KISTEFOS

Financial report 2017

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The Kistefos Group 2017

The Kistefos Group had a positive development in 2017 and delivered an after-tax profit of NOK 341 million. This is an improvement of NOK 1.198 million from 2016 (NOK -857 million). Key points include:

- *Advanzia Bank continued its strong growth and increased net income by 17% to NOK 439 million.*
- *Viking Supply Ships had an after-tax profit of NOK -322 million (NOK -399 million in 2016).*
- *Western Bulk experienced a positive development during 2017, and delivered an after-tax profit of NOK 35 million (NOK -309 million in 2016).*
- *1881 Group AS acquired 100 % of Digitale Medier 1881 effective as of February 1, 2017, and delivered an EBITDA-result of NOK 115 million in 2017 (NOK 87 million).*
- *We realized a net gain of NOK 242 million from the divestment of Phonero, and a gain of NOK 117 million from the sale of Infront. Atex sold the all its material assets in 2017, yielding an accounting loss for Kistefos of NOK 46 million. Atex will be liquidated during 2018.*
- *The Group had free cash balances of NOK 1.057 million (NOK 863 million) per December 31st, 2017, and the parent company's free cash balances amounted to NOK 525 million (NOK 261 million).*

The Kistefos Group's revenue in 2017 was NOK 9.377 million, an increase of NOK 1.197 million from the previous year (NOK 8.180 million). The increase is due to significantly higher rate levels and freight revenues in Western Bulk and strong growth in Advanzia Bank's revenues, which more than offset the lower activity and rate levels in Viking Supply Ships. 1881 Group also increased its revenue after the purchase of Digitale Medier 1881.

The operating result for the year was NOK 205 million, an improvement of NOK 566 million from NOK -361 million in 2016. The improvement in operating result is primarily explained by the increase in earnings in Western Bulk and Advanzia Bank. The 2016 numbers were also negatively affected by the loss following the bankruptcy of Bulk Invest.

The Group's net financial income was improved by NOK 624 million from NOK -436 million in 2016 to NOK 188 million. The profit in 2016 was negatively affected by the write-down of shares in Atex Group, while the positive financial result in 2017 was affected by gains on sale of shares in Phonero and Infront.

Result after tax increased by NOK 1.198 million from NOK -857 million in 2016 to NOK 341 million in 2017.

The Group's total assets were NOK 22.831 million at year end 2017, which was an increase of NOK 5.775 million from NOK 17.056 million in 2016. The increase is mainly due to increased business volume in Advanzia Bank.

The Group's long-term debt was NOK 4.192 million at year-end 2017 (NOK 3.768 million at year-end 2016).

The short-term debt amounted to NOK 16.430 (NOK 11.218 million in 2016), of which deposits from customers in Advanzia Bank amount to NOK 15.295 million.

The group's book equity is NOK 2.209 million (NOK 2.070 million). It is estimated that the Group has significant values in excess of book values.

Consolidated activities

Advanzia Bank S.A. (60.3% ownership)

Advanzia grew after-tax profit by 17% from EUR 40.2 million in 2016 to EUR 47.0 million in 2017. Advanzia's net income increased by 21%, from EUR 137.5 mill in 2016 to EUR 166.4 million in 2017.

The difference between income growth and profit growth is due to regulatory changes and significant investments in marketing to ensure strong growth in the coming years. Marketing cost increased by 26%, from EUR 20.2 million in 2016 to EUR 25.6 million in 2017.

In 2017, Advanzia Bank achieved the milestone of 1 million credit card issued. The increase is due to strong access to customers in Germany, the bank's main market, increased activity in Austria and an acquisition in France.

During 2017, the bank issued 241 000 new active credit cards. This is a 25% increase from 2016 (194 000). By the end of 2017, Advanzia had 760 000 active credit cards, an increase of 23% from 2016.

Net customer loan balance was EUR 1.170 million at the end of 2017, an increase of 31% from 2016. During 2017, Advanzia has diversified its funding sources through a secured loan of EUR 100 million from a major European bank.

Advanzia has continued the positive development in Austria, and delivers performance in line with the initial launch in Germany. During 2017, the bank has attained 25 000 new active credit card customers in Austria, an increase of 47% from 2016. Advanzia has continued its work to improve the development in France in order to increase customer intake and obtain profitability. The bank works according to the action plan established in 2016. However, due to the business model, implemental actions can require up to a year before the effects are visible on the bottom line. As part of the action plan, Advanzia has acquired its first loan portfolio from My Money Bank (former part of GE Money Bank in France). The acquisition added 16 000 new active credit card customers and approximately EUR 60 million in gross loan balance.

The bank's total capital adequacy ratio was 14,2% at the end of 2017, which is EUR 31 million in excess of the regulatory capital requirement of 11%. At the end of 2016, the capital ratio was 13,8%.

During 2017, Advanzia has paid out dividends of EUR 10.7 million to the shareholders.

Viking Supply Ships AB (78,6% ownership)

Viking Supply Ships AB Group posted after-tax profit of SEK -332 million in 2017 (SEK -406 million in 2016). The 2017 result includes a write-down of the book value of the PSV fleet of SEK 51 million

Net revenue was SEK 331 million in 2017 (SEK 760 million). The reduction is due to significantly reduced activity level within the most of the groups business areas. The operations of the subsidiary TransAtlantic AB was discontinued in 2016. After this, the parent company Viking Supply Ships AB has no other activities besides owning shares in the fully-owned subsidiary Viking Supply Ships A/S, which owns a fleet consisting of 8 AHTS vessels and 5 PSVs.

The EBITDA of the group was SEK -185 million, versus SEK 160 million in 2016. The reduction is due to challenging market conditions, with low utilization and fixture rates. The average day rate for the company's AHTS vessels during 2017 was USD 29.000 (USD 50.500), and the utilization was 32% (54%). These numbers exclude laid-up vessels.

Due to the continued weak market conditions, the fully-owned subsidiary VSS A/S has been in negotiations with its banks regarding a restructuring throughout the second half of 2017. In January 2018, this resulted in an agreement with adjusted loan terms, including reduced installments and interest payments, until the first quarter of 2020. As part of the restructuring, the parent company VSS AB has in January 2018 raised SEK 123 million in new equity through a rights issue, of which Kistefos invested SEK 98 million. In addition to the subscription in the rights issue, Kistefos received shares as compensation for guaranteeing the share issue, and for services rendered in conjunction with the restructuring. After this, the ownership share of Kistefos has increased from 75,3 % to 78,6 %.

The rates in the spot market are still influenced by low activity and oversupply of vessels. However, high rates are achieved for shorter periods, driven by periodically higher activity and utilization. At the end of 2017, five of the company's AHTS vessels were active in the North Sea spot market, and three AHTS vessels were laid up. The five PSV vessels were also laid up at the end of 2017.

Due to the challenging market conditions, VSS has reflagged all of the company's AHTS vessels from Danish and Swedish flag to Nowegian flag during 2016 and 2017. This decision reflects an ambition to continue the focus on Norway and the northern regions, and reflects the commitment to the skills base of VSS' Scandinavian crew members. The reflagging has resulted in a reduced cost level and a stronger commercial position towards the Norwegian market.

In order to further increase effectiveness, strengthen the commercial focus towards the northern regions and increase customer service quality, it was decided in the beginning of 2018 to move the company's headquarters from Copenhagen to Kristiansand.

Western Bulk Chartering AS (75.0% ownership)

Western Bulk Chartering (Western Bulk) delivered a net TC result of USD 40.5 million in 2017. This is on the same level as 2015, and is a significant increase from 2016 (USD 4.4 million). The second half of 2017 accounted for USD 25.4 million, whereof the fourth quarter alone posted a net TC result of USD 17.3 million, which is the highest level in a single quarter since year 2012. Western Bulk had an average net TC margin per ship day of USD 792 in 2017, versus USD 96 in 2016. The number of ships was 140 on average in 2017, versus 125 in 2016.

After-tax profit was USD 4.3 million in 2017, versus USD -36.9 mill in 2016. The profit has followed the same trend during the year as net TC, and the second half of 2017 delivered an after-tax profit of USD 6.4 million. The profitability has improved gradually through the year, with an especially strong quarter in the fourth quarter of 2017.

The balance between supply and demand has gradually improved, and in 2017, the market rates (the BSI index) have been significantly higher than in 2016. The average rate increased by 52% (USD 3.181) from an average of USD 6.164 per day in 2016 to USD 9.345 per day in 2017. The second half of 2017 was particularly strong, with market rates above USD 12.000 per day for the first time since March 2014. The market rate volatility also has increased during 2017, particularly in the fourth quarter.

In the first quarter of 2017, Western Bulk raised NOK 154 million (equivalent to USD ~18 million) in private placement directed towards the largest existing owners. Kistefos invested NOK 119 million in this share issue.

During 2017, Western Bulk has rebuilt its market position after the turbulence that followed in the wake of the bankruptcy in Bulk Invest in 2016. After a particularly strong fourth quarter in 2017, we expect further profit growth in 2018.

1881 Group AS (100% ownership)

1881 Group AS posted revenues of NOK 394 million in 2017 (NOK 270 million). The increase is due to the acquisition of 100% of Digitale Medier 1881 at the end of 2016 (effective as of February 1st ,2017). The company achieved EBITDA of NOK 115 million in 2017 (NOK 87 million). After-tax profit was reduced from NOK 35 million to NOK 19 million due to depreciation of goodwill of NOK 56 million related to the acquisition. The volume reduction in the core services was lower in 2017 than in previous years, and growth in new services partly off-sets the falling market trend within the traditional services. The market share has been stable during 2017. The acquisition of Digitale Medier 1881 has led to stronger joint branding and realization of cost synergies after the transaction.

The parent company Kistefos AS

The parent company operations have been as expected. The operating results for the year was NOK -77 million (NOK -118 million in 2016. The numbers for 2016 included one-off effects from change in accrual principals).

Net financial result for the period is NOK -434 million (NOK -222 million). The negative result is caused by a write down of shares in a subsidiary of NOK 715 million following a value adjustment of shares in VSS. Dividends and group contribution from subsidiaries amounted to NOK 413 million. Net external interest expenses were NOK -103 million (NOK -64 million).

In November, Kistefos AS issued a new 4-year unsecured bond loan (KIST05) of NOK 600 million, and at the same time bought back NOK 320 million of the existing bond loan (KIST04). Interest expenses for 2017 include a premium of NOK 18 million related to the purchase of KIST04.

Result after tax for the parent company was NOK -499 million (NOK -343 million).

The parent company's free liquidity at year-end was NOK 525 million (NOK 261 million).

The parent company's book equity was NOK 1.258 million at 31 December 2017 (NOK 1.927 million). The equity ratio was 37% (52% at the end of 2016).

The parent company does not have research and development activities in 2017. The subsidiaries that have this type of activity have described this in more detail in their respective annual reports.

Development of non-consolidated portfolio investments

Kappa Bioscience (55.0% ownership)

Kappa develops and delivers synthetic vitamin K2. In 2017, Kappa has put in place a new and more efficient production line, as well as an integration of the acquisitions made in 2016 (Synthetica and PPM Ingredients). In addition, Kappa has continued the organic top line growth. The operating revenues were NOK 106 million (NOK 89 million), with an EBITDA of NOK 9 million (NOK 13 million). The decline in EBITDA is mainly due to one-off costs related to the establishment of a new production line, as well as integration of the two acquisitions made in 2016.

Promon (30.4% ownership)

Promon is a Norwegian cyber-security company that specializes in securing software applications. Promon focuses on security solutions that are incorporated into applications, and can detect and prevent attacks without human intervention - so-called Runtime Application Self Protection (RASP) technology. Promon focuses on banking and finance, but supplies products to a variety of industries, and several major international companies use Promon's solutions.

The company has had a strong order growth in 2017. This resulted in operating revenues of NOK 29 million in 2017, an increase of 51% from 2016. The EBITDA was appr. NOK -2 million, compared to appr. NOK -6 million in 2016. The company expects continued revenue growth in 2018.

Oslo Airport City (27.0% ownership)

Oslo Airport City is a property development company that will develop parts of the area located between Oslo Airport Gardermoen / OSL and Jessheim. The company owns a total land area of approx. 1 050 000 square meters.

Lumarine AS (94.9% ownership)

Lumarine is a producer of lumpfish, used by salmon farmers to fight salmon lice, and has production facilities at Tømmervåg outside Kristiansund. In 2017, Lumarine focused on quality in deliveries and received good feedback from this from its customers. The company had operating revenues of NOK 23 million and an EBITDA of appr. NOK 3 million. The business was started in 2016, and had in the starting year operating revenue of NOK 1 million and EBITDA of NOK -13 million. In 2017, Kistefos invested further in Lumarine to finance future expansion. Lumarine is implementing a number of growth measures to ensure continued strong growth in 2018.

TradeIX Ltd. (26.7% ownership)

TradeIX is a newly established fintech company with headquarters in London, and has developed a new platform for Trade Finance based on Blockchain technology.

TradeIX's platform creates increased transparency, reduces the number of parties and intermediaries in a Trade Finance transaction, while at the same time reducing risk. This means that banks and their customers achieve great savings and can trade more efficiently with each other than they did before.

In September 2017, TradeIX launched the "Marco Polo" project in cooperation with an international consortium of banks and financial institutions. 22 banks are now participating in the project, which aims to simplify transactions while reducing counterparty risk.

Ostomycure (68.5% ownership)

Ostomycure develops a titanium implant to improve the quality of life for ileostomy-patients. The goal is that the solution should function as an alternative to a traditional "stomi bag" on the outside of the body. The company is currently preparing an extended clinical study to demonstrate the functionality of the product. The plan is to initiate this by 2018.

Organization and environment

A total of 824 full-time equivalents were employed by the Kistefos Group at year-end 2017. The parent company's head office is in Oslo. The Group runs a global business.

The parent company employed 14 full-time equivalents at the end of the year. Kistefos has a good working environment. There were 24 days of absence due to illness (0.7%) in the parent company in 2017. No injuries or accidents have been reported by the Group or the parent company in 2017.

The Group seeks to provide men and women with equal opportunities related to competence-development, compensation and career opportunities. The Group practises non-discriminating personnel and recruitment policy. The parent company and Group practise equal treatment in connection with recruitment and seek to achieve gender balance. The Kistefos Group has prepared a code of conduct that, among other things, describes applicable guidelines for preventing discrimination and for ensuring that the work is adapted to accommodate needs.

Kistefos does not engage in polluting activities of any significant extent. However, the Group has holdings in enterprises where there may be potential sources of pollution. The respective boards of these companies are responsible for ensuring that their activities are conducted responsibly and in accordance with existing guidelines in order to prevent and limit emissions to the natural environment.

Group risks

The Group is exposed to various types of risk. In addition to the inherent market risk associated with each company and project, there are also other operational and financial risks associated with the Group's activities. The Group is exposed to currency risk in connection with its operations and ownership positions, and it hedges its operational activities against exchange rate fluctuations where this is deemed appropriate. The Group seeks to maintain a long term, currency neutral position in that the Group’s liabilities are in various foreign currencies that reflect the income in the various currencies over time.

There is an inherent risk linked to the Group's short-term and long-term liquidity, and the Group's Board of Directors focuses on ensuring that liquidity is satisfactory at all times. The focus on liquidity by the Group's board is important in today's dynamic financial market and is intended to ensure that the company and the Group are able to meet their financial obligations, as well as to ensure that the Group is able to have an opportunistic approach if and when interesting opportunities materialise.

The Group is also exposed to interest rate fluctuations as the Group’s liabilities are subject to floating interest rates. The Group's Board and management are actively following up those parts of the business that are exposed to risk. For the bank activities of the Group, the credit-risk is the most material risk. The bank has a credit committee that oversees and evaluate the risk.

Material events after the balance sheet date and going concern assumption

The annual financial statements have been prepared on the assumption that the Group is a going concern. The Board confirms that the basis for making such an assumption exists.

Outlook for 2018

In 2018, we still expect strong growth in Advanzia Bank's customer base, lending volume and profitability.

Viking Supply Ships will also in 2018 face challenges in a very weak offshore market, but we firmly believe that the company's niche position with ice breaking / ice class tonnage over time offers significantly better opportunities than the general supply ship market.

We expect Western Bulk Chartering to continue its positive earnings performance and deliver a significantly higher result than achieved in 2017.

We still expect stable results from the 1881 Group.

For Kappa Bioscience we expect strong growth and increased profitability.

TradeIX is in the process of raising additional capital to finance further growth. Kistefos will participate in the issue.

Lumarine will increase its production capacity to grow further, increase profitability and become a leading producer of lumpfish with a focus on quality and sustainability.

For the rest of the portfolio, positive value development is also expected.

The Board of Directors of Kistefos AS

Oslo, 14 March, 2018

KISTEFOS GROUP

Parent company		PROFIT AND LOSS STATEMENT	Group	
2016	2017	*Amounts in NOK 000s*	2017	2016
		OPERATING INCOME		
0	0	Freight revenues ships	7 146 558	6 370 063
0	0	Sales revenue	393 865	275 152
0	0	Interest income, bank activities	1 796 166	1 451 691
0	0	Gain (loss) on disposal of fixed assets/operations	112	9 911
12 834	7 128	Other operating income	40 532	73 579
12 834	**7 128**	**Total operating income**	**9 377 234**	**8 180 396**
		OPERATING EXPENSES		
0	0	Cost of goods sold	65 101	60 354
0	0	Operating expenses ships	6 887 775	6 165 194
0	0	Interest expenses, bank activities	635 968	0
72 498	32 633	Wages and salaries	563 792	455 989
603	679	Depreciation and write-downs of fixed and intangible assets	285 176	445 537
58 057	50 791	Other operating expenses	734 111	888 479
131 158	**84 103**	**Total operating expenses**	**9 171 923**	**8 541 665**
(118 324)	**(76 975)**	**OPERATING RESULT**	**205 310**	**(361 268)**
		FINANCIAL INCOME AND EXPENSES		
423 227	413 083	Income / (expense) from group companies and associated companies	213	(8 449)
7 574	17 437	Interest received from group companies	0	(0)
4 589	4 658	Other interest received	17 002	23 971
22 180	(21 551)	Gain / (losses) on shares and other financial instruments	328 836	(226 774)
13 728	12 788	Other financial income	136 762	171 875
(588 574)	(715 000)	Change in value of shares and other financial instruments	(11 170)	0
(24 085)	(27 227)	Interest paid to group companies	0	0
(64 370)	(103 446)	Other interest expenses	(234 445)	(210 405)
(15 880)	(14 465)	Other financial expenses	(49 328)	(186 007)
(221 613)	**(433 724)**	**Net financial income / (expenses)**	**187 871**	**(435 788)**
(339 937)	**(510 700)**	**Operating result before taxes**	**393 181**	**(797 056)**
(2 914)	12 062	Taxes	(52 075)	(60 007)
(342 850)	**(498 637)**	**RESULT AFTER TAX**	**341 105**	**(857 063)**
		Minority's share of net income	104 005	(115 629)
		Majority's share of net income	237 101	(741 434)

KISTEFOS GROUP

Parent company		BALANCE SHEET		Group	
2016	2017	*Amounts in NOK 000s*	Note	2017	2016
		ASSETS			
		FIXED ASSETS			
0	0	Deferred tax assets		17 396	12 430
0	0	Goodwill		8 082	(50 886)
0	0	Other intangible assets		479 002	339 375
0	**0**	**Total intangible assets**		**504 480**	**300 918**
0					
0	0	Property and real estate		34 381	26 459
0	0	Ships, PSV and AHTS		2 783 901	3 155 953
3 385	2 733	Operating equipment, FF&E, machines etc.		24 842	25 825
3 385	**2 733**	**Total tangible fixed assets**		**2 843 123**	**3 208 238**
2 330 434	2 203 014	Investments in subsidiaries		0	0
578 594	228 024	Loans to group companies		0	0
0	0	Restricted bank deposits		59 977	58 610
6 201	6 563	Other long-term receivables		12 136	106 782
2 915 230	**2 437 601**	**Total financial fixed assets**		**72 113**	**165 392**
2 918 615	**2 440 334**	**Total fixed assets**		**3 419 716**	**3 674 549**
		CURRENT ASSETS			
0	0	Goods for sale and consumption		174 708	287 969
7 098	55	Accounts receivable		247 860	204 745
0	0	Loans and advances, bank activities		12 092 489	0
300 217	145 067	Loans to group companies		20 061	14 513
100 586	134 496	Other receivables		609 444	262 454
407 900	**279 618**	**Total receivables**		**13 144 562**	**9 745 830**
129 645	194 621	Shares and other financial instruments		646 066	608 691
					0
0	0	Cash balances, bank activites		4 563 882	2 163 642
261 144	525 239	Cash and cash equivalents		1 056 611	862 875
798 690	**999 478**	**Total current assets**		**19 411 120**	**13 381 037**
3 717 305	**3 439 812**	**TOTAL ASSETS**		**22 830 836**	**17 055 586**

KISTEFOS GROUP

Parent company		BALANCE SHEET	Group	
2016	2017	*Amounts in NOK 000s*	2017	2016
		EQUITY AND LIABILITIES		
		EQUITY		
		Restricted Equity		
310 828	310 828	Share capital	310 828	310 828
77 508	77 508	Other Restricted Equity	77 508	77 508
		Retained earnings		
1 538 828	869 691	Other Equity	1 013 381	948 077
		Minority interests	807 146	733 348
1 927 164	**1 258 027**	**Total Equity**	**2 208 864**	**2 069 761**
		LONG TERM LIABILITIES		
5 400	984	Deferred taxes	91 078	116 329
1 615	0	Pension liabilities	49 330	36 150
0	0	Liabilities to financial institutions	2 395 717	2 244 338
691 911	575 022	Liabilities to group companies	(0)	0
800 000	1 280 000	Unsecured bond-loans	1 551 001	1 273 063
0	0	Subordinated loan, bank	85 001	85 000
0	0	Other long-term liabilities	20 268	13 155
1 498 927	**1 856 006**	**Total other long-term liabilities**	**4 192 393**	**3 768 034**
		SHORT TERM LIABILITIES		
0	0	Credit balances, bank activities	15 294 827	10 014 045
0	3 111	Trade creditors	115 328	79 626
0	0	Taxes payable	210 129	159 138
2 292	2 483	Government taxes, holiday pay, tax deductions	21 032	13 055
238 861	296 507	Liabilities to group companies	170 500	200 000
48 574	23 677	Other short-term liabilities	617 763	751 924
291 213	**325 778**	**Total short-term liabilities**	**16 429 579**	**11 217 788**
1 790 140	**2 181 785**	**Total liabilities**	**20 621 973**	**14 985 823**
3 717 305	**3 439 812**	**TOTAL EQUITY AND LIABILITIES**	**22 830 836**	**17 055 586**