

BUILDING A SUSTAINABLE FUTURE



DCF Subsea

ANNUAL REPORT

2016

“We continue to adapt to the challenging market, strengthen our position globally within the IMR segment and strengthen our chartering business by delivering on our newbuild program. Our focus is; win contracts, execute them safely, and get repeat business. The key to our success remains unchanged – our people.”

Mons S. Aase, CEO



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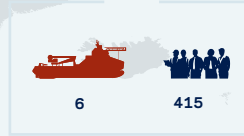
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Global presence

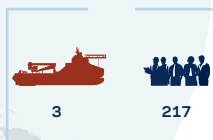
2016

ATLANTIC REGION



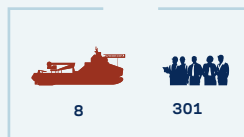
BERGEN (HQ)
ABERDEEN

NORTH AMERICA REGION



HOUSTON
ST. JOHN'S

BRAZIL REGION



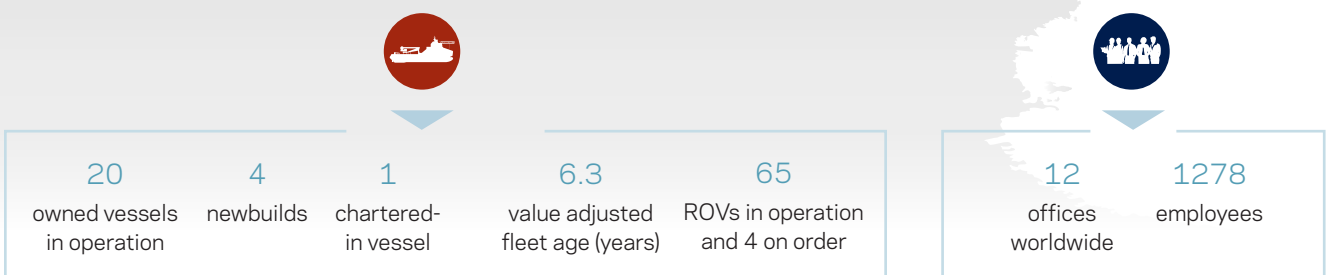
MACAÉ
RIO DE JANEIRO
BUENOS AIRES

LUANDA



Our vision

“To be a world class integrated offshore company, delivering marine services and subsea solutions responsibly, balancing risk and opportunity in a sustainable way, together, every day.”



Highlights 2016

As reported to the Oslo Stock Exchange



Q1



Subsea projects

- Several IMR and subsea contracts awarded increasing the Group's presence in Canada and West-Africa
- Skandi Protector delivered to new owners
- Chartered-in vessel Ross Candies redelivered to third-party owner

Chartering of vessels

- Skandi Açu, the first of four Joint Venture (JV) PLSVs, delivered from yard

Finance

- Completed refinancing of Skandi Neptune, Skandi Patagonia, Geoholm, Geograph and Skandi Hercules
 - Repurchased parts of outstanding bond loan DOFSUB05
 - Drawdown of first tranche of Skandi Açu loan

Q2



Subsea projects

- Skandi Achiever was awarded several ROV and diving contracts in the North Sea and North America region securing utilisation until mid Q4 2016
- The Asia Pacific region was awarded several contracts securing utilisation of Skandi Hercules and Skandi Singapore
- Chartered-in vessel Normand Reach redelivered to third-party owner

Chartering of vessels

- Petrobras extended the RSV contract for Geograph by 18 months
- Petrobras awarded Skandi Vitoria a contract, securing utilisation of the vessel until end of Q4 2016
- Petrobras awarded Skandi Niterói an eight-month contract with an eight-month extension option

Finance

- Repaid outstanding amount of bond loan DOFSUB05 at maturity in April 2016
- Completed refinancing of Skandi Hercules
- Drawdown of second tranche of Skandi Açu loan



Q3



Subsea projects

- The Asia Pacific region was awarded a five-year IMR contract with two two-year extension options by Shell in Australia
- Petrobras awarded Skandi Salvador a one-year IMR contract with a one-year extension option

Chartering of vessels

- Skandi Açu commenced its eight-year charter contract with Petrobras
- Skandi Buzios, the second JV PLSV, delivered from yard in Norway. Naming ceremony in Norway before Topside installation at yard in Holland
 - Entered into agreement regarding sale of Skandi Santos

Finance

- Drawdown of first tranche of Skandi Buzios loan
- Completed refinancing of Skandi Singapore

Q4



Subsea projects

- The Atlantic region received a letter of award for a 16-month IMR contract in West Africa

Chartering of vessels

- Skandi Santos delivered to new owners

Finance

- Completed refinancing of Geosund and Geosea

Statement from the CEO

Mons S. Aase, CEO

2016 has been one of the most challenging years in the history of our industry with reduced offshore activity and a significant market imbalance. The market imbalance has led to increased competition and pressure on our earnings and margins. The need to adapt our activity and cost base to the market conditions has increased, and this effort will continue in 2017. In 2016 the Group had an operating income of NOK 5 099 million compared to NOK 6 891 million in 2015. The EBITDA for 2016 was NOK 1 764 million compared to NOK 2 100 million in 2015. Despite the challenging market conditions, we have been able to win several long-term contracts strengthening the Group's position as a global IMR service provider.

Change of the industry

2016 turned out to be one of the most challenging years in the history of our industry, and the market downturn has become worse than most could foresee. The number of offshore vessels in lay-up has never been higher with approximately 1 000 offshore vessels in lay-up worldwide at year-end 2016. The overall vessel utilisation in the industry has been low, and charter rates have reached a non-sustainable level in some regions and segments. The challenging market conditions have led to several restructurings and bankruptcies in our industry, and I expect a further reduction in the number of companies in our industry before the market recovers.

During the year, we have won several strategically important IMR contracts in the Asia Pacific region and in West Africa. In addition, short-term contracts within IMR, survey, diving, light construction and FPSO mooring and installation have been secured, strengthening our position as a global provider of subsea services. Within the Chartering of vessels segment, the highlights for 2016 have been the contract extension with Petrobras for Geograph and the new contracts awarded to the Brazilian-built PLSVs Skandi Vitória and Skandi Niterói. In addition, the first Joint Venture (JV) vessel Skandi Açú commenced its 8-year contract with Petrobras in August. Even though we have been through a very challenging year, I'm proud that we have been able to win contracts with a total value of close to NOK 4 billion and achieved an overall fleet utilisation of 82 per cent.

The weak market has also affected DOF Subsea, and more than 280 valued employees have had to leave the Group during the year. In addition, we have sold Skandi Protector and Skandi Santos and redelivered chartered-in vessels to their third-party owners. The redelivery of vessels and

the vessel sales have reduced our market exposure and our operational and financial risk. At year-end we had 1 278 employees, excluding marine crew, and operated a fleet of 21 subsea vessels and 65 ROVs. In addition, the Group had four vessels under construction and four ROVs on order at the end of 2016.

During the year we have continued the strong focus on improving the Group's safety culture, and we are pleased to announce that 2016 has been a year without any Lost Time Incidents (LTIs). Safety for our employees on all worksites remains our priority number one. We must all continue to follow our guidelines and our saying 'Safety starts with you', as well as focus on improving the safety cooperation with our clients and suppliers to avoid injuries.

Defining and measuring sustainability aspects associated with our operations are important for the Group, and as a vital part of our improvement program, the Group delivered its second Sustainability report last year.

We continuously work on developing a global organisation, our safety standards, business model and common business system in order to improve performance, reduce risk and align our way of working. One global team, a global presence and common business model give us greater flexibility and more opportunities than many of our competitors that only have a regional presence. The improvement work will continue going forward with focus on providing safe and cost effective solutions for our clients.

Improving through the downturn

We cannot do much with the market, and even though we see signs of increased activity in some segments, 2017 will be a very challenging year for our industry. Regardless, we are obliged to continue to develop our organisation, and I am

confident that we will strengthen our position in the subsea industry in the years to come.

We have to focus on our own performance and our ability to adapt to and utilise the challenging market conditions. In 2017 I look forward to the delivery of the Skandi Vinland and the commencement of the 10-year contract with Husky, our first long-term IMR contract in Canada. The five-year IMR contract with Shell on the Prelude Field in Australia and the 8-year charter contract for the PLSV Skandi Buzios with Petrobras are also cornerstone contracts for the Group that commence in 2017.

Our focus is; win contracts, execute them safely, and get repeat business. In order to win contracts, we need to have a good relationship with our clients, sufficient earnings and a cost level in line with or better than our competitors. In addition, we need to have a good relationship with our vendors and suppliers of equipment and financial services. Utilising the full breadth of our competence, as well as our global presence and local knowledge, will be vital to win and execute contracts and get repeat work. If we are able to work as a global team, utilising the strengths of the Group, I am confident that we will improve through the market downturn.

The key to our success remains unchanged – our people.



Statement from the CFO

Jan Nore, CFO

The past year has been one of the most challenging in the history of the Subsea Industry. Most offshore vessel owning companies have suffered from weak operational and financial performance. Several companies have entered into severe financial stress where support from both owners, employees and external suppliers of equipment and financial services has been required.

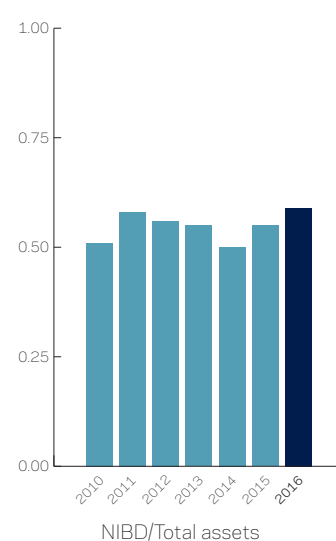
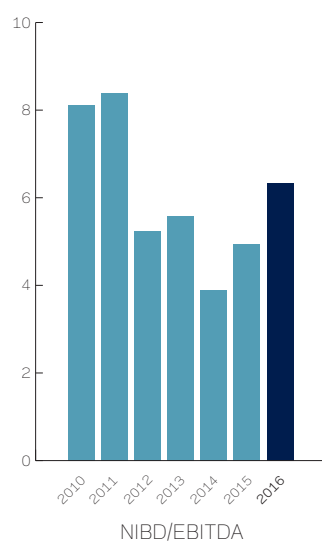
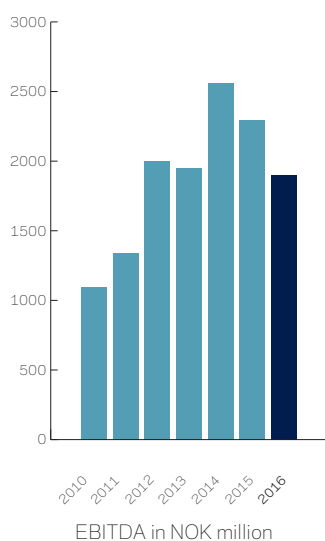
Despite the challenging market, DOF Subsea has delivered reasonable numbers, mainly due to our contract backlog, relatively high utilisation of vessels and personnel and the placing power of our global organisation. Sale of assets, repayment of debt and several cost cutting measures have reduced the Group's overall cost level and strengthened the liquidity. During the year, the Group sold two vessels, repaid NOK 422 million in bond debt, secured refinancing of four vessels and completed loan drawdowns for four additional vessels. Financing was also secured for the two Norwegian-built PLSVs Skandi Açu and Skandi Buzios owned together with TechnipFMC.

In 2016 the Group experienced a further decrease in activity. The key focus areas during the year have been cost control and adapting the Group's capacity and cost level to the market. The Subsea projects segment delivered an operating income of NOK 3 545 million and an EBITDA of NOK 396 million, compared to an operating income of NOK 4 810 million and an EBITDA of NOK 509 million in 2015. The Chartering of vessels segment delivered an operating income

of NOK 1 881 million and an EBITDA of NOK 1 505 million, compared to an operating income of NOK 2 442 million and an EBITDA of NOK 1 785 million in 2015. We expect the market to remain challenging in 2017, and we need to continue to improve efficiency and adapt our capacity and cost base to the market conditions.

As in 2015, our focus has been on strengthening the Group's balance sheet. The sale of the two vessels Skandi Protector and Skandi Santos, along with the redelivery of two chartered-in vessels, have reduced the debt, improved the liquidity and reduced the Group's market exposure.

Financing of the Norwegian-built PLSVs Skandi Açu and Skandi Buzios was secured in January and September, respectively. The drawdown of the full loan related to Skandi Açu was completed during the year, and drawdown of the first out of two tranches related to Skandi Buzios was completed upon delivery from the yard in September. The eight-year charter contracts with Petrobras for the two JV vessels provide earnings visibility for the Group.

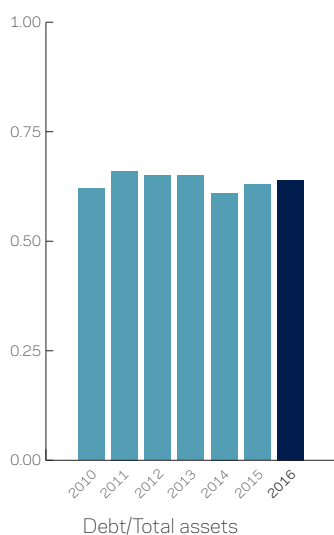


Overall, the efforts made during the year support our goal to reduce the Group's financial risk and are in line with the strategy to align our operational and financial risk.

Over the last couple of years the Group has implemented a transparent and standardised global reporting system, with focus on utilisation of personnel and assets and financial reporting. A further improvement is the implementation of a global CRM system and a document handling system. Our common toolbox is important for reporting, forecasting and adapting our activity to the market conditions. Our toolbox has also proved to be of strategic importance enabling us to make the right decisions in a challenging market.

As our CEO is saying: "We cannot do much with the market and the oil price - we have to focus on our own performance." Our firm contract backlog of NOK 19 billion and NOK 37 billion including options provides earnings visibility for the Group. Since most of our contracts are with major Oil and Gas Companies and other large subsea contractors, the counterparty risk of the Group is relatively low. Even though the market conditions remain challenging in 2017 there will always be opportunities and new contracts to win for companies that provide high quality services at acceptable prices.

In March 2017 DOF Subsea issued a new unsecured bond of USD 175 million in the Norwegian bond market, where proceeds were used to repurchase parts of the existing bond DOFSUB07 maturing in May 2018.



Figures source: Management reporting



Successful business model

DOF Subsea has a history of meeting challenges and adapting to the rapidly changing, dynamic energy sector. Our global fleet provides flexibility and depth of capability. DOF Subsea operates across business units and geographical borders. We work together to win and execute projects, to transition projects from onshore to offshore phases and we partner with our clients to deliver safe and successful results.



World Class Fleet

DOF Subsea operates a fleet of 21 high powered and environmentally-friendly vessels.

The fleet is divided into three segments: Multi-Purpose Support Vessels, Multi-Purpose Anchor Handler Vessels and Construction Support Vessels and, in combination with our subsea services, is deployed across the Development, Production and Abandonment phases of the Oil and Gas 'field life-cycle'.

Our vessels are purpose built to match the challenges of the offshore sector and designed for operations across a wide range of water depths and environmental conditions.

Marine Management

DOF Subsea draws on 35 years' experience in building and managing a world-class, technologically advanced fleet.

All of our vessels are managed and manned by the DOF Group.

Our in-house newbuild, technical management and maintenance teams, along with dedicated crews, extend our capability, and the associated knowledge transfer leads to enhanced operational safety.

Planning, Project Management and Engineering

Highly capable Project Management and Engineering Service Teams support diverse subsea project execution across the three main phases of the Oil and Gas 'field life-cycle': Development, Production and Abandonment.

Our global experience in offshore operations combined with our proven track record and advanced technology equates to reduced project risk, increased productivity and improved safety.

DOF Subsea provides integrated offshore solutions.

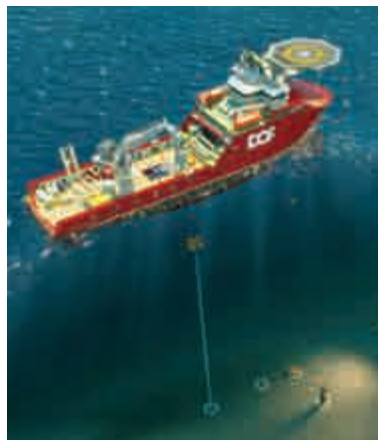


Field Development Phase

In the development phase facilities, including infrastructure (fixed, floating and subsea) and pipelines, are installed and detailed engineering and additional geotechnical evaluation is undertaken.

DOF Subsea provides field development support, undertaking Construction, Construction Support, Towing, Mooring and Installation and SURF (Subsea Umbilical, Riser and Flowline) and Commissioning activities.

The Field Development Phase can last between 3-5 years.



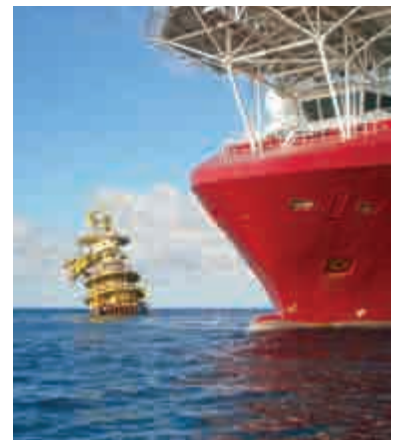
Field Production Phase

Inspection, Maintenance and Repair (IMR) programs are essential across the field production phase.

DOF Subsea provides state-of-the-art WROV, Diving, AUV and ROTV based Inspection, Maintenance and Repair services for pipelines, risers, hulls and other structures.

We provide the full range of survey services including geophysical, geotechnical, data processing, 3D visualisation and metrology and Light Well Intervention solutions.

The Field Production Phase can last between 10-40 years.



Field Abandonment Phase

As subsea infrastructure reaches the end of its useful life, or when preparing a field for a non-production-phase in readiness for further development our teams deliver regulatory and environmentally compliant decommissioning activities to dismantle infrastructure and remediate the site.

Additionally, we provide Survey and Light Well Intervention services to support this stage of the field life-cycle.

The Field Abandonment Phase can last between 5-10 years.

Human Resources

In 2016 we continued to adapt our organisation to the challenging market conditions. Responding to a changing market means adjusting our ways of working. In this environment it is essential to retain and develop our core competence and ensure we have standardised systems to provide the platform and continuity for a flexible and global workforce.

Increased flexibility

The Group reduced the number of employees to stand at 1 278 at the end of 2016. All of the Group's regions have seen a reduction in workforce, however, the greatest reduction was in the Atlantic region. The down-manning process is demanding for the affected individuals and our organisation.

The current market conditions require a flexible and global workforce, able to work when and where the demand is highest and carefully adjusting skill sets to project requirements. We maintain good industrial relations and have preserved our core competence by retaining a highly capable core workforce with the built-in flexibility to respond to changes in demand quickly and work safely.

In terms of managing flexibility, we also have a pipeline of diligent, highly qualified, contract employees, to supplement any labour shortfall, and a high standard of contractor management.

We continue to adapt our organisation to the challenging market conditions, finding efficiencies through greater standardisation and aligned ways of working.

The implementation and use of our Human Resource Information System (HRIS) has improved our risk management and quality control. The system enables a closer link between operations and the HR and Finance functions, improving our overall effectiveness and providing reliable input to strategic and operational planning.

The system is an enabler for Performance Management and Human Capital Management that also increases efficiency by improving resource planning and resource allocation within our operations. Training and further development within HRIS capability and processes will also have high priority in 2017.

HRIS key strengths

Increased standardisation

Aligning our processes provides continuity for our global workforce.

Increased control

A robust reporting and forecasting platform gives us the ability to adapt to market changes.

Enhanced risk and quality management

Greater alignment between HR and Finance functions. Accuracy and visibility of data deliver effective decision-making.

Improved efficiency

Improved resource planning and resource allocation across our value chain.





Committed to further development

Our people, their motivation and skills are key to our competitive advantage going forward, as is the development of competence for the future. We have increased virtual training and internally delivered initiatives. Some examples are programs aimed at improving leadership capabilities as initiated in the Asia Pacific region “The leadership Alignment” and in Brazil with “drops of management”.

We have made efforts to preserve core competence and share best practice by promoting intercompany secondments. These arrangements assist the organisation to have the right set of capabilities, at the right time and in the right place. Additionally, our program of systematic succession planning allows us to identify and grow talent to fill business critical positions important to our future capabilities. We support local recruitment and have strong local content in all our locations, encouraging diversity and developing skills and opportunities in local communities.

We continue to promote an open-minded and collaborative working environment, and this is always aligned with our safety culture through the ‘Safe the RITE way’ program.

Building a strong Safety culture is central in our learning and development programs. ‘Safe the RITE way’, Emergency response training, ‘Safety starts with you’, HSEQ handbook training and mandatory E-learning training are important training programs for our onshore and offshore personnel.

Strength globally

In 2017 we will continue to develop a contingent workforce, flexible ways of working and our human resources as an essential part of our long-term success. To maintain our competitiveness and meet the expectations of our clients the Group will carefully evaluate manning requirements and continue to adapt our workforce to the market conditions.

At the heart of the Group’s resilience is a workforce of committed employees who work hard every day to maintain the Group’s market position. Their strong commitment to our Group, team value and our collective future was highlighted during 2016. It is our employees’ attitude and professionalism that enable us to win new contracts and remain competitive into the future.

HSEQ

Safety is our highest priority regardless of where DOF Subsea operates in the world. We strive to become a leader in the fields of health, safety and working environment. By the end of 2016 our focus on continuous improvement in the Group’s safety culture has resulted in over 20 months without any Lost Time Incidents (LTIs).

Safety starts with you

The safety of all employees, on all worksites remains our number one priority. During the year, we reinforced our ‘Safe the RITE way’ program as the tool to make the Group a reliable partner in safety. ‘Safe the RITE way’ enhances our behaviour-based program, integrating three main elements: Values, Safe Behaviours and Rules - processes and procedures.

We have strengthened our compliance programs and risk perception with several training initiatives across the fleet, including a visiting Captain whose objective is to increase safety awareness for work on the aft deck. Additionally, Safety coaches who sail with the offshore crews for weeks at a time, have focused on risk assessment and risk perception in working situations. These initiatives are supported by a new HSE leadership course which has been developed based on our HSE workbook.

To reinforce the role each of us play in our own and our colleagues’ safety, we launched the ‘*Safety starts with you*’

booklet. The booklet has been issued in five different languages. Our vessel induction program has been updated (the video is available on YouTube and www.dof.no) and E-learning modules have been reviewed and enhanced. A new Management of Change program (MoC) was delivered successfully and strengthens the ‘DOF Toolbox’ used by employees to assess and manage risk.

In 2014 the Group launched a global incident notification system. The system allows all managers active involvement at the point of “First Alert” when an incident occurs and increases HSE awareness across the organisation, every day. Incident reports are used proactively to prevent any repetition of an event and as a knowledge share opportunity. Over 600 notifications were sent over the incident flash address in 2016.

Additionally, we focus on improving the safety cooperation with our clients and suppliers to avoid injuries.



Stig Clementsen
CSO / SVP HSEQ

SAFE the RITE way

VALUE	Strategic area
SAFE	Health, Safety and Working Environment Safe Operations Emergency Management
RESPECT	Our People Corporate Social Responsibility Energy efficiency climate impact
INTEGRITY	Business Integrity, ethics and payment transparency Risk and Opportunity management Modern way of working Supply Chain Management
TEAMWORK	Labour and Human Rights, Anti-Slavery and trafficking Employee Satisfaction Our People Global Competence – the way forward
EXCELLENCE	Continuous Improvement Product Reliability Quality Control Customer Satisfaction

Leadership in environmental transparency

The Group has reported environmental performance through the Carbon Disclosure Project (CDP) since 2010. Participating among 260 Nordic companies in the CDP, the Group must record and report all emissions from all its activities.

For the year 2016, the Group achieved a score of 99B which is a significant result. The DOF Group is now established among the industry leaders within the Oil and Gas Industry with regards to driving transparency on this important topic. Through continued focus on technologically advanced vessels and an improved environmental culture at all levels of the organisation, we will strive to achieve our objective of a reduction in CO2 emissions.

Continuous improvement

Continuous improvement helps us to reduce risk, improve our performance and align our way of working. Through major improvements of the Business Management System (BMS) over the past years, we have streamlined and simplified our system. Based on a thorough audit conducted in 2014, improvement projects have been carried out through our value chain, focusing on standardisation and improved efficiency. The improvement initiatives will continue in 2017.

The Group has increased alignment of our technical solutions and alignment between worksites and organisational units to establish stronger teams globally and improve efficiency. We achieved a 'step-change' by improving processes across the entire value chain, including execution of subsea projects and operation of vessels and assets.

The Group was successfully re-certified in 2016 by DNV-GL for the new management and environmental standards ISO 9001-2015 as well as ISO 14001-2015 and OHSAS 18001-2007.

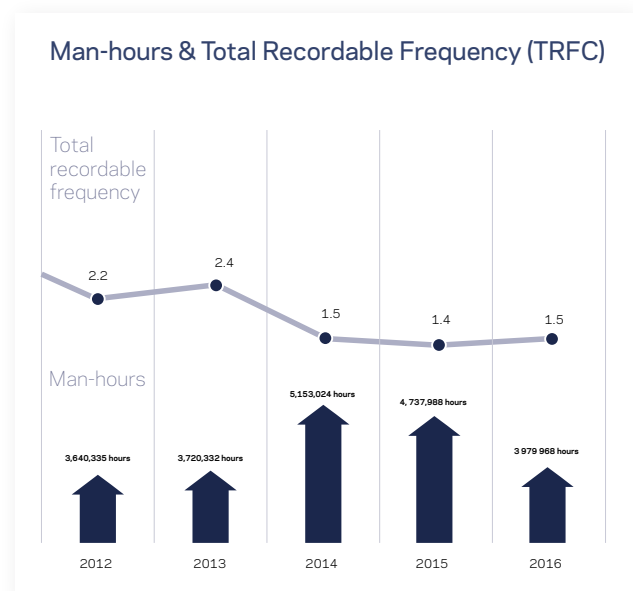
Sustainability

Creating a sustainable organisation is important for DOF Subsea. The successful balance of social, environmental and economic elements not only allows us to view organisational performance in more than financial terms alone but, in turn, allows us to develop 'Sustainable Operations'. In this way, the DOF Group ensures it remains commercially feasible, socially acceptable and works within the capacity of the external environment.

'Safe the RITE way' is the guiding philosophy by which the

DOF Group approaches safety and therefore, 'Sustainable Operations'. 'Safe the RITE way' is the umbrella for our safety program which brings together our core values and connects them to our strategic areas for sustainable operations.

The Group promotes transparency and standard disclosures of information relating to key sustainability aspects. As part of this, the Group reports as per the Carbon Disclosure Project and the Global Reporting Initiative. For detailed information on these matters please find the Group's Sustainability Report on www.dofsubsea.com.



HSE performance 2016

Man-hours:	3 979 968
Lost Time Incidents (LTIs):	0
Recordable:	6
Total Recordable Frequency (TRFC):	1.5
Fatalities:	0
Safety Observations:	14 404
Audits:	137
Management visits:	209
Lesson Learned:	407
Reportable environmental discharge:	0

Asia Pacific region

Major Australian offshore developments have been shifting towards the production phase over the last few years. These 'legacy projects' now present long-term IMR contract opportunities. In Q3 2016 the region won a third long-term IMR contract providing fulltime Underwater Services and a Multi-Purpose Supply Vessel (MPSV) to Shell Australia's Prelude FLNG facility.

Strong safety culture

The Region had no Lost Time Incidents (LTIs) in 2016. This is a sign of a strong safety culture, but is not something we take for granted. The APAC 'Safe the RITE way' leadership team which comprises of senior representatives from DOF Subsea and DOF Management, meets regularly to consider new initiatives and generally challenge.

As a result, vessel joining instructions have been updated to include 'Safe the RITE way' materials to prompt our teams to think about safety before they even leave home. Our crews also continue to generate a high number of safety observations. This reinforces Safety management with lessons learned and incident share systems which are preventative and proactive measures.

The Australian regulatory body - NOPSEMA - has tightened Safety Case legislation. DOF Subsea has secured safety cases for three APAC vessels under this new regime and is in the process of securing safety cases for four other vessels.

SAFE  the RITE way

The Shell Australia Prelude FLNG facility IMR and MPSV contract commences in 2017, building backlog for the next five years, and introduces the MPSV Skandi Darwin to the region. This was a highly sought after contract.

Another stand-out achievement in 2016 was the region's performance on the Chevron long-term IMR contract, awarded in 2015, which utilised Skandi Singapore as the main vessel and also Skandi Hercules for additional offshore campaigns. By the end of 2016 these vessels with associated subsea services, accounted for over 750 days of utilisation.

Towards the end of 2016, we successfully completed the Woodside Persephone project, awarded by Subsea 7, which was a saturation diving contract executed by Skandi Singapore in Australian waters.

The Asian IMR market is less mature; however, the Shell Philippines Exploration seven-year IMR contract continues to utilise Skandi Hawk undertaking a combination of subsea and PSV (Platform Supply Vessel) activities. This contracting model has proved interesting to other operators as it offers significant efficiencies at a time of increased cost focus.

In the FPSO installation and repair segment across the region we executed projects in Indonesia, Malaysia and New Zealand. DOF Subsea continues to execute the majority of subsea work in the New Zealand market.

People

We continue to focus on retaining a highly competent and capable workforce with the flexibility to 'man up or down' quickly. Our workforce shrank last year, mostly by attrition, and we increased the ratio of contract employees.

Developing competence for the future is also a consideration and has seen us maximise the value of our training expenditure. This has been achieved by enhancing key internal programs. Acknowledging that personnel cost is our largest cost, we continued with leadership training to encourage the best possible organisational performance.



John Loughridge
EVP Asia Pacific



Outlook

Australian activity has been high, however, by the end of 2017 all construction and commissioning activity on 'legacy projects' will be completed. The majority of work will be in IMR, Light-Well-Intervention, decommissioning and FPSO installation and repair segments. Our assets and experience are well suited to these activities.

Major investment decisions in the region are being deferred as operators focus on return-on-investment. The Asian outlook remains uncertain, although in the medium term this market may be able to respond more quickly as there are many small depleting fields, currently not being replaced and development may become economically viable.

Generally, the competitive landscape is changing in our industry, operators have reduced spend and competition is fierce. DOF Subsea is bringing more vessels into the region and our competitors are doing the same; this is changing the dynamics of our industry.

The major Australian legacy projects present subcontracting opportunities in addition to primary contractor roles. In Q1 2017, TechnipFMC awarded the contract for Multi-Purpose Support Vessel to undertake Water Intake Riser Installation on Shell Australia's Prelude FLNG facility. The vessel, MPSV Geoholm, will join the regional fleet to undertake ROV and light construction support services under the contract.

STRENGTH IN THE REGION

Spotlight on five-year IMR and MPSV services to Shell Australia's Prelude FLNG facility

In Q3 2016 Shell Australia awarded DOF Subsea the highly sought after five-year contract (with two two-year options) to provide fulltime Underwater Services and Multi-Purpose Supply Vessel (MPSV) Services to the Prelude FLNG facility.

Prelude FLNG is the largest floating facility ever built and will produce, liquefy, store and transfer LNG at sea. The facility will be located 475 kilometres north-north east of Broome, in Western Australia. The MPSV Skandi Darwin, will be critical to the ongoing operations of the facility loading equipment and supplies at the Marine Supply Base at Darwin Port for the journey out to the Prelude FLNG facility on a regular basis.

Additionally, DOF Subsea will provide project managed and engineered solutions to deliver integrated services for IMR programs as well as dedicated MPSV and options for other vessels.

Recent awards for long-term IMR contracts indicate a combination of vessel expertise, subsea operations track record and safety; environmental and local-content objectives are core to DOF Subsea's reputation as IMR partner.

Atlantic region

In 2016 the Atlantic region faced a challenging market with low demand for subsea services and overcapacity in our industry. During the year, we continued to adapt the organisation's capacity and cost base to meet the challenging market. The region's focus remained targeted on winning and successfully delivering projects and maintaining a competent and flexible workforce. A number of significant contracts were secured in West Africa, including a long-term IMR contract, which was a first for the Group. Towards the end of the year the region repositioned three vessels to commence projects in West Africa.

Strong safety culture

Safety is always a priority and we continuously work to improve safety systems and reinforce our safety culture. The 'Safe the RITE way' program is well established throughout the organisation and has been strengthened with individual Commitment Agreements, increased site visits, lessons learned and risk analysis reviews.

'Safe the RITE way' initiatives continue to build greater uniformity in work practices, leading to improved integration between the marine and project crews. This teamwork delivers safety milestones such as the Teekay Gina Krog project: over 80 thousand man-hours across two vessels, with no Lost Time Incidents (LTIs) or medical treatments recorded.

A significant investment was undertaken in the first half of the year for re-certification and implementation of the revised ISO 9001:2015 and ISO 14001:2015 standard.

SAFE  the RITE way

It was anticipated that the region would focus on improving efficiency and continue to adapt to the market in 2016. In response to the low activity in the North Sea, we decreased our workforce by 123 employees and established a new management team.

Our priority is to compete for available projects in the North Sea and continue to develop our position in West Africa, where we experienced solid gains during 2016.

The majority of activity in the region was in IMR services on existing infrastructure. The region's capability and assets are well suited to these projects, however, the level of competition is high. Our team continued to deliver operational highlights, to build backlog into 2017 and deliver safety milestones.

In the North Sea we undertook a number of large Survey, Mooring and Installation and Decommissioning projects. The Teekay GinaKrog project, with Statoil as the end client, was successfully completed in Q3 2016 utilising Skandi Iceman and the chartered-in vessel Normand Reach. The BWO Catcher project with Premier Oil as the end client, utilised Skandi Skansen and Skandi Neptune.

Ithaca Energy Athena decommissioning project was awarded in Q3 2016, and Skandi Skansen, Skandi Iceman and Skandi Saigon were utilised during the offshore phase of the project. The project was successfully completed in Q4 2016.

The Geosund performed general Survey projects for old and new clients including Statoil, Nexans, Maersk, Statnet and Statens Vegvesen.

People

In 2016 the Atlantic organisation was restructured with an aim to strengthen business acquisition and enhance operational controls. Capacity was reduced in line with market demand and middle management streamlined.



Eirik Torressen
EVP Atlantic



STRENGTH IN THE REGION



Spotlight on West Africa

Through incremental growth DOF Subsea has developed its position in West Africa, establishing local offices and dedicating assets to the region. In 2016 DOF Subsea won a number of contracts, notably the Group's first long-term IMR contract in West Africa. Towards the end of 2016, three vessels were repositioned to commence projects in West Africa.

In Q4 2016 a long-term IMR contract in West Africa was awarded, utilising Field Support Vessel, Skandi Seven. The 16-month firm plus options contract also demonstrates the agility across the regional teams as it is supported from Norway, UK and Angola and includes a 'call off' arrangement for engineering services.

Also in Angola, the Kaombo project was awarded under the existing Heerema Frame Agreement. The project was initiated in Q4 2016 and will be completed in Q3 2017.

The two-phase Yinson mooring project was awarded in Q2 2016. Supported in Norway and locally in the Ghanaian office, phase one of the project utilised Skandi Skansen for installation programs. Phase two, the hook up of the FPSO, is planned for Q2 2017.

The SA Exploration project in Nigeria was awarded in Q4 2016, and Geosund commenced work in the Agbami field undertaking Seismic nodes installation and recovery. The contract was completed in Q1 2017.

Other efficiency gains were made through increased standardisation and business process alignment.

The focus on maintaining core competence and capability in the workforce and building the flexibility to respond to changes in demand continues. We have a strong and professional team which gives us a competitive advantage for the future.

Outlook

There has been a reduction in investment and activity across all subsea service sectors. In the short term, Oil and Gas Operators remain cautious and market conditions remain challenging.

As in 2016, we believe the majority of activity will be around existing infrastructure and IMR activities. The outlook for Field Support Vessels in West Africa and the Mediterranean is positive. We face increased competition as reduced construction activity sees these contractors seeking opportunities in other subsea service sectors.

Medium term should see a slightly better outlook as the market regains confidence in lead indicators. We should observe clients investing in existing infrastructure presenting Brownfield, IMR and Survey projects. Greenfield projects may also return in medium term.

Brazil region

In 2016 the Brazil region has demonstrated a solid position in the market by delivering a number of significant contract awards and charter extensions both in Brazil and Argentina. With 26 of the Group's ROVs positioned in Brazil, the region is the largest ROV service provider in the Group. Given the prevailing market and local conditions the region continued to maximise performance by improving operational efficiency and implementing cost reduction programs.

Strong safety culture

We are proud to announce that we recorded the third consecutive year without any Lost Time Incidents (LTIs) as well as meeting all safety key metrics targets for 2016.

Our safety culture is strengthened by senior management leadership; an increase in Safety observations and reinforcing our experience transfer; with training initiatives and by ensuring our rigorous audit schedule is completed.

We maintain the focus on safety culture through 'Safe the RITE way' phase two which was delivered to 100 per cent of our workforce. The region also created an offshore role to implement the Safety Engagement Plan on all subsea projects.

We continue to deliver a significant training program, including SIPAT (Brazilian Mandatory Annual Accidents Prevention Week), HSEQ workbook for managers and various offshore safety programs.

SAFE  the RITE way

In addition to the challenges our industry faced globally in 2016, Petrobras' reorganisation and deferred investment decisions had a major impact on the market in Brazil.

In this market DOF Subsea's competitive advantage comes from long-term collaboration and investment in the region and by having vessels built and flagged locally.

DOF Subsea Brazil delivers ROV services and survey services on board several DOF Group and third-party vessels. Historically this has proved to be a successful business line, although the market has contracted due to the decrease of third-party vessels in the region.

During the year, Petrobras awarded the Brazil region a number of new long-term contracts for the existing fleet demonstrating a solid position in the region. Skandi Salvador was awarded a one-year IMR contract with a one-year extension option. The contract included geophysics services that commenced late in 2016. The charter for Geograph was extended for a further 18-month period to Q3 2017. Also notable was the successful completion of the ROV and survey services contract awarded in 2015, utilising the DOF Group's Skandi Chieftain for ENAP Sipetrol, in Argentina.

The JV vessels Skandi Vitória and Skandi Niterói were awarded contracts to the end of 2016 and Q1 2017, respectively. An other highlight includes Skandi Vitória becoming the first Brazilian-flagged PLSV to be deployed in West Africa. The vessel undertook projects for TechnipFMC in Angola and Ghana.

Long-term collaboration between DOF Subsea and TechnipFMC delivered two of the four ground-breaking PLSVs fixed on eight-year charter contracts with Petrobras. Skandi Açú was delivered and went on hire in Q3 2016, and Skandi Buzios was delivered in January 2017 and will go on hire in April 2017.

People

In 2016 we streamlined the organisation, undertaking manning and personnel optimisation and shared resources



Mario Fuzetti
EVP Brazil



STRENGTH IN THE REGION



Spotlight on DOF Subsea and TechnipFMC Joint Venture

In 2013 the DOF Subsea/TechnipFMC Joint Venture was awarded four ground-breaking contracts by Petrobras. The contracts covered the construction of four new pipelay support vessels (PLSVs) and their operation, in Brazilian waters, to install flexible pipes. Two were to be built in Norway and two in Brazil. The contracts will last eight years from start of operations, with options for renewal for an additional eight-year period. Under the joint venture agreement, TechnipFMC will manage flexible pipelay and Norskan S.A., a sister company of DOF Subsea, will be responsible for marine services.

In 2016, Skandi Açú, the first of the PLSVs was delivered and went on hire with Petrobras. The second, Skandi Buzios, will be completed and goes on hire in 2017.

The last two PLSV newbuilds are underway in Brazil: Skandi Recife and Skandi Olinda will be delivered in 2018 and 2019. The vessels will have large pipelay towers fitted with the capacity to hold back pipe tension up to 300 tonnes down to 2500m water depth, two ROVs and a Subsea Crane fitted for construction work at same depth. A storage basket under deck and reels on the deck store the flexible pipes. In operation each of the vessels will employ approximately 200 Brazilian employees offshore and onshore to conduct operations with Petrobras.

programs. We also merged a number of departments to optimise project execution capabilities. The reorganisation focused on delivering workforce flexibility, maintaining core competence and the ability to man-up and down quickly as the market requires.

Outlook

Petrobras reorganised and released the “New Strategic Business and Management Plan for 2017-2021” which forecast further spending reductions. National Oil Company Queiroz Galvão E&P aim to start the offshore installation and commissioning activities of their Atlanta field in Q4 2017. Statoil is still maintaining Peregrino Phase II development with production forecast to start in 2019. International Oil Corporations such as Chevron and Shell continue to delay new developments and exploration plans.

New legislation opened up the Pre-Salt sector access and has seen Statoil and Total take responsibility for two fields in this sector. In the medium term this may result in new opportunities for offshore marine support and engineering sectors.

Several opportunities lie in IMR activities for existing facilities; the RSV/IMR Vessel segment will be the first to show an improvement. Additionally, a number of FPSOs are expected to arrive in the region. These projects are suited to our capabilities and assets.

North America region

In challenging times, having the right resources is a key element for business and operational success. In 2016 the region focused on building capability and its position in Canada and strengthened the management team to support regional alignment and development.

Strong safety culture

Safety is always a priority. Our safety culture and the 'Safe the RITE way' approach is strong and well accepted by onshore and offshore teams and all contractors. The crew of the Harvey Deep-Sea demonstrated DOF's safety culture in action by reaching 500 thousand man-hours and zero Lost Time Incidents (LTIs) in the 33 months of its charter.

Overall the region produced over 700 thousand man-hours with no LTIs or recordable incidents, demonstrating the entire team's commitment to continuous improvement and client satisfaction.

We intend to maintain a high level of satisfaction with our clients, who audit the region extensively, and we regularly receive positive feedback from both the audits and post project surveys.

SAFE  the RITE way

Canada is an important development area for the region and the Group, and during the year we grew in vessels, assets and people. DOF Subsea was awarded the Husky 10-year IMR vessel, ROV, survey and metrology services contract in 2015. Under the contract two ROVs and related services are delivered from a third-party vessel until early Q3 2017 when Skandi Vinland starts on the 10-year IMR contract.

In addition to the IMR contract, DOF Subsea Canada secured two additional long-term ROV services contracts with Husky Energy, bringing the total to three ongoing projects with the company. The awards demonstrate a high degree of client satisfaction and the quality of our services and relationships.

In Q2 the Multi-Purpose Support Vessel Skandi Chieftain, owned by the DOF Group, was reflagged to the Canadian flag. The team won and executed four substantial vessel and ROV service projects for multiple clients such as, NSP Maritime Link Incorporated (a division of Emera), ExxonMobil, Statoil and Husky Energy.

In the Gulf of Mexico (GoM), the Jones Act compliant, long-term chartered-in vessel, Harvey Deep-Sea has been in the region since 2013 and continued to be utilised on a number of projects. The three main projects were the extended award of the Freeport McMoRan vessel charter and IMR contracts, the Chevron IMR and Light Construction Frame Agreements and the Hess Well H contract, which encompassed fabrication, transportation and installation services in seven different fields.

Other operational highlights include the mobilisation of Skandi Achiever to support Statoil's Well-head removal project in Canada and Shell's Coulomb diving activities in the GoM. The region also deployed the new HUGIN 1000 AUV to support Noble energy on the Leviathan field in Israel.

People

The region balanced capacity with demand, preserved core capability and built flexibility. In the US, business



Marco Sclocchi
EVP North America



support resources and offshore staff were reduced to align with market demand. The region increased competence in Canada with key Vessel, Procurement and Marine crew to support the arrival of Skandi Chieftain in 2016 and Skandi Vinland in 2017.

Outlook

Oil and Gas Operators remain cautious and major investment decisions continue to be deferred. This is reflected in the operators' cash preservation focus and activity reductions in the region. In the Gulf of Mexico we are witnessing a stronger enforcement of the Jones Act and increased competition from local companies.

The market for DOF Subsea is predominantly focused on IMR and light construction activities, and our assets, capabilities and reputation are a good fit for IMR projects. Taking into consideration the planned activities, there is a positive outlook for OSVs in Canada in the medium term.

Short term we expect a reasonable level of activity in the IMR and Well Intervention segments, where operators maintain production on existing facilities and postpone abandonment. Medium term we foresee increasing activity in these segments as new fields come into operation and existing wells come to depletion.

STRENGTH IN THE REGION



Spotlight on Canada

The region delivered the first fully managed subsea project in Canada for Nalcor in 2014. The award of the long-term Husky contract in 2015 firmly established DOF Subsea's position in Canada. In 2016 through the process of incremental growth we increased capability in the region.

A significant milestone for DOF Subsea Canada was the registration in 2016 of its first Offshore Support Vessel, Skandi Chieftain. The modern vessel, from the DOF Group fleet, has broad capability and after reflagging under the Canadian Flag it is consistent with Canada's Coastal Trading Act. DOF Subsea's commitment in the region increases access to projects traditionally limited to a small pool of available local assets. DOF Subsea Canada leverages the strength of the business model to become the only provider in the market with vessel and all subsea services provided by a single company.

Newbuild subsea vessel Skandi Vinland was launched in Q4 2016. The vessel was towed to Norway for completion and commissioning before starting on the 10-year IMR contract for Husky Energy in Canada in Q3 2017. Once completed the ship will include two Schilling work class ROV systems, a 100T AHC Crane, and will be equipped to tow icebergs among other client specific tasks. Vinland is the name given to Coastal North America when it was discovered by the Norwegian Vikings over 1000 years ago.

Strength to win and execute contracts,

“A global organisation combining Subsea projects and Chartering of vessels, offering a wide range of services, experienced personnel and a modern high-end fleet provides access to more market opportunities.”

Mons S. Aase, CEO



Global IMR service provider

DOF Subsea has built a reputation as a responsive, reliable and flexible Inspection, Maintenance and Repair (IMR) partner over the last decade. Our global experience in offshore operations combined with our proven track record and the latest technology, means reduced project risk, increased productivity and enhanced safety.

The ‘useful life’ of a field in its production phase can span three to four decades, and IMR programs are essential to the smooth operation, production and planned maintenance of existing subsea infrastructure. Over the last three years DOF Subsea has strengthened its position as a global provider of IMR services winning several strategically important IMR contracts.

We believe this is because DOF Subsea has all IMR related assets and disciplines in-house to offer integrated, accessible,

subsea solutions in a single location. We have highly professional onshore and offshore teams who understand and regularly undertake IMR work scopes, large and small. We plan and execute campaigns to high HSEQ standards.

Additionally, our facilities are close to our clients, staffed by local workforces and have a strong network of local suppliers. The facilities support regional subsea operations with warehousing, workshops, spares management and logistics and supply. Local procurement functions range from general stores through to specialised tooling and fabricated items. By ensuring our services are on-hand we save operators time and the associated costs and we invest in local communities.

DOF Subsea acquired 50 per cent of SEMAR in 2007 and established a close collaboration across numerous projects.



safely

2014

Award of the Shell Philippines Exploration (SPEX) seven-year IMR contract, effectively extending a commercial relationship which dates to 2002. The contracting model – where Skandi Hawk undertakes a combination of subsea and PSV (Platform Supply Vessel) activities – proves interesting to other operators as it offers significant efficiencies at a time of increased cost focus. IMCA approves Atlantic Region for saturation diving services in African and UK waters. Following the approval, DSV Skandi Singapore begins diving support operations for Saipem and Chevron in Congo and Angola.

Skandi Hugen is utilised to provide IMR services for ConocoPhillips, delivering close to 160 offshore days from the vessel.

2015

DOF Subsea is established as one of the leaders in the Gulf of Mexico IMR and light construction segment. The North America region secures a two-year IMR frame agreement with Chevron and secures master service agreements with the key operators in the region to ensure the operation and maintenance of existing subsea infrastructure.

The North America region strengthens its operational footprint with the award of the Husky 10-year IMR vessel, ROV, survey and metrology services contract in Canada (a similar contracting model to Shell Philippines – a dedicated vessel plus IMR services).

In Australia Chevron awards a three-year IMR contract, plus options, on the Gorgon gas fields offshore North Western Australia which utilises both Skandi Singapore and Skandi Hercules for much of the year.

Semar supports the Atlantic region in the successful installation of the Goliat FPSO.

2016

Shell Australia awards DOF Subsea a five-year contract, plus options to provide fulltime, Underwater Services and Multi-Purpose Supply Vessel (MPSV) Services to the Prelude FLNG facility (a third contract to use the dedicated vessels plus IMR services model).

In Angola, DOF Subsea receives LOA for a 16-month IMR contract, plus options, utilising Field Support Vessel, Skandi Seven. The contract includes a 'call off' arrangement for engineering services.

Semar supports the Atlantic region on the Gina Krogh FPSO mooring and hook-up installation in the North Sea and Yinsson FPSO mooring installations in West Africa.

Newbuild subsea vessel Skandi Vinland is launched and towed to Norway for completion and commissioning before starting on the 10-year IMR contract for Husky Energy in Canada in Q3 2017.

The alliance strengthens DOF Subsea's IMR capability and both companies are currently preparing the first IMR activities in West Africa.

SEMAR has 35 years' experience in the planning, engineering and execution of marine operations. They specialise in structural analysis including advanced dynamic analysis, design and drafting, marine operations engineering and advisory services together with marine analysis. Through a comprehensive software library and operational experience, SEMAR is able to carry out all kinds of marine analysis in a fast and reliable manner and put the results to operational use.

The Group's awards for long-term IMR contracts over the last three years indicate our assets, capabilities and reputation are a good fit for these projects.



*DOF Subsea draws on
35 years' experience
building and managing
a world-class fleet.*

2013

DOF Subsea secures the largest contract award in the Group's history through a joint venture with TechnipFMC, delivering four PLSV newbuilds for Petrobras, each with an eight-year firm contract and an eight-year extension option.

Additionally, Skandi Africa (Vard Newbuild 800) contract is secured in a five-year contract plus five-year option with TechnipFMC.

2014

The newbuild program is on going.

2015

The first of the 2013 newbuild vessels, Skandi Africa (Newbuild 800), is delivered. The vessel is named 'Ship of the Year' and commences the long-term charter contract with TechnipFMC.

With the award of the Husky Energy 10-year firm IMR and dedicated vessel contract, an additional newbuild vessel, fully committed on long-term contract, is added to the program.

2016

Skandi Açu, the first of the four PLSV newbuilds for Petrobras is delivered and commences its eight-year charter contract in August 2016.

The second of the four PLSV newbuilds for Petrobras Skandi Buzios is towed to Norway to be fitted and will be delivered in 2017.

Time charter experts

DOF Subsea operates 21 high powered and environmentally friendly vessels. The fleet is divided into three segments: Multi-Purpose Support Vessels, Multi-Purpose Anchor Handler Vessels and Construction Support Vessels. All our vessels are purpose-built to match the challenges of the offshore sector and designed for operations across a wide range of water depths and environmental conditions.

Our business model allows for increased revenue opportunities with vessels divided into two categories: the vessels that work in the Subsea projects segment, and the vessels that are chartered to other companies in the Chartering of vessels segment. Our fleet diversity and interchangeability is also an advantage, as vessels can move between the two segments as required.

We have established a long-standing, internationally recognised reputation because we work closely with clients to build vessels that fit their requirements. All vessels are managed and manned by the DOF Group: in-house newbuild, technical management and maintenance and dedicated crews add another dimension to our capability and experience transfer within our organisation.

Our Time Charter (TC) business, offers all our fleet build and management strengths to some of the world's leading Oil and Gas Majors as well as tier-one subsea engineering companies.

In 2013 DOF Subsea's TC business secured the largest contract award in the Group's history entering into a Joint Venture (JV) with TechnipFMC. This ensured the newbuild program was fully committed on long-term contracts.

The long-term charter arrangements and JV contract awards enable earnings visibility for the Group, and the investments contribute to significant 'value increase'.

Subsea market



The Subsea Industry had in 2016 one of the most challenging years ever with low demand from the Oil Companies and oversupply of services and vessels. The market imbalance increased the pressure on earnings and margins, and during the year, several subsea companies had to undergo restructurings causing a reduction in the number of subsea entrepreneurs.

The oil price is the main driver for the Exploration and Production spending (E&P spending). In 2016 the oil price has been volatile, and the Dated Brent price reached a low of USD 25.75 per barrel in January before the price started to recover and ended the year at USD 54.65 per barrel. The average Dated Brent price for the year was USD 43.37 per barrel compared to USD 52.07 per barrel in 2015. The low oil price in the beginning of 2016 created a negative market sentiment in the Oil and Gas Industry.

The negative market sentiment and the low oil price led to a further reduction in the subsea activity during 2016. The activity reduction was mainly driven by significant lower

E&P spending by the Oil and Gas Companies. The E&P spending has been reduced by more than 30 per cent in 2016 after a reduction of 25 per cent in 2015. The reduced demand has led to a significant market imbalance with oversupply of services and vessels. The market imbalance has put a pressure on earnings and margins, and the value of assets in the industry has been impaired due to the challenging market conditions.

The Oil and Gas Companies have responded by introducing cost cutting measures which have led to a reduction in hurdle rates for new projects. In 2014 the average hurdle rate was USD 70 per barrel. Some analysts claim that today's hurdle



rate level is in the range of USD 40-50 per barrel on average. The reduction in hurdle rate will gradually increase the E&P spending and eventually increase the demand for subsea services and vessels. Increase in IMR activities related to existing and new facilities, subsea wells and pipelines will be a good indicator of the market recovery.

The lower E&P spending created a weak subsea market in 2016, however, with regional differences. The seasonality due to winter on the northern hemisphere combined with a lower demand from the Oil Companies led to a weak market in the Atlantic region and the North America region during Q1 and Q4 and a more volatile peak season than normal. In the Brazil region and in the Asia Pacific region the markets

were more stable, but both rates and utilisation were under pressure.

During the autumn and early 2017 DOF Subsea has seen increased tendering activity compared to the previous 12 months. Opportunities lie within IMR, Mooring and Brownfield projects with startup in 2017-2020. We believe we will see increased activity and the market balance will be restored in the subsea sector, especially within the IMR segment, before the Oil industry in general recovers from the downturn. This is due to the fact that 10 subsea entrepreneurs have gone into administration or exited the subsea business since the downturn started three years ago, and some of the remaining are struggling to survive.

Financial market

The foreign exchange market and interest rate market have been volatile during the year. The Norwegian Krone (NOK) depreciated against the US Dollar (USD), was stable against the Australian Dollar (AUD) and Brazilian Reals and appreciated against the British Pound (GBP). In the interest market, the Norwegian short-term interest rates (NIBOR) have been stable, whilst the Norwegian long-term interest rates have increased. In the US both short-term (US LIBOR) and long-term interest rates have increased.

Foreign exchange

The Norwegian Krone (NOK) has been volatile during the year. Based on the average exchange rates for the year the NOK has appreciated against the British Pound (GBP), depreciated against the US Dollar (USD) and been stable against the Australian Dollar (AUD) and Brazilian Reals (BRL).

The NOK has been volatile against the USD during the year. The USDNOK exchange rate was 8.85 at the beginning of the year and 8.62 at the end of the year. The average USDNOK exchange rate was 8.40 in 2016 against 8.07 in 2015.

The NOK has appreciated against the GBP during the year. The GBPNOK exchange rate was 13.07 at the beginning of the year and 10.61 at the end of the year giving an appreciation of 18.8 per cent. The average GBPNOK exchange rate was 11.37 against 12.34 in 2015 giving an average appreciation of 7.9 per cent.

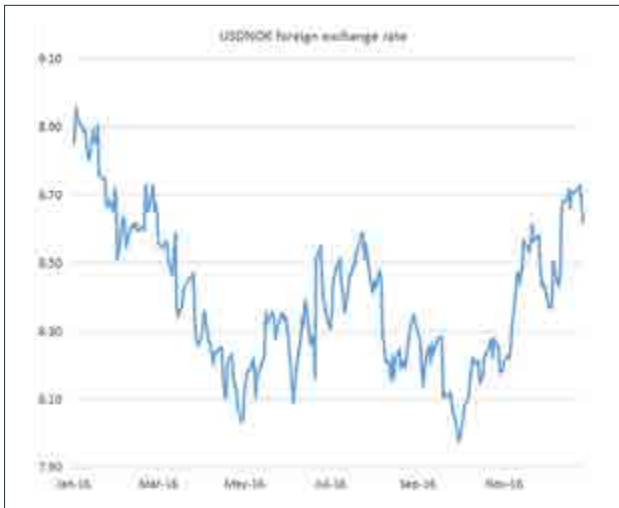
The AUDNOK exchange rate was 6.37 at the beginning of the year and 6.22 at the end of the year. The average AUDNOK exchange rate was 6.23 against 6.26 in 2015.

The BRLNOK exchange rate was 2.19 at the beginning of the year and 2.64 at the end of the year. The average BRLNOK exchange rate was 2.42 in 2016 against 2.45 in 2015.

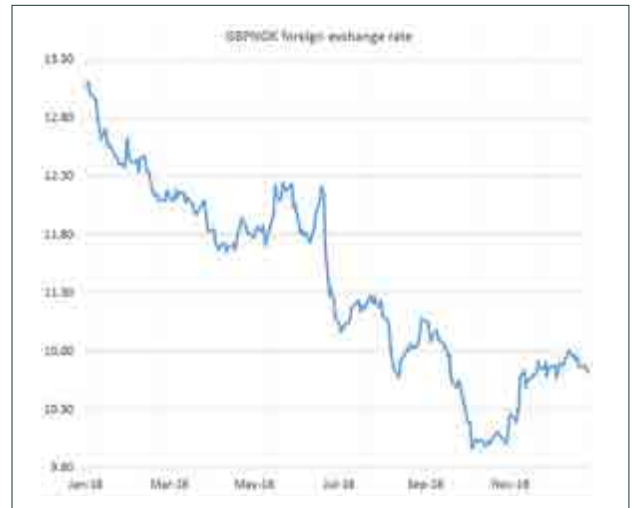
Interest rates

The six-month NIBOR was 1.15 per cent at the beginning of the year, had a minor weakening during the first quarter before it recovered towards the end of the year and ended at 1.26 per cent. The five-year NOK interest swap rate was 1.25 per cent at the beginning of the year and ended the year at 1.55. Most analysts expect the short-term interest rates to remain low in Norway in 2017, while the long-term interest rates will be dependent on the development in the US and EU long-term interest rates.

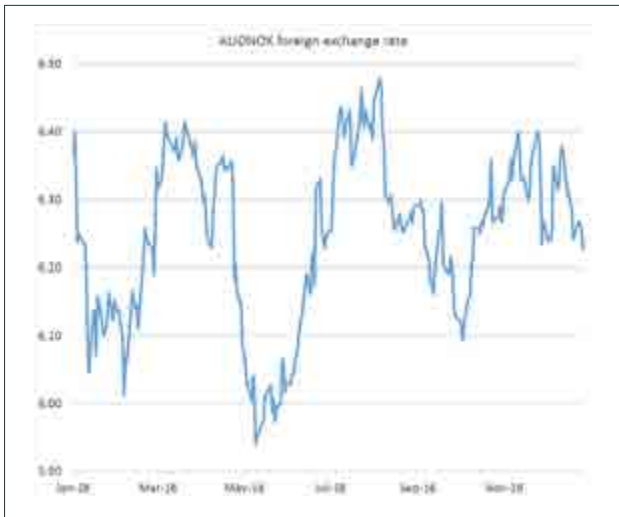
The six-month US LIBOR was 0.85 per cent at the beginning of the year, increased during the year and ended at 1.32 per cent. The five-year US interest swap rate was 1.71 per cent at the beginning of the year and fell to 0.97 per cent in June. Thereafter, the interest rates increased gradually to 1.97 per cent at the end of the year. Most analysts expect that both the short-term and long-term interest rates will continue to rise in the US in 2017.



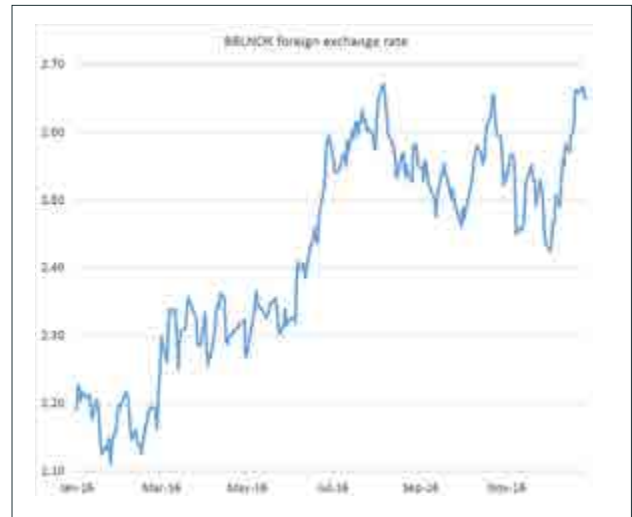
USDNOK Development



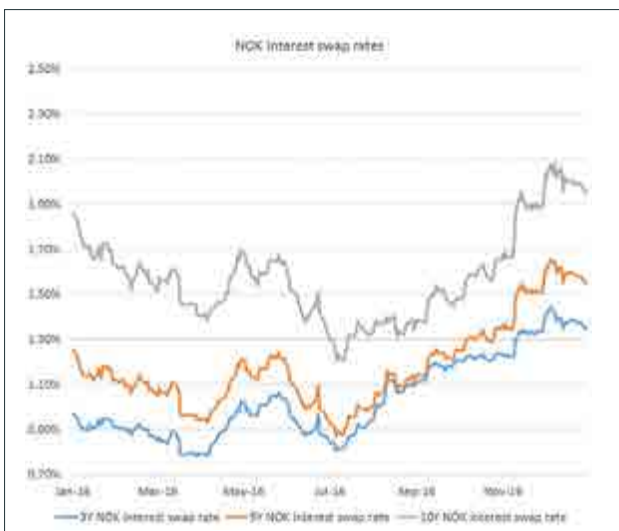
GBPNOK Development



AUDNOK Development



BRLNOK Development



NOK Interest Rates



USD Interest Rates

Naming ceremonies





Above: Skandi Buzios was delivered from Vard Søviknes in September 2016. The naming ceremony took place at the DOF Group's headquarter in Austevoll, and the lady sponsor was Hilde Drønen, CFO, DOF ASA. The vessel has been imported to Brazil and will commence its 8-year charter contract with Petrobras in April 2017.



Below: Skandi Açú was delivered from Vard Søviknes in January 2016. The naming ceremony took place in Amsterdam in Holland after completion of the Topside installation at Huisman's facilities, and the lady sponsor was Patricia Guimarães. The vessel commenced its 8-year charter contract with Petrobras in August 2016.



DOF Subsea fleet

Owned vessels

DOF Subsea currently owns and operates one of the largest fleets of high-end subsea vessels in the world. Our versatile fleet of high power and environmentally-friendly vessels are purpose built to match the challenges of the offshore sector and designed for operations across a wide range of water depths and environmental conditions.



SKANDI ACERGY



SKANDI CARLA



SKANDI NEPTUNE



SKANDI ACHIEVER



SKANDI CONSTRUCTOR



SKANDI NITERÓI



SKANDI AÇU



SKANDI HAWK



SKANDI PATAGONIA



SKANDI AFRICA



SKANDI HERCULES



SKANDI SALVADOR



SKANDI SANTOS (SOLD)



SKANDI VITÓRIA.



GEOSEA



SKANDI SEVEN



GEOGRAPH



GEOSUND



SKANDI SINGAPORE



GEOHOLM



SKANDI SKANSEN

DOF Subsea fleet

Newbuilds and Chartered-in vessels

Newbuilds

DOF Subsea invests in the next generation of vessels. An ambitious newbuild program utilises new technology and smart engineering to ensure efficient and environmental-friendly vessels.

All newbuilds are fixed on long-term charter contracts.



SKANDI BUZIOS



SKANDI OLINDA



SKANDI VINLAND



SKANDI RECIFE

Chartered-in vessels

DOF Subsea expanded the fleet with one chartered-in vessel, building greater flexibility for managing risk and a complementary fleet mix to meet our clients' needs.



HARVEY DEEP-SEA

DOF Subsea ROVs

DOF Subsea's next generation ROV fleet, designed and manufactured to our own specifications, accommodates an extensive range of operational requirements. The ROV fleet has the capability of working down to 4 000 metres water depth with active heave compensated launch and recovery systems (LARS).



SCHILLING UHD



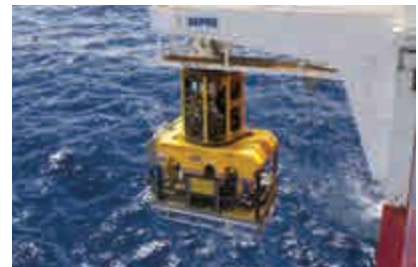
SCHILLING HD



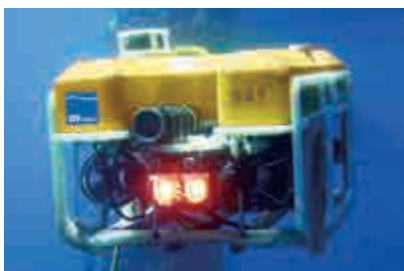
TRITON XL 150



TRITON XLS 150



TRITON XLX 150



SEA EYE MARINE TIGER



HUGIN AUV



KYSTDESIGN SUPPORTER



COUGAR XTi



FOCUS II ROTV



MOHICAN INSPECTION

Board of Directors



Helge Møgster

Chairman

Helge Møgster is the founder, majority owner and Chairman of LACO AS, the main shareholder of DOF ASA and Austevoll Seafood ASA. Mr. Møgster has long experience from both the offshore supply and fishing industry, and is holding board positions in several companies, including being chairman of DOF ASA.



Helge Singelstad

Director

Helge Singelstad is CEO of Laco AS and deputy chairman of the Board of DOF ASA, and Chairman of Austevoll Seafood ASA and Lerøy Seafood Group ASA. Mr. Singelstad holds a degree in engineering from Bergen Engineering College, he holds a MSc from the Norwegian School of Economics and Business Administration (NHH), and he has a first year degree from the law school at the University of Bergen (UiB). Mr. Singelstad has extensive experience from various types of businesses: Oil Companies, ship equipment and the seafood sector.



Mons Svendal Aase

Director and Chief Executive Officer

Mons S. Aase joined DOF ASA in 1998 and became CEO in 2005 having held a number of positions including CFO and Deputy CEO. Mr. Aase was previously Chairman of DOF Subsea and sits on the board of a number of DOF companies. Mr. Aase holds a MSc from the Norwegian Institute of Technology, and a Cand. Merc from the Norwegian School of Economics and Business Administration in Bergen.



Hilde Drønen

Director

Hilde Drønen has worked as CFO in DOF ASA since 2004. Mrs. Drønen has experience from acting as director of finance with Bergen Yards AS from 2003 to 2004 and group controller for the Møgster Group from 1995 to 2003. Mrs. Drønen holds a business administration degree and a business management degree from the Norwegian School of Management (BI). Mrs. Drønen has served on numerous boards and currently is member of the Board of Statkraft.



Alex Townsend Krueger

Director

Alex T. Krueger, Co-Chief Executive Officer, President and Co-Head of Buyout Funds, joined First Reserve in 1999. He is jointly responsible for supervision of the firm's investment program and strategy, as well as overall management of the firm. Mr. Krueger also is responsible for the development and management of the buyout investment team and sits on both the buyout and infrastructure funds' investment committees. In addition, Mr. Krueger maintains responsibilities for origination, structuring, execution, monitoring and exiting investments across the global energy industry, with particular expertise in the natural resources upstream sector. Prior to joining First Reserve, Mr. Krueger worked in the Energy group of Donaldson, Lufkin & Jenrette in Houston. Mr. Krueger holds two B.S. degrees from the University of Pennsylvania.



Neil John Hartley

Director

Neil J. Hartley, Managing Director, joined First Reserve in 2006. His responsibilities include investment origination, structuring, execution, monitoring and exit strategy, with particular emphasis on the energy equipment, manufacturing and services sector. Prior to joining First Reserve, Mr. Hartley spent six years in Investment Banking with Simmons & Company International, most recently as a Director, where he focused on corporate finance advisory work in the energy sector. Prior to joining Simmons & Company, he was a Management Consultant at McKinsey & Company, Inc. He also spent seven years with Schlumberger, most recently as a Field Service Manager and Field Engineer. Mr. Hartley holds an M.A. from Worcester College, University of Oxford and an M.B.A. from Harvard Business School.



John Mogford

Director

John Mogford, Non-Executive Director, appointed as a Board Member of Weir Group in 2008. Most recently Mr. Mogford was a Managing Director of First Reserve, which he joined in 2009. Prior to joining First Reserve, Mr. Mogford spent 32 years at BP, mainly in upstream, most recently as the Executive Vice President for Refining. He served as one of 10 members of BP's Executive Committee. Mr. Mogford received a B.Eng. from Sheffield University and business qualifications from INSEAD and Stanford Universities.



Ryan Zafereo

Director

Ryan N. Zafereo, Director, joined First Reserve in 2005. His responsibilities range from deal origination and structuring to due diligence, execution and monitoring, with a particular emphasis on the natural resources industry and energy equipment and services. Prior to joining First Reserve, he was an Investment Banking Analyst for Simmons & Company International, a premier investment banking firm specialising in the energy services market. He also spent time as a Private Wealth Management Analyst for Goldman, Sachs & Co. Mr. Zafereo holds a B.B.A. from the University of Texas.

Corporate Governance

Introduction

DOF Subsea AS (“DOF Subsea” or the “Company”) is a private limited company established and registered in Norway, and is subject to Norwegian law, hereunder corporate laws and other laws and regulations. The Company is 100 per cent owned by DOF Subsea Holding AS, and it is the parent company in the DOF Subsea Group (the “Group”).

DOF Subsea Holding AS is a Norwegian private limited company owned by DOF ASA (51 per cent) and First Reserve Corporation (49 per cent). DOF ASA is a public limited company listed on the Oslo Stock Exchange. First Reserve Corporation is a global private equity and infrastructure investment company focused on energy.

DOF Subsea’s Corporate Governance Policy is based on the latest revision of the Norwegian Code of Practice for Corporate Governance (“the Code”) which was published by the Norwegian Committee for Corporate Governance (NUES) on 30 October 2014.

As at year-end 2016 the Company had one listed bond on the Oslo Stock Exchange. The Company is at all times obliged to act in compliance with laws and regulations as applicable from time to time in respect of handling and control of insider trading rules and information to the shareholders and the investors of the listed bond and the market in general.

1. Implementation and reporting on Corporate Governance

The Company’s Corporate Governance Policy is a governing document containing measures which are continuously implemented to secure efficient management and control of the Company’s activities. The main objective is to ensure that the business is operated in an equitable and profitable manner for the benefit of shareholders and other stakeholders. The development and improvement of the Company’s Corporate Governance is a continuous and important process on which the Board of Directors and the Executive Management keep a keen focus.

The Corporate Governance Policy is considered and approved by the Board of Directors, and it describes DOF Subsea’s approach to corporate governance based on the 15 chapters in the Norwegian Code of Practice for Corporate Governance. More detailed information about the Company’s corporate governance can be found in the Board of Directors report, the Code of Business Conduct and the Sustainability Report.

2. The Company’s business

DOF Subsea was founded in 2005. Since its inception, the Group has developed into a worldwide supplier of subsea project services and subsea vessels, and is present in all major offshore regions in the world. As at year-end 2016, the Group had 1 278 employees, excluding marine crew. The subsea vessel fleet owned by the Group has grown from three vessels in 2005 to 24 vessels at the end of 2016, including four vessels under construction.

The Company’s objective is clearly defined in its Articles of Association. DOF Subsea’s business involves carrying out shipping and ship owning activities, hereunder contracting, purchasing, selling, possessing and letting of ships, in addition to geotechnical surveys and work below the waterline, inspection, maintenance and repair (IMR) activities on offshore installations and anything connected thereto. The Company may engage in partnerships with other companies with the same or similar objectives, e.g. joint ventures with selected partners to obtain expertise.

The DOF Subsea Group’s two business segments are Subsea projects and Chartering of vessels. The business model is reflected in the Group’s Vision: *“To be a world class integrated offshore company, delivering marine services and subsea solutions responsibly, balancing risk and opportunity in a sustainable way, together, every day”*. The Management regularly revises the corporate strategy and underlying business areas’ strategies and targets to ensure that the business develops in accordance with the overall objective, to the benefit of its stakeholders.

3. Equity and dividends

The Group has a capital strategy to align operational and financial risk in accordance with the two business segments, and has an objective to achieve a good overall credit rating in order to obtain favourable terms and conditions for the long-term funding of the Group’s operations. The Board of Directors considers the Company’s consolidated equity to be satisfactory, and the need for financial flexibility is considered at any time in the light of its overall objective, strategy and risk profile.

The Company does not have a defined dividend policy since it has been through a growth phase and in addition has an investment program on going. In line with the capital strategy defined above, the Company does not plan to define a dividend policy at current time.

Any mandates granted to the Board of Directors to increase the Company’s share capital are subject to defined purposes

and frames, and are limited in time to no later than the date of the next annual General Meeting. If a General Meeting is to consider mandates to the Board of Directors for the issue of shares for different purposes, each mandate will be considered separately. This also applies to mandates granted to the Board of Directors for the Company to purchase own shares.

4. Equal treatment of shareholders and transactions with close associates

The Company has one class of shares which carry equal rights including equal voting rights at annual or extraordinary General Meetings.

Transactions between related parties

In the event of any material transaction between the Company and shareholders, related parties to the shareholders, Board of Directors, Executive Management and other related parties, transactions are presented in notes to the Financial Statements of the Company. The same applies to transactions with subsidiaries of the Company with minority shareholders. Executive Management has a register for material transactions, and the Audit Committee has arranged for valuation from an independent third party for all material transactions in 2016. The Company has listed all material transactions in the Financial Statements for 2016.

Material transactions are defined as transactions that will be material for one of the parties in the transaction. In the event that it is related to successive deliveries or major class of transactions, materiality shall be assessed for the full year.

As part of on going operations, the Company has had the following types of material transactions with related parties:

- Equipment and asset hire
- Management services
- Asset transfer
- Loans and guarantees

Members of the Board of Directors and the Executive Management are obliged to notify the Board of Directors if they have any material direct or indirect interest in any transaction entered into by the Company. There have not been reported any other transactions in 2016 than those listed in note 23 'Related parties' in the Financial Statements.

References

Learn more about shareholders in note 30 'Share capital and share information' and transactions with related parties in note 23 'Related parties' in the Financial Statements for 2016.

5. Freely negotiable shares

This section of the Code is not applicable, as DOF Subsea is a privately owned company.

6. General meetings

The Board of Directors ensures that the Company is acting in accordance with applicable Norwegian law with regards to General Meetings.

7. Nomination Committee

Due to the ownership structure of the Group (two shareholders) the Company has decided not to establish a Nomination Committee.

8. Board of Directors composition

The Board of Directors consists of equal members representing the two shareholders. The Chairman of the Board of Directors is elected by the General Meeting, and members of the Board of Directors are not elected for more than two years at a time.

The Chief Executive Officer (CEO) in the Company also holds the position as CEO in the majority shareholder, DOF ASA, and serves as a member of the Board of Directors in the Company.

With a view to effective group management, representatives from the Executive Management may serve as Directors in Group subsidiaries.

References

Further information on each member of the Board of Directors is provided in the Annual Report.

9. The work of the Board of Directors

The Board of Directors agrees on an annual schedule for its work, with particular emphasis on objectives, strategy and implementation.

From time to time the Board of Directors issues instructions for its own work as well as for the Executive Management with particular emphasis on clear internal allocation of responsibilities and duties. The Chief Executive Officer (CEO) is obliged to participate in the meetings of the Board of Directors, and the Chief Financial Officer (CFO) is authorised to participate in the meetings of the Board of Directors as long as nothing to the contrary has been decided.

The Board of Directors has appointed an Audit Committee for the Group. The primary purpose of the Audit Committee is to assist the Board of Directors in monitoring the Group's internal control of the risk management and financial reporting. This includes but is not limited to:

- all critical accounting policies and practices,
- quality, integrity and control of the Group's financial statements and reports,
- compliance with legal and regulatory requirements,
- qualifications and independence of the external auditors and
- performance of the internal audit function and external auditors.

10. Risk management and internal control

The Board of Directors ensures that the Company has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the Company's activities. Internal control and the systems also encompass the Company's corporate values and ethical guidelines. The internal control of financial reporting has been based on methodology prepared by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

The Board of Directors carries out an annual review of the Company's most important areas of exposure to risk and its internal control arrangements.

The Board of Directors receives weekly, monthly, quarterly and annual reports that cover financial status and important Key Performance Indicators (KPIs) for the operating companies within the Group. The quarterly financial statements, management reports and operational reports are also subject to detailed review by the Audit Committee and at the quarterly meetings of the Board of Directors.

The Board of Directors has annual meetings with the Company's auditor where the auditor gives an assessment

on important internal control areas. The Board of Directors presents a review of the Company's financial status in the Annual Report.

Internal audit reports have been presented to the Audit Committee on a regular basis.

References

Further information about internal control and risk management is provided in the Board of Directors Report and in the notes to the Financial Statements in the Annual Report.

11. Remuneration of the Board of Directors

None of the members of the Board of Directors have during 2016 received remuneration from the Company for holding the position as Directors. The Board of Directors consists of equal members representing the two shareholders.

In general, any remuneration to the Board of Directors is not linked to the Company's performance. The Company shall not grant share options to members of the Board of Directors. Members of the Board of Directors and/or companies with which they are associated will normally not take on or be given specific assignments for the Company. If they nevertheless are requested to take on such assignments this will be disclosed to and discussed by the full Board of Directors. The remuneration for such additional duties must in any case be approved by the Board of Directors and the annual General Meeting.

The Annual Report provides information on remuneration paid to each member of the Board of Directors. Remuneration, if any, in addition to normal Directors' fees will be specifically identified. The Directors' fees are decided by the annual General Meeting. The Directors' fees are not linked to the Company's performance.

12. Remuneration of the Executive Management

The Board of Directors has established guidelines for the remuneration of the members of the Executive Management. To execute these guidelines the Board of Directors has established a Compensation Committee. More information about the Compensation Committee is given in notes to the Financial Statements in the Annual Report. These guidelines are communicated to and approved by the annual General Meeting.

The Remuneration Committee's statement on the remuneration of Executive Management is communicated to the Board of Directors.

The guidelines for the remuneration of the Executive Management set out the main principles applied in determining the salary and other remuneration of the Executive Management. The guidelines help ensure convergence of the financial interests of the Executive Management and the shareholders.

Performance-related remuneration of the Executive Management in the form of bonus programs or the like are linked to value creation for shareholders or the Company's earnings performance over time. Such arrangements emphasise performance and are based on quantifiable factors over which the employee in question can have influence. Guidelines for remuneration of Executive Management and other information about compensations are included in notes to the Financial Statements in the Annual Report.

The existing remuneration policy allows performance-related remuneration. The Executive Management currently has no share option programs.

13. Information and communication

The Board of Directors has established guidelines for the Company's reporting of financial and other information based on openness and taking into account the requirement for equal treatment of all participants in securities markets.

The purpose of the guideline is to ensure that timely and correct information about the Company is made available to shareholders, bond investors and society in general. The Company follows the financial calendar as published by the parent company DOF ASA, and is published at www.dof.no.

The Chief Executive Officer (CEO) is responsible for coordinating the Group's communication with investors and the capital market, and regularly arranges meetings with investors and potential investors. All information distributed by the Company is published at the Oslo Stock Exchange and on the Company's websites simultaneously. The Chief Executive Officer is responsible for ensuring that the Company publishes information in accordance with applicable legislation and regulation.

14. Take-overs

The Code Chapter 14 addresses governing principles for how a company should act in the event of take-over bids. As the Company's shares are not publicly traded, and the Company has only two shareholders, any take-over bids will be subject to discussions by both shareholders. On this basis there is no purpose in adopting the governing principles for take-over bids under the Code Chapter 14.

15. Auditor

The Auditor participates in the meeting with the Board of Directors where the annual accounts are addressed. At this meeting the Auditor walks through and comments on material changes in the Company's accounting principles, material estimated accounting figures and material matters on which there has been disagreement between the Auditor and the Executive Management of the Company.

The Board of Directors holds a meeting with the Auditor at least once a year at which neither the CEO nor any other member of the Executive Management is present.

Once a year the Auditor presents a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement to the Audit Committee.

The Board of Directors reviews guidelines in respect of the use of the Auditor by the Company's Executive Management for services other than the audit of the Company. The Board of Directors reports the remuneration paid to the auditor at each annual General Meeting, including details regarding the fee paid for audit work and fees paid for any other specific services provided by the Auditor, as long as such information is available at the time of the annual General Meeting.

The Auditor prepares a plan each autumn for auditing activities in the subsequent year. In addition to the ordinary audit, the auditing company might provide consultancy services related to accounting. Reference is made to the notes to the Financial Statements in the Annual Report.

References

Learn more about external auditor in note 24 to the Financial Statements in the Annual report, 'Remuneration to Board of Directors, Executives and Auditor'.

Board of Directors Report

Since inception in 2005 DOF Subsea Group has become a provider of subsea project services and high-end subsea vessels in all the major offshore Oil and Gas producing regions in the world. At year-end 2016, the Group had 1 278 employees, excluding marine crew, and operated a fleet of 21 subsea vessels and 65 ROVs. 20 of the operated vessels were owned by the Group and one vessel was chartered in from a third-party owner. In addition, the Group had four vessels under construction and four ROVs on order at the end of 2016.

The Group had an operating income of NOK 5 099 million in 2016, compared to NOK 6 891 million in 2015. The decrease in operating income compared to prior year reflects a lower activity level. The Group has sold two vessels and redelivered two chartered-in vessels. In addition, challenging market conditions have led to lower charter rates and lower vessel utilisation compared to previous years. The operating profit before depreciation (EBITDA) in 2016 was NOK 1 764 million compared to NOK 2 100 million in 2015. The operating profit (EBIT) was NOK 446 million (NOK 1 397 million in 2015) after impairment related to intangible and tangible assets of NOK 728 million (NOK 109 million) and depreciation of NOK 590 million (NOK 594 million). Total assets amounted to NOK 16 648 million, while total liabilities were NOK 10 594 million, giving a total equity of NOK 6 055 million and a book equity ratio of 36.4 per cent. Net interest-bearing debt (NIBD) at year-end 2016 was NOK 8 357 million (NOK 9 995 million).

The vessel utilisation in 2016 was 82 per cent compared with 86 per cent in 2015, and as at 31 December 2016, the Group's firm contract backlog was NOK 19 billion and NOK 37 billion including options.

Business model and Vision

The Group's business model is reflected in the Vision; *"To be a world class integrated offshore company, delivering marine services and subsea solutions responsibly, balancing risk and opportunity in a sustainable way, together, every day."*

The Group is organised into two business segments, Subsea projects and Chartering of vessels. The Subsea projects segment covers operations in the Asia Pacific region, the Atlantic region, the Brazil region and the North America region. The Chartering of vessels segment is managed and operated by DOF Management (associated company) and Norskan (sister company).

The flexibility of combining the Subsea projects segment and the Chartering of vessels segment gives the Group increased market access and revenue opportunities. Through the regions, the Group is selling and providing subsea project services directly to the Oil and Gas Companies. In the

Chartering of vessels segment third-party charterers hire the Group's vessels under bareboat or time charter contracts.

At the end of 2016, 11 of the Group's vessels were operating in the Subsea projects segment. 10 of the Group's vessels were employed under charter contracts with third-party charterers in the Chartering of vessels segment. In 2016 the activity level was lower in both business segments compared to previous years, mainly due to the lower E&P spending in the Oil and Gas Industry. Decreased activity level in the Chartering of vessels segment has led to an increase in the number of the Group's vessels being utilised in the Subsea projects segment.

The Group has its headquarter in Bergen, and has offices located in Perth, Singapore, Oslo, Aberdeen, Luanda, Rio de Janeiro, Houston and St. Johns. The Group is also represented in Indonesia, Malaysia, Philippines, Ghana and Brazil (Macaé).

Operational events 2016

Subsea projects

Asia Pacific

In 2016 the Asia Pacific region has delivered IMR services on the Malampaya field and the Gorgon field under long-term IMR contracts and frame agreements with Shell Philippines and Chevron Australia. The contracts secured utilisation of Skandi Hawk, Skandi Constructor, Skandi Singapore and Skandi Hercules during the year.

The Asia Pacific region has also undertaken several mooring projects. Skandi Hercules conducted mooring work for OMV on the Raroa FPSO located at the Maari Oilfield offshore New Zealand. Further, Skandi Hercules conducted mooring work for Saipem on the Jangkrik FPU in Indonesia and for Hess/Amaniaga Resources on the Bergading FSO in Malaysia.

During the autumn, Skandi Singapore conducted a saturation diving campaign on the Wheatstone field offshore

Western Australia. The region also conducted several air diving campaigns during the year.

The Asia Pacific region has delivered Survey & Positioning services to HMC on board the DCV Aegir for the Ichthys LNG project offshore Western Australia during the year.

In July 2016 Shell Australia awarded the region a five-year contract with two two-year options for IMR services on the Prelude field. Under the IMR contract, DOF Subsea will provide project management and engineering services, integrated IMR services, as well as a dedicated vessel (MPSV) and options for other vessels.

Atlantic

In the Atlantic region, the Group has conducted several mooring and installation projects during the year. The chartered-in vessel Normand Reach conducted work on the Gina Krog FSO for Teekay/Statoil, while Skandi Skansen and Skandi Neptune delivered mooring services to BWO/Premier Oil for the Catcher FPSO. Skandi Skansen also delivered mooring services to Yinson Production for the Yinson Genesis FPSO on the OTCP field operated by ENI Ghana.

In November 2016 the Atlantic region was awarded a contract by SA Exploration for the provision of ROV Support Vessel Geosund to Chevron on the Agbami field offshore Nigeria. During the year, the region has also undertaken several Survey and Positioning projects in the North Sea where Geosund has been utilised.

The Atlantic region has conducted decommissioning projects for Ithaca Energy on the Athena field and for Repsol on the Yme field, utilising Skandi Skansen and Skandi Neptune as well as third-party vessel Skandi Iceman owned by the DOF Group.

Brazil

During the first quarter, the Brazil region delivered ROV and field support services to the FPSO Cidade de Sao Mateus on the Camarupim and Camarupim Norte field utilising the

Skandi Salvador. In the second quarter, Skandi Salvador was awarded a contract by Petrobras for the provision of IMR services, under which she was utilised for the rest of the year.

The Brazil region also conducted an IMR project for ENAP-Sipetrol offshore Argentina in the first quarter utilising the Skandi Chieftain.

During the year, the Brazil region delivered ROV services on board vessels operating in the Chartering of vessels segment (Geograph, Geoholm, Geosea and Skandi Santos). In addition, ROV services were delivered on board several third-party vessels (CBO Chiara, BOS Turmalina, Skandi Ipanema, Skandi Rio, Skandi Iguacu, Skandi Urca, Skandi Commander and Skandi Fluminense).

North America

During the first half of 2016, the chartered-in vessel Harvey Deep-Sea delivered IMR services to Chevron and Freeport McMoran under IMR and light construction frame agreements.

Skandi Seven delivered accommodation services to Harvey Gulf and Williams during the first three quarters of the year.

The region has also delivered ROV and light construction services to Statoil, Emera, ExxonMobil and Husky, in addition to diving services to Shell in the Gulf of Mexico utilising the Skandi Achiever and Skandi Chieftain.

In Canada, the region delivered ROV services to Husky on board the rig Henry Goodrich and the third-party vessel Atlantic Osprey. In 2017, the region will employ the partly owned subsea vessel Skandi Vinland which will operate under the 10-year IMR contract with Husky Energy.

Chartering of vessels

In February 2016, Skandi Neptune ended a long-term time charter contract with Subsea 7. Since April, after being dry-docked and upgraded, the vessel has been operating in the

Subsea projects segment in the Atlantic region. In March 2016, Skandi Achiever ended her long-term time charter contract with TechnipFMC. In May, she was transferred to the Subsea projects segment in the North America region after being dry-docked and upgraded. In November Skandi Constructor was transferred to the Subsea projects segment in the Asia Pacific region after finalising her time charter contract with Helix.

During the first quarter, Petrobras extended the RSV contract for Geograph by 18 months.

The JV vessel Skandi Vitória operated under a time charter contract with TechnipFMC in Angola and Ghana until May. In May and June 2016, the Brazilian-built PLSVs Skandi Vitória and Skandi Niterói were awarded new contracts by Petrobras securing utilisation of the vessels throughout the year.

In August 2016, the JV vessel Skandi Açú commenced its 8-year time charter contract with Petrobras. She is the first of 4 PLSVs fixed on 8-year contracts. The second JV vessel Skandi Buzios was delivered in January 2017, and will commence its contract in mid-April 2017.

Fleet utilisation

During the year, the vessels operating in the Subsea projects segment had an average utilisation of 80 per cent, whilst the vessels operating in the Chartering of vessels segment had an average utilisation of 86 per cent. The activity level was lower in both segments compared to previous years reducing the overall vessel utilisation from 86 per cent in 2015 to 82 per cent in 2016. The reasons for the lower vessel utilisation were challenging market conditions, dry-dockings, upgrades and conversions, transits, seasonality in the Subsea projects segment and idle time between projects/contracts. The vessel utilisation is enhanced by having a modern fleet of high-end Subsea vessels and a global organisation.

Utilisation per segment	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Subsea projects	79%	92%	75%	74%
Chartering of vessels	93%	82%	82%	82%
Fleet	88%	87%	80%	78%

Assets

At year-end 2016 the Group operated a fleet of 21 subsea vessels and 65 ROVs. 20 of the operated vessels were owned

by the Group, and one vessel was chartered in from a third-party owner. In addition, the Group had four vessels under construction and four ROVs on order. Of the newbuilds, three vessels are owned by a joint venture company co-owned with TechnipFMC, and will commence long-term contracts with Petrobras upon deliveries. The fourth newbuild is partly owned by the Group, and will operate under the 10-year IMR contract with Husky Energy from July 2017.

During the year, the Group sold two vessels, Skandi Protector and Skandi Santos, and took delivery of the JV vessel Skandi Açú. In addition, two chartered-in vessels, Normand Reach and Ross Candies, were redelivered to their third-party owners during the year.

Financing and liquidity

The Group's financing, capital structure and liquidity are monitored closely by the Board of Directors, and during the year, the Group has continued the focus on reinforcing the balance sheet and strengthening the liquidity through vessel sales and repayment of debt. The Group's loan agreements contain financial covenants, and the Group complied with all financial covenants at year-end 2016.

During the year, the Group has paid ordinary instalments on bank debt, repaid debt on vessels sold and repaid the outstanding amount of bond loan DOFSUB05 at maturity in April.

Refinancing and loan drawdowns were completed for the following vessels during the year; Skandi Neptune, Skandi Patagonia, Geoholm, Geograph, Skandi Hercules, Skandi Singapore, Geosund and Geosea. The refinancing agreements are done with international shipping banks at standard terms for offshore vessel financing and with standard financial covenants for the Group.

In January and September financing was secured for the Norwegian-built JV vessels Skandi Açú and Skandi Buzios, respectively. The drawdown of the full loan related to Skandi Açú was completed during the year, and drawdown of the first out of two tranches of the financing of Skandi Buzios was completed upon delivery from the yard in Norway in September.

Several long-term lease arrangements for ROV systems and subsea equipment have been completed during the year with Norwegian and international lease providers. The leasing agreements are done at market terms and with standard financial covenants for the Group.

Subsea market risk

The oil price is the main driver for the Exploration and Production spending (E&P spending). In 2016 the oil price has been volatile, and the Dated Brent reached a low of USD 25.75 per barrel in January before the price started to recover and ended the year at USD 54.65 per barrel. The average Dated Brent price for the year was USD 43.37 per barrel against USD 52.07 per barrel in 2015. The low oil price in the beginning of 2016 created a negative market sentiment, and the E&P spending was reduced by more than 30 per cent in 2016 after a fall of 25 per cent in 2015.

Low demand for subsea services and vessels and overcapacity created a weak subsea market, however, with regional differences. The seasonality due to winter on the northern hemisphere combined with a lower demand from the Oil Companies led to a weak market in the Atlantic region and North America region during Q1 and Q4 and a more volatile peak season than normal. In the Brazil region and in the AsiaPacific region the markets were more stable, but earnings and margins were under pressure.

Towards the end of the year the tendering activity increased, and this trend has continued in 2017. At year-end 2016 the Group had a firm contract backlog of NOK 19 billion and NOK 37 billion including options. The Board of Directors expects the market to remain challenging in 2017 with oversupply of vessels and a further reduction in the number of subsea entrepreneurs.

Financial risk

Foreign exchange

DOF Subsea has global operations, and a significant portion of the income and costs is denominated in foreign currencies, mainly USD, AUD, GBP and BRL. Fluctuations in foreign exchange rates against the NOK have impact on the Group's financial statements.

The Group aims to be naturally hedged by matching income and costs for the relevant currencies. In addition, the Group has an active hedging strategy using derivatives to reduce the exchange rate risk exposure.

Interest rates

Debt is denominated in NOK and USD, and the Group has both fixed and floating interest rate loans. An active hedging strategy has been adopted where the interest rate risk exposure is partly hedged by using interest rate derivatives

and fixed interest rate loans with term to maturity of up to 12 years. Interest periods for the floating interest rate loans are from one to six months. The fixing of interest rates for longer periods and/or changing of loan currencies are/is continuously evaluated.

Counterparty risk

Most of the Group's contracts are with major international Oil and Gas Companies and other large subsea contractors. Historically, the portion of receivables not being collectable has been low, and the Group routinely evaluates the financial strength and credit worthiness of its customers. In addition, policies and guidelines for follow-up and collection of outstanding receivables have been established. The Group also evaluates the financial strength and credit worthiness of all main suppliers.

Other financial risk

The Group has limited direct financial exposure to changes in the prices of commodities and raw materials, such as oil and refined oil products. To the extent the Group has such risk exposure, it is managed and partly hedged through clauses in the Group's contracts. The oil price is an important driver for the global demand for vessels and services within the subsea industry. The development of the oil price over the last couple of years has reduced the demand for both subsea vessels and services.

Since most of the income and operations are outside Norway, the activities carried out by the Group are exposed to risk related to compliance with local laws and regulations, e.g. tax regimes. The Group has established reporting routines and procedures to manage this risk, and it is focused on ensuring full compliance with all applicable international and local legislation and regulation wherever it operates.

Sustainability

Creating a sustainable organisation is important for DOF Subsea. The successful balance of social, environmental and economic elements not only allows the Group to view organisational performance in more than financial terms alone but, in turn, allows the Group to develop 'Sustainable Operations'. In this way, the DOF Group ensures it remains commercially feasible, socially acceptable and works within the capacity of the external environment.

Sustainability is supported by the Group's core values: Respect – Integrity – Teamwork – Excellence – Above all we are SAFE.

Regardless of where DOF Subsea operates in the world, safety is always the main priority, and the Group strives to be a leader in the fields of health, safety and working environment.

‘Safe the RITE way’ is the guiding philosophy by which the DOF Group approaches safety and therefore, ‘Sustainable Operations’. ‘Safe the RITE way’ is the umbrella for the safety program which brings together core values and connects them to strategic areas for sustainable operations.

The most important document in the Group is the Code of Business Conduct, and combined with the Group’s policies, it ensures that the Group’s operations take into account the interests of all stakeholders.

The Group promotes transparency and standard disclosure of information relating to key sustainability aspects. As part of this, the Group reports according to the Carbon Disclosure Project and the Global Reporting Initiative. For detailed reporting on these matters please find the Group’s Sustainability Report on www.dofsubsea.com.

Employees

The employees are the Group’s most important resource. The Human Resources function is recognised as a key business enabler, and the Group is committed to continuously improve the processes which support the human capital management.

The downturn in the global Oil and Gas Industry has continued in 2016. Demand has decreased in all regions, and the entire subsea industry is being challenged with regards to costs, leading to scale downs for most companies. The circumstances require organisations to adapt to the reduced demand, and pose a threat to the human capital in the organisations. In 2016 the Group’s workforce was reduced by 288 employees. At the end of the year the Group had 1 278 employees, of which approximately 20 per cent were women.

The market will remain challenging in 2017, and the Board of Directors is continuously monitoring the need for the Group to further adapt to the market. The aim going forward will be to maintain a flexible workforce and to retain core competencies.

Equal opportunities and anti-discrimination

The Group has a high focus on diversity and equal opportunities. The Board of Directors supports the

promotion of diversity among employees, and has a clear goal of employing the best people based on their skills and competencies.

The Group strives to create equal opportunities for all employees, regardless of their ethnic background, nationality, descent, colour, language, religion, lifestyle or gender. The Group has a zero-tolerance policy for workplace harassments.

The Group’s ‘Equal Employment Opportunity’ policy clearly states that the Group is committed to being an equal opportunity employer. This means all business units within the Group will select and appoint the most suitable person for a position according to their skills, qualifications and aptitudes.

Human Rights and Labour standards

The Group embraces practices consistent with international human rights, and operates in compliance with fundamental as well as local labour standards. The Group’s policies and standards are based on International Labour Organisation (ILO) conventions, and they prohibit any use of forced or child labour. The Group recognises and respects employees’ right to freely associate, organise and collectively bargain, and the policies are compliant with working hour requirements as established by local laws.

Major steps have been taken during the year to ensure that slavery and human trafficking are not occurring within the supply chain or in any part of the Group. The Group’s human rights and slavery statement is available on the Group’s website.

Health, Safety and Working Environment

The Group strives to improve safety and environmental performance across all worksites, globally. DOF Subsea had no Lost Time Incidents (LTIs) in 2016. Some minor incidents with low risk factors have been logged during the year giving a Total Recordable Frequency (TRFC) of 1.5 per million man-hours. This is below the IMCA average for the global subsea industry.

Despite improved performance, the Group’s ambition is to be an incident free organisation. In 2014 the Group started reinforcing its safety culture by increasing the focus on HSE training sessions, and by rolling out a new safety program, ‘Safe the RITE way’. Through the ‘Safe the RITE way’ program, the Group has been able to establish

a more unified safety culture, as well as a stronger safety cooperation with clients, industry partners and suppliers. The aim for 2017 is to continue the program by simplifying the HSE toolbox to ensure easy access and a common approach globally.

In 2014 the Group launched a global incident notification system. The system allows all managers active involvement at the point of “First Alert” when an incident occurs and increases HSE awareness across the organisation, every day. Incident reports are used proactively to prevent any repetition of an event and as a knowledge share opportunity. Over 600 notifications were sent over the incident flash address in 2016.

Absence due to sickness has been below three per cent in 2016. The working environment is monitored by conducting regular working environment surveys. A new global survey will be conducted in 2017, with the aim of becoming a better workplace by further improving leadership and trust.

The Group was successfully re-certified in 2016 by DNV-GL for the new management and environmental standards ISO 9001-2015 as well as ISO 14001-2015 and OHSAS 18001-2007.

Business Integrity and Ethics

Integrity is the core of multiple aspects of the Group’s business model, both from an internal and external perspective. As one of the governing core values, the Group has established integrity training throughout the organisation. This ensures sound business practices and decisions determined and executed in accordance with the Code of Business Conduct, promoting everyone to display professional competence, due-diligence, confidentiality and professional behaviour at all times and in everything they do on behalf of the Group.

Anti-corruption and anti-bribery

The Group has a zero-tolerance policy for bribery and corruption. The Group’s policy is to conduct all business in an honest and ethical manner. The Code of Business Conduct sets clear expectations for all employees, and is supplemented by internal training.

It is the intention of the Board of Directors that the Group shall be recognised by its high ethical standards. Anti-corruption and anti-bribery measures are regularly evaluated to ensure that they are sufficient.

Compliance to Law

The Group acknowledges the importance for its internal and external stakeholders of being a reliable partner, and that is why compliance is a key topic for DOF Subsea. To be in compliance with laws and regulations and industry standards is important for the Group.

In 2016 there have been no cases of fines or non-monetary sanctions related to fraud, corruption, bribery or discrimination.

External environment

The Group’s environmental management system ensures that the operations are effectively managed and that continuous improvement of environmental performance is achieved. The energy efficiency program of the Group is continuously challenged with the aim to improve environmental performance.

During 2016, the focus on energy efficiency has increased by implementing Key Performance Indicators (KPIs) related to environmental performance, e.g. energy consumption and CO2 emissions. During the year, there have been no spills from the vessels to the external environment that require reporting to local governments or international bodies.

Climate change and emissions to the air

DOF Subsea has several processes to ensure that direct and indirect climate influencing activities are kept at a minimum and consistent with the Group’s overall approach to climate change.

Defining and measuring environmental sustainability and risks associated with the Group’s business activities are important. Investments in systems and equipment have been made in order to record, understand and improve environmental performance. This has been achieved through SEEMP, ISO 14001 and the Carbon Disclosure Project (CDP).

The Group has reported environmental performance within CDP since 2010, in coordination with the DOF Group. For the year 2016, the DOF Group achieved a score of 99B, and it is now among the industry leaders in the Oil and Gas Industry with regards to driving transparency on this important topic.

Through continued focus on technologically advanced vessels and an improved environmental culture on all levels of the organisation, the Group strives to achieve the objective of a reduction in CO2 emissions through reduced fuel consumption.

Continuous improvement of operations

It is the view of the Board of Directors that continuous improvement helps to reduce risk, improve performance and align ways of working. Through improvements of the Business Management System (BMS) over the past years, DOF Subsea has streamlined and simplified its system. Based on a thorough audit conducted in 2014, improvement projects have been carried out through the Group's value chain, focusing on standardisation and improved efficiency. The improvement initiatives will continue in 2017.

The Group has increased alignment of technical solutions and alignment between worksites and organisational units to establish stronger teams globally and improve efficiency. A 'step-change' was achieved by improving processes across the entire value chain, including execution of subsea projects and operation of vessels and assets. The Group is committed to continuously improve its processes and systems.

Shareholders

All shares in DOF Subsea AS are owned by DOF Subsea Holding AS, which is owned by DOF ASA (51 per cent) and First Reserve Corporation (49 per cent). As at year-end 2016, the number of outstanding shares was 119 733 714.

Corporate Governance

The Group's Corporate Governance standard is based on principles established in the Norwegian Code of Practice for Corporate Governance, available at www.nues.no.

The Board of Directors is responsible for ensuring a satisfactory monitoring of risk and internal control. This includes focus on business opportunities and establishing cost-efficient solutions. In addition, focus on operational and financial reporting provides comprehensive information for decision-making and risk assessment.

Both operational and financial processes are standardised and the same reporting and control structures are in use for all companies in the Group. These processes are integrated in the Group's ERP system and supported by Group policies, guidelines and standards in the Business Management System.

Every year, the Management carries out a detailed and thorough budgeting process at all levels of the organisation. The next year's budget and a five-year forecast are submitted to the Board of Directors. The

Board of Directors receives weekly, monthly and quarterly operational and financial reports, including information on investments, financing, cash flow, liquidity, HSEQ, HR, Tax and Legal performance, along with information on market development.

The Board of Directors is of the opinion that the Group's reporting procedures and quality are at a high standard and sufficient to fulfil the requirements of the Board of Directors for risk management and financial control.

The Board of Directors has appointed an Audit Committee for the Group. The primary purpose of the Audit Committee is to assist the Board of Directors in monitoring the Group's internal control of the risk management and financial control and reporting. This includes but is not limited to:

- all critical accounting policies and practices,
- quality, integrity and control of the Group's financial statements and reports,
- compliance with legal and regulatory requirements,
- qualifications and independence of the external auditors and
- performance of the internal audit function and external auditor.

The Group's internal audit function covers the Group's value chain, including business support functions. The purpose of the internal audit is to make sure that the Group follows internal policies, guidelines, standards, processes and statutory requirements. Internal audits of the Group's operations are carried out on a regular basis. Results of the internal audits are submitted to the Audit Committee and the Board of Directors. In 2016 internal audits were carried out in two of the Group's regions.

Management reviews are undertaken by Corporate and regional Senior Management to ensure that the quality and effectiveness of the Business Management System is maintained. Through these reviews, the management aims to:

- improve Safety Performance,
- improve the quality, environmental and safety management systems,
- improve products and services related to customer needs and requirements,
- ensure that resource allocation is effective,
- establish key business objectives and performance indicators and
- determine needs for process or product audits.

During the year Management Reviews are performed for all regions followed by action plans for improvements.

For further details on Corporate Governance, see the Corporate Governance section of the Annual Report.

Presentation of Group and Parent company financial statements

DOF Subsea AS has prepared the consolidated financial statement in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Going concern

In accordance with IAS 1.25, the Board of Directors confirms that the financial statements have been prepared under the assumption of going concern. This assumption is based on the Group's budget for the year 2017, the cash flow forecast and the contract backlog as at 31 December 2016.

Group financial statement

The Group had an operating income of NOK 5 099 million in 2016, compared to NOK 6 891 million in 2015. The decrease in operating income compared to prior year reflects a lower activity level. The Group has sold two vessels and redelivered two chartered-in vessels. In addition, challenging market conditions have led to lower charter rates and lower vessel utilisation compared to previous years. The operating profit before depreciation (EBITDA) for 2016 was NOK 1 764 million compared to NOK 2 100 million in 2015. The operating profit (EBIT) was NOK 446 million compared to NOK 1 397 in 2015. The EBIT included impairment related to intangible and tangible assets of NOK 728 million in 2016 and NOK 109 million in 2015, in addition to depreciation of NOK 590 million in 2016 and NOK 594 million in 2015.

NOK million	2016	2015	Change
Operating income	5 099	6 891	-26%
EBITDA	1 764	2 100	-16%
Depreciation and impairment	-1 318	-703	87%
EBIT	446	1 397	-68%

Net financial loss was NOK 179 million in 2016 (loss of NOK 1 176 million in 2015), of which NOK 473 million was an unrealised gain on derivative instruments and currency positions (unrealised loss on derivative instruments and currency positions of NOK 592 million in 2015). Profit before tax was

NOK 266 million in 2016 and NOK 221 million in 2015, and the profit for the year was NOK 155 million in 2016 compared to a profit for the year of NOK 177 million in 2015.

Total assets were NOK 16 648 million in 2016 compared to NOK 18 919 million in 2015. Non-current assets were NOK 14 479 million (NOK 15 417 million).

Total current receivables were NOK 1 108 million (NOK 1 560 million), while cash and cash equivalents were NOK 1 062 million (NOK 1 464 million), giving total current assets of NOK 2 170 million (NOK 3 501 million in 2015, including assets held for sale of NOK 477 million). Cash and cash equivalents included restricted cash of NOK 305 million (NOK 390 million) related to a long-term loan.

The Group's total equity was NOK 6 055 million (NOK 5 692 million), including non-controlling interests of NOK 224 million (NOK 269 million), representing a book equity ratio of 36.4 per cent (30.1 per cent). Non-current liabilities were NOK 8 632 million (NOK 9 780 million). Current liabilities were NOK 1 961 million (NOK 3 186 million), of which NOK 1 114 million represented current portion of debt (NOK 1 822 million). The net interest-bearing debt was NOK 8 357 million (NOK 9 995 million).

NOK million	2016	2015	Change
Tangible assets	11 950	13 425	-11%
Cash and cash equivalents	1 062	1 464	-27%
Total equity	6 055	5 692	6%
NIBD	8 357	9 995	-16%

Net cash flow from operating activities was NOK 859 million (NOK 1 346 million). Cash flow from investing activities was NOK 763 million (NOK -2 305 million), of which NOK -479 million (NOK -3 312 million) was from investments in tangible assets that have increased or will increase the capacity of the Group and NOK 1 489 million (NOK 992 million) was from sale of tangible assets that has reduced the capacity. Cash flow from financing activities was NOK -1 983 million (NOK 176 million). The Group's cash and cash equivalents were NOK 1 062 million in 2016 compared to NOK 1 464 million in 2015.

On a quarterly basis, the Group assesses whether there is any indication that tangible and intangible assets may be impaired. If an indication of impairment exists, the Group estimates the recoverable amount, represented by the higher of fair value less costs of disposal and value in use.

If the recoverable amount of an asset is below the carrying value (book value), the asset is considered impaired, and is written down to its recoverable amount.

Parent company financial statement

The Company's operating income was NOK 96 million in 2016 compared to NOK 119 million in 2015. The operating profit before depreciation (EBITDA) was NOK 24 million (NOK 18 million in 2015), and the operating profit (EBIT) was NOK 7 million (NOK 1 million) after depreciation of NOK 17 million (NOK 17 million).

The net financial income was NOK 124 million compared to a net financial income of NOK 890 million in 2015. The profit before tax was NOK 130 million (NOK 891 million), and the profit for the year was NOK 52 million (NOK 889 million).

The Company's total assets were NOK 7 708 million in 2016 compared to NOK 8 583 million in 2015. Non-current assets were NOK 6 932 million (NOK 7 298 million), including NOK 216 million in deferred tax assets (NOK 293 million). Total current receivables were NOK 341 million (NOK 768 million), while cash and cash equivalents were NOK 435 million (NOK 517 million), giving total current assets of NOK 776 million (NOK 1 285 million).

Total equity was NOK 4 475 million compared to NOK 4 543 million in 2015, representing a book equity ratio of 58.1 per cent compared to 52.9 per cent in 2015. Total liabilities were NOK 3 233 million (NOK 4 039 million), of which NOK 1 601 million represented non-current liabilities (NOK 1 751 million) and NOK 1 632 million represented current liabilities (NOK 2 289 million).

Net cash flow from operating activities was NOK -384 million (NOK 123 million), while cash flow from investing activities was NOK 594 million (NOK 852 million). Cash flow from financing activities was NOK -386 million (NOK -1 337 million). The Company's cash and cash equivalents were NOK 435 million in 2016 compared to NOK 517 million in 2015.

Allocation of profits

The Company's total comprehensive income for the year net of tax of NOK 52 million was transferred to equity.

Events after balance date

In Asia Pacific, DOF Subsea was awarded a three-year IMR frame agreement with one of the major Oil and Gas

Companies in the region. In addition, a Safety Case has been secured for Geoholm, and the vessel will be available in the Asia Pacific region from the beginning of Q2 2017.

In February 2017, Geoholm was awarded a contract by Technip Oceania Pty Ltd, part of TechnipFMC in Australia, for the provision of ROV and light construction support services for the Shell Prelude FLNG project operated by Shell Australia.

In January the Atlantic region received a Letter of Award (LoA) from an Oil major for a 16-month IMR contract utilising Skandi Seven. The duration of the contract is over a year, and contract commencement was in Q1 2017.

In March the Atlantic region was awarded a contract for mooring and installation of an FPSO in the North Sea on the UK Continental Shelf (UKCS). DOF Subsea will deploy the Skandi Skansen on the project along with several Anchor Handler vessels owned by the DOF Group.

In January Petrobras awarded the Brazilian-built PLSV Skandi Vitória an 18-month contract. The vessel commenced the contract in January 2017.

In January, the Group took delivery of the second Norwegian-built PSLV, Skandi Buzios. The vessel has been imported to Brazil. Commencement of her long-term time charter contract with Petrobras is in mid-April 2017.

In March, the Group successfully completed the issuance of a new unsecured bond with a face value of USD 175 million and maturity in March 2022. In relation to the bond issue, the Group repurchased parts of the existing bond DOFSUB07 with maturity in May 2018.

The Board of Directors confirms that, to the best of its knowledge, the information contained in the Annual Report, gives a true and fair view of the Group's assets, liabilities, financial position and results.

Outlook

Over the past years the Board of Directors has focused on aligning the Group's operational and financial risk. This has prepared the Group relatively well for the challenging market conditions. However, necessary adjustments have been made to adapt the organisation to the challenging market conditions.

In 2016, the Group has met the challenging market conditions by implementing further cost cutting measures and reducing the capacity. During 2016, the Group was awarded new contracts with a value of close to NOK 4 billion, and the firm

contract backlog as at 31 December 2016 was NOK 19 billion and NOK 37 billion including options. NOK 3.2 billion of the contract backlog is related to 2017, including options of NOK 0.4 billion. A large portion of the Group's vessels is fixed on term contracts with solid counterparties. However, the Group is exposed to the short-term market in the Subsea projects segment, and the management is continuously working to increase the contract backlog to reduce the risk.

For 2017, the Board of Directors expects the market conditions to remain challenging, and the timing of market recovery remains uncertain. The market conditions increase the risk for impairment of the Group's assets and put pressure

on the liquidity position. However, the new bond loan with maturity in March 2022 reduces the liquidity risk.

The oil price has gradually increased from a low in 2016 which gives a cause to believe that activity will gradually increase and that we will see a movement towards market balance in the Subsea industry. The Group's global presence and flexible business model in combination with the contract backlog and a strong position within the IMR segment globally provide a good position for the Group. The Board of Directors is pleased with the financial numbers for 2016, and is thankful for the effort from all employees.

Bergen, 3 April 2017

The Board of Directors of DOF Subsea AS



Helge Møgster
Chairman



Helge Singelstad
Director



Mons S. Aase
Director and CEO



Hilde Drønen
Director



Alex Townsend Krueger
Director



Neil John Hartley
Director



John Mogford
Director



Ryan N. Zafereo
Director

Financial statements

DOF Subsea Group

Consolidated statement of comprehensive income

	Note	2016	2015
Operating income	4, 5	5 099	6 891
Payroll expenses	6	-1 611	-2 051
Other operating expenses	7	-2 047	-3 113
Share of net income from associates and joint ventures	26	154	163
Profit from sale of non-current assets	11	170	210
Operating profit before depreciation (EBITDA)	4	1 764	2 100
Depreciation and impairment	10, 11	-1 318	-703
Operating profit (EBIT)		446	1 397
Financial income	8	59	50
Financial expenses	8	-530	-613
Realised net gain / loss on derivative instruments and currency position	8	-181	-21
Unrealised net gain / loss on derivative instruments and currency position	8	473	-592
Net financial income / loss	8	-179	-1 176
Profit / loss before tax	4	266	221
Income tax expense	9	-111	-44
Profit / loss for the year		155	177
Other comprehensive income net of tax			
Items that may be subsequently reclassified to profit / loss			
Currency translation difference (CTA)		-	73
Cash flow hedges		-	23
Share of other comprehensive income of associates and joint ventures	26	231	-450
Items that will not be reclassified to profit / loss			
Defined benefit plan actuarial gains / losses		-	-
Other comprehensive income / loss net of tax		231	-354
Total comprehensive income / loss for the year net of tax		386	-176
Profit / loss attributable to			
Non-controlling interests	25	-21	21
Owners of the parent	25	177	155
Total comprehensive income / loss attributable to			
Non-controlling interests	25	-21	22
Owners of the parent	25	407	-199
Earnings per share			
Basic and diluted earnings per share (NOK)	29, 30	1.48	1.29

Consolidated statement of financial position

Assets	Note	31.12.2016	31.12.2015
Tangible assets	11	11 950	13 425
Goodwill	10	373	478
Deferred tax asset	9	269	320
Investments in associates and joint ventures	26	717	336
Non-current receivables	13	1 169	858
Non-current assets		14 479	15 417
Trade receivables	14	791	1 152
Other current receivables	15, 23	317	408
Total current receivables		1 108	1 560
Restricted cash	16	305	390
Unrestricted cash and cash equivalents	16	757	1 074
Cash and cash equivalents		1 062	1 464
Asset held for sale	11, 28	-	477
Current assets including assets held for sale		2 170	3 501
Total assets		16 648	18 919

DOF Subsea Group

Amounts in NOK million

Consolidated statement of financial position

Equity and liabilities	Note	31.12.2016	31.12.2015
Paid-in equity	30	3 844	3 844
Other equity		1 987	1 579
Non-controlling interests	25	224	269
Total equity		6 055	5 692
Bond loan	17	1 297	1 293
Debt to credit institutions	17	7 208	8 288
Financial non-current derivatives	21,22	98	163
Other non-current liabilities	9	29	37
Non-current liabilities		8 632	9 780
Current portion of debt	17	1 114	1 822
Trade payables	18	500	838
Other current liabilities	6, 9, 19, 23	347	526
Current liabilities		1 961	3 186
Liabilities held for sale	11, 17, 28	-	260
Current liabilities including liabilities held for sale		1 961	3 447
Total liabilities		10 594	13 226
Total equity and liabilities		16 648	18 919

Bergen, 3 April 2017

The Board of Directors of DOF Subsea AS



Helge Møgster
Chairman



Helge Singelstad
Director



Mons S. Aase
Director and CEO



Hilde Drønen
Director



Alex Townsend Krueger
Director



Neil John Hartley
Director



John Mogford
Director



Ryan N. Zafereo
Director

DOF Subsea Group

Amounts in NOK million

Statement of changes in equity

Changes in equity	Share capital	Share premium	Other paid-in capital	Paid-in equity	Retained earnings	Currency translation differences	Cash flow hedges	Other equity	Non-controlling interests	Total equity
Equity at 01.01.2015	1 197	741	2 130	4 069	1 793	8	-23	1 778	265	6 112
Profit / loss for the year	-	-	-	-	155	-	-	155	21	177
Other comprehensive income net of tax	-	-	-	-	-450	73	23	-354	1	-353
Total comprehensive income net of tax	-	-	-	-	-295	73	23	-199	22	-176
Dividends	-	-225	-	-225	-	-	-	-	-18	-243
Total transactions with shareholders	-	-225	-	-225	-	-	-	-	-18	-243
Equity at 31.12.2015	1 197	516	2 130	3 844	1 498	81	-	1 579	269	5 692
Equity at 01.01.2016	1 197	516	2 130	3 844	1 498	81	-	1 579	269	5 692
Profit / loss for the year	-	-	-	-	177	-	-	177	-21	156
Other comprehensive income net of tax	-	-	-	-	231	-	-	231	-	231
Total comprehensive income net of tax	-	-	-	-	407	-	-	407	-21	386
Dividends	-	-	-	-	-	-	-	-	-22	-22
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-2	-2
Total transactions with shareholders	-	-	-	-	-	-	-	-	-24	-24
Equity at 31.12.2016	1 197	516	2 130	3 844	1 906	81	-	1 987	224	6 055

Consolidated statement of cash flows

	Note	31.12.2016	31.12.2015
Operating profit (EBIT)		446	1 397
Depreciation and impairment	11	1 318	703
Profit from sale of non-current assets	11	-170	-210
Share of net income of associates and joint ventures	26	-154	-163
Change in trade receivables		361	405
Change in trade payables		-339	41
Changes in other working capital		21	-17
Exchange rate effect on operating activities		-62	-14
Cash flow from operating activities		1 423	2 143
Interest received		30	32
Interest paid		-553	-638
Tax paid		-40	-191
Net cash flow from operating activities		859	1 346
Sale of tangible assets	11	1 489	992
Purchase of tangible assets	11	-479	-3 312
Sale of shares		-	417
Purchase of shares		-	-
Dividends received		3	3
Net cash flows from other non-current receivables		-249	-406
Cash flow from investing activities		763	-2 305
Proceeds of non-current debt		319	3 839
Installments on non-current debt		-2 279	-3 420
Dividend		-	-225
Payments to non-controlling interests		-24	-18
Cash flow from financing activities		-1 983	176
Net change in cash and cash equivalents		-361	-783
Cash and cash equivalents at the beginning of the period	16	1 464	2 120
Exchange rate effect on cash and cash equivalents		-41	128
Cash and cash equivalents at the end of the period	16	1 062	1 464

Proceeds of non-current debt and purchase of tangible assets in 2015 have been restated because the reported gross cash flows included effects of financing that did not represent cash flows for the Group.

DOF Subsea Group

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NOTES TO THE FINANCIAL STATEMENTS

1 Corporate information

DOF Subsea AS, the Company, is a limited liability company registered in Norway. The Company's head office is located at Thormøhlensgate 53 C, 5006 Bergen, Norway.

The Company is owned by DOF Subsea Holding AS, a company jointly owned by DOF ASA and First Reserve Corporation. DOF ASA holds 51% ownership stake while First Reserve Corporation holds a 49% ownership stake. DOF Subsea AS serves as the parent company in the DOF Subsea Group exercising control over a number of subsidiaries. The Company further holds a number of investments in associates and joint arrangements.

The DOF Subsea Group's two business segments are Subsea projects and Chartering of vessels. In these segments, the Group provides services to the global offshore Oil and Gas industry.

The Group owns a large, modern fleet of subsea vessels that enables the Group to offer differentiated services to clients and create long-term relationships, which enhance service delivery and reduce overall risk.

The financial report is divided into the Group financial statements and the Parent Company financial statements.

The Board of Directors approved the financial statements for publication on the 3 April 2017.

2 Financial risk management

The Group's operations include various types of financial risk: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's governing risk management strategy focuses on the predictability of the capital markets and seeks to minimise the potential negative effects on the Group's financial results. The Group uses financial derivatives to hedge against certain types of risk. Please refer to note 32 'Accounting policies', paragraph U, for information on derivative financial instruments and hedging activities. Please also see note 21 'Financial instruments and hedging activities'.

The Group's risk management is conducted in line with policies and guidelines approved by the Board of Directors. Accordingly, financial risk is identified, evaluated and hedged if appropriate. The Board of Directors issues written policies for governing risk management and defines principles for specific areas such as the foreign exchange risk, interest risk, credit risk, use of financial derivatives and other financial instruments, as well as investment of surplus liquidity.

Financial derivatives

The Group is exposed to interest rate and currency fluctuations. The Group uses financial derivatives to reduce these risks. This may include use of financial derivatives linked to exposures related to statement of financial position items such as trade receivables, trade payables and similar.

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions, contractual obligations and investments are in different currencies. The Group's presentation currency is NOK. The Group aims to achieve a natural hedge between cash inflows and cash outflows, and manages remaining foreign exchange risk arising from commercial transactions, assets and liabilities by the use of forward contracts, derivatives and similar instruments as appropriate.

Hedging of foreign exchange exposures is executed on a net basis and foreign exchange contracts with third parties are generated at Group level. Currency changes in receivables, liabilities and currency swaps are recognised as a financial income/expense in the consolidated statement of comprehensive income. Fluctuations in foreign exchange

rates will therefore have an effect on the Group's statement of comprehensive income and statement of financial position.

Interest risk

The Group's existing debt arrangements are non-current liabilities at floating and fixed interest rates. Movements in interest rates will have an effect on the Group's financial statements. The Group's policy is to maintain part of its debt at fixed rates and part of the remaining debt with a hedge from floating rates to fixed rates. Of the total debt portfolio, 66% is subject to a fixed interest rate as of year-end.

The Group manages its interest rate risk by using floating-to-fixed interest rate swaps.

There is a continuous evaluation of the mix of funding currencies and the ratio of fixed vs. floating rate debt.

The Group's interest-earning assets of significance are bank deposits and non-current receivables, see notes 17 'Interest-bearing debt' and 22 'Financial instruments - by category'.

Sensitivity analysis

In accordance with IFRS 7 'Financial instruments: disclosures', the Group provides information about the potential impacts of market risk and hypothetical gain/loss from its use of derivative financial instruments and other financial instruments through a sensitivity analysis disclosure. The sensitivity analysis reflects the hypothetical gain/loss in fair values which would occur assuming a change in currency or interest rates. Only effects which would ultimately be accounted for in the consolidated statement of comprehensive income, as a result of a change in rates or prices, are included. All changes are before tax.

Foreign exchange sensitivity

Changes in foreign currency rates against subsidiaries' functional currencies as of 31 December 2016 would have affected the measurement of financial instruments denominated in foreign currency by the amounts described below.

Effects on the Group's statement of financial position resulting from changes in currency rates are due to changes in the NOK value of assets and liabilities denominated in currencies other than NOK. The Group has no such material assets nor liabilities denominated in foreign currencies apart from USD. The Group has a significant amount of debt denominated in USD. In conducting the foreign exchange sensitivity analysis, a hypothetical 5% decrease/increase in USD/NOK exchange rates would affect the value of USD debt as of 31 December 2016, and increase/decrease the consolidated statement of comprehensive income by NOK 208 million. The Group has debt of USD 50 million in a subsidiary with functional currency BRL. The effect of change in BRL to USD is included in the sensitivity results above. The Group's exposure to other foreign exchange movements is not material.

The Group aims to achieve a natural hedge between cash inflows and cash outflows on Group level. Current receivables and liabilities excluding current portion of debt are often in the same currency and are normally due within 30 days. Currency effects on current items excluding current portion of debt are not included in the figures above.

A significant portion of the Group's operating income is denominated in USD. A depreciation of NOK against USD will over a longer period have a positive net effect on the consolidated statement of comprehensive income.

Interest rates sensitivity

A parallel shift of 100 basis points in interest rates as of 31 December would have increased/decreased equity and profit and loss by the

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amounts shown in the table below. The analysis assumes that all other variables, in particular foreign currency rates remain constant.

2016 figures	Amounts in NOK million	
	100bp decrease	100bp increase
NOK		
Derivatives financial instruments	-63	60
USD		
Derivatives financial instruments	-16	15

Credit and liquidity risk

Credit and liquidity risk arises from cash and cash equivalents, financial derivative instruments and deposits with banks as well as credit exposures to clients. The Group has a policy of limiting the credit exposure to any single financial institution and bank, and actively manages its exposure in order to achieve this.

Credit exposures are mainly to clients that traditionally have good financial position to meet their obligations. The Group's credit risk to clients is therefore considered low and historical losses have been low. Other non-current receivables are mainly to DOF ASA companies and joint ventures. The Group is well informed about credit risks related to these positions. Latest changes in the market condition increase these risks, but they are still considered to be acceptable.

Payment profile of debt	Amounts in NOK million			
	At 31 December 2016	2017	2018-2021	Thereafter
Borrowings (ex. finance lease liabilities)	959	6 581	1 724	
Finance lease liabilities	74	194	45	
Trading and net settled derivative financial instruments (interest rate swaps and foreign exchange instruments)	87	98	-	
Trade and other payables	841	-	13	
Total payables	1 961	6 873	1 782	

See also note 12 'Leases' regarding future cash inflows based on the Group's contract backlog.

Liquidity risk management implies maintaining sufficient cash and marketable securities, the available funding through committed and uncommitted credit facilities and the ability to close market positions. The Group aims to maintain flexibility in its liquidity by keeping committed credit lines available.

The Group's business is capital intensive and the Group may need to raise additional funds through public or private debt or equity financing to execute the Group's strategy and fund capital expenditure. The Group's loan agreements include terms, conditions and covenants.

The Group has routines to report cash flow forecasts on a regular basis in order to monitor the Group's future cash positions.

Fair values

The fair value of forward exchange contracts is calculated based on the midpoint of the relevant yield and forward curves. The fair value of interest rate contracts is expressed as the present value of the estimated future cash flows based on observable yield curves.

Price risk

The Group is exposed to price risk at two main levels:

- The demand for the Group's vessels and services is sensitive to changes in the oil industry, for example, oil price movements, exploration and general activity level within the oil industry. This can affect both the pricing and utilisation of the Group's assets.
- The cost of construction of new assets and replacement of assets are sensitive to changes in market prices.

The Group aims to reduce the price risk through long-term contracts. All newbuilding contracts are based on fixed prices of the assets, and the vessels are fixed on long-term charter contracts at delivery.

Capital structure and equity

The main objective in managing the Group's capital structure is to ensure that the Group maintains a good credit rating, thereby achieving favourable terms and conditions for the long-term funding of the Group's operations and investments. The Group manages its capital structure and carries out all necessary changes, based on continuous assessments of the economic conditions under which the operations take place.

The Group has established similar financial covenants on all long-term funding which imply minimum consolidated cash and minimum value adjusted equity for the Group. On a quarterly basis, the Group measures its value adjusted equity by receiving fair market valuations of the total fleet from several independent brokers. See also note 17 'Interest-bearing debt'.

The Group monitors its capital structure by evaluating the debt ratio, which is defined as net interest-bearing debt divided by equity plus net interest-bearing debt. The Group policy is to maintain debt financing corresponding to approximately 80% funding of the new vessels and to continue to have high long-term contractual coverage, either through IMR contracts in the Subsea Projects segment or time charter or bareboat contracts in the Chartering of vessels segment.

Tax risk

Changes in tax regimes may adversely affect the Group's cash flows and financial condition. Certain companies in the Group are subject to special tax rules for ship owners in the Norwegian Taxation Act (§ 8-10 - § 8-20). There have been, and still are, political discussions to modify these tax rules. Further, such special tax rules stipulate certain requirements which will have to be met. No assurance can be given that the Group will meet such requirements in the future. A failure to meet such requirements may have an adverse effect on the effective tax rate of the Group.

3 Accounting estimates and assessments

Valuations, estimates and assumptions with a significant effect on the financial statements are summarised below:

Depreciation of vessels

The carrying amount of the Group's vessels represents 64% of the total consolidated statement of financial position. Consequently, policies and estimates linked to the vessels have a significant impact on the Group's financial statements. Depreciation is calculated on a modified straight-line basis over the estimated useful life of the asset. Depreciable amount equals historical cost less residual value. Please see note 32 'Accounting policies' paragraph I, for information on tangible assets.

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Useful life of vessels

The depreciation depends on the vessels' estimated useful lives in the Group. Estimated useful life is 20 years based on strategy, past experience and knowledge of the types of vessels the Group owns. There will always be risk of events like breakdown and obsolescence which may result in a shorter useful life than anticipated. From time to time the Group may own vessels older than 20 years. The useful life will then be estimated individually.

Residual value of vessels

The level of depreciation depends on the calculated residual value. Residual value is determined based on the estimated fair value at the end of the asset's useful life. According to the Group's strategy, the policy is not to own vessels with an age above 20 years. Consequently, the residual value differs from salvage value, and the Group has to estimate the residual value of the vessels when they reach an age of 20 years. The estimate of residual value is based on a market valuation of a charter free vessel, and the current fair value forms a basis for the estimate. However, this fair value is discounted to reflect the fair value of the vessel as if it was of an age and in the condition expected at the end of its useful life (20 years).

Useful life of investments related to periodic maintenance

Periodic maintenance is related to major inspection and overhaul costs which occur at regular intervals over the life of an asset. The expenditure is capitalised and straight-line depreciated until the vessel enters the next periodic maintenance. When new vessels are acquired, a portion of the cost price is classified as periodic maintenance based on best estimates. Intervals between periodic maintenance are calculated on the basis of past experience. The estimated life of each periodic maintenance program is 5 years.

Impairment of assets

Vessels

For the purposes of assessing impairment for vessels, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units, "CGU"). Each vessel together with associated contracts is considered as a separate CGU.

Fair value less cost to sell

For vessels, fair value less cost to sell is based on an average of the brokers' estimates, taken into account sales commission. All vessels in the Group are assessed by obtaining independent broker estimates. The brokers' estimates are based on the principle of 'willing buyer and willing seller'. Broker estimates include mounted equipment and assume that the vessels are without any charter contracts (i.e. charter-free basis). The Group adjusts for positive or negative value in associated contracts. Due to a limited number of vessel transactions in the current market the brokers' estimates only to a limited extent represent the results of transactions in the market. Because of this, the broker estimates are more influenced by the judgement of each broker. For this reason, the Group has sought to substantiate the broker valuations, inter alia with value in use calculations or tests of reasonableness of implicit rates and other assumptions derived from the valuations. The Group has deemed it necessary to perform separate calculations for all vessels to support the broker estimates. In addition, conducted sales transactions during the year are reviewed and compared to broker estimates.

After the evaluation, the Group has concluded that the average of the broker estimates is considered reliable.

Value in use

Estimated cash flows are based on next year's budgets per vessel, and forecasted earnings going forward. The budget process is a detailed and thorough bottom-up budgeting process at all levels of the organisation, with approval procedures on all levels within the Group. Estimated future cash flows are based on historical performance per vessel, in combination with current market situation and future expectations. Critical assumptions in the assessment are related to charter rates, utilisation, operational and capital expenditure.

For vessels fixed on firm long-term contracts, the assumption is that the contracts run up until end of contract. Options held by the customers are not assumed to be exercised, unless the options are at or below current market rates. For vessels without contract, assumptions derived from the evaluation of broker estimates, combined with other market information are considered when estimating future revenues. It is expected to be a weak market the next 2-3 years, and gradually normalise to historical average levels thereafter.

The Weighted Average Cost of Capital (WACC) is used as a discount rate, and reflects a normalised capital structure for the industry. The WACC represents the rate of return the Group is expected to pay to its sources of finance for cash flows with similar risks. Cash flows are calculated after tax and discounted with an after tax discount rate.

Sensitivity analysis and stress tests have been carried out for the main variables in the assessment. This includes changes to key variables such as broker estimates, operating income, operating expenses and the discount rate.

ROVs

A value in use calculation is performed for ROVs as a pool of assets. Principles for calculation of future cash flows and WACC are the same as described for vessels.

Goodwill

Goodwill is allocated to the operating segments, which represented the lowest level within the entity which the goodwill was monitored. Each operational segment consists of several cash generating units (GCU). As a consequence of organisational changes in 2016, goodwill related to the acquisition of CSL UK Ltd previously allocated to the Subsea projects segment has been reported and monitored separately from other goodwill in the Subsea projects segment. CSL UK Ltd is a separate cash generating unit, and the Group has therefore concluded to allocate 100% of the goodwill identified in the original transaction as the method that best reflects the goodwill associated with the reorganised unit.

For the impairment test of goodwill the vessels are allocated to the different segments based on the current and expected use of the vessels.

For goodwill in the Subsea projects segment, recoverable amount is calculated based on discounted cash flows extracted from next years' budgets and forecasts covering 5 years. No real growth is expected after 5 years. Both budgets and forecasts covering 5 years, are approved by the Board of Directors. Management has used the same expectation about market development as for the impairment test of vessels. The impairment test demonstrated that recoverable amount was higher than carrying amount, and no impairment was required. Reference is made to note 10 'Goodwill' for further information about assumptions and sensitivities.

For the Chartering of vessels segment, value in use is the sum of value in use for all vessels allocated to the segment. Goodwill is therefore supported by value in use being higher than the carrying amount for individual vessels. The impairment test demonstrated that recoverable amount was higher than carrying amount, and no impairment was required. Reference is made to note 11 'Tangible assets (incl. commitments)' for further information about assumptions and sensitivities.

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Project income and costs

For lump sum projects, contract revenue and expenses are recognised in accordance with the stage of completion of a contract as set out in IAS 11 'Construction contracts'. Please refer to note 32 'Accounting policies', paragraph Q (b), for discussion on revenue recognition. The stage of completion method is calculated by dividing contract costs incurred to date by total estimated contract costs. Revenue earned to date can then be calculated by allocating the percentage of completion based on cost to total contract revenue.

Contract revenue comprises the set amount of revenue agreed by the client in the contract plus variation orders where applicable. Variation orders will only be included in contract revenue to the extent they will likely result in revenue, they are capable of being reliably measured and they have been reviewed and approved by the client.

Cost forecasts are reviewed on a continuous basis and the project accounts are updated in a monthly project manager's report as a result of these reviews.

As contract revenue, costs and the resulting profit are recognised as the work is performed, costs incurred relating to future activities are deferred and recognised as an asset in the consolidated statement of financial position. Conversely, where revenue is received in advance of costs being incurred, a deferred liability is recognised in the consolidated statement of financial position.

Where the outcome of a project cannot be reliably measured, revenue will be recognised only to the extent that costs are recoverable. Where it is probable that contract costs will not be recovered, it is only costs incurred that are recognised in the consolidated statement of comprehensive income.

In the event that it is probable total contract costs will exceed contract revenue (onerous contracts), the anticipated loss is immediately recognised as an operating expense in the consolidated statement of comprehensive income. Expected losses are determined by reference to the latest estimate of project results at completion.

At year-end the Group has recognised a liability that are related to onerous contracts. The onerous contracts are a result of additional cost due to overruns and delays, and there are on-going discussions with the clients regarding allocations of responsibilities. The estimated liability is based on the available information as of the statement of financial position date. New information about circumstances and results of negotiations with client might positively or negatively affect the estimated losses.

Provisions

A provision is recognised when there is a legal or constructive obligation arising from past events, or in cases of doubt as to the existence of an obligation, when it is more likely than not that a legal or constructive obligation has arisen from a past event and the amount can be estimated reliably.

The amount recognised as provision is the best estimate of the expenditure to be incurred, see note 32 'Accounting policies', paragraph M.

The best estimate of the expenditure required to settle the present obligation is the amount that rationally will have to be paid to settle the obligation at the consolidated statement of financial position date or to transfer it to a third party at that time.

Tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and

liabilities and their carrying amounts in the consolidated financial statements per IAS12 'Income taxes'. Please refer to note 32 'Accounting policies', paragraph R.

Deferred tax assets are recognised in the consolidated statement of financial position on the basis of unused tax losses carried forward or deductible temporary differences to the extent that it is probable there will be sufficient future earnings available against which the loss or deductible can be utilised. Deferred income tax is calculated on temporary differences related to investments in subsidiaries and associated companies, except when the company has control of the timing of the reversal of the temporary differences, and it is probable that reversal will not take place in the foreseeable future.

For further information about deferred tax assets and tax loss carried forward please refer to note 9 'Tax'.

In general, attention from tax authorities are increasing in all tax jurisdictions. This should be seen in relation to the OECD project Base Erosion and Profit Shifting (BEPS) and the general trend that each individual country has become more concerned about protecting their tax base. In this context the Group experiences more tax audits, particularly in Brazil. All present claims and disputes are in an administrative process with tax authorities and are at year-end disputed by the Group. The Group consider the risk of negative outcomes in these cases to be lower than 50% and has not recognised any liability regarding tax claims. Outcome of such processes are uncertain and changes in assumptions, interpretations and circumstances might result in future cash outflow for the Group.

4 Segment information

Members of the Board of Directors together with CEO and CFO are the Group's chief operating decision-makers. Management has determined operating segments based on the information given to the Group's operating decision-makers for the purposes of allocating resources and assessing performance. These reports are defined as Management reporting.

Presentation of segments includes information sorted by segments that are reported to the chief operating decision-makers on a regular basis. Corporate expenses and similar are allocated to the segments proportionately based on estimated split of services delivered to each segment. Please refer to note 32 'Accounting policies', paragraph D, for further information on segment reporting.

The segment reporting below is presented according to internal management reporting, based on the proportionate consolidation method of accounting for joint ventures. The bridge between the management reporting and the figures reported in the financial statements is presented below. Please refer to note 26 'Investment in associates and joint ventures' for further information on joint arrangements.

The Group divides its business activities into four geographical regions, based on the location of clients; Europe/West Africa, Australasia, Brazil and North America. As the clients' operations are offshore and the operating equipment and employees used in various geographical regions often are the same, no data is given on assets, liabilities, investments and employees as this would not provide any additional value.

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Amounts in NOK million

Profit and loss

2016	Note	Management reporting			Financial Statements	
		Subsea projects	Chartering of vessels	Total	Reconciliation to equity method	Total
Operating income	5	3 545	1 881	5 426	-328	5 099
Operating profit before depreciation (EBITDA)		396	1 505	1 901	-137	1 764
Depreciation and impairment (*)	11	-528	-833	-1 361	43	-1 318
Operating profit (EBIT)		-132	672	540	-94	446
Net financial income / loss excl. unrealised net gain / loss on derivative instruments and currency position (*)	8	-287	-453	-740	88	-652
Unrealised net gain / loss on derivative instruments and currency position (*)	8	198	313	511	-38	473
Profit / loss before tax		-221	532	311	-45	266
Tangible assets	11	6 413	5 537	11 950	-	11 950
Tangible assets jointly controlled companies	26	-	4 580	4 580	-4 580	-
Total tangible assets		6 413	10 117	16 530	-4 580	11 950
2015	Note	Management reporting			Financial Statements	
		Subsea projects	Chartering of vessels	Total	Reconciliation to equity method	Total
Operating income	5	4 810	2 442	7 252	-360	6 891
Operating profit before depreciation (EBITDA)		509	1 785	2 294	-194	2 100
Depreciation and impairment (*)	11	-273	-467	-740	37	-703
Operating profit (EBIT)		236	1 318	1 554	-157	1 397
Net financial income / loss excl. unrealised net gain / loss on derivative instruments and currency position (*)	8	-211	-362	-573	-11	-584
Unrealised net gain / loss on derivative instruments and currency position	8	-165	-520	-685	93	-592
Profit / loss before tax		-140	436	296	-75	221
Tangible assets	11	5 625	7 800	13 425	-	13 425
Tangible assets jointly controlled companies	26	-	1 836	1 836	-1 836	-
Total tangible assets		5 625	9 636	15 261	-1 836	13 425

(*) Cost allocation based on share of tangible assets at year-end

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Amounts in NOK million

5 Operating income

Geographical distribution of operating income 2016	Norway	Great Britain	Brazil	Australia	Singapore	USA	Other	Total
Operating income	840	942	681	701	52	672	1 211	5 099

Geographical distribution of operating income 2015	Norway	Great Britain	Brazil	Australia	Singapore	USA	Other	Total
Operating income	1 612	1 365	847	847	243	908	1 069	6 891

Geographical distribution of operating income is based on the location of clients. No singular customer exceeds 10% of total operating income.

Please refer to note 32 'Accounting policies', paragraph Q, for information on revenue recognition.

6 Payroll expenses

Payroll expenses	Note	2016	2015
Salaries and holiday pay	24	-887	-1 104
Contract labour on vessels		-471	-565
Employer's contributions		-122	-153
Pension costs		-34	-42
Other personnel costs		-97	-187
Total payroll expenses		-1 611	-2 051
Number of employees (at year-end)		1 278	1 566

Pension costs above include defined benefit and defined contribution pension plans. Please refer to note 32 'Accounting policies', paragraph S, for information on employee benefits.

As of 31 December 2016, the Group's defined pension plan benefit covered a total of 85 employees (102 in 2015) and 8 persons in retirement (8 in 2015). The Group's defined pension plan benefit is invested with an insurance company, which manages the pension plan. Pension obligations as of 31 December 2016 were NOK 12 million (NOK 12 million). The pension obligations are included in other non-current liabilities.

7 Other operating expenses

Other operating expenses	2016	2015
Vessel time charter hire	-406	-897
Technical costs	-121	-164
Hired personnel	-370	-712
Equipment cost	-526	-508
Bunkers	-114	-142
Administration cost	-255	-262
Other operating expenses	-255	-428
Total other operating expenses	-2 047	-3 113

8 Financial income and expenses

Financial income and expenses	Note	2016	2015
Interest income		49	41
Other financial income		10	9
Financial income		59	50
Interest expenses		-484	-597
Capitalisation of interest	11	-	30
Interest expenses payable to DOF ASA companies	23	-18	-31
Other financial expenses		-28	-15
Financial expenses		-530	-613
Realised foreign currency net gain / loss on non-current debt		-161	117
Realised foreign currency net gain / loss on current receivables / liabilities		-	102
Realised net gain / loss on financial derivatives		-21	-240
Realised net gain / loss on derivative instruments and currency position		-181	-21
Unrealised foreign currency net gain / loss on non-current debt		293	-668
Unrealised foreign currency net gain / loss on current receivables / liabilities		-22	-8
Net change in unrealised gain / loss on financial derivatives		201	84
Unrealised net gain / loss on derivative instruments and currency position		473	-592
Net financial income / loss		-179	-1 176

Please refer to note 32 'Accounting policies', paragraph E, for information on conversion of foreign currency and note 32 'Accounting policies', paragraph U, for information on financial derivatives.

9 Tax

Income tax expense	2016	2015
Current tax on profits for the year	-58	-118
Adjustments in respect to prior years	-3	7
Change in deferred tax	-43	83
Impact on change in tax rate on deferred tax	-7	-17
Total income tax expense	-111	-44

The tax on the Group's profit before tax differs from the theoretical amount, calculated by using domestic tax rates applicable to profits of each subsidiary as follows:

Reconciliation of nominal and effective tax rate	2016	2015
Profit before tax	266	221
Tax calculated at domestic tax rates applicable to profits in the respective countries*	24	35
Tax effect of:		
Expenses not deductible for tax purposes	-9	-4
Unrecognised tax losses and temporary differences	-114	-76
Adjustments in respect to prior years	-3	10
Impact on change in tax rate	-7	-17
Withholding taxes and effect of different tax regimes	-46	-46
Associates and joint ventures results reported net of tax	43	54
Total income tax expense	-111	-44

* Domestic tax rates applicable to the Group vary between 0% and 35%.

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Amounts in NOK million

Tax effect other comprehensive income	2016		
	Before tax	Income tax	After tax
Currency translation differences	-7	7	-
Share of other comprehensive income of associates and joint ventures	231	-	231
Other comprehensive income	224	7	231

Tax effect other comprehensive income	2015		
	Before tax	Income tax	After tax
Currency translation differences	75	-2	73
Cash flow hedges	29	-6	23
Share of other comprehensive income of associates and joint ventures	-450	-	-450
Other comprehensive income	-346	-8	-354

The gross movement on the deferred tax in the statement of financial position	2016	2015
At 01.01	-318	-258
Tax related to comprehensive income	56	-67
Tax related to components of other comprehensive income	-7	8
At 31.12	-269	-317

Deferred tax

The table below specifies the temporary differences between accounting and tax values, and the calculation of deferred tax/tax assets at year-end. The Group's deferred tax assets are reviewed for impairment. Deferred tax assets from tax loss carried forward are expected to be offset against taxable income within a period of 4-8 years.

Basis for deferred tax	2016	2015
Non-current assets	568	614
Current assets	6	15
Liabilities	-263	-550
Tax position related to sold assets	119	149
Other differences	-36	20
Total temporary differences	394	248
Temporary differences not included as deferred tax (+)	63	-7
Total temporary differences included as deferred tax	456	241
Tax loss carried forward*	-2 112	-1 767
Tax loss not included as deferred tax asset	569	301
Tax loss included as deferred tax assets (-)	-1 543	-1 466
Basis for calculating deferred tax / tax asset (-)	-1 086	-1 225
*Tax losses carried forward from subsidiaries taxed under the shipping tonnage tax regime are excluded.		
Deferred tax / tax asset (-) calculated at domestic tax rates (17-35%)	-269	-318
Deferred tax (included in other non-current liabilities)	1	2
Deferred tax asset	269	320
Total deferred tax / tax asset (-) recognised in the statement of financial position	-269	-318

Tax-loss carried forward recognised as deferred tax asset per country

Country	Tax-loss carried forward	Temporary differences	Tax rate	Deferred tax asset
Norway	1 270	-581	24%	165
Brazil	112	38	34%	51
Singapore	123	44	17%	28
Other countries	38	43	30%	25
Total	1 543	-456		269

For information on current and deferred tax, please refer to note 32 'Accounting policies', paragraph R.

10 Goodwill

Goodwill is allocated to the Group's cash-generating units identified according to the operating segment. The Group operates in two segments, Subsea projects and Chartering of vessels.

2016	Subsea projects	Chartering of vessels	Total
Book value at 01.01	257	221	478
Cost at 01.01	251	262	513
Cost at 31.12	251	262	513
Impairment at 01.01	-72	-41	-113
Impairment	-72	-	-72
Accumulated currency translation differences	45	-	45
Total adjustments at 31.12	-99	-41	-140
Book value at 31.12	152	221	373

2015	Subsea projects	Chartering of vessels	Total
Book value at 01.01	237	239	477
Cost at 01.01	251	276	527
Sale of DOFTech DA	-	-14	-14
Cost at 31.12	251	262	513
Impairment at 01.01	-52	-41	-93
Impairment	-20	-	-20
Accumulated currency translation differences	78	-	78
Total adjustments at 31.12	6	-41	-35
Book value at 31.12	257	221	478

The recoverable amount of the goodwill related to CSL UK Ltd is calculated to NOK 10 million, and an impairment of NOK 72 million is recognised in 2016. The test was performed using a nominal WACC of 9.8% and a growth rate equivalent to expected inflation for the period beyond 2021. See note 3 'Accounting estimates and assessments' for description about changes in allocation of goodwill and expected market development.

Sensitivity analysis

Negative changes in EBITDA margin with 20% or negative changes in WACC with 300 basis points might result in impairment for all or parts of the goodwill in the Subsea projects segment. A 10% drop in the broker estimates will not result in impairment of goodwill for the Chartering of vessels segment. The Group use an EBITDA margin in the range of -3.5-10% and a nominal WACC before tax of 9.8% in its impairment calculations. There is no real growth element in the calculations. See also note 3 'Accounting estimates and assessments' for further information about the impairment test and growth.

Excess values related to operation of vessels, exceeds the book value of goodwill in Chartering of vessels segment.

For information of sensitivity analysis on vessels, see note 11 'Tangible assets (incl. commitments)'.

Please refer to note 32 'Accounting policies', paragraph K, and note 3 'Accounting estimates and assessments' for further information on goodwill.

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Amounts in NOK million

11 Tangible assets (incl. commitments)

2016	Vessels	Periodic maintenance	ROVs	Machinery & other equipments	Newbuilds incl. equipment	Total
Cost at 01.01	13 038	520	1 432	756	7	15 755
Additions	183	197	12	73	53	518
Disposals	-894	-55	-	-28	-	-977
Reallocation	-27	-	40	-17	-32	-36
Currency translation differences	98	14	7	-7	-	112
Cost at 31.12	12 399	676	1 491	777	28	15 371
Depreciation at 01.01	-1 194	-285	-463	-298	-	-2 241
Depreciation for the year	-220	-115	-158	-97	-	-590
Depreciation eliminated on disposals	67	21	-	9	-	97
Reallocation	22	-	3	5	-	31
Currency translation differences	-9	-6	-3	4	-	-14
Depreciation at 31.12	-1 334	-385	-621	-377	-	-2 717
Impairment at 01.01	-80	-	-6	-3	-	-89
Impairment for the year	-632	-	-5	-19	-	-656
Impairment eliminated on disposals	42	-	-	-	-	42
Impairment at 31.12	-670	-	-11	-22	-	-703
Book value at 31.12	10 395	291	859	378	28	11 950
Asset lifetime (years)	20	2.5-5	10-12	5-15	-	
Depreciation schedule	*)	Linear	Linear	Linear	Not applicable	

*) residual value varies based on market valuation of the vessel

2015	Vessels	Periodic maintenance	ROVs	Machinery & other equipments	Newbuilds incl. equipment	Total
Cost at 01.01	11 783	536	1 312	699	255	14 585
Additions	623	114	137	111	2 379	3 364
Disposals	-1 253	-35	-	-34	-	-1 322
Reallocation held for sale	-527	-25	-	-	-	-552
Vessel completed	2 522	35	70	-	-2 626	-
Reallocation	8	-88	-80	-53	-	-215
Currency translation differences	-117	-17	-6	33	-	-107
Cost at 31.12	13 038	520	1 432	756	7	15 755
Depreciation at 01.01	-1 541	-301	-321	-279	-	-2 441
Depreciation for the year	-236	-99	-176	-83	-	-594
Depreciation eliminated on disposals	477	28	-	15	-	519
Reallocation held for sale	72	3	-	-	-	75
Reallocation	36	89	35	36	-	196
Currency translation differences	-1	-5	-1	13	-	5
Depreciation at 31.12	-1 194	-285	-463	-298	-	-2 241
Impairment at 01.01	-	-	-	-	-	-
Impairment for the year	-80	-	-6	-3	-	-89
Impairment at 31.12	-80	-	-6	-3	-	-89
Book value at 31.12	11 764	235	963	455	7	13 425
Asset lifetime (years)	20	2.5-5	10-12	5-15	-	
Depreciation schedule	*)	Linear	Linear	Linear	Not applicable	

*) residual value varies based on market valuation of the vessel

Disposals

Skandi Protector and Skandi Santos were delivered to new owners during 2016.

Newbuilds

Year-end newbuild balance relates to other subsea equipment under construction.

Asset held for sale

At 31 December 2015 the vessel Skandi Protector was classified as asset held for sale. The vessel was delivered to the new owner in January 2016.

Impairment

Vessel	Impairment	Basis for recoverable amount	Segment	Measurement level
Geograph	48	Fair value less cost of disposal	Chartering of vessels	3
Geoholm	84	Fair value less cost of disposal	Subsea projects	3
Geosund	75	Fair value less cost of disposal	Subsea projects	3
Skandi Achiever	19	Fair value less cost of disposal	Subsea projects	3
Skandi Hercules	156	Fair value less cost of disposal	Subsea projects	3
Skandi Neptune	124	Fair value less cost of disposal	Subsea projects	3
Skandi Skansen	84	Fair value less cost of disposal	Subsea projects	3
Skandi Patagonia	43	Fair value less cost of disposal	Chartering of vessels	3
Total impairment to Vessels	632			
Total book value of impaired vessels	3 638			

Depreciation and impairment	Note	2016	2015
Depreciation tangible asset		590	594
Impairment tangible asset		656	89
Impairment Goodwill	10	72	20
Depreciation and impairment		1 318	703

The drop in oil price starting in 2014 has resulted in reduced activity and demand for vessels in the oil service industry. The weakening market has led to impairments for some of the Group's vessels.

For further information about tangible assets see note 3 'Accounting estimates and assessments' and for further information about measurement level see note 20 'Fair value estimation'.

Sensitivity analysis of impairment

A 10% drop in broker estimates as per 31 December 2016 will bring broker value below book value by additional NOK 480 million. In total this will affect 10 of the Group's vessels. This effect might result in an additional impairment loss for the Group. An impairment test will in addition consider possible positive contract values and other elements in a value in use calculation.

Broker estimates calculated in USD have dropped significantly in the period 2014-16. However, the change in the USDNOK exchange rate has partly offset the drop in broker estimates when converting the values to NOK. When testing the reasonableness of broker estimates, the Group has concluded that the implied rates and utilisation in the broker estimates are within the range of budgets and forecasts. While testing the reasonableness of the broker estimates the Group has applied a nominal WACC after tax of 8.3%.

DOF Subsea has a new fleet of vessels and as a result, the future cash flows for the vessels are long. The key assumptions in a discounted cash flow calculation of vessels are utilisation and charter rates. Changes in these assumptions would have considerable effects on the net present value of the vessels.

Finance leases of tangible assets

The Group's assets held under finance leases include several ROVs. For further information on these, please refer to note 12 'Leases' and note 32 'Accounting policies', paragraph I and J.

12 Leases

Operating leases of tangible assets - the Group as lessee

Overview of future minimum lease payments	Within 1 year	2-5 years	After 5 years	Total
Minimum operating lease payments falling due in the periods	130	169	19	318

In 2016 the Group leased 4 vessels: Harvey Deep-Sea, Skandi Chieftain, Skandi Flora and Normand Reach. Harvey Deep-Sea is utilised in the Gulf of Mexico. Normand Reach was utilised in the North Sea and was redelivered to its owners in July 2016. Skandi Chieftain and Skandi Flora were utilised in North America.

The Group has entered into a Letter of Intent with Canadian Subsea Shipping Company, an associated company, to lease a subsea vessel on a bareboat charter from medio 2017. The figures stated above do not reflect this lease. For further information on this arrangement, please refer to note 26 'Investments in associates and joint ventures'.

Within the Subsea projects segment, the Group leases third-party vessels on short-term basis depending on operational requirements in order to service the Group's clients.

The lease on the head office is described in note 23 'Related parties'. Yearly lease fee for head office is NOK 10.3 million. For further information on leases, please refer to note 32 'Accounting policies', paragraph J.

Operating lease income - the Group as lessor

DOF Subsea Group acts as a lessor in connection to operating leases. The leases relate to the time charter and bareboat contracts on vessels. Vessels on operating lease are recognised as tangible assets, see note 11 'Tangible assets'. Lease payments received are recognised in the statement of comprehensive income. Future minimum operating lease income arising from contracts on vessels at year-end 2016. All contracts in foreign currency are converted to NOK using the exchange rate at 31 December 2016;

Overview of future minimum lease revenue	Within 1 year	2-5 years	After 5 years	Total
Minimum operating lease income amounts falling due in the periods	1 036	2 101	653	3 790
Total minimum operating lease income including joint ventures due in the periods	1 874	7 541	6 489	15 905

At year-end, 10 vessels (14 vessels in 2015) were operating in the Chartering of vessels segment and are classified as operating leases. Total future minimum operating lease income from firm contracts is NOK 3 790 million (NOK 7 182 million) and together with options amounts to NOK 6 178 million (NOK 11 396 million).

Total future minimum operating lease income includes firm contracts from DOF Subsea Group vessels and the Group's share of vessels in the joint ventures. Joint ventures are accounted for using equity method, see notes 26 'Investments in associates and joint ventures' for further information. Total future minimum operating lease income from firm contracts together with options amounts to a total of NOK 30 billion (NOK 33 billion), and including contracts in the Subsea projects segment the total backlog for the Group was NOK 37 billion at year-end 2016 (NOK 39 billion).

Please refer to note 32 'Accounting policies', paragraph J, for further information on operating leases.

Finance leases of tangible assets - the Group as lessee

The Group's assets held under finance leases include several ROVs. In addition to the lease payments, the Group is also committed to maintaining and insuring the assets. The assets held under finance leases are as follows:

Finance leases	2016	2015
Cost at 01.01	558	429
Additions	39	128
Cost at 31.12	597	558
Depreciation at 01.01	-74	-31
Depreciation for the year	-50	-43
Depreciation at 31.12	-124	-74
Impairment at 01.01	-	-
Impairment for the year	-3	-
Impairment at 31.12	-3	-
Book value at 31.12	470	484

ROVs under finance leases are recognised as part of tangible assets, please refer to note 11 'Tangible assets'.

DOF Subsea Group

Amounts in NOK million

Overview of future minimum lease payments	Within 1 year	2-5 years	After 5 years	Total
Minimum lease amounts falling due in the periods	74	194	45	313

For information on repayment of lease debt please refer to note 17 'Interest-bearing debt'.

Some of the Group's ROVs held under finance leases are further directly subleased to external clients. Lease payments received are recognised in the statement of comprehensive income. Future minimum sublease income arising from these contracts at year-end 2016 is shown in the table below:

Overview of future minimum sublease income	Within 1 year	2-5 years	Total
Minimum sublease income falling due in the periods	15	10	26

13 Non-current receivables

Non-current receivables	Note	2016	2015
Non-current receivables from DOF ASA companies	23	109	99
Non-current receivables from joint ventures and associated companies	23	944	689
Derivative financial instruments	21	37	3
Other non-current receivables		79	67
Total non-current receivables at 31.12		1 169	858

14 Trade receivables

Trade receivables	2016	2015
Trade receivables at nominal value	560	823
Accrued income not invoiced	258	368
Impairment of trade receivables	-27	-39
Total trade receivables at 31.12	791	1 152

Currency specification at 31.12.2016	NOK	USD	GBP	AUD	Other	Total
Trade receivables	116	265	62	272	75	791

Aging profile	Total	Not matured	< 30 d	30-60 d	60-90 d	>90d
Trade receivables at nominal value	560	321	102	15	22	100

Currency specification at 31.12.2015	NOK	USD	GBP	AUD	Other	Total
Trade receivables	258	315	56	360	162	1 152

Aging profile	Total	Not matured	< 30 d	30-60 d	60-90 d	>90d
Trade receivables at nominal value	823	502	185	42	25	69

The majority of the Group's trade receivables are to major international oil companies and major subsea entrepreneurs. Historically the Group has a low level of bad debts. For further information about credit risk see note 2 'Financial risk management'. Within the Subsea projects segment, payment milestones in the contracts and variation orders impact the cash collection for the Group and potentially lead to short-term fluctuations in trade receivables.

For further information on trade receivables, please see note 32 'Accounting policies', paragraph H.

15 Other current receivables

Other current receivables	Note	2016	2015
Receivables from DOF companies	23	106	200
Receivables from joint ventures	23	4	-
Government taxes receivable (VAT)		59	65
Prepaid expenses		54	79
Insurance claims		8	8
Accrued interest income		6	8
Derivatives financial instruments		28	8
Fuel reserves and other inventory		48	39
Other current receivables		3	1
Total other current receivables at 31.12		317	408

16 Cash and cash equivalents

Cash and cash equivalents	2016	2015
Restricted cash	305	390
Unrestricted cash and cash equivalents	757	1 074
Total cash and cash equivalents	1 062	1 464

A non-current loan has been provided by Eksportfinans and is invested as a restricted deposit. The repayment terms on the loan from Eksportfinans are equivalent to the reduction of the deposit, i.e. recognised in the financial statements on a gross basis. The loan will be fully repaid in 2020. The cash deposit is included in restricted deposits with a total of NOK 305 million (NOK 390 million in 2015). For further information on cash and cash equivalents, please refer to note 32 'Accounting policies', paragraph G.

17 Interest-bearing debt

Debt

The DOF Subsea Group had as per year-end 2016 one bond loan, which matures in May 2018. The trustee on behalf of the bond holders is Nordic Trustee ASA, while the account manager is Nordea Bank Norge ASA. Interest rates are fixed and paid on a quarterly basis. No particular security has been provided for the loan and the Group is free to acquire its own bond.

Non-current interest-bearing debt	2016	2015
Bond loan, floating rate	1 297	1 293
Debt to credit institutions	7 208	8 288
Total non-current interest-bearing debt	8 505	9 581
Current interest-bearing debt		
Bond loan, floating rate	-	422
Debt to credit institutions	1 033	1 556
Total current interest-bearing debt	1 033	1 977
Total non-current and current interest-bearing debt	9 538	11 558
Net interest-bearing debt		
Cash and cash equivalent	1 062	1 464
Other interest-bearing assets - non-current	119	99
Total net interest-bearing debt	8 357	9 995

Current portion of debt in the statement of financial position includes accrued interest expenses. Accrued interest expenses are excluded in the current interest-bearing debt above.

DOF Subsea Group

Amounts in NOK million

Debt repayment profile	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017	2018	2019	2020	2021	Thereafter	Total
Bond loan	-	-	-	-	-	1 300	-	-	-	-	1 300
Debt to credit institutions	240	271	238	284	1 033	1 059	1 823	1 752	841	1 769	8 277
Total repayment	240	271	238	284	1 033	2 359	1 823	1 752	841	1 769	9 577
Interest payment profile	82	101	88	102	373	297	206	156	88	140	1 260

Interest payment is based on current repayment profile on existing debt and the yield curve for the underlying market interests rates from Reuters as of December 2016. Amortised costs are not included in the repayment profile above.

Repayment profile for debt to credit institutions includes repayment of financial lease debt. Total liability on financial lease debt amounts to NOK 313 million as of 31 December 2016. Financial leases are repaid on a monthly basis with maturity from 3 till 10 years. The current portion of financial lease debt as of 31 December 2016 is NOK 74 million. For further information on financial leases, please refer to note 12 'Leases'.

Liabilities secured by mortgage	2016	2015
Liabilities to credit institutions, incl. leases	7 871	9 389
Book value of assets pledged as security*	11 139	12 756
Average rate of interest	4.59%	5.55%

Currency distribution current liabilities	NOK	USD	TOTAL
Bond loan	-	-	-
Debt to credit institutions	585	448	1 033
Total	585	448	1 033

*For some of the vessels receivables are pledged as security.

Debt to credit institution in USD is revaluated to NOK using USDNOK exchange rate as per 31 December 2016.

A mortgage loan of NOK 305 million (NOK 390 million in 2015) is secured by a cash deposit, see note 16 'Cash and cash equivalents'. Interest rate and derivative instruments on the cash deposit cover the debt repayment on the loan.

The fair value of the Company's bond loans at year-end was as follows:

Loan		31.12.2016		31.12.2015	
		Fair value	Outstanding	Fair value	Outstanding
DOF Subsea AS 11/16 FRN	DOFSUB05	-	-	99.70	422
DOF Subsea AS 13/18 FRN	DOFSUB07	83.13	1 300	83.50	1 300

Financial covenants

The Group's non-current financing agreements include the following covenants:

- The Group shall have available cash of at least NOK 300-500 million at all times
- The Group shall have value-adjusted equity to value-adjusted assets of at least 30%
- The Group shall have book equity of at least NOK 3 000 million at all times
- The Group shall have positive working capital at all times, excl. current portion of debt to credit institutions
- The fair value of the Group's vessels shall always be at least 100-130% of the outstanding loan amount

In addition to the above-mentioned financial covenants, the loan agreements are also subject to the following conditions:

- The Group's assets shall be fully insured
- There shall not be any change to classification, flag, management or ownership of the vessels without the prior written approval of the lenders
- DOF ASA shall be the principal shareholder in DOF Subsea AS, and own a minimum of 50.1% of the shares
- DOF Subsea AS shall not merge, demerge or divest activities without the prior written approval of the lenders
- DOF Subsea AS shall report financial information to the lenders and Oslo Stock Exchange on a regular basis
- The Group's vessels shall be operated in accordance with applicable laws and regulations

The Group is in compliance with all covenants at year-end 2016.

For further information on interest-bearing debt, please refer to note 32 'Accounting policies', paragraph L.

18 Trade payables

Currency specification at 31.12.2016	NOK	USD	GBP	Other	Total
Trade payables	131	160	87	121	500

Other currencies in the table above include Australian dollars (AUD) of NOK 40 million and Brazilian Real (BRL) of NOK 20 million.

Currency specification at 31.12.2015	NOK	USD	GBP	Other	Total
Trade payables	278	307	81	172	838

Other currencies in the table above include Australian dollars (AUD) of NOK 91 million and Brazilian Real (BRL) of NOK 28 million.

19 Other current liabilities

Other current liabilities	Note	2016	2015
Current liabilities to DOF ASA companies	23	115	132
Tax payables	9	36	43
Public duties payables		21	35
Prepayment from customers		6	45
Financial current derivatives		87	170
Other current liabilities		82	100
Total other current liabilities at 31.12		347	526

20 Fair value estimation

Total measurement level 1 (Quoted, unadjusted prices in active markets for identical assets and liabilities)

Fair value of interest-bearing debt is disclosed with face value of the market value of bonds.

Total measurement level 2 (Techniques for which all inputs which have significant effect on the recorded fair value are observable, directly and indirectly)

The fair value of forward exchange contracts is determined using the forward exchange rate at the statement of financial position date. The forward exchange rate is based on the relevant currency's interest rate curves. The fair value of interest swaps is determined by the present value of future cash flows, which is also dependent on the interest curves.

Total measurement level 3 (Techniques which use inputs which have significant effect on the recorded fair value that are not based on observable market data)

The fair value of the Group's assets are assessed by obtaining independent quarterly broker estimates from recognised brokers within the industry. Net sales value is calculated based on an average of the brokers' values, taken into account sales commission. This is further adjusted for any excess values in the incumbent contract.

21 Financial instruments and hedging activities

As of 31 December 2016 the Group had 25 forward contracts, 42 option contracts and 5 foreign exchange swaps to hedge future sales to customers. Foreign exchange derivatives are utilised to hedge currency risk related to projected future sales. Interest rate swaps are utilised to manage interest rate risk by converting from floating to fixed interest rates. The Group has currently not applied hedge accounting for any hedging activities.

The following table displays the fair value of financial derivatives as of 31 December:

Non-current and current portion	Measurement level	2016		2015	
		Assets	Liabilities	Assets	Liabilities
Interest rate swaps	2	25	80	8	193
Foreign exchange contracts	2	40	105	3	139
Total non-current and current portion		66	185	12	332
Non-current portion					
Interest rate swaps	2	25	80	-	147
Foreign exchange contracts	2	12	18	3	16
Total non-current portion		37	98	3	163
Total current portion		28	87	8	170

Derivatives are classified as current or non-current assets or liabilities. The full fair value of a derivative is classified as non-current asset or liability if the remaining maturity is more than 12 months, and as a current asset or liability, if the maturity is less than 12 months. For further information on derivative financial instruments, please see note 32 'Accounting policies', paragraph U.

As of 31.12 the Group held the following interest rate derivatives, not qualified for hedge accounting

Instruments	Fixed rate	Floating rate	Notional amount	Effective from	Maturity date
31.12.2016					
Interest rate swaps / swaptions - USD	1.43%	LIBOR 3m	50	2016	2021
Interest rate swaps / swaptions - NOK	0.85% - 4.41%	NIBOR 3m - 6m	3 250	2011 - 2016	2018 - 2021
31.12.2015					
Interest rate swaps / swaptions - USD	1.93% - 3.57%	LIBOR 3m - 6m	216	2011 - 2012	2016
Interest rate swaps / swaptions - NOK	1.90% - 4.97%	NIBOR 3m - 6m	3 500	2011 - 2015	2016 - 2020

As of 31.12 the Group held the following foreign exchange rate derivatives, not qualified for hedge accounting

Instrument	Committed		Amount	Remaining term to maturity
	Received			
31.12.2016				
Foreign exchange options	NOK		526	< 1 Year
Foreign exchange options	NOK		392	> 1 Year
Foreign exchange forwards	NOK		1 698	< 1 Year
Foreign exchange swaps	NOK		598	< 1 Year
31.12.2015				
Foreign exchange options	NOK		849	< 1 Year
Foreign exchange options	NOK		257	> 1 Year
Foreign exchange forwards	NOK		911	< 1 Year
Foreign exchange swaps	NOK		456	< 1 Year

22 Financial instruments - by category

This note gives an overview of the carrying value of the Group's financial instruments and the accounting treatment of these instruments. The table is the basis for further information regarding the Group's financial risk.

31.12.2016	Financial instruments at fair value through comprehensive income	Financial instruments measured at amortised cost	Loans and receivables	Total	Of which included in interest bearing debt
Assets					
Non-current derivatives	37	-	-	37	-
Other non-current receivables	-	-	1 132	1 132	119
Trade receivables and other current receivables	-	-	1 031	1 031	-
Current derivatives	28	-	-	28	-
Restricted deposits	-	-	305	305	305
Unrestricted cash	-	-	757	757	757
Total financial assets	66	-	3 225	3 291	1 181
Liabilities					
Derivatives non-current	98	-	-	98	-
Interest-bearing non-current liabilities	-	8 505	-	8 505	8 505
Current portion of debt	-	1 114	-	1 114	1 033
Other non-current liabilities	-	17	-	17	-
Current derivatives	87	-	-	87	-
Trade payables and other current liabilities	-	760	-	760	-
Total financial liabilities	185	10 396	-	10 581	9 538

31.12.2015	Financial instruments at fair value through comprehensive income	Financial instruments measured at amortised cost	Loans and receivables	Total	Of which included in interest bearing debt
Assets					
Non-current derivatives	3	-	-	3	-
Other non-current receivables	-	-	855	855	99
Trade receivables and other current receivables	-	-	1 513	1 513	-
Current derivatives	8	-	-	8	-
Restricted deposits	-	-	390	390	390
Unrestricted cash	-	-	1 074	1 074	1 074
Total financial assets	12	-	3 832	3 843	1 563
Liabilities					
Derivatives non-current	163	-	-	163	-
Interest-bearing non-current liabilities	-	9 581	-	9 581	9 581
Current portion of debt	-	2 082	-	2 082	1 977
Other non-current liabilities	-	22	-	22	-
Current derivatives	170	-	-	170	-
Trade payables and other current liabilities	-	1 195	-	1 195	-
Total financial liabilities	333	12 880	-	13 213	11 558

Prepayments and non-financial liabilities are excluded from the disclosures above.

The following of the Group's financial instruments are measured at amortised cost: cash and cash equivalents, trade receivables, other current receivables, overdraft facilities and all interest-bearing debt.

The carrying amount of cash and cash equivalents and overdraft facilities is approximately equal to fair value since these instruments have a short term to maturity. Similarly, the carrying amount of trade receivables and trade payables is approximately equal to fair value since they are entered into standard terms and conditions.

The fair value of the interest-bearing debt is the disclosed face value of the bank loans and market value of bonds.

For further information on financial instruments, please refer to note 32 'Accounting policies', paragraph T.

23 Related parties

Description of related parties and the DOF Subsea Group's relationship to these:

DOF ASA is the majority shareholder in DOF Subsea Holding AS with a 51% holding on 31 December 2016. DOF Subsea AS is 100% owned by DOF Subsea Holding AS. First Reserve Corporation controls the minority share of 49% in DOF Subsea Holding AS.

DOF ASA controls companies which hire vessels, and deliver goods and services to companies in the Group. Furthermore, the Group has contracts covering leasing of assets and delivering of services to DOF ASA companies. All related parties transactions and contracts are subject to standard terms and Group policies, and are entered into based on arm's length principle.

Operating income from DOF ASA companies	2016	2015
Vessel hire	260	277
Hire of ROV equipment and services	44	57
Other income	16	4
Total	320	338
Operating expenses to DOF ASA companies		
Vessel hire	32	90
Crew and other personnel hire	394	435
Vessel technical costs	66	88
Management fee vessels	59	69
Other management services and IT costs	83	67
Total	635	749

Vessel hire

The Group hire vessels from and to DOF ASA companies based on the demands in the market and available tonnage.

Skandi Chieftain and Skandi Flora were hired from DOF ASA companies in 2016.

Hire of ROV equipment and services

Some of the Group's ROVs are hired by DOF ASA companies. The ROVs are operated by DOF Subsea personnel.

Crew and other personnel hire

The Group hires marine crew from DOF ASA companies and external parties.

Vessel technical costs

Vessel technical costs are purchases done by DOF ASA companies on behalf of DOF Subsea Group.

Management fee vessels

The Group purchases management services from DOF Management AS and Norskan Offshore Ltda. for its entire fleet of owned vessels. The management fee in 2016 varied from NOK 3.6 million till NOK 4.5 million (NOK 3.3 million till NOK 4.6 million in 2015) per vessel.

Other management services and IT costs

Marin IT delivers IT services to the Group. Other management services (income and expenses) will include transactions such as hire of onshore staff, rental of office space and other reimbursable expenses invoiced from or to DOF ASA companies.

Leasing of premises

The Company has leased two cottages from Moco Eiendom AS, a company 100% owned by CEO Mons S. Aase. The total leasing cost in 2016 has been NOK 0.1 million (NOK 0.3 million). The agreement was terminated in 2016.

Guarantee agreement between DOF ASA and the Group

The Group has in June 2010 entered into a guarantee agreement with DOF ASA. DOF ASA has provided a parent company guarantee for obligations of DOF Subsea Brasil Serviços Ltda. and DOFCON Navegação Ltda. The outstanding loans guaranteed by DOF ASA amounts to USD 303 million as of 31 December 2016 (USD 330 million as of 31 December 2015).

DOF Subsea Group

Amounts in NOK million

Financial income and expenses from/to DOF ASA companies	2016	2015
Guarantee fees	-18	-31
Year-end balances arising from sales / purchases of goods / services related to DOF ASA companies	2016	2015
Current receivables	106	200
Current liabilities	115	132
Loans to DOF ASA companies		
Other non-current receivables	109	99

For further information related to DOF ASA, see financial statements for DOF ASA.

Loans to joint ventures and associated companies	2016	2015
Other non-current receivables from joint ventures	898	689
Other non-current receivables from associated companies	47	12

Loans are given from DOF Subsea AS to joint ventures and associated companies to finance the newbuilding programs. For joint venture companies, DOF Subsea AS also guaranteed 40% of the purchase price of each newbuild to the yard. For further information on joint ventures see note 26 'Investment in associates and joint venture'.

Year-end balances arising from sales / purchases of goods / services related to joint ventures	2016	2015
Current receivables	4	-

24 Remuneration to Board of Directors, Executives and Auditor

		2016		2015
Remuneration to Board of Directors, Executives, and Auditor	CEO	EVP	CEO	EVP
Salaries	0.3	3.5	2.5	6.3
Management fee	3.1	-	2.7	-
Payment from DOF Subsea	3.4	3.5	5.2	6.3

CEO=Mons Aase, EVP=Jan Nore

Salaries include pension, bonuses and other compensations from the Company. Senior executives are included in the general Group's pension plan, see note 6 'Payroll expenses'. For additional information on employee benefits, please refer to note 32 'Accounting policies', paragraph S.

For 2016 Jan Nore held the position as EVP and CFO for the Group. The EVP is entitled to a bonus based on the result of the company and personal performance.

The Group is part of the DOF ASA Group, see note 30 'Share capital and share information'. The contract with the CEO includes a 6 month termination period and 12 months termination compensation. The CEO's retirement compensation is based on 70% salary and the retirement age is set at 67 years. Cost related to CEO Mons Aase is included in the management fee between DOF ASA and DOF Subsea AS for 2016. Please refer to the DOF ASA annual report for further information of salary to CEO Mons Aase.

A loan of NOK 2.5 million has been given to both the CEO and EVP. The annual interest on the loans is 2% and the loans are to be repaid in 2019. There is sufficient security related to the loans. No other loans have been given to or any security provided for the members of the Board of Directors, members of the Group management or other employees or close relatives of the same Group.

The Board of Directors received no fees, nor compensation in fees in 2016.

Specification of Auditor's fee (excl. VAT)	2016	2015
Fee for audit of financial statements	6.4	5.8
Fee for other attestation services	-	0.1
Fee for other tax consultancy	0.2	0.5
Total	6.5	6.5

The Board has drawn up the following statement

The Board of Directors prepares annually a separate statement regarding the remuneration of executives in accordance with the Norwegian Public Limited Companies Act, Allmennaksjeloven § 6-16a. The following guideline is presented at the annual General Meeting in May.

Responsibilities and duties of the Compensation Committee

The Board of Directors has established a Compensation Committee. See statement on guidelines for defining salaries and other payments for the CEO and other senior executives of the Group below:

The following functions shall be the common recurring activities of the Committee in carrying out its responsibilities for establishing and reviewing the overall compensation philosophy of the Group. These functions should serve as a guide with the understanding that the Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory or other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the Board of Directors from time to time related to the purposes of the Committee.

The Committee, in discharging its oversight role, is empowered to study or investigate any matter of interest or concern that the Committee deems appropriate and shall have the sole authority to retain outside counsel or other experts for this purpose, including the authority to approve the fees payable to such counsel or experts and any other terms of retention.

The main principles guiding the Group's executive remuneration policy is that senior executives shall be offered terms which are competitive in terms of salary, benefits in kind, bonus and pension plan taken as a whole. The Company offers a salary level which reflects a comparable level in equivalent companies and businesses, taking into account the Company's need for well qualified staff in all parts of the business.

When it comes to setting salaries and other payments for senior executives, this must be in line with the principles outlined above at all times. Payments to senior executives over and above the basic salary shall be restricted to bonuses. Any bonus to the CEO is set by the Chairman of the Board. Bonuses to other senior executives are set by the CEO in conjunction with the Chairman of the Board. DOF Subsea AS does not have any schemes for granting options to purchase shares in the Company or in other companies within the Group. Senior executives are members of the Group's pension plan, which provides pension benefits not exceeding 12 G (G = national insurance basic amount) per year. Senior executives may have agreements concerning Company cars and phones, but do not receive any other benefits in kind. In the event of termination by the Company, there is no provision for senior executives to receive pay after termination of employment in excess of payment of salary for the period of notice equivalent to the number of months set down in the provisions of the Working Environment Act.

25 Companies within the Group

Subsidiary	Owner	Registered office	Proportion of ownership and votes
DOF Installer ASA	DOF Subsea AS	Austevoll, Norway	84.9%
DOF Subsea Angola Lda	DOF Subsea AS	Luanda, Angola	100%
DOF Subsea Asia Pacific Pte Ltd	DOF Subsea AS	Singapore	100%
DOF Subsea Asia Pacific Pte Ltd Philippine Branch	DOF Subsea Asia Pacific Pte Ltd	Muntinlupa City, Philippines	100%
DOF Subsea Brasil Serviços Ltda	DOF Subsea AS	Macaé, Brazil	100%
DOF Subsea Chartering AS	DOF Subsea AS	Bergen, Norway	100%
DOF Subsea Congo S.A.	DOF Subsea AS	Pointe-Noire, Republice du Congo	55%
DOF Subsea Norway AS	DOF Subsea AS	Bergen, Norway	100%
DOF Subsea Atlantic AS	DOF Subsea AS	Bergen, Norway	100%
DOF Subsea Rederi AS	DOF Subsea AS	Bergen, Norway	100%
DOF Subsea Rederi III AS	DOF Subsea AS	Bergen, Norway	100%
DOF Subsea S&P UK Ltd	DOF Subsea AS	Aberdeen, UK	100%
DOF Subsea UK Holding Ltd	DOF Subsea AS	Aberdeen, UK	100%
DOF Subsea UK Ltd	DOF Subsea AS	Aberdeen, UK	100%
DOF Subsea Ghana Ltd	DOF Subsea UK Ltd	Accra, Ghana	49%
DOF Subsea US Inc	DOF Subsea AS	Houston, USA	100%
Semar AS	DOF Subsea AS	Oslo, Norway	50%
PT DOF Subsea Indonesia	DOF Subsea Asia Pacific Pte Ltd	Jakarta, Indonesia	95%
DOF Subsea Labuan Bhd	DOF Subsea Asia Pacific Pte Ltd	Labuan, Malaysia	100%
DOF Subsea Australia PTY	DOF Subsea Asia Pacific Pte Ltd	Perth, Australia	100%
DOF Subsea Malaysia Sdn Bhd	DOF Subsea Asia Pacific Pte Ltd	Kuala Lumpur, Malaysia	100%
DOF Subsea Offshore Services Pte Ltd	DOF Subsea Asia Pacific Pte Ltd	Singapore	100%
DOF Subsea ROV AS	DOF Subsea AS	Bergen, Norway	100%
CSL UK Ltd	DOF Subsea Atlantic AS	Aberdeen, UK	100%
CSL Norge AS	DOF Subsea Atlantic AS	Bergen, Norway	100%
Mashhor DOF Subsea Sdn	DOF Subsea Australia Pty Ltd	Negara Brunei Darussalam	50%
DOF Subsea Canada Corp.	DOF Subsea US Inc	St. Johns, Canada	100%
DOF Subsea S&P US LLP	DOF Subsea US Inc	Houston, USA	100%

The profit or loss allocated to the non-controlling interest of subsidiaries is not material for the Group for 2016. For further information, please refer to note 32 'Accounting policies', paragraph C for information on subsidiaries and to note 32 'Accounting policies', paragraph P for information on transactions with non-controlling interests.

26 Investments in associates and joint ventures

Please refer to note 32 'Accounting policies', paragraph C, for discussion on joint arrangements.

2016	DOFCON Brasil Group	DOFTech DA	Associated companies	Total
Book value of investments 01.01	255	-	81	336
Profit / loss for the period	145	-	9	154
Other comprehensive income	230	-	-	230
Dividend	-	-	-3	-3
Book value of investments 31.12	630	-	87	717

2015	DOFCON Brasil Group	DOFTech DA	Associated companies	Total
Book value of investments 01.01	509	369	94	971
Adjustment opening balance	-	-	-1	-1
Profit / loss for the period*	123	48	-8	163
Other comprehensive income	-377	-	-	-377
Disposal of DOFTech	-	-417	-	-417
Dividend	-	-	-3	-3
Book value of investments 31.12	255	-	81	336

* Includes sales gain on DOFTech DA of NOK 43 million.

Name of entity	Place of business / country of incorporation	% of ownership interest	Measurement method
DOFCON Brasil Group	Norway	50%	Equity
DOF Management Group	Norway	34%	Equity
Marin IT AS	Norway	35%	Equity
Master and Commander AS	Norway	20%	Equity
Canadian Subsea Shipping Company AS	Norway	45%	Equity

Nature of the relationship

The Group has the joint venture DOFCON Brasil Group with TechnipFMC. DOFCON Brasil Group consists of DOFCON Brasil AS, TechDOF Brasil AS and DOFCON Navegação Ltda.

DOFCON Brasil AS is a holding company located in Bergen. It is jointly owned by DOF Subsea AS and Technip Coflexip Norge AS with 50% each.

DOFCON Brasil AS owns and controls TechDOF Brasil AS and DOFCON Navegação Ltda.

DOFCON Brasil Group owns three vessels and has three vessels under construction (one in Norway and two in Brazil).

DOFCON Navegação Ltda owns and operates Skandi Niterói and Skandi Vitória. Two other PLSVs are under construction in Brazil with high national content.

TechDOF Brasil AS owns and operates Skandi Açú and one newbuild, Skandi Buzios, is under construction at year-end 2016.

All PLSVs under construction are contracted with Petrobras and expected delivery for the vessels are 2017-2019. Financing for newbuilds are secured.

The Group has a liability to pay its share of vessels' purchase price. DOF Subsea AS guaranteed for 40% of the purchase price of each vessel to the yard, see also note 28 'Guarantees'.

DOFCON Brasil Group is not involved in any disputes or on-going legal matters involving potential losses, and therefore no provision has been made for possible claims arising from the same.

DOF Management performs ship management, ship operation and other related services to customers in the oil service industry. DOF Management Group delivers marine management to the DOF Subsea Group's fleet. The remaining 66% in DOF Management is owned by DOF ASA.

Marin IT AS delivers IT services. DOF Subsea Group is a customer of Marin IT AS. The remaining shares in Marin IT AS are owned by DOF ASA and Austevoll Seafood ASA.

Master & Commander AS owns two vessels Oceanic Phoenix and Geowave Commander. The vessels are on long-term contracts.

Canadian Subsea Shipping Company AS has a newbuilding contract for one vessel. DOF Subsea Group has entered into a Letter of Intent to lease the vessel on a bareboat charter from medio 2017. Financing of the vessel is in progress.

Summarised financial information for joint ventures

Statement of comprehensive income	2016		2015	
	DOFCON Brasil Group	DOFTech DA	DOFCON Brasil Group	DOFTech DA
Operating income	658	-	640	81
Operating expenses	-94	-	-54	-24
Operating profit before depreciation (EBITDA)	564	-	587	56
Depreciation and impairment	-86	-	-33	-31
Operating profit (EBIT)	478	-	554	25
Net financial income / loss	-99	-	-151	-13
Profit / loss before tax	379	-	403	12
Income tax expenses	-90	-	-151	-
Profit / loss for the year	290	-	252	12
Other comprehensive income / loss, net of tax	460	-	-754	-
Total comprehensive income / loss for the year, net of tax	750	-	-502	12

Statement of financial position

Assets				
Deferred tax asset	144	-	327	-
Tangible assets	9 142	-	3 671	-
Non-current assets	9 286	-	4 000	-
Total receivables	374	-	210	-
Cash and cash equivalents	255	-	295	-
Current assets	629	-	503	-
Total assets	9 914	-	4 504	-

Equity and liabilities

Total equity	1 261	-	511	-
Non-current liabilities	7 619	-	3 585	-
Current liabilities	1 035	-	408	-
Total liabilities	8 654	-	3 993	-
Total equity and liabilities	9 914	-	4 504	-

Figures above are consolidated with the use of the equity method. Financial statements of the joint ventures are not audited.

The figures above reflect the amounts presented in the financial statements adjusted for differences in accounting policies between the Group and companies in the joint venture.

DOF Subsea Group has no excess values recognised related to investment in joint ventures or associates at year-end 2016.

DOF Subsea Group

Amounts in NOK million

Summarised financial information for associates

2016

Associated companies	Assets at 31.12	Liabilities at 31.12	Equity at 31.12	Profit / loss for the year
DOF Management Group	151	99	53	12
Marin IT	21	12	9	-
Canadian Subsea Shipping Company AS	25	24	0,4	-
Master & Commander	90	66	24	-3
Group's carrying amount of the investment			87	9

2015

Associated companies	Assets at 31.12	Liabilities at 31.12	Equity at 31.12	Profit / loss for the year
DOF Management Group	149	108	41	-
Marin IT	24	16	9	1
Canadian Subsea Shipping Company AS	5	5	-	-
Master & Commander	116	84	31	4
Group's carrying amount of the investment			81	5

All amounts in the table above are DOF Subsea Group's share of assets, liabilities, shareholders' equity and profit/loss for the year. Financial statements of the associated companies are not audited.

27 Contingencies

The Group is not involved in any disputes or on-going legal matters involving potential losses, and therefore no provision has been made for possible claims arising from the same. Please refer to note 32 'Accounting policies', paragraph N, for discussion on contingent liabilities.

28 Guarantees

The Group has commitments to clients to ensure proper performance of construction contracts. These commitments are mainly parent company guarantees or counter guarantees given by banks. The guarantees are limited to fulfilment of the contract and are released after delivery of the project. In some cases, there is a warranty period after delivery of the project. Normally this warranty will have duration of 12-24 months.

Furthermore, guarantees are given to suppliers for fulfilment of payment for deliveries of goods and services including vessels. Liabilities for these deliveries are recognised in the consolidated statement of financial position.

See also note 11 'Tangible assets' for guarantees on delivery of newbuilds in the Group and note 26 'Investment in associates and joint venture' for future commitments related to newbuilds as part of the joint venture with TechnipFMC.

29 Earnings per share

Basis for calculating earnings per share	2016	2015
Profit / loss attributable to shareholders of the parent company	177	155
Weighted average number of outstanding shares	119 733 714	119 733 714
Weighted average number of outstanding shares, diluted	119 733 714	119 733 714
Basic and diluted earnings per share (NOK)	1.48	1.29

30 Share capital and share information

Share capital

The share capital in DOF Subsea AS was NOK 1 197 million comprising 119 733 714 shares, each with a nominal value of NOK 10.00.

Shareholder overview

Shareholders at 31.12.2016	No. of shares	Proportion of ownership	Share capital
DOF Subsea Holding AS	119 733 714	100%	1 197
Total	119 733 714	100%	1 197

Members of the Board of Directors and senior executives own shares in related companies, and thus have indirect ownership stakes in DOF Subsea Holding AS.

Board of Directors	Title
Helge Møgster	Chairman
Helge Singelstad	Director
Mons S. Aase	Director
Hilde Drønen	Director
Alex Townsend Krueger	Director
Neil John Hartley	Director
John Mogford	Director
Ryan Zafereo	Director
Management group	Title
Mons S. Aase	CEO
Jan Nore	CFO/EVP

The Company is a part of DOF ASA. Please refer to the DOF ASA annual report for shares held in DOF ASA by the management and the Board of Directors. The annual report is published at www.dof.no.

31 Events occurring after the consolidated statement of financial position date

In Asia Pacific, DOF Subsea was awarded a 3-year IMR frame agreement with one of the major Oil and Gas Companies in the region. In addition, a Safety Case has been secured for Geoholm, and the vessel will be available in the Asia Pacific region from the beginning of Q2 2017.

In February 2017, Geoholm was awarded a contract by Technip Oceania Pty Ltd, part of TechnipFMC in Australia, for the provision of ROV and light construction support services for the Shell Prelude FLNG project operated by Shell Australia.

In January the Atlantic region received a Letter of Award (LoA) from an Oil major for a 16-month IMR contract utilising Skandi Seven. The duration of the contract is over a year, and contract commencement was in Q1 2017.

In March the Atlantic region was awarded a contract for mooring installation of an FPSO in the North Sea on the UK Continental Shelf (UKCS). DOF Subsea will deploy the Skandi Skansen on the project along with several Anchor Handler vessels owned by the DOF Group.

In January Petrobras awarded the Brazilian-built PLSV Skandi Vitória an 18-month contract. The vessel commenced the contract in January 2017.

In January, the Group took delivery of the second Norwegian-built PSLV, Skandi Buzios. The vessel has been imported to Brazil. Commencement of her long-term time charter contract with Petrobras is in mid-April 2017.

In March, the Group successfully completed the issuance of a new unsecured bond with a face value of USD 175 million and maturity in March 2022. In relation to the bond issue, the Group repurchased parts of the existing bond DOFSUB07 with maturity in May 2018.

32 Accounting policies

A. Summary of significant accounting principles

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

B. Going concern

The Group has a satisfactory economical and financial position which provides the basis for the going concern assumption in accordance with IAS 1.

C. Group

Consolidation principles

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date control is transferred to the Group. They are deconsolidated from the date control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities assumed in a business combination, including contingent liabilities are measured initially at fair value as at the acquisition date. The Group 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 recognised amounts of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the carrying value of previously held equity interests is re-measured to fair value at the acquisition date; any gain or loss arising from such re-measurement is recognised in the consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in the consolidated statement of comprehensive income or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within the consolidated statement of changes in equity.

Goodwill is measured as the excess of consideration transferred over the fair value of the identifiable net assets acquired in the business combination. According to IFRS 3 'Business combinations', if a business combination is achieved in stages, the amount of previously held equity interests is re-measured to fair value as at the acquisition date. The goodwill calculation now becomes the excess of purchase consideration, the fair value of previously held equity interests over the fair value of identifiable net assets acquired. Where 'negative' goodwill arises from this calculation, the difference is recorded directly in the consolidated statement of comprehensive income.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated when necessary amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in the consolidated statement of changes in equity. Gains or losses of disposals to non-controlling interests are also recorded in the consolidated statement of changes in equity

DOF ASA companies

DOF ASA companies are defined as DOF ASA and its subsidiaries excluding companies within the DOF Subsea Group.

Joint arrangements

Investments in jointly controlled companies are classified as either joint operations or joint ventures depending on the contractual rights and obligations for each investor. DOF Subsea Group has assessed the nature of its jointly controlled companies and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investments in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to the consolidated statement of comprehensive income where appropriate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate has been impaired.

If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, recognising the amount in the consolidated statement of comprehensive income adjacent to 'share of net income of associates' in the consolidated statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in the consolidated statement of comprehensive income.

D. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, as defined in note 4 'Segment information'. The chief operating decision-makers are responsible for allocating resources and assessing performance of the operating segments. The Group's primary reporting is determined by business segment, and the Group operates within two business segments:

- Subsea projects
- Chartering of vessels

E. Conversion of foreign currency

Foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, 'the functional currency'. The functional currency is mainly NOK, USD, AUD, GBP and BRL. The consolidated financial statements are presented in Norwegian Krone (NOK).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the conversion at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as financial income or costs. Where assets and liabilities are settled at period end, this will give rise to a realised exchange gain or loss which will be carried to the consolidated statement of comprehensive income. Where accounting balances are reassessed at the period end but not settled, this will give rise to an unrealised exchange gain or loss also carried to the consolidated statement of comprehensive income.

Group companies

The results and financial position of all the Group entities that have a functional currency which differs from the presentation currency are converted into the presentation currency as follows:

- assets and liabilities presented at consolidation are converted to presentation currency using the foreign exchange rate on the date of the consolidated statement of financial position,
- income and expenses are converted using the average rate of exchange, and
- all resulting exchange differences are recognised in other comprehensive income and specified separately in the consolidated statement of changes in equity as a separate post.

When the entire interest in a foreign entity is disposed of or control is lost, the cumulative exchange differences relating to that foreign entity are reclassified to the consolidated statement of comprehensive income.

F. Classification of assets and liabilities

Assets are classified as current assets when:

- the asset forms part of the entity's operating cycle, and is expected to be realised or consumed over the course of the entity's normal operations; or
- the asset is held for trading; or
- the asset is expected to be realised within 12 months of the consolidated statement of financial position date

All other assets are classified as non-current assets.

Liabilities are classified as current liabilities when:

- the liability forms part of the entity's service cycle, and is expected to be settled in the course of normal production time; or
- the liability is held for trading; or
- settlement of the liability has been agreed upon within 12 months of the consolidated statement of financial position date; or
- the entity does not have an unconditional right to postpone settlement of the liability until at least 12 months after the consolidated statement of financial position date.

All other liabilities are classified as non-current liabilities

G. Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held on call with banks. Restricted deposits are classified separately from unrestricted bank deposits under cash and cash equivalents. Restricted deposits include deposits with restriction past twelve months.

H. Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected within one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Accrued, but not invoiced revenue is also classified as trade receivables. Work in progress is presented as part of accrued uninvoiced revenue.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost. Discounting is ignored if insignificant. A provision for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying value and the estimated recoverable value, which is the present value of estimated future cash flows, discounted at the original effective interest rate. Changes to this provision are recognised in the consolidated statement of comprehensive income.

I. Tangible assets

Tangible assets are recognised at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment comprises its purchase price, borrowing costs and any directly attributable costs of bringing the asset to operating condition. If significant, the total expenditure is separated into separate components which have different expected useful lives.

Depreciation is calculated on a modified straight-line basis over the useful life of the asset. Depreciable amount equals historical cost less residual value.

Depreciation commences when the asset is ready for use. The useful lives of property, plant and equipment and the depreciation method are reviewed periodically in order to ensure that the method and period of depreciation are consistent with the expected pattern of financial benefits expected to be derived from the assets.

When property, plant and equipment are sold or retired, their cost and accumulated depreciation and accumulated impairment loss are derecognised and any gain or loss resulting from their disposal is included in the consolidated statement of comprehensive income.

For vessels, residual value is determined based on estimated fair value at the end of their useful lives. According to the Group's strategy, it intends not to own vessels older than 20 years. For further information on depreciation policy see note 3 'Accounting estimates and assessments'.

Ordinary contract costs and ordinary costs related to mobilisation are capitalised and amortised on a systematic basis consistent with the contract period. Contract period is based on best estimates taken into consideration, the initial agreed period with probability for optional periods. A probability judgment is performed in assessing whether the option period shall be included in the contract period.

Assets under construction

Assets under construction are capitalised as tangible assets during construction as instalments are paid to the yard. Building costs include contractual costs and costs related to monitoring the project during the construction period. Borrowing costs directly attributable to the construction of qualifying vessels are added to the cost of those vessels. The capitalisation of borrowing costs will cease when the vessels are substantially ready for their intended use. Assets under construction are not depreciated before the tangible asset is ready for its intended use.

Impairment of assets

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the consolidated statement of comprehensive income. The recoverable amount is the higher of an asset's net selling price and value in use. Where there are circumstances and evidence that impairment recognised in previous years no longer exists or has decreased, reversals of impairment will be recognised except on goodwill. For further information on the calculation see note 3 'Accounting estimates and assessments'.

Periodic maintenance

Ordinary repairs and maintenance costs of assets are charged to the consolidated statement of comprehensive income as they are incurred.

The cost of major modernisation, upgrading and replacement of parts of property, plant and equipment is included in the asset's carrying amount, however only when it is probable that the Group will derive future financial benefits from upgrading the assets. See note 3 'Accounting estimates and assessments' for further discussion on periodic maintenance.

J. Leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating

leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease. The Group leases in external vessels on operating leases. At the same time, the Group leases out own vessels on bareboat and time charter contracts.

Where the Group retains substantially all the risks and rewards of ownership, the leases are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding lease obligations, net of finance charges, are included in non-current liabilities. The interest element is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

K. Goodwill

Goodwill arises from the acquisition of subsidiaries and represents the excess of the purchase consideration transferred over the fair value of identifiable net assets acquired. Goodwill comprises the difference between nominal and discounted amounts in terms of deferred tax, synergy effects, organisational value and key personnel and their expertise.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

The goodwill in the group is allocated to and monitored on the level of operational segments, except for the situations where independent cash flows on lower levels can be monitored.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

L. Debt

Debt is recognised initially at fair value, net of incurred transaction costs. Debt is subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the debt using the effective interest method.

Fees paid on the establishment of debt are recognised as transaction costs of the debt to the extent that it is probable that some or all of the liability will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the liability will be drawn down, the fee is recognised as a prepayment for liquidity services and amortised over the period of the liability to which it relates.

Interest expenses related to debt are recognised as part of the cost of an asset when the borrowing costs accrue during the construction period of a qualifying asset. Borrowing costs are capitalised until the time the fixed asset has been delivered and is ready for its intended use.

Debt is classified as a current liability unless it involves an unconditional right to postpone payment of the liability for more than 12 months from the consolidated statement of financial position date. The current portion of such debt includes undiscounted instalments due within the next 12 months.

M. Provisions

Provisions are recognised when, and only when, the Group faces an obligation (legal or constructive) as a result of a past event, it is probable

(more than 50%) that a settlement will be required and a reliable estimate can be made of the obligation amount.

Provisions are reviewed at each consolidated statement of financial position date and adjusted to the best estimate. When timing is significant for the amount of the obligation, it is recognised at present value. Subsequent increases in the amount of the obligation due to interest accretion are reported as interest costs.

N. Contingent assets and liabilities

Contingent assets are not recognised in the financial statements, but are disclosed in the notes to the financial statements if it is probable that the Group will benefit economically.

Contingent liabilities are defined as:

- possible liabilities resulting from past events, but where their existence relies on future events;
- liabilities which are not reported in the financial statements because it is improbable that the commitment will result in an outflow of resources;
- liabilities which cannot be measured with a sufficient degree of reliability.

Contingent liabilities are not reported in the financial statements, with the exception of contingent liabilities which originate from business combinations. Significant contingent liabilities are presented in the notes to the financial statements, except for contingent liabilities with a very low probability of settlement.

O. Equity

Ordinary shares are classified as equity.

Transaction costs related to equity transactions, including tax effects of transaction costs, are directly charged against equity.

P. Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the non-controlling interests is recorded in the consolidated statement of changes in equity. Gains or losses on disposals to non-controlling interests are also recorded in the consolidated statement of changes in equity.

Q. Revenue recognition

The Group recognises income when it is probable that future economic benefits will flow to the entity and when the amount can be reliably measured. Operating income is shown net of discounts, value-added tax and other taxes on gross rates.

Subsea projects

Some contracts are based on daily rates while others are lump sum/ fixed price contracts. Lump sum contract income is recognised in accordance with the stage of completion of the contract, see note 3 'Accounting estimates and assessments'.

Income in projects may increase or decrease based on variations to the original contract. These variations will be recognised based on signed purchase/variation orders.

Chartering of vessels

The Group's vessels are mainly leased out on charter parties; that is bareboat charter or time charter. On time charter contracts, customers lease the vessels with crew included. The charterer determines (within

the contractual limits) how the vessel is to be utilised. There is no time charter income when the vessels are off hire.

Lease income related to vessels is recorded on a linear basis over the lease period. The lease period starts from the time the vessel is made available to the customer and expires on the agreed return date. Crew and compensation for coverage of other operating expenses are recorded over the contract period on a linear basis.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Interest income

Interest income is recognised using the effective interest method.

R. Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statement of financial position date in the countries where the Company's subsidiaries and associated companies operate and generate taxable income. Permanent establishment of the operation will be dependent on the Group's vessels' operations in the period. Tax is calculated in accordance with the legal framework in those countries in which the Group's subsidiaries, associated companies or vessels with permanent establishment operate and generate taxable income.

The Group periodically evaluates tax positions where applicable tax regulation is subject to interpretation. Provisions are recognised on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. For further information on deferred tax see note 3 'Accounting estimates and assessments'.

Both tax payable and deferred tax are recognised directly in the consolidated statement of changes in equity, to the extent they relate to items recognised directly in the consolidated statement of changes in equity. Similarly any tax related to items reported as other comprehensive income is presented together with the underlying item.

Companies under the shipping tonnage tax regime

The Group is organised in compliance with the tax regime for shipping companies in Norway. This scheme entails no tax on profits or tax on dividends from companies within the scheme. Net finance, allowed for some special regulations, will continue to be taxed on an on-going basis. In addition tonnage tax is payable, which is determined based on the vessel's net weight. This tonnage tax is presented as an operating expense.

S. Employee benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

Defined contribution plans

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or

constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the consolidated statement of comprehensive income.

T. Financial assets

The Group classifies its financial assets in the following categories: at fair value through comprehensive income, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Classification of financial assets is determined at initial recognition.

Financial assets at fair value through comprehensive income

Financial assets at fair value through comprehensive income are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of profiting from short-term price fluctuations. Derivatives are also categorised as held for trading unless they are designated for hedge accounting.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the consolidated statement of financial position date. Loans and receivables are classified as "trade receivable" and "other receivables", and as "cash and cash equivalents" in the consolidated statement of financial position. Those exceeding 12 months are classified as non-current financial assets. Loans and receivables are carried at amortised cost.

Regular purchases and sales of financial assets are recognised on the trade date, that is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through comprehensive income. Financial assets carried at fair value through comprehensive income are initially recognised at fair value

and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through comprehensive income are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through comprehensive income" category, including interest income and dividends, are presented in the consolidated statement of comprehensive income as financial income or expenses in the period in which they arise. Dividend income from financial assets at fair value through comprehensive income is recognised in the consolidated statement of comprehensive income as part of financial income when the Group's right to receive payment is established. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques.

The Group assesses at each consolidated statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets are impaired. See paragraph H regarding trade receivables.

U. Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured on a continuous basis at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has various types of hedging relationships that are not documented as hedge accounting and measured at their fair value with the resulting gain or loss recognised immediately in the consolidated statement of comprehensive income. The Group designates certain derivatives and non-derivative financial instruments as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The fair values of various derivative instruments used for hedging purposes are disclosed in note 21 'Financial instruments and hedging activities'. Movements on the hedging reserve in other comprehensive income are shown in the consolidated statement of changes in equity.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity is less than 12 months. Trading derivatives are classified as current assets or liabilities.

When hedge accounting is applied the accounting principles below are used;

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of comprehensive income.

Amounts accumulated in equity are reclassified to the consolidated statement of comprehensive income in the periods when the hedged item affects profit or loss (for example, when a forecasted sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate debt is recognised in the consolidated statement of comprehensive income within 'finance income/expenses'.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of comprehensive income.

V. Events after the consolidated statement of financial position date

New information regarding the Group's financial position at the consolidated statement of financial position date is included in the financial statements. Events occurring after the consolidated statement of financial position date, which do not impact the Group's financial position, but which have a significant impact on future periods, are presented in the notes to the financial statements.

W. Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3 'Accounting estimates and assessments'. Changes in accounting estimates are recognised for the period in which they occur. If the changes also apply to future periods, the effect of the change is distributed over current and future periods.

X. Consolidated statement of cash flows

The consolidated statement of cash flows is prepared in accordance with the indirect model.

Y. New standards, amendments and interpretations adopted by the Group

The Group has not applied new standards or amendments for the first time for the annual reporting period commencing 1 January 2016.

Z. New standards, amendments and interpretations not yet adopted

Standards to be implemented in 2016 or later years:

- IFRS 9 'Financial Instruments', effective date 1 January 2018
- IFRS 15 'Revenue from Contracts with Customers', effective date 1 January 2018
- IFRS 16 'Leases', effective date 1 January 2019

IFRS 9 'Financial Instruments' address the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. EU adoption of IFRS 9 has been given. Following the changes approved by the International Accounting

Standards Board (IASB) in July 2014, the Group no longer expects any impact from the new classification, measurement and derecognition rules on the Group's financial assets and financial liabilities. There will also be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principle-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation. The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses. Currently the Group does not apply hedge accounting. Management has not decided whether to apply hedge accounting in the new standard.

IFRS 15 'Revenue from Contracts with Customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The standard was approved by EU 29 October 2016.

The Group is currently assessing the impact of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- The application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.
- Certain costs which are currently expensed may need to be recognised as an asset under IFRS 15.

For information about revenue recognition as of 31 December 2016 please refer to paragraph Q.

At the current stage the Group is not able to estimate the impact of the new standard on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

The Group will use the modified retrospective method to implement IFRS 15. The standard will be implemented 1 January 2018, with a cumulative catch up as of this date. This means that all contracts that are not finalised as of 1 January 2018 must be restated. In addition, the result in 2018 must be disclosed under both IFRS 15 and IAS 11/IAS 18.

IFRS 16 'Leases' sets out the principles for the recognition, measurement, presentation and the disclosure of leases. IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of NOK 318 million, see note 12 'Leases'.

However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The Standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

33 Performance measurement definitions

Operating profit before depreciation (EBITDA)

Operating profit before depreciation (EBITDA) is defined as operating profit, including profit from sale of non-current assets, before impairment of tangible and intangible assets, depreciation of tangible assets and amortisation of contract assets. EBITDA represents earnings before interest, tax, depreciation and amortisation, and is a key financial parameter for the Group. This measure is useful in evaluating operating profitability on a more variable cost basis as it excludes depreciation, impairment and amortisation expenses related primarily to capital expenditures and acquisitions that occurred in the past. The EBITDA margin presented is defined as EBITDA divided by operating income.

Operating profit (EBIT)

Operating profit (EBIT) represents earnings before interest and tax, and is a common non-IFRS measure to assess profitability before financial income and loss items and tax expenses.

Net interest-bearing debt

Net interest-bearing debt consists of both current and non-current interest-bearing liabilities less interest bearing financial assets and cash and cash equivalents. Non-current receivables from joint ventures are not included in net interest-bearing debt. Cash and cash equivalents will include restricted cash. Current interest-bearing debt includes

interest-bearing debt related to asset held for sale. Net interest-bearing debt is a measure of the Group's net indebtedness that provides an indicator of the overall statement.

Equity ratio

Equity ratio is defined as total equity divided by total assets at the reporting date.

Market value

Calculated average vessel value between two independent brokers' estimates based on the principle of "willing buyer and willing seller".

Vessel utilisation

Vessel utilisation is a measure of the Group's ability to keep vessels in operation and on contracts with clients, expressed as a percentage. The vessel utilisation numbers are based on actual available days, including yard-stay days for dry-docking, repairs and upgrade/conversion, transits and idle time between projects and charter contracts.

Contract backlog

Sum of undiscounted revenue related to secured contracts in the future and optional contract extensions as determined by the client in the future. Contract backlog excludes master service agreements (MSAs) within the Subsea projects segment. Under the MSAs only confirmed POs are included.

Firm contract backlog

Sum of undiscounted revenue related to secured contracts in the future. Secured contracts are contracts signed with clients in the past, covering future delivery of services.

Backlog options

Sum of undiscounted revenue related to optional contract extensions as determined by the client in the future.

Working capital

The working capital position of the Group is equal to current assets less current liabilities. It is a measure of the Group's liquidity and efficiency, and demonstrates the Group's ability to pay its current liabilities.

Financial statements

DOF Subsea AS

DOF Subsea AS

Amounts in NOK million

Statement of comprehensive income

	Note	2016	2015
Operating income		96	119
Payroll expenses	4, 18	-36	-64
Other operating expenses	18	-36	-37
Operating profit before depreciation (EBITDA)		24	18
Depreciation and impairment	7	-17	-17
Operating profit (EBIT)		7	1
Income / loss from investments	5, 20	737	1 010
Financial income	5	197	428
Financial expenses	5	-1 011	-593
Realised net gain / loss on derivative instruments and currency position	5	68	-20
Unrealised net gain / loss on derivative instruments and currency position	5	132	65
Net financial income / loss	5	124	890
Profit / loss before tax		130	891
Income tax expense	6	-79	-2
Profit / loss for the year		52	889
Other comprehensive income net of tax			
Items that will not be subsequently reclassified to profit / loss			
Defined benefit plan actuarial gains / losses		1	-1
Other comprehensive income / loss net of tax		1	-1
Total comprehensive income / loss for the year net of tax		53	888

DOF Subsea AS

Amounts in NOK million

Statement of financial position

	Note	31.12.2016	31.12.2015
Assets			
Tangible assets	7	32	43
Deferred tax asset	6	216	293
Investments in subsidiaries	19	5 083	5 599
Investments in associates and joint ventures	20	639	645
Non-current receivables from Group companies and joint ventures	8	944	699
Financial non-current derivatives	8, 15, 16	13	19
Other non-current receivables		5	-
Non-current assets		6 932	7 298
Current receivables from Group companies and joint ventures	5	311	749
Other current receivables	9, 15	10	9
Financial current derivatives	8, 15, 16	20	10
Total current receivables		341	768
Restricted cash	10, 16	305	390
Unrestricted cash and cash equivalents	10, 16	130	127
Cash and cash equivalents		435	517
Current assets		776	1 285
Total assets		7 708	8 583

DOF Subsea AS

Amounts in NOK million

Statement of financial position

	Note	31.12.2016	31.12.2015
Equity and liabilities			
Paid-in equity	24	3 844	3 844
Other equity		631	699
Total equity		4 475	4 543
<hr/>			
Bond loan	11, 16	1 297	1 293
Debt to credit institutions	11, 16	221	305
Financial non-current derivatives	15, 16	66	129
Other non-current liabilities		17	24
Non-current liabilities		1 601	1 751
<hr/>			
Current portion of debt	11, 16	113	552
Trade payables	12	1	12
Current liabilities to Group companies		1 499	1 602
Financial current derivatives	15	12	103
Other current liabilities	13	7	20
Current liabilities		1 632	2 289
<hr/>			
Total liabilities		3 233	4 039
<hr/>			
Total equity and liabilities		7 708	8 583

Bergen, 3 April 2017

The Board of Directors of DOF Subsea AS



Helge Møgster
Chairman



Helge Singelstad
Director



Mons S. Aase
Director and CEO



Hilde Drønen
Director



Alex Townsend Krueger
Director



Neil John Hartley
Director



John Mogford
Director



Ryan N. Zafereo
Director

DOF Subsea AS

Amounts in NOK million

Statement of changes in equity

Changes in equity	Share capital	Share premium	Other paid-in capital	Paid-in equity	Other equity	Total equity
Equity at 01.01.2015	1 197	741	2 130	4 069	-190	3 880
Profit / loss for the year	-	-	-	-	889	889
Other comprehensive income for the year	-	-	-	-	-1	-1
Total comprehensive income for the year	-	-	-	-	888	888
Dividends	-	-225	-	-225	-	-225
Equity at 31.12.2015	1197	516	2 130	3 844	699	4 543
Equity at 01.01.2016	1 197	516	2 130	3 844	699	4 543
Profit / loss for the year	-	-	-	-	52	52
Other comprehensive income for the year	-	-	-	-	1	1
Total comprehensive income for the year	-	-	-	-	53	53
Merger	-	-	-	-	-120	-120
Equity at 31.12.2016	1 197	516	2 130	3 844	631	4 476

Change in defined benefit actuarial gains / losses are presented after tax. Tax rate used is 24% (25%). In 2016 the entity merged with the fully owned subsidiary DOF Subsea ROV Holding AS.

DOF Subsea AS

Amounts in NOK million

Statement of cash flows

	Note	31.12.2016	31.12.2015
Operating profit (EBIT)		7	1
Depreciation and impairment	7	17	17
Change in trade payables	12	-10	3
Changes in other working capital		-283	263
Exchange rate effect on operating activities		-33	8
Cash flow from operating activities		-302	292
Interest received	5	163	174
Interest paid	5, 11	-243	-342
Tax paid		-3	-
Net cash flow from operating activities		-384	123
Purchase of tangible assets	7	-6	-13
Sale of shares / liquidation	5, 20	180	417
Investment in shares		-85	-242
Dividends / Group Contributions received		751	956
Changes in other non-current receivables		-245	-265
Cash flow from investing activities		594	852
Proceeds of non-current debt to Group companies		120	-
Installments on non-current debt	11	-506	-1 112
Dividend / Group contributions paid		-	-225
Cash flow from financing activities		-386	-1 337
Net change in cash and cash equivalents		-176	-362
Cash and cash equivalents at the beginning of the period	10	517	1 004
Exchange rate effect on cash and cash equivalents	5	94	-125
Cash and cash equivalents at the end of the period	10	435	517

DOF Subsea AS

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NOTES TO THE FINANCIAL STATEMENTS

1 Corporate information

DOF Subsea AS (the Company) is a limited liability company registered in Norway. The Company's head office is located at Thormøhlensgate 53 C, 5006 Bergen, Norway.

The Company is owned by DOF Subsea Holding AS. DOF Subsea Holding AS is owned by DOF ASA which holds a 51% ownership stake, and First Reserve Corporation which holds a 49% ownership stake.

DOF Subsea AS provides management services to companies in the Group.

The Company and its subsidiaries (the Group) has two business segments; Subsea projects and Chartering of vessels. In these segments, the Group provides services to the global offshore Oil and Gas industry.

The Company, through its subsidiaries, owns a large, modern fleet of subsea vessels that enables the Group to offer differentiated services to clients and create long-term relationships, which enhance service delivery and reduce overall risk.

This section of the financial statements covers the parent company accounts.

The Board of Directors approved the financial statements for publication on the 3 April 2017.

2 Financial risk management

The Company's operation includes various types of financial risk: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's governing risk management strategy focuses on the predictability of the capital markets and seeks to minimise the potential negative effects on the Company's financial results. The Company uses financial derivatives to hedge against certain types of risk. Please see note 32 'Accounting policies', paragraph U, in the consolidated financial statements, for information on derivative financial instruments and hedging activities. See also note 15 'Financial instruments and hedging activities'.

The Company's risk management is conducted in line with policies and guidelines approved by the Board of Directors. Accordingly, financial risk is identified, evaluated and hedged if appropriate. The Board of Directors issues written policies for governing risk management and defines principles for specific areas such as the foreign exchange risk, interest risk, credit risk, use of financial derivatives and other financial instruments, as well as investment of surplus liquidity.

Financial derivatives

The Company is exposed to interest rate and currency fluctuations. The Company uses financial derivatives to reduce these risks. This may include use of financial derivatives linked to exposures related to statement of financial positions items such as trade receivables, trade payables and similar.

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions, contractual obligations and investments are in different currencies. The Company's presentation currency is NOK. The Company aims to achieve a natural hedge between cash inflows and cash outflows, and manages remaining foreign exchange risk arising from commercial transactions, assets and liabilities by the use of forward contracts, derivatives and similar instruments as appropriate.

Hedging of foreign exchange risk exposures is executed on a net basis

and foreign exchange contracts with third parties are generated at Group level. Currency changes in receivables, liabilities and currency swaps are recognised as a financial income/expense in the statement of comprehensive income. Fluctuations in foreign exchange rates will therefore have an effect on the Company's statement of comprehensive income and statement of financial position.

Interest risk

The Company's debt portfolio is subject to the floating interest rate. This implies that the Company is taking advantage of the global low interest rate regime, but at the same time the Company is exposed to future interest rate changes. The Company's debt is denominated in NOK.

The Company evaluates the mix of fixed vs. floating rate debt on an ongoing basis. The Company has no interest earning assets of significance, except for bank deposits and receivables from Group companies and joint ventures.

Credit risk

Maximum credit exposure arises on the values of financial assets recognised in the statement of financial position. The Company's trade receivables balance is minimal and relates to subsidiaries, joint ventures and associated companies. The Company has guidelines for monitoring and recovering trade receivables.

Historically, losses on trade receivables have been insignificant, and credit risk is considered acceptable.

The forward contracts are entered into with banks, and the risk associated with these is considered insignificant. The same applies to bank deposits. Accordingly, the value of trade receivables recognised in the statement of financial position is considered to reflect the maximum credit risk.

Liquidity risk

Liquidity risk management implies maintaining sufficient cash and marketable securities, the available funding through committed credit facilities and the ability to close market positions. The Company and its subsidiaries (the Group) aims to maintain flexibility in its liquidity by keeping committed credit lines available.

The Company's business is capital intensive and the Company may need to raise additional funds through public or private debt or equity financing to execute the Company's strategy and fund capital expenditure. The Company's loan agreements include terms, conditions and covenants.

The Company has routines to report cash flow forecasts on a regular basis in order to monitor the Company's future cash positions.

The Company owns and controls cash pooling systems within the DOF Subsea Group. Liquidity is made available through the Cash pooling systems for the Company to meet its obligations. Furthermore the Company's strategy is to strengthen the liquidity using dividends from subsidiaries.

Fair values

The fair value of forward exchange contracts is calculated based on the midpoint of the relevant yield curve. The fair value of interest rate contracts is expressed as the present value of the estimated future cash flows based on observable yield curves.

Capital structure and equity

The main objective in managing the Company's capital structure is to ensure a good credit rating, and thereby achieving good terms and conditions for the long-term funding of the Company's operations and

investments. The Company manages its capital structure and carries out all necessary changes based on continuous assessments of the economic conditions under which the operations take place.

3 Accounting estimates and assessments

Valuations, estimates and assumptions with a significant effect on the financial statements are summarised below:

Financial assets

All financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the statement of comprehensive income. The recoverable amount is the higher of an asset's net selling price and value in use.

Deferred tax assets

Deferred tax assets are recognised in the statement of financial position on the basis of unused tax losses carried forward or deductible temporary differences, to the extent that it is probable there will be sufficient future earnings available against which the loss or deductible can be utilised.

For further information, reference is made to the consolidated financial statements and note 6 'Tax'.

4 Payroll expenses

Payroll expenses	Note	2016	2015
Salaries and holiday pay	18	-21	-49
Employer's contributions		-5	-6
Pension costs		-2	-2
Other personnel costs		-8	-7
Total payroll expenses		-36	-64
Number of employees (at year-end)		33	33

Pension costs above include defined benefit pension plan and defined contribution pension plan.

As of 31 December 2016, the Company's defined benefit pension plan covered a total of 2 employees. Defined benefit pension plan is invested with an insurance company, which manages the pension plan. The Company's cost of defined pension plan for 2016 was NOK 0,5 million (NOK 0.4 million in 2015). Pension obligation as of 31 December 2016 was NOK 0.8 million (NOK 1.8 million).

5 Financial income and expenses

Financial income and expenses	Note	2016	2015
Dividends / Group Contributions from subsidiaries		748	1007
Dividend from associated companies		-	3
Gain / loss from sale of shares / liquidation		-11	242
Interest income from Group companies*		162	142
Interest income		25	30
Other financial income from Group companies		10	8
Other financial income		-	6
Financial income		197	428
Impairment of investments	19, 20	-564	-180
Impairment of loans to Group companies		-214	-79
Interest expenses payable to Group companies		-6	-
Interest expenses payable to DOF ASA companies*		-15	-25
Interest expenses**		-190	-300
Other financial expenses payable to DOF ASA Companies		-18	-
Other financial expenses		-5	-9
Financial expenses		-1 011	-593
Realised foreign currency net gain / loss on loans		-27	190
Realised foreign currency net gain / loss on current receivables / liabilities		93	-125
Realised net gain / loss on financial derivatives		2	-85
Realised net gain / loss on derivative instruments and currency position		68	-20
Unrealised foreign currency net gain / loss on loans		-27	-20
Unrealised foreign currency net gain / loss on current receivables / liabilities		-	2
Net change in unrealised gain / loss on financial derivatives		159	83
Unrealised net gain / loss on derivative instruments and currency position		132	65
Net financial income / loss		124	890

*Guarantee income / expenses related to financing of vessels are included in interest income / expenses.

**In 2016 realisation of interest rate swap is included in interest expenses with a net loss of NOK 74 million (loss of NOK 111 million in 2015).

6 Tax

Income tax expense	2016	2015
Change in deferred tax	-69	17
Impact on change in tax rate on deferred tax	-9	-23
Other business taxes	-	4
Total income tax expense	-79	-2

Reconciliation of nominal and effective tax rate

Profit before tax	130	891
Tax calculated at domestic tax rate 25% (27%)	-33	-241
Tax effect of:		
Impairment of financial assets	-193	-70
Tax exemption method dividends	166	258
Tax exemption method shares in joint ventures	-	65
Adjustments in respect to prior years	-	4
Impact on change in tax rate	-9	-23
Other adjustments	-9	4
Total income tax expense	-79	-2

The tax related to components of other comprehensive income is as follows:

	2016		
	Before tax	Tax	After tax
Re-measurements of post-employment benefit liabilities	1	-	1
Other comprehensive income	1	-	1

	2015		
	Before tax	Tax	After tax
Re-measurements of post-employment benefit liabilities	1	-	-1
Other comprehensive income	-1	-	-1

The gross movement on the deferred tax in the statement of financial position	2016	2015
Deferred tax at 01.01	293	299
Tax related to comprehensive income	-78	-6
Tax related to components of other comprehensive income	-	-
Merger	2	-
Deferred tax 31.12	216	293

Deferred tax

The table below specifies the temporary differences between accounting and tax values, and calculation of deferred tax / tax asset at year-end. The Company's deferred tax asset is reviewed for impairment. Deferred tax assets from tax loss carry-forward is expected to be offset against taxable income within a period of 6 years.

Basis for deferred tax	2016	2015
Non-current assets	25	48
Liabilities	-60	-227
Tax position related to sold assets	75	93
Other differences	23	3
Total temporary differences	63	-83

Tax loss carryforward	-964	-1 091
Basis for calculating deferred tax / tax asset (-)	-901	-1 174

Total deferred tax / tax asset (-) recognised in the statement of financial position	-216	-293
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7 Tangible assets

Machinery & other equipments	2016	2015
Cost at 01.01	118	105
Additions	6	13
Cost at 31.12	124	118
Depreciation at 01.01	-76	-59
Depreciation for the year	-17	-17
Depreciation at 31.12	-93	-76
Book value at 31.12	32	43
Asset lifetime (years)	5-10	5-10
Depreciation schedule	Linear	Linear

8 Non-current receivables from Group companies and joint ventures

Non-current receivables from Group companies and joint ventures	Note	2016	2015
Non-current receivables from joint ventures	17	897	688
Non-current receivables from associated companies		47	12
Total non-current receivables from Group companies and joint ventures at 31.12		944	699

9 Other current receivables

Other current receivables	2016	2015
Prepaid expenses	4	1
Accrued interest income	6	8
Total other current receivables at 31.12	10	9

10 Cash and cash equivalents

Cash and cash equivalents	2016	2015
Restricted cash	305	390
Unrestricted cash and cash equivalents	130	127
Total cash and cash equivalents at 31.12	435	517

A non-current loan has been provided by Eksportfinans and is invested as a restricted deposit. The repayment terms on the loan from Eksportfinans are equivalent to the reduction in the deposit. The loan will be fully repaid in 2020. The cash deposit is included in restricted cash with a total of NOK 305 million (NOK 390 million in 2015). The Company owns and controls two cash pooling systems within the DOF Subsea Group. Cash in the cash pooling systems are presented as cash in the financial statements.

11 Interest-bearing debt

Debt

As per year-end 2016 DOF Subsea AS had one bond loan, which matures in 2018. The trustee on behalf of the bond holders is Nordic Trustee ASA, while the account manager is Nordea Bank Norge ASA. The interest rate is fixed and paid on a quarterly basis. No particular security has been provided for the loan and the Company is free to acquire its own bond.

Non-current interest-bearing debt	2016	2015
Bond loan, floating rate	1 297	1 293
Debt to credit institutions	221	305
Total non-current interest-bearing debt	1 517	1 598
Current interest-bearing debt		
Bond loan, floating rate	-	422
Debt to credit institutions	84	84
Current debt to Group companies	-	-
Total current interest-bearing debt	84	506
Total non-current and current interest-bearing debt	1 602	2 104
Net interest-bearing debt		
Cash and cash equivalent	435	516
Other interest bearing assets - non-current	47	12
Total net interest-bearing debt	1 120	1 576

Current portion of debt in the statement of financial position includes accrued interest expenses. Accrued interest expenses are excluded in the figures above.

Debt repayment profile	2017	2018	2019	2020	2021	Thereafter	Total
Bond loans	-	1 300	-	-	-	-	1 300
Debt to credit institutions	84	84	84	52	-	-	305
Total repayment	84	1 384	84	52	-	-	1 605
Interest repayment profile	94	56	5	2	-	-	157

Interest repayment is based on current repayment profile and the yield curve for the underlying interests from Reuters as of December 2016. Amortised costs are not included in the repayment profile above.

Liabilities secured by pledge	2016	2015
Liabilities to credit institutions	305	390
Book value of assets pledged as security for book debt	305	390
Average rate of interest	11.0%	12.4%

Currency distribution non-current liabilities incl first year repayment	NOK
Bond loan	1 300
Debt to credit institutions	305
Total	1 605

A loan of NOK 305 million (NOK 390 million in 2015) is secured by a cash deposit, see note 10 'Cash and cash equivalents'. Interest rate and derivative instruments on the cash deposit cover the debt repayment on the loan.

DOF Subsea AS

Amounts in NOK million

The price of the Company's bond loans at 31 December was as follows:

Loan		31.12.2016		31.12.2015	
		Price	Outstanding	Price	Outstanding
DOF Subsea AS 11/16 FRN	DOFSUB05	-	-	99.70	422
DOF Subsea AS 13/18 FRN	DOFSUB07	83.13	1 300	83.50	1 300

Other non-current liabilities, with exception of non-current loans, have nominal value equivalent to fair value of the liability.

Financial covenants

The non-current financing agreements of the Company and the Group include the following covenants:

- The Group shall have available cash of at least NOK 300-500 million at all times
- The Group shall have value-adjusted equity to value-adjusted assets of at least 30%
- The Company should not pay dividend exceeding 50% of the Group's net result

In addition to the above-mentioned financial covenants, the loan agreements are also subject to the following conditions:

- DOF Subsea AS shall not merge, demerge or divest activities without the prior written approval of the lenders
- DOF Subsea AS shall report financial information to the lenders and Oslo Stock Exchange on a regular basis
- The Group's vessels shall be operated in accordance with applicable laws and regulations

The Company is in compliance with all covenants. Please refer to the consolidated financial statement note 17 'Interest-bearing debt'.

12 Trade payables

Trade payables	2016	2015
Trade payables at nominal value	1	4
Accrued expenses	-	8
Total trade payables at 31.12	1	12

13 Other current liabilities

Other current liabilities	2016	2015
Provision foreign tax	1	13
Public duties payables	3	3
Other current liabilities	3	5
Total other current liabilities at 31.12	7	20

14 Fair value estimation

Total measurement level 1 (Quoted, unadjusted prices in active markets for identical assets and liabilities)

Fair value of interest-bearing debt is disclosed with face value of the bank loans and market value of bonds.

Total measurement level 2 (Techniques for which all inputs which have significant effect on the recorded fair value are observable, directly and indirectly)

The fair value of forward exchange contracts is determined using the forward exchange rate at the statement of financial position date. The forward exchange rate is based on the relevant currency's interest rate curves. The fair value of interest swaps is determined by the present value of future cash flows, which is also dependent on the interest rate curves.

Total measurement level 3 (Techniques which use inputs which have significant effect on the recorded fair value that are not based on observable market data).

15 Financial instruments and hedging activities

As of 31 December 2016 the Company had 12 forward contracts and 1 foreign exchange swaps to hedge future sales to customers on behalf of subsidiaries. Foreign exchange derivatives are utilised to hedge currency risk related to projected future sales. Interest rate swaps are utilised to manage interest rate risk by converting from floating to fixed interest rates. The Company has not applied hedge accounting for any of the interest rate swap agreements.

The table below displays the fair value of financial derivatives as of 31 December

Non-current and current portion	Measurement level	2016		2015	
		Assets	Liabilities	Assets	Liabilities
Interest rate swaps - cash flow hedges	2	13	66	15	172
Foreign exchange contracts - cash flow hedges	2	20	12	13	60
Total non-current and current portion		33	78	29	232
Total non-current portion					
Interest rate swaps - cash flow hedges	2	13	66	15	126
Foreign exchange contracts - cash flow hedges	2	-	-	3	3
Total non-current portion		13	66	19	129
Total current portion		20	12	10	103

The full fair value of a hedging derivative is classified as non-current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability, if the maturity of the hedged item is less than 12 months.

As of 31 December the Company held the following interest rate derivatives

Instruments	Fixed rate	Floating rate	Notional amount	Effective from	Maturity date
31.12.2016					
Interest rate swaps / swaptions - cash flow hedges USD	1.43%	LIBOR 3m	50	2016	2021
Interest rate swaps / swaptions - cash flow hedges NOK	1.90% - 4.41%	NIBOR 3m - 6m	2250	2013-2015	2018-2020
31.12.2015					
Interest rate swaps / swaptions - cash flow hedges USD	1.93% - 3.57%	LIBOR 3m - 6m	216	2011-2012	2016
Interest rate swaps / swaptions - cash flow hedges NOK	1.90% - 4.97%	NIBOR 3m - 6m	2 750	2011-2015	2016-2020

DOF Subsea AS

Amounts in NOK million

As of 31 December the Company held the following foreign exchange rate derivatives

Instrument	Committed Received	Amount	Remaining term to maturity
31.12.2016			
Foreign exchange forwards	NOK	167	<1 year
Foreign exchange swaps	NOK	598	<1 year
31.12.2015			
Foreign exchange options	NOK	337	<1 year
Foreign exchange forwards	NOK	31	<1 year
Foreign exchange swaps	NOK	456	<1 year

Derivatives are expected to occur at various dates during the next 12 months. Gains and losses are recognised in the statement of comprehensive income in the period when the hedged forecast transactions are realised.

As of 31 December 2016 the Company held some foreign exchange contracts with Group companies as counterparties. The total value of the foreign exchange rate derivatives are USD 4 million, all with maturity within one year.

16 Financial instruments - by category

31.12.2016	Financial instruments at fair value through comprehensive income	Financial instruments measured at amortised cost	Loans and receivables	Total	Of which included in interest bearing debt
Assets					
Non-current derivatives	13	-	-	13	-
Other non-current receivables	-	-	949	949	52
Trade receivables and other current receivables	-	-	321	321	-
Current derivatives	20	-	-	20	-
Restricted cash	-	-	305	305	305
Unrestricted cash	-	-	130	130	130
Total financial assets	33	-	1 705	1 738	487
Liabilities					
Derivatives non-current	66	-	-	66	-
Interest-bearing non-current liabilities	-	1 517	-	1 517	1 517
Current portion of debt	-	113	-	113	113
Other non-current liabilities	-	17	-	17	-
Current derivatives	12	-	-	12	-
Trade payables and other current liabilities	-	1 507	-	1 507	-
Total financial liabilities	78	3 154	-	3 232	1 630

DOF Subsea AS

Amounts in NOK million

31.12.2015	Financial instruments at fair value through comprehensive income	Financial instruments measured at amortised cost	Loans and receivables	Total	Of which included in interest bearing debt
Assets					
Non-current derivatives	19	-	-	19	-
Other non-current receivables	-	-	715	715	12
Trade receivables and other current receivables	-	-	758	758	-
Current derivatives	10	-	-	10	-
Restricted cash	-	-	390	390	390
Unrestricted cash	-	-	127	127	127
Total financial assets	29	-	1 990	2 019	529
Liabilities					
Derivatives non-current	129	-	-	129	-
Interest-bearing non-current liabilities	-	1 598	-	1 598	1 598
Current portion of debt	-	552	-	552	552
Other non-current liabilities	-	22	-	22	-
Current derivatives	103	-	-	103	-
Trade payables and other current liabilities	-	1 634	-	1 634	-
Total financial liabilities	232	3 806	-	4 039	2 150

The following of the Company's financial instruments are measured at amortised cost: cash and cash equivalents, other current receivables and all interest-bearing debt.

The carrying amount of cash and cash equivalents is approximately equal to fair value since these instruments have a short term to maturity. Similarly, the carrying amount of trade receivables and trade payables are approximately equal to fair value since they are entered into at standard terms and conditions.

The fair value of the interest-bearing debt is the disclosed face value of the bank loans and market value of bonds.

17 Related parties

Detailed description of related parties and DOF Subsea AS relationship to these:

DOF ASA is the majority shareholder in DOF Subsea Holding AS with a 51% holding on 31 December 2016. DOF Subsea AS is 100% owned by DOF Subsea Holding AS. First Reserve Corporation holds the minority share of 49% in DOF Subsea Holding AS.

Rental of office space

Part of the office space located at Thormøhlensgate 53 C, 5006 Bergen, rented by DOF Subsea AS, is used by DOF Management AS and DOF Subsea Norway AS. The rental fee charged to DOF Management AS and DOF Subsea Norway AS is determined at NOK 7 million per year.

Management services on behalf of subsidiaries and sales transactions

Management services and other deliveries on behalf of subsidiaries, see note 19 'Investment in subsidiaries', comprise NOK 70 million in 2016 (NOK 83 million). Revenue related to DOF ASA Group comprises NOK 11 million in 2016 (NOK 12 million).

All sales transactions are carried out in accordance with DOF Subsea policy and are entered into based on the arm's length principle.

Guarantee agreement between DOF ASA and the Company

The Company has in June 2010 entered into a guarantee agreement with DOF ASA. DOF ASA has provided a parent company guarantee for obligations of DOFCON Navegação Ltda, a joint venture company of DOF Subsea AS, and DOF Subsea Brasil Serviços Ltda. The guarantees are limited to USD 252 million as of 31 December 2016 (USD 275 million). The contract is subject to standard terms. Please refer to note 23 'Related parties' in the consolidated financial statements.

Non-current receivables against joint ventures

For information on non-current receivables against joint ventures, please see note 8 'Non-current receivables from Group Companies and joint ventures'. Please also see note 26 'Investments in associates and joint ventures' in the consolidated financial statements.

18 Remuneration to Board of Directors, Executives and Auditor

Remuneration to Executives	2016		2015	
	CEO	EVP	CEO	EVP
Salaries	0.3	3.5	2.5	6.3
Management fee	3.1	-	2.7	-
Payment from DOF Subsea	3.4	3.5	5.2	6.3

CEO=Mons Aase, EVP=Jan Nore

Salaries include pension, bonuses and other compensation from the Company. Senior executives are included in the general Group's pension plan, see note 4 'Payroll expenses'.

Jan Nore held the position as EVP and CFO for the Group. The EVP is entitled to a bonus based on the result of the company and personal performance.

The Company is part of the DOF ASA Group, see note 24 'Share capital and share information'. The contract with the CEO includes a 6 month termination period and 12 months termination compensation. The CEO's retirement compensation is based on 70% salary and the retirement age is set at 67 years. Cost related to CEO Mons Aase is included in the management fee between DOF ASA and DOF Subsea AS.

Please refer to the DOF ASA annual report for further information of salary to CEO Mons Aase.

A loan of NOK 2.5 million has been given to both the CEO and EVP. The annual interest on the loan is 2% and the loans are to be repaid in 2019. There is sufficient security related to the loans.

No other loans have been given to, or any security provided for, the members of the Board of Directors, CEO/EVP, members of the Company's management, other employees or close relatives.

The Board of Directors received no fees, nor compensation in fees in 2016.

Specification of Auditor's fee	2016	2015
Fee for audit of financial statements	1.08	1.49
Fee for other tax consultancy	-	0.05
Fee for other services	0.02	0.03
Total	1.10	1.57

19 Investments in subsidiaries

Subsidiary	Registered office	Proportion of ownership and votes	Impairment
DOF Installer ASA	Austevoll, Norway	85%	-
DOF Subsea Angola Lda	Luanda, Angola	100%	-
DOF Subsea Asia Pacific Pte Ltd	Singapore	100%	-
DOF Subsea Atlantic AS	Bergen, Norway	100%	-
DOF Subsea Brasil Serviços Ltda	Macaé, Brasil	100%	-
DOF Subsea Chartering AS	Bergen, Norway	100%	-
DOF Subsea Congo S.A.	Pointe-Noire, Republice du Congo	55%	-
DOF Subsea Norway AS	Bergen, Norway	100%	-229
DOF Subsea Rederi AS	Bergen, Norway	100%	-
DOF Subsea Rederi III AS	Bergen, Norway	100%	-78
DOF Subsea ROV AS	Bergen, Norway	100%	-
DOF Subsea S&P UK Ltd	Aberdeen, UK	100%	-
DOF Subsea UK Holding Ltd	Aberdeen, UK	100%	-
DOF Subsea UK Ltd	Aberdeen, UK	100%	-
DOF Subsea US Inc.	Houston, US	100%	-253
Semar AS	Oslo, Norway	50%	-

A total impairment loss of NOK 561 million are recognised in the statement of comprehensive income as financial expenses. Please refer to note 5 'Financial income and expenses'.

20 Investments in associates and joint ventures

31.12.2016

Name of entity	Place of business/ country of incorporation	% ownership interest	Cost price	Impairment	Booked value
DOFCON Brasil AS	Norway	50%	594	-	594
DOF Management AS	Norway	34%	16	-	16
Marin IT AS	Norway	35%	6	-	6
Master and Commander AS	Norway	20%	27	-3	24
Canadian Subsea Shipping Company AS	Norway	45%	0.4	-	0.4
Total			642	-3	639

For further information on associates and joint ventures, please see note 26 'Accounting policies' in the consolidated financial statements. Impairments are included in the statement of comprehensive income as financial expenses. Please refer to note 5 'Financial income and expenses'.

21 Contingencies

The Company is not involved in any disputes or ongoing legal matters involving potential losses, and therefore no provision has been made for possible claims arising from the same.

22 Guarantees

Guarantees	2016	2015
Parent company guarantees	11 781	10 114
Total	11 781	10 114

Parent company guarantees are given to subsidiaries in the Subsea project segment and the Chartering of vessels segment. The guarantees in the Subsea project segment are limited to the fulfilment of the construction contract and are released after delivery of the project. In some cases there is a warranty period after delivery of the project. Normally this warranty will have duration of 12-24 months.

In addition, the guarantees are given in relation to the finance of vessels.

Furthermore, guarantees to suppliers are given for fulfilment of payments for deliveries of goods and services including vessels. Liabilities for these deliveries are recognised in the statement of financial position.

See also note 26 'Investments in associates and joint ventures' in the consolidated financial statements for future commitments related to newbuilds as part of joint venture between the Group and FMC.

23 Earnings per share

Basis for calculating earnings per share	2016	2015
Profit / loss attributable to shareholders of the Company	52	889
Weighted average number of outstanding shares	119 733 714	119 733 714
Weighted average number of outstanding shares, diluted	119 733 714	119 733 714
Basic and diluted earnings per share (NOK)	0.4	7.4

24 Share capital and share information

Share capital

The share capital in DOF Subsea AS at 31.12.2016 was NOK 1 197 million comprising 119 733 714 shares, each with a nominal value of NOK 10.00.

Shareholder overview

Shareholders at 31.12.2016	No. of shares	Proportion of ownership	Share capital
DOF Subsea Holding AS*	119 733 714	100%	1 197

* In 2016 The Shareholder DOF Subsea Holding 2 AS merged with DOF Subsea Holding AS.

The members of the Board of Directors and senior executives own shares in related companies, and thus have indirect ownership stakes in DOF Subsea AS. Please refer to DOF ASA annual report for shares held in DOF ASA by the management and the Board of Directors. The annual report is published at www.dof.no.

Board of Directors	Title
Helge Møgster	Chairman
Helge Singelstad	Director
Mons S. Aase	Director
Hilde Drønen	Director
Alex Townsend Krueger	Director
Neil John Hartley	Director
John Mogford	Director
Ryan N. Zafereo	Director
Management group	Title
Mons S Aase	CEO
Jan Nore	CFO/EVP

25 Events occurring after the statement of financial position date

In March, the Group successfully completed the issuance of a new unsecured bond with a face value of USD 175 million and maturity in March 2022. In relation to the bond issue, the Group repurchased parts of the existing bond DOFSUB07 with maturity in May 2018.

There have been no other material events after the statement of financial position date.

26 Accounting policies

Summary of significant accounting principles

The financial statements of the Company have been prepared in accordance with the Norwegian Accounting Act § 3-9 and Finance Ministry's prescribed regulations from 21 January 2008 on simplified IFRS. Principally this means that recognition and measurement comply with the International Accounting Standards (IFRS) and presentation and note disclosures are in accordance with the Norwegian Accounting Act and generally accepted accounting principles. The financial statements have been prepared in accordance with the historical cost convention with the following exceptions: available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently carried at fair value. The fiscal year is the same as the calendar year.

Going concern

The Company has a satisfactory economical and financial position which provides the basis for the going concern assumption in accordance with the Norwegian Accounting Act § 3-3a.

Operating income

Operating income from management services is recognised when it is probable that transactions will generate future economic benefits that will flow to the Company, and the amount can be reliably estimated. Operating income is presented net of value added tax and discounts.

Investment in subsidiaries, joint ventures and associated companies

Investments in shares are based on the cost method.

Dividends

Dividends and Group contributions are accounted for according to IFRS. Dividends and Group contributions are recognised when approved by the General Assembly.

For further information a reference is made to the consolidated financial statements.

DOF Subsea AS

Confirmation from the Board of Directors and CEO

We confirm, to the best of our knowledge, that the financial statements for the period from 1 January to 31 December 2016 have been prepared in accordance with approved accounting standards, and give a true and fair view of the Company's consolidated assets, liabilities, financial position and result of operations and that the Report of the Board of Directors provides a true and fair view of the development and performance of the business and the position of the Group and the Company together with a description of the key risks and uncertainty factors that the Company is facing.

Bergen, 3 April 2017

The Board of Directors of DOF Subsea AS



Helge Møgster
Chairman



Helge Singelstad
Director



Mons S. Aase
Director and CEO



Hilde Drønen
Director



Alex Townsend Krueger
Director



Neil John Hartley
Director



John Mogford
Director



Ryan N. Zafereo
Director



To the General Meeting of DOF Subsea AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of DOF Subsea AS. The financial statements comprise:

- The financial statements of the parent company, which comprise the statement of financial position as at 31 December 2016, and the statement of the comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the statement of financial position as at 31 December 2016 and statement of the comprehensive income, statement of changes in equity, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to § 3-9 of the Norwegian Accounting Act.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers AS, Sandviksbodene 2A, Postboks 3984 - Sandviken, NO-5835 Bergen

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State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm



Auditor's Report - 3 April 2017 - DOF Subsea AS

Key Audit Matter

How our audit addressed the Key Audit Matter

Impairment assessment of property, plant and equipment

(See also note 11)

DOF Subsea AS group has vessels and related assets with a carrying amount of MNOK 11,950 as at 31st December 2016. Due to the general downturn in the industry and the increased uncertainty, management has assessed the carrying amounts for impairment. Management calculates fair value for all their vessels using a discounted cash flow model.

An impairment provision of MNOK 656 has been recorded to reduce the carrying amounts of certain vessels to their estimated recoverable values. For the remaining vessels, management concluded that the recoverable amount was higher than their carrying amounts.

These conclusions depends on significant management judgement related to factors such as, estimated utilization, disposal values, charter hire rates, operating expense and discount rates applied to future cash flows as well as estimated fair values, provided by two independent external brokers.

The risks connected to valuation of vessels has increased during 2016 due to the challenging market conditions. This has increased the need for judgement in the valuations. We focused on this area due to the magnitude of the amounts and the significant management judgement necessary.

Our procedures directed at management's impairment assessment of vessels includes obtaining managements valuation model and evaluating whether the model contains the elements required by accounting regulation. We challenged management on the assumptions used in the model. This includes tracing input data to contracts and budgets approved by the board of directors, considering whether charter hire rates and utilization are consistent with our knowledge of the industry. To consider the reliability of estimated operating expense, we compared the estimates to historical performance, and considered whether deviations from the budget had a reasonable explanation. Available evidence supported that management's assumptions were reasonable.

When we considered management's analysis of sensitivity, we noted that the forecasted cash flows are highly sensitive to even minor changes to assumptions. We assessed the discount rate by comparing the assumptions used to build the discount rate with external market data. We considered that the discount rate used was within an appropriate range.

Management use their own fair value calculations to support the independent external broker certificates they obtain for all their vessels. To consider the reliability of the certificates, we obtained them and evaluated the independent external broker's competence, capabilities and objectivity and we considered the appropriateness of the fair values estimated by the external broker. Our work did not uncover anything that reduced the reliability of the certificates.

Based on available evidence we found management's assumptions in relation to the fair value less costs of disposal and value in use calculations to be reasonable.

Impairment of Goodwill

(See also note 10)

The DOF Subsea AS group has a goodwill of MNOK 373 in their balance sheet. Goodwill is allocated to the Group's operating segments, chartering of vessels and subsea projects. An impairment of MNOK 72 was recognized during 2016.

We evaluated management's impairment review of goodwill. The documentation include assessment of cash generating units (CGUs) and key assumptions made by management.

We performed a comparison of the assumptions used by management within the impairment review model.



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The challenging market conditions in the oil service industry due to the current low oil price continued reduced prices within the industry and over-supply of vessels in the market increase the risk for further impairment of the Group's intangible assets.

We focused on this because the impairment assessments require significant management judgement with respect to cash flows and expected margin growth, as well as the discount rate.

The comparison was made to approved budgets and business plans. We also benchmarked the key assumptions used, including discount rates and growth rates, against external data including sensitivity analysis. We noted that the value of goodwill is highly sensitive to even minor changes to cash flow assumptions. Based on our procedures we concluded that management's assumptions were reasonable.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility and words from the CEO, regional reports and supplementary information about DOF Subsea, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements of the parent company in accordance with simplified application of international accounting standards according to the Norwegian Accounting Act section 3-9, and for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We 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 of 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 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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



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We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Bergen, 3 April 2017

PricewaterhouseCoopers AS

Sturla Døsen
State Authorised Public Accountant

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