total equity** | | **129.144** | **155.533** |
| Long-term interest-bearing loans | | 0 | 115.156 |
| **Total non-current liabilities** | 13 | **0** | **115.156** |
| Short-term interest-bearing loans | 13 | 122.091 | 3.842 |
| Accounts payable | | 3.040 | 2.008 |
| Payables to group entities | | 7.577 | 14.515 |
| Other current liabilities | 13 | 5.843 | 21.236 |
| **Total current liabilities** | | **138.552** | **41.601** |
| **Total liabilities** | | **138.552** | **156.757** |
| **Total equity and liabilities** | | **267.696** | **312.291** |

| | |
|---|---|
| Collateral, security for loans and other contingent liabilities | 15, 16 |
| Related parties and ownership structure | 17 |

## Statement of changes in equity

| | Share capital | earnings | dividend | Total equity |
|---|---|---|---|---|
| | USDt | USDt | USDt | USDt |
| Equity at 31 December 2015 | 61 | 178.121 | 19.372 | 197.553 |
| Dividend | 0 | 0 | -19.372 | -19.372 |
| Result for the period | 0 | -43.994 | 0 | -43.994 |
| Translation effect foreign operations | 0 | 1.458 | 0 | 1.458 |
| Other contributions | 0 | 19.887 | 0 | 19.887 |
| **Equity at 31 December 2016** | 61 | 155.472 | 0 | 155.533 |

| | Share capital | earnings | dividend | Total equity |
|---|---|---|---|---|
| | USDt | USDt | USDt | USDt |
| Equity at 31 December 2016 | 61 | 155.472 | 0 | 155.533 |
| Dividend | 0 | 0 | 0 | 0 |
| Result for the period | 0 | -40.220 | 0 | -40.220 |
| Translation effect foreign operations | 0 | -341 | 0 | -341 |
| Other contributions | 0 | 14.171 | 0 | 14.171 |
| **Equity at 31 December 2017** | 61 | 129.083 | 0 | 129.144 |

# Notes to the annual report

**Note 1 Accounting principles for the parent company**

The Parent Company's principal activities include offshore and icebreaking services to major oil companies primarily in the North Sea, Arctic and Subarctic waters as well as operation of corporate functions and the holding of shares in subsidiaries.

**Basis of preparation**

The separate financial statements of the Parent Company have been included in the Annual Report as required by the Danish Financial Statements Act.

The separate financial statements of the Parent Company for 2017 are presented in accordance with the Danish Financial Statement Act for reporting class C medium large companies with certain additions from class C large companies.

The functional currency of the Parent Company is USD and the financial statements of the Parent Company are presented in USD thousand.

**Cash flow statement**

According to section 86(4) of the Danish Financial Statement Act, the company has not prepared a cash flow statement as this is part of the consolidated financial statements of Viking Supply Ships A/S Group.

**Changes in accounting policies**

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

**Financial statements of the Parent Company**

The accounting policies of the Parent Company are consistent with those applied in the consolidated financial statements (see note 2 in the consolidated financial statements of Viking Supply Ships A/S Group) with the following exceptions:

Investments in subsidiaries are measured under the equity method.
Investments in subsidiaries are measured at the proportionate share of the company's net asset values calculated in accordance with the Group's accounting policies minus or plus unrealised intra-group profits and losses and plus or minus any residual value of positive or negative goodwill determined in accordance with the acquisition method.

Investments in subsidiaries with negative net asset values are measured at USD 0 (nil), and any amounts owed by such companies are written down if the amount owed is irrecoverable. If the parent company has a legal or constructive obligation to cover a deficit that exceeds the amount owed, the remaining amount is recognised under provisions.

Net revaluation of investments in subsidiaries is recognised in the reserve for net revaluation in equity under the equity method to the extent that the carrying amount exceeds cost. Dividends from subsidiaries which are expected to be adopted before the approval of the annual report of Viking Supply Ships A/S are not recognised in the reserve for net revaluation.

On acquisition of subsidiaries, the acquisition method is applied (see consolidated financial statements of Viking Supply Ships A/S Group).

**Note 2 Significant accounting estimates and judgments**

In connection with the preparation of the parent company financial statements, management has made accounting estimates and judgements that affect the assets and liabilities reported at the balance sheet date as well as the income and expenses reported for the financial period. Management continuously reassesses these estimates and judgements based on a number of other factors in the given circumstances.

Management assesses that, in respect of the financial reporting for the Parent Company, no accounting estimates or judgements are made when applying the Parent Company's accounting policies which are significant to the financial reporting apart from those disclosed in note 1 in the consolidated financial statements of Viking Supply Ships A/S Group.

# Notes to the annual report

**Note 3 Material uncertainties regarding going concern**

See notes 1 and 20 in the consolidated financial statements of Viking Supply Ships A/S Group.

**Note 4 Revenue**

| | 2017 USDt | 2016 USDt |
|---|---|---|
| **Markets** | | |
| Denmark | 343 | 0 |
| Scandinavia | 995 | 18.872 |
| Great Britain | 16.394 | 4.133 |
| Russia | 0 | 11.631 |
| Other world | 259 | 0 |
| | **17.991** | **34.635** |
| **Activities** | | |
| AHTS | 17.991 | 34.635 |
| Services | 0 | 0 |
| | **17.991** | **34.635** |

**Note 5 Staff costs**

| | 2017 USDt | 2016 USDt |
|---|---|---|
| Salaries | 3.345 | 2.565 |
| Social costs | 31 | 32 |
| Pension costs | 305 | 338 |
| Other personnel costs | 390 | 411 |
| | **4.072** | **3.347** |
| Average number of employees | 20 | 21 |

For remuneration to management please see note 18 in the consolidated financial statements of Viking Supply Ships A/S Group.

**Note 6 Financial income**

| | 2017 USDt | 2016 USDt |
|---|---|---|
| Interest income | 0 | 76 |
| Foreign exchange gains | 559 | 574 |
| Interest income, related parties | 361 | 1.251 |
| Other financial income | 12.774 | 0 |
| | **13.694** | **1.901** |

**Note 7 Financial costs**

| | | |
|---|---|---|
| Interest costs | 4.474 | 5.147 |
| Foreign exchange losses | -142 | 3.128 |
| Interest costs, related parties | 320 | 1.003 |
| Value adjustment bonds | 0 | 5.287 |
| Other financial costs | 175 | 3.791 |
| | **4.826** | **18.356** |

# Notes to the annual report

## Note 8 Taxes

| | 2017 USDt | 2016 USDt |
|---|---|---|
| Current tax charge for the year | 0 | 0 |
| | **0** | **0** |

VSS's vessel activities are subject to tonnage tax. The current tax charge for the year is related to activities outside the tonnage tax scheme in Denmark after utilisation of non-recognised tax assets.

## Note 9 Tangible assets

| | Vessels | Dockings | Other | Total |
|---|---|---|---|---|
| Cost USDt | | | | |
| Balance 31 December 2016 | 248.215 | 8.802 | 3.035 | 260.052 |
| Additions | 0 | 84 | 0 | 84 |
| Disposals | 0 | 0 | 0 | 0 |
| Balance 31 December 2017 | 248.215 | 8.886 | 3.035 | 260.137 |
| | | | | |
| Accumulated depreciation and impairment NOKt | | | | |
| Balance 31 December 2016 | 40.703 | 5.159 | 3.035 | 48.897 |
| Additions | 0 | 0 | 0 | 0 |
| Depreciation | 7.055 | 1.363 | 0 | 8.418 |
| Depreciation and impairment, disposals | 0 | 0 | 0 | 0 |
| Balance 31 December 2017 | 47.758 | 6.522 | 3.035 | 57.316 |
| | | | | |
| **Carrying amount 31 December 2017** | **200.457** | **2.364** | **0** | **202.821** |

Vessels with a carrying amount of USD 202.8 million (USD 211.2 million) have been put up as security for debt to credit institutions.

# Notes to the annual report

## Note 10 Investments

For ownership in subsidiaries see note 21 in the consolidated financial statements of Viking Supply Ships A/S Group.

| | 2017<br>USDt | 2016<br>USDt |
|---|---|---|
| **Cost** | | |
| Balance 1 January | 143.063 | 116.206 |
| Addition | 5.460 | 26.857 |
| **Balance 31 December** | **148.523** | **143.063** |
| **Value adjustments** | | |
| Balance 1 January | -73.889 | -56.272 |
| Effect of amended accounting policies | 0 | 0 |
| Translation effect foreign operations | -341 | 1.458 |
| Result for the year | -25.164 | -19.075 |
| **Balance 31 December** | **-99.394** | **-73.889** |
| **Equity value 31 December** | **49.128** | **69.174** |
| **Recognised as follows in the financial statement:** | | |
| Equity value 31 December | 49.128 | 69.174 |
| Negative equity value offset in group receivables | 272 | 2.083 |
| | **49.400** | **71.257** |

# Notes to the annual report

## Note 11 Non-current receivables

| | Receivables from group entities | Total |
|---|---|---|
| Carrying amount 31 December 2016 USDt | 8.633 | 8.633 |
| Additions | 437 | 437 |
| Disposals | -139 | -139 |
| Value adjustment | 0 | 0 |
| Reclassified to current assets | 0 | 0 |
| Currency translation adjustment | 842 | 842 |
| **Carrying amount at 31 December 2017** | **9.774** | **9.774** |

## Note 12 Share capital and Appropriation of profit

The share capital consists of 5,004 shares at DKK 100 each or multiples thereof.
The share capital has recently been increased twice. One time through capital injection and one time by conversion of debt.

| Appropriation of profit: | 2017 USDt | 2016 USDt |
|---|---|---|
| Proposed dividend | 0 | 0 |
| Transfered to retained earnings | -40.220 | -43.994 |
| Result for the year | -40.220 | -43.994 |

## Note 13 Interest-bearing loans

Current portion of long-term liabilities is recognised under short-term liabilities. Other liabilities are recognised under long-term liabilities.

| Terms to maturity: | 2017 USDt | 2016 USDt |
|---|---|---|
| Within 1 year | 122.091 | 3.842 |
| Between 1 and 5 years | 0 | 115.156 |
| After more than 5 years | 0 | 0 |
| **Total interest-bearing loans** | **122.091** | **118.999** |
| Interest bearing debt to credit institutions | 122.091 | 118.999 |
| **Total interest-bearing loans** | **122.091** | **118.999** |

# Notes to the annual report

As part of other current liabilities VSS has an amount of USD 0.6 million sitting as a financial liability measured at fair value. For further information please see note 18 in the consolidated financial statements of Viking Supply Ships A/S Group.

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

The interest bearing liabilities are associated with financial covenants, according to which VSS must fulfill certain key ratios. Due to the current weak market conditions, VSS at the end of Q2 2017 registered a breach on its twelve month rolling EBITDA ratio which is to be positive.

At the end of Q3 2017, VSS was not able to comply with events of default provisions in loan agreements, which rendered all borrowings short-term and payable on demand by the lenders.

VSS was during the majority of the second half of 2017 in an ongoing dialogue with its lenders, during which VSS did not pay installments and interest to its lenders.

In December 2017, VSS received confirmation that it had obtained support for a restructuring proposal from all senior lenders. A final restructuring agreement was subject to final approval from the senior lenders' credit committees. VSS has during January 2018 obtained credit committee approval from all senior lenders, signed a restructuring term sheet and signed amended loan agreements. The signed restructuring term sheet, together with the completed equity issue in VSS AB and subsequent equity injection by the parent company into VSS, finalized the financial restructuring.

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

• VSS loan facilities are as currently due 31 March 2020.
• VSS loan facilities will carry significant less cash interest and instalments until maturity on 31 March 2020. Limited cash interest and instalments will be paid until Q4 2018.
• Financial covenants on the loan facilities are amended to provide VSS with ample room to operate under the present challenging market conditions.
• Cash at hand exceeding a certain level will through a cash sweep mechanism be distributed as repayment of the bank facilities.

Following the financial restructuring, loans previously classified as short-term will be reclassified as long-term debt in the balance sheet.

**Note 14 Events occuring after the reporting period**

See note 20 in the consolidated financial statements of Viking Supply Ships A/S Group.

**Note 15 Collateral and security for loans**

VSS has put up vessels as security for debt to credit institutions, see note 9, and assigned earnings and insurance sums relating to the vessels.

VSS has put up security for other group companies's debt to credit institutions, totalling USD 91.7 million at 31 December 2017 (USD 91.4 million).

VSS has pledged bank deposits, totalling USD 0.0 million (USD 10.9 million) reported as restricted cash.

# Notes to the annual report

**Note 16 Commitments and other contingent liabilities**

VSS leases vessels, buildings and equipment through operational leasing agreements. VSS has one contract regarding the leasing of one AHTS vessel. The contract for the AHTS vessel has a remaining duration on the lease of seven years. As part of the financial restructuring this leasing contract has been amended.

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

| | 2017 USDt | 2016 USDt |
|---|---|---|
| Within 1 year | 3.800 | 3.623 |
| Between 1 and 5 years | 18.260 | 18.260 |
| After more than 5 years | 2.170 | 5.810 |
| **Total lease payments** | **24.230** | **27.693** |

USD 24.1 million out of the USD 24.2 million is related to the AHTS vessel leasing contract payments which will not be settled in cash, but added to the principal amount outstanding under the charter party as payment in kind.

Leasing payments in 2017 amounted to USD 1.8 million (USD 2.4 million).

**Note 17 Related parties and ownership structure**

**Controlling interest**

The company is wholly-owned by Viking Supply Ships AB, Sweden.

The company is included in the consolidated financial statements of Viking Supply Ships AB, Sweden, and Kistefos Holding AS, Norway.

**Other related parties**

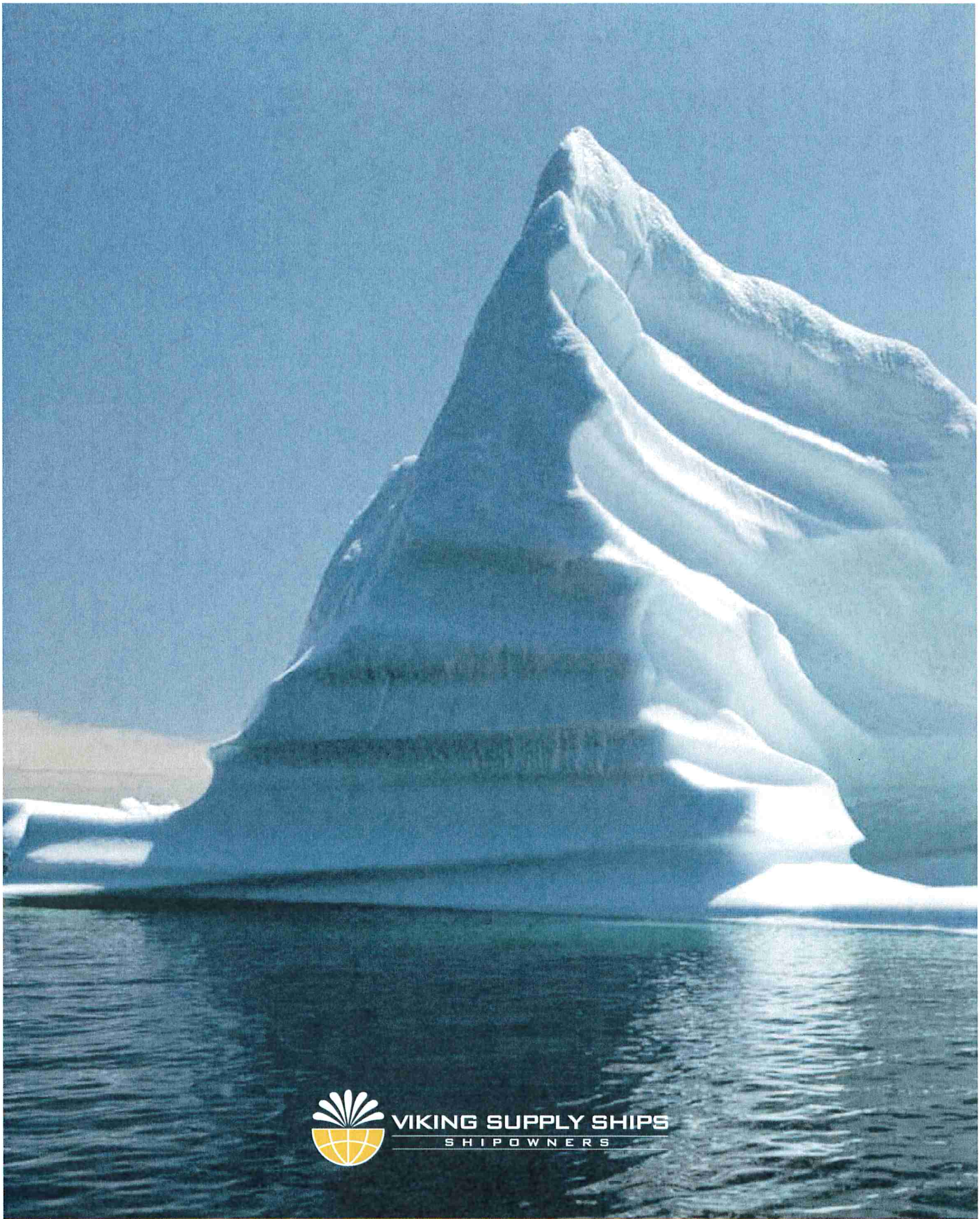
All entities in the Kistefos Holding AS group are related parties.

Other related parties are members of the supervisory and executive boards, executive officers and their family members. Related parties further include companies in which said persons hold significant interests.

**Note 18 Prepayments**

Prepayments are as follows:

| | 2017 USDt | 2016 USDt |
|---|---|---|
| Deposits | 141 | 125 |
| Insurance | 250 | 295 |
| Other accruals | 106 | 48 |
| **Total prepayments** | **497** | **468** |




MORE
THAN A SHIPOWNER

THE
COOLEST
PLACE TO WORK

ALWAYS AHEAD OF
COMPETITION